

INITIATE COVERAGE

YiChang HEC ChangJiang Pharmaceutical Co (1558 HK)

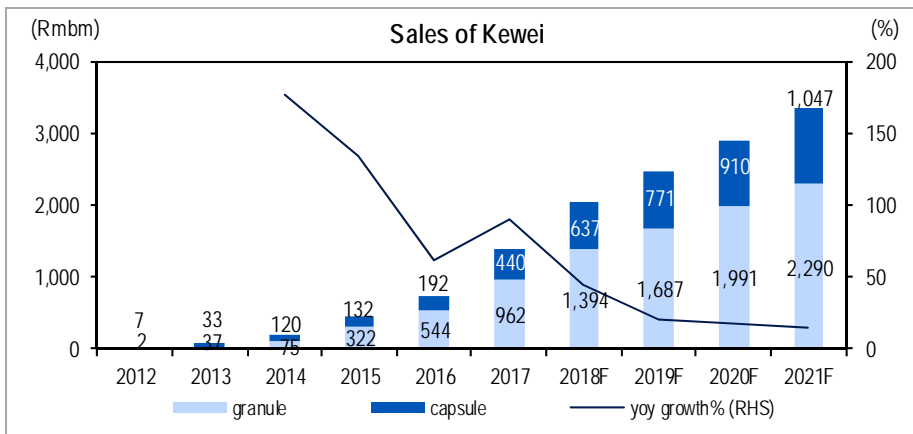
A Hidden Giant In Drug Innovation

HEC Pharm is trading at 13.6x 2019F PE or 0.5x PEG, which largely underestimates the company's strong earnings expansion (25.8% 2017-20F CAGR). Current share price implies the market is assigning a "zero value" to HEC Pharm's solid R&D pipeline which includes multiple late-stage innovative drugs in HCV/HBV/oncology, as well as 10-20 key generic products to be launched in 2018-20. The potential inclusion into SZ-HK Connect in Aug 18 might provide a re-rating opportunity. Initiate coverage with BUY and target price at HK\$64.12.

INVESTMENT HIGHLIGHTS

- **Key blockbuster Kewei far from reaching its full potential.** Kewei, the generic version of Tamiflu (Oseltamivir), accounted for more than 80% of YiChang HEC ChangJiang Pharmaceutical Co (HEC Pharm) revenue in 2017. It is the most effective antiviral influenza drug in the market, with patent protection until 2024. Following sales growth of 90.3% yoy in 2017, we expect Kewei sales to continue to grow at a CAGR of 30% in 2017-20. The current penetration rate of Kewei is still low, at about 50% for class II/III hospitals and 2% for primary healthcare institutions. We expect peak sales of Kewei to reach Rmb6.2b-7.2b vs 2017 sales of Rmb1.4b.

ROBUST SALES OF KEWEI CONTINUING IN THE FUTURE



Source: HEC Pharm, UOB Kay Hian

Click [here](#) for Blue Top dated 29 May 2018

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018F	2019F	2020F
Net turnover	941.5	1,601.6	2,308.3	2,810.7	3,317.5
EBITDA	487.7	778.3	1,068.0	1,323.9	1,570.4
Operating profit	460.3	752.5	1,021.8	1,267.7	1,504.0
Net profit (rep./act.)	380.6	647.1	875.9	1,085.3	1,287.3
Net profit (adj.)	380.6	647.1	875.9	1,085.3	1,287.3
EPS (Fen)	84.4	143.2	193.8	240.2	284.9
PE (x)	39.6	23.4	17.3	13.9	11.7
P/B (x)	6.1	5.4	4.4	3.5	2.9
EV/EBITDA (x)	29.5	18.5	13.5	10.9	9.2
Dividend yield (%)	0.9	2.1	2.8	3.5	4.2
Net margin (%)	40.4	40.4	37.9	38.6	38.8
Net debt/(cash) to equity (%)	(45.7)	(30.9)	(27.7)	(44.1)	(48.0)
Interest cover (x)	67.4	181.5	267.0	331.0	392.6
ROE (%)	16.5	24.6	27.9	28.0	27.0
Consensus net profit	-	-	786	942	1,055
UOBKH/Consensus (x)	-	-	1.11	1.15	1.22

Source: HEC Pharm, Bloomberg, UOB Kay Hian

BUY

(Initiate Coverage)

Share Price	HK\$40.90
Target Price	HK\$64.12
Upside	+56.8%

COMPANY DESCRIPTION

PRC pharmaceutical company that focuses on the manufacture and sales of anti-influenza drugs Kewei, the dominant efficacy of which makes HEC Pharm the largest influenza drug seller in the PRC prescription market. In addition, HEC Pharm holds a highly underrated pipeline covering both generics and innovative drugs, from hepatitis to diabetes and oncology.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1558 HK
Shares issued (m):	225.8
Market cap (HK\$m):	18,487.7
Market cap (US\$m):	2,356.2
3-mth avg daily t'over (US\$m):	13.3

Price Performance (%)

52-week high/low HK\$49.05/HK\$16.50

1mth	3mth	6mth	1yr	YTD
5.4	(13.6)	66.9	136.4	49.5

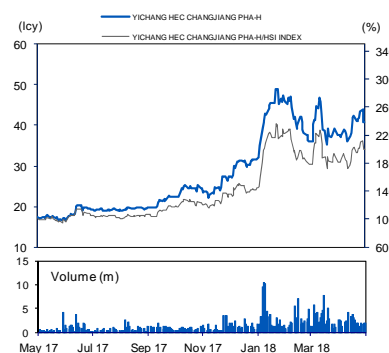
Major Shareholders

HEC Pharma Co. 50.04%

FY18 NAV/Share (Rmbm) 7.68

FY18 Net Cash/Share (Rmbm) 2.12

PRICE CHART



Source: Bloomberg

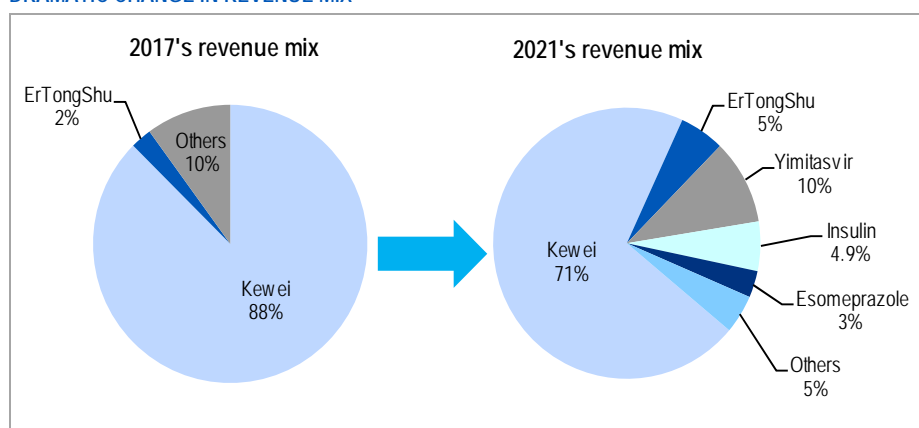
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- Tier-II drugs set to make a meaningful contribution from 2H18.** We expect sales of four tier-II drugs will show a CAGR of about 70% in 2017-21F. This is because: a) Ertongshu (Benzbromarone) will see a sales boost, underpinned by the establishment of a roughly 200-strong endocrine sales team, b) the Esomeprazole injection received CFDA approval in 1Q18, and is regarded as the most effective proton-pump inhibitor (PPI) for reducing stomach acid, c) 2nd-generation insulin and insulin glargine (3rd-generation) will be launched in the market in 2H18 and 2019, and d) Yimitasvir is the best-in-class anti-Hepatitis C Class 1.1 drug and will be launched in 1H19. The total peak sales of tier-II drugs can reach Rmb4.5b-5.0b.

DRAMATIC CHANGE IN REVENUE MIX



Source: HEC Pharm, UOB UOB Kay Hian

- HEC Pharm R&D centre among the most progressive R&D institutions in China.** HEC Pharm's parent-owned R&D centre has spent more than Rmb1b on new drug developments, which puts it in the top-5 among China's pharmas. Some highlights are: a) Phase II trial of Morphothiadin, which has the potential to be the first drug to cure Hepatitis B, is slated to be complete in 2019, b) Multiple Class 1.1 tyrosine kinase inhibitors (targeting EGFR, cMet, FLT3, etc.) have entered the Phase I/II clinical trial stage, and c) HEC Pharm targets to register 20-30 new generic drugs through the US and Europe's Abbreviated New Drug Application (ANDA), and register these generics thereafter via fast track in China.

VALUATION/RECOMMENDATION

- Initiate with BUY and target price of HK\$64.12.** Our target price of HK\$64.12 is based on SOTP analysis. We apply: a) 15.0x 2019F PE, or 0.6x PEG (2017-19F earnings CAGR of 25.8%). The PEG is much lower than the pharma industry average due to the seasonal sales volatility of Kewei, and b) HK\$19.80 per share (equity value of Rmb7.3b) for its near-term pipeline products of the Hepatitis C drug (Yimitasvir), 2nd/3rd generation insulin and Esomeprazole. We believe the company has strong upside potential due to the product pipeline at HEC Pharm R&D Centre.

SOTP

	Valuation method	PE	Target Price
Existing drugs	P/E	15.0x	44.3
Upcoming Pipeline	NAV	n.a.	19.8
Total			64.1

Source: UOB UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Net turnover	1,601.6	2,308.3	2,810.7	3,317.5
EBITDA	778.3	1,068.0	1,323.9	1,570.4
Deprec. & amort.	25.8	46.2	56.2	66.3
EBIT	752.5	1,021.8	1,267.7	1,504.0
Net interest income/(expense)	(4.3)	(4.0)	(4.0)	(4.0)
Pre-tax profit	748.2	1,017.8	1,263.7	1,500.0
Tax	(121.8)	(165.7)	(205.8)	(244.3)
Minorities	20.7	23.9	27.4	31.5
Net profit	647.1	875.9	1,085.3	1,287.3
Net profit (adj.)	647.1	875.9	1,085.3	1,287.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Fixed assets	670.2	824.1	917.8	1,001.5
Other LT assets	1,037.1	1,002.5	960.3	910.6
Cash/ST investment	887.2	979.8	1,910.1	2,546.8
Other current assets	1,181.4	1,428.9	1,621.0	1,812.0
Total assets	3,776.0	4,235.2	5,409.2	6,270.9
ST debt	10.0	10.0	10.0	10.0
Other current liabilities	630.7	452.1	833.5	754.2
LT debt	10.0	10.0	10.0	10.0
Other LT liabilities	64.6	64.6	64.6	64.6
Shareholders' equity	2,807.8	3,469.6	4,289.6	5,262.1
Minority interest	252.8	228.9	201.5	169.9
Total liabilities & equity	3,776.0	4,235.2	5,409.2	6,270.9

CASH FLOW

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Operating	640.1	497.0	1,349.6	1,105.5
Pre-tax profit	748.2	1,017.8	1,263.7	1,500.0
Tax	(121.8)	(165.7)	(205.8)	(244.3)
Deprec. & amort.	43.8	80.8	98.4	116.1
Working capital changes	(30.1)	(435.9)	193.4	(266.4)
Other operating cashflow	0.0	0.0	0.0	0.0
Investing	(779.9)	(186.2)	(150.0)	(150.0)
Capex (growth)	(200.4)	(200.0)	(150.0)	(150.0)
Investments	(107.5)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(472.0)	13.8	0.0	0.0
Financing	(185.1)	(218.1)	(269.3)	(318.7)
Dividend payments	(180.8)	(214.1)	(265.3)	(314.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(4.3)	(4.0)	(4.0)	(4.0)
Net cash inflow (outflow)	(324.9)	92.6	930.3	636.7
Beginning cash & cash equivalent	1,212.1	887.2	979.8	1,910.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	887.2	979.8	1,910.1	2,546.8

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	48.6	46.3	47.1	47.3
Pre-tax margin	46.7	44.1	45.0	45.2
Net margin	40.4	37.9	38.6	38.8
ROA	19.6	21.9	22.5	22.0
ROE	24.6	27.9	28.0	27.0
Growth				
Turnover	70.1	44.1	21.8	18.0
EBITDA	59.6	37.2	24.0	18.6
Pre-tax profit	65.1	36.0	24.2	18.7
Net profit	70.0	35.4	23.9	18.6
Net profit (adj.)	70.0	35.4	23.9	18.6
EPS	69.6	35.4	23.9	18.6
Leverage				
Debt to total capital	0.6	0.5	0.4	0.4
Debt to equity	0.7	0.6	0.5	0.4
Net debt/(cash) to equity	(30.9)	(27.7)	(44.1)	(48.0)
Interest cover (x)	181.5	267.0	331.0	392.6

SECTOR UPDATE

Telecommunications – Indonesia

Focus Shifts From Further Data Rate Reductions; Industry To Stabilise

The sector has severely underperformed the JCI by 30% yoy and 19% ytd, reflecting the price war and revenue slide. The turnaround in the last two weeks in telco stocks may be due to bargain hunting on extremely low valuations which are also the lowest in the region. Festive demand should provide strong revenue relief in 2Q-3Q18 while data pricing has bottomed out. TLKM and EXCL continue to develop core network, broadband and other businesses. ISAT remains cheap. Maintain OVERWEIGHT.

WHAT'S NEW

- Focus shifts from data pricing reductions; not much room to cut even if they wanted too.** All operators said competition is easing and they have set their short- to medium-term pricing and could even raise prices slightly. Currently, all operators offer very similar packages with little pricing difference. Demand has also become relatively inelastic at these low pricing as subscriber bases did not grow. We had previously showed that if the current average price of Rp11/Mb for all operators are cut by 20-30%, profitability will be severely hit. It is clearly evident that the recent price war has damaged profitability and investors' value.
- Revenue relief; average 160% yoy growth in data during festive week in 2017.** TLKM, EXCL and ISAT recorded 136%, 118% and 218% yoy volume growth only in the week of Lebaran in 2017. Data revenue in 1H17 increased 20%, 62% and 39% yoy respectively. EXCL benefitted most in the data arena. In 1H17 interconnection revenue fees, TLKM reported the highest growth of 42%, followed by 23% and 0% yoy respectively for EXCL and ISAT. Festive demand also supports voice revenues, especially for TLKM. With data pricing stabilising and strong data volume growth to continue, there is a good seasonal financial impact for operators in 2Q-3Q18.
- First signs of sector maturing, this means revenues could stabilise.** With the end of the SIM registration period, we are seeing a clearer picture of market share and subscriber adds in 1Q18. We believe this is the first time the sector recorded negative growth in subscriber adds of -5% yoy, with about 56%, 16% and 28% market share for TLKM, EXCL and ISAT respectively, or 1.3 mobile device per person. We think the market is maturing and revenues could stabilise as operators can only gain market share from each other as there is less new market to chase. Since the transition to data from voice will continue, this also leaves less room to engage in lower data pricing to protect profitability, boding well for strong growth in data volumes.
- Indonesia's telco sector is the cheapest among emerging markets.** Indonesia's telco sector is a BUY, trading at an average 4.2x 2018F EV/EBITDA, or 10-20% cheaper than Asean and selected global peers. All telco markets face the same issues as in Indonesia. Yet, Indonesian telcos have been punished the most with an average 30% price correction. We think there is good value at these low share prices; TLKM and EXCL have de-rated by 2SD each and XL by 2.5SD of their EV/EBITDA historical bands.

PEER COMPARISON

Company	Ticker	Rec	Price 28 May 18 (Rp)	Target Price (Rp)	Market Cap (US\$)	----- PE -----		----- EV/EBITDA -----		----- Div Yield -----	
						2018F (x)	2019F (x)	2018F (x)	2019F (x)	2018F (%)	2019F (%)
XL Axiata	EXCL IJ	BUY	2,260	2,950	1,724	35.5	18.7	4.4	4.0	1.2	2.5
Indosat	ISAT IJ	BUY	3,310	6,100	1,283	13.2	13.7	3.2	3.1	2.7	3.9
Telekomunikasi	TLKM IJ	BUY	3,690	4,500	26,549	15.7	14.6	5.9	5.5	4.3	4.7

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT (Maintained)

SECTOR PICKS

Company	Rec	Target Price (Rp)	Share Price (Rp)
Telekomunikasi	BUY	4,500	3,690
Indosat	BUY	6,100	3,310
XL Axiata	BUY	2,950	2,260

Source: UOB Kay Hian

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ASSUMPTION CHANGES

- We maintain our earnings forecasts.

ACTION

- **Maintain OVERWEIGHT.** Telco shares have corrected significantly for a long time on worries of further data rate reductions. With data pricing currently stabilising at low levels, it is reasonable to believe that this has been mostly priced in. TLKM is our top pick for its deep price correction, followed by XL for its successful endeavours in ex-Java markets. ISAT remains cheapest among ASEAN's telcos, but is seeing higher data volumes and is back to paying dividends.

Telkom (TLKM IJ/BUY/Target: Rp4,500)

- **Telkom has the lowest smartphone penetration but the biggest subscriber base** and best network quality. This means it has the most potential to grow data volume and data revenue.
- The company is still making significant profits of more than Rp20t per year, which gives it significant advantage in capex spending and further discounts if needed. Voice revenue is still more than Rp7t per year and this trend should last for some time given its dominance in rural areas.

XL Axiata (EXCL IJ/BUY/Target: Rp2,950)

- **Still looks cheap even after recent rally** with valuation still below -2SD. Its ex-Java endeavours are successful and EXCL is gaining market share. It continues to pursue aggressive capex spending to improve its network and compete directly with the incumbent operator.
- EXCL added more than 10m new subscribers in 2017 vs just 4.4m in 2016. As most subscribers remained even after the registration period, EXCL saw the lowest churn rate vs peers. With the stock removed from the MSCI index, it is now very undervalued and we had highlighted in our last XL report that the stock presents a great BUY opportunity.

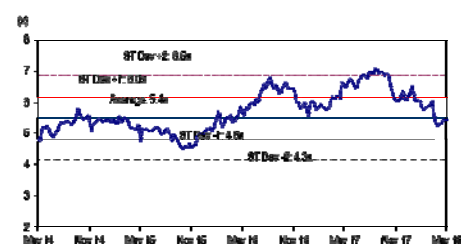
Indosat (ISAT IJ/BUY/Target: Rp6,100)

- **Cheap for a reason.** Strong revenue decline, slow capex execution, 4G expansion and lower network quality are taking a toll on its performance. In 2012-13, ISAT faced similar network quality issues but managed to come back strong. Strong opex discipline has brought the company back to profitability and dividends, but in this sector, you need to spend fast and much.
- The additional spectrum should improve network quality and experience but it is two steps behind competition. Valuation is very appealing but the stock proves to be a value trap with valuation going further down. Among the three operators, ISAT and XL have higher probability of consolidating with a smaller operator in the industry.

CATALYSTS/RISKS

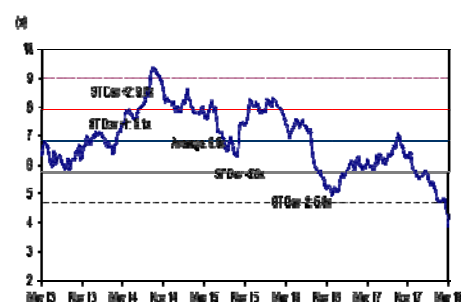
- **Is investing in the sector a value trap?** While cheap valuations may appear to present appealing opportunities, the stocks could continue to trade at these levels or even lower due to changing industry conditions. The correction in Indonesian telcos, as seen in our regional comparison table, is not a unique phenomenon, but corrections have occurred in telco stocks globally. Thus, there is a strong case that global and local investors are underweighting telco stocks as they are pricing in the future.
- This strategy and thinking implies that the telco industry could be dead in the medium to long term and there is no case for a recovery due to shifting technology. We think this could be too backward-looking thinking as 4G penetration in Indonesia is still among the lowest in the region and we have not seen the 5G revolution which only telco companies can deliver.
- Catalysts may not be in the form of favourable industry developments but improvement in financial and operating performances as data pricing appears to have found bottom and may rise while volumes continue to grow. This could offset the decline in voice revenues.

TKLM - FORWARD EV/EBITDA



Source: TKLM, UOB Kay Hian

EXCL - FORWARD EV/EBITDA



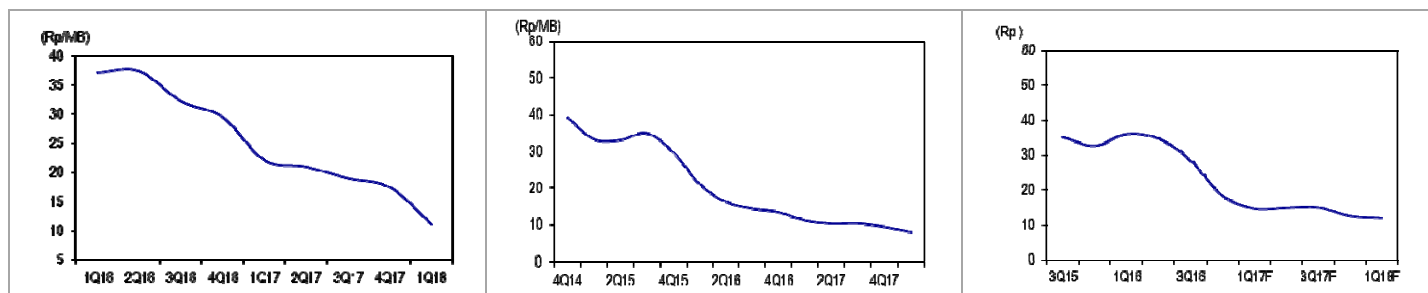
Source: EXCL, UOB Kay Hian

ISAT - FORWARD EV/EBITDA



Source: ISAT, UOB Kay Hian

RUPIAH PER MB TLKM / EXCL / ISAT



Source: TLKM, UOB Kay Hian

Source: EXCL, UOB Kay Hian

Source: ISAT, UOB Kay Hian

REGIONAL AND GLOBAL PEER COMPARISON

Ticker	Name	Last Price (lcl curr)	Market Cap (US\$m)	% chg 1-yr	PE (x)	5-yr avg Adj ROE (%)	ROA:Q	BEst ROA 1BF	ROIC:Y	EV/ EBITDA Next Year
INDONESIA										
TLKM IJ	Telekomunikasi Indonesia	3,690	26,549	-16.7	17.25	23.91	10.82	11.52	40.32	5.51
ISAT IJ	Indosat	3,310	1,284	-51.3	39.42	-3.86	0.84	2.91	8.10	3.12
EXCL IJ	XI Axiata	2,260	1,724	-23.6	71.16	-1.78	0.18	1.95	2.88	3.99
SINGAPORE										
M1 SP	M1	1.74	1,201	-22.3	12.25	39.89	10.30	9.06	14.87	7.04
STH SP	StarHub	2.1	2,710	-22.2	15.67	262.92	9.67	9.91	19.79	7.92
ST SP	Singapore Telecommunications	3.33	40,550	-10.0	9.97	14.83	8.06	7.37	6.44	12.43
MALAYSIA										
ASTRO MK	Astro Malaysia Holdings	1.47	1,925	-43.7	9.93	96.82	11.75	11.14	21.35	5.78
MAXIS MK	Maxis	5.78	11,345	-10.5	20.21	36.44	11.60	10.18	16.54	12.12
T MK Equity	Telekom Malaysia	3.86	3,642	-40.6	16.93	11.71	3.52	3.12	4.25	5.46
AXIATA MK	Axiata Group	4.36	9,908	-13.1	73.90	7.99	0.76	2.61	4.06	5.63
DIGI MK	Digi.Com	4.44	8,668	-12.3	23.16	310.95	25.43	25.75	48.31	12.53
THAILAND										
ADVANC TB	Advanced Info Service	193.5	17,969	8.7	18.91	75.39	10.75	11.57	23.73	8.12
DTAC TB	Total Access Communication	45.5	3,365	4.0	33.73	20.25	2.91	2.89	5.31	4.53
SAMART TB	Samart Corporation	8.05	253	-45.6	n.a	8.67	-3.84	1.05	2.90	6.44
TRU TB	Thairung Union Car	4.46	82	8.3	29.85	5.05	2.11	n.a	2.14	n.a
THCOM TB	Thaicom	9.35	320	-48.6	n.a	7.46	-0.44	3.81	6.89	3.50
Mean					28.03	57.29	6.53	7.66	14.24	6.94
Median					19.56	17.54	5.79	7.37	7.49	5.78
Selected Global Peers										
VZ US	Verizon Communications	48.52	200,480	7.1	12.25	62.82	6.35	7.34	11.43	6.59
T US	AT&T	32.51	199,644	-14.7	12.61	13.03	3.72	4.53	5.54	6.16
VOD LN	Vodafone Group	195.04	52,029	-15.3	13.95	0.32	n.a	2.01	3.78	5.95
728 HK	China Telecom Corp	3.75	38,687	-1.3	13.58	6.28	n.a	3.29	5.46	3.00
941 HK	China Mobile	71.8	187,398	-13.5	10.49	13.17	n.a	7.11	10.95	2.55
BHARTI IN	Bharti Airtel	375.5	22,229	0.4	136.05	5.78	0.59	2.06	3.97	6.90

Source: Bloomberg, UOB Kay Hian

COMPANY RESULTS

Malayan Banking (MAY MK)

1Q18: Weak Revenue Trend Offset By Cost Discipline

1Q18 results are within our estimates but marginally below consensus. 1Q18 ROE of 10.4% remains below management's targeted 11.0% for 2018. This, coupled with a lack of details on its risk exposure to a term loan that the group had extended to financially-distressed Hyflux, could impact near-term sentiment on the stock. Maintain HOLD with unchanged target price of RM10.20 (10.4 % ROE, 1.40x FY18 P/B). Entry level: RM9.60.

RESULTS

- In line.** The group reported a 1Q18 core net profit of RM1,871.0m (+9.9% yoy, -6.3% qoq), largely in line with our estimates with 1Q18 earnings representing 23.5% of our full-year estimates. Flattish fee income and lower trading gains led to a 7.1% yoy contraction in non-interest income, and were the key areas of weakness. However, discipline cost control (flattish opex trend), stronger net insurance income (+26.4% yoy) and lower provisions (-6.1 % yoy) helped offset the weakness in non-interest income. Disciplined cost control allowed the group to deliver a positive operating JAW with cost-to-income ratio declining to 47.6% in 1Q18 (vs 1Q17: 50.2%) and consequently a stronger 10.8% yoy growth in operating income vs a more modest revenue growth of 5.4% yoy.
- Impact of MFRS9.** Day 1 adoption of MFRS9 resulted in a 33% yoy increase in provisions taken through the balance sheet via retained earnings, which consequently led to a 39bp qoq decline in fully-loaded CET1 to 13.7% as its regulatory reserves were not sufficient to fully meet the higher provisions and BNM's minimum impairment + provisions buffer equivalent to 1.0% of Stage 1 and Stage 2 loan exposure at default. Post adoption of MFRS9, the group's loans-loss coverage ratio has increased to 87.8% (99.5% inclusive of regulatory reserves) vs 71.5% in 4Q17. As expected, credit cost declined yoy despite the adoption of MFRS9 as the group was still impacted by O&G-related impaired loans in Singapore in 1Q17. However, on a qoq basis, net credit cost normalised sharply upwards 42bp from 16bp in 4Q17 on the back of lower recoveries and MFRS9 adoption.
- Details regarding exposure to Hyflux remain sketchy.** Management was unable to provide much clarity on its exposure or provisions given the need to respect client confidentiality. Assuming a worst-case scenario: a) Maybank is the sole underwriter of the entire term loan facility of S\$720m, and b) No provisions have yet to be made on the facility to date and a full provision is made ignoring the collateral values of the water desalination plant which the loan is being ring fenced to, impact to CET1 and book value would still be a manageable -50bp and -3.0% respectively. However, impact on our FY18 earnings would be significant at -26.7%, and this would certainly impact near-term sentiment on the stock. That said, we believe that it is highly unlikely that the group would have to set aside such a large provisions given the collateral value of the assets ring fenced to the term loan.
- Loans growth marginally below estimates.** 1Q18 group loans growth expanded 5.7% yoy, marginally below our 6.0% full-year growth estimates due lumpy corporate repayment from its Indonesian operations. Malaysian operations was the key driver for overall loans growth (+6.7% yoy: Corporate loans: +8.8% and Consumer and SME: +5.2% yoy) while Singapore and Indonesian operations registered a 5.5% and 2.9% loans growth respectively. We are retaining our FY18/19 group growth forecast of 6.0%/6.5%. NIM was up 9bp qoq largely due to the recent OPR hike. We expect this to reverse in the subsequent quarters as deposits start to re-price upwards.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net interest income	11,358	12,147	13,040	13,673	14,354
Non-interest income	6,005	6,036	6,396	6,743	7,112
Net profit (rep./act.)	6,743	7,521	7,995	8,580	9,214
Net profit (adj.)	6,123	7,336	7,995	8,580	9,214
EPS (sen)	60.1	68.6	74.7	80.2	86.1
PE (x)	16.6	14.6	13.4	12.5	11.6
P/B (x)	1.5	1.5	1.4	1.3	1.2
Dividend yield (%)	5.2	5.5	5.8	6.3	6.7
Net int margin (%)	2.3	2.4	2.5	2.5	2.4
Cost/income (%)	48.7	49.2	47.5	46.8	46.0
Loan loss cover (%)	72.0	71.5	85.2	86.1	86.9
Consensus net profit	-	-	8,190	8,940	9,573
UOBKH/Consensus (x)	-	-	0.98	0.96	0.96

Source: Malayan Banking, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM10.00
Target Price	RM10.20
Upside	+2.0%

COMPANY DESCRIPTION

The largest banking group in Malaysia in terms of asset size. Maybank also has sizeable exposure to foreign markets, with foreign loans, mainly in Singapore and Indonesia, making up 33% of its loan base

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MAY MK
Shares issued (m):	10,927.4
Market cap (RMm):	109,274.3
Market cap (US\$m):	27,445.5
3-mth avg daily t'over (US\$m):	48.8

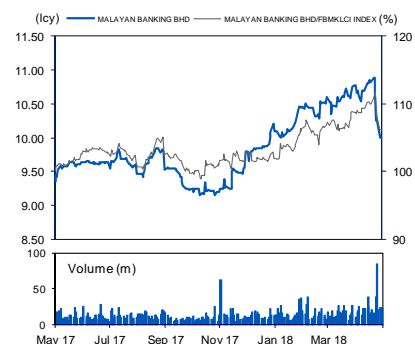
Price Performance (%)

52-week high/low	RM10.88/RM9.15			
1mth	3mth	6mth	1yr	YTD
(7.1)	(4.4)	8.7	6.4	2.0

Major Shareholders

AmanahRaya Trustees Berhad	44.8
Employees Provident Fund Board	10.9
Permodalan Nasional Berhad	5.9
FY18 NAV/Share (RM)	7.21
FY18 CAR Tier-1 (%)	16.75

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Gross impaired loans inched up from MFRS9 adoption.** Absolute GIL balance inched up 1.3% qoq while GIL ratio increased 3bp to 2.37% in 1Q18. This was largely driven by the adoption of MFRS9, which increases the judgmental trigger for GIL recognition due to its more forward looking and hence more prudent GIL recognition. However, the provision impact from this has been largely accounted via its balance sheet on day 1 adoption.
- **Disciplined cost control led to positive operating JAW.** The group was able to churn out a positive operating JAW with cost-to-income ratio declining to 47.6% in 1Q18 vs 50.2% in 1Q17 and 49.8% in 4Q17 on the back of strong operating cost discipline. This is broadly in line with management's target to keep CIR below 48%. Staff cost increased 5.8% yoy while establishment cost and G&A cost declined 5.1% yoy and 10.5% yoy respectively. This helped to drive a stronger 10.8% yoy vs a more modest revenue growth of 5.4% yoy.

EARNINGS REVISION/RISK

- No change. Note that our earnings forecast has yet to factor in potential provision impact from Hyflux, if any, given the lack of details.

VALUATION/RECOMMENDATION

- **Maintain HOLD with unchanged target price of RM10.20 (10.4% ROE, 1.40x FY18F P/B).** Despite its recent share price weakness, current valuation at 1.38x FY18F P/B is fair against our ROE forecast of 10.4%. Despite Maybank's perceived defensiveness, we think that there could still be risk relating to its Hyflux exposure and uncertainty towards government-linked project financing that could be impacted by the new government's policy changes. We believe that this may not have been adequately priced into its current valuations. We prefer CIMB at the current juncture, given its stronger EPS growth and lower P/B of 1.06x vs Maybank's 1.38x despite a similar ROE profile.

1Q18 RESULTS

Profit & Loss (RMm)	1Q18	1Q17	yoy % chg	4Q17	qoq % chg	Remarks
Net Interest Income	3,019.9	3,034.6	(0.5)	3,022.2	(0.1)	Despite 9bp qoq expansion in NIM from recent OPR hike net interest income declined
Islamic Banking	1,348.0	1,214.5	11.0	1,235.6	9.1	
Fees & Commissions	836.2	839.3	(0.4)	922.5	(9.4)	Service charges and brokerage fee income remains weak
Net insurance income	158.2	(124.5)	n.m.	200.5	(21.1)	Driven by strong 20.5% yoy growth in net premiums
Net trading income	103.8	370.0	(71.9)	21.7	379.3	Lower marked to market derivative financial instrument losses
Other Operating Income	361.5	196.1	84.4	468.4	(22.8)	
Core Total Income	5,827.8	5,530.0	5.4	5,870.9	(0.7)	
Operating Expenses	(2,778.8)	(2,779.3)	(0.0)	(2,922)	(4.9)	Lower establishment and G&A expenses while staff cost grew a manageable 5.8% yoy.
PPOP	3,048.9	2,750.6	10.8	2,948.1	3.4	Driven largely by strong insurance income and discipline cost management
Provisions	(509.3)	(542.5)	(6.1)	(199.8)	154.9	Higher qoq due to low base effect of 4Q17's lumpy recoveries. We are retaining our 48bp full year net credit cost estimates
Writeback/(Impairment)	8.5	(0.3)	n.m.	(39.9)	(121.3)	
Associate	8.5	41.2	(79.2)	32.3	(73.5)	
PBT	2,556.7	2,249.1	13.7	2,740.6	(6.7)	
Net Profit	1,871.0	1,702.8	9.9	2,132.1	(12.2)	In line
EPS (sen)	18.0	16.7	8.0	20.6	(12.3)	
DPS (sen)	33.0	0.0	n.a.!	32.0	n.a	
BVPS (RM)	7.06	6.92	2.0	7.04	0.3	
Financial Ratios (%)	1Q18	1Q17	yoy chg (ppt)	4Q17	qoq chg (ppt)	Remarks
NIM	2.44	2.47	(0.04)	2.38	0.09	Higher qoq due to recent OPR hike
Loan Growth, yoy	(0.1)	0.1	(0.17)	1.6	(1.73)	5.7% FY17 group loans growth mainly driven by Malaysia (+6.7% yoy) followed by Singapore (+5.5% yoy) and Indonesia (+2.9% yoy)
Deposit Growth, yoy	1.6	(1.7)	3.32	2.4	(0.73)	
Loan/Deposit Ratio	94.7	93.1	1.60	96.7	(2.05)	
Cost/Income Ratio	47.7	50.3	(2.58)	49.8	(2.10)	
ROE	10.2	9.8	0.44	11.8	(1.52)	
NPL Ratio	2.4	2.4	(0.02)	2.3	0.03	
Credit Costs (bp)	41.3	44.6	(3.35)	57.0	(15.71)	
Loan Loss Coverage	87.7	71.2	16.8	71.5	16.2	Inclusive of regulatory reserves at 99.5%
CET-1 CAR	15.8	13.4	2.40	14.8	1.00	Fully loaded at 13.7%.

Source: Maybank, UOB Kay Hian

KEY ASSUMPTIONS

(%)	2018F	2019F	2020F
Loan Growth	6.0	6.5	6.7
NIM	2.36	2.36	2.34
Credit Cost (bp)	48	47	46
ROE	10.4	10.5	10.7

Source: , UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Interest income	22,056	23,177	24,513	26,073
Interest expense	(9,909)	(10,137)	(10,840)	(11,718)
Net interest income	12,147	13,040	13,673	14,354
Fees & commissions	3,564	3,849	4,118	4,407
Other income	2,472	2,547	2,625	2,705
Non-interest income	6,036	6,396	6,743	7,112
Income from Islamic banking	4,900	5,194	5,506	5,836
Total income	23,083	24,630	25,922	27,302
Staff costs	(6,128)	(6,312)	(6,564)	(6,827)
Other operating expense	(5,229)	(5,391)	(5,558)	(5,730)
Pre-provision profit	11,726	12,927	13,799	14,745
Loan loss provision	(1,959)	(2,513)	(2,620)	(2,736)
Other provisions	(69)	0	0	0
Associated companies	215	227	241	256
Other non-operating income	185	0	0	0
Pre-tax profit	10,098	10,642	11,420	12,264
Tax	(2,301)	(2,425)	(2,603)	(2,795)
Minorities	(276)	(222)	(238)	(256)
Net profit	7,521	7,995	8,580	9,214
Net profit (adj.)	7,336	7,995	8,580	9,214

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Cash with central bank	15,397	18,322	19,513	20,820
Govt treasury bills & securities	44,870	45,767	46,682	47,616
Interbank loans	16,988	17,158	17,330	17,503
Customer loans	485,584	513,920	546,578	582,486
Investment securities	109,503	117,518	126,060	135,162
Derivative receivables	6,705	6,705	6,705	6,705
Associates & JVs	2,772	2,772	2,772	2,772
Fixed assets (incl. prop.)	2,635	2,767	2,905	3,050
Other assets	80,847	85,079	89,647	94,588
Total assets	765,302	810,008	858,192	910,702
Interbank deposits	42,598	43,876	45,192	46,548
Customer deposits	526,573	555,534	591,644	631,284
Derivative payables	7,221	7,221	7,221	7,221
Debt equivalents	18,264	18,264	18,264	18,264
Other liabilities	95,463	105,510	111,553	118,032
Total liabilities	690,118	730,405	773,874	821,349
Shareholders' funds	72,989	77,186	81,661	86,442
Minority interest - accumulated	2,195	2,417	2,656	2,912
Total equity & liabilities	765,302	810,008	858,192	910,702

OPERATING RATIOS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Capital Adequacy				
Tier-1 CAR	16.5	16.8	16.8	16.7
Total CAR	19.4	21.7	21.4	21.2
Total assets/equity (x)	10.4	10.4	10.5	10.5
Tangible assets/tangible common equity (x)	11.4	11.4	11.3	11.3
Asset Quality				
NPL ratio	2.3	2.5	2.6	2.8
Loan loss coverage	71.5	85.2	86.1	86.9
Loan loss reserve/gross loans	1.7	1.8	2.0	2.1
Increase in NPLs	4.5	12.6	11.7	13.5
Credit cost (bp)	57.0	48.0	47.0	46.0
Liquidity				
Loan/deposit ratio	92.2	92.5	92.4	92.3
Liquid assets/short-term liabilities	13.5	13.5	13.1	12.6
Liquid assets/total assets	10.1	10.1	9.8	9.5

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Growth				
Net interest income	6.9	7.3	4.9	5.0
Fees & commissions	0.1	8.0	7.0	7.0
Pre-provision profit	6.0	10.2	6.7	6.9
Net profit	11.5	6.3	7.3	7.4
Net profit (adj.)	19.8	9.0	7.3	7.4
Customer loans	1.6	5.8	6.4	6.6
Customer deposits	1.8	5.5	6.5	6.7
Profitability				
Net interest margin	2.4	2.5	2.5	2.4
Cost/income ratio	49.2	47.5	46.8	46.0
Adjusted ROA	1.0	1.0	1.0	1.0
Reported ROE	10.6	10.6	10.8	11.0
Adjusted ROE	10.4	10.6	10.8	11.0
Valuation				
P/BV (x)	1.5	1.4	1.3	1.2
P/NTA (x)	1.7	1.6	1.5	1.3
Adjusted P/E (x)	14.6	13.4	12.5	11.6
Dividend Yield	5.4	5.7	6.1	6.5
Payout ratio	78.2	78.0	78.0	78.0

COMPANY RESULTS

Malaysia Airports Holdings (MAHB MK)

1Q18: Earnings Marginally Lower Than Expected, But Regulatory Risk Looms

Lower losses at the Turkish airport along with higher international PSC revenue at the Malaysian operations led to 1Q18's core net profit rising 150%. Regulatory changes pose the greatest risk to earnings. MAHB's CEO indicated that he will have greater clarity by July. Pending what we believe will be a favourable outcome, we upgrade the stock to a HOLD. Target price: RM7.70. Recommended entry price: RM7.00-7.20.

1Q18 MAHB GROUP RESULTS

	ISG/LGM	ISG&LGM yoy (%)	MAHB	MAHB yoy (%)	MAHB Group	MAHB Group yoy (%)
Revenue, Net	247	10.7	943	8.4	1,216	11.2
- Aeronautical	136	17.5	452	10.2	590	12.2
- Non- Aeronautical	109	3.1	420	8.8	529	7.5
EBIT	57	159.7	295	28.0	352	39.4
EBIT Margin (%)	23	134.6	31	18.1	29	25.3
EBITDA	185	14.4	385	20.8	570	18.7
PBT	(76.6)	(27.7)	549	163.0	473	359.4
Net Profit	(65.5)	(26.3)	510	233.0	445	591.6
Net Profit Ex EI	(65.5)	(26.3)	224	45.9	158	145.8

Source: MAHB, UOB Kay Hian

RESULTS

- **Beats street estimates but in line with ours. 1Q's core net profit amounted to almost 41% and 26% of consensus and our full-year estimates respectively.** 1Q18's earnings included RM285m in fair value gains post the divestment of 11% stake in Malaysia Airports Holdings' (MAHB) Hyderabad airport and another RM28m from the sale of an airport in Male. Excluding these, net profit still rose due to a 26% reduction in losses at ISG and also due to a 21% yoy improvement in EBITDA at its Malaysian operations. Operating cash flow rose 79% yoy, aided by a favourable RM195m variance in working capital.
- **Malaysian aeronautical operations' 10.1% growth was higher than throughput growth of 3.6%, due mainly to higher pax service charges (PSC).** Ytd traffic growth was slower than MAHB's initial guidance of 7.5% throughput growth for Malaysia for 2018, but international traffic growth at 10.8% yoy was above expectations, aided by visa relaxation measures for Indian and Chinese tourists.

KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	4,173	4,652	4,969	5,251	5,417
EBITDA	1,706	1,792	1,956	2,266	2,354
Operating profit	793	945	1,075	1,337	1,417
Net profit (rep./act.)	70	236	629	677	819
Net profit (adj.)	13	179	284	619	762
EPS (sen)	0.8	10.8	17.1	37.3	45.9
PE (x)	1,104.3	78.6	49.4	22.7	18.4
P/B (x)	1.8	1.8	1.7	1.8	1.6
EV/EBITDA (x)	9.6	9.1	8.3	7.2	6.9
Dividend yield (%)	1.2	1.4	1.4	1.4	1.4
Net margin (%)	1.7	5.1	12.7	12.9	15.1
Net debt/(cash) to equity (%)	52.1	38.5	26.8	16.9	9.8
Interest cover (x)	2.7	2.8	3.7	4.8	5.7
ROE (%)	0.9	3.0	7.6	7.8	8.9
Consensus net profit	-	-	384	519	635
UOBKH/Consensus (x)	-	-	0.74	1.19	1.20

Source: Malaysia Airports Holdings, Bloomberg, UOB Kay Hian

HOLD

(Upgraded)

Share Price	RM8.46
Target Price	RM7.70
Upside	-9.0%
(Previous TP)	RM7.50)

COMPANY DESCRIPTION

Airport operator with exposure in Malaysia and the Middle East.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MAHB MK
Shares issued (m):	1,659.2
Market cap (RMm):	14,036.8
Market cap (US\$m):	3,524.6
3-mth avg daily t'over (US\$m):	6.3

Price Performance (%)

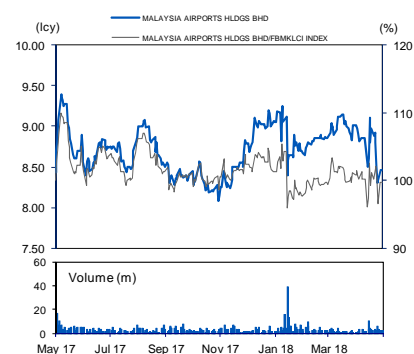
52-week high/low RM9.40/RM8.08

1mth	3mth	6mth	1yr	YTD
(6.1)	(2.8)	4.7	(0.5)	(3.8)

Major Shareholders

	%
Khazanah Nasional Bhd	36.7
Kumpulan Wang Simpanan Perkerja	11.3
Skim Amanah Saham Bumiputera	7.9
FY18 NAV/Share (RM)	5.09
FY18 Net Debt/Share (RM)	1.36

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Malaysian non-aeronautical operations' 8.8% top-line growth** was higher than throughput growth of 3.6% yoy, due higher retail, rental and royalty revenue from KLIA and KLIA2.
- **Lower losses at ISG were due to a 20% rise in PSC revenue yoy**, which in turn was due to an 18.6% rise in international traffic.

STOCK IMPACT

- Earnings beat should not be a stock price driver as we believe that the some analysts might not have factored in gains on the divestment of the Hyderabad airport, which was announced in Feb 18.
- **Uncertainties on whether the new Malaysian government will accede to the equalisation of PSC for KLIA and KLIA2 and a proposed new operational framework.** Effective Jan 18, the PSC for international traffic at KLIA and KLIA2 has been equalised for non-ASEAN international traffic at RM73/pax, but MAHB is only recognising RM50 per pax as revenue and the remainder being accrued as Marginal Cost Support (MARC's PSC) from the Malaysian government. Given the recent cost rationalisation, the street expressed concern as to whether this liability by the government would be at risk of being tweaked down. Other questions centred around the nature of compensation to the Malaysian government following the extension of operating agreement for KLIA to 2069 and MAVCOM's proposed new operational framework, which proposed tying in returns on capital to WACC and a revenue cap. MAHB's CEO indicated that he would have greater clarity in June or July and promised more updates.

EARNINGS REVISION/RISK

- We raise our 2018 net profit marginally by 4.5%, after factoring RM28m in gains on disposal and higher international pax throughput. Regulatory risks are the primary risks.

VALUATION/RECOMMENDATION

- **Upgrade to HOLD with a target price of RM7.70** (previous: RM7.50). We continue to value MAHB's Malaysian operations at 11x EV/EBITDA, while the Turkish operations are valued on a DCF basis.

SHARE PRICE CATALYST

- Clarity on the new operating agreement and the new Malaysian government supporting the MARCs PSC compensation as per operating agreement.

VALUATION

(RMm)	FY18
Malaysian Operations EBITDA	1,149
EV/EBITDA (x)	11.0
Enterprise value	12,644
Net debt	-3,261
ISG Fair value (WACC: 8.5%)	2,594
Add estimated incremental value from Aeropolis	820
Equity Value	12,798
No. of Shares (m)	1,659
Equity Value (RM)	7.70

Source: UOB Kay Hian

SALES PER PAX

	Sales Per Pax (RM)	yoy % chg
KLIA Total Sales		
Total KLIA	46.0	5.4
LCCT/KLIA 2	28.6	0.3
Total KLIA & LCCT/KLIA 2	36.6	1.9
ERAMAN		
Total KLIA	12.3	3.8
LCCT/KLIA 2	11.9	-9.8
Total KLIA & LCCT/KLIA 2	12.1	-3.6

Source: MAHB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	4,652.3	4,968.9	5,251.4	5,416.8
EBITDA	1,792.5	1,956.0	2,265.5	2,353.8
Deprec. & amort.	847.6	880.8	928.4	936.9
EBIT	944.9	1,075.2	1,337.1	1,417.0
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	20.6	3.4	3.5	3.7
Net interest income/(expense)	(631.0)	(529.5)	(473.5)	(414.2)
Pre-tax profit	334.5	835.6	867.2	1,006.5
Tax	(97.4)	(206.4)	(189.4)	(186.4)
Minorities	(0.6)	(0.6)	(0.6)	(0.6)
Net profit	236.5	628.6	677.2	819.5
Net profit (adj.)	178.8	284.4	619.5	761.8

CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Operating	1,994.0	1,847.6	2,160.0	2,157.3
Pre-tax profit	334.5	835.6	867.2	1,006.5
Tax	(135.1)	(90.0)	(100.0)	(99.0)
Deprec. & amort.	880.8	928.4	936.9	936.4
Working capital changes	251.1	(69.3)	(17.6)	(100.8)
Other operating cashflows	662.7	242.9	473.5	414.2
Investing	(151.7)	(121.5)	(450.0)	(650.0)
Capex (growth)	(283.1)	(450.0)	(450.0)	(650.0)
Investments	5.5	328.5	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	125.8	0.0	0.0	0.0
Financing	(1,023.2)	(1,271.5)	(1,130.0)	(2,147.1)
Dividend payments	(182.5)	(199.2)	(199.2)	(199.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(72.6)	(371.0)	(169.0)	(1,218.0)
Others/interest paid	(768.1)	(701.3)	(761.7)	(729.9)
Net cash inflow (outflow)	819.1	454.6	580.0	(639.8)
Beginning cash & cash equivalent	1,572.1	2,461.0	2,915.6	3,495.6
Changes due to forex impact	69.8	0.0	0.0	0.0
Ending cash & cash equivalent	2,461.0	2,915.6	3,495.6	2,855.7

BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	354.4	327.2	320.0	332.7
Other LT assets	18,741.2	17,899.0	17,094.6	16,495.9
Cash/ST investment	2,461.0	2,915.6	3,495.6	2,855.7
Other current assets	942.7	1,159.7	1,247.7	1,348.5
Total assets	22,499.2	22,301.5	22,157.8	21,032.9
ST debt	423.3	423.3	423.3	423.3
Other current liabilities	1,810.4	1,939.7	2,011.3	2,133.1
LT debt	5,126.0	4,755.0	4,586.0	3,368.0
Other LT liabilities	6,128.1	5,733.9	5,200.9	4,543.3
Shareholders' equity	8,013.6	8,451.8	8,938.5	9,567.4
Minority interest	(0.0)	(0.0)	(0.0)	(0.0)
Total liabilities & equity	22,499.2	22,301.5	22,157.8	21,032.9

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	38.5	39.4	43.1	43.5
Pre-tax margin	7.2	16.8	16.5	18.6
Net margin	5.1	12.7	12.9	15.1
ROA	1.1	2.8	3.0	3.8
ROE	3.0	7.6	7.8	8.9
Growth				
Turnover	11.5	6.8	5.7	3.1
EBITDA	5.0	9.1	15.8	3.9
Pre-tax profit	82.5	149.8	3.8	16.1
Net profit	236.0	165.9	7.7	21.0
Net profit (adj.)	1,305.8	59.0	117.8	23.0
EPS	1,305.0	59.0	117.8	23.0
Leverage				
Debt to total capital	38.1	35.4	33.5	26.4
Debt to equity	81.7	73.1	67.2	50.1
Net debt/(cash) to equity	38.5	26.8	16.9	9.8
Interest cover (x)	2.8	3.7	4.8	5.7

COMPANY RESULTS

Valuetronics Holdings (VALUE SP)

FY18: Results In Line; Possible Near-term Slowdown With A Major Customer

Valuetronics' results are in line with our expectations. Overall, 4QFY18 performance came in slower as sequential quarterly revenue was down 18% vs 3QFY18, reversing seven consecutive quarters of growth. For FY19, there may be concerns that a major customer will see a slowdown and this may impact Valuetronics' near-term results. The company has declared a surprise dividend of 27 HK cents. Upgrade to BUY with a higher PE-based target price of S\$0.96 (previously S\$0.95) as the share price has retraced.

FY18 RESULTS

Year to 31 Mar (HK\$m)	FY18	FY17	yoy % chg
Revenue	2,853.7	2,274.9	25.4
Gross Profit	414.6	341.7	21.3
Net Profit	204.7	154.1	32.9
Gross Profit Margin (%)	14.5	15	-0.5

Source: UOB Kay Hian

RESULTS

- Results in line; 4QFY18 sales grew 1.2% yoy** as 4QFY17 was an exceptional quarter for the group because some customers built up inventory in anticipation of stronger sales in 2017. The fourth financial quarter is usually the weakest quarter for Valuetronics due to the long Chinese New Year holidays. The group ended FY18 with net profit of HK\$204.7m vs HK\$154.1m for FY17, driven by strong performance in both the consumer electronics (CE) segment and the industrial and commercial electronics (ICE) segment. Going into FY19, there are concerns that the CE segment may experience some near-term slowdown; however the automotive segment continues to look bright.
- Gross margins and working capital.** Valuetronics' gross margins grew marginally by 0.1% from 14.2% in 4QFY17 to 14.3% in 4QFY18. In 4QFY18, the group's sales mix remained relatively stable with CE forming 46.6% of total sales vs 45.6% for 4QFY17. Operating cash flow was lower at HK\$64m for FY18 vs HK\$161m for FY17 due to faster payables turnover. This, together with the higher dividend payout, led to a reduced cash position of HK\$671m as at end-FY18.
- Healthy financial position.** Valuetronics maintains a healthy financial position with a net cash position of HK\$640m with zero borrowings as of 4QFY18. Net cash forms approximately 33% of market capitalisation and net cash plus financial assets forms approximately 36% of market capitalisation. Valuetronics has declared a surprise dividend of 27 HK cents for FY18 vs 20 HK cents for FY17.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2017	2018	2019F	2020F	2021F
Net Turnover	2,274.9	2,853.7	3,054.0	3,253.0	3,431.4
EBITDA	204.2	267.9	310.0	338.2	365.2
EBIT	173.6	230.4	241.0	257.4	270.7
Net Profit	154.1	204.7	213.3	228.0	240.0
Adjusted Net Profit	154.1	204.7	213.3	228.0	240.0
Adjusted EPS (cent)	36.8	47.3	49.3	52.7	55.5
Adjusted P/E	11.8	9.2	9.5	8.9	8.5
P/B (x)	1.9	1.8	1.8	1.6	1.5
Dividend Yield (%)	4.6	5.7	5.7	5.7	5.7
Adjusted Net Margin (%)	6.8	7.2	7.0	7.0	7.0
Net Debt(cash) to Equity (%)	(80.2)	(63.2)	(69.3)	(69.2)	(69.5)
Interest cover (x)	268.7	336.8	192.0	220.1	256.0
Adjusted ROE (%)	16.4	19.3	18.4	18.0	17.2
Consensus	-	-	213.5	238.5	277.0
UOB/Consensus	-	-	1.00	0.96	0.87

Source: UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$0.795
Target Price	S\$0.960
Upside	+20.8%
(Previous TP)	S\$0.950

COMPANY DESCRIPTION

Valuetronics Holdings offers original equipment manufacturing and original design manufacturing services. The company serves customers in the telecommunications, industrial, commercial electronic products, and consumer electronic products industries.

STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	VALUE SP
Shares issued (m):	429.1
Market cap (S\$m):	341.1
Market cap (US\$m):	254.5
3-mth avg daily t'over (US\$m):	2.5

Price Performance (%)

52-week high/low	S\$1.065/S\$0.541			
1mth	3mth	6mth	1yr	YTD
16.9	(17.6)	(4.2)	3.1	(11.6)

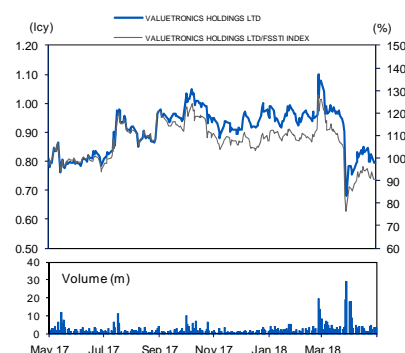
Major Shareholders

Tse Chong Hing	18.4
Chow Kok Kit	7.67

FY19 NAV/Share (S\$) 0.49

FY19 Net Cash/Share (S\$) 0.32

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Near-term challenges for CE.** Valuetronics' main customer in the smart LED lighting sub segment has signalled a slowdown in their recent financial results. Due to slower-than-expected demand, this customer will allow for inventory reductions in its distribution channel. This is likely to impact near-term CE segment results for Valuetronics as we estimate that the smart LED lighting segment accounted for between 20-25% of FY18 sales. This particular customer expects sales to return to normalised levels in the second half of calendar year 2018, which coincides with Valuetronics 2QFY19 and 3QFY19. However, the consumer lifestyle sub segment is expected to see double-digit sustained growth momentum into FY19.
- **ICE segment prospects intact.** Following the strong showings by the automotive and printer sub segments, the ICE segment should continue to experience decent growth in FY19 driven by new product launches from certain customers resulting in additional orders from existing customers.

EARNINGS REVISION/RISK

- We raise our earnings estimates upward by 2% and 1% respectively for FY19 and FY20. Even though we have slashed our sales estimate for FY19 down by 8% to account for potential slowdown in the smart LED lightning segment, our administrative expense assumptions have been lowered as well.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a higher PE-based target price of S\$0.96 (previously S\$0.95) as we peg to peers' average PE of 11.3x for FY19.

SHARE PRICE CATALYST

- Additional customers in the IoT space.
- Additional customers in the automobile space.
- Higher-than-expected dividends.

PROFIT & LOSS

Year to 31 Mar (HK\$m)	2018	2019F	2020F	2021F
Net turnover	2,853.7	3,054.0	3,253.0	3,431.4
EBITDA	267.9	310.0	338.2	365.2
Deprec. & amort.	37.5	69.0	80.8	94.5
EBIT	230.4	241.0	257.4	270.7
Net interest income/(expense)	(0.7)	(1.3)	(1.2)	(1.1)
Associate contribution	-	-	-	-
Pre-tax profit	229.7	239.7	256.2	269.7
Tax	(25.0)	(26.4)	(28.2)	(29.7)
Minorities	-	-	-	-
Net profit	204.7	213.3	228.0	240.0
Net profit (adj.)	204.7	213.3	228.0	240.0

CASH FLOW

Year to 31 Mar (HK\$m)	2018	2019F	2020F	2021F
Operating	63.5	423.0	255.3	275.2
Pre-tax profit	229.7	239.7	256.2	269.7
tax expense	(19.0)	(26.4)	(28.2)	(29.7)
Deprec. & amort.	37.5	69.0	80.8	94.5
Working capital changes	(180.9)	140.6	(53.5)	(59.3)
Non-cash items	-	-	-	-
Other operating cashflows	(3.8)	-	-	-
Investing	(115.8)	(57.9)	(63.1)	(68.8)
Capex	(82.4)	(57.9)	(63.1)	(68.8)
Interest and dividend income	8.8	-	-	-
Purchase of available-for-sale financial assets	(42.8)	-	-	-
Proceeds from sale of assets	0.6	-	-	-
Financing	(94.2)	(116.7)	(116.7)	(116.7)
Dividend payments	(114.1)	(116.7)	(116.7)	(116.7)
Issue of shares	19.9	-	-	-
Proceeds from borrowings	-	-	-	-
Others/interest paid	-	-	-	-
Net cash inflow (outflow)	(146.5)	248.4	75.5	89.7
Beginning cash & cash equivalent	743.0	596.9	845.3	920.7
Changes due to forex impact	0.4	-	-	-
Ending cash & cash equivalent	596.9	845.3	920.7	1,010.4

BALANCE SHEET

Year to 31 Mar (HK\$m)	2018	2019F	2020F	2021F
Property, plant, equipment	209.6	225.9	208.2	182.5
Other LT assets	84.8	173.6	173.6	173.6
Cash	671.1	803.2	878.7	968.3
Other current assets	1,003.3	990.7	1,053.0	1,108.8
Total assets	1,968.8	2,193.4	2,313.5	2,433.2
ST debt	-	-	-	-
Other current liabilities	899.5	1,027.6	1,036.3	1,032.8
LT debt	-	-	-	-
Other LT liabilities	7.3	7.3	7.3	7.3
Shareholders' equity	1,062.0	1,158.6	1,269.8	1,393.1
Minority interest	-	-	-	-
Total liabilities & equity	1,968.8	2,193.4	2,313.5	2,433.2

KEY METRICS

Year to 31 Mar (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	9.4	10.2	10.4	10.6
Pre-tax margin	8.1	7.8	7.9	7.9
Net margin	7.2	7.0	7.0	7.0
ROA	10.4	9.7	9.9	9.9
ROE	19.3	18.4	18.0	17.2
Growth				
Turnover	25.4	7.0	6.5	5.5
EBITDA	31.2	15.7	9.1	8.0
Pre-tax profit	32.8	4.3	6.9	5.3
Net profit	32.9	4.2	6.9	5.3
Net profit (adj.)	32.9	4.2	6.9	5.3
EPS (adj)	28.7	4.2	6.9	5.3
Leverage				
Debt to total capital	-	-	-	-
Debt to equity	-	-	-	-
Net debt/(cash) to equity	(63.2)	(69.3)	(69.2)	(69.5)
Interest cover (x)	336.8	192.0	220.1	256.0

SMALL/MID CAP HIGHLIGHTS

CITIC Envirotech (CEL SP)

CEO Change And Hyflux Worries Undue; China Vows To Wage Tough Battle On Pollution

CEL's share price was hurt by worries over Hyflux woes and a CEO change. These worries are unwarranted as the CEO change is not a surprise and Dr Lin's share purchase is a strong vote of confidence. Hyflux is different as its woes stem from energy, not water. Also, CEL has stronger backing, profitability and a more robust balance sheet. With China's Xi vowing a tough war on pollution, the macro background is also rosy. Maintain BUY with target price unchanged at S\$1.06.

WHAT'S NEW

- **CEO re-designation should not be a surprise given SOE status.** While there has been some investor worry about the re-designation of Dr Lin from CEO to non-executive director, we opine that this should be expected and not a surprise. China's state-owned enterprises (SOE) such as CITIC are expected to be controlled by party officials (eg CLSA, which three years after CITIC's takeover, had similarly replaced its top manager with a party official) and from the initial General Offer, CITIC stated that management contracts would be renewed for three years for management continuity. It can therefore be expected that at the end of these three years, CITIC would want a party official to run CITIC Envirotech (CEL).
- **By increasing his CEL stake, Dr Lin's share purchase is a strong vote of confidence.** Furthermore, after Dr Lin's move to non-executive director, he had increased his holding of the company through open market share purchases (2.3m shares, S\$0.67/share), marking his confidence in CEL's business despite not being involved in day-to-day operations. As such, we see no reason to worry about CEL's business as Dr Lin's replacement has been CEL's Executive Chairman for three years and should thoroughly understand the business.
- **Unwarranted price dip caused by Hyflux worries.** Singapore's water segment had recently been weighed down by Hyflux's woes. However, Hyflux is drastically different from CEL. Hyflux's problems largely stem from its Tuaspring plant/energy business where it is unable to sell electricity profitably. CEL, on the other hand, is a SOE backed by the Chinese government and operating in a rosy macro landscape. Furthermore, CITIC's balance sheet and profitability is stronger than that of Hyflux. As such, we believe that the unwarranted price dip was caused by Hyflux's worries.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2016	2017	2018F	2019F	2020F
Net Turnover	544.6	908.8	1,103.4	1,381.9	1,631.6
EBITDA	183.2	226.5	371.9	502.9	593.3
EBIT	161.0	202.6	335.4	450.3	524.7
PATMI	99.3	115.9	184.2	239.5	260.5
Adjusted EPS (cts)	3.6	3.9	6.8	9.2	10.0
Adjusted P/E	18.0	16.5	9.5	7.1	6.5
P/B (x)	1.0	0.8	0.8	0.7	0.7
Dividend Yield (%)	1.5	2.3	3.1	4.2	4.6
PATMI Margin (%)	15.0	10.3	14.6	15.7	14.6
Net Debt (Cash) to Equity (%)	4.2	9.7	57.6	103.3	149.7
Interest cover (x)	4.1	6.0	5.0	4.2	3.4
ROE	5.5	5.1	8.2	10.2	10.3
Consensus net profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.65
Target Price	S\$1.06
Upside	+63.1%

COMPANY DESCRIPTION

CITIC Envirotech is an investment holding company. The company, through its subsidiaries, provides environmental consultancy solutions in environmental health and safety as well as designs and implements integrated environmental engineering solutions based on membrane technology.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	CEL SP
Shares issued (m):	2,368
Market cap (S\$m):	1,543
Market cap (US\$m):	1,145
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

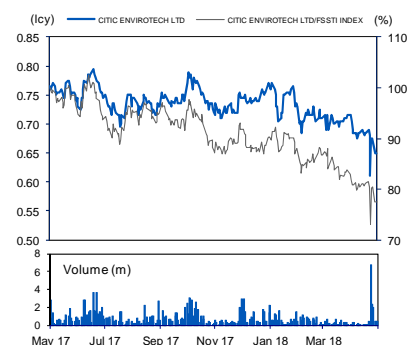
52-week high/low	S\$0.81/S\$0.60			
1mth	3mth	6mth	1yr	YTD
(8.5)	(8.5)	(9.7)	(12.2)	(12.2)

Major Shareholders

CKM Cayman Co Ltd	54.5
CRF Envirotech Co Ltd	23.7

FY18 NAV/Share (S\$)	0.82
FY18 Net Debt/Share (S\$)	0.39

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **China's Xi vows tough battle against pollution, water pollution plan necessary; environmental stocks rally.** At a recent two-day tone-setting national conference, Chinese President Xi reaffirmed China's stance on pollution, noting improvements but stating that "progress was not made in a firm manner". Xi has vowed to wage a tough battle against pollution with China to channel more energy into resolving environmental problems and pushing China's ecological advancement to a "new level". He also said that "building an ecological civilisation is of fundamental importance" and while there will be challenges, China "must bite the bullet and overcome them". Xi also stated that a water pollution action plan would be necessary. China/HK environmental shares rallied after the meeting, with A-shares such as water treatment firm Shanghai Emperor of Cleaning Hi-Tech and water management company Potem Environment hitting their daily 10% gain.

EARNINGS REVISION/RISK

- No change in forecasts.
- Key risks include a delay in project construction and a weakening of the renminbi.

VALUATION/RECOMMENDATION

- **Maintain BUY and our DCF-based target price of S\$1.06.** Our DCF-based target price is S\$1.06, implying a 2019F PE of 11.6x, mirroring SG/HK peer average of 11.2x. The stock remains the cheapest on 2018 valuations vs its Singapore peers such as SIIC and China Everbright Water with a 2018 forward dividend yield of ~3% looking attractive.

SHARE PRICE CATALYST

- Further project wins.
- Share buybacks from CEL.

PROFIT & LOSS

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Net turnover	908.8	1,103.4	1,381.9	1,631.6
EBITDA	226.5	371.9	502.9	593.3
Deprec. & amort.	23.9	36.5	52.6	68.6
EBIT	202.6	335.4	450.3	524.7
Net interest income/(expense)	(30.5)	(67.5)	(106.6)	(152.2)
Associates	4.8	-	-	-
Other non-recurring items	-	-	-	1.0
Pre-tax profit	176.9	267.9	343.8	372.5
Tax	(49.5)	(72.3)	(92.8)	(100.6)
Minorities	(11.4)	(11.4)	(11.4)	(11.4)
Net profit	115.9	184.2	239.5	260.5
Net profit (adj.)	93.3	161.5	216.9	237.8

CASH FLOW

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Operating	226.2	250.1	330.3	360.5
Pre-tax profit	176.9	267.9	343.8	372.5
Tax	(19.0)	(72.3)	(92.8)	(100.6)
Deprec. & amort.	23.9	36.5	52.6	68.6
Working capital changes	20.4	18.0	26.8	20.0
Other operating cashflows	23.9	-	-	-
Investing	(527.4)	(1,133.9)	(1,308.0)	(1,521.0)
Capex	(393.9)	(1,133.9)	(1,308.0)	(1,521.0)
Interest and dividend income	-	-	-	1.0
Others	(104.8)	-	-	-
Proceeds from sale of assets	0.1	-	-	-
Financing	448.7	627.7	722.6	854.6
Dividend payments	(49.8)	(64.6)	(86.7)	(95.1)
Issue of shares	10.3	-	-	-
Proceeds from borrowings	345.3	715.0	832.0	972.4
Others/interest paid	153.5	(22.7)	(22.7)	(22.7)
Net cash inflow (outflow)	147.5	(256.1)	(255.2)	(305.9)
Beginning cash & cash equivalent	493.5	631.3	375.2	120.1
Changes due to forex impact	(9.7)	-	-	-
Ending cash & cash equivalent	631.3	375.2	120.1	(185.8)

BALANCE SHEET

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Fixed assets	720.5	734.6	740.6	738.5
Other LT assets	1,695.7	2,773.1	4,019.6	5,469.0
Cash/ST investment	631.3	375.2	120.1	(185.8)
Other current assets	561.2	710.0	916.4	1,107.8
Total assets	3,608.8	4,592.9	5,796.6	7,129.5
ST debt	421.6	421.6	421.6	421.6
Other current liabilities	905.8	1,066.6	1,296.8	1,503.2
LT debt	387.7	1,102.7	1,934.7	2,907.1
Other LT liabilities	52.5	52.5	52.5	52.5
Shareholders' equity	1,688.5	1,785.4	1,915.5	2,058.2
Minority interest	152.6	164.0	175.4	186.8
Total liabilities & equity	3,608.8	4,592.9	5,796.6	7,129.5

KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
Profitability				
EBITDA margin	24.9	33.7	36.4	36.4
Pre-tax margin	19.5	24.3	24.9	22.8
Net margin	10.3	14.6	15.7	14.6
ROA	2.6	3.5	3.7	3.3
ROE	5.5	9.0	11.3	11.6
Growth				
Turnover	66.9	21.4	25.2	18.1
EBITDA	23.6	64.2	35.2	18.0
Pre-tax profit	34.7	51.4	28.3	8.4
Net profit	24.9	53.6	28.3	8.4
Net profit (adj.)	14.2	73.1	34.3	9.7
EPS	14.2	73.1	34.3	9.7
Leverage				
Debt to total capital	32.4	46.1	55.2	61.8
Debt to equity	47.9	85.4	123.0	161.7
Net debt/(cash) to equity	9.7	58.9	107.0	156.5
Interest cover (x)	6.0	5.0	4.2	3.4

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