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

KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	34714.2	(0.4)	0.4	(1.0)	4.7
S&P 500	4508.1	(0.2)	1.7	0.7	17.4
FTSE 100	7437.9	(0.2)	(0.4)	(1.7)	(0.2)
AS30	7516.8	(0.1)	1.4	(0.3)	4.1
CSI 300	3820.3	(0.7)	0.8	(5.0)	(1.3)
FSSTI	3226.8	(0.4)	0.4	(2.0)	(0.8)
HSCEI	6396.8	(2.1)	2.4	(5.0)	(4.6)
HSI	18456.9	(2.1)	1.8	(5.5)	(6.7)
JCI	6991.7	(0.1)	0.5	2.0	2.1
KLCI	1454.8	(0.5)	0.7	0.7	(2.7)
KOSPI	2582.2	(0.1)	1.2	(0.8)	15.5
Nikkei 225	33036.8	0.3	2.5	2.6	26.6
SET	1547.9	(0.1)	(1.3)	1.1	(7.2)
TWSE	16791.6	0.0	1.0	(0.3)	18.8
BDI	1063	(1.8)	(4.0)	(6.4)	(29.8)
CPO (RM/mt)	3871	(0.8)	1.2	1.2	(4.4)
Brent Crude (US$/bbl)	91	1.9	6.1	5.1	5.5

Source: Bloomberg

TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
BUY				
BYD	1211 HK	247.60	590.00	138.3
China Duty Free	601888 CH	114.50	138.00	20.5
Bank Neo Commerce	BBYB IJ	326.00	1,000.00	206.7
Bumi Serpong	BSDE IJ	1,110.00	1,420.00	27.9
HM Sampoerna	HMSP IJ	875.00	1,300.00	48.6
My EG Services	MYEG MK	0.78	1.18	51.3
Yinson	YNS MK	2.50	4.05	62.0
OCBC	OCBC SP	12.57	18.22	44.9
CP ALL	CPALL TB	64.00	78.00	21.9
Indorama	IVL TB	28.50	37.00	29.8

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
Palm Oil Webinar: Global Oilseeds and Vegoil Outlook	Singapore	12 Sep	12 Sep
Presentation by Wilmar International Ltd (WIL:SP)	Kuala Lumpur	13 Sep	13 Sep
Malaysia Marine and Heavy Engineering Holdings (MMHE MK) Investor Meeting	Kuala Lumpur	14 Sep	14 Sep

SECTOR UPDATE

Property Management – China

1H23 Results Wrap-up: Benefitting From Strong Property Policies in 2H23

For 1H23 results, the decline in non-community VAS margin raises concerns while newly added interim dividends came as a surprise. The divergence between SOEs and POEs is more pronounced in business segment. SOEs reiterated their growth targets while lowering cyclical revenue will be good for POEs' long-term development. Maintain OVERWEIGHT on China's property management sector.

WHAT'S NEW

- Listed property management companies released their 1H23 financial results.

ESSENTIALS

- **1H23 results wrap-up for property management (PM) companies:** The decline in non-community VAS margin raises concerns while newly added interim dividends came as a surprise. For the 11 sample companies we assessed, on average: a) managed GFA increased 19.9% yoy, b) revenue grew 12.5% yoy, c) gross profit margin decreased by 0.6% yoy to 21.2%, d) gross profit margin of non-community value-added services (VAS) decreased 5.9%, e) attributable net profit grew 21.7% yoy, f) four out of 11 companies announced interim dividends for the first time (one POE and three SOEs), g) cash on hand decreased 7.5% yoy, and h) AR turnover days increased by six days hoh to 101 days.

- **Divergence between SOEs and POEs is more pronounced.** To summarise: a) both SOEs and POEs reported positive PM segment revenue growth (SOEs/POEs: 21.8%/9.5% yoy), while SOEs performed much better in community VAS/non-community VAS (SOEs:23.1%/12.3% vs POEs: -1.7%/-41.2%), b) SOEs had more stable segment margins than POEs: the profit margin change of the PM segment (SOEs/POEs:+0.5%/-1.7%); community VAS (SOEs/POEs:+1.1%/-12.9%); non-community VAS(SOEs/POEs: -1.9%/-12.3%), c) SOEs reported 21.8% yoy growth in attributable net profit (mainly due to a rise in segment profit margin and lower S&GA expenses) while POEs reported an 8.7% yoy decline in attributable net profit.

- **SOEs reiterated their growth targets while lowering cyclical revenue will be good for POEs' long-term development.** Targets of Key SOE players are as follows - COPH: 30% earnings CAGR in 14th Five-year Period (FYP); Poly Property Development: 20%+ earnings growth in 2023; CR Mixc: 40% earnings CAGR in 14th FYP, implying 27% CGAR in 2023-25. We expect SOE PM companies to continue to win market share and deliver strong growth in VAS, backed by better incentive schemes. POEs, with revenue from non-community VAS falling to 6% on average, are expected to gradually return to an asset-light and counter-cyclical nature.

ACTION

- **Maintain OVERWEIGHT on the property management sector.** The central government recently introduced three stronger-than-expected policies to stabilise the property market: a) the PBOC lowered the minimum downpayment ratio for cities with home purchase restrictions, b) the PBOC lowered the mortgage rate floor for second homes, and c) the follow-up action by Tier 1 cities in adopting the new definition of first home mortgage. We believe these policies will help release upgrading demand, leading to an increase in property brokerage and home repair & decoration business, which are major components of community VAS segment. COPH remains our top pick for its high presence in Tier 1 cities and strong capacity of VAS expansion. We also like CR Mixc, which is expected to be a key beneficiary of supportive policies on consumption.

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK$)	Target Price (HK$)
COPH	2669 HK	BUY	9.50	11.69
CR Mixc	1209 HK	BUY	35.60	49.69

Source: UOB Kay Hian

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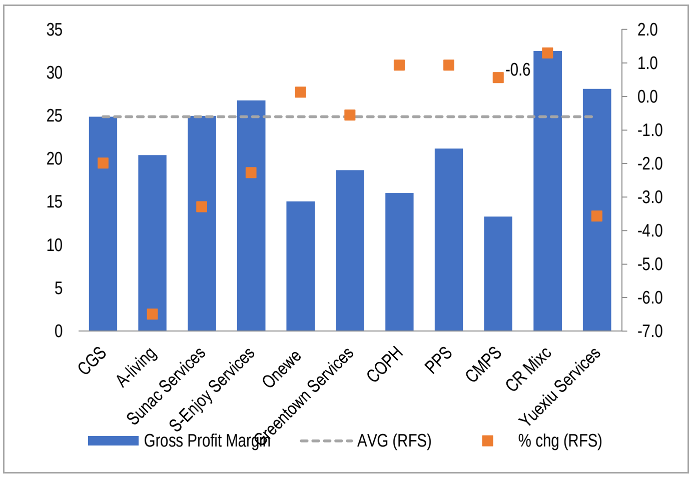
PEER COMPARISON

Company	Ticker	Rec	Price @ 4 Sep 23 (HK$)	Target Price (HK$)	Upside/ (Downside) to TP (%)	Market Cap (HK$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (x)	Yield 2024F (x)
CR Mixc Lifestyle	1209 HK	BUY	35.60	49.69	39.6	10,365.3	27.2	21.5	4.7	4.2	1.5	1.9
China Overseas Property	2669 HK	BUY	9.50	11.69	23.0	3,983.2	19.8	15.1	6.6	5.1	1.5	2.0
Poly Property Development	6049 HK	BUY	36.70	52.80	43.9	2,590.5	13.9	11.8	2.2	1.9	1.8	2.1
Country Garden Services	6098 HK	HOLD	9.58	9.16	-4.4	4,122.2	8.0	8.4	0.8	0.7	4.2	4.0

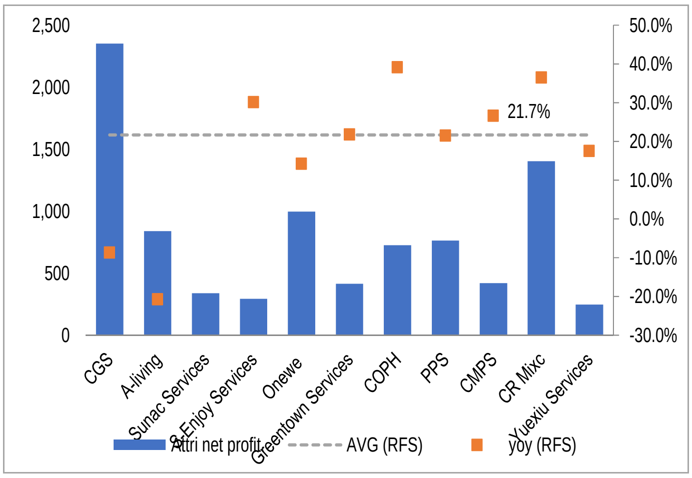
Source: Bloomberg, UOB Kay Hian

1H23 REVENUE OF MAJOR PM COMPANIES



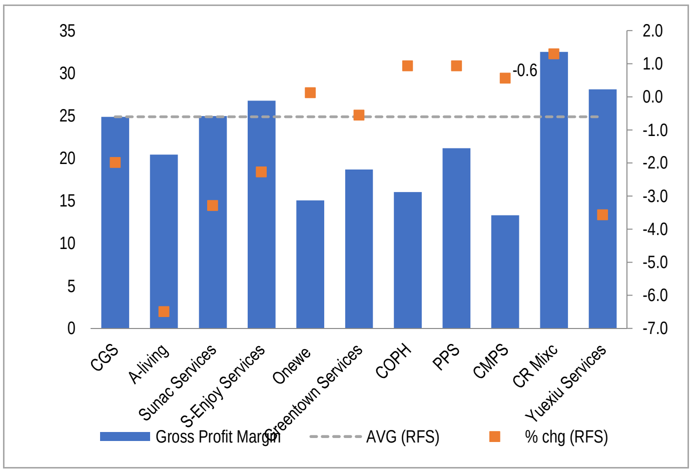
Source: UOB Kay Hian

1H23 ATTRIBUTABLE NET PROFIT OF MAJOR PM COMPANIES



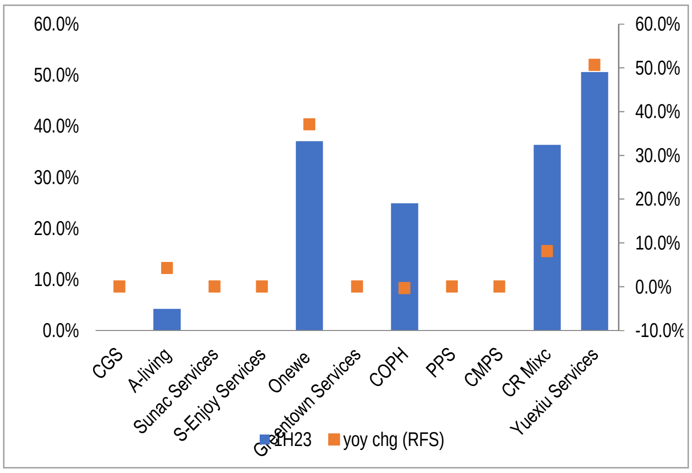
Source: UOB Kay Hian

1H23 GROSS PROFIT MARGIN OF MAJOR PM COMPANIES



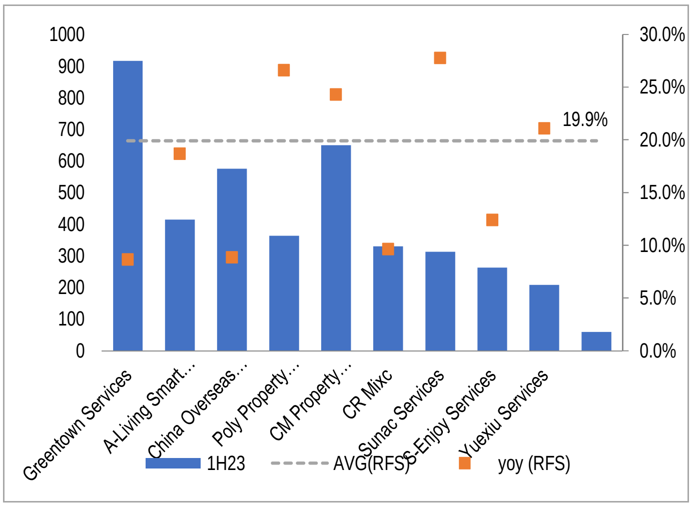
Source: UOB Kay Hian

PAYOUT RATIO OF MAJOR PM COMPANIES



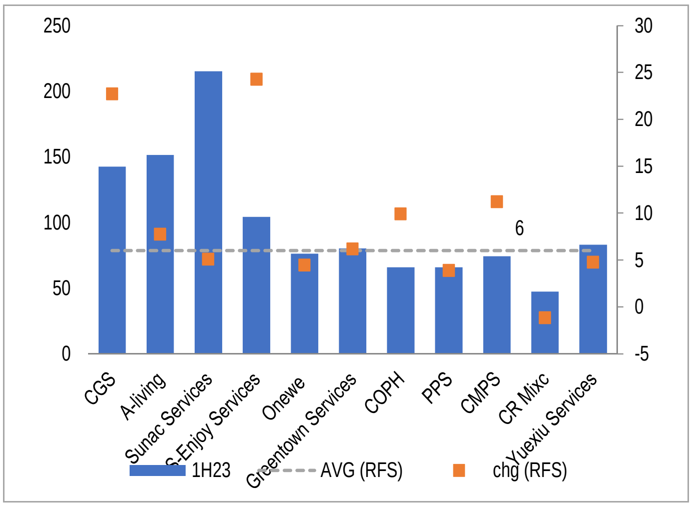
Source: UOB Kay Hian

GFA UNDER MANAGEMENT FOR MAJOR PM COMPANIES



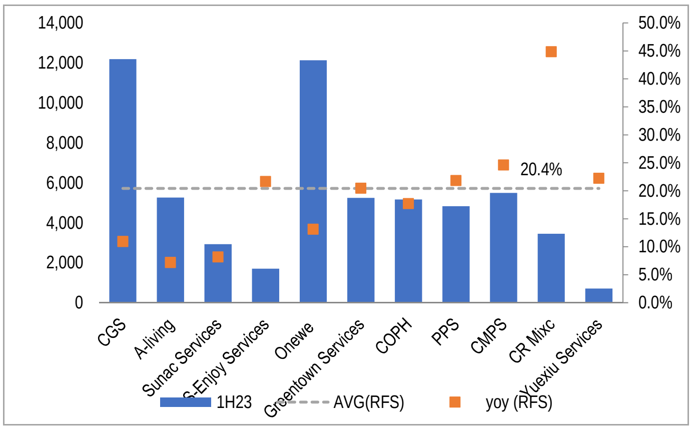
Source: UOB Kay Hian

AR TURNOVER DAYS FOR MAJOR PM COMPANIES



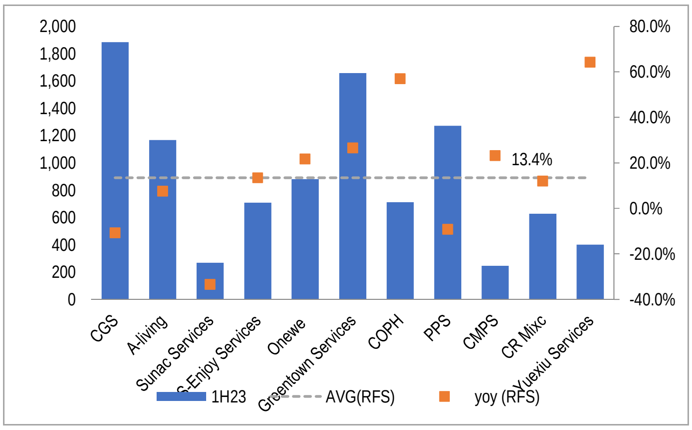
Source: UOB Kay Hian

SEGMENT REVENUE OF BASIC PM



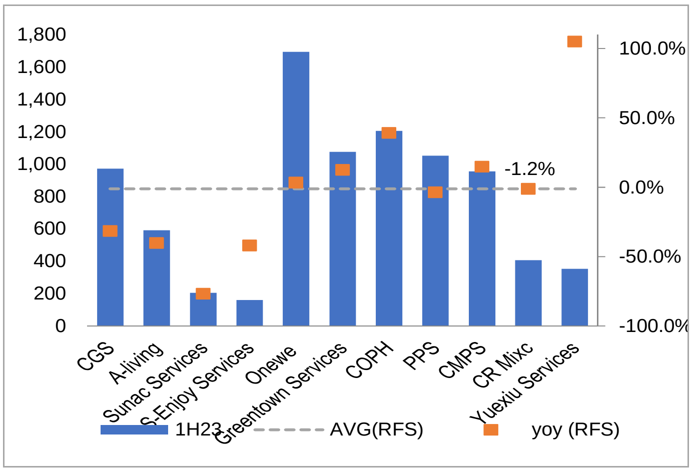
Source: UOB Kay Hian

SEGMENT REVENUE OF COMMUNITY-VAS



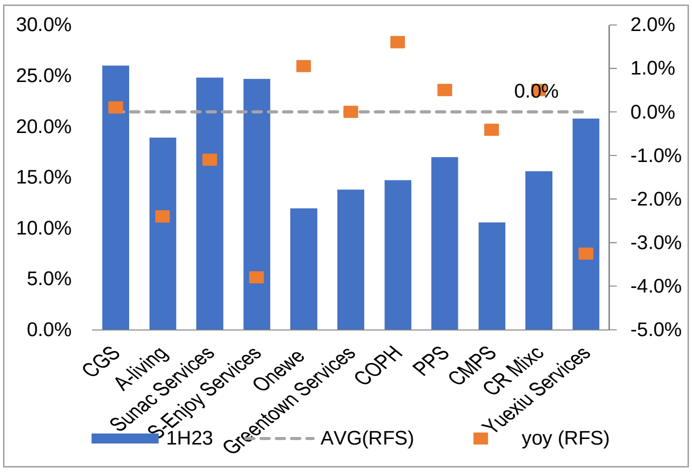
Source: UOB Kay Hian

SEGMENT REVENUE OF NON-COMMUNITY VAS



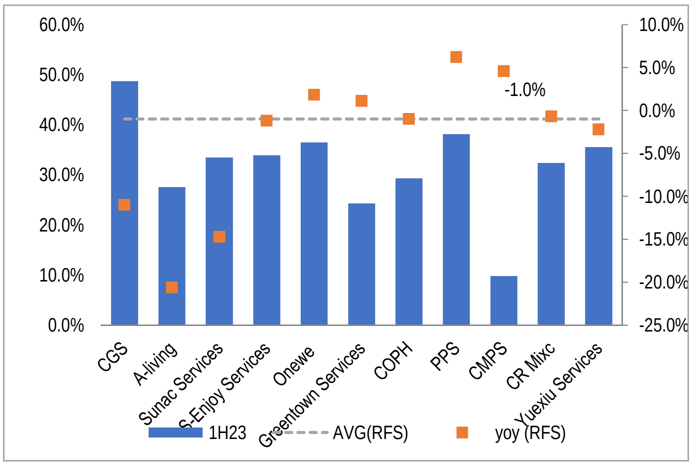
Source: UOB Kay Hian

SEGMENT MARGIN OF BASIC PM



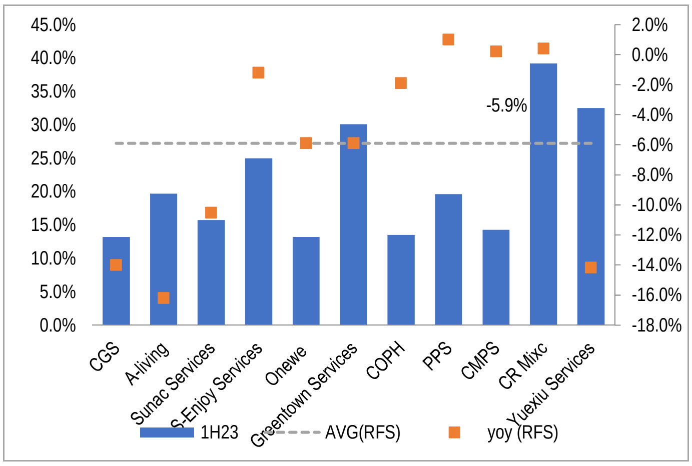
Source: UOB Kay Hian

SEGMENT MARGIN OF COMMUNITY-VAS



Source: UOB Kay Hian

SEGMENT MARGIN OF COMMUNITY-VAS



Source: UOB Kay Hian

SECTOR UPDATE

Sportswear – China

1H23 Results Wrap-up: Expect Better Sales Growth Momentum In 4Q23 But Discounts May Deepen

Chinese sportswear companies' modest top-line growth in 1H23 reflected a lukewarm consumption recovery momentum. We expect the sales growth momentum to improve in 4Q23, helped by sportswear companies' destocking promotions and the low base. Current valuation of China's sportswear sector is undemanding, which has reflected the capital market's lowered expectations on sales momentum in 3Q23. We maintain OVERWEIGHT on China's sportswear sector.

WHAT'S NEW

- **Weak sales momentum in 3Q23, but a better 4Q23 ahead.** Consumption recovery of China's sportswear sector was on a bumpy trajectory in 1H23 – it remained well on track during March-April but then slowed down starting from end-May. Amid the challenging consumption environment, we observed divergent sales performances, with premium brands recording rapid sales growth (eg Descente, KOLON: 70-75%/Saucony, Merrell: 100% yoy growth in 1H23), pointing to consumers' rising demand for outdoor activities and products' functionality. We expect the sector's retail sales momentum to continue to be lukewarm in 3Q23, due to a relatively high base and the impact of the bad weather in early-August. However, we expect a better 4Q23 ahead, supported by sportswear companies' intensive destocking promotions and the low base. Although management teams of sportswear companies under our coverage are still maintaining full-year targets unchanged, we believe Anta and Lining will find it challenging to achieve their targets.

- **Inventory levels may trend up in 3Q23 but remain manageable.** Inventory levels of sportswear names under our coverage were within the normalised range as at end-2Q23 (about 3.8-5.0 months). In the near term, we expect inventory turnover to trend up slightly in 3Q23, as some of the summer stocks are carried into 3Q23 due to the bad weather in early-August. However, we think overall inventory levels should be manageable.

- **Discount levels may deepen in 4Q23.** Sportswear names under our coverage saw low-single-digit discount improvement qoq in 2Q23. However, we think the discount improvement trend is unsustainable and remain conservative on local brands' discounts in late 3Q23-4Q23. On one hand, local brands may seize the opportunities in 2H23 to digest winter stocks that were brought over from 4Q22, during which business operations were significantly disrupted by the pandemic. On the other hand, local brands are facing increasingly fierce competitions from international brands, which are targeting to regain their market shares in China (Adidas: sell-out double-digit yoy growth in 2Q23 / Nike: 25% yoy growth in currency-neutral revenue in 4QFY23).

- **Pecking order: Xtep>Anta>Lining.** The current valuation of the sportswear sector is undemanding (16-23x 2023F PE), which has reflected the capital market's lowered expectations on sales momentum in 3Q23, in our view. Our pecking order for sportswear stocks is: Xtep>Anta>Lining. We like Xtep for its: a) decent sales momentum qtd, b) value-for-money positioning amid the weak consumption recovery, and c) higher earnings visibility given its wholesale business model.

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Anta	2020 HK	BUY	90.00	128.00
Li Ning	2331 HK	BUY	38.40	54.20
Xtep	1368 HK	BUY	8.02	11.00

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price @ 5 Sep 23 (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)	Market Cap (lcy m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE 2023F (%)
Anta	2020 HK	BUY	90.00	128.00	42.2	32,520.3	23.0	19.7	4.6	4.0	11.5	10.1	23.5
Li Ning	2331 HK	BUY	38.40	54.20	41.1	12,912.4	21.6	18.5	3.4	3.0	13.5	11.6	16.9
Xtep	1368 HK	BUY	8.02	11.00	37.2	2,699.3	16.0	13.5	2.1	2.0	8.7	7.6	13.9

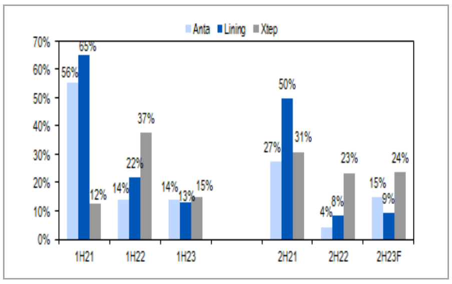
Source: Bloomberg, UOB Kay Hian

SALES GROWTH

Anta retail sales yoy growth	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Anta brand	(-) 20-25%	(-) low-SD	(+) low-SD	(+) low-SD	(+) 40-45%	(+) 35-40%	(+) low-teens	(+) mid-teens	(+) high-teens	(-) mid-SD	(+) mid-SD	(-) high-SD	(+) mid-SD	(+) high-SD
Fila	(-) Mid SD	Low-teens	(+) 20-25%	(+) 25-30%	(+) 75-80%	(+) 30-35%	(+) mid-SD	(+) high-SD	(+) mid-SD	(-) high-SD	(+) low-teens	(-) low-teens	(+) high-SD	(+) high-teens
Other brands	(-) High-SD	25-30%	(+) 50-55%	(+) 55-60%	(+) 115-120%	(+) 70-75%	(+) 35-40%	(+) 30-35%	(+) 40-45%	(+) 20-25%	(+) 40-45%	(+) low-teens	(+) 75-80%	(+) 70-75%
Lining retail sales yoy growth	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**	**2Q23**
Overall platform	(-) high-teens	(-) mid-SD	(+) mid-SD	(+) mid-teens	(+) high-eighties	(+) low-nineties	(+) low-forties	(+) low-thirties	(+) high-twenties	(-) high-SD	(+) mid-teens	(-) low-teens	(+) mid-SD	(+) mid-teens
- Offline	(-) low-twenties	(-) low-teens	(-) low-SD	+) low-teens	(+) low-eighties	(+) low-nineties	(+) high-thirties	(+) high-twenties	(+) mid-twenties	(-) high-SD	(+) mid-teens	(-) high-teens	(+) high-SD	(+) high-teens
- E-commerce	(+) low-teens	(+) high-twenties	(+) low-forties	·) mid-thirties	(+) 100%	(+) high-nineties	(+) mid-fifties	(+) low-forties	(+) mid-thirties	(+) mid-SD	(+) mid-20s	(+) mid-SD	low-teens	(+) low-teens
Xtep retail sales yoy growth	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**	**2Q23**
Xtep brand	(-) 20-25%	(-) Low-SD	(+) Mid-SD	(+) High-SD	(+) Mid-fifties	(+) 30-35%	(+) Mid-teens	(+) 20-25%	(+) 30-35%	(+) Mid-teens	(+) 20-25%	(-) High-SD	(+) ~ 20%	(+) High-teens

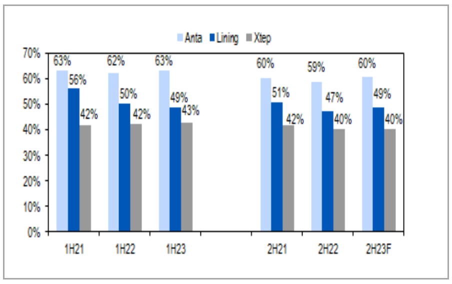
Source: Anta, Li Ning, Xtep, UOB Kay Hian

REVENUE YOY GROWTH COMPARISON



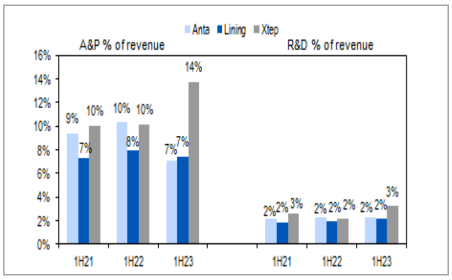
Source: Anta, Li Ning, Xtep, UOB Kay Hian

GROSS PROFIT MARGIN COMPARISON



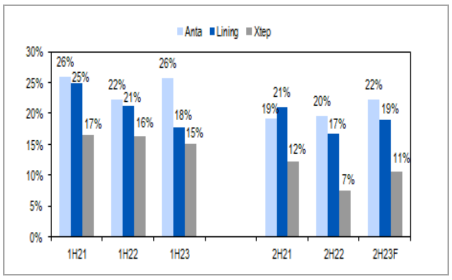
Source: Anta, Li Ning, Xtep, UOB Kay Hian

A&P/R&D COMPARISON



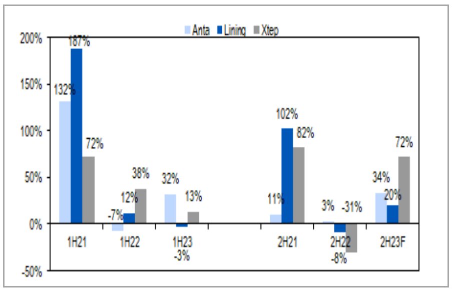
Source: Anta, Li Ning, Xtep, UOB Kay Hian

OPERATING PROFIT MARGIN COMPARISON



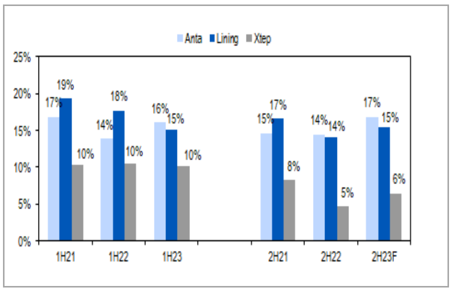
Source: Anta, Li Ning, Xtep, UOB Kay Hian

NET PROFIT YOY GROWTH COMPARISON



Source: Anta, Li Ning, Xtep, UOB Kay Hian

NET PROFIT MARGIN COMPARISON



Source: Anta, Li Ning, Xtep, UOB Kay Hian

SPORTSWEAR COMPANIES' 2023 GUIDANCE

Company	2023 guidance
Anta	Anta brand / Fila: teens% retail sales growth Other brands: 40% retail sales growth Net profit margin: to improve yoy
Lining	Revenue: mid-teens% yoy growth Net profit margin: mid-teens%
Xtep	Xtep brand: 20% retail sales growth Revenue: 15-20% yoy growth Net profit: faster than revenue growth

Source: Anta, Li Ning, Xtep, UOB Kay Hian

SPORTSWEAR COMPANIES' DISCOUNT AND INVENTORY DATA BY END-2Q23

Company	Discount	Inventory
Anta	Anta brand: Offline 27%, Online 49%	Anta brand: <5 months Fila: <5 months
Lining	Offline: ~30%	3.8 months
Xtep	Xtep brand: 25%	Xtep brand: <5 months

Source: Anta, Li Ning, Xtep, UOB Kay Hian

COMPANY RESULTS

Trip.com (9961 HK)

2Q23: Solid Results Beat; Concerns On 2024 Growth After The Robust Recovery

TCOM delivered a strong set of 2Q23 results. 2Q23 net revenue soared 180% yoy to Rmb11.3b and was 29.4% above pre-COVID-19 levels, beating the street's estimates by 4%. Non-GAAP net profit was Rmb3.4b, translating to a net profit margin of 30.5%, beating our and street estimates. TCOM guided 3Q23 revenue growth of 95-100% yoy, or 28-33% above 2Q19 levels (8% above street estimates). Maintain BUY with a higher target price of HK$418.00 (US$56.00).

2Q23 RESULTS

Year to 31 Dec (Rmbm)	2Q22	1Q23	2Q23	qoq	yoy	UOB	Var	Cons	Var
Revenue	4,016	9,211	11,262	22.3%	180.4%	10,792	4.4%		
Accommodation	1,357	3,480	4,285	23.1%	215.8%	4,171	2.7%		
Transportation	1,763	4,156	4,814	15.8%	173.1%	4,715	2.1%		
Packaged tour	122	386	722	87.0%	491.8%	610	18.4%		
Corporate travel	210	445	584	31.2%	178.1%	546	7.0%		
Others	564	744	857	15.2%	52.0%	750	14.2%		
Net revenue	4,011	9,198	11,247	22.3%	180.4%	10,776	4.4%	10,775	4.4%
Gross profit	3,035	7,561	9,240	22.2%	204.4%	8,594	7.5%	8,724	5.9%
GPM	75.7%	82.2%	82.2%	(0 ppt)	6.5 ppt	79.7%	2.4 ppt	81%	1.2 ppt
Non-gaap OP	137	2,619	3,474	32.6%	2,435.8%	2,969	17.0%	2,827	22.9%
Non-GAAP OPM	3.4%	28.5%	30.9%	2.4 ppt	27.5 ppt	27.5%	3.3 ppt	26%	4.7 ppt
Non-GAAP NP	(203)	2,065	3,434	66.3%	1,791.6%	2,390	43.7%	2,500	37.3%
Non-GAAP NPM	(5.1%)	22.5%	30.5%	8.1 ppt	35.6 ppt	22.2%	8.4 ppt	23%	7.3 ppt

Source: Trip.com, UOB Kay Hian

RESULTS

- **Resilient top-line growth given strong seasonality.** Trip.com's (TCOM) core business segments, namely accommodation/transportation ticketing/packaged tour/corporate travel, saw 216%/173%/492%/178% yoy growth, which was 26%/41%/-31%/89% vs pre-COVID-19 levels (2Q19). In 2Q23, domestic hotel bookings soared by 170% yoy and exceeded pre-pandemic levels by over 60%. Transportation ticketing revenue surged by 173% yoy and rose by 41% above pre-COVID-19 levels. In 2Q23, air ticket bookings on the company's global OTA platform surged by 120% yoy and nearly doubled vs 2019's level.

- **International travel maintains strong momentum.** Outbound air passenger volume on Trip.com platform has recovered to over 80% qtd with ticketing prices 30% above 2019 level. Trip.com will maintain triple-digit growth in 3Q23, driven by market expansion to Korea, Thailand and to new markets like Vietnam and Italy. Trip.com currently accounts for high single digit of TCOM's total revenue vs low single digit of total revenue in 2019, mainly attributable to its price leading strategy and deepened cooperation with local airlines and hotels. Skyscanner is guided to grow steadily at 15-20% vs pre-COVID-19 levels.

KEY FINANCIALS

Year to 31 Dec (RMBm)	2021	2022	2023F	2024F	2025F
Net turnover	20,023.0	20,039.0	44,449.2	53,212.7	60,829.3
EBITDA	(529.4)	1,305.0	10,283.4	11,451.1	13,151.6
Operating profit	(1,411.0)	88.0	9,424.4	10,529.8	12,156.8
Net profit (rep./act.)	(550.0)	1,403.0	7,298.0	8,479.3	9,564.7
Net profit (adj.)	1,356.0	1,294.0	9,959.0	11,672.0	13,214.5
EPS (Fen)	209.8	196.5	1,481.9	1,719.6	1,946.9
PE (x)	135.0	144.2	19.1	16.5	14.5
P/B (x)	1.7	1.6	1.6	1.5	1.4
EV/EBITDA (x)	n.m.	140.9	17.9	16.1	14.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(2.7)	7.0	16.4	15.9	15.7
Net debt/(cash) to equity (%)	27.1	24.4	0.1	(13.4)	(24.2)
Interest cover (x)	n.a.	n.a.	118.2	57.3	n.a.
ROE (%)	n.a.	1.3	6.3	6.8	7.2
Consensus net profit	-	-	8,788	10,455	12,383
UOBKH/Consensus (x)	-	-	1.13	1.12	1.07

Source: Trip.com, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$304.00
Target Price	HK$418.00
Upside	+37.5%
(Previous TP	*HK$411.00)*

COMPANY DESCRIPTION

Trip.com is the largest online travel agency (OTA) in China. It offers direct booking for a range of travel products including hotel reservations, airline ticketing, packaged tours, and corporate travel.

STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	9961 HK
Shares issued (m):	646.1
Market cap (HK$m):	196,429.5
Market cap (US$m):	25,057.0
3-mth avg daily t'over (US$m):	52.8

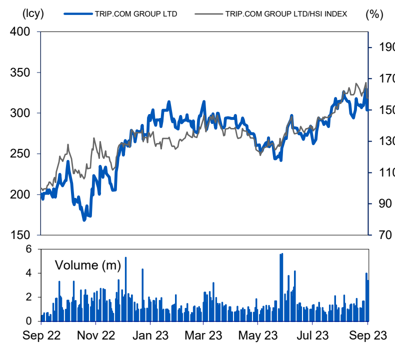
Price Performance (%)

52-week high/low HK$329.80/HK$168.20

1mth	3mth	6mth	1yr	YTD
(3.3)	13.3	2.6	55.5	11.1

Major Shareholders	**%**
Baidu Holdings Ltd	9.5
Naspers Ltd	5.1
T Rowe Price Group Inc	4.8
FY23 NAV/Share (RMB)	174.44
FY23 Net Debt/Share (RMB)	0.21

PRICE CHART



Source: Bloomberg

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- **Solid 3Q23 outlook with rapid expansion in international markets.** Total revenue is guided at Rmb5.6b, representing yoy growth of 95-100% or growth of 33-38% vs 2019. Gross margin is guided at 80-81%, edging up marginally from 2019. Non-GAAP operating profit is guided at Rmb4.2b in 3Q23, translating to non-GAAP operating margin of 30%.

STOCK IMPACT

- **2Q23 margin overview.** Gross margin grew 6.5ppt yoy to 82.2% in 2Q23, 3ppt above pre-COVID-19 levels, sustained from the historical high in 1Q23, mainly attributed to cost control and AI support in call centres. Non-GAAP operating margin was 31% (2Q19: 20%) as TCOM remained vigilant in cost control. Sales and marketing as a share of revenue fell to 20.5% (2Q22: 20%, 2Q19: 24%) given prudent cost control marketing activities. In 2Q23, non-GAAP net margin was 30.5%, up from -5%, as a result of from heightened ADR.

- **3Q23 guidance breakdown.** Outbound air ticketing revenue edged up by single digits above 2019's level, driven by a 30% rise in air ticketing price. Domestic hotel booking surged 70% above 2019's level in 2Q23, while ADR fully recovered to pre-pandemic level. Hotel take rate dipped to 8-10%, lower than 2019's level, dragged by increased S&M expenses. We estimate accommodation/transportation booking to rise 93%/103% yoy and reach 36%/43% above pre-COVID-19 levels. In 3Q23, domestic air ticketing volume is expected to grow 50% above 2019's levels while air ticketing price should rise 30% vs 2019. Domestic packaged tours are set to grow 50% vs 2019's levels in 3Q23. Overseas packaged tours are guided to recover to 30-40% of 2019 levels thanks to the extended list of outbound packaged tours to 138 destinations. In 3Q23, corporate travel is expected to deliver robust growth of 70% vs 2019 levels, as it is immune from seasonality factors.

- **Softer outbound travel recovery.** The industry's outbound air flight capacity will recover to 50% of 2019's level in 3Q23, while TCOM's air ticketing and hotel booking of outbound travel will recover to 80% of pre-pandemic level. For 4Q23, revenue is guided to grow 25% vs 2019's level, with international travel as the key growth pillar. Outbound travel recovery pace in 4Q23 is expected to be similar to that of 3Q23 given weaker seasonality. Non-GAAP operating margin in 4Q23 is guided at mid-teens level. By the end of 2023, flight capacity of outbound travel should recover to 65% of pre-pandemic level, slower than Civil Aviation Administration of China's (CAAC) previous expectation of 70-80%.

- **2024 growth trajectory after the surge in 2023.** Management guided top-line growth to moderate to 15-20% yoy in 2024, primarily propelled by outbound travel followed by international and domestic travel. Operating margin is forecasted to be higher than 25%. The company also expects outbound travel to achieve close to full recovery in 2024. In the longer run, the company expects total international travel to account for 50% of TCOM's total revenue compared to c30% before the pandemic

EARNINGS REVISION/RISK

- We raise our 3Q23/2023 revenue forecasts by 4%/2% respectively in view of the robust recovery trajectory in 2023. We raise our 3Q23/2023 earnings by 29%/6% due to streamlined personnel-related costs brought about by leveraging AI assistant. We forecast TCOM's 2023/2024 revenue to grow at 122%/20% yoy or 25%/49% above 2019 level and non-GAAP net margin at 22.5%/23% for 3Q23/2023 despite elevated marketing investment in overseas markets.

- **Risks:** Softer travel consumption spending power. Price war may arise with higher demand.

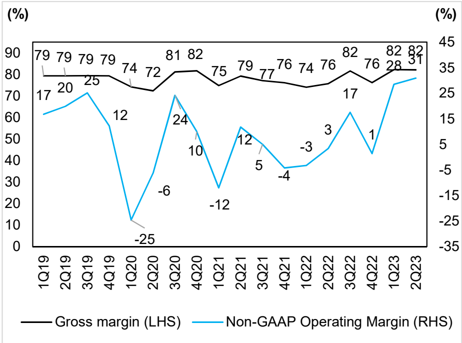
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of HK$418.00 (US$56.00).** TCOM has benefitted from the release of pent-up demand for outbound travel and growth momentum in international travel amid the normalised pace in domestic travel activities. Our new target price implies 1.3x/1.1x 2023/2024F PEG over the next three years, compared with 1.2x before the pandemic.

SHARE PRICE CATALYST

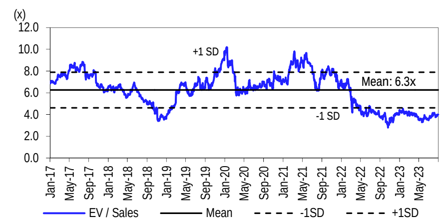
- Implementation of travel bubbles and easing of outbound travel restrictions.

QUARTERLY MARGINS



Source: Trip.com, UOB Kay Hian

12-MONTH FORWARD EV/SALES BAND



Source: Trip.com, UOB Kay Hian

SOTP VALUATION

Segment (HK$m)	------- FY23-24F ------- Revenue	NPAT
Core Travel biz		
Travel - accommodation/transport	44,166	8,833
Travel - package tour/ corporate travel/others	10,113	2,023
PE (x)	18	
EV / EBITA	16	
Segment (HK$m)	**Value to TCOM**	**HK$ per share**
Core Travel biz		
Travel - accommodation/transport	158,997	255.9
Travel - package tour/ corporate travel/others	32,361	52.1
Key equity investees (HK$m) 10% holdco discount	20,771	33.4
Net cash	47,329	76.2
Total	259,457	418.0

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Net turnover	20,039	44,449	53,213	60,829
EBITDA	1,305	10,283	11,451	13,152
Deprec. & amort.	1,217	859	921	995
EBIT	88	9,424	10,530	12,157
Total other non-operating income	2,015	(309)	0	0
Net interest income/(expense)	532	(87)	(200)	200
Pre-tax profit	2,635	9,028	10,330	12,357
Tax	(682)	(1,828)	(2,273)	(2,842)
Minorities	36	(5)	22	50
Net profit	1,403	7,298	8,479	9,565
Net profit (adj.)	1,294	9,959	11,672	13,214

BALANCE SHEET

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Fixed assets	6,023	6,607	7,357	8,230
Other LT assets	124,233	124,621	125,025	125,448
Cash/ST investment	18,487	45,704	62,958	79,111
Other current assets	17,403	24,600	27,754	30,670
Total assets	191,691	227,077	248,639	269,004
ST debt	28,470	28,470	28,470	28,470
Other current liabilities	29,099	57,182	70,287	81,137
LT debt	17,381	17,381	17,381	17,381
Other LT liabilities	3,722	3,722	3,722	3,722
Shareholders' equity	112,283	119,586	128,043	137,558
Minority interest	736	736	736	736
Total liabilities & equity	191,691	227,077	248,639	269,004

CASH FLOW

Year to 31 Dec (RMBm)	2022	2023F	2024F	2025F
Operating	(9,710)	29,048	19,330	18,443
Pre-tax profit	2,635	9,028	10,330	12,357
Tax	(682)	(1,828)	(2,273)	(2,842)
Deprec. & amort.	790	596	664	743
Associates	0	0	0	1
Working capital changes	(11,106)	20,886	9,952	7,934
Non-cash items	0	0	0	1
Other operating cashflows	(1,347)	366	657	251
Investing	(5,516)	(1,831)	(2,076)	(2,290)
Capex (growth)	(532)	(1,181)	(1,414)	(1,616)
Capex (maintenance)	0	0	0	1
Investments	(4,984)	(650)	(662)	(674)
Proceeds from sale of assets	0	0	0	1
Others	0	0	0	0
Financing	12,517	0	0	0
Dividend payments	0	0	0	1
Issue of shares	16,437	0	0	0
Proceeds from borrowings	(5,108)	0	0	0
Loan repayment	0	0	0	1
Others/interest paid	1,188	0	0	(2)
Net cash inflow (outflow)	(2,709)	27,217	17,255	16,153
Beginning cash & cash equivalent	21,196	18,487	45,704	62,958
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	18,487	45,704	62,958	79,111

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.5	23.1	21.5	21.6
Pre-tax margin	13.1	20.3	19.4	20.3
Net margin	7.0	16.4	15.9	15.7
ROA	0.7	3.5	3.6	3.7
ROE	1.3	6.3	6.8	7.2
Growth				
Turnover	0.1	121.8	19.7	14.3
EBITDA	n.a.	688.0	11.4	14.8
Pre-tax profit	n.a.	242.6	14.4	19.6
Net profit	n.a.	420.2	16.2	12.8
Net profit (adj.)	(4.6)	669.6	17.2	13.2
EPS	(6.4)	654.3	16.0	13.2
Leverage				
Debt to total capital	28.9	27.6	26.3	24.9
Debt to equity	40.8	38.3	35.8	33.3
Net debt/(cash) to equity	24.4	0.1	(13.4)	(24.2)
Interest cover (x)	n.a.	118.2	57.3	n.a.

COMPANY UPDATE

Giordano International (709 HK)

Takeaways From Luncheon

In our luncheon with Giordano's management team yesterday, management highlighted improving sales after its internal optimisation to revitalise the Singapore team and maintains a positive tone on same-store sales growth in 3Q23. Giordano will maintain a generous dividend payout on the back of strong operating cash flow generation and effective working capital management. Maintain BUY and a target price of HK$3.89.

WHAT'S NEW

- Key takeaways from our luncheon with Giordano's management team are listed below.

STOCK IMPACT

- **Strong sales momentum of "liquid touch" products.** Giordano International (Giordano) launched its "liquid touch" polos and T-shirts in 1H23. "Liquid touch" products utilise liquid ammonia treated fabric, which provides a silky texture, better wash resilience, and improved shape maintenance. "Liquid touch" products were first launched in Hong Kong and Singapore, and have since received strong reception with contribution rising to >10% of total sales in both markets. Meanwhile, they were launched in Thailand in Aug 23, and management remains positive on sales momentum as "liquid touch's" coverage expands to other key markets.

- **Positive development in internal optimisation.** To facilitate the goal to enhance its brand image, Giordano had been carrying out reforms in its local team in multiple regions, including Singapore and Vietnam. Management highlighted a positive development in the optimisation in Singapore, as it sees positive yoy revenue growth in Singapore after the restructuring, compared with a double-digit percentage revenue decline in 1H23. Going forward, Giordano targets to revitalise its regional teams to better execute its pricing strategy and further improve its brand image globally.

- **3Q23 outlook.** Management maintains a positive tone on the same-store sales growth in 3Q23. However, total sales growth in 3Q23 may be flat yoy, due to: a) seasonality, as the third quarter is usually a low season in SEA markets; and b) earlier 2023 Hajj (the annual pilgrimage by Muslims to the holy city of Mecca in Saudi Arabia) in late Jun-23, which contributed to 2Q23 sales, compared with 2022 Hajj in early-Jul 22 that drove sales in 3Q22.

KEY FINANCIALS

Year to 31 Dec (HK$m)	2021	2022	2023F	2024F	2025F
Net turnover	3,380	3,799	4,155	4,651	5,145
EBITDA	745	853	1,015	1,135	1,263
Operating profit	251	413	538	611	688
Net profit (rep./act.)	190	268	374	421	470
Net profit (adj.)	190	268	374	421	470
EPS (cents)	12.0	17.0	23.7	26.6	29.8
PE (x)	23.9	17.0	12.2	10.8	9.7
P/B (x)	1.9	2.0	2.1	2.1	2.2
EV/EBITDA (x)	5.8	5.1	4.3	3.8	3.4
Dividend yield (%)	5.7	8.2	11.1	11.6	12.4
Net margin (%)	5.6	7.1	9.0	9.1	9.1
Net debt/(cash) to equity (%)	(9.3)	(13.3)	(11.5)	(12.7)	(11.9)
Interest cover (x)	14.8	31.8	39.1	41.4	42.8
ROE (%)	7.8	11.4	16.6	19.4	22.1
Consensus net profit	-	-	358	393	426
UOBKH/Consensus (x)	-	-	1.04	1.07	1.10

Source: Giordano International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK$2.88
Target Price	HK$3.89
Upside	34.9%

COMPANY DESCRIPTION

Giordano International, through its subsidiaries, retails and distributes casual apparel and accessories under the Giordano, Giordano Ladies, Giordano Junior, and BSX brands.

STOCK DATA

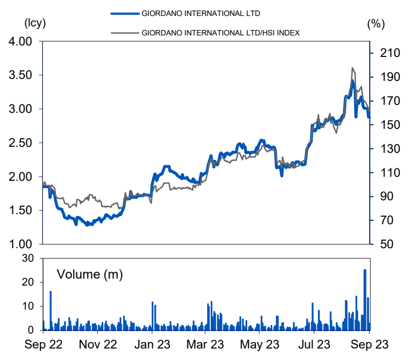
GICS sector	Consumer Discretionary
Bloomberg ticker:	709 HK
Shares issued (m):	1,603
Market cap (Rmbm):	4,617
Market cap (US$m):	592
3-mth avg daily t'over (US$m):	1.5

Price Performance (%)

52-week high/low				HK$3.4/HK$1.3
1mth	**3mth**	**6mth**	**1yr**	**YTD**
2.1	35.2	42.6	54.8	66.5

Major Shareholders	%
Sino Wealth International Limited	24.6
-	-
-	-
FY23 NAV/Share (HK$)	1.55
FY23 Net Debt/Share (HK$)	(0.18)

PRICE CHART



Source: Bloomberg

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- **Maintaining generous dividend payout.** Giordano maintained a generous dividend payout of >100% since 2017 (except for 2020 with a brief year of loss) and registered an 8% dividend yield in the past 12 months. Management reiterates a generous dividend payout policy in the future based on operating cash flow. The company will return excess cash to shareholders as management continues to effectively manage its working capital and improve its operating cash flow.

EARNINGS REVISION/RISK

- We maintain our earnings forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of HK$3.89,** based on 10-year DCF model, assuming WACC of 12% and terminal growth rate of 2%. Giordano currently trades at 12.2x 2023F PE, which is about 1SD below its pre-pandemic historical mean at 15.6x in 2014-18. The current price implies 11.1%/11.6% dividend yield in 2023-24, assuming a generous dividend payout of 135%/125% respectively.

SHARE PRICE CATALYST

- Greater-than-expected franchised store additions in Mainland China, especially from 4Q23 onwards.

- Strong same-store sales growth across all regions.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	3,799	4,155	4,651	5,145
EBITDA	853	1,015	1,135	1,263
Deprec. & amort.	440	477	524	576
EBIT	1,293	1,491	1,659	1,839
Associate contributions	-	-	-	-
Net interest income/(expense)	(13)	(14)	(15)	(16)
Pre-tax profit	436	560	632	708
Tax	(107)	(121)	(137)	(154)
Minorities	61	66	74	83
Net profit	390	506	570	636
Net profit (adj.)	390	506	570	636

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	133	157	182	208
Other LT assets	1,898	1,889	1,878	1,865
Cash/ST investment	960	929	1,008	1,047
Other current assets	1,017	1,054	1,127	1,217
Total assets	4,008	4,029	4,195	4,338
ST debt	12	12	12	12
Other current liabilities	1,075	1,162	1,279	1,410
LT debt	0	0	0	0
Other LT liabilities	399	399	399	399
Shareholders' equity	2,317	2,185	2,160	2,089
Minority interest	205	271	345	428
Total liabilities & equity	4,008	4,029	4,195	4,338

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	810	922	999	1,092
Pre-tax profit	436	560	632	708
Tax	(107)	(121)	(137)	(154)
Deprec. & amort.	440	477	524	576
Working capital changes	92	28	1	(17)
Non-cash items	(51)	(22)	(21)	(20)
Other operating cashflows	-	-	-	-
Investing	(76)	(69)	(73)	(76)
Capex (growth)	(66)	(69)	(73)	(76)
Investments	-	-	-	-
Proceeds from sale of assets	1	-	-	-
Others	(11)	-	-	-
Financing	(853)	(885)	(847)	(976)
Dividend payments	(292)	(506)	(446)	(541)
Issue of shares	3	-	-	-
Proceeds from borrowings	44	-	-	-
Loan repayment	(199)	-	-	-
Others/interest paid	(409)	(379)	(401)	(435)
Net cash inflow (outflow)	(119)	(31)	79	40
Beginning cash & cash equivalent	1,004	860	829	908
Changes due to forex impact	(25)	-	-	-
Ending cash & cash equivalent	860	829	908	947

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
Gross margin	56.5	58.1	58.1	58.1
Pre-tax margin	11.5	13.5	13.6	13.8
Net margin	7.1	9.0	9.1	9.1
ROA	6.5	9.3	10.2	11.0
ROE	11.4	16.6	19.4	22.1
Growth				
Turnover	12.4	9.4	11.9	10.6
Gross profit	11.2	12.5	11.9	10.7
Pre-tax profit	58.5	28.5	12.9	11.9
Net profit	41.1	39.4	12.7	11.7
Net profit (adj.)	41.1	39.4	12.7	11.7
EPS	41.0	39.4	12.7	11.7
Leverage				
Debt to total capital	15.6	16.1	16.4	17.2
Debt to equity	24.8	26.3	27.5	29.7
Net debt/(cash) to equity	(13.3)	(11.5)	(12.7)	(11.9)
Interest cover (x)	31.8	39.1	41.4	42.8

SECTOR UPDATE

Telecommunications – Indonesia

Inorganic Growth For Tower Providers From IBST Sale; Maintain OVERWEIGHT

We are positive on tower providers given a new inorganic growth opportunity from a possible ownership change in IBST (about 3,383 towers). Other tower providers like MTEL (supported by its balance sheet quality) or CENT (likely to expand its fibre optic assets) could be one of the potential buyers. Annualised 2023 revenue of IBST accounts for 13% of MTEL's revenue and 44% of CENT's revenue for 2023. We are OVERWEIGHT on the telco sector with ISAT and TOWR as our top buys.

WHAT'S NEW

- **IBST's valuation might reach US$700m.** On 25 Aug 23, citing an unnamed source, Bloomberg reported that the owner of a publicly listed local tower company in Indonesia, Inti Bangun Sejahtera (IBST), is exploring options regarding its controlling ownership in IBST. The majority stake in IBST is owned by Bakti Taruna Sejati (79.9% ownership). The options considered include: a) selling part of its ownership and "outright exit", and b) seeking a deal valuing the company at US$700m, roughly equivalent to Rp10.7t (assuming forex rate of Rp15,299/USD).
- **MTEL or CENT might be potential buyers.** A local tower provider like MTEL might be one of the potential buyers as it has a better balance sheet than several of its peers. However, CENT may remain aggressive as it aims to strengthen its fibre optic assets. The actual impact from this potential transaction remains to be seen as it would depend on the actual details of the transaction. Annualised 2023 revenue of IBST accounts for 13% of MTEL's 2023 revenue and 44% of CENT's 2023 revenue.
- **MTEL and TOWR to remain as largest tower providers.** If IBST is acquired by another tower provider (MTEL, TOWR, TBIG, or CENT), we assume that MTEL (non-independent) and TOWR (independent) would remain as the publicly-listed tower providers with the largest tower portfolios, with all else being equal. MTEL and TOWR account for about 36% and 29% of the total towers (of five tower providers) in the industry respectively.

ACTION

- **Maintain OVERWEIGHT.** We continue to like the telco sector given more rational data pricing, rising smartphone adoption, and telco companies benefitting from economic recovery and the upcoming election. For tower providers with fibre to the tower (FTTT) service, we see potentially higher demand for fibre optic services as the 5G spectrum might be put up for auction in the near term.
- **Our top picks: Indosat (ISAT IJ/BUY/Target: Rp10,400) and…** This is on the back of: a) ISAT's ability to increase its market share, b) its strong earnings growth prospects in 2023 and 2024, and c) good balance sheet quality. ISAT trades at 4.9x EV/EBITDA (average EBITDA in 2023-24), implying around 5% discount to +1SD.
- **…Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200).** This considers several factors: a) 2023/24 FTTT and connectivity revenue surging 29%/24%, b) potentially higher demand for fibre optic services as the 5G spectrum is put up for auction in the near term, c) revenue contribution from big telcos rising to 76% in 1H23 vs before the Indosat-Hutchinson Tri merger (58% in 2021), implying better quality in tenancies, and d) 2024 core profit growth recovering to +4% yoy (2023: -7% yoy).

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Ticker	Price 5-Sep-23 (Rp)	Target Price (Rp)	Potential Upside (%)
Indosat	ISAT IJ	9,800	10,400	6.1%

Source: UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price 5 Sep 23 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US$m)	3M Avg Turnover (US$m)	PE 2023F (x)	PE 2024F (x)	EV/EBITDA 2023F (x)	EV/EBITDA 2024F (x)	ROE 2023F (%)	ROE 2024F (%)	Net Gearing (%)
Telkom Indonesia*	TLKM	BUY	3,740	4,700	25.7	24,230	25.4	14.2	14.0	6.3	6.1	18.9	18.5	15.6
XL Axiata	EXCL	BUY	2,490	2,500	0.4	2,146	3.3	45.0	39.8	4.2	4.0	4.0	4.2	9.6
Indosat	ISAT	BUY	9,800	10,400	6.1	5,188	3.7	62.8	53.3	5.3	4.9	6.2	5.2	28.4
Sarana Menara Nusantara	TOWR	BUY	1,035	1,200	15.9	3,467	1.8	14.9	14.3	9.9	9.3	20.8	19.2	273.2

**) Adjusted to ownership in Telkomsel.*
Source: Bloomberg, UOB Kay Hian

- **Impact to IBST remains to be seen.** IBST owns 3,383 towers (1.7x tenancy ratio) and 16,624km of fibre optics. Around 74% of IBST's 1H23 revenue is contributed by Smartfren Telecom (FREN IJ). The company had EBITDA margin of 75% and positive bottom line in 1H23. Note that IBST's stock has low trading liquidity. It is uncertain which company would be the actual buyer and if any potential transactions would materialise in the near term.

- **IBST's valuation compared with its peers'.** The possible transaction's valuation likely sought by IBST's owner implies 16x EV/EBITDA, a significant premium (23%) to TBIG's. Based on annualised 1H23 EBITDA, IBST trades at 11.7x 2023F EV/EBITDA, lower than Tower Bersama (TBIG: 13x), but higher than Dayamitra Telekomunikasi (MTEL: 11x) and Sarana Menara Nusantara (TOWR: 10x).

POTENTIAL SALE OF OWNERSHIP IN IBST: ESTIMATED TRANSACTION PRICE

Description	Measure	EV/EBITDA assumption					Note
	x	11	12	13	14	15	
2023 EBITDA	Rp b	811	811	811	811	811	Annualized based on 1H23
Enterprise Value (EV)	**Rp b**	**8,924**	9,735	**10,546**	**11,358**	**12,169**	
- Net debt	Rp b	2,367	2,367	2,367	2,367	2,367	Based on 1H23 net debt
Equity Valuation	**Rp b**	**6,556**	**7,368**	**8,179**	**8,990**	**9,802**	
Number of shares	mn	1,351	1,351	1,351	1,351	1,351	
Est. transaction price	**Rp/sh**	**4,853**	**5,454**	**6,054**	**6,655**	**7,256**	
Current share price of IBST	Rp/sh	5,300	5,300	5,300	5,300	5,300	As of Aug 28
Difference		-8.4%	2.9%	14.2%	25.6%	36.9%	

Source: IBST, Bloomberg, UOB Kay Hian

- **Largest upside to concentration ratio lies in CENT.** If the potential buyer of IBST's ownership is a local tower provider, we think MTEL might be one of the potential buyers as it has more cash (as of 1H23) and better balance sheet compared with several other tower companies. Nevertheless, CENT may remain aggressive assuming it aims to strengthen its fibre optic assets. CENT's estimated fibre optic length as of May 23 is 664km, lower than TOWR, TBIG and MTEL. CENT's subsidiary previously acquired 397 towers (valued at Rp1.15t) from PT Anugerah Communication according to local news (4 Aug 23).

CONCENTRATION RATIO BASED ON NUMBER OF TOWERS (BEFORE AND AFTER POTENTIAL ACQUISITION OF IBST)

Tower Provider	Before Transaction	Potential change after transaction if IBST's controlling ownership bought by: MTEL	TBIG	TOWR	CENT	Growth IBST's controlling ownership bought b MTEL	TBIG	TOWR	CENT
MTEL	36%	40%	36%	36%	36%	9%	0%	0%	0%
TOWR	29%	29%	29%	33%	29%	0%	0%	11%	0%
TBIG	22%	22%	25%	22%	22%	0%	15%	0%	0%
CENT (est.)	9%	9%	9%	9%	13%	0%	0%	0%	36%
IBST (est.)	3%	NA	NA	NA	NA				
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**9%**	**15%**	**11%**	**36%**

Source: Respective companies, Bloomberg, UOB Kay Hian

RISK

- Downside risks include: a) intensifying competition, b) worsening macroeconomic conditions, and c) additional costs.

VALUATION

- **Indosat (ISAT IJ/BUY/Target: Rp10,400).** Our target price is based on 5.2x EV/EBITDA applied to average 2023 and 2024 EBITDA, pegged to ISAT's historical +1SD EV/EBITDA.

- **Telkom Indonesia (TLKM IJ/BUY/Target: Rp4,700).** We base our target price on 7.8x EV/EBITDA applied to TLKM's 2023 EBITDA which is adjusted for ownership in Telkomsel.

- **XL Axiata (EXCL IJ/BUY/Target: Rp2,500).** Our target price is derived by applying EV/EBITDA of 4x, lower than ISAT's EV/EBITDA of 5x, to EXCL's average EBITDA in 2023 and 2024.

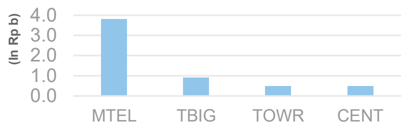
- **Sarana Menara Nusantara (TOWR IJ/BUY/Target: Rp1,200).** Our target price is based on 10.5x EV/EBITDA (slightly higher than TOWR's historical average; still below Tower Bersama's valuation), applied to average EBITDA for 2023 and 2024.

TOWER PROVIDER'S 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

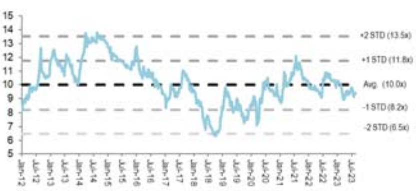
Note: CENT's 1H23 equity amount was -Rp817 b (capital deficiency). CENT booked negative bottom-line in 1H23.
Source: Respective companies, Bloomberg, UOB Kay Hian

TOWER PROVIDER'S CASH AS OF 1H23



Source: Respective companies, UOB Kay Hian

TOWR: EV/EBITDA BAND



Source: TOWR, Bloomberg, UOB Kay Hian

SECTOR UPDATE

Consumer – Malaysia

Runway Nearly Devoid Of Obstructions

Interest in the sector has been lukewarm with curtailed disposable spending and reforms on subsidy rationalisation. The latter should finally see a conclusion, potentially allaying overblown fears. Furthermore, companies are on the verge of realising cheaper input costs. These key catalysts are underpinned by the sector's bargain valuations and decent growth. Against this backdrop, we maintain OVERWEIGHT on the sector. Our top picks are F&N, Mr. DIY and Heineken.

OVERWEIGHT

(Maintained)

WHAT'S NEW

- **2Q23 results were largely in line, with a few disappointments.** Sector earnings grew 5.6% yoy and 6.1% qoq, largely in tandem with top-line growth of 5.7% yoy and 2.5% qoq. Despite the high-base effect from the EPF special withdrawals that particularly benefitted retailers in 2Q22, it was more than offset by the full reopening of the economy, supporting top-line growth for the sector. Higher opex and input cost weighed on 2Q23 PBT margins, which contracted 0.9ppt to 12.7% yoy. However, with the absence of the prosperity tax, sector PAT margin of 9.9% was sustained on a yoy basis (2Q22: 10.0%). As a result, earnings largely grew in hand-in-hand with revenue. Meanwhile, higher input cost cut deep into Farm Fresh's margins while Heineken' and MyNews' sales were sluggish.

ACTION

- **Maintain OVERWEIGHT, inflection points approaching.** Sector valuations are trading at a deep bargain 23.5x, close to its -1.5SD of its five-year mean. Furthermore, the sector offers: a) decent earnings growth of 8.9% and 12.9% for 2023 and 2024 respectively, and b) upswing in gross margins following the softening of commodity prices. Near-term visibility should improve following the finality to subsidy rationalisation reforms. Given these impending inflection points, we advocate for investors to position ahead, capitalising on the existing lacklustre interest and hesitancy. The reward-to-risk appears compelling at this juncture.

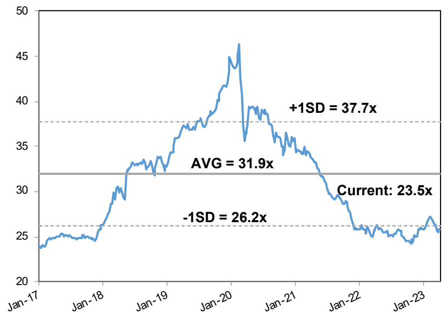
- **Top picks: F&N, Mr. DIY and Heineken may present a more opportune entry down the road.** Our preferences are skewed towards staples (F&N and Heineken), including quasi-staples such as Mr. DIY. We like F&N for its beaten-down valuations and it being a proxy to the recovering tourism industry in Thailand. Meanwhile, Mr. DIY's appealing earnings growth for a large-cap index-linked company suggests it is only a matter of time before investors pile back in following improved sentiment on the retail sub-sector. Heineken's depressed valuations against the backdrop of easing input costs could draw interest once volume demand normalises and resumes growth in 2024. Mr. DIY and Heineken may experience a slower patch of earnings heading into 3Q23, which may then represent a more opportune entry.

2Q23 RESULTS SNAPSHOT

Company	2Q23 (RMm)	yoy % chg	qoq % chg	Results
BAT	48.0	-35.1	17.9	In-line
Carlsberg	90.2	0.4	6.1	In-line
Farm Fresh	6.1	-68.0	-27.0	Below
F&N	132.4	35.9	30.9	In-line
Heineken	90.5	5.1	-17.7	Below
Mr. DIY	150.3	11.2	17.7	In-line
MyNews	-6.3	-38.6	95.4	Below
Nestle	180.9	6.6	-8.2	In-line
QL Resources	92.8	12.6	26.6	In-line

Source: Bloomberg, UOB Kay Hian

SECTOR VALUATIONS



Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

Company	Tickers	Price 5 Sep (RM)	Rec	Target Price (RM)	Market Cap (RMm)	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY23F	Yield (%) FY23F	Yield (%) FY24F
MyNews	MNHB MK	0.51	HOLD	0.47	386	38.0	13.0	1.5	0.5	1.8
Farm Fresh	FFB MK	1.23	HOLD	1.10	2,246	34.1	17.7	3.2	0.7	1.4
British American Tobacco	ROTH MK	10.04	BUY	14.40	2,847	11.5	9.6	7.5	8.7	10.5
Carlsberg	CAB MK	20.20	BUY	26.50	6,146	18.0	17.2	34.0	5.0	5.2
Heineken (M)	HEIM MK	25.56	BUY	30.50	9,353	21.9	20.7	2.9	2.5	2.7
F&N Holdings	FNH MK	25.50	BUY	30.80	7,087	17.1	15.9	14.5	5.9	6.3
QL Resources	QLG MK	5.46	BUY	6.30	13,434	37.4	35.1	4.6	0.6	0.6
Mr DIY	MRDIY MK	1.45	BUY	2.15	14,632	25.1	21.3	8.3	1.8	2.1
Nestle	NESZ MK	129.90	HOLD	146.00	30,532	44.3	39.9	46.2	2.1	2.4
Average					9,629.2	27.5	21.2	13.7	3.1	3.7

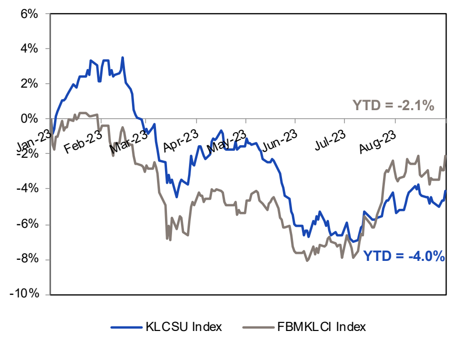
Source: Bloomberg, UOB Kay Hian

ESSENTIALS

- **Ytd review.** Despite the FBMKLCI's lacklustre performance of -2.1% ytd, the KL Consumer Product Index has underperformed with a -4.0% ytd. Despite the defensive properties offered by consumer companies, the underperformance could be due to: a) 8.9% earnings growth, which would be a pedestrian 4.4% PBT earnings growth once adjusted for the absence of the prosperity tax, and b) subsidy rationalisation reforms tempering interest in the sector.

- **Subsidy rationalisation: Tough balancing act.** Now that the uncertainty of the State elections has been resolved, and with political stability ensured until the next General Elections, implementation of crucial economic reforms is to be expected. Most relevant to the sector are reforms surrounding subsidy rationalisation. This encapsulates government subsidies that amounted to RM64.8b in 2022 across fuel, electricity, cooking oil and eggs & chicken. However, a recent reversal of policy to ultimately extend subsidy on eggs & chicken highlights the tough balancing act between keeping a lid on living costs and maintaining fiscal discipline. Therefore, we anticipate the extent of subsidy rationalisation reforms could be limited. Details on subsidy rationalisation plans are still being finalised and could possibly be announced in the coming Budget 2024 to be tabled on 13 October.

BURSA MALAYSIA CONSUMER PRODUCT INDEX VS FBMKLCI INDEX



Source: Bloomberg

CONSUMER RELATED SUBSIDIES OVER PREVIOUS MALAYSIA BUDGETS

	Budget 2023	Budget 2022
Subsidies, aid and incentives	RM55b	RM31b
B40 Group	- Targeted cash handouts of RM7.8b to 8.7m recipients. - Monthly aid from Social Welfare Department totalling RM2.5b.	- Targeted cash handouts of RM8.2b to 9.6m recipients. - Monthly aid from Social Welfare Department totalling RM1.5b.
M40 Group	- Lower personal income tax rates – which translate to tax savings of up to MYR1,000. - e-Pemula M40 initiative will allocate a total of RM800m for e-wallet credit, which is expected to benefit 8m people	
Tobacco and brewers	- No excise duty hikes on alcohol products and tobacco.	

Source: Ministry of Finance

- **Softer commodities prices finally translating to improved gross margins?** Over the past few months, commodity prices have generally softened, with the exception of sugar, cocoa and robusta. Factoring in hedging policies and depletion of inventory levels, margins for staple companies are anticipated to improve in 2H23. Among the key beneficiaries under our coverage are Farm Fresh, F&N, Heineken and Carlsberg. A strengthening US dollar is a partial offsetting factor given export sales as a natural hedge and the sheer moderation in commodity prices. The sheer moderation of commodity prices should allay concerns and improve sentiment on the consumer sector.

MALAYSIA'S 2022 SUBSIDY BY CATEGORY

Category	RMb
Fuel	50.8
Electricity	9.8
Cooking oil	2.4
Eggs and chicken	1.8
	64.8

Source: New Straits Times

COMMODITIES PRICES

	2022	YTD	YTD23 vs 2022	Current	Last close vs YTD	Key Companies
Sugar (US$/lb)	18.8	23.2	23.4	25.8	11.2	F&N, Power Root
Cocoa (US$/MT)	2460	2968	20.7	3574	20.4	Nestle
Robusta (US$/MT)	2103	2421	15.1	2712	12.0	Power Root, Nestle
Whole Milk Powder (US$/MT)	3870	2713	-29.9	2350	-13.4	F&N, Dutch Lady, Farm Fresh
CPO (RM/MT)	5134	3906	-23.9	3798	-2.8	Nestle
Wheat (US$/MT)	903	676	-25.1	568	-16.0	Kawan Food
Barley (INR/quintal)	2887	2144	-25.7	1993	-7.0	Breweries
Aluminium (US$/MT)	2716	2318	-14.6	2237	-3.5	Breweries, F&N
Corn (USD/Bushel)	694	608	-12.4	465	-23.6	QL
Soybean (USD/Bushel)	1551	1246	-19.7	1356	8.9	QL

Source: Bloomberg, Respective companies, UOB Kay Hian
As of 5 Sep 23

COMPANY UPDATE

Singapore Telecommunications (ST SP)

Determined To Drive ROIC Expansion

Singtel remains committed to its aim of driving up ROIC to double digits by FY26. The group continues to see NCS and RDC as its key growth drivers. The group's core businesses in Singapore and Australia are expected to benefit from implemented cost optimisation initiatives and market leadership position. Regional associates face favourable tailwinds in most markets which would help boost contributions to the group. Maintain BUY with an unchanged target price of S$3.15 (implied 15x EV/EBITDA).

WHAT'S NEW

- **Gameplan: Driving ROIC expansion and market value in the near term.** Singapore Telecommunications (Singtel) maintains its aim to grow overall group ROIC from 8% in FY23 to low double digits by FY26, largely driven by its regional associates and growth engines (regional data centres (RDC) and NCS). Both NCS and RDC are expected to contribute more than 20% of EBITDA by FY28, almost double FY23's 12%, and would offset declining telecom services EBITDA. While management awaits a potential IPO of its RDC and/or NCS businesses, it may consider a more immediate 20-25% regional strategic partnerships that will be beneficial to the group. We also note that Singtel's new digital businesses (Paragon and GXS) are also scaling well with GXS expected to be EBITDA breakeven by FY26. Management is re-evaluating its regional associate portfolio (valued at ~S$49b) and may continue to embark on opportunistic stake sales (albeit small bites) of its respective stakes to fund future growth initiatives.

- **Singtel Singapore.** The consolidation of the group's domestic consumer and enterprise businesses is expected to create cost-saving synergies. Although data roaming revenue is currently at 90% of pre-COVID-19 levels, there is still further potential upside given that data roaming revenue from China remains at 60% of pre-COVID-19 levels and is expected to gradually improve moving forward. Coupled with the continued strong take-up of 5G bundled plans in Singapore, we expect post-paid ARPU to continue its upward momentum in 2023, backed by rational competition from the incumbent telcos.

- **Optus: Market repair is of utmost importance.** Broadly, management aims to drive ROIC via raising prices (at the right time) and focusing on cost synergies. In the near term, competition is expected to remain stiff from Tier 2 competitors/Mobile Virtual Network Operators (MVNOs). We note that MVNOs' market share rose from 19.7% at end-19 to 25.4% at end-22 as customers traded down. Consequently, Optus will focus on value proposition amongst its customers and good customer service.

KEY FINANCIALS

Year to 31 Mar (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	15,339	14,624	15,053	15,637	16,317
EBITDA	3,767	3,686	3,872	4,108	4,441
Operating profit	1,045	1,112	1,395	1,654	2,019
Net profit (rep./act.)	1,948	2,226	2,370	2,733	3,088
Net profit (adj.)	1,923	2,054	2,370	2,733	3,088
EPS (S$ cent)	11.7	12.4	14.3	16.5	18.7
PE (x)	20.1	18.9	16.4	14.2	12.6
P/B (x)	1.4	1.5	1.5	1.4	1.4
EV/EBITDA (x)	12.8	13.0	12.4	11.7	10.8
Dividend yield (%)	4.0	6.3	4.3	5.1	6.0
Net margin (%)	12.7	15.2	15.7	17.5	18.9
Net debt/(cash) to equity (%)	34.6	35.5	34.3	32.2	29.4
Interest cover (x)	12.0	10.3	11.1	11.3	11.8
ROE (%)	7.1	8.2	9.0	10.1	11.1
Consensus net profit	-	-	2,368	2,711	3,129
UOBKH/Consensus (x)	-	-	1.00	1.01	0.99

Source: Singapore Telecommunications, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S$2.35
Target Price	S$3.15
Upside	+33.9%

COMPANY DESCRIPTION

Singtel is a telecommunications company offering a diverse range of services, including fixed-line, mobile, data, internet, TV, and digital solutions. It also has operations in Australia, India, Indonesia, Thailand and the Philippines.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	ST SP
Shares issued (m):	16,510.8
Market cap (S$m):	38,800.5
Market cap (US$m):	28,500.4
3-mth avg daily t'over (US$m):	35.4

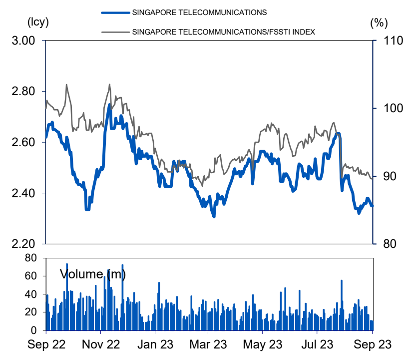
Price Performance (%)

52-week high/low S$2.75/S$2.31

1mth	3mth	6mth	1yr	YTD
(3.7)	(4.3)	0.1	(8.9)	(7.7)

Major Shareholders	%
Temasek Hldgs	52.0
-	-
-	-
FY24 NAV/Share (S$)	1.60
FY24 Net Debt/Share (S$)	0.55

PRICE CHART



Source: Bloomberg

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- **NCS.** Backed by growing digitalisation from enterprise projects and overseas clients, management continues to see NCS as its growth driver, aiming to grow its revenue from S$2.7b in FY23 to S$5.0b in FY26. Overseas revenue now contributes 15% of overall revenue in FY23, up 10ppt since FY19, while enterprise revenue has grown from 25% in FY19 to 33% in FY23. Despite increased wage costs in FY23, management expects to deliver EBITDA growth moving forward, given several executed cost management initiatives and wage costs starting to stabilise. For the remainder of FY24 however, revenue growth is expected to be partly offset by enterprise margin compression from high wages.

- **Digital InfraCo.** Singtel plans to double its data centre capacity in Singapore in the next three years to about 120MW, up from 62MW currently. Through partnerships with AIS/Gulf and Telkom, Singtel also plans to add another 40MW in Thailand and 51MW in Indonesia respectively, taking the combined total to 211MW within the next three years. The group is also looking at regional opportunities in Vietnam and Malaysia through suitable and strategic partnerships. Customer contracts are typically 10 years, which create customer stickiness, while its customers comprise hyperscalers and enterprises. Annual contractual price escalation and uplift are built into the contracts to ensure revenue growth while most utilities costs are also passed through to customers, supporting margins. In 1QFY24, RDC contributed S$72m (+14% yoy) in annual revenue and S$44m in EBITDA (stable yoy).

- **Potentially S$7b-8b in valuation.** The goal is to add another 150MW of capacity to Singtel's DC portfolio over the next 3-5 years. This will create a DC asset close to S$7b-8b within five years.

STOCK IMPACT

- **Bharti Airtel: Expect ARPU to trend higher.** Management noted several factors that would drive ARPU increases: a) migration to smartphones would raise ARPU by 50%; b) shift from prepaid to postpaid would increase ARPU by 60%, c) increase focus on family plans; d) data monetisation, and e) higher tariffs, especially after the elections. Management also sees strong potential in its broadband business which has low 14-15% market penetration and high margins.

- **Globe: Benign and rational mobile competition.** Market repair is ongoing with two rounds of price increases with further price increases expected. That said, this needs to be balanced by consumer wallet, which may see some softness given ongoing inflationary pressure on daily routines.

- **AIS: Favourable tailwinds.** Management expects ARPU to improve in 2H23, given ongoing 5G adoption, upselling value-added services and an improving economy. The incoming government is also positive for AIS as short-term incentives such as cash handouts are expected, which will drive consumer mobile spending.

- **Telkomsel: Fixed broadband to drive growth.** The group led market repair with price increases, with competitors following suit. Post-consolidation, management plans to upsell Indihome's broadband services to 6.5m of Telkomsel mobile customers to drive revenue growth, given that domestic fixed broadband penetration is only at 15-17%. Management expects new contributions from IndiHome to offset the loss in legacy revenue coupled with cost optimisation.

EARNINGS REVISION/RISK

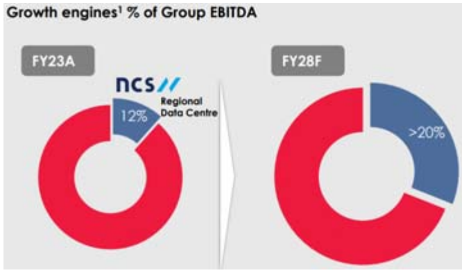
- We make no changes to our FY24-26 PATMI estimates.

VALUATION/RECOMMENDATION

- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.

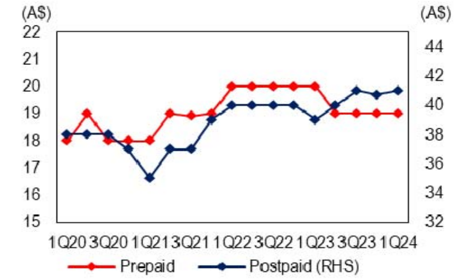
- **Key re-rating catalysts include:** a) successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.

SINGTEL'S GROWTH ENGINES



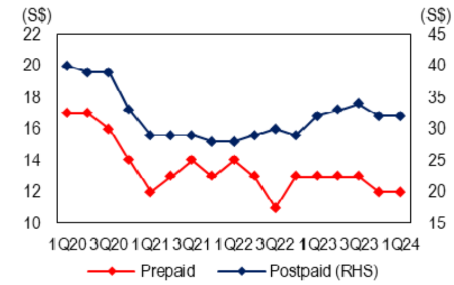
Source: Singtel, UOB Kay Hian

AUSTRALIA CONSUMER ARPU TREND (A$)



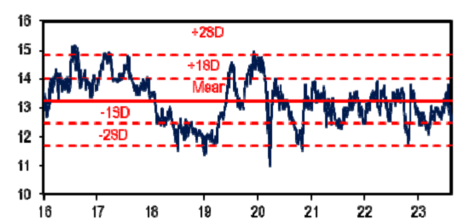
Source: Singtel, UOB Kay Hian

SINGAPORE CONSUMER ARPU TREND (S$)



Source: Singtel, UOB Kay Hian

FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

KEY DRIVERS OF ROIC

ROIC > WACC	Regional Associates	• Capture fixed opportunity • Focus on market repair & cost management
	Singtel Singapore	• Accelerate 5G monetisation • Capitalise on enterprise digital transformation • Integration of consumer & enterprise to drive growth & cost synergies
	NCS	• Grow international & enterprise business • Cost-to-serve optimisation • End-to-end digital proposition
ROIC < WACC	Optus	• Build on rational market competition & customer gains • Scale integrated consumer & enterprise business to drive growth • Focus on cost management to mitigate inflation pressures
Negative ROIC	Trustwave	• Complete strategic review • Continued focus on cost efficiencies

Source: Singtel, UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Net turnover	14,624.4	15,052.5	15,637.0	16,317.2
EBITDA	3,685.9	3,871.9	4,108.1	4,441.2
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
EBIT	1,111.8	1,395.2	1,654.3	2,019.2
Associate contributions	2,287.0	2,450.6	2,637.9	2,796.5
Net interest income/(expense)	(358.9)	(350.2)	(363.2)	(375.8)
Pre-tax profit	3,211.9	3,407.7	3,929.0	4,439.8
Tax	(978.0)	(1,037.6)	(1,196.4)	(1,351.9)
Minorities	(8.4)	0.0	0.0	0.0
Net profit	2,225.5	2,370.0	2,732.6	3,087.9
Net profit (adj.)	2,053.5	2,370.0	2,732.6	3,087.9

BALANCE SHEET

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Fixed assets	10,384.6	10,327.4	10,218.5	10,066.7
Other LT assets	27,562.6	27,985.7	28,464.9	28,991.8
Cash/ST investment	1,667.9	2,210.4	2,935.3	3,809.4
Other current assets	5,428.4	5,581.0	5,791.4	6,035.3
Total assets	46,530.0	47,591.0	48,896.6	50,389.6
ST debt	982.7	982.7	982.7	982.7
Other current liabilities	7,316.4	7,406.9	7,559.8	7,725.3
LT debt	9,910.6	10,332.1	10,738.6	11,130.2
Other LT liabilities	2,306.0	2,306.0	2,306.0	2,306.0
Shareholders' equity	26,004.9	26,554.0	27,300.1	28,235.9
Minority interest	9.4	9.4	9.4	9.4
Total liabilities & equity	46,530.0	47,591.0	48,896.6	50,389.6

CASH FLOW

Year to 31 Mar (S$m)	2023	2024F	2025F	2026F
Operating	4,775.8	5,134.7	5,492.3	5,807.4
Pre-tax profit	3,211.9	3,407.7	3,929.0	4,439.8
Tax	(978.0)	(1,037.6)	(1,196.4)	(1,351.9)
Deprec. & amort.	2,574.1	2,476.6	2,453.8	2,422.0
Associates	(172.0)	0.0	0.0	0.0
Working capital changes	(130.1)	(62.2)	(57.4)	(78.4)
Non-cash items	358.9	350.2	363.2	375.8
Other operating cashflows	(89.0)	0.0	0.0	0.0
Investing	(2,301.7)	(2,842.5)	(2,824.2)	(2,797.0)
Capex (maintenance)	(2,162.4)	(2,107.4)	(2,032.8)	(1,958.1)
Proceeds from sale of assets	(679.2)	(735.2)	(791.4)	(838.9)
Others	539.9	0.0	0.0	0.0
Financing	(2,941.2)	(1,749.7)	(1,943.2)	(2,136.3)
Dividend payments	(1,964.3)	(1,821.0)	(1,986.5)	(2,152.1)
Issue of shares	0.1	0.0	0.0	0.0
Proceeds from borrowings	(974.7)	421.5	406.6	391.6
Others/interest paid	(2.3)	(350.2)	(363.2)	(375.8)
Net cash inflow (outflow)	(467.1)	542.5	724.9	874.1
Beginning cash & cash equivalent	2,130.0	1,667.9	2,210.4	2,935.3
Changes due to forex impact	5.0	0.0	(0.1)	(0.1)
Ending cash & cash equivalent	1,667.9	2,210.4	2,935.2	3,809.3

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	25.2	25.7	26.3	27.2
Pre-tax margin	22.0	22.6	25.1	27.2
Net margin	15.2	15.7	17.5	18.9
ROA	4.7	5.0	5.7	6.2
ROE	8.2	9.0	10.1	11.1
Growth				
Turnover	(4.7)	2.9	3.9	4.3
EBITDA	(2.1)	5.0	6.1	8.1
Pre-tax profit	11.0	6.1	15.3	13.0
Net profit	14.3	6.5	15.3	13.0
Net profit (adj.)	6.8	15.4	15.3	13.0
EPS	6.1	15.4	15.3	13.0
Leverage				
Debt to total capital	29.5	29.9	30.0	30.0
Debt to equity	41.9	42.6	42.9	42.9
Net debt/(cash) to equity	35.5	34.3	32.2	29.4
Interest cover (x)	10.3	11.1	11.3	11.8

SECTOR UPDATE

Electronics – Thailand

2Q23: The Worst Has Already Passed; Upgrade To MARKET WEIGHT

The electronic stocks under our coverage have collectively reported earnings of Bt6.0b in 2Q23, marking a resumption of growth at 8% yoy and 36% qoq, mainly attributed to better revenue and gross margin. In 2H23, while a robust recovery may not be immediately evident, we anticipate a gradual improvement in the outlook thereafter from the easing of many headwinds. We also believe the worst has already passed, so we are upgrading our sector rating to MARKET WEIGHT.

WHAT'S NEW

- **2Q23 earnings rebounded.** Electronic stocks under our coverage reported combined earnings of Bt6.0b in 2Q23, resuming growth at 8% yoy and 36% qoq. Earnings on a yoy basis were weighed up by Hana Microelectronics (HANA) (+160%) and Delta Electronics (DELTA) from higher revenue and gross margin. On a qoq basis, earnings were supported by all Thai electronic stocks with HANA (+140%), SVI (+90%), DELTA (+30%) and KCE Electronics (KCE) (+9%) due to revenue improvement from demand recovery and wider gross margin from lower raw material prices and currency effect.

- **Correction of industry almost at an end; uptick in revenue expected from 2Q23.** Thai electronics stocks' 2Q23 revenue totalled Bt50.4b, reflecting a noteworthy 12% yoy increase and a solid 7% qoq improvement. This growth can be primarily attributed to: a) DELTA's revenue surge, driven by the sustained high demand for electric vehicle (EV) related products, and b) HANA's revenue rebound, particularly in the segments of personal computers (PC), laptops and smartphones. On the other hand, KCE and SVI still witnessed declines in their revenues yoy and qoq. Nevertheless, these declines have noticeably slowed down, indicating potential for more stable revenue growth in the near future.

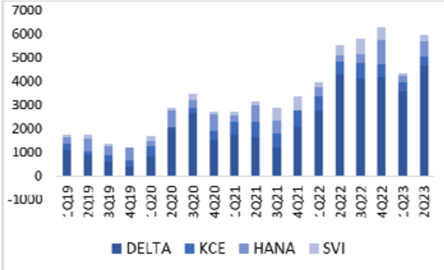
- **Most companies remain positive on 2H23 revenue outlook.** For 2H23, management of most companies expects revenue to improve hoh. DELTA's management envisions substantial revenue expansion ranging from 20-25% yoy, aligning with our own projections. Consequently, we anticipate a robust 18% qoq revenue improvement in 2H23. HANA also anticipates enhanced revenue growth due to signs of inventory restocking and sustained demand from the automotive segment. KCE's management is optimistic about achieving 2H23 revenue of US$250m (+8% qoq), driven by the return of orders from the automotive industry in the US and Europe. For SVI, despite downward adjustment of 2023 revenue due to inventory rebalancing, it is optimistic that this situation will be alleviated closer to 4Q23.

- **Signs of a semiconductor industry recovery are becoming increasingly evident.** According to the latest data from the World Semiconductor Trade Statistics (WSTS), global semiconductor sales in Jun 23 reached US$41.5b (flat mom, -17% yoy). This decline is significantly less severe than the 21% yoy drop observed in May 23. To put this into context, the semiconductor industry experienced its lowest point in 2019 when revenues plummeted by approximately 17% yoy. Given these trends, it appears that the industry's correction phase may be nearing its conclusion.

MARKET WEIGHT

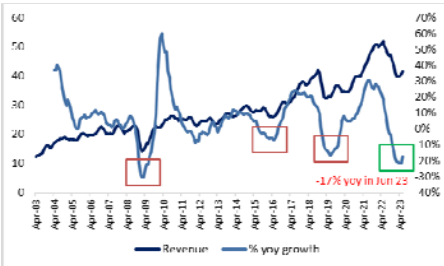
(Upgraded)

SECTOR QUARTERLY NET PROFIT



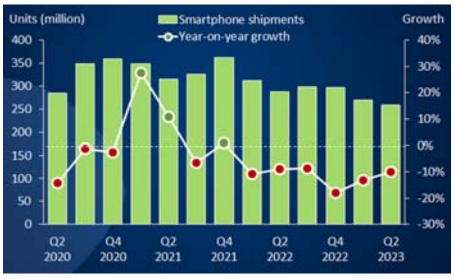
Source: Respective Companies, UOB Kay Hian

WORLDWIDE SEMICONDUCTOR REVENUE



Source: SIA, UOB Kay Hian

GLOBAL SMARTPHONE SHIPMENTS



Source: Canalys

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PEER COMPARISON

Company	Ticker	Rec.	Last Price (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US$m)	PE 2022F (x)	PE 2023F (x)	PE 2024F (x)	EPS CAGR 2022-24F (%)	PEG 2023F (x)	P/B 2023F (x)	Yield 2023F (%)	ROE 2023F (%)
Delta Electronics	DELTA TB	SELL	109.00	70.00	(35.8)	3,852	8.9	77.8	65.4	(63.2)	(0.9)	20.5	0.4	28.9
Hana Microelectronics	HANA TB	HOLD	61.75	62.00	0.4	1,408	23.6	22.0	17.7	15.5	3.0	2.1	1.7	9.4
KCE Electronics	KCE TB	HOLD	50.25	47.00	(6.5)	1,682	25.4	33.8	28.0	(4.7)	(1.4)	3.9	0.3	12.2
SVI	SVI TB	HOLD	7.85	8.80	12.1	483	9.5	14.6	11.4	(8.6)	(0.4)	2.3	1.4	16.6
Sector						7,425	15.5	53.1	44.4			12.1	0.7	20.6

Source: UOB Kay Hian

- **Many products poised for improvement in 2H23.** According to Canalys, global smartphone shipments experienced a 15% yoy decline in 2Q23, primarily due to challenging economic conditions and sluggish seasonal demand. However, on a qoq basis, the number remained stable. Canalys is also optimistic about 2H23 outlook, citing healthier inventory levels. It anticipates mid-single-digit revenue growth in 2024. In the realm of personal computers, the International Data Corporation (IDC) predicts a return to growth in 2024, with a projected 4% yoy improvement equating to approximately US$261.4m in shipments, following a 14% yoy decline in 2023. We believe this positive trend bodes well for the Thai electronics sector moving forward.

ACTION

- **Upgrade electronics sector from UNDERWEIGHT to MARKET WEIGHT.** We are increasing our sector rating to market weight as we believe the worst has already passed, and share prices have already absorbed a significant portion of the headwinds, such as the soft demand of semiconductor industry, sluggish economy and high raw material prices. As we look ahead to 2H23, while a robust recovery may not be immediately evident, we anticipate a gradual improvement in the outlook with the easing of many headwinds. Moreover, we expect to see more improvement in 2024.

2Q23 RESULTS WRAP

- **DELTA: Earnings up yoy and qoq.** DELTA posted 2Q23 net profit of Bt4.7b (+10% yoy, +30% qoq). The yoy earnings growth was supported by stronger revenue and lower SG&A-to-sales. Also, qoq earnings were underpinned by higher revenue and gross margin. Revenue came in at Bt35.8b (+28% yoy, +11% qoq), supported by: a) EV power from the US, Asia, and Europe, b) fan and thermal management, and c) the India business. Gross margin was 23.4% (-1.7ppt yoy, +2.6ppt qoq). Gross margin was squeezed yoy due to product mix but improved qoq thanks to the easing component shortage situation and Baht depreciation

- **KCE: Net profit dropped yoy but improved qoq.** KCE posted a net profit of Bt376m (-34% yoy, +9% qoq) for 2Q23. Net profit plunged on a yoy basis, impacted by lower revenue, contracted gross margin and higher SG&A-to-sales. Meanwhile, qoq earnings improved due to lower SG&A-to-sales. Sales came in at Bt4.0b, dropping 16% yoy and flattening qoq, pressured by softer volume of PCB shipment from weak demand. KCE also reported contracted gross margin of 19.1% (-3.7ppt yoy, -0.5ppt qoq), pressured by weaker sales and lower production capacity from the long holidays.

- **HANA: Strong earnings recovery yoy and qoq.** Net profit came in at Bt635m (+160% yoy, +140% qoq). Net profit skyrocketed both yoy and qoq due to wider revenue and gross margin. Revenue was Bt6.9b, improving 8% yoy and 7% qoq, chiefly underpinned by the microelectronics division's sales and the Microdisplay/RFID operation in Ohio sales. Gross margin surged on both yoy and qoq bases to 15% (+1.3ppt yoy, +6.4ppt qoq), riding on the strong revenue.

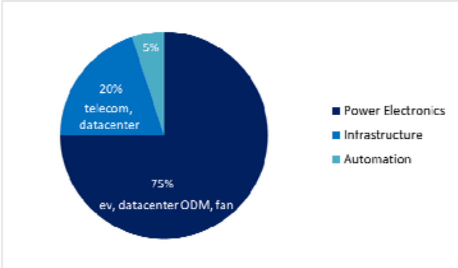
- **SVI: Earnings declined yoy but surged qoq.** SVI posted 2Q23 net profit of Bt281m (-33% yoy, +89% qoq). Earnings declined yoy, mainly pressured by higher SG&A-to-sales. Meanwhile, qoq earnings increased, mainly supported by wider gross margin. Revenue came in at Bt5.7b (flat yoy, -7% qoq), pressured by lower demand from global inventory rebalancing. Gross margin was 8.7%, increasing 0.4ppt yoy and 1.8ppt qoq due to lower raw material costs and minor positive impact from Baht depreciation.

2Q23 RESULTS

Net profit	2Q23	2Q22	1Q23	yoy(%)	qoq(%)	UOBKH	Street	UOBKH	Street
DELTA	4,668	4,263	3,614	9.5	29.1	3,967	3912	Above	Above
KCE	376	572	345	(34.2)	8.9	368	377	In-line	In-line
HANA	635	245	266	159.4	138.4	443	404	Above	Above
SVI	281	421	149	(33.2)	89.3	343	327	Below	Below
Total	5,961	5,502	4,375	8.3	36.2	5,121	5,020	Above	Above

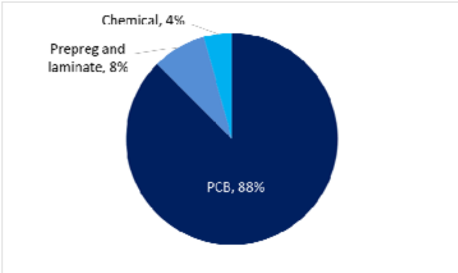
Source: DELTA, KCE, HANA, SVI, UOB Kay Hian

DELTA REVENUE BREAKDOWN



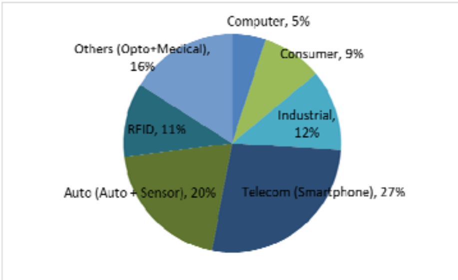
Source: DELTA, UOB Kay Hian

KCE REVENUE BREAKDOWN



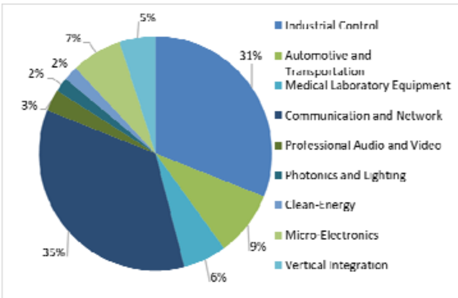
Source: KCE, UOB Kay Hian

HANA REVENUE BREAKDOWN



Source: HANA, UOB Kay Hian

SVI REVENUE BREAKDOWN



Source: SVI, UOB Kay Hian

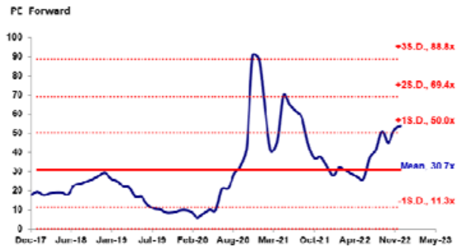
VALUATION

- **DELTA: Maintain SELL with a target price of Bt70.00.** Our target price is based on 50x 2023F PE and pegged at +1SD to its five-year mean PE. Although we revised earnings upwards and expect improvement in 2H23, we believe DELTA's valuation is too high compared to DELTA Taiwan. Moreover, with decelerated earnings growth, we do not think that this valuation is justified.
- **KCE: Maintain HOLD with a target price of Bt47.00.** Our valuation is based on 26x 2024F PE and pegged to its five-year mean PE. We believe KCE's cloudy outlook has reached the bottom and expect 2024 earnings to grow. However, we recommend HOLD as we are still cautious on KCE's outlook due to fluctuations in currency and raw material prices.
- **HANA: Downgrade to HOLD with a target price of Bt62.00.** Our target price is based on 18x 2024F PE and pegged to its five-year mean PE. We believe the share price has already reflected better-than-expected 2Q23 results and there is limited upside. Thus, we downgrade HANA to HOLD.
- **SVI: Maintain HOLD with a target price of Bt8.00.** Our target price is based on 13x 2024F PE and pegged to its five-year mean PE. We believe diversification of SVI's products would underpin revenue in 2024. However, we maintain HOLD on SVI due to the concern on gross margin as SVI's gross margin is very sensitive to currency direction.

SECTOR CATALYSTS

- **Positive:** Baht depreciation, chip production stimulus, easing of global tensions, acceleration of 5G technology, growth of EV trend, and a booming economy.
- **Negative:** Baht appreciation, rising inflation, higher cost of raw materials, higher costs of transportation, and the Russia-Ukraine war being prolonged.

DELTA PE BAND



Source: DELTA, UOB Kay Hian

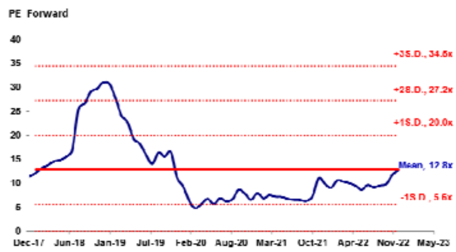
KCE PE BAND

Source: KCE, UOB Kay Hian

HANA PE BAND

Source: HANA, UOB Kay Hian

SVI PE BAND



Source: SVI, UOB Kay Hian

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