WHAT HAPPENED LAST NIGHT

US stocks were lower on Wednesday, as the losses in the communication services, consumer discretionary and real estate sectors led shares lower. At the close of the NYSE, the DJIA fell 0.32% while the S&P 500 index was down by 1.43%, and the NASDAQ Composite index slid 2.43%. Falling stocks outnumbered advancing ones on the NYSE by 2,230 to 683 and 67 ended unchanged; on the Nasdaq Stock Exchange, 3,056 declined and 1,187 advanced, while 186 ended unchanged. (Source: WSJ, Bloomberg)

WHAT'S IN THE PACK

China/HK Strategy Update:

Hong Kong Exchange and Hong Kong Property Sector - Takeaways from 2023 Hong Kong Policy Address: Policies largely in line; Maintain MARKET WEIGHT.

We have a neutral view on the policies related to the stock market and we expect a short-term rebound in ADT…

China/HK Company Results:

Aier Eye Hospital Group - 9M23: Satisfactory results; weak economic conditions may slow revenue growth.

(300015 CH / BUY / Rmb16.61 / Target: Rmb21.00)

Aier reported satisfactory 9M23 results with total revenue and adjusted net earnings increasing 23.0% yoy and 24.0% yoy respectively…

Baoshan Iron & Steel - 3Q23: In line; gross margin jumps 3.3 ppt qoq to 8.3%.

(600019 CH / BUY / Rmb6.33 / Target: Rmb7.10)

Baosteel reported 9M23 earnings of Rmb8,350.4m (-11.8% yoy), representing 81% of our 2023 forecast…

China Overseas Land & Investment - 3Q23: Results improved; expect COLI to meet its 2023 target.

(688 HK/BUY/HK$14.90/Target: HK$25.86)

3Q23 revenue rose 61% yoy to Rmb28.3b on: a) a low base in 3Q22, and b) policy easing measures…

China/HK Company Update:

Li Ning - Cut full-year revenue guidance to single-digit % growth; key priority is distributor control.

(2331 HK / BUY / HK$30.20 / Target: HK$48.80)

Li Ning's disappointing 3Q23 business operations can be attributed to distributors' cross-region and channel sales…

Singapore Company Results:

Far East Hospitality Trust - 3Q23: Rising RevPAR and profitability driven by surge in visitor arrivals.

(FEHT SP/BUY/S$0.57/Target: S$0.76)

RevPAR increased 44% yoy and 14% qoq to S$131 for its nine hotels. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23…

Singapore Technical Analysis:

Singapore Tech Engineering (STE SP) - Trading SELL

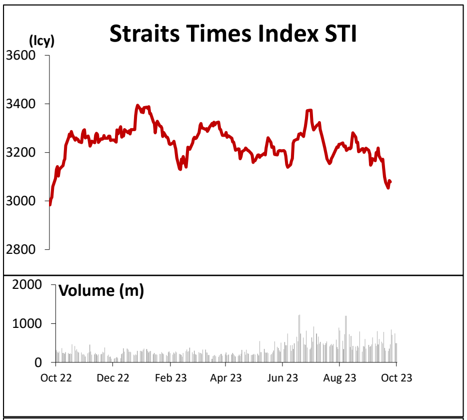
The price could have formed a possible price top at S$3.98. There is a falling window that was formed on 19 October, hinting at more downside ahead. A bearish conversion and base lines crossover is likely…

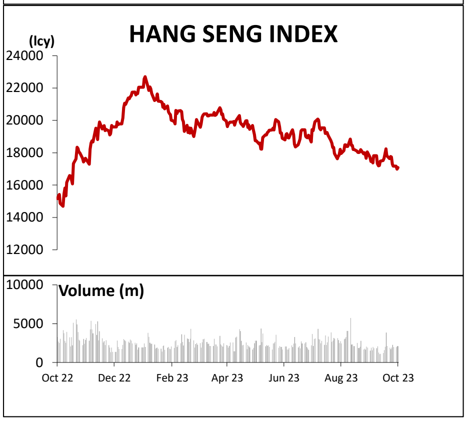
Sembcorp Industries (SCI SP) - Trading SELL

The price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover. The MACD is very bearish and is moving lower…

Get up to speed by learning from our experts - Sign up for a seminar today!

PRICE CHART





KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33035.9	(2.9)	(0.3)
S&P 500	4186.8	(3.5)	9.0
FTSE 100	7414.3	(2.7)	(0.5)
AS30	7046.3	(2.7)	(2.4)
CSI 300	3504.5	(5.1)	(9.5)
FSSTI	3078.8	(4.2)	(5.3)
HSCEI	5854.0	(2.9)	(12.7)
HSI	17085.3	(2.2)	(13.6)
JCI	6834.4	(1.3)	(0.2)
KLCI	1442.5	(0.2)	(3.5)
KOSPI	2363.2	(4.1)	5.7
Nikkei 225	31269.9	(3.2)	19.8
SET	1401.7	(6.2)	(16.0)
TWSE	16358.9	0.5	15.7
BDI	1832	8.1	20.9
CPO (RM/mt)	3622	(0.6)	(10.5)
Brent Crude (US$/bbl)	90	(3.4)	4.9

YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 5.10pt lower to 3,078.78. Among the top active stocks were Genting Singapore (+3.6%), Thai Beverage (+1.0%), Seatrium (-0.9%), SIA (+1.5%) and Jiutian Chemical (-3.7%). The FTSE ST Mid Cap Index fell 1.0%, while the FTSE ST Small Cap Index was down 1.5%. The broader market saw 300 gainers and 298 losers with total trading value of S$799.8m.

SINGAPORE

TOP TRADING TURNOVER

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
United Overseas Bank	27.72	0.2	84.1
DBS Group Holdings	33.15	0.0	80.4
Yangzijiang Shipbuilding	1.45	0.0	53.9
Singapore Airlines	6.18	1.5	49.5
Seatrium	0.11	(0.9)	45.4

TOP GAINERS

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Nio Inc	7.88	5.6	2.2
First Resources	1.49	4.9	2.3
Hutchison Port Holdings Trust	0.23	4.7	0.1
Genting Singapore	0.86	3.6	22.7
Ho Bee Land	1.83	2.8	0.0

TOP LOSERS

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Yanlord Land Group	0.55	(4.3)	0.7
Olam Group	0.85	(4.0)	2.3
Yangzijiang Financial Holding	0.30	(3.2)	6.6
Singapore Post	0.46	(3.2)	1.7
UOL Group	5.73	(2.9)	16.1

*ADT: Average daily turnover

HONG KONG

TOP TRADING TURNOVER

Stock	Price (HK$)	Chg (%)	5-day ADT (HK$m)
Country Garden Holdings	0.69	(2.8)	281,304
China Construction Bank	4.48	0.2	277,511
Bank Of China	2.71	(0.4)	244,173
Petrochina	5.31	(4.0)	192,167
China Telecom Corp	3.43	(4.7)	160,078

TOP GAINERS

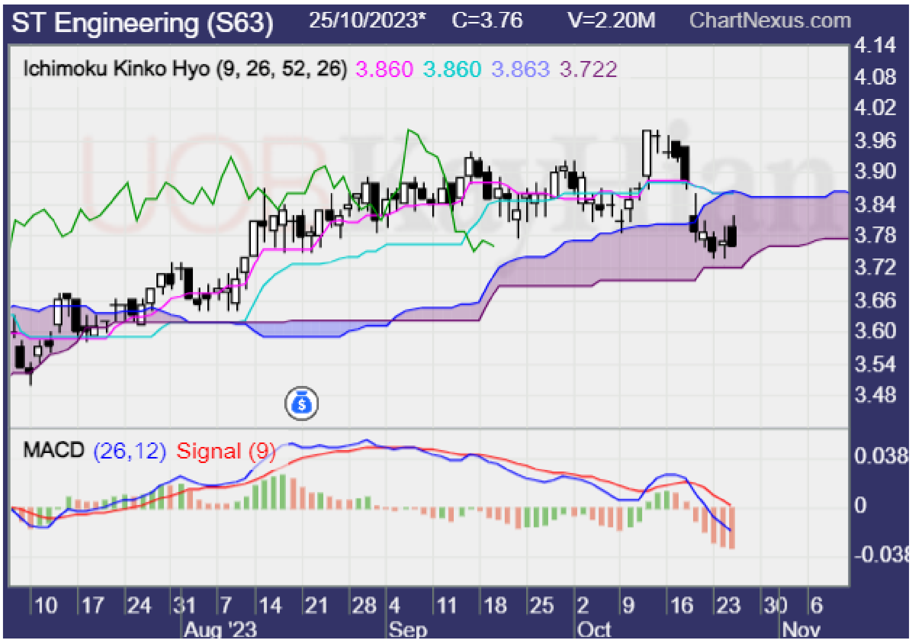
Stock	Price (HK$)	Chg (%)	5-day ADT (HK$m)
Weichai Power	11.50	9.3	22,697
Anhui Conch Cement	19.12	6.3	11,562
Zhongsheng Group Holdings	18.84	4.2	3,047
Cspc Pharmaceutical Group	5.98	3.8	84,277
Great Wall Motor	10.74	3.7	46,264

TOP LOSERS

Stock	Price (HK$)	Chg (%)	5-day ADT (HK$m)
China Unicom Hong Kong	4.82	(8.5)	136,673
Xinyi Solar Holdings	4.77	(5.2)	51,039
China Telecom Corp	3.43	(4.7)	160,078
Hong Kong Exchanges & Clearing	278.20	(4.1)	13,923
Petrochina	5.31	(4.0)	192,167

*ADT: Average daily turnover

SINGAPORE TRADERS' CORNER



Singapore Tech Engineering (STE SP)

Trading sell range: S$3.77-3.78

Last price: S$3.76

Target price: S$3.54

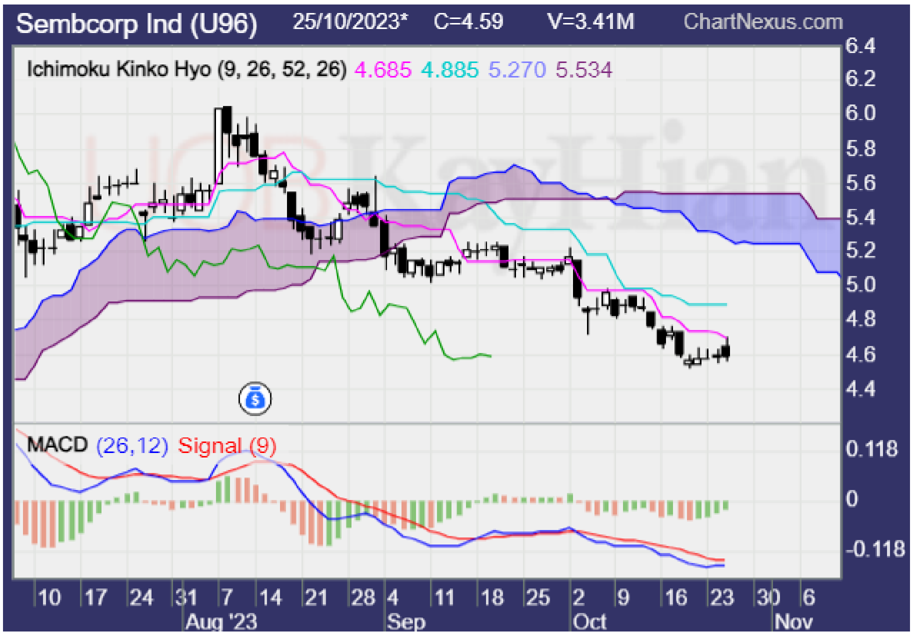
Protective stop: S$3.88

The price could have formed a possible price top at S$3.98. There is a falling window that was formed on 19 October, hinting at more downside ahead. A bearish conversion and base lines crossover is likely. The MACD has turned bearish. These could increase chances of the stock price moving lower.

We see increasing odds of stock price testing S$3.54. Stops could be placed at S$3.88.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$4.20.



Sembcorp Industries (SCI SP)

Trading sell range: S$4.60-4.61

Last price: S$4.59

Target price: S$4.22

Protective stop: S$4.77

The price is trading below the cloud, keeping the downtrend intact. Conversion and base lines remain in a bearish crossover. The MACD is very bearish and is moving lower. These could increase chances of the stock price moving lower.

We see increasing odds of stock price testing S$4.22. Stops could be placed at S$4.77.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$7.20.

ANALYST
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FROM THE REGIONAL MORNING NOTES...

Far East Hospitality Trust (FEHT SP)

3Q23: Rising RevPAR And Profitability Driven By Surge In Visitor Arrivals

RevPAR increased 44% yoy and 14% qoq to S$131 for its nine hotels. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. The incentive fee of S$18m will be utilised to cushion the negative impact of higher interest rates. FEHT provides a 2024 distribution yield of 7.6%. Its P/NAV of 0.63x is unwarranted given its good corporate governance, strong sponsor and low aggregate leverage of 32.2%. Maintain BUY. Target price: S$0.76.

3Q23 RESULTS

Year to 31 Dec (S$m)	3Q23	yoy % chg	Remarks
Gross Revenue	30.2	+42.5	Hotels RevPAR: +44% yoy to S$150 in 3Q23.
- Hotels	23.3	+56.3	Serviced Residences: RevPAR: +12% yoy to S$239 in 3Q23.
- Serviced Residence	2.9	+14.4	On a same-store-basis, Serviced Residence and Commercial
- Commercial Premises	3.9	+6.5	Premises have grown 18.9% and 15.5% yoy respectively.
Net Property Income (NPI)	28.1	+42.4	
Distributable Income	22.9	+51.0	Indicative 3Q23 DPU is 1.12 S cents.

Source: FEHT, UOB Kay Hian

RESULTS

- Far East Hospitality Trust (FEHT) reported 3Q23 distributable income of S$22.9m (+51% yoy), which is above our expectations due to higher RevPAR for both hotels and serviced residences.
- **Hotels: Steep sequential recovery.** RevPAR for hotels increased 43.6% yoy to S$150 in 3Q23, returning to pre-pandemic levels. Occupancy improved 10.6ppt yoy to 86.7% while average daily rate (ADR) increased 26.0% yoy to S$173 driven by a recovery in visitor arrivals. Rendezvous Hotel Singapore and Village Hotel Albert Court, which were released from government contracts in mid-March, ramped up rapidly. One hotel remains under government contract. All hotels contributed variable rent, which accounted for 31% of master lease rental in 9M23. Revenue for hotels increased 56.3% yoy (Elizabeth Hotel was undergoing renovation in 3Q22).
- **Serviced residences: Steady and consistent contributor.** RevPAR for serviced residences increased 12.2% yoy to S$239 in 3Q23, which is 31% above pre-pandemic levels. The resilient performance was driven by a 14.4% yoy growth in ADR. FEHT continues to benefit from new bookings secured at higher rates. On a same-store basis, revenue for serviced residences increased 18.9% yoy if we exclude contributions from Village Residence Clark Quay (divestment completed on 24 Mar 22).

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	83	84	109	115	115
EBITDA	65	67	87	92	92
Operating profit	65	67	87	92	92
Net profit (rep./act.)	131	204	83	67	65
Net profit (adj.)	41	50	83	67	65
EPU (S$ cent)	2.1	2.5	4.2	3.3	3.2
DPU (S$ cent)	2.6	3.3	4.1	4.3	3.9
PE (x)	27.1	22.7	13.7	17.1	17.6
P/B (x)	0.7	0.6	0.6	0.6	0.6
DPU Yld (%)	4.6	5.7	7.2	7.6	6.9
Net margin (%)	157.4	243.8	76.1	58.1	56.9
Net debt/(cash) to equity (%)	56.8	38.2	38.0	38.7	39.5
Interest cover (x)	3.3	4.0	3.6	3.3	3.1
ROE (%)	8.2	11.8	4.6	3.7	3.6
Consensus DPU (S$ cent)	n.a.	n.a.	3.8	4.2	4.3
UOBKH/Consensus (x)	-	-	1.08	1.03	0.92

Source: Far East Hospitality Trust, Bloomberg, UOB Kay Hian

- **Collected additional incentive fee of S$18m.** FEHT has received additional payment of S$18m from the divestment of Central Square in 2Q23 after the buyer obtained provisional permission for redevelopment from the Urban Redevelopment Authority. Management intends to utilise the incentive fee of S$18m received in Mar 23 to cushion the negative impact from higher interest rates.

- **Working on early refinancing.** Aggregate leverage remained low at 32.2% as of Sep 23. Average cost of debt was unchanged at 3.2%. Interest coverage ratio is healthy at 3.7x. FEHT is in the advanced stage of negotiation to refinance borrowings of S$125m that mature in 2024 (17% of total borrowings). Management expects average cost of debt to hit 3.5% by end-23.

STOCK IMPACT

- **Benefitting from rising visitor arrivals.** Visitor arrivals increased 44.6% yoy to 1.1m in Sep 23, representing 77% of pre-pandemic levels. Chinese tourists grew 9x yoy to 135,677 in Sep 23, reaching 55% of pre-pandemic levels. China has regained its stature as the largest source market for Singapore in 3Q23. There is room for further recovery as Chinese tourists accounted for a smaller 9.9% of total visitor arrivals during 9M23 compared with 19.0% in 2019. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the Mid-Autumn Festival.

- **Exploring expansion overseas.** FEHT intends to diversify into gateway cities in developed markets. It is scouting for opportunities to invest in limited-service, midscale and upscale hotels, where yields are higher. Potential acquisitions are likely to be fully debt funded. Management aims for a balanced mix of 80:20 between properties in Singapore and overseas over the longer term.

- **Trading at steep 37% discount against NAV.** FEHT trades at a P/B of 0.63x, the lowest in our universe of hospitality REITs. The discount is unwarranted given FEHT's good corporate governance, a strong sponsor in Far East Organization (FEO), and low aggregate leverage of 32.2% as of Sep 23.

EARNINGS REVISION/RISK

- We raise our DPU forecasts by 9% 2023 and by 8% for 2024 after factoring in the strong 3Q23 results and additional capital distribution of S$0.5m in 2H23 and S$3.0m in 2024.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S$0.76 is based on DDM (cost of equity: 7.75%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- Downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.

- Recovery in occupancy, ADR and RevPAR in 2023 and 2024.

- Acquiring the remaining 70% stake of three Sentosa hotels from sponsor FEO.

KEY OPERATING METRICS

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	1.73	n.a.	1.92	n.a.	n.a.	n.a.
Aggregate Leverage	33.5%	32.0%	32.0%	32.0%	32.2%	-1.3ppt	0.2ppt
Average Cost of Debt	2.0%	2.1%	3.2%	3.2%	3.2%	1.2ppt	0ppt
Weighted Debt Maturity (years)	2.6	3.1	3.7	3.5	3.2	0.6yrs	-0.3yrs
% Borrowings in Fixed Rate	60.9%	54.1%	47.3%	47.2%	40.6%	-20.3ppt	-6.6ppt

** hoh % chg for DPU*
Source: FEHT, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Hong Kong Exchange and Hong Kong Property Sector

Takeaways From 2023 Hong Kong Policy Address: Policies Largely In Line; Maintain MARKET WEIGHT

We have a neutral view on the policies related to the stock market and we expect a short-term rebound in ADT but sustained recovery will still depend on China's macro development and US monetary policy. For the property sector, the relaxation of demand-side management measures is within expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is natural to negative. Sales need to be closely watched.

WHAT'S NEW

- Hong Kong Chief Executive John Lee delivered his second Policy Address on 25 October. Below are the key takeaways regarding the policies related to the capital market and property sector.

ESSENTIALS

Stock Market Implications:

- **Reversing stock trading levy to levels before the rise in 2021.** The Hong Kong government will cut the stock stamp duty rate by 3bp to 0.1% and it aims to complete the legislative process by the end of November. We expect the new stock trading levy rate to be officially implemented starting December. The stamp duty cut is expected to reduce the government revenue's revenue by HK$12.3b, or about 2% of total revenue, according to its estimates.

- **Reviewing stock price spreads.** The Hong Kong Stock Exchange (HKEX) and financial regulatory authorities will initiate a review to narrow the minimum bid-ask spreads. This will enable stocks with liquidity but higher minimum bid-ask spreads to better reflect market conditions. The HKEX will seek market opinions on specific measures in 2Q24.

- **Reforming GEM market listing rules.** The HKEX has published consultations papers to reform the GEM markets which have not witnessed any IPO since Feb 20. These proposals include simplifying the mechanism for transitioning to the main board and expanding pathways for technology companies to go public in the GEM market. The HKEX is expected to implement the revised listing rules in 1Q24.

- **Reducing market data costs.** The HKEX will review the ongoing real-time data service fee standards to reduce the investors' cost for accessing real-time market data. The new fees rate will be implemented by the end of this year.

- **History has shown mixed ADT performance after levy adjustments.** The city had lowered its stock trading stamp duty in 1998, 2000 and 2001 before the rise in 2021. We observed that the short-term performance of the HSI was relatively weak after the cuts, but the average daily turnover (ADT) trend was mixed following the levy adjustments. However, in our opinion, the long-term impact of levy cuts on the market appears to be relatively limited. To highlight, the three cuts were taken place during periods of high volatility, such as Asian Financial Crisis and Dot-com bubble, making the past performances less relevant for comparison.

PEER COMPARISON

Company	Ticker	Rec	Price @ 25 Oct 23 (lcy)	Target Price (lcy)	Upside/ (Downside) To TP	Market Cap (lcy b)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (%)	Yield 2024F (%)
Hong Kong Exchanges and Clearing Ltd.	388 HK	BUY	278.20	370.00	33.0	367,672.7	29.8	27.3	7.2	7.0	3.0	3.3
Hysan Development	14 HK	BUY	14.46	26.18	81.1	14,973.8	7.7	6.6	0.2	0.2	9.9	9.9
Sun Hung Kai Properties	16 HK	BUY	79.50	112.64	41.7	231,532.6	9.1	8.7	0.4	0.4	5.5	5.7
New World Development *	17 HK	HOLD	14.22	16.03	12.7	36,189.2	6.7	6.7	0.2	0.2	5.3	5.3
Wharf Real Estate Investment Co Ltd	1997 HK	HOLD	27.65	40.30	45.8	84,558.9	12.8	11.4	0.4	0.4	4.8	5.4
Link REIT	823 HK	BUY	35.90	50.70	41.2	91,204.7	14.0	13.1	0.5	0.5	7.2	7.6

Source: Bloomberg, UOB Kay Hian

HONG KONG STOCK TRADING STAMP DUTY RATE ADJUSTMENTS HISTORY

Time Frame	Adjustment (bps)	Stamp duty rate (%)	HSI performance (%) 1 week	HSI performance (%) 1 month	ADT changes (%)* 1 month	ADT changes (%)* 1 year
Before Mar 1998		0.1500%				
Apr 1998	-2.50	0.1250%	-0.1	-8.4	-25.6	-62.8
Apr 2000	-1.25	0.1125%	-4.7	-8.4	-30.8	-48.5
Sep 2001	-1.25	0.1000%	-4.9	-8.7	+9.0	-1.6
Aug 2021	+3.00	0.1300%	+0.8	+0.3	-13.2	-39.9

**Single month ADT data before the rate adjustments was used as the baseline for comparison.*
Source: Hong Kong SAR Government, HKEX, UOB Kay Hian

- **Lower stamp duty may boost liquidity in the short term.** The 9M23 headline ADT on the HKEX plunged 11.6% yoy to HK$109.7b due to several external headwinds such as surging US long-term treasury yield, US-China tensions, and the slower pace of economic recovery in Mainland China. We expect the ADT to rebound as a knee-jerk reaction as the 20% lower trading cost after the cut will encourage more day traders, high-frequency traders, and quantitative traders to return to the market. However, we maintain our view that sustained ADT recovery will only occur with a significant improvement in China's economic fundamentals.

- **Impact of GEM reform and market fee reduction on HKEX's core revenue.** We expect the ongoing reforms will revitalise liquidity and fundraising activities in the GEM market, leading to improved trading income and listing fees for the exchange. Meanwhile, it is out of our expectations that the exchange is informed to revise its market data fee. The revenue from providing market data has grown at a CAGR of 5% to HK$1.1b over the past five years and contributes 7% to the HKEX's core revenue. We will revise our growth assumptions on the market data fee after more details are revealed.

Property Market Implications

- **Adjust the demand-side management measures for residential properties***:* a) shorten the applicable period of the special stamp duty (SSD) from three years to two years, b) reduce the respective rates of the buyer's stamp duty (BSD) and the new residential stamp duty (NRSD) by half, from 15% to 7.5%, and c) introduce a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. Under the suspension arrangement, the payment of stamp duty concerned is suspended at the time of property acquisition, but the talent is required to pay the relevant amount if he/she is subsequently unable to become a Hong Kong permanent resident (HKPR).

- **Further speed up land supply.** In the next five years, the government vows to further speed up supply for both private units and public housing units in the next five years. For the medium to longer term, the Northern Metropolis is expected to provide 500,000 new housing units and create 500,000 new jobs in next 20 years. At last, the government will commence the environmental impact assessment process for Kau Yi Chau Artificial Islands, which is expected to provide another 1,000 ha of land.

GOVERNMENT FIVE-YEAR PLAN OF HOUSING SUPPLY

Period	2022 Policy Address 2023/24-2027/28	2022 Policy Address 2024/25-2028/29	Change
New public housing units	158000	172000	8.9%
New private housing unit	72000	80000	11.1%

Source: 2023 HK Policy Address, UOB Kay Hian

SCHEDULE OF LAND AND HOUSING SUPPLY OF NORTHERN METROPOLIS

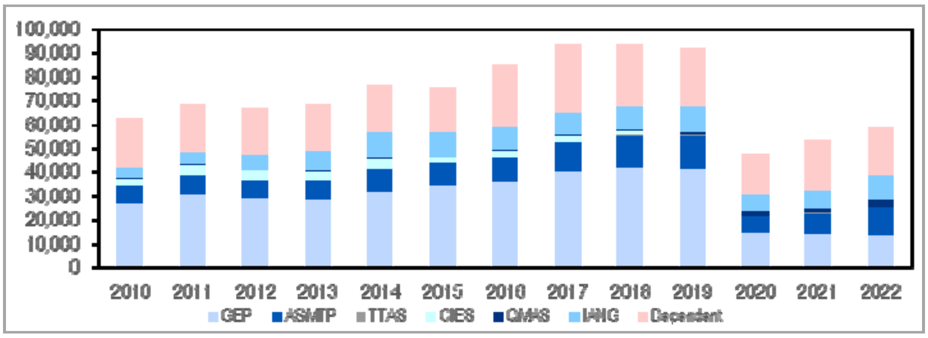
2024	Release all the land use and development proposals
2027	commence land resumption by 2027
2032	form 40% of the new development land and complete 40% of the new flats

Source: 2023 HK Policy Address, UOB Kay Hian

- **Talent and population policies are rather mild.** The Top Talent Pass Scheme (TTPS) introduced last year has achieved satisfactory results, by receiving 160,000 applications and issuing 100,000 approvals, which is equivalent to 1.1x of the total number of talent visas granted in 2019. This year, the government mainly works to: a) marginally expand the coverage of TTPS, b) relax visa requirement for Vietnamese talents, and c) introduce the high Vocational Professionals Admission Scheme to attract professional Higher Diploma graduates. With birth rate falling to a record low of 0.71, the government published measures to support families with newborn babies. A key takeaway is that applications of families that have babies born on or after 25 October will have their waiting time for public rental housing (PRH) flats reduced by one year.

- **Expect a nice rebound of sales volume in the near term.** From 2016 to 2022, Hong Kong immigration issued a total number of 359,789 talent visas, of which we conservatively estimate that roughly 25% will have the will to apply HKPR once their conditions are fulfilled. That means Hong Kong currently has roughly 90,000 potential PR applicants from its talent pool. As a comparison, Hong Kong has 15,000-20,000 primary home transactions and 35,000-5,000- secondary home transactions annually. Thus, we expect the cut of BSD/NRSD rate and introduction of stamp duty suspension arrangement will help unleash the demand of non-PR talents.

NO. OF TALENT VISAS GRANTED DURING 2010-22



Source: Hong Kong Immigration, UOB Kay Hian. Note: GEP: General Employment Policy; ASMTP: Admission Scheme for Mainland Talents and Professionals; TTAS: Technology Talent Admission Scheme; CIES: Capital Investment Entrant Scheme; QMAS: Quality Migrant Admission Scheme; IANG: Immigration Arrangements for Non-local Graduate

- **Neutral to pessimistic on Hong Kong's property price in 2024.** Besides the high interest rate, concerns over population contraction and oversupply are the two major factors that weigh on Hong Kong's property price. With tedious population policy and aggressive land supply plan, the 2023 Policy Address did not provide major support to Hong Kong's property price in the next 12 months. However, we believe interest rate will remain as the most important

ACTIONS

- **Maintain BUY on the HKEX with unchanged target price of HK$370.00.** The policies announced by John Lee to enhance stock market liquidity were largely within our expectations. However, the share price retreated by 4% in the afternoon due to profit-taking activities after it had outperformed the index since few days ago. The exchange is now trading at 2024F PE of 26.3x, 1.0SD below its historical mean, which we deem not so pricey.

- **Maintain MARKET WEIGHT on the Hong Kong property sector.** The relaxation of demand-side management measures is in line with our expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is neutral to negative. Looking forward, the sector may still be exposed to risks of upside adjustment of prime rate. Sales of developers are the key to be watched in the following months. We maintain MARKET WEIGHT. SHKP remains our top pick.

FROM THE REGIONAL MORNING NOTES...

Aier Eye Hospital Group Co (300015 CH)

9M23: Satisfactory Results; Weak Economic Conditions May Slow Revenue Growth

Aier reported satisfactory 9M23 results with total revenue and adjusted net earnings increasing 23.0% yoy and 24.0% yoy respectively, despite the relatively slow economic growth and high base in 3Q22. We expect Aier to deliver relatively strong growth in 4Q23, supported by its well-established business expansion strategy and a low base in 4Q22. Maintain BUY with a lower target price of Rmb21.00 to factor in the possible negative impact of the weaker economic conditions.

9M23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	3Q23	yoy % chg	9M22	9M23	yoy % chg
Revenue	4,944	5,795	17.2%	13,052	16,047	23.0%
Gross profit	2,777	3,263	17.5%	6,775	8,334	23.0%
Selling expense	(472)	(559)	18.5%	(1,258)	(1,607)	27.7%
Administrative expense	(710)	(758)	6.7%	(1,819)	(2,084)	14.6%
R&D expense	*(88)*	*(98)*	11.3%	*(202)*	*(246)*	21.6%
EBT	1,397	1,883	34.7%	3,224	4,299	33.3%
Net profit	1,066	1,469	37.8%	2,357	3,181	35.0%
Adj. net profit	1,121	1,346	20.1%	2,504	3,105	24.0%
% of sales	3Q22	3Q23	yoy ppt chg	9M22	9M23	yoy ppt chg
Gross profit	56.2%	56.3%	0.1	51.9%	51.9%	0.0
Selling expense	9.5%	9.6%	0.1	9.6%	10.0%	0.4
Administrative expense	14.4%	13.1%	(1.3)	13.9%	13.0%	(0.9)
R&D expense	1.8%	1.7%	(0.1)	1.6%	1.5%	(0.0)
EBT	28.3%	32.5%	4.2	24.7%	26.8%	2.1
Net profit	21.6%	25.3%	3.8	18.1%	19.8%	1.8
Adjusted net profit	22.7%	23.2%	0.6	19.2%	19.3%	0.2

Source: Aier, UOB Kay Hian

RESULTS

- **Satisfactory 9M23 results.** Aier Eye Hospital Group (Aier) reported strong 9M23 results with revenue increasing by 23.0% yoy to Rmb16.0b and adjusted net earnings grew 24.0% yoy to Rmb3.1b. Net earnings expanded significantly by 35.0% yoy to Rmb3.2b in 9M23. The results are satisfactory.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	15,001	16,110	20,644	24,393	28,262
EBITDA	4,656	4,547	6,057	7,361	8,359
Operating profit	4,120	3,964	5,290	6,382	7,421
Net profit (rep./act.)	2,323	2,524	3,417	4,205	4,976
Net profit (adj.)	2,783	2,919	3,811	4,599	5,370
EPS (Fen)	29.8	31.3	40.9	49.3	57.6
PE (x)	55.7	53.1	40.7	33.7	28.9
P/B (x)	13.7	9.3	7.3	6.4	5.6
EV/EBITDA (x)	31.9	32.7	24.5	20.2	17.8
Dividend yield (%)	0.7	0.6	0.6	0.8	0.9
Net margin (%)	15.5	15.7	16.6	17.2	17.6
Net debt/(cash) to equity (%)	(17.4)	(28.6)	(35.5)	(39.0)	(42.9)
Interest cover (x)	43.7	683.2	n.a.	n.a.	n.a.
ROE (%)	22.0	18.0	18.0	18.5	19.1
Consensus net profit	-	-	3,465	4,478	5,738
UOBKH/Consensus (x)	-	-	1.10	1.03	0.94

Source: Aier Eye Hospital, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Revenue and earnings growth satisfactory in 3Q23, despite weak economic condition and high base in 3Q22.** Aier's total revenue increased by 17.2% yoy to Rmb5.8b in 3Q23. Despite the relatively slow economic growth in China and considerably high revenue base in 3Q22, the company's 9M23 revenue has maintained satisfactory revenue growth. Aier continues to see strong demand and great market opportunities in eye care services in China and will further enhance its efforts of ophthalmology marketing education and digital marketing activities. Its net profit increased by 37.8% yoy to Rmb1.56b and adjusted earnings jumped by 20.1% yoy to Rmb1.3b in 3Q23.

- **Effective market expansion strategy to continue supporting satisfactory revenue growth in 2023 and beyond.** According to management, the optometry and refractory businesses have experienced relatively slower growth while the other eye disease business segments (such as high-end cataract operation segment, anterior segment and posterior segment services) continue to deliver robust revenue expansion. The relatively weak economic condition may have impacted the growth of certain high-end businesses to some extent, while we continue to believe the company's market penetration strategy via acquisitions and steady organic growth will enable it to expand market reach and continue to support a relatively strong revenue growth outlook. Moreover, the overseas markets currently brought in approximately 11% of total revenue. Management expects the overseas business will grow faster and contribute to approximately 30% of total revenue in the next five years.

- **3Q23 profit margin improved slightly from 3Q22.** Gross margin and adjusted net margin showed slight improvement from 56.2% and 22.7% in 3Q22 to 56.3% and 23.2% in 3Q23 respectively. Selling expense/revenue increased by 0.1ppt to 9.6%, while G&A expenses/revenue ratio decreased by 1.3ppt to 13.1% in 3Q23. According to management, the third quarter is usually the strongest quarter of a year, and the improving profit margin was mainly due to strong revenue growth. We believe profit margin will improve further in the next few years as most of the company's hospitals have a relatively short operating history and will yield higher profit margins as they mature.

- **Cut revenue growth assumptions for 2023-25 to reflect possible impact from slower economic growth in China.** Given the low base in 4Q22 impacted by the COVID-19 outbreak, we believe Aier will report relatively strong revenue growth in 4Q23. However, we think the weaker economic condition could lead to slower growth potential of the ophthalmology market in China. We hence, cut the revenue growth forecasts for 2023-25 to reflect possible slower revenue growth outlook.

- **Plans share buybacks of Rmb200m-300m for the next 12 months at no more than Rmb26.98 per share.** The share bought back will be used for share incentives or employee share option scheme.

EARNINGS REVISION/RISKS

- We cut the revenue growth forecasts for 2023-25 from 30.1%, 21.4% and 23.7% yoy to 28.1%, 18.2% and 15.9% yoy, respectively to reflect possible weaker growth outlook.

- Risks. a) Policy uncertainties, b) possible negative impact from weaker economic condition, and c) risks in overseas and domestic business expansion, etc.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of Rmb21.00,** based on our DCF model, assuming WACC of 11.2% and terminal growth rate of 4%. We believe Aier will still maintain solid growth of 17.0% CAGR during 2023-25, despite the increasing challenging economic condition in China.

STOCK PRICE CATALYSTS

a) Strong market demand for ophthalmic medical services to boost revenue in 4Q23.

b) Effective growth strategy and business model support business expansion in China and overseas.

FROM THE REGIONAL MORNING NOTES...

Baoshan Iron & Steel (600019 CH)

3Q23: In Line; Gross Margin Jumps 3.3 ppt qoq To 8.3%

Baosteel reported 9M23 earnings of Rmb8,350.4m (-11.8% yoy), representing 81% of our 2023 forecast, in line with expectations. 3Q23 gross margins expanded sequentially to 8.3% (+3.3% qoq), thanks to lower coal prices and cost-cutting initiatives. 9M23 cost reduction reached Rmb4.89b, exceeding the annual target. The growing differentiated products' sales and export orders have offset the impacts of lacklustre domestic demand. Maintain BUY. Target price: Rmb7.10.

3Q23 RESULTS

Year to 31 Dec (Rmbm)	9M22R	9M23	yoy chg	3Q22R	3Q23	yoy chg
Revenue	279,198.9	255,384.2	(8.5)	94,941.2	85,162.0	(10.3)
Cost of sales	(260,790.8)	(239,298.8)	(8.2)	(90,976.1)	(78,100.0)	(14.2)
Gross profit	18,408.2	16,085.3	(12.6)	3,965.1	7,062.0	78.1
SG&A	(7,227.3)	(7,468.8)	3.3	(2,672.3)	(2,544.2)	(4.8)
Net finance cost	(1,140.7)	(668.9)	(41.4)	(244.7)	(291.7)	19.2
Operating profit	13,554.5	12,440.7	(8.2)	2,367.6	5,537.0	133.9
Non operating profit/loss	(406.6)	(536.1)	31.8	(77.4)	(148.4)	91.6
PBT	13,147.9	11,904.6	(9.5)	2,290.1	5,388.6	135.3
Tax	(2,160.5)	(2,235.8)	3.5	(334.0)	(949.9)	184.4
Minority interest	(1,523.5)	(1,318.4)	(13.5)	(283.8)	(640.7)	125.8
Net Profit	9,463.8	8,350.4	(11.8)	1,672.4	3,798.0	127.1
Gross margin (%)	6.6	6.3	(0.3)	4.2	8.3	4.1
Net profit margin (%)	3.4	3.3	(0.1)	1.8	4.5	2.7

Source: Baoshan Iron & Steel, UOB Kay Hian

RESULTS

- **In line; best quarter of the year.** Baoshan Iron & Steel (Baosteel) reported 9M23 earnings of Rmb8,350.4m, down 11.8% yoy, representing 80.6%/76.3% of our/consensus earnings forecast for 2023, in line with expectations. Quarterly profit was the highest of the year at Rmb3,798m (+40.3% qoq/+127.1% yoy), mainly driven by the lower production costs and particularly cheaper coking coal prices in 2Q23.

- **3Q23 consolidated gross margin grew 3.3ppt qoq to 8.3%.** Consolidated gross margin remained resilient in 3Q23 at 8.3% (+3.3ppt qoq/+1.2ppt yoy, mainly supported by the cheaper coking coal prices and effective cost savings measures. Cost was reduced by Rmb4.89b in 9M23 (1H23: Rmb2.99b), exceeding the target set for the year. 3Q23 profit per tonne was Rmb283 (+Rmb82 qoq/+Rmb155 yoy).

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	365,342	369,058	338,795	348,959	352,449
EBITDA	49,313	31,464	31,304	36,589	40,706
Operating profit	29,967	11,525	9,317	13,435	16,389
Net profit (rep./act.)	22,040	9,623	10,365	13,951	16,748
Net profit (adj.)	22,040	9,623	10,365	13,951	16,748
EPS (Fen)	99.0	43.2	46.5	62.7	75.2
PE (x)	6.4	14.6	13.6	10.1	8.4
P/B (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	3.6	5.7	5.7	4.9	4.4
Dividend yield (%)	8.4	4.4	3.7	4.9	5.9
Net margin (%)	6.0	2.6	3.1	4.0	4.8
Net debt/(cash) to equity (%)	14.6	10.2	7.0	2.3	(3.8)
Interest cover (x)	27.6	20.4	26.5	32.5	40.0
ROE (%)	11.7	5.0	5.2	6.7	7.7
Consensus net profit	-	-	11,126	13,706	15,708
UOBKH/Consensus (x)	-	-	0.93	1.02	1.07

Source: Baosteel, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Differentiated products and export orders came to the rescue.** Commodity billet sales volume was flattish qoq at 13.41m tonnes while the company's 1+1+N products' (differentiated products) sales volume for 9M23 was 20.32m tonnes (+1.57m tonnes yoy). Riding on the recovery of auto manufacturing in 3Q23, Baosteel's cold-rolled coil (CRC) automobile sheet also recorded record-high monthly sales volume in the quarter. Furthermore, the company's overseas contracted sales volume was also up 45.5% yoy to 4.54m tonnes, on track to meet its 6.00m tonnes annual target, taking advantage of the current higher steel prices in the overseas market.

- **Margins under pressure amid intensifying competition.** Product ASP has been trending down qoq since the beginning of the year although overall sales volume has improved sequentially. Industry competition has intensified further, especially for homogenous steel products with low entry barrier. Furthermore, the company also noticed that mass market electric vehicles (EV) now favour lower-end auto sheet products, disadvantaging Baosteel who has a competitive edge in high-end product range. The company had to actively adapt to the change in market trend and optimise product offering in order to retain market share.

ASP AND SALES VOLUME TREND

	-------------- ASP (Rmb per tonne) --------------			--------- Sales Volume (10,000 tonnes) ---------		
Product Range	1Q23	2Q23	3Q23	1Q23	2Q23	3Q23
Flat products	4,956	4,858	4,608	1,086	1,180	1,192
Steel Pipes	7,393	7,610	7,127	46	50	48
Others	4,506	3,975	3,858	79	115	101
Overall	5,020	4,883	4,642	1,211	1,345	1,341

Source: Baoshan Iron & Steel, UOB Kay Hian

- **High growth potential in high-end silicon steel products.** The company plans to gradually exit mid- and low-end silicon steel products which have witnessed an influx of new players. The company sees huge growth potential in high-end silicon steel products, as: a) the revision of GB 20052 standard will boost demand for high-end grain-oriented silicon steel used in power transformer, and b) the high-paced growth of the EV industry has boosted demand for high-end non-oriented silicon steel.

- **Initiate share buyback scheme amid low valuation.** Baosteel plans to buy back its shares with total proceeds of Rmb3.0b (self-funded), with a price of not more than Rmb8.86 per share, and will eventually be used for employee share incentive scheme. The share buyback scheme should involve a minimum of 338.6m shares, about 1.5% of total shares outstanding. The company believes this is the right timing for it to react on the current unreasonably low company valuation of around 0.7x 2022 P/B.

EARNINGS REVISION/RISK

- No change to earnings forecasts.

VALUATION/RECOMMENDATION

- **We maintain BUY with a target price of Rmb7.10, pegged to 0.8x 2023F P/B.** The company has continued to outperform the industry, backed by China Iron and Steel's (CISA) data which indicates that overall industry profit was down 34.1% yoy (vs Baosteel's -11.8% yoy). We expect 4Q23 margin to likely to be lower sequentially given the recent spike in iron ore and coal prices. Demand for flat products will remain stable in 4Q23, backed by resilient demand from automobile and home appliances manufacturing. We have yet to see official announcement on the crude steel production curb from the authorities, but as growing number of steel mills are now loss-making, we should see more of them voluntarily cut production in the short term, which will help in tightening the supply demand dynamics. We are cautiously optimistic on the company's outlook in 4Q23.

SHARE PRICE CATALYST

- Stronger-than-expected recovery of downstream demand; correction of raw material prices.

FROM THE REGIONAL MORNING NOTES...

China Overseas Land & Investment (688 HK)

3Q23: Improved Results; Likely To Meet Its 2023 Target

3Q23 revenue rose 61% yoy to Rmb28.3b on: a) a low base in 3Q22, and b) policy easing measures. In 9M23, revenue decreased 3.2% yoy, while operating profit was Rmb22.6b, implying an operating margin of 19%. Contracted sales are largely on track and land investment is catching up to its 2023 target. We expect COLI to achieve its 2023 target and keep the dividend payout ratio stable in 2023. Maintain BUY with an unchanged target price of HK$25.86.

3Q23 RESULTS

Year to 31 Dec (Rmbm)	3Q22	3Q23	yoy	9M22	9M23	yoy
Revenue	17,520	28,250	61%	121,310	117,410	-3.2%
Operating Profit	n/a	3,530	n/a	n/a	22,600	n/a
Operating Profit Margin	n/a	12%	n/a	n/a	19%	n/a
	22-Sep	23-Sep	yoy			
Cash	119,350	115,530	-3%			
Net Gearing	43.70%	39.70%	-4.0bps			

Source: COLI, UOB Kay Hian

RESULTS

- Construction progress catching up. Thanks to: a) a relatively low base in 3Q22, and b) various policy easing measures in 3Q23, China Overseas Land & Investment's (COLI) revenue increased by 61% yoy to Rmb28.3b. Operating profit was Rmb3.5b, implying operating profit margin of 12%. In 9M23, revenue declined by 3.2% yoy to Rmb117.4b. Operating profit was Rmb22.6b, implying operating profit margin of 19%. Cash balance decreased 3% yoy and increased 1.2% qoq to Rmb115.5b. Net gearing decreased 4.0bp yoy and increased 3.9bp qoq to 39.7%.

STOCK IMPACT

- **Contracted sales largely on track.** In Sep 23/9M23, the accumulated contracted sales increased by 23.0%/18.7% yoy to Rmb28.1b/Rmb 239.0b respectively. The gross floor area (GFA) sold increased 11.9% yoy to 10.3m sqm. COLI targets to achieve 20% growth in contracted sales.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	242,240.8	180,321.6	202,792.1	243,849.0	269,435.7
EBITDA	50,465.1	32,395.0	35,778.0	43,800.4	48,635.9
Operating profit	50,057.1	31,871.8	35,232.7	43,232.9	48,046.2
Net profit (rep./act.)	40,155.4	23,264.7	26,865.7	31,761.8	35,058.5
Net profit (adj.)	33,920.0	24,420.0	26,865.7	31,761.8	35,058.5
EPS (sen)	309.9	223.1	245.5	290.2	320.3
PE (x)	4.4	6.2	5.6	4.7	4.3
P/B (x)	0.4	0.4	0.4	0.4	0.3
EV/EBITDA (x)	6.5	10.1	9.2	7.5	6.7
Dividend yield (%)	7.9	5.2	5.4	6.3	7.0
Net margin (%)	16.6	12.9	13.2	13.0	13.0
Net debt/(cash) to equity (%)	32.6	45.5	41.7	36.1	32.9
Interest cover (x)	58.3	30.7	30.3	33.3	33.3
ROE (%)	12.2	6.7	7.3	8.1	8.2
Consensus net profit	-	-	25,349	27,818	30,964
UOBKH/Consensus (x)	-	-	1.06	1.14	1.13

Source: COLI, Bloomberg, UOB Kay Hian

- **Land investment pace to pick up in 4Q23.** In 9M23, COLI acquired a attributable GFA of 3.19m sqm, down 39.6% yoy. Attributable land premium declined 13.6% yoy to Rmb64.4b. On 24 Oct 23, COLI won the bid for Shanghai Xuhui sites for Rmb24b (with an aggregate GFA of 0.67m sqm) which are designated for residential and commercial use. COLI holds 85% of the venture, while the remainder is held by Shanghai Longhua Construction Development. The company targets to achieve double-digit yoy growth in attributable land investment. We think the land investment pace will pick up in 4Q23.

EARNINGS REVISION/RISK

- **We keep our earnings forecast unchanged.** The easing of policies in the property industry may help COLI further accelerate sales pace in 4Q23. With solid progress in construction, we think COLI can achieve positive earnings growth and keep the stable dividend payout rate in 2023.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of HK$25.86.** COLI is now trading at: a) 5.8x one-year forward PE, which is nearly 1SD above the mean, b) 0.4x one-year forward PB, which is nearly 1 SD below the mean, c) 5.5% one-year forward PB, which is 0.5SD below the mean. Backed by a strong balance sheet, COLI is steadily acquiring land and increasing its market share.

SHARE PRICE CATALYST

- Stronger-than-expected recovery of property sales.
- Further easing of policies in the property industry.

FROM THE REGIONAL MORNING NOTES…

Li Ning (2331 HK)

Cut Full-year Revenue Guidance To Single-digit % Growth; Key Priority Is Distributor Control

Li Ning's disappointing 3Q23 business operations can be attributed to distributors' cross-region and channel sales. Management cut the company's full-year revenue guidance to single-digit % yoy growth (vs mid-teens % previously), and implied that margins should be under pressure. We think the company will take a long time to strengthen its control on distributors. We cut target price by 10% to HK$48.80. Maintain BUY on its cheap valuation.

WHAT'S NEW

- Li Ning announced its 3Q23 operational updates.

STOCK IMPACT

- **Operations disappointed, particularly in the e-commerce channel.** In 3Q23, Li Ning recorded mid-single-digit % retail sell-through yoy growth, with retail/wholesale channels increasing by low-twenties % and low-single-digit % yoy, respectively. Management attributed the better direct retail performances to the good sales momentum in its outlet stores and the faster expansion of directly-operated stores. However, sell-through of e-commerce channel declined by low-single-digit yoy, below management's expectations, which was affected by a high base and offline distributors' cross-region and channel sales. Same-store sales were weak in 3Q23 as well. Same-store sales for the overall platform recorded a mid-single-digit% yoy decline, with retail and wholesale channels registering mid-single-digit % increase and low-teens % decrease yoy respectively, while e-commerce platforms registered low-single-digit % yoy decline.

- **Online discounts under pressure**. Inventory turnover trended up to around five months by the end of 3Q23 from 3.8 months as of end-2Q23, with inventory structure remaining stable. Offline discounts narrowed by low-single-digit yoy in 3Q23, with retail channel discounts improving more than wholesale channel discounts (retail channel: <30% off vs wholesale channel: <25% off). Although online discounts improved qoq in 3Q23, it deepened by low-single-digit yoy. Looking ahead, we expect online discounts to remain under pressure given the company's destocking initiatives amid the challenging operation backdrop. Li Ning targets to bring inventory turnover to 4.5 months by 4Q23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	22,572	25,803	27,875	30,141	33,567
EBITDA	5,896	5,668	6,176	7,006	8,053
Operating profit	4,736	4,082	4,327	4,920	5,748
Net profit (rep./act.)	4,011	4,064	4,041	4,535	5,217
Net profit (adj.)	4,011	4,064	4,041	4,535	5,217
EPS (Fen)	158.0	154.3	153.4	172.1	198.0
PE (x)	17.9	18.3	18.4	16.4	14.3
P/B (x)	3.5	3.1	2.7	2.4	2.2
EV/EBITDA (x)	11.4	11.8	10.9	9.6	8.3
Dividend yield (%)	1.6	1.6	1.6	1.8	2.1
Net margin (%)	17.8	15.7	14.5	15.0	15.5
Net debt/(cash) to equity (%)	(63.3)	(21.3)	(26.9)	(32.8)	(38.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	26.9	17.9	15.7	15.7	16.1
Consensus net profit	-	-	4,485	5,400	6,402
UOBKH/Consensus (x)	-	-	0.90	0.84	0.81

Source: Li Ning, Bloomberg, UOB Kay Hian

- **Cut full-year revenue guidance; expect margins to miss.** Due to the worse-than-expected sales momentum, management has revised down its full-year revenue guidance of mid-teens % yoy growth to single-digit % yoy growth. Although management did not mention the revision of mid-teens% net margin guidance, we think Li Ning will face challenges achieving this, as we expect: a) the deepening discounts online will lead to a deterioration in gross margin in 2H23, and b) the company will incur higher selling expenses on 2024 Paris Olympics starting from 2H23.

EARNINGS REVISION/RISK

- **Cut 2023-24 earnings forecasts by 8/11%.** We cut our 2023-24 revenue forecasts by 3%/6% respectively, on worse-than-expected sales momentum. Our new 2023 revenue forecast implies a 3% revenue yoy growth in 2H23. We lower our 2023-24 gross margin forecasts by 0.2ppt/0.4ppt respectively on the deepening online discounts. We raise our 2023-24 selling expense ratio estimates by 0.3ppt/0.1ppt, as we expect the company to incur more expenses related to the 2024 Paris Olympics. Thus, our 2023-24 earnings forecasts are lowered by 8%/11% respectively. Our new 2023 earnings forecast implies a 2% earnings yoy growth in 2H23 and a full-year net margin of 14.5%.

VALUATION/RECOMMENDATION

- **Cut target price by 10% to HK$48.80.** Li Ning's share price has corrected by 23% since Sep 23 (vs the HIS's -9%), reflecting reflects capital market concerns on the distributors' cross-region and channel sales issue. In our view, Li Ning will take a long time to strengthen its control on distributors and enhance product competitiveness, which will achieve the normalisation of business operations of its sales channels, and thus support long-term business expansion. We cut our target price by 10% to HK$48.80, and maintain BUY rating on its cheap valuation. The stock currently trades at 18.4x 2023F PE, 1SD below the five-year historical average.

LI NING SELL-THROUGH GROWTH RATE (YOY)

	Overall platform	Offline	Retail	Wholesale	e-commerce
1Q21	(+) high-eighties	(+) low-eighties	(+) low-nineties	(+) low-eighties	(+) 100%
2Q21	(+) low-nineties	(+) low-nineties	(+) high-eighties	(+) low-nineties	(+) high-nineties
3Q21	(+) low-forties	(+) high-thirties	(+) mid-thirties	(+) high-thirties	(+) mid-fifties
4Q21	(+) low-thirties	(+) high-twenties	(+) high-twenties	(+) high-twenties	(+) low-forties
1Q22	(+) high-twenties	(+) mid-twenties	(+) mid-thirties	(+) low-twenties	(+) mid-thirties
2Q22	(-) high-SD	(-) high-SD	(-) high-SD	(-) high-SD	(+) mid-SD
3Q22	(+) mid-teens	(+) mid-teens	(+) low-20s	(+) low-teens	(+) mid-20s
4Q22	(-) low-teens	(-) high-teens	(-) mid-teens	(-) low-twenties	(+) mid-SD
1Q23	(+) mid-SD	(+) high-SD	(+) mid-teens	(+) mid-SD	(-) low-teens
2Q23	(+) mid-teens	(+) high-teens	(+) high-twenties	(+) mid-teens	(+) low-teens
3Q23	(+) mid-SD	(+) high-SD	(+) low-twenties	(+) low-SD	(-) low-SD

Source: Li Ning, UOB Kay Hian

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