

STRATEGY – SINGAPORE

Alpha Picks: Adding MINT While Removing RMFD

On a market cap-weighted basis, the STI outperformed our Alpha Picks by 0.3ppt, which was helped by our industrial stock picks. On a price-weighted and market-cap weighted basis, however, our portfolio significantly underperformed due to Sea Ltd. We note that our Alpha Picks portfolio has nevertheless beaten the STI in 16 out of the past 18 months. For Sep 23, due to favourable tailwinds for its data centre segment, we add MINT while removing RFMD from our Alpha Picks portfolio.

WHAT'S NEW

- Market review.** Coming off a strong Jul 23, global investor sentiment took a dive in early-Aug 23 as the US Fed expressed concern about the pace of inflation, implying a “higher for longer” narrative about future interest rate policy. This sent global markets sharply lower with the STI down around 7% by mid-August. Also, lacklustre economic data and an ongoing property crisis in China further dragged investor risk-on sentiment. However, softening US jobs data at the end of Aug 23 raised the odds of a pause in interest rate hikes, lifting markets slightly with the STI ending up 4.2% lower mom.
- Soft performance.** For Aug 23, our Alpha Picks portfolio fell 4.5% mom on an equal-weighted basis vs the STI's 4.2% decline. Our industrial stock picks continue to thrive with Yangzijiang Shipbuilding (9.7% mom) and CSE Global (+3.6% mom) both doing well on the back of strong 1H23 results and margins while Delfi's (+5.6% mom) robust top- and bottom line growth in 1H23 also pushed its share price higher. Our underperformers include Sea Ltd (-43.0% mom), LHN (-11.7% mom), and CapLand Ascott Trust (-10.3% mom) with Sea's e-commerce guidance causing a sell-off which we view as overly harsh. LHN suffered from profit taking after its recent run-up in share price performance while CapLand Ascott Trust suffered from overall market weakness in REITs.
- For Sep 23, we add Mapletree Industrial Trust** to our Alpha Picks portfolio, backed by favourable tailwinds for its data centre segment, while removing Raffles Medical given overall market weakness in the healthcare sector.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jacquelyn Yow	Bumitama	BUY	-6.0	Margin expansion backed by CPO price uptrend.
John Cheong	SEA Ltd	BUY	-38.5	Better-than-expected upcoming quarterly earnings.
John Cheong	Civmec	BUY	24.0	Strong order book and higher dividend.
John Cheong	Delfi	BUY	18.9	Higher revenue contribution from Indonesia.
John Cheong	CSE Global	BUY	24.4	Expect earnings growth with 8% dividend yield.
Jonathan Koh	CapLand Ascott Trust	BUY	4.9	A play on COVID-19 reopening in the EU & UK.
Jonathan Koh	OCBC	BUY	1.5	Attractive dividend yield and less susceptible to NIM compression.
Jonathan Koh	Mapletree Industrial Trust	BUY	-	A play on the global growth in data centers.
Adrian Loh	Keppel Corp	BUY	50.2	Moving to a more asset-light business model.
Adrian Loh	Sembcorp Ind	BUY	81.8	Re-rating prospects as a green energy play; conventional energy expected to be stable
Adrian Loh	Seatrium	BUY	21.8	New order win momentum from oil and gas as well as renewables industry
Adrian Loh	Yangzijiang Ship	BUY	30.3	Shipbuilding margin expansion; better capital management.
Llellythan Tan	Thai Beverage	BUY	1.8	Return of Chinese tourists to Vietnam.
Llellythan Tan	ComfortDelgro	BUY	0.8	Inflection point as 2Q23 earnings bottom out.
Heidi Mo	LHN Group	BUY	-4.2	Potential special dividend from value unlocking

* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

Share price change since stock was selected as Alpha Pick

Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec*	Price (S\$)	Target	Up/(down) to TP (%)
Bumitama	BUY	0.55	0.65	18.2
CapLand Ascott	BUY	0.97	1.31	35.1
Civmec	BUY	0.80	1.23	53.8
ComfortDelGro	BUY	1.27	1.56	22.8
CSE Global	BUY	0.485	0.61	25.8
Delfi	BUY	1.25	1.83	46.4
Keppel Corp	BUY	6.94	9.09	31.0
LHN	BUY	0.34	0.55	61.8
MapletreeInd	BUY	2.30	2.89	25.7
OCBC	BUY	12.55	18.22	45.2
Sea (in US\$)	BUY	37.93	94.34	148.7
Seatrium	BUY	0.145	0.19	31.0
Sembcorp Ind	BUY	5.35	7.20	34.6
Thai Beverage	BUY	0.57	0.83	45.6
YZJ ShipBldg SGD	BUY	1.69	1.88	11.2

* Rating may differ from UOB Kay Hian's fundamental view
Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Aug 23 ¹ (% mom)	To-date ² (%)
Bumitama*	BUY	(1.3)	(6.0)
CapLand Ascott*	BUY	(10.3)	4.9
Civmec	BUY	(2.4)	24.0
ComfortDelGro*	BUY	3.1	0.8
CSE Global*	BUY	3.6	24.4
Delfi*	BUY	5.6	18.9
Keppel Corp*	BUY	(3.9)	50.2
LHN	BUY	(11.7)	(4.2)
OCBC*	BUY	(2.6)	1.5
Raffles Medical	BUY	(10.0)	(5.3)
Sea (in US\$)	BUY	(43.0)	(38.5)
Sembcorp Ind*	BUY	(0.9)	81.8
Seatrium	BUY	2.8	21.8
ThaiBev	BUY	(5.8)	1.8
YZJ ShipBldg SGD	BUY	9.7	30.0
FSSTI		(4.2)	
UOBKH Portfolio		(4.5)	

* Adjusted for DPS for the monthly performance
Source: UOB Kay Hian

PORTFOLIO RETURNS (%)

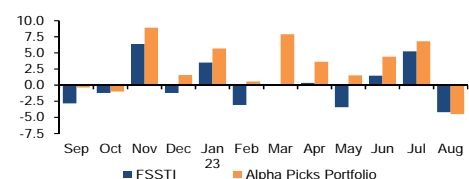
	2022	1Q23	2Q23	Jul-23	Aug-23
FSSTI return	4.1	0.2	-1.6	5.2	-4.2
Alpha Picks Return					
- Price-weighted	5.6	5.5	10.1	4.7	-31.3
- Marketcap-weighted	8.1	2.9	5.4	6.8	-14.4
- Equal-weighted	2.8	9.1	7.2	3.9	-4.5

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming same number of shares for each stock; a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting based on the market cap at inception date; higher market cap = higher weighting.
- 3) Equal-weighted: Assuming same investment amount for each stock; every stock will have the same weighting.

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS (WE OUTPERFORMED FSSTI 11 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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Bumitama Agri - BUY (Jacquelyn Yow & Leow Huey Chuen)

- **Margin expansion coupled with CPO uptrend.** Bumitama would have strong earnings sensitivity towards CPO prices as compared with its Indonesian peers listed on SGX being a pure upstream player and selling 100% of its CPO at spot market. We also expect margin expansion for 2H23 and 2024 with cost of production to drop by 10-15% due to lower fertiliser cost.
- **Higher dividend yield.** We expect an attentive high dividend yield of 6-7% for 2023-24 with its dividend payout policy of up to 40%.
- **Maintain BUY with a target price of S\$0.65** where we pegged the target price at 6.0x 2024F PE.

SHARE PRICE CATALYST

- **CPO price uptrend.** We reckon that CPO price would be trending upwards from 3Q23-1H24. We anticipate that palm oil output during this period may fall below market expectations due to the impact of extreme weather changes. Moreover, there is a significant weather-related risk affecting other global oilseed crops, which could lead to deviations in global vegetable oil and oilseed oil production.
- **Timeline:** 3-6 months.

Sea Limited – BUY (John Cheong, Jacquelyn Yow & Heidi Mo)

- **Accumulate on weakness as share price correction is overdone and non e-commerce segments have been overlooked.** We reckon that the share price correction of Sea is overdone with the fear of investment drag for its e-commerce segment. We believe the improving profitability of the gaming and digital financial services segments has been overlooked.
- **Sea is the only profit-making e-commerce and digital finance services provider in the region.** We believe that investors should not discount the strong market position of SeaMoney and the strong efficiency of its digital finance service segment.
- **Garena is poised to reintroduce Free Fire to the Indian market on 5 Sep 23,** following a ban by the government that lasted over 18 months. It is worth remembering that India used to make up around 10% of Garena's monthly active users. If we assume a similar rate of growth in the gaming segment's EBITDA, this would lift the EBITDA by about 5%. This development might have a slight positive impact on the stock's sentiment.
- **Maintain BUY with a target price of US\$94.34** on it being the potential first player in the region with positive annual net profit from the e-commerce and digital financial service segments.

SHARE PRICE CATALYST

- **Events:** a) Better-than-expected upcoming quarterly earnings, and b) reduced competition in the ASEAN e-commerce market.
- **Timeline:** 3-6 months.

Civmec – BUY (John Cheong)

- **Strong FY23 results with revenue growth across most sectors and strong net margin expansion.** Civmec recorded higher FY23 revenue and earnings of A\$830.9m (+2.7% yoy) and A\$57.7m (+13.7% yoy) respectively. Gross profit margins across all sectors improved, driving a 0.6ppt yoy increase in net margin to 6.9%. Strong improvement in net margin was driven by the delivery of higher return projects, better cost management and optimisation of productivity.

- **Positive outlook amid buoyant tendering activities.** Tendering activities continue its strong momentum across all sectors that Civmec has a presence in. Its orderbook stood at around A\$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029.
- **Final dividend a positive surprise and company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A\$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec has also turned into net cash position for the first time in FY23 (A\$14m vs A\$33m net debt in FY22).
- **Maintain BUY with a target price of S\$1.23**, pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's Australian peers are trading at an average of 15x FY24F PE.

SHARE PRICE CATALYST

- **Events:** a) Earnings surprise due to higher-than-expected contract wins and margin, b) better-than-expected dividend, and c) takeover offer by strategic shareholders given the high entry barrier of defence business.
- **Timeline:** 3-6 months.

Delfi – BUY (John Cheong)

- **Market leader of chocolate confectionery products in Indonesia, backed by positive macro trends.** Delfi is a manufacturer and distributor of many popular chocolate confectionery products in Indonesia. According to Euromonitor, it commands a dominant market share of approximately 41% in Indonesia, thanks to its early-mover advantage in building brand loyalty since the early-1950s. Its home market, Indonesia, where it generates more than 70% of its revenue, demonstrates vast potential based on its macro industry trends of a fast-growing middle class, a young population and high domestically-driven GDP growth.
- **Well-positioned to capitalise on premiumisation trend.** Delfi has been focusing on its premiumisation strategy to offer differentiated products based on changing consumer tastes. The company's premium brands include SilverQueen, Delfi Premium and Van Houten. In 2022, core profit grew 68.7% yoy to US\$43.6m, mainly driven by strong performance in Delfi's main operating market, Indonesia, which recorded revenue of US\$317.4m (+17.5% yoy). This was attributable to Delfi's premium brands SilverQueen and Cha Cha, which both saw double-digit growths. New products, largely healthier snacks targeting Millennials and Gen-Zs, were also launched during the year, supporting the segment's revenue growth.
- **Expect healthy double-digit growth in 2023-25 as Indonesia's consumers emerge stronger from the pandemic.** For 2023-25, we estimate total revenue at US\$518m-597m (three-year CAGR of 4.8%) and net profit at US\$47m-53.9m (three-year CAGR of 4.7%). The key growth drivers will be: a) an increase in Delfi's product volume and ASP in Indonesia, b) healthy growth in Indonesia's economy after the pandemic, where we expect Delfi's revenue to grow 10% in 2023-25, with Bank Indonesia projecting Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024, and c) a gradual improvement in gross margin as Delfi continues to gain traction in its premiumisation strategy.
- **Maintain BUY with a PE-based target price of S\$1.83**, based on 17x 2024F PE, pegged to its long-term mean. We have rolled over our valuation base year from 2023. Delfi is currently trading at 12x 2024F PE, a 30% discount to Indonesia peers' 2024F PE average of 18x.

SHARE PRICE CATALYST

- **Events:** a) Higher revenue contribution from Indonesia, and b) improving gross margin with traction gained in premiumisation of product offerings.
- **Timeline:** 3-6 months.

CSE Global – BUY (John Cheong)

- **Earnings above expectations due to strong improvement in net margin.** CSE's 1H23 earnings of S\$11m (+143% yoy) were above expectations. The beat was mainly due to a strong improvement in net margin which grew 1.5ppt yoy to 3.2%. To recap, CSE was hit badly last year by delays in project delivery due to supply chain issues, which have eased significantly in 1H23.
- **Expect strong earnings recovery in 2023.** We expect CSE to achieve 338% yoy growth in 2023 earnings as it recovers from low base earnings of S\$5m in 2022. As the supply chain disruptions ease, CSE will be able to deliver its contracts faster and enjoy margins recovery. Also, CSE's strong orderbook of S\$522m as of 1H23 (+34% yoy) should ensure robust earnings in 2H23 and 2024.
- **Strong orderbook should drive better earnings in 2H23.** CSE's 1H23 orderbook reached an all-time high of S\$522m (+34% yoy) due to strong order intake in the infrastructure and mining & minerals segments, which has grown 12% and 15% yoy respectively. This robust orderbook coupled with strong order flow should drive a better 2H23 earnings on a hoh basis.
- **Stable financial performance in the infrastructure and mining & minerals sectors,** supported by a steady stream of projects arising from requirements in digitalisation, communications and enhancements in physical and cyber security globally, and from data centres and water utilities in the Americas and Asia Pacific region. CSE will expand its engineering capabilities and technology solutions to pursue new market opportunities and diversify into new markets brought about by the emerging trends towards urbanisation, electrification and decarbonisation.
- **Maintain BUY with a target price of S\$0.61.** Our target price is pegged to 15x 2024 PE (based on +1SD above mean). Our target price implies a 2023 dividend yield of 4.5% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2023.

SHARE PRICE CATALYST

- **Events:** a) Large infrastructure project wins, and b) accretive acquisitions.
- **Timeline:** 3-6 months.

CapLand Ascott Trust – BUY (Jonathan Koh)

- **Continued recovery in key markets.** Portfolio RevPAU grew 20% yoy to S\$149 in 2Q23, reaching 98% of pre-pandemic levels. The increase was largely driven by room rates. There is room to improve portfolio occupancy, which currently hovers at about 75%. RevPAU for key markets in Australia, Japan, Singapore, the UK and US was above pre-pandemic levels based on a same-store basis. China and Vietnam outperformed with RevPAU growth of 78% and 83% yoy respectively.
- **Strengthened resiliency with longer-stay properties.** CLAS invested in 12 longer-stay accommodations, comprising student accommodation properties in the US and rental housing in Japan. These asset classes currently account for 19% of portfolio valuation. Management has raised the asset allocation for longer-stay accommodation by 10ppt from 15-20% to 25-30% in the medium term.
- **Maintain BUY.** Our target price of S\$1.35 for CLAS is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

SHARE PRICE CATALYST

- **Events:** a) Recovery in international travel driven by the easing of travel restrictions and reopening of borders globally, including Japan and China, and b) yield-accretive acquisitions in the student accommodation and rental-housing space.
- **Timeline:** 6-12 months.

Oversea-Chinese Banking Corp – BUY (Jonathan Koh)

- **Committed to new dividend policy.** Management intends to maintain dividend payout ratio at 50% going forward. OCBC provides attractive dividend yield of 6.3% for 2023.
- **Capital management.** CET-1 CAR improved 0.5ppt yoy to 15.4% in 2Q23. OCBC is comfortable with CET-1 CAR receding lower to 14.0% over the short- to medium-term (3-5 years). Management will consider all options for capital management, including special dividends.
- **Refreshed strategy to deliver incremental S\$3b revenue.** Management aims to deliver incremental revenue of S\$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S\$3b.
- **Maintain BUY.** Our target price of S\$18.22 is based on 1.45x 2024F P/B, derived from the Gordon Growth Model (ROE: 13.1%, COE: 9.0%, growth: 0.0%).

SHARE PRICE CATALYST

- **Events:** a) Resiliency from high CET-1 CAR of 15.4%, and b) attractive 2023 dividend yield of 6.3% from the commitment to the new dividend payout ratio of 50%.
- **Timeline:** 6-12 months.

Mapletree Industrial Trust – BUY (Jonathan Koh)

- **Strategic diversification to Japan's data centre market.** MINT is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S\$507.9m). We expect MINT to continue to expand in Japan due to positive yield spread with cap rates of 3-4% and low funding cost in JPY.
- **Backfilling data centre at Brentwood, Tennessee.** MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf currently occupied by AT&T (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.
- **Maintain BUY.** Our target price of S\$2.89 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

SHARE PRICE CATALYST

- **Events:** a) Growth from data centres located in North America and Japan, and b) acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.
- **Timeline:** 6-12 months.

Keppel Corp – BUY (Adrian Loh)

- **Solid 1H23 results.** KEP's results for 1H23 were stronger-than-expected with revenue of S\$3.7b (+11% yoy) and pre-tax profit of S\$602m (+9% yoy). Its net profit from continuing operations rose 3% yoy to S\$445m. Including the S\$3.3b in disposal gain from the divestment of Keppel Offshore Marine (KOM), net profit was S\$3.6b which made it the

highest in the company's 55-year history. 1H23 ROE (excluding discontinued operations) was 8.0% vs 7.3% in 1H22.

- **It is raining dividends.** KEP declared a S\$0.15 interim dividend (1H22: S\$0.15) as well as a special dividend comprising a dividend in-specie (DIS) of one Keppel REIT (KREIT) unit for every five KEP shares held. After the distribution, the company will remain the largest unitholder of KREIT with a 37.1% stake. The DIS is part of KEP's capital management initiative and will be subject to its shareholders' approval at an EGM later this year.
- **Infrastructure reported an exceptionally strong performance** with segmental net profit more than doubling to S\$291m with the connectivity segment also putting in decent growth, up 12% to S\$37m. KEP's real estate segment, as expected, continues to face a challenging environment in its key China market that caused its segmental net profit to decline 29% yoy to S\$186m.
- **We retain our BUY rating on KEP with pro forma SOTP-based target price of S\$9.09.** In the near term, we believe that the market will focus on KEP's asset monetisation announcements as this could bolster earnings in 2H23 and into 2024.

SHARE PRICE CATALYST

- **Events:** a) Resumption of normal business conditions in China, and b) continued success in its capital recycling programme.
- **Timeline:** 3-6 months.

Sembcorp Industries – BUY (Adrian Loh)

- **Strong 1H23 results.** In early-Aug 23, SCl reported a 50% yoy increase in adjusted EBITDA of S\$1.14b that was driven by profit margin strength in its conventional energy segment as well as the inclusion of newly-acquired assets in its renewables segment. SCl declared a higher interim dividend of S\$0.05/share vs S\$0.04/share in 1H22. Annualised ROE before extraordinary items expanded by an impressive 8.3ppt yoy to 26.6%.
- **Expecting stable earnings from conventional energy.** During the analyst briefing, management highlighted that in 2H23, around two-thirds of its Singapore capacity will be contracted and underpinned by Power Purchase Agreements. With this contracted position persisting through into 2024 and beyond, earnings from the conventional energy segment will be more stable.
- **We maintain our BUY rating on the company with a target price of S\$7.20** based on an unchanged target PE multiple of 13.6x. This target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's normalised earnings compared with 2022's earnings.

SHARE PRICE CATALYST

- **Events:** a) Sustained economic recovery after COVID-19, thus leading to increased energy and utilities usage, b) positive EPS revision momentum as the street upgrades earnings in 2H22, c) value-accretive acquisitions in the green energy space, and d) new renewables targets which may be revealed during its investor day on 6 Nov 23.
- **Timeline:** 6+ months.

Seatrium – BUY (Adrian Loh)

- **A loss in 1H23 does not derail the company's bullish outlook.** Seatrium's reported loss for 1H23 was due to provisions, however we note that the company has seen a strong recovery in its EBITDA since 1H22, and we strongly believe that it is well placed to continue on this track given its S\$19.7b net orderbook. The company's balance sheet

remains strong with net debt to equity of 0.17x as at end-1H23. In our view, news flow from Seatrrium on new orders will continue to be robust in the next 6-12 months.

- **Integration with Keppel Offshore Marine (KOM) proceeding well.** During its 1H23 results briefing, management stated that the integration with KOM is proceeding well and it expects this process to be completed by year end, and it will continue to focus on EBITDA performance which it views as an indicator of how well it is doing operationally. We believe that the company will likely 'kitchen sink' its 2023 numbers with various merger-related exceptional items to start off with a clean and new slate for 2024.
- **We maintain our BUY rating on Seatrrium and with a P/B-based target price of S\$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S\$0.125. Our positive view on the stock reflects our belief that the company will benefit from bullish trends in the offshore marine space. These include: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle. Risks include higher-than-expected provisions for 2023, negative news flow regarding its Corrupt Practices Investigation Bureau (CPIB) case and volatile oil prices.

SHARE PRICE CATALYST

- **Events:** New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.
- **Timeline:** 6-12 months.

Yangzijiang Shipbuilding – BUY (Adrian Loh)

- **Order wins continue to be robust.** In 1H23, YZJ won new orders for 46 vessels with a total contract value of US\$4.42b. YZJ currently has 180 vessels in its orderbook totalling US\$14.7b which is its highest ever. Ytd, the company has US\$5.8b in new orders, thus exceeding its 2023 target of US\$3b. During the results briefing, management stated its belief that 2H23 could be quieter on the new order win front given that its yards are full until at least 1H27.
- **We have a BUY recommendation on the stock with a higher PE-based target price of S\$1.88 (previously S\$1.65).** Our target PE multiple of 9.9x, applied to an aggregate of our 2023 and 2024 EPS forecast, is 1.5SD above YZJ's past five-year average of 6.6x. We view as fair given: a) the company's earnings growth in 2023 and 2024, b) sustainability of its earnings due to its US\$15b orderbook at present, and c) earnings visibility that has improved out to 2027 given the recent spate of new orders.

SHARE PRICE CATALYST

- **Events:** a) Evidence of continued shipbuilding margin expansion, b) better capital management initiatives, and c) new order win announcements.
- **Timeline:** 3-6 months.

Thai Beverage – BUY (Llalleythan Tan)

- **Sturdy 9MFY23 above expectations.** For 9MFY23, THBEV reported overall revenue and core EBITDA of Bt215.9b (+3.8% yoy) and Bt37.8b (-3.4% yoy), exceeding our expectations. The outperformance was driven by a steady 3QFY23 whereby revenue grew (+4.0% yoy, +0.3% qoq) while core EBITDA softened (-2.4% yoy, -0.7% qoq) lesser than our initial expectations. We now expect THBEV's FY23 PATMI to grow by 6.2% yoy against our previous expectations of a 3.1% yoy drop.
- **Spirits: Stable performance aided by brown spirits.** Despite 9MFY23 sales volumes dropping 3.5% yoy, 9MFY23 revenue and EBITDA increased 3.3% yoy and 6.2% yoy respectively in line with our expectations. 3QFY23 spirits revenue and EBITDA surged 12.0% yoy and 13.5% yoy respectively, backed by ASP hikes in 1QFY23 and improving

tourist arrivals. Moving forward, we expect the spirits segment to continue its upward momentum, driven by expected ASP hikes for the brown spirits and a continually improving product sales mix.

- **Beer: Supported by better sequential performance.** On a sequential basis, 3QFY23 beer revenue (+8.8% qoq) and EBITDA (+11.8% qoq) improved on the back of higher sales volumes (+10.2% qoq). Also, EBITDA margins expanded slightly by 0.4ppt qoq, which we reckon came from better A&P spending efficiency. Moving forward, we expect beer sales volumes to stay muted till 1QFY24, supported by higher Chinese tourist arrivals to Vietnam. We also expect margins to stabilize from further cost savings and better efficiencies.
- **Maintain BUY with an SOTP-based target price of S\$0.83.** We reckon that THBEV remains attractively priced at -2SD to its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds and a decent 4% FY23 dividend yield. We opine that the recent share price weakness presents an attractive entry level.

SHARE PRICE CATALYST

- **Events:** Gaining market share in the beer segment. M&As/potential spinoff listing.
- **Timeline:** 6-12 months.

ComfortDelgro – BUY (Llalleythan Tan)

- **Public transport services: Better sequentially.** 1H23 core operating profit (-34.5% yoy, +21.3% hoh) grew sequentially, backed by higher rail ridership, improved charter activities in Australia and tapering inflationary pressures. Similarly, 2Q23 segmental revenue (-0.7% yoy, +6.4% qoq) and core operating profit (-30.4% yoy, +25.7% hoh) were generally higher qoq. We reckon that earnings from the public transport segment have bottomed out in 2Q23, and are expected to continue the upward momentum moving forward, backed by favourable tailwinds.
- **Taxi: Inflection point.** Despite 2Q23 revenue growing marginally (+2.5% yoy, +2.7% qoq), core operating profit surged to S\$26m (+104.8% yoy, +53.6% qoq), higher than our initial S\$18m forecast. This was largely driven by the reduction of CD's daily taxi rental rebates. Recovery for CD's taxi operations in China remains muted but management noted that the group expects a stronger gradual recovery in 2H23
- **Upcoming catalysts.** Starting 3Q23, CD implemented a platform fee of S\$0.70 for every point-to-point online booking made through its Zig app. Based on our estimates, this would imply an approximate S\$11m-12m hoh increase in revenue for 2H23, which would most likely flow down to taxi segmental operating profit. Furthermore, we expect potential upward revisions for CD's 5% commission rate in 2H23, given that it is considerably lower when compared with major competitors Grab (20%) and GoJek (15%). According to our estimates, a 1% increase in commission rate would raise our 2024 full-year taxi operating profit by 4-5%.
- **Maintain BUY with a PE-based target price of S\$1.56,** pegged to 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.7% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

SHARE PRICE CATALYST

- **Events:** a) Bus tender contract wins, b) increase in taxi commission rates, and c) complete removal of taxi rental rebates.
- **Timeline:** 6-12 months.

LHN Group – BUY (Heidi Mo)

- Real estate management group with market-leading position in the co-living space.**
 In 1HFY23, LHN derived the majority (75%) of its PBT from the space optimisation business, which focuses on recycling under-utilised properties through the acquisition and master leasing of commercial, industrial and residential properties. LHN entered the co-living space in 2019 and has become the market leader in Singapore with a 20% market share. As of 1HFY23, it owned and subleased 17 properties under the Coliwoo brand, with a total of 1,678 keys.
- Coliwoo expected to drive FY23 core earnings by 46% yoy from 70% increase in number of new keys.** LHN's growth strategy is to expand its current property portfolio through master leases and acquisitions, and targets to add around 800 keys per year for the next three years. In its current pipeline of acquisitions, 89 keys along Pasir Panjang Road and Arab Street will be added in 1Q24, three freehold properties along River Valley Road and Rangoon Road will add approximately 61 keys in 2H24, while the GSM building will add another 187 keys in 3Q25. As new keys will take 6-9 months to reach steady state, we expect Coliwoo's FY24/25 earnings to soar 211%/76% yoy to S\$11.0m/S\$19.4m respectively. This will likely lift LHN's FY23 core earnings by 46% yoy to S\$25m.
- Value unlocking of more assets could lead to special dividends.** In the 1HFY23 results press release, LHN highlighted that it is exploring options to further enhance shareholder value and is considering capital recycling to move towards an asset-light model. On 31 Jul 23, LHN accepted an offer to take over its 84%-owned subsidiary LHN Logistics. This is expected to generate a disposal gain of S\$18m and cash proceeds of S\$28.9m (20% of LHN's market cap), translating to potential special dividend of up to 1.2 S cents/share given LHN's 30% dividend payout policy. We have not factored any special dividend into our financial estimates.
- Maintain BUY and a target price of S\$0.55,** pegged to 9x FY23F PE (based on long-term mean PE). We think that LHN's current valuation of 6x FY24F PE and dividend yield of 6.3% are attractive, given the group's leading market share in the co-living space, robust expansion pipeline and strong EPS growth.

SHARE PRICE CATALYST

- Events:** a) Divestment of assets and b) higher-than-expected growth in co-living keys.
- Timeline:** 3-6 months.

VALUATION

Company	Ticker	Rec*	Price	Target	Upside	Last	PE			Yield	ROE	Market	Price/
			31 Aug 23	Price	To TP	Year	2022A	2023E	2024E	2023E	2023E	Cap.	NTA ps
			(S\$)	(S\$)	(%)	End	(x)	(x)	(x)	(%)	(%)	(S\$m)	(x)
Bumitama	BAL SP	BUY	0.55	0.65	18.2	12/22	3.7	5.0	4.7	8.0	16.7	953.8	0.9
CapLand Ascott	CLAS SP	BUY	0.97	1.35	35.1	12/22	30.6	26.9	21.0	5.8	2.9	3,548.8	0.8
Civmec	CVL SP	BUY	0.80	1.23	53.8	6/23	8.0	7.6	7.4	5.5	14.4	405.9	1.1
ComfortDelGro	CD SP	BUY	1.27	1.56	22.8	12/22	15.9	14.1	12.6	4.7	7.5	2,750.5	1.1
CSE Global	CSE SP	BUY	0.485	0.610	25.8	12/22	54.5	14.4	11.9	5.7	9.7	298.2	1.4
Delfi	DELFI SP	BUY	1.25	1.83	46.4	12/22	12.6	12.0	11.2	4.2	18.3	763.9	2.2
Keppel Corp	KEP SP	BUY	6.94	9.09	31.0	12/22	13.3	13.3	13.0	3.0	8.2	12,229.6	1.1
LHN	LHN SP	BUY	0.34	0.55	61.8	9/22	3.0	5.6	5.1	6.8	12.0	139.0	0.7
MapletreeInd	MINT SP	BUY	2.30	2.89	25.7	3/23	17.4	16.5	16.1	6.0	7.1	6,515.6	1.2
OCBC	OCBC SP	BUY	12.55	18.22	45.2	12/22	9.9	8.0	7.8	6.0	13.1	56,420.3	1.1
Sea (in US\$)	SE US	BUY	37.93	94.34	148.7	12/22	n.a.	22.7	18.4	0.0	14.6	19,770.3	3.5
Seatrium	STM SP	BUY	0.145	0.190	31.0	12/22	n.a.	n.a.	62.5	0.0	(4.5)	9,891.5	1.2
Sembcorp Ind	SCI SP	BUY	5.35	7.20	34.6	12/22	11.2	10.1	10.1	3.0	22.8	9,543.8	2.1
Thai Beverage	THBEV SP	BUY	0.57	0.83	45.6	9/22	11.9	11.6	10.7	4.3	15.1	14,321.1	2.0
YZJ ShipBldg SGD	YZJSGD SP	BUY	1.69	1.88	11.2	12/22	12.2	10.3	9.2	4.0	16.2	6,676.5	2.0

* Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation
 Source: UOB Kay Hian

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