

WHAT HAPPENED LAST NIGHT

US stocks were lower after the close on Monday, as losses in the consumer discretionary, energy and technology sectors led shares lower. At the close of the NYSE, the DJIA fell 0.13% while the S&P 500 index was down 0.39%, and the NASDAQ Composite index slid 1.09%. Falling stocks outnumbered advancing ones on the NYSE by 1,698 to 1,471 and 125 ended unchanged; on the Nasdaq Stock Exchange, 2,869 declined and 1,794 advanced, while 257 ended unchanged. (Source: WSJ, CNBC)

WHAT'S IN THE PACK

China/HK Sector Update:

Property - Market sentiment to improve in 2023; high interest rates remain a key risk.

Sentiment for the Hong Kong property market remains weak, with further softening of the CCL index and contraction of transaction volume. Developers are also cautious over launching sales of new projects. The rising HIBOR rate is a key risk. In a high interest rate environment, Swire, CKA and SHKP are the most resilient while NWD is the weakest. Maintain MARKET WEIGHT. We continue to like defensive names with low gearing. SHKP is our top pick...

Singapore Company Update:

Nanofilm Technologies International - Expect a challenging 4Q22 due to disrupted production; downgrade to SELL.

(NANO
SP/SELL/\$\$1.27/Target:\$S\$1.02)

We expect Nanofilm to report a weak 4Q22, with 2H22 earnings to decline by 30% yoy, due to Foxconn's production in Zhengzhou, China being disrupted. The city is still subject to tight restrictions even though the seven-day lockdown was lifted on 9 Nov 22. The ongoing restrictions have led to Customer Z reducing its shipment forecasts for premium phones. We cut 2022 and 2023 EPS by 19% and 17% respectively. Downgrade to SELL with a 43% lower target price of S\$1.02...

Singapore Technical Analysis:

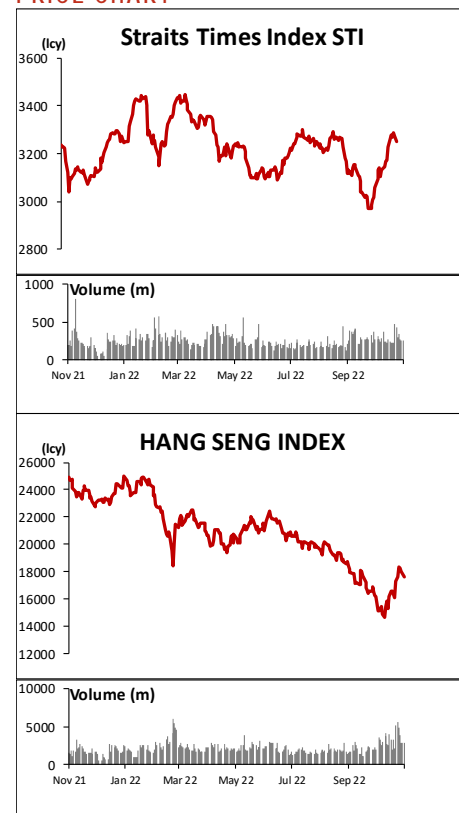
Top Glove Corp (TOPG SP) - Trading BUY

The chart outlook remains bullish as price is trading above the cloud. Price rebounded from the base line support, which is also near to the Fibonacci 50% correction point...

Yangzijiang Shipbuilding (YZJSGD SP)- Trading BUY

The price correction appears to halt at the base line, which is acting as support currently. Conversion and base lines remain in a bullish crossover...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33700.3	8.4	(7.3)
S&P 500	3949.9	5.3	(17.1)
FTSE 100	7376.9	5.8	(0.1)
AS30	7335.1	6.8	(5.7)
CSI 300	3769.1	0.7	(23.7)
FSSTI	3250.6	9.5	4.1
HSCEI	6001.9	8.8	(27.1)
HSI	17655.9	8.9	(24.5)
JCI	7063.2	0.6	7.3
KLCI	1448.0	0.1	(7.6)
KOSPI	2419.5	9.3	(18.7)
Nikkei 225	27944.8	3.9	(2.9)
SET	1618.9	1.7	(2.3)
TWSE	14449.4	12.7	(20.7)
BDI	1177	(35.3)	(46.9)
CPO (RM/mt)	3827	2.9	(26.1)
Brent Crude (US\$/bbl)	88	(6.1)	12.9

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Retail Market Monitor

Tuesday, 22 November 2022

YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 21.61pt lower to 3,250.62. Among the top active stocks were Yangzijiang Shipbuilding (+1.5%), Genting Singapore (+0.6%), Sembcorp Marine (-0.8%), Jiutian Chemical (-1.3%) and Dyna-Mac (-2.7%). The FTSE ST Mid Cap Index fell 0.5%, while the FTSE ST Small Cap Index slid 1.0%. The broader market saw 184 gainers and 355 losers with total trading value of S\$965.3m.

SINGAPORE

TOP VOLUME

Company	Price (S\$)	Chg (%)	Volume ('000s)
Yangzijiang Shipbuilding	1.32	1.5	46,002
Genting Singapore	0.87	0.6	42,451
Sembcorp Marine Singapore	0.13	(0.8)	41,432
Telecommunications	2.68	0.0	37,612
Golden Agri-Resources	0.29	0.0	33,091

TOP GAINERS

Company	Price (S\$)	Chg (%)	Volume ('000s)
AEM Holdings	2.63	12.9	0
IHH Healthcare	1.80	2.9	485
Manulife US REIT	0.38	2.7	3,025
Hutchison Port Holdings Trust	0.18	1.7	3,353
Jardine Matheson Hldgs	46.89	1.6	363

TOP LOSERS

Company	Price (S\$)	Chg (%)	Volume ('000s)
Prudential	10.00	(27.0)	0
Sri Trang Gloves	0.39	(9.4)	16
Cromwell REIT SGD	2.19	(4.4)	38
Sri Trang Agro-Industry	0.75	(3.9)	1
Frasers Logistics & Commercial	1.10	(3.5)	12,608

HONG KONG

TOP VOLUME

Stock	Price (HK\$)	Chg (%)	Vol ('000)
Tracker Fund Of Hong Kong	17.77	(1.7)	554,635
Country Garden Holdings	2.48	(5.0)	374,894
Bank Of China	2.63	0.4	235,092
Sensetime Group Inc	1.94	(3.5)	226,487
China Construction Bank	4.53	0.4	211,765

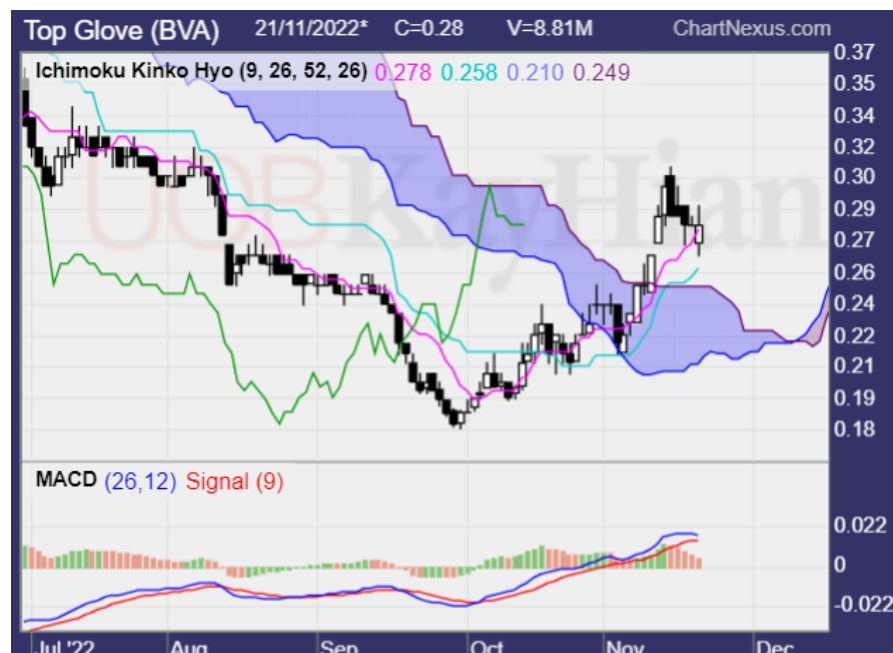
TOP GAINERS

Stock	Price (HK\$)	Chg (%)	Vol ('000)
Huaneng Power Intl Inc	3.44	2.7	30,595
China Longyuan Power	9.68	1.9	10,835
Henderson Land Development	23.50	1.7	2,972
Xinyi Solar Holdings	9.52	1.4	13,015
China Tower Corp	0.81	1.3	116,775

TOP LOSERS

Stock	Price (HK\$)	Chg (%)	Vol ('000)
Sands China	18.10	(7.7)	33,684
Haidilao International	15.36	(7.1)	17,522
Ke Holdings Inc	37.30	(6.5)	1,011
Budweiser Brewing Co	21.00	(6.2)	16,570
Galaxy Entertainment Group	43.25	(5.8)	18,353

SINGAPORE TRADERS' CORNER



Top Glove Corp (TOPG SP)

Trading Buy Range: S\$0.275-0.280

Last price: S\$0.280

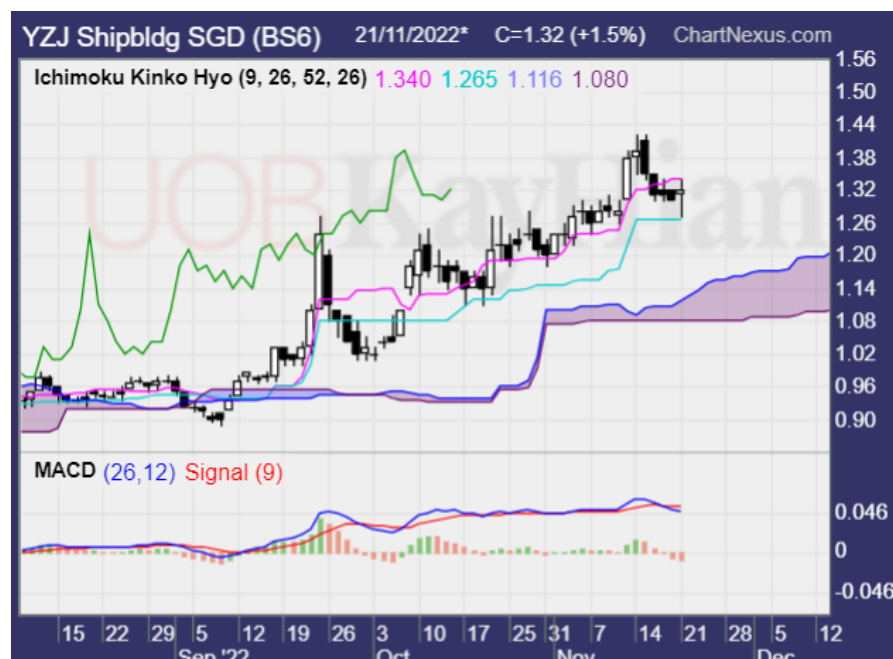
Target price: S\$0.350

Protective stop: S\$0.260

The chart outlook remains bullish as price is trading above the cloud. Price rebounded from the base line support, which is also near to the Fibonacci 50% correction point. The MACD is strong and bullish. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$0.35. Stops could be placed at S\$0.26.

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



Yangzijiang Shipbuilding (YZJSGD SP)

Trading Buy Range: S\$1.32-1.33

Last price: S\$1.32

Target price: S\$1.50

Protective stop: S\$1.26

The price correction appears to halt at the base line, which is acting as support currently. Conversion and base lines remain in a bullish crossover. The MACD is bullish as well. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S\$1.50. Stops could be placed at S\$1.26.

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 HOLD and target price of S\$1.55.

ANALYST

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FROM THE REGIONAL MORNING NOTES...

Property – Hong Kong

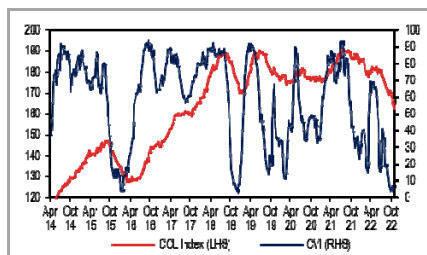
Market Sentiment To Improve in 2023; High Interest Rates Remain A Key Risk

Sentiment for the Hong Kong property market remains weak, with further softening of the CCL index and contraction of transaction volume. Developers are also cautious over launching sales of new projects. The rising HIBOR rate is a key risk. In a high interest rate environment, Swire, CKA and SHKP are the most resilient while NWD is the weakest. Maintain MARKET WEIGHT. We continue to like defensive names with low gearing. SHKP is our top pick.

WHAT'S NEW

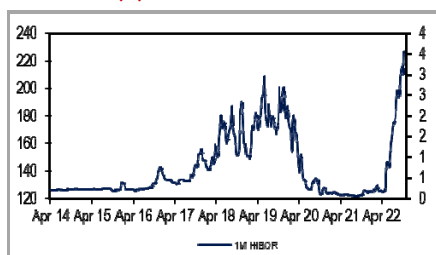
- **Sentiment of homebuyers remains quite weak.** The CCL index, which reflects secondary property prices, was last reported at 162.31 (-1.5% wow), down 15.17% from the historical high level recorded in Aug 21 and declining 12.05% ytd. Meanwhile, the CVI index, which gauges major banks' expectation over property prices, has further dipped to 3.57 and stayed below 10 for eight consecutive months, suggesting that home prices could fall notably going forward. A CVI higher than 50 normally points to a trend of rising property prices. For the short term, the property market responded coolly to the 2022 Policy Address and Hong Kong's further reopening (ie lowering quarantine requirements for foreign tourists). In the medium term, rising interest rates and a gloomier economic outlook continue to weigh on homebuyers' sentiment.

CCL INDEX VS CVI INDEX



Source: Centaline, UOB Kay Hian

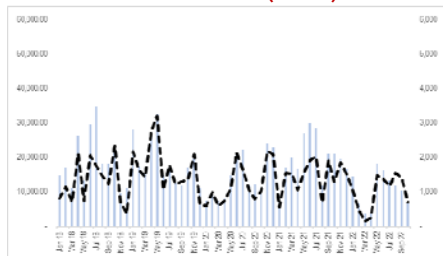
1M HIBOR(%)



Source: Bloomberg, UOB Kay Hian

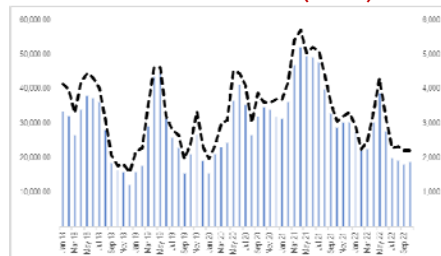
- **Transaction volume/value declined 37%/43%yoy respectively in 10M22.** HK\$7.2b/ HK\$18.8b of primary/secondary transactions were recorded in Oct 21, -30.5% mom/ +3.7% mom and -66% yoy/-35% yoy respectively. Combined, the total transaction value declined by 43% yoy. Over the past weekend (19-20 Nov 22), only nine transactions were recorded in the major real estates, down by 18% wow. We expect transaction volume to remain low, as both buyers and sellers are taking a wait-and-see attitude before the border reopening with China.

PRIMARY TRANSACTION (HK\$M)



Source: Centaline, UOB Kay Hian

SECONDARY TRANSACTION (HK\$M)



Source: Centaline, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Current Price @	Target	Upside/(Downside)	Market Cap (HK\$ m)	PE		P/B		Yield	
			(22 Nov 22) (HKD)	Price (HK\$)	to TP (%)		2022F (x)	2023F (x)	2022F (x)	2023F (x)	2022F (%)	2023F (%)
Hysan Development	14 HK	BUY	20.15	26.18	29.9	20,695.2	9.0	8.6	0.3	0.3	7.1	7.1
Sun Hung Kai Properties	16 HK	BUY	91.10	123.53	35.6	263,987.8	9.2	8.5	0.4	0.4	5.4	5.4
New World Development	17 HK	BUY	19.22	23.05	19.9	48,369.7	10.7	10.5	0.2	0.2	10.7	10.7

Source: Bloomberg, UOB Kay Hian

- **Developers are cautious on launching new projects.** Henderson Land launched 23 units of Baker Circle at an ASP of HK\$21,238/sqft, which is 11% lower than that of the previous batch launched in Jun 22. The 23 units only received 270 tickets, demonstrating a weak market demand. Note that three of the four projects on sale in Nov 22 were developed by mainland developers, namely CR Land, Poly and Vanke. With the weak market sentiment, we expect developers will remain relatively cautious on launching new projects.

NEW PROJECTS LAUNCHED IN NOV 22

Project name	Location	Developer	Units Launched	Subscription	ASP HK\$/sq ft	Size (sq ft)	Remarks
Baker Circle	Hung Hom	Henderson Land	23	10.7x	21,238	222-514	ASP is 11% lower than that of first batch launched in Jun 22
Bond Lanel	Cheung Sha Wan	Vanke	30	7.0x	19,084	232-401	ASP is 8.8% lower than that of "The Harmonie" launched in Jan 22
Pano Harbour	Kai Tak	CR Land & Poly		Offer by tender.		371-4,850	10 units have been sold since launch sales on 14 Nov 22
Chill Residence	Yau Tong	Poly & L'Avenue	127	n.a.	n.a.	246-730	

Source: Media reports, UOB Kay Hian

ESSENTIALS

- **Accessing the impact of interest rate hike on developers.** 1-month HIBOR has seen the steepest rise in 3Q22, from 0.8710% as of 1 Jul 22 to 3.59% as of 18 Nov 22, implying an increase of 272bp. We conducted a simple stress test of interest rate hikes on major Hong Kong developers & landlords. Assuming benchmark interest rate goes up by 1% to 3%, the incremental interest expenses will amount to 4.74% to 14.2% of FY22 underlying profit (excluding revaluation gains/losses) on average. Swire, CKA and SHKP are most resilient to interest rate hike thanks to lower gearing, while NWD is the weakest name under a high interest rate environment.

NUMBER OF VISA AND PR APPROVALS UNDER MAJOR TALENTS ADMISSION SCHEME

Company	FY22 [*] Underlying Profit (HK\$b)	% of ^{**} Floating Rate Debt	Non-RMB borrowing (HK\$b)	Increase in interest expense (HK\$b) if benchmark interest rate goes up by ...			Increase in interest expense to FY22 underlying profit if benchmark rate rises by...		
				1%	2%	3%	1%	2%	3%
16 HK SHKP	28.7	64%	102.0	0.65	1.31	1.96	2.3%	4.5%	6.8%
17 HK NWD	7.1	75%	175.2*	1.31	2.61	3.92	18.4%	36.8%	55.2%
1113 HK CKA	22.3	70%	36.7	0.26	0.51	0.77	1.2%	2.3%	3.5%
12 HK Henderson Land	12.0	50%	84.2	0.42	0.84	1.26	3.5%	7.0%	10.6%
1972 HK Swire	7.8	28%	15.6	0.04	0.09	0.13	0.6%	1.1%	1.7%
14 HK Hysan	2.2	40%	24.6*	0.10	0.20	0.29	4.4%	8.8%	13.2%
1997 HK Wharf	6.4	53%	44.1*	0.23	0.47	0.70	3.7%	7.3%	11.0%
101 HK Hang Lung	4.7	59%	31.5	0.19	0.37	0.56	3.9%	7.8%	11.8%
Average		54.8%					4.74%	9.47%	14.2%

Source: Company reports, Bloomberg, UOB Kay Hian. ^{*}FY22 of 1113 HK, 12HK, 1972HK, 14HK, 1997HK and 101HK is Bloomberg consensus estimate. ^{*}Non-RMB borrowing of Hysan and Wharf is based on our estimation. Non-RMB borrowing of NWD doesn't include perpetual capital instrument. ^{**}Ratio of floating rate debt of CKA is based on our estimation.

ACTIONS

- **Maintain MARKET WEIGHT on the Hong Kong property sector.** We believe the Hong Kong property market will see better momentum, thanks to gradual recovery of the China and Hong Kong economies from a low base in 2022. However, interest rate is expected to stay at high levels, and the impact on developers' financial statements has yet to appear in the next earnings season. We maintain MARKET WEIGHT on the Hong Kong property sector.
- **Prefer defensive names.** We think the recovery of the property market will be a long and gradual process. While interest rate is still on the rise, we like defensive names with low net gearing and a diversified portfolio.

- **SHKP (16 HK) remains as our top pick.** SHKP has a well-diversified portfolio, with 38%/34% of EBIT contributed by Hong Kong property sales and Hong Kong property investment respectively. Net gearing ratio stands at the low level of 17.4% as of Jun 22. Management's commitment to high dividend payout ratio (40-50%) provides solid downside protection. We have a BUY rating with target price of HK\$123.53, based on a 40% discount to NAV of HK\$205.90/share.
- **We maintain our BUY rating on NWD with a lower target price of HK\$23.05 (from HK\$30.44 previously),** based on a 60% discount (from 55% previously) to NAV of HK\$57.60/share (from HK\$67.64 previously). The trim on NAV is to reflect the higher-than-expected cost of capital and lower RMB exchange rate.
- **We maintain our BUY rating on Hysan with a lower target price of HK\$26.18, derived from a targeted dividend yield of 5.5% (from 4.5% previously).** We cut our forecast for FY22/FY23/FY24 EPS by 2%/3%/3% respectively to factor in slower-than-expected sales progress of Villa Lucca. We maintain our forecast of stable DPS of HK\$1.44/HK\$1.47/HK\$1.55 for 2022/23/24 respectively, in line with Hysan's progressive dividend policy.

RISKS

- **Upside risks:** Better-than-expected economic recovery in 2022; further relaxation of restrictive measures on property market.
- **Downside risks:** Faster-than-expected interest rate hike.

FROM THE REGIONAL MORNING NOTES...

Nanofilm Technologies International (NANO SP)

Expect A Challenging 4Q22 Due To Disrupted Production; Downgrade To SELL

We expect Nanofilm to report a weak 4Q22, with 2H22 earnings to decline by 30% yoy, due to Foxconn's production in Zhengzhou, China being disrupted. The city is still subject to tight restrictions even though the seven-day lockdown was lifted on 9 Nov 22. The ongoing restrictions have led to Customer Z reducing its shipment forecasts for premium phones. We cut 2022 and 2023 EPS by 19% and 17% respectively. Downgrade to SELL with a 43% lower target price of S\$1.02.

WHAT'S NEW

- **Production challenges faced by major customer have led to a cut in shipment forecasts.** Nanofilm Technologies International's (Nanofilm) largest customer, Customer Z had in early-Nov 22 reduced the shipment forecasts of its newest premium iPhones after lockdowns in China affected operations of its supplier's plant in China. To recap, Foxconn's Zhengzhou factory, which operates the world's biggest factory for Customer Z, underwent a seven-day lockdown on 2 Nov 22 due to a high number of COVID-19 cases in the city. Subsequently, on 9 Nov 22, the city of Zhengzhou lifted a lockdown order for the area around the airport. However, several areas within that district will remain classified as high risk, which means that they will continue to be subject to strict restrictions. The list of high-risk areas included Foxconn's Zhengzhou plant, which implies that the flow of goods and people in and out of the main production base remains affected. Market researcher TrendForce also recently cut its iPhone shipment forecast for Oct-Dec 22 by 2m-3m units to 77m-78m, from 80m, due to the factory's troubles.
- **Mixed signals regarding reopening of China's economy vs zero-COVID policy.** Although China's recent reduction of quarantine time for international travellers by two days signalled a gradual easing its strict zero-COVID policy, the tight COVID-19-related restrictions recently imposed in several cities, including Shijiazhuang, Guangzhou and Chongqing, are giving mixed signals about China's COVID-19 policy. Shijiazhuang, a city of about 11m people near Beijing, has suspended schools, locked down universities and asked residents to stay at home for five days. Guangzhou is enforcing targeted lockdowns over a citywide order. Also, Chongqing has declared many individual high-risk areas that the city and residents in these areas are not allowed to leave their homes.
- **IEBU should also face challenges from customers reducing their capex.** Nanofilm's second-largest segment, Industrial Equipment Business Unit (IEBU), which contributed 13% of the company's total revenue as of 9M22 should also continue to remain weak in the near term. This is because most of its customers which purchase coating machines are likely to delay and cut their capex amid increasing macro uncertainties. In addition, currency weakness across many countries has caused purchases to become more expensive for its IEBU customers, especially those located in Japan.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	218	247	248	290	352
EBITDA	92	94	92	108	126
Operating profit	73	68	63	74	91
Net profit (rep./act.)	58	62	52	61	75
Net profit (adj.)	58	62	52	61	75
EPS (S\$ cent)	10.6	9.4	7.9	9.3	11.4
PE (x)	11.9	13.5	16.1	13.7	11.2
P/B (x)	1.9	2.0	1.8	1.6	1.4
EV/EBITDA (x)	7.9	7.7	7.9	6.7	5.8
Dividend yield (%)	1.4	1.6	1.2	1.5	1.8
Net margin (%)	26.4	25.2	21.0	21.1	21.4
Net debt/(cash) to equity (%)	(43.5)	(34.5)	(33.2)	(34.4)	(36.2)
Interest cover (x)	87.9	n.a.	n.a.	n.a.	n.a.
ROE (%)	20.9	14.5	11.5	12.4	13.7
Consensus net profit	-	-	65	74	85
UOBKH/Consensus (x)	-	-	0.80	0.83	0.88

Source: Nanofilm, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Loss of operating leverage for seasonally stronger 2H22 could drag margins for 2022; Sydrgen should remain an earnings drag.** 2H is usually a seasonally strong half for the company, typically contributing around 60% of full-year revenue and 70% of full-year earnings. However, the expected lower production for 2H22 means its full-year gross and net margin will be impacted. The difference between 1H and 2H is usually around 4%. On the other hand, Sydrgen should continue to be in a loss-making position for 2022 and 2023.
- **Expansion of business into green energy.** Nanofilm recently announced that it will be providing its "Green Plating" vacuum coating solutions to the new energy advanced batteries industry in China through the establishment of its JV, Sichuan Apex Technologies with its JV partner Shenzhen Everwin.

EARNINGS REVISION/RISK

- We have reduced our earnings forecasts for 2022/23/24 by 19%/17%/13% after reducing our revenue forecasts by 8%/8%/7% to factor in potential disruptions in customers' productions due to the sporadic lockdowns in China. We have also reduced our gross margin assumptions for 2022/23/24 by 3.4%/2.2%/1.7% to 50.4%/49.5%/49.0%. This is to reflect the lower operating leverage and higher start-up costs of new projects. Our earnings estimates indicate yoy earnings growths of -16%/18%/22% for 2022/23/24.

VALUATION/RECOMMENDATION

- **Downgrade to SELL with a 43% lower target price of S\$1.02.** We value Nanofilm based on 11x 2023F EPS, pegged to -2SD of its long-term forward mean to reflect the challenging environment it is facing, which could lead to further de-rating of its PE multiple. Previously, we valued Nanofilm based on PEG of 1.0x (growth based on three-year EPS CAGR of 16% from 2022-25). Nanofilm's 2023F PE of 14x is still at a premium vs Singapore peers, which are trading at 2023F PE of 9x.

SHARE PRICE CATALYST

- Better-than-expected ramp-up of the nanofabrication business.
- New application in the advanced material segment such as electric vehicles, bi-polar plate electrodes in fuel cells and solar energy.

PEER COMPARISON

Company	Ticker	Price @ 21 Nov 22 (1cy)	Market Cap (US\$m)	PE			3-yr EPS CAGR (%)	P/B 2022 (x)	Yield 2022 (%)	ROE 2022 (%)	Net Gearing (%)	Net Margin 2022 (%)
				2021 (x)	2022 (x)	2023 (x)						
3M Co	MMM US	126.76	70,066	12.4	12.4	12.0	3.8	4.7	4.7	40.1	91.3	17.3
PPG Industries	PPG US	128.47	30,194	21.2	21.5	18.3	16.2	4.9	1.9	22.1	69.2	7.9
EMS-Chemie	EMSN SW	657	16,045	27.9	28.0	26.1	10.6	8.3	3.3	29.8	(5.3)	22.4
OC Oerlikon	OERL SW	6.31	2,239	12.6	10.2	10.6	75.8	1.4	5.5	12.2	37.9	7.6
Rogers Corp	ROG US	100.51	1,891	17.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.6	n.a.
Red Avenue	603650 CH	38.07	3,169	69.2	62.6	39.7	11.1	7.4	0.3	10.9	62.3	11.8
Bodycote	BOY LN	565	1,276	18.1	14.3	12.9	502.8	1.5	3.7	10.9	16.5	11.0
Average				25.6	24.8	19.9		4.7	3.2	21.0	39.6	13.0
Singapore Peers												
Venture Corp	VMS SP	17.53	3,697	16.3	14.0	13.4	8.4	1.8	4.6	13.1	(25.1)	9.9
AEM	AEM SP	3.48	778	11.0	8.1	9.3	1.9	2.2	3.1	29.7	(17.6)	15.3
Frencen	FRKN SP	1.05	325	7.6	7.9	6.7	16.4	1.1	3.8	14.3	(18.0)	6.6
UMS	UMSH SP	1.23	596	15.5	8.1	7.6	33.5	2.4	4.1	32.4	(8.9)	28.6
Aztech Global	AZTECH SP	0.805	450	8.1	7.2	6.5	11.2	1.8	6.2	27.0	18.3	11.1
Average				11.7	9.1	8.7		1.8	4.3	23.3	(10.2)	14.3
Nanofilm Tech	NANO SP	1.27	605	13.5	16.1	13.7	(4.4)	1.8	1.2	11.5	(23.3)	21.0

Source: Bloomberg, UOB Kay Hian

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