UOBKayHian

# Regional Morning Notes

Monday, 03 April 2023

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## GREATER CHINA

*Results*

**China Longyuan Power (916 HK/BUY/HK$8.97/Target: HK$11.50)** Page 3
2022: Below expectations; recognition of Rmb2,045m in impairment provisions.

**China Overseas Land & Investment** Page 6
**(688 HK/BUY/HK$18.96/Target: HK$27.14)**
2022: Results below expectations; targeting 20% sales growth in 2023 with strengthened landbank.

**China Resources Gas (1193 HK/BUY/HK$28.95/Target: HK$35.10)** Page 9
2022: Below expectations; gas shortages in 4Q22 weighed on margins.

**China Tourism Group Duty Free Corp** Page 12
**(601888 CH/BUY/Rmb183.24/Target: Rmb222.00)**
2022: Sharp earnings decline; poised for expansion in 2023.

**Great Wall Motor (2333 HK/SELL/HK$9.69/Target: HK$6.00)** Page 15
4Q22: Net profit down by 94% yoy/96% qoq, missing our estimates. Maintain SELL.

**Haidilao International Holding** Page 18
**(6862 HK/HOLD/HK$21.25/Target: HK$23.00)**
2022: In line; margin expansion on higher table turnover and staff efficiency.

**Haier Smart Home (6690 HK/BUY/HK$24.70/Target: HK$29.80)** Page 21
2022: Results dragged by 4Q22 performance; double-digit profit growth in 2023.

**MicroPort Scientific Corporation** Page 24
**(853 HK/SELL/HK$18.46/Target: HK$14.50)**
2022: Results miss expectations; GPO and uncertain global economic environment may continue to cloud growth.

## INDONESIA

*Strategy*

**Alpha Picks: Outperformance In 1Q23** Page 27
Our picks are HMSP, ROTI, BBNI, BMRI, BUKA, SMGR, KLBF and MAPI.

*Results*

**Bukalapak.com (BUKA IJ/BUY/Rp248/Target: Rp480)** Page 33
4Q22: Net loss continues to narrow with adjusted EBITDA positive by 4Q23.

## MALAYSIA

*Sector*

**Banking** Page 36
Feb 23 loans growth edged upwards, largely driven by seasonal factors. Loans growth moderation in 2023 vs 2022 remains intact. Maintain MARKET WEIGHT.

*Update*

**MyNews Holdings (MNHB MK/BUY/RM0.50/Target: RM0.62)** Page 38
Headwinds abound but earnings recovery should catalyse valuations. Maintain BUY.

## SINGAPORE

*Strategy*

**Alpha Picks: Adding OCBC, LREIT, AZTECH And SMM, While Taking Profit On GENS** Page 41
Our Alpha Picks portfolio outperformed in 1Q23. For Mar 23, our portfolio beat the STI by 8.0ppt.

## KEY INDICES

| | Prev Close | 1D % | 1W % | 1M % | YTD % |
|---|---|---|---|---|---|
| DJIA | 33274.2 | 1.3 | 3.2 | (0.3) | 0.4 |
| S&P 500 | 4109.3 | 1.4 | 3.5 | 1.6 | 7.0 |
| FTSE 100 | 7631.7 | 0.1 | 3.1 | (4.0) | 2.4 |
| AS30 | 7373.3 | 0.8 | 3.3 | (1.5) | 2.1 |
| CSI 300 | 4050.9 | 0.3 | 0.6 | (1.9) | 4.6 |
| FSSTI | 3258.9 | 0.1 | 1.4 | 0.8 | 0.2 |
| HSCEI | 6968.9 | 0.7 | 2.6 | 0.4 | 3.9 |
| HSI | 20400.1 | 0.4 | 2.4 | (0.8) | 3.1 |
| JCI | 6805.3 | (0.1) | 0.6 | (0.1) | (0.7) |
| KLCI | 1422.6 | (0.1) | 1.6 | (2.1) | (4.9) |
| KOSPI | 2476.9 | 1.0 | 2.6 | 1.8 | 10.8 |
| Nikkei 225 | 28041.5 | 0.9 | 2.4 | 0.4 | 7.5 |
| SET | 1609.2 | 0.2 | 1.1 | 0.1 | (3.6) |
| TWSE | 15868.1 | 0.1 | (0.3) | 1.7 | 12.2 |
| BDI | 1389 | (1.0) | (6.7) | 14.7 | (8.3) |
| CPO (RM/mt) | 4151 | 1.7 | 6.5 | 0.0 | 2.5 |
| Brent Crude (US$/bbl) | 86 | 7.5 | 9.9 | 0.1 | (0.0) |

*Source: Bloomberg*

## TOP PICKS

| | Ticker | CP (lcy) | TP (lcy) | Pot. +/- (%) |
|---|---|---|---|---|
| **BUY** | | | | |
| China Duty Free | 601888 CH | 183.24 | 222.00 | 33.2 |
| CR Land | 1109 HK | 35.80 | 47.48 | 32.6 |
| Bank Neo Commerce | BBYB IJ | 600.00 | 1,600.00 | 166.7 |
| Bumi Serpong | BSDE IJ | 980.00 | 1,200.00 | 22.4 |
| HM Sampoerna | HMSP IJ | 1,125.00 | 1,700.00 | 51.1 |
| My EG Services | MYEG MK | 0.77 | 1.18 | 54.2 |
| Yinson | YNS MK | 2.57 | 3.95 | 53.7 |
| OCBC | OCBC SP | 12.37 | 16.92 | 36.8 |
| CP ALL | CPALL TB | 62.00 | 78.00 | 25.8 |
| Indorama | IVL TB | 34.50 | 55.00 | 59.4 |

## KEY ASSUMPTIONS

| GDP (% yoy) | | 2022 | 2023F | 2024F |
|---|---|---|---|---|
| US | | 2.1 | -0.5 | 2.5 |
| Euro Zone | | 3.5 | -0.5 | 1.2 |
| Japan | | 1.0 | 1.0 | 1.8 |
| Singapore | | 3.5 | 0.7 | 3.5 |
| Malaysia | | 8.7 | 4.0 | 4.6 |
| Thailand | | 2.6 | 3.1 | 3.5 |
| Indonesia | | 5.4 | 4.9 | 5.2 |
| Hong Kong | | -3.5 | 3.5 | 3.5 |
| China | | 3.0 | 4.5 | 4.6 |
| CPO | (RM/mt) | 5,088 | 5,200 | 4,000 |
| Brent (Average) | (US$/bbl) | 99.0 | 87.0 | 86.0 |

*Source: Bloomberg, UOB ETR, UOB Kay Hian*

## CORPORATE EVENTS

| | Venue | Begin | Close |
|---|---|---|---|
| Group Luncheon with CIMC Enric Holdings Ltd (3899 HK) | China | 7 Apr | 7 Apr |
| Post-result NDR with YiChang HEC ChangJiang Pharmaceutical Co Ltd (1558 HK) | China | 11 Apr | 11 Apr |
| Analyst Marketing on Malaysia Strategy and Market Outlook | Singapore | 17 Apr | 18 Apr |
| Malaysia Tech Corporate Day at The Executive Centre (Ocean Financial Centre) | Malaysia | 19 Apr | 19 Apr |
| Group Luncheon with Shenzhou International Group Holdings Ltd (2313 HK) | Hong Kong | 25 Apr | 25 Apr |

## THAILAND

*Results*

**PTT Exploration & Production** Page 49
**(PTTEP TB/BUY/Bt151.50/Target: Bt174.00)**
We expect 1Q23 net profit to increase both qoq and yoy.

*Update*

**Thai Union Group (TU TB/BUY/Bt14.10/Target: Bt17.00)** Page 52
Weaker-than-expected short-term earnings momentum.

## COMPANY RESULTS

# China Longyuan Power (916 HK)

2022: Below Expectations; Recognition Of Rmb2,045m In Impairment Provisions

**Longyuan's 2022 earnings of Rmb5,132b (-37.2% yoy) were below expectations, with Rmb2,045m in impairment provisions recognised for the year. Wind power generation was higher by 13.7% yoy. Average wind turbine utilisation hours dropped by 70 hours yoy to 2,296 hours, dragged by slower wind velocity of 5.83m/s. Average on-grid tariff fell Rmb13/MWh to Rmb468/MWh, with more grid parity projects and higher ratio of market power transactions. Maintain BUY. Target price: HK$11.50.**

### 2022 RESULTS

| Year to 31 Dec (Rmbm) | 2021R | 2022 | yoy % chg |
|---|---|---|---|
| **Revenue** | **39,872** | **39,862** | **(0.03)** |
| - Wind Power | 26,711 | 27,248 | 2.0 |
| - Coal Power | 12,461 | 11,716 | (6.0) |
| - Others | 700 | 898 | 28.2 |
| Other Net Income | 1,201 | 1,206 | 0.5 |
| Operating Expenses | (26,898) | (29,165) | 8.4 |
| **Operating profit** | **14,174** | **11,903** | **(16.0)** |
| Net finance expenses | (3,578) | (3,800) | 6.2 |
| **PBT** | **10,020** | **7,684** | **(23.3)** |
| Tax | (1,599) | (1,554) | (2.8) |
| Minority interest | (254) | (997) | 292.0 |
| **Net Profit** | **8,167** | **5,132** | **(37.2)** |
| EBIT margin (%) | 35.5 | 29.9 | (5.7) |
| Net profit margin (%) | 21.1 | 15.4 | (5.7) |

*Source: China Longyuan Power, UOB Kay Hian*

### RESULTS

- **Below expectations; in line with profit warning.** China Longyuan Power (Longyuan) reported 2022 net earnings of Rmb5,132m (-31.0% yoy), below market expectations, in line with profit warning issued earlier. The disappointment was mainly due to the Rmb2,045m in impairment provisions recognised.

- **EBIT margin was down 5.7ppt to 29.9%; recognition of Rmb2,045m in impairment provisions.** Other than the weak performance of the wind power segment, the margin contraction was mainly due to the: a) Rmb2,045m in impairment provisions made in 2022, Rmb1,574m higher than 2021's Rmb451m, and b) +13.8% yoy/+Rmb1,117m in depreciation and armotisation costs as a result of fast expansion in installed capacity.

### KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 37,195.5 | 39,861.6 | 44,720.0 | 51,317.1 | 57,823.5 |
| EBITDA | 20,739.6 | 22,022.8 | 28,012.5 | 32,444.8 | 37,620.5 |
| Operating profit | 12,557.9 | 11,902.9 | 16,402.0 | 19,290.9 | 22,849.7 |
| Net profit (rep./act.) | 6,413.1 | 5,131.8 | 7,834.9 | 9,524.9 | 12,118.1 |
| Net profit (adj.) | 6,158.6 | 4,903.5 | 7,629.4 | 9,340.0 | 11,951.7 |
| EPS (sen) | 76.6 | 58.6 | 91.2 | 111.4 | 142.6 |
| PE (x) | 10.3 | 13.4 | 8.6 | 7.1 | 5.5 |
| P/B (x) | 1.1 | 1.0 | 0.9 | 0.9 | 0.8 |
| EV/EBITDA (x) | 11.4 | 10.8 | 8.5 | 7.3 | 6.3 |
| Dividend yield (%) | 2.0 | 1.5 | 2.3 | 2.8 | 3.6 |
| Net margin (%) | 17.2 | 12.9 | 17.5 | 18.6 | 21.0 |
| Net debt/(cash) to equity (%) | 147.1 | 149.4 | 147.2 | 147.8 | 142.2 |
| Interest cover (x) | 6.4 | 5.8 | 6.5 | 6.9 | 7.1 |
| ROE (%) | 10.6 | 7.8 | 10.9 | 12.1 | 13.9 |
| Consensus net profit | - | - | 8,278 | 9,870 | 11,509 |
| UOBKH/Consensus (x) | - | - | 0.92 | 0.95 | 1.04 |

*Source: China Longyuan Power, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | HK$8.97 |
| Target Price | HK$11.50 |
| Upside | +28.2% |
| *(Previous TP* | *HK$18.90)* |

### COMPANY DESCRIPTION

China Longyuan is the largest listing wind farm operator in China. Its operational wind capacity grew to 18.6GW as of end 2018. It also operates solar farm and thermal power plants.

### STOCK DATA

| | |
|---|---|
| GICS sector | Utilities |
| Bloomberg ticker: | 916 HK |
| Shares issued (m): | 3,340.0 |
| Market cap (HK$m): | 130,290.5 |
| Market cap (US$m): | 16,597.9 |
| 3-mth avg daily t'over (US$m): | 23.7 |

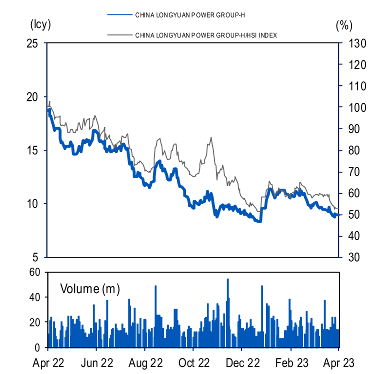
**Price Performance (%)**

52-week high/low HK$18.84/HK$8.36

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (6.9) | (6.0) | (8.9) | (49.7) | (6.0) |

| **Major Shareholders** | **%** |
|---|---|
| China Guodian Corporation | 63.7 |
| - | - |
| - | - |
| FY23 NAV/Share (RMB) | 8.32 |
| FY23 Net Debt/Share (RMB) | 13.12 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Ziv Ang Sze Champ**
+603 2147 1826
zivang@uobkayhian.com

- **Average utilisation hours of wind power down 70 hours yoy.** Wind power generation was up 13.7% yoy, mainly driven by the expansion of installed capacity in 2022. However, the average utilisation hours of wind power in 2022 was 2,296 hours, 70 hours less than that in 2021, mainly due to the yoy decline in the average wind velocity from 2021's 5.97m/s to 2022's 5.83m/s. It is worth noting that the company wind turbine's usable ratio has continued to improve from 2021's 99.2% to 2022's 99.4%.
- **Wind power average on-grid tariffs down Rmb13/MWh.** In 2022, the average on-grid tariffs for overall power generation segments of the Group amounted to Rmb468/MWh, -Rmb7/MWh (2021: Rmb475/MWh). The average on-grid tariffs for wind power was down by Rmb13/MWh to Rmb481/MWh (2021: Rmb494/MWh), mainly due to the expansion of wind power market transaction volume and the increase in parity production projects.
- **Consolidated installed capacity up 16.5% yoy.** As of 31 Dec 22, the consolidated installed capacity of the company has reached 31,107.84MW, expanding by 4,409.2MW (+16.5% yoy) in 2022. Of this, new self-built projects contributed 2,409.60 MW (wind: 534.4 MW; photovoltaic: 1,875.2 MW), whereas asset restructuring and M&As contributed 1,999.6 MW (wind: 1,989.60 MW; photovoltaic: 10.00 MW).

## STOCK IMPACT

- **Targeting 30GW in new installations during 14th Five-Year Plan.** Longyuan is targeting to add 30GW in power generation capacity during the 14th five-year plan, 15GW each for the wind and photovoltaic segments. To achieve that, the company targets to add 6.5GW in new operational installed capacity annually in the next three years. Thus, capex budget is expected to grow accordingly. 21.4GW of wind farm projects to be injected into Longyuan from its parent company is also in the pipeline.
- **Acceleration of subsidies repayment.** The company has received Rmb20,772m of subsidies settlement from the government, the highest in its history and five times of 2021's amount. As of 2022, the outstanding subsidies recorded in the receivables account was Rmb25,197m, 10.2% or Rmb2,876m lower compared to 2021. With the improvment in the company's liquidity condition, it should ease the external financing needs to fund expansion projects.
- **No further risk of impairment for Ukraine projects.** The existing 76.5MW operating wind farms in Ukraine are still operating normally and repayment has not been impacted. The construction of the project under construction in the southern region has already been halted. No risk of further impairment for these Ukraine projects in the future.
- **Prioritise the replacement of 2,500 <1MW wind turbines.** The company will prioritize the replacement of existing 2,500 units of <1MW wind turbines, the replacement of new and larger wind turbine should better utilise the wind resources. The company will only remove the existing wind turbines when the new wind turbines are installed and start generating power to minimise the impact to power generation.

## EARNINGS REVISION/RISK

- We cut our 2023F/24F earnings forecasts by 14%/12%

## VALUATION/RECOMMENDATION

- **We maintain BUY with a lower target price of HK$11.50.** We like Longyuan for their considerable project pipeline which grants high growth visibility, as well as the support and potential asset injection from their parent company. The replacement of their older generation wind turbines will further enhance the yield generation capability of their existing wind farm. There is also no risk of further impairment for their Ukraine projects

## SHARE PRICE CATALYST

- a) Faster-than-expected decline in wind turbine and solar module price, and b) earlier-than-expected repayment of outstanding subsidies from the government.

### 2022 IMPAIRMENT LOSS

| Summary | (Rmbm) |
|---|---|
| Long-term delay of construction progress | 291.4 |
| Impairment of three cash generating units due to continuing operating losses | 506.3 |
| Impairment of operating/ under construction wind farms in Ukraine due to Russia-Ukraine conflict | 656.8 |
| Wind turbine upgrade scheme | 590.2 |
| **Total** | **2,044.7** |

*Source: China Longyuan Power, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **39,862** | **44,720** | **51,317** | **57,823** |
| EBITDA | 22,023 | 28,013 | 32,445 | 37,620 |
| Deprec. & amort. | 10,120 | 11,611 | 13,154 | 14,771 |
| EBIT | 11,903 | 16,402 | 19,291 | 22,850 |
| Total other non-operating income | 0 | 0 | 0 | 0 |
| Associate contributions | (419) | (377) | (340) | 558 |
| Net interest income/(expense) | (3,800) | (4,327) | (4,731) | (5,316) |
| **Pre-tax profit** | **7,684** | **11,697** | **14,220** | **18,092** |
| Tax | (1,554) | (2,339) | (2,844) | (3,618) |
| Minorities | (997) | (1,523) | (1,851) | (2,355) |
| **Net profit** | **5,132** | **7,835** | **9,525** | **12,118** |
| Net profit (adj.) | 4,903 | 7,629 | 9,340 | 11,952 |

## BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 151,600 | 165,984 | 185,346 | 205,091 |
| Other LT assets | 18,755 | 17,183 | 15,414 | 14,307 |
| Cash/ST investment | 18,338 | 24,744 | 31,346 | 40,130 |
| Other current assets | 34,526 | 38,406 | 43,675 | 48,871 |
| **Total assets** | **223,219** | **246,317** | **275,781** | **308,400** |
| ST debt | 53,546 | 55,266 | 59,009 | 63,422 |
| Other current liabilities | 20,481 | 21,378 | 22,672 | 24,875 |
| LT debt | 67,071 | 79,490 | 94,134 | 107,723 |
| Other LT liabilities | 2,378 | 2,609 | 2,886 | 3,219 |
| Shareholders' equity | 68,448 | 74,755 | 82,411 | 92,136 |
| Minority interest | 11,296 | 12,818 | 14,670 | 17,025 |
| **Total liabilities & equity** | **223,219** | **246,317** | **275,781** | **308,400** |

## CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **19,062** | **22,368** | **25,375** | **29,765** |
| Pre-tax profit | 7,684 | 11,697 | 14,220 | 18,092 |
| Tax | (1,554) | (2,339) | (2,844) | (3,618) |
| Deprec. & amort. | 10,260 | 11,746 | 13,284 | 14,897 |
| Associates | 419 | 377 | 340 | (558) |
| Working capital changes | (1,853) | (3,839) | (4,874) | (4,882) |
| Non-cash items | 0 | 0 | 0 | 0 |
| Other operating cashflows | 4,107 | 4,726 | 5,249 | 5,835 |
| **Investing** | **(10,044)** | **(23,848)** | **(30,040)** | **(30,755)** |
| Capex (growth) | (10,044) | (32,459) | (40,406) | (42,166) |
| Investments | 0 | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 0 | 8,612 | 10,366 | 11,410 |
| **Financing** | **5,704** | **7,885** | **11,267** | **9,775** |
| Dividend payments | (982) | (1,527) | (1,870) | (2,392) |
| Proceeds from borrowings | 64,573 | 67,418 | 73,385 | 76,744 |
| Loan repayment | (39,998) | (53,279) | (54,999) | (58,742) |
| Others/interest paid | (17,890) | (4,726) | (5,249) | (5,835) |
| **Net cash inflow (outflow)** | **14,722** | **6,406** | **6,602** | **8,784** |
| **Beginning cash & cash equivalent** | **3,616** | **18,338** | **24,744** | **31,346** |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **18,338** | **24,744** | **31,346** | **40,130** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 55.2 | 62.6 | 63.2 | 65.1 |
| Pre-tax margin | 19.3 | 26.2 | 27.7 | 31.3 |
| Net margin | 12.9 | 17.5 | 18.6 | 21.0 |
| ROA | 2.5 | 3.3 | 3.6 | 4.1 |
| ROE | 7.8 | 10.9 | 12.1 | 13.9 |
| | | | | |
| **Growth** | | | | |
| Turnover | 7.2 | 12.2 | 14.8 | 12.7 |
| EBITDA | 6.2 | 27.2 | 15.8 | 16.0 |
| Pre-tax profit | (12.2) | 52.2 | 21.6 | 27.2 |
| Net profit | (20.0) | 52.7 | 21.6 | 27.2 |
| Net profit (adj.) | (20.4) | 55.6 | 22.4 | 28.0 |
| EPS | (23.5) | 55.6 | 22.1 | 28.0 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 60.2 | 60.6 | 61.2 | 61.1 |
| Debt to equity | 176.2 | 180.3 | 185.8 | 185.8 |
| Net debt/(cash) to equity | 149.4 | 147.2 | 147.8 | 142.2 |
| Interest cover (x) | 5.8 | 6.5 | 6.9 | 7.1 |

## COMPANY RESULTS

# China Overseas Land & Investment (688 HK)

2022: Results Below Expectations; Targeting 20% Sales Growth In 2023

**Core attributable net profit decreased by 28.0% yoy to Rmb24.4b, below market expectations, dragged by delays in project construction, impairment provision of inventories and forex loss. Payout ratio stayed at 31%. Net gearing rose but COLI strengthened its landbank in Tier 1 and core Tier 2 cities. For 2023, COLI is targeting: a) 20% yoy growth in contracted sales, and b) 30% growth in rental income. Revise down our earnings forecasts. Maintain BUY. Lower target price to HK$27.14.**

### 2022 RESULTS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | yoy | UOBKH Estimate | Actual vs Est. |
|---|---|---|---|---|---|
| **Revenue** | **242,241** | **180,322** | **-25.6%** | **207,620** | **-13.1%** |
| - property development | 236,356 | 174,511 | -26.2% | 200,902 | -13.1% |
| - property investment | 4,667 | 4,741 | 1.6% | 5,134 | -7.7% |
| - Other operation | 1,218 | 1,070 | -12.1% | 1,583 | -32.4% |
| Gross Profit | 57,026 | 39,372 | -31.0% | 45,187 | -12.9% |
| EBIT | 60,310 | 34,882 | -42.2% | 43,081 | -19.0% |
| Attributable net profit | 40,155 | 23,265 | -42.1% | 29,317 | -20.6% |
| Fair value gains on investment properties | 5,540 | 4,796 | | | |
| Net FX losses | 2,457 | -4,283 | | | |
| Core underlying net profit | **33,920** | **24,420** | **-28.0%** | **29,317** | **-16.7%** |
| Core EPS (RMB / share) | 3.10 | 2.23 | | | |
| DPS (HK$ / share) | 1.21 | 0.80 | | | |
| Dividend payout ratio | 30% | 31% | 0.80 | | |
| **Margins** | | | | | |
| Gross Profit Margin | 23.5% | 21.3% | -2.2 | 21.8% | |
| SG&A to revenue | -2.9% | -3.6% | -0.7 | -2.9% | |
| Core Net Profit Margin | 14.0% | 13.5% | -0.5 | 14.1% | |

*Source: COLI, UOB Kay Hian*

### RESULTS

- **Results below expectations.** Revenue decreased by 25.6% yoy, partly due to delay in project construction caused by COVID-19 restrictions. Gross profit margin was 23.5%, down 2.2ppt yoy. Attributable net profit decreased by 42.1%, dragged by: a) Rmb2,847b impairment provision made on inventories, and b) net foreign exchange loss of Rmb4,283m. Excluding fair value gains on investment properties and forex loss, core net profit declined by 28% yoy to Rmb24.4b. Annual DPS is HK$0.80, implying a stable payout ratio of 31%.

### KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 242,240.8 | 180,321.6 | 202,792.1 | 243,849.0 | 269,435.7 |
| EBITDA | 50,465.1 | 32,395.0 | 35,778.0 | 43,800.4 | 48,635.9 |
| Operating profit | 50,057.1 | 31,871.8 | 35,232.7 | 43,232.9 | 48,046.2 |
| Net profit (rep./act.) | 40,155.4 | 23,264.7 | 26,865.7 | 31,761.8 | 35,058.5 |
| Net profit (adj.) | 33,920.0 | 24,420.0 | 26,865.7 | 31,761.8 | 35,058.5 |
| EPS (sen) | 309.9 | 223.1 | 245.5 | 290.2 | 320.3 |
| PE (x) | 5.4 | 7.4 | 6.8 | 5.7 | 5.2 |
| P/B (x) | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| EV/EBITDA (x) | 7.1 | 11.1 | 10.0 | 8.2 | 7.4 |
| Dividend yield (%) | 6.5 | 4.3 | 4.4 | 5.2 | 5.8 |
| Net margin (%) | 16.6 | 12.9 | 13.2 | 13.0 | 13.0 |
| Net debt/(cash) to equity (%) | 32.6 | 45.5 | 41.7 | 36.1 | 32.9 |
| Interest cover (x) | 58.3 | 30.7 | 30.3 | 33.3 | 33.3 |
| ROE (%) | 12.2 | 6.7 | 7.3 | 8.1 | 8.2 |
| Consensus net profit | - | - | 33,338 | 37,035 | 38,772 |
| UOBKH/Consensus (x) | - | - | 0.81 | 0.86 | 0.90 |

*Source: COLI, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | HK$18.96 |
| Target Price | HK$27.14 |
| Upside | +43.14% |
| *(Previous TP* | *HK$29.35)* |

### COMPANY DESCRIPTION

China Overseas Land and Investment Limited is a member of China State Construction Engineering Corporation. The company was founded in Hong Kong in 1979, principally engaged in property development and investment operations.

### STOCK DATA

| | |
|---|---|
| GICS sector | Real Estate |
| Bloomberg ticker: | 688 HK |
| Shares issued (m): | 10,944.9 |
| Market cap (HK$m): | 207,515.0 |
| Market cap (US$m): | 26,435.7 |
| 3-mth avg daily t'over (US$m): | 48.4 |

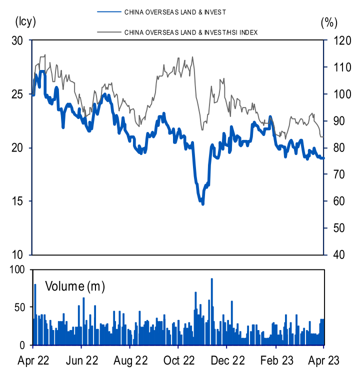
**Price Performance (%)**

52-week high/low HK$27.15/HK$14.70

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (2.6) | (8.0) | (7.3) | (19.1) | (8.0) |

| Major Shareholders | % |
|---|---|
| - | - |
| - | - |
| - | - |
| FY23 NAV/Share (HK$) | 36.19 |
| FY23 Net Debt/Share (HK$) | 14.38 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Liu Jieqi**
+852 2826 1392
jieqi.liu@uobkayhian.com.hk

**Damon Shen**
+86 21 54047225 ext.820
damonshen@uobkayhian.com

- **Strengthening presence in Tier 1 and core Tier 2 cities.** In the open bidding market, China Overseas Land and Investment (COLI) (excluding China Overseas Grand Oceans) acquired 40 land parcels in 2022 for a total consideration of Rmb110.7b, which is equivalent to 43.5% of its total contracted sales in 2022. Total new saleable resources amounted to Rmb240b, 87% of which is in Tier 1 and core Tier 2 cities, bring the contribution of Tier 1 and core Tier 2 cities in total saleable resources to 76%. Besides, attribution ratio of new land acquired remains high at 82.4% on GFA basis or 78.0% on total consideration basis.

- **Active land banking in non-public market.** In 2022, COLI invested Rmb10.6b in M&A projects in Shanghai, Guangzhou and Chengdu. Besides, COLI has been actively investing in urban redevelopment projects in core locations of Tier 1 cities. The CITIC Town project launched a sale recently and recorded Rmb9.2b in contracted sales on the first day, thanks to its premium location (only 2.1 kilometres to Tiananmen Square). Besides, the Shanghai redevelopment project in East Jianguo Road of Shanghai will also launch sales in 2023.

- **Rising net gearing ratio, while funding cost remains lowest in industry.** With cash on hand decreasing by 15.8% yoy and total debt growing by 11.8% yoy, net gearing ratio edged up by 11.8ppt to 42.9% as of Dec 22. Average funding cost went up by 0.02ppt to 3.57%, which remains the lowest in China's property sector.

## STOCK IMPACT

- **Targets 20% yoy growth in contracted sales in 2023.** In 2022, COLI's sales schedule was negatively impacted by COVID-19. For 2023, COLI is planning for Rmb790.0b in saleable resources, of which 73% will be located in Tier 1 and core Tier 2 cities. Besides, over 50% of saleable resources are expected to be launched in 1H23. Backed by abundant saleable resources and an improved macro environment, management is confident in achieving its annual sales target. Assuming 90% completion of its sales launch plan and 50% sell-through rate, contracted sales are expected to reach over Rmb350b, implying 20.6% yoy growth over the Rmb294.8b of sales in 2022.

- **To accelerate opening of new offices.** COLI targets to open five new shopping malls and 10 new office buildings, as compared to five new malls/one new office opened in 2022. Occupancy ratio of its office portfolio improved by 8.5ppt to 87.0% while retail sales of its shopping mall portfolio increased by 11.2% yoy (or down by 11% yoy per GFA). Further improvement of operations will be another rental driver. Management targets 30% yoy growth in rental income in 2023.

## EARNINGS REVISION/RISK

- **We revised down our earnings forecasts and introduce 2025 forecast.** We trim down our earnings forecast for 2023/24 by 23/29% to factor in slower-than-expected contracted sales in 2022. We also introduce our earnings forecast for 2025.

- **Key risks:** a) Economic recovery is worse than expected, and b) harsher-than-expected property policies (eg price cap on new home projects) in 2023.

## VALUATION/RECOMMENDATION

- **We maintain BUY on COLI with a lower target price of HK$27.14,** derived from a 25% discount to its estimated NAV of HK$36.19. Our target price implies 0.7x 2023 P/B. We update our NAV calculation to factor in the land acquisition in 2022. However, we also raise our NAV discount from 20% previously to 25% reflect the rising risks in the land market.

## SHARE PRICE CATALYST

- Stronger-than-expected recovery of property sales.

- Better-than-expected performance of shopping malls.

## PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **180,321.6** | **202,792.1** | **243,849.0** | **269,435.7** |
| EBITDA | 32,395.0 | 35,778.0 | 43,800.4 | 48,635.9 |
| Deprec. & amort. | 523.2 | 545.4 | 567.5 | 589.7 |
| EBIT | 31,871.8 | 35,232.7 | 43,232.9 | 48,046.2 |
| Total other non-operating income | 3,010.5 | 2,000.0 | 2,000.0 | 2,000.0 |
| Associate contributions | 2,181.4 | 2,933.6 | 2,557.5 | 2,745.6 |
| Net interest income/(expense) | (1,056.7) | (1,181.9) | (1,316.8) | (1,461.7) |
| **Pre-tax profit** | **36,006.9** | **38,984.4** | **46,473.6** | **51,330.1** |
| Tax | (11,450.8) | (10,704.7) | (13,040.2) | (14,426.4) |
| Minorities | (1,291.4) | (1,414.0) | (1,671.7) | (1,845.2) |
| Preferred dividends | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net profit** | **23,264.7** | **26,865.7** | **31,761.8** | **35,058.5** |
| Net profit (adj.) | 24,420.0 | 26,865.7 | 31,761.8 | 35,058.5 |

## BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 197,312.1 | 207,612.1 | 217,912.1 | 228,212.1 |
| Other LT assets | 51,542.4 | 59,622.1 | 68,019.0 | 76,435.7 |
| Cash/ST investment | 109,211.3 | 143,564.7 | 187,960.6 | 224,913.8 |
| Other current assets | 555,188.4 | 588,343.5 | 612,989.9 | 620,763.7 |
| **Total assets** | **913,254.1** | **999,142.3** | **1,086,881.5** | **1,150,325.3** |
| ST debt | 39,357.4 | 45,349.2 | 44,595.7 | 71,922.2 |
| Other current liabilities | 241,794.1 | 268,644.5 | 283,650.2 | 269,439.3 |
| LT debt | 231,027.9 | 255,560.1 | 290,964.4 | 299,042.2 |
| Other LT liabilities | 27,977.0 | 32,019.8 | 36,669.1 | 42,015.8 |
| Shareholders' equity | 354,479.7 | 377,536.5 | 409,298.3 | 444,356.8 |
| Minority interest | 18,618.1 | 20,032.1 | 21,703.8 | 23,549.0 |
| **Total liabilities & equity** | **913,254.1** | **999,142.3** | **1,086,881.5** | **1,150,325.3** |

## CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **(20,070.4)** | **42,316.0** | **56,277.2** | **50,604.2** |
| Pre-tax profit | 36,006.9 | 38,984.4 | 46,473.6 | 51,330.1 |
| Tax | (11,450.8) | (10,704.7) | (13,040.2) | (14,426.4) |
| Deprec. & amort. | (523.2) | (545.4) | (567.5) | (589.7) |
| Associates | (2,181.4) | (2,933.6) | (2,557.5) | (2,745.6) |
| Working capital changes | (39,525.1) | 19,742.7 | 28,017.0 | 18,894.7 |
| Non-cash items | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | (2,396.9) | (2,227.4) | (2,048.2) | (1,859.0) |
| **Investing** | **(23,000.0)** | **(23,000.0)** | **(23,000.0)** | **(23,000.0)** |
| Capex (growth) | (10,000.0) | (10,000.0) | (10,000.0) | (10,000.0) |
| Investments | (13,000.0) | (13,000.0) | (13,000.0) | (13,000.0) |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| **Financing** | **17,410.3** | **15,037.4** | **11,118.7** | **9,349.0** |
| Dividend payments | (7,617.7) | (9,026.7) | (10,671.8) | (11,779.4) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 80,000.0 | 80,000.0 | 80,000.0 | 80,000.0 |
| Loan repayment | (44,620.4) | (44,392.5) | (45,349.2) | (44,595.7) |
| Others/interest paid | (10,351.5) | (11,543.4) | (12,860.3) | (14,275.8) |
| **Net cash inflow (outflow)** | **(25,660.1)** | **34,353.3** | **44,395.9** | **36,953.2** |
| **Beginning cash & cash equivalent** | **129,861.4** | **109,211.3** | **143,564.7** | **187,960.6** |
| Changes due to forex impact | 5,010.0 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **109,211.3** | **143,564.7** | **187,960.6** | **224,913.8** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 18.0 | 17.6 | 18.0 | 18.1 |
| Pre-tax margin | 20.0 | 19.2 | 19.1 | 19.1 |
| Net margin | 12.9 | 13.2 | 13.0 | 13.0 |
| ROA | 2.6 | 2.8 | 3.0 | 3.1 |
| ROE | c6.7 | 7.3 | 8.1 | 8.2 |
| | | | | |
| **Growth** | | | | |
| Turnover | (25.6) | 12.5 | 20.2 | 10.5 |
| EBITDA | (35.8) | 10.4 | 22.4 | 11.0 |
| Pre-tax profit | (43.0) | 8.3 | 19.2 | 10.5 |
| Net profit | (42.1) | 15.5 | 18.2 | 10.4 |
| Net profit (adj.) | (28.0) | 10.0 | 18.2 | 10.4 |
| EPS | (28.0) | 10.0 | 18.2 | 10.4 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 42.0 | 43.1 | 43.8 | 44.2 |
| Debt to equity | 76.3 | 79.7 | 82.0 | 83.5 |
| Net debt/(cash) to equity | 45.5 | 41.7 | 36.1 | 32.9 |
| Interest cover (x) | 30.7 | 30.3 | 33.3 | 33.3 |

## COMPANY RESULTS

# China Resources Gas (1193 HK)

2022: Below Expectations; Gas Shortages In 4Q22 Weighed On Margins

**CR Gas reported 2022 earnings of HK$4,733.5m (-26.0% yoy), below market expectations. Gross margin declined 4.9ppt to 19.2%, mainly due to a decline in gas distribution's dollar margin to Rmb0.45/cbm. Gas sales volume was up 5.3% yoy to 35,890m cbm, slower than the previously guided high single-digit growth. New residential connection was rather resilient at 4.08m households (+15.7% yoy). Maintain BUY. Target price: HK$35.10.**

### 2022 RESULTS

| Year to 31 Dec (HKD m) | 2021 | 2022 | yoy % |
|---|---|---|---|
| **Revenue** | **79,642** | **94,338** | **18.5** |
| Cost of sales | (60,466) | (76,256) | 26.1 |
| **Gross profit** | **19,176** | **18,082** | **(5.7)** |
| SG&A | (9,583) | (10,187) | 6.3 |
| Finance cost | (382) | (557) | 45.7 |
| **PBT** | **11,184** | **8,616** | **(23.0)** |
| Tax | (2,744) | (2,307) | (15.9) |
| Minority interest | 2,044 | 1,575 | (23.0) |
| **Net Profit** | **6,395** | **4,733** | **(26.0)** |
| Gross margin (%) | 24.1 | 19.2 | (4.9) |
| Net profit margin (%) | 8.0 | 5.0 | (3.0) |

*Source: China Resources Gas, UOB Kay Hian*

### RESULTS

- **Below expectations.** China Resources Gas (CR Gas) reported 2022 earnings of HK$4,733.5m (-26.0% yoy), below market expectations The company has announced a final dividend of HK$0.90 share, bringing full-year dividend to HK$1.05 per share. The company has raised its payout ratio to 50%, +5ppt yoy.

- **Gross margin was down 4.9ppt to 19.2%.** The gross margin contraction was due to: a) decline in gas distribution dollar margin to Rmb0.45/cbm (2021: Rmb0.52/cbm), and b) margin contraction of gas connection segment from 42.4% in 2021 to 35.1% in 2022.

- **Gas sales volume expanded 5.3% yoy.** The company's gas sales volume expanded by 5.3% yoy to 35,890m cbm, of which residential usage grew 11.0% yoy while commercial usage grew 10% yoy. Gross profit from the gas distribution segment was down 16.5% yoy to HK$5.87b, although the yoy decline has improved to -6% yoy in 2H22 (1H22: -24.6% yoy) as they gradually complete the cost pass through process.

### KEY FINANCIALS

| Year to 31 Dec (HK$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 78,175 | 94,338 | 102,902 | 114,497 | 122,553 |
| EBITDA | 12,830 | 11,785 | 13,929 | 15,718 | 17,006 |
| Operating profit | 10,161 | 8,425 | 10,332 | 11,860 | 12,861 |
| Net profit (rep./act.) | 6,395 | 4,780 | 6,329 | 7,223 | 7,854 |
| Net profit (adj.) | 6,395 | 4,780 | 6,329 | 7,223 | 7,854 |
| EPS (sen) | 282.0 | 210.8 | 279.0 | 318.5 | 346.2 |
| PE (x) | 10.3 | 13.7 | 10.4 | 9.1 | 8.4 |
| P/B (x) | 1.6 | 1.7 | 1.6 | 1.4 | 1.3 |
| EV/EBITDA (x) | 7.5 | 8.2 | 6.9 | 6.1 | 5.7 |
| Dividend yield (%) | 4.4 | 3.3 | 4.3 | 5.0 | 5.4 |
| Net margin (%) | 8.2 | 5.1 | 6.2 | 6.3 | 6.4 |
| Net debt/(cash) to equity (%) | (0.0) | 31.3 | 32.5 | 29.5 | 26.4 |
| Interest cover (x) | 225.1 | 37.3 | 31.0 | 26.1 | 28.8 |
| ROE (%) | 16.5 | 11.9 | 15.4 | 16.2 | 16.1 |
| Consensus net profit | - | - | 6,280 | 6,960 | 7,660 |
| UOBKH/Consensus (x) | - | - | 1.01 | 1.04 | 1.03 |

*Source: China Resources Gas, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | HK$28.95 |
| Target Price | HK$35.10 |
| Upside | +21.2% |
| *(Previous TP* | *HK$38.00)* |

### COMPANY DESCRIPTION

CR Gas is the largest gas distributor in China in terms of connected and connectable households. CR Gas is well positioned in taking the advantage of ongoing urbanization trend in China. It has 248 city gas projects in 22 provinces as of end 2018.

### STOCK DATA

| | |
|---|---|
| GICS sector | Utilities |
| Bloomberg ticker: | 1193 HK |
| Shares issued (m): | 2,314.0 |
| Market cap (HK$m): | 68,610.5 |
| Market cap (US$m): | 8,740.3 |
| 3-mth avg daily t'over (US$m): | 14.5 |

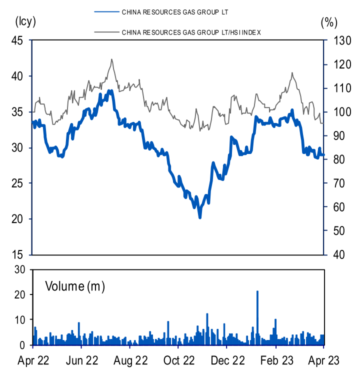
**Price Performance (%)**

52-week high/low HK$38.00/HK$20.10

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (12.5) | (1.2) | 16.0 | (12.9) | (1.2) |

| Major Shareholders | % |
|---|---|
| China Resources (Holdings) | 63.3 |
| - | - |
| - | - |
| FY23 NAV/Share (HK$) | 18.48 |
| FY23 Net Debt/Share (HK$) | 6.00 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Ziv Ang Sze Champ**
+603 2147 1826
zivang@uobkayhian.com

- **New residential connection at 4.08m households.** The number of newly added residential users in 2022 was rather resilient amid the challenging external environment. CR Gas secured 4.08m new residential households (+15.7% yoy) and 57,000 new commercial and industrial users. The total customer base has reached 54.37m users.

STOCK IMPACT

- **Dollar margin dragged by gas shortages during winter season.** The weak dollar margin from the gas distribution segment was partly dragged by the loss incurred during the winter season from residential users in certain cities. The company had to resort to pricier LNG supply due to the insufficient contracted supply from the domestic suppliers. This boosted the company's average gas costs but the regulated residential gas sales prices have remained stagnant. Some local governments have agreed to offer subsidies to the company to compensate for the losses incurred, but it has yet to be accrued in 2022.

- **Rudong LNG receiving stations to commence construction.** The company has obtained the necessary approvals and construction will commence in two months. Phase 1 of the project will have a turnover scale of 9b cbm and to hit 13.8b cbm in the future. The LNG receiving stations could cover the surrounding five provinces, We believe the construction of LNG receiving stations will further enhance the company's flexibility in sourcing alternative gas supply and it has started approaching foreign gas suppliers.

- **Targeting low teens gas sales growth.** Company is targeting 3.5m new residential user connections in 2023, slower than 2022's 4.08m households, of which around 80-85% will be from new property projects. Dollar margin is guided at 0.50/cbm. Gas sales volume is expected to achieve low teens yoy growth. With active interventions from the authorities to ensure sufficient contracted gas supply (especially for residential users) and effective cost pass through mechanism, the company is confident that the situation in 4Q22 is unlikely to happen again.

EARNINGS REVISION/RISK

- We cut our earnings forecasts for 2023F/24F by 14%/8%.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of HK$35.10.** We believe 2022 was the worst period and the operational environment for city gas distributors should continue to improve with more active interventions from the authorities, especially with more effective cost pass through mechanisms and reasonable contracted gas supply volume. Besides, with a high ratio of existing connected residential users located in Tier 3 and above cities, this should grant high growth potential to the company's high-margin comprehensive services segment and eventually help with margin recovery.

SHARE PRICE CATALYST

- a) Stronger-than-expected gas consumption, and b) steeper-than-expected correction of natural gas prices.

## PROFIT & LOSS

| Year to 31 Dec (HK$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **94,338** | **102,902** | **114,497** | **122,553** |
| EBITDA | 11,785 | 13,929 | 15,718 | 17,006 |
| Deprec. & amort. | 3,360 | 3,597 | 3,858 | 4,145 |
| EBIT | 8,425 | 10,332 | 11,860 | 12,861 |
| Total other non-operating income | (3) | (3) | (3) | (3) |
| Associate contributions | 510 | 967 | 1,124 | 1,192 |
| Net interest income/(expense) | (316) | (449) | (602) | (590) |
| **Pre-tax profit** | **8,616** | **10,847** | **12,380** | **13,460** |
| Tax | (2,307) | (2,495) | (2,847) | (3,096) |
| Minorities | (1,528) | (2,023) | (2,309) | (2,511) |
| **Net profit** | **4,780** | **6,329** | **7,223** | **7,854** |
| Net profit (adj.) | 4,780 | 6,329 | 7,223 | 7,854 |

## BALANCE SHEET

| Year to 31 Dec (HK$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 48,109 | 53,385 | 58,426 | 63,210 |
| Other LT assets | 35,870 | 38,495 | 41,285 | 44,151 |
| Cash/ST investment | 6,437 | 4,368 | 5,306 | 5,768 |
| Other current assets | 21,635 | 23,599 | 26,258 | 28,105 |
| **Total assets** | **112,052** | **119,846** | **131,275** | **141,235** |
| ST debt | 7,798 | 12,198 | 12,840 | 12,968 |
| Other current liabilities | 38,436 | 41,291 | 45,704 | 48,749 |
| LT debt | 10,953 | 6,050 | 6,210 | 6,242 |
| Other LT liabilities | 2,324 | 2,324 | 2,324 | 2,324 |
| Shareholders' equity | 39,335 | 42,755 | 46,659 | 50,904 |
| Minority interest | 13,206 | 15,229 | 17,538 | 20,049 |
| **Total liabilities & equity** | **112,052** | **119,846** | **131,275** | **141,235** |

## CASH FLOW

| Year to 31 Dec (HK$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **4,351** | **8,012** | **14,196** | **14,647** |
| Pre-tax profit | 8,616 | 10,847 | 12,380 | 13,460 |
| Tax | (2,307) | (2,495) | (2,847) | (3,096) |
| Deprec. & amort. | 3,012 | 3,225 | 3,459 | 3,716 |
| Associates | (510) | (967) | (1,124) | (1,192) |
| Working capital changes | (4,994) | 891 | 1,755 | 1,197 |
| Other operating cashflows | 535 | (3,489) | 575 | 562 |
| **Investing** | **(10,001)** | **(9,921)** | **(9,995)** | **(9,971)** |
| Capex (growth) | (8,500) | (8,500) | (8,500) | (8,500) |
| Investments | (1,500) | (1,506) | (1,506) | (1,506) |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | (1) | 85 | 11 | 35 |
| **Financing** | **4,524** | **(161)** | **(3,263)** | **(4,214)** |
| Dividend payments | (2,197) | (2,908) | (3,319) | (3,609) |
| Proceeds from borrowings | 13,600 | 13,000 | 13,000 | 13,000 |
| Loan repayment | (6,322) | (9,591) | (12,198) | (12,840) |
| Others/interest paid | (557) | (662) | (746) | (765) |
| **Net cash inflow (outflow)** | **(1,125)** | **(2,070)** | **938** | **463** |
| **Beginning cash & cash equivalent** | **7,563** | **6,437** | **4,368** | **5,306** |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **6,437** | **4,368** | **5,306** | **5,768** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 12.5 | 13.5 | 13.7 | 13.9 |
| Pre-tax margin | 9.1 | 10.5 | 10.8 | 11.0 |
| Net margin | 5.1 | 6.2 | 6.3 | 6.4 |
| ROA | 4.4 | 5.5 | 5.8 | 5.8 |
| ROE | 11.9 | 15.4 | 16.2 | 16.1 |
| **Growth** | | | | |
| Turnover | 20.7 | 9.1 | 11.3 | 7.0 |
| EBITDA | (8.1) | 18.2 | 12.8 | 8.2 |
| Pre-tax profit | (23.0) | 25.9 | 14.1 | 8.7 |
| Net profit | (25.3) | 32.4 | 14.1 | 8.7 |
| Net profit (adj.) | (25.3) | 32.4 | 14.1 | 8.7 |
| EPS | (25.3) | 32.4 | 14.1 | 8.7 |
| **Leverage** | | | | |
| Debt to total capital | 26.3 | 23.9 | 22.9 | 21.3 |
| Debt to equity | 47.7 | 42.7 | 40.8 | 37.7 |
| Net debt/(cash) to equity | 31.3 | 32.5 | 29.5 | 26.4 |
| Interest cover (x) | 37.3 | 31.0 | 26.1 | 28.8 |

## COMPANY RESULTS

# China Tourism Group Duty Free Corp (601888 CH)

2022: Sharp Earnings Decline; Poised For Expansion In 2023

**CTGDF's revenue declined 17.1%/19.6% yoy, and attributable net profit dipped 65.5%/47.9% yoy in 4Q22/2022. Duty-free sales dropped 39.4% yoy but duty-paid sales grew 16.5% yoy in 2022. We believe the company is poised for solid expansion in 2023 and thereafter, given its increasing operational efficiency in both retailing and supply chain, and the incremental sales from new projects and the downtown duty-free segment. Maintain BUY and trim target price to Rmb222.00.**

### 2022 RESULTS

| Year to 31 Dec (Rmbm) | 4Q21 | 4Q22 | yoy % chg | 2021 | 2022 | yoy % chg |
|---|---|---|---|---|---|---|
| Total revenue | 18,177 | 15,068 | (17.1) | 67,676 | 54,433 | (19.6) |
| Cost of sales | (13,371) | (11,906) | (11.0) | (44,882) | (38,982) | (13.1) |
| Gross profit | 4,805 | 3,162 | (34.2) | 22,793 | 15,451 | (32.2) |
| Gross profit margin | 26.4% | 21.0% | -5.5ppt | 33.7% | 28.4% | -5.3ppt |
| EBIT | 1,578 | 764 | (51.6) | 15,121 | 8,252 | (45.4) |
| EBIT margin | 8.7% | 5.1% | -3.6ppt | 22.3% | 15.2% | -7.2ppt |
| Attributable net profit | 1,165 | 402 | (65.5) | 9,654 | 5,030 | (47.9) |
| Core attributable net profit | 1,145 | 318 | (72.2) | 9,534 | 4,902 | (48.6) |

*Source: CTGDF, UOB Kay Hian*

### RESULTS

- **Sharp profit decline in 2022.** China Tourism Group Duty Free Corporation's (CTGDF) revenue dipped 17.1%/19.6% yoy in 4Q22/2022, and its attributable net profit dipped 65.5%/47.9% yoy, in line with its previous preliminary announcement. Gross margin shrank 5.5ppt/5.3ppt yoy, and EBIT margin narrowed 3.6ppt/7.2ppt yoy in 4Q22/2022. Selling expenses increased by only 4.4% yoy to Rmb4.0b in 2022, thanks to the Rmb1.6b savings of rental expenses based on the new rental agreement with key airports.

- **Duty-free sales declined 39.4% yoy in 2022**, while duty-paid sales expanded by 16.5% yoy. China Duty-free Group (CDFG) Sanya Downtown Duty-free Company recorded a 14.8% yoy sales drop, and Hainan Duty-free Company saw a 64.7% yoy sales decline. In contrast, Sunrise Duty-free Shanghai/China recorded a 13.2%/3.3% yoy sales increase thanks to the rising online sales due to the pandemic.

- **Negative cash flow unlikely to persist.** Cash received from selling goods declined 18.6% yoy, and operating cash flow was negative in 2022. However, its cash at hand rose 14.9% qoq as of end-22. We expect cash flow to normalise in 2023.

### KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 67,676 | 54,433 | 87,812 | 102,917 | 120,739 |
| EBITDA | 16,554 | 9,635 | 19,147 | 22,883 | 27,195 |
| Operating profit | 15,121 | 8,252 | 17,697 | 21,370 | 25,535 |
| Net profit (rep./act.) | 9,654 | 5,030 | 11,780 | 14,566 | 17,528 |
| Net profit (adj.) | 9,654 | 5,030 | 11,780 | 14,566 | 17,528 |
| EPS (sen) | 494.4 | 252.8 | 569.4 | 704.1 | 847.2 |
| PE (x) | 37.1 | 72.5 | 32.2 | 26.0 | 21.6 |
| P/B (x) | 12.1 | 7.8 | 6.5 | 5.4 | 4.6 |
| EV/EBITDA (x) | 21.7 | 37.2 | 18.7 | 15.7 | 13.2 |
| Dividend yield (%) | 0.8 | 0.4 | 0.9 | 1.2 | 1.4 |
| Net margin (%) | 14.3 | 9.2 | 13.4 | 14.2 | 14.5 |
| Net debt/(cash) to equity (%) | (43.7) | (47.8) | (46.1) | (41.8) | (35.7) |
| ROE (%) | 37.2 | 12.9 | 22.0 | 22.7 | 23.0 |
| Consensus net profit | - | - | 12,242 | 16,333 | 19,453 |
| UOBKH/Consensus (x) | - | - | 0.96 | 0.89 | 0.90 |
| UOBKH/Consensus (x) | | | | 12.45 | 2.56 |

*Source: CTGDF, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | Rmb183.24 |
| Target Price | Rmb222.00 |
| Upside | +21.2% |
| *(Previous TP* | *Rmb244.00)* |

### COMPANY DESCRIPTION

CTGDF is the largest duty-free operator in the world. It has more than 240 retail stores in China, and dominates duty-free sales in domestic airports and Hainan province.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | 601888 CH |
| Shares issued (m): | 2,068.9 |
| Market cap (Rmbm): | 377,558.6 |
| Market cap (US$m): | 54,911.2 |
| 3-mth avg daily t'over (US$m): | 321.6 |

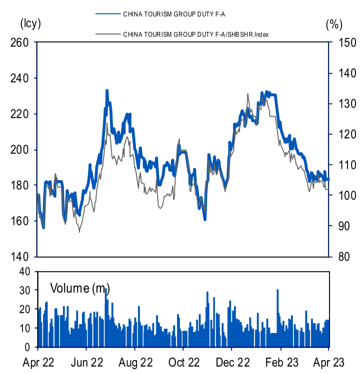
**Price Performance (%)**

52-week high/low Rmb232.93/Rmb156.11

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (7.3) | (15.2) | (7.6) | 11.5 | (15.2) |

| Major Shareholders | % |
|---|---|
| China Tourism Group | 50.3 |
| - | - |
| - | - |
| FY23 NAV/Share (Rmb) | 28.37 |
| FY23 Net Cash/Share (Rmb) | 13.07 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Shen Zhifeng**
+8621 5404 7225 ext.811
zhifeng@uobkayhian.com
**Ng Jo Yee**
+603 2147 1984
joyee@uobkayhian.com
**Jiang Xin**
+8621 5404 7225 ext.819
jiangxin@uobkayhian.com

## STOCK IMPACT

- **Limited concerns over the decline in average spending in 2M23.** Management attributed the decline in average spending in 2M23 to: a) the rising proportion of family shoppers; and b) insufficient supply of relatively higher-priced products (eg watch and jewellery) after China's unexpected reopening announcement. It added that: a) brand suppliers are increasing their productions; and b) there are also products that are out of stock in domestic duty-paid stores. We believe the two negative factors should be temporary. Although we do not expect a continuous yoy growth in tourists' average spending for each month, we are likely see the expansion in annual average spending in the future.

- **Increasing operational capabilities as expected.** In terms of retailing capability, the company has conducted an accurate targeting customer group portrait for each of its projects. For instance, Haikou International Duty-free Mall mainly targets tourists, business travellers, and local residents, while Sanya International Duty-free Mall mainly targets tourists. Moreover, in order to deeply exploit consumption potential, it will adjust its online business with the resumption of brand suppliers' duty-paid business. On the service side, it will further lift service quality (eg the customised services) for the growing number of high-net-worth customers, and will also enhance the services for mass customers and establish a channel for niche community communication. Thanks to the efforts made in the past years, the company has managed to collaborate with over 1,300 brands globally, and had over 26m members as of end-22.

- **Expecting supply chain efficiency to rise.** Besides the construction of an automated sorting warehouse in Hainan, Sanya, and other key cities (eg Shenzhen), the company also focused on improving the efficiency of its business process, including the set-up of a supply chain system and the implementation of digitalisation strategy. In 2023, CTGDF is expected to further improve its supply chain efficiency and coordinate well in: a) the online and offline business, b) the downtown and airport duty-free, and c) the domestic and overseas segments.

- **Optimistic on competition in overseas duty-free markets.** Management believes the resumption of entry & exit will not impact the Hainan duty-free market much, as: a) the overlap of overseas and Hainan tourists is small; b) the Rmb100,000 shopping limit per person offers tourists enough quota for shopping; and c) Hainan offers tourist one-stop shopping and services experiences with competitive product prices, new products, and limited edition products. It added that many brand suppliers came to Hainan for research and communication, and expressed their intention to actively participate in the duty-free market development in Hainan. Also, brand suppliers are placing great emphasis on the high channel value of the key airports, and are in discussion with CTGDF on the further development.

- **New projects and downtown duty-free to propel further expansion.** CTGDF said that phase I's Land II project will be commencing operations by the end of 3Q23. The perfume & cosmetics business in phase I project in Sanya will be relocated to "Land II" to form a global leading one-stop shopping and service centre of perfume & cosmetics. Moreover, it sees synergies, and rising profitability and anti-risk ability after the investment in CNSC (China National Service Corporation for Chinese Personnel Working Abroad).

## EARNINGS REVISION/RISK

- **Earnings revision.** We trim our earnings estimates by 11.3%/17.5% for 2023/24.

- **Risks.** A sharp decline in economic growth; sales growth and margin recovery may be below expectation.

## VALUATION/RECOMMENDATION

- **Maintain BUY and trim target price to Rmb222.00.** We maintain BUY as: a) CTGDF is the best representative of China's growing duty-free market; and b) it has a relatively high growth visibility given the new projects in the pipeline, expansion of the downtown duty-free segment, and the government's strong policy support. We trim target price to Rmb222.00, which implies 31.5x 2023F PE and 26.2x 2024F PE.

## KEY DATA

| | 2021 | 2022 | yoy chg |
|---|---|---|---|
| Group duty-free sales | 42,936 | 26,032 | (39.4) |
| Group duty-paid sales | 24,006 | 27,974 | 16.5 |
| **CDFG Sanya Downtown Duty-free** | | | |
| Operating Revenue | 35,509 | 30,244 | (14.8) |
| Operating Profit | 4,470 | 3,015 | (32.6) |
| Operating Profit margin | 12.6% | 10.0% | -2.6ppt |
| Attributed Net profit | 4,168 | 2,555 | (38.7) |
| Attributable NP margin | 11.7% | 8.4% | -3.3ppt |
| **Hainan Duty Free Co., Ltd.** | | | |
| Operating Revenue | 15,962 | 5,638 | (64.7) |
| Operating Profit | 1,942 | 862 | (55.6) |
| Operating Profit margin | 12.2% | 15.3% | 3.1ppt |
| Net Profit | 1,846 | 724 | (60.8) |
| Net Profit margin | 11.6% | 12.8% | 1.3ppt |
| Attributed Net profit | 793 | 346 | (56.3) |
| Attributable NP margin | 5.0% | 6.1% | 1.2ppt |
| **Sunrise Duty-free (Shanghai)** | | | |
| Operating Revenue | 12,491 | 14,145 | 13.2 |
| Operating Profit | 1,806 | 1,650 | (8.6) |
| Operating Profit margin | 14.5% | 11.7% | -2.8ppt |
| Net Profit | 1,352 | 1,234 | (8.8) |
| Net Profit margin | 10.8% | 8.7% | -2.1ppt |
| Attributed Net profit | 690 | 629 | (8.8) |
| Attributable NP margin | 5.5% | 4.4% | -1.1ppt |
| **Sunrise Duty-free (China)** | | | |
| Operating Revenue | 1,907 | 1,969 | 3.3 |
| Net Profit | 1,381 | 10 | n.a. |
| Net Profit margin | 72.4% | 0.5% | -71.9ppt |

*Source: CTGDF, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **54,432.9** | **87,811.5** | **102,917.5** | **120,739.1** |
| EBITDA | 9,635.0 | 19,147.2 | 22,883.4 | 27,194.6 |
| Deprec. & amort. | 1,383.4 | 1,450.5 | 1,513.3 | 1,659.4 |
| EBIT | 8,251.7 | 17,696.6 | 21,370.1 | 25,535.2 |
| Associate contributions | 162.5 | 150.0 | 151.0 | 150.0 |
| Net interest income/(expense) | (220.3) | 65.7 | 216.2 | 216.0 |
| **Pre-tax profit** | **7,616.9** | **17,211.6** | **20,959.8** | **25,095.9** |
| Tax | (1,428.7) | (2,839.9) | (3,458.4) | (4,140.8) |
| Minorities | (1,157.9) | (2,591.9) | (2,935.4) | (3,427.5) |
| **Net profit** | **5,030.4** | **11,779.8** | **14,566.1** | **17,527.5** |
| Net profit (adj.) | 5,030.4 | 11,779.8 | 14,566.1 | 17,527.5 |

## BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 5,434.0 | 6,310.4 | 7,328.8 | 8,057.3 |
| Other LT assets | 13,268.1 | 20,671.9 | 25,205.5 | 23,079.0 |
| Cash/ST investment | 26,891.7 | 30,731.4 | 32,808.2 | 33,247.2 |
| Other current assets | 30,313.8 | 34,848.7 | 44,050.2 | 64,959.5 |
| **Total assets** | **75,907.6** | **92,562.4** | **109,392.7** | **129,343.0** |
| ST debt | 1,945.3 | 1,950.8 | 1,953.6 | 1,956.8 |
| Other current liabilities | 15,535.0 | 19,467.7 | 22,327.7 | 25,689.6 |
| LT debt | 1,737.7 | 1,737.7 | 1,737.7 | 1,737.7 |
| Other LT liabilities | 2,562.2 | 2,562.2 | 2,562.2 | 2,562.2 |
| Shareholders' equity | 48,573.4 | 58,698.1 | 69,730.3 | 82,888.0 |
| Minority interest | 5,554.0 | 8,145.9 | 11,081.3 | 14,508.8 |
| **Total liabilities & equity** | **75,907.6** | **92,562.4** | **109,392.7** | **129,343.0** |

## CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **(3,415.2)** | **11,715.1** | **10,550.2** | **3,127.3** |
| Pre-tax profit | 7,616.9 | 17,211.6 | 20,959.8 | 25,095.9 |
| Tax | (1,428.7) | (2,839.9) | (3,458.4) | (4,140.8) |
| Deprec. & amort. | 213.8 | 1,234.2 | 1,281.0 | 1,337.2 |
| Working capital changes | (11,635.8) | (3,890.7) | (8,232.3) | (19,165.0) |
| Other operating cashflows | 1,818.4 | 0.0 | 0.0 | 0.0 |
| **Investing** | **(3,806.7)** | **(6,373.5)** | **(5,183.6)** | **1,394.7** |
| Capex (growth) | (2,995.4) | (9,514.3) | (6,833.1) | 60.7 |
| Others | (811.3) | 3,140.9 | 1,649.4 | 1,334.0 |
| **Financing** | **15,454.6** | **(1,501.9)** | **(3,289.8)** | **(4,082.9)** |
| Dividend payments | (3,676.1) | (1,655.1) | (3,533.9) | (4,369.8) |
| Proceeds from borrowings | 4,010.0 | 153.2 | 244.1 | 286.9 |
| Others/interest paid | 15,120.7 | 0.0 | 0.0 | 0.0 |
| **Net cash inflow (outflow)** | **8,232.7** | **3,839.7** | **2,076.7** | **439.0** |
| **Beginning cash & cash equivalent** | **16,656.5** | **26,891.7** | **30,731.4** | **32,808.2** |
| Changes due to forex impact | 2,002.5 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **26,891.7** | **30,731.4** | **32,808.2** | **33,247.2** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 17.7 | 21.8 | 22.2 | 22.5 |
| Pre-tax margin | 14.0 | 19.6 | 20.4 | 20.8 |
| Net margin | 9.2 | 13.4 | 14.2 | 14.5 |
| ROA | 7.7 | 14.0 | 14.4 | 14.7 |
| ROE | 12.9 | 22.0 | 22.7 | 23.0 |
| | | | | |
| **Growth** | | | | |
| Turnover | (19.6) | 61.3 | 17.2 | 17.3 |
| EBITDA | (41.8) | 98.7 | 19.5 | 18.8 |
| Pre-tax profit | (48.5) | 126.0 | 21.8 | 19.7 |
| Net profit | (47.9) | 134.2 | 23.7 | 20.3 |
| Net profit (adj.) | (47.9) | 134.2 | 23.7 | 20.3 |
| EPS | (48.9) | 125.3 | 23.7 | 20.3 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 6.4 | 5.2 | 4.4 | 3.7 |
| Debt to equity | 7.6 | 6.3 | 5.3 | 4.5 |
| Net debt/(cash) to equity | (47.8) | (46.1) | (41.8) | (35.7) |
| Interest cover (x) | 43.7 | n.a. | n.a. | n.a. |

## COMPANY RESULTS

# Great Wall Motor (2333 HK)

### 4Q22: Net Profit Down By 94% YOY/96% QOQ, Missing Our Estimates

**GWM's 4Q22 net profit came in worse than expected at Rmb106m (-94% yoy/-96% qoq). Looking ahead, we expect GWM's earnings to be dragged due to losing market share to EV players and stiffening competition in China's ICV market. We cut our 2023-24 net profit forecasts by 37%/53% to Rmb4,075m/Rmb3,562m respectively, and introduce our 2025 forecast of Rmb3,274m. Maintain SELL. Cut target price from HK$9.00 to HK$6.00.**

#### 4Q22 RESULTS

| Year to 31 Dec (Rmbm) | 4Q22 | yoy % chg | qoq % chg | 2022 | yoy % chg |
|---|---|---|---|---|---|
| Sales volume ('000 units) | 265 | (33.2) | (6.5) | 1,068 | (16.7) |
| Revenue | 37,860 | (17.0) | 1.4 | 137,340 | 0.7 |
| Gross profit | 6,788 | (2.7) | (19.1) | 26,601 | 20.7 |
| Gross margin (%) | 17.9 | 2.6 | (4.5) | 19.4 | 3.2 |
| Net profit | 106 | (94.1) | (95.9) | 8,266 | 22.9 |
| Net profit (adj) | n.a. | n.a. | n.a. | 4,477 | 6.5 |
| Net margin (%) | n.a. | n.a. | n.a. | 3.3 | 0.2 |

Source: GWM, UOB Kay Hian

#### RESULTS

- **4Q22 net profit down 94% yoy/96% qoq.** Great Wall Motor (GWM) posted disappointing 4Q22 net profit of Rmb106m (-94% yoy/-96% qoq), bringing full-year 2022 net profit to Rmb8,266m (+23% yoy). GWM's earnings plunge in 4Q22 was due to sales decline, margin squeeze and the absence of extraordinary gains such as forex gains. Stripping out extraordinary items, core net profit grew by 6.5% yoy to Rmb4,477m in 2022.
- **Double whammy of sales decline and margin squeeze.** GWM's sales volume for both internal combustion engine vehicles (ICVs) and electric vehicles (EVs) plummeted by 33% yoy respectively in 4Q22. Revenue tumbled 17% and edged up 1% qoq in 4Q22, with the ASP hike partly offsetting sales volume decline. Gross margin dropped by 4.5ppt qoq to 17.9% in 4Q22.
- **FCF turned negative in 2022.** Operating cash flow slumped by 65% yoy to Rmb12.3b in 2022. Meanwhile, capex and R&D expenditure jumped 25% yoy to Rmb16.3b in 2022. As such, free cash flow (FCF) turned from Rmb21.5b in 2021 to negative Rmb4.0b in 2022. Net cash plummeted by 56% yoy from Rmb11.57b as at end-21 to Rmb5.05b as at end-22.

#### KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 136,405 | 137,340 | 162,251 | 182,533 | 202,814 |
| EBITDA | 10,450 | 9,673 | 11,286 | 11,863 | 13,160 |
| Operating profit | 4,856 | 3,063 | 3,897 | 3,574 | 3,971 |
| Net profit (rep./act.) | 6,726 | 8,266 | 4,075 | 3,462 | 3,274 |
| Net profit (adj.) | 4,056 | 2,450 | 4,075 | 3,462 | 3,274 |
| EPS (fen) | 43.9 | 28.0 | 48.0 | 40.8 | 38.6 |
| PE (x) | 19.2 | 30.1 | 17.5 | 20.7 | 21.8 |
| P/B (x) | 1.3 | 1.1 | 1.1 | 1.0 | 1.0 |
| EV/EBITDA (x) | 7.9 | 8.6 | 7.3 | 7.0 | 6.3 |
| Dividend yield (%) | 4.4 | 3.4 | 1.7 | 1.5 | 0.0 |
| Net margin (%) | 4.9 | 6.0 | 2.5 | 1.9 | 1.6 |
| Net debt/(cash) to equity (%) | (18.6) | (7.7) | 4.5 | 17.6 | 31.6 |
| Interest cover (x) | n.a. | n.a. | n.a. | 15.7 | 7.6 |
| ROE (%) | 11.3 | 13.0 | 6.2 | 5.1 | 4.7 |
| Consensus net profit | - | - | 9,351 | 11,054 | n.a. |
| UOBKH/Consensus (x) | - | - | 0.44 | 0.31 | n.a. |

Source: GMW, Bloomberg, UOB Kay Hian

## SELL

(Maintained)

| | |
|---|---|
| Share Price | HK$9.69 |
| Target Price | HK$6.00 |
| Upside | -38.1% |
| *(Previous TP* | *HK$9.00)* |

#### COMPANY DESCRIPTION

Based in Baoding, in Hebei province, Great Wall Motor produces and sells pick-up trucks, SUVs and sedans under its proprietary brand Great Wall.

#### STOCK DATA

| | |
|---|---|
| GICS sector | Automobile |
| Bloomberg ticker: | 2333 HK |
| Shares issued (m): | 2,511 |
| Market cap (HK$m): | 24,334 |
| Market cap (US$m): | 3,120 |
| 3-mth avg daily t'over (US$m): | 111.6 |

**Price Performance (%)**

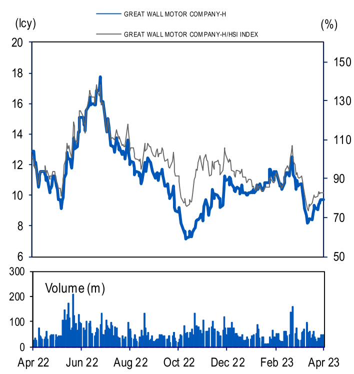
52-week high/low HK$17.96/HK$6.90

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (8.8) | (4.6) | 8.5 | (24.9) | (5.6) |

| Major Shareholders | % |
|---|---|
| Wei Jian Jun | 56.04 |
| - | - |
| - | - |

| | |
|---|---|
| FY23 NTAV/Share (Rmb) | 4.83 |
| FY23 Net Cash/Share (Rmb) | 1.75 |

#### PRICE CHART




Source: Bloomberg

#### ANALYST(S)

**Ken Lee**
+852 2236 6760
ken.lee@uobkayhian.com.hk

**Jessie Guo**
+86 21 5404 7225 ext. 810
jessieguo@uobkayhian.com

STOCK IMPACT

- **We cut our 2023-24 sales volume estimates for GWM by 25%/33% to 1.20m units/1.35m units and introduce our 2025 sales estimate of 1.50m units,** lower than the company's 2023 sales target of 1.6m units, as the company's ICV products (88% of total sales volume in 2022) are losing market share to EVs.

- **Looking ahead, GWM will step up development of its EV business.** In 2023, GWM will roll out 11 new EV models (mainly the PHEVs built on Lemon Platform), including Haval all-new PHEVs, Tank 500 PHEV, Dagou PHEV, Blue Mountain DHT PHEV, Mocha PHEV, Latte PHEV, etc. In addition, GWM will have two separate product lines for EVs and ICE-cars respectively – the PHEVs/BEVs priced at Rmb140,000-200,000/Rmb180,000-300,000 and the ICE SUVs priced at ~Rmb100,000, based on the view that PHEVs/BEVs are taking market share from ICE-cars in the Rmb140,000-200,000/Rmb180,000-300,000 segment and ICE-cars are being forced to move down the price curve from Rmb120,000-130,000 to ~Rmb100,000.

- **Half-hearted electrification initiative unlikely to work amid stiff competition.** From what we got from the conference call, as with other conventional automakers, GWM has yet to fully commit in the EV business, given the inherited burden of the ICE-car business. GWM will keep its ICV business in the foreseeable future. Meanwhile GWM will launch more PHEV models to tap the Rmb140,000-200,000 segment occupied by BYD. As such, GWM will compete head-to-head with BYD in the segment, which does not seem to be very promising, as GWM's DHT is still lagging behind BYD's DM-i in fuel efficiency and value-for-money.

- **We trim gross margin assumptions for 2023-24 from 19.5%/19.5% to 17.8%/17.4% respectively and introduce 2025 gross margin assumption of 17.4%,** based on lower-than-expected 4Q22 gross margin of 17.9% and intensifying price war in China's ICV market as a result of the transition in emission standard and competition from EVs. Though GWM indicated that they will not join the price war, we think it will be inevitable for the company, given its market position and the intensifying competition.

EARNINGS REVISION/RISK

- **We slash 2023-24 net profit forecasts by 38%/53% to Rmb4,075m/Rmb3,462m respectively and introduce 2025 net profit forecast of Rmb3,274m,** based on lower sales volume estimates and gross margin assumptions. Our 2023-24 earnings estimates are over 50% below consensus, as we expect lower sales and margins and do not factor in any extraordinary gains like the street. The street is extrapolating the exceptional gains (including the over Rmb2b in forex gain) in the future, which we deem unlikely. Note that GWM's 2022 core net profit only reached Rmb2.45b, while consensus 2023 net profit is as high as Rmb9.35b.

- **FCF deficit to expand, turning from net cash to net debt in 2023.** GWM's FCF has turned negative since 2022 (ie it is burning cash) and we expect the FCF deficit to expand based on the lacklustre earnings and increasing capex and R&D expenditure for the electrification initiative. Meanwhile, GWM will probably turn from net cash to net debt in 2023. This will make it more difficult for GWM to keep its high dividend pay-out ratio and continuously buy back shares. As such, dividend payout ratio dropped from 51% in 2021 to 31% in 2022. We also do not expect further share buybacks for GWM in 2023-25, as it did in 2022.

- **Risks.** Downsides to our earnings estimates lies in worse-than-expected sales of the new models and bigger-than-expected price cut.

VALUATION/RECOMMENDATION

- **Maintain SELL and cut target price from HK$9.00 to HK$6.00,** based on lower 2023F EPS and the unchanged 11x 2023F PE (on a par with historical mean one-year forward PE).

CATALYST

- a) Disappointing monthly sales, and b) worse-than-expected quarterly earnings.

## PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **137,340** | **162,251** | **182,533** | **202,814** |
| EBITDA | 9,673 | 11,286 | 11,863 | 13,160 |
| Depreciation & amortization | (6,609) | (7,389) | (8,289) | (9,189) |
| **EBIT** | **3,063** | **3,897** | **3,574** | **3,971** |
| Total other non-operating income | 2,535 | - | - | - |
| Associate contributions | 721 | 600 | 500 | 400 |
| Net interest income/(expense) | 2,488 | 31 | (227) | (520) |
| **Pre-tax profit** | **8,807** | **4,527** | **3,847** | **3,851** |
| Tax | (554) | (453) | (385) | (578) |
| Minorities | 13 | - | - | - |
| **Net profit** | **8,266** | **4,075** | **3,462** | **3,274** |
| Net profit (recurrent) | 2,450 | 4,075 | 3,462 | 3,274 |

## BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 26,949 | 33,949 | 42,849 | 53,649 |
| Other LT assets | 50,728 | 54,938 | 58,249 | 60,660 |
| Cash/ST investment | 26,899 | 18,831 | 9,700 | 9,337 |
| Other current assets | 80,782 | 91,429 | 99,976 | 108,363 |
| **Total assets** | **185,357** | **199,147** | **210,774** | **232,009** |
| ST debt | 10,827 | 10,827 | 10,827 | 20,827 |
| Other current liabilities | 84,975 | 97,224 | 106,612 | 115,612 |
| LT debt | 15,406 | 15,406 | 15,406 | 15,406 |
| Other LT liabilities | 46 | 46 | 46 | 46 |
| Shareholders' equity | 65,201 | 66,742 | 68,982 | 71,217 |
| Minority interest | 15 | 15 | 15 | 15 |
| **Total liabilities & equity** | **185,357** | **199,147** | **210,774** | **232,009** |

## CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **12,311** | **12,436** | **12,319** | **13,196** |
| Pre-tax profit | 8,807 | 4,527 | 3,847 | 3,851 |
| Tax | (554) | (453) | (385) | (578) |
| Depreciation/amortisation | 6,609 | 7,389 | 8,289 | 9,189 |
| Associates | (721) | (600) | (500) | (400) |
| Working capital changes | (1,909) | 1,602 | 840 | 613 |
| Non-cash items | (1) | - | - | 1 |
| Other operating cashflows | 80 | (31) | 227 | 519 |
| **Investing** | **(10,505)** | **(17,048)** | **(19,306)** | **(21,448)** |
| Capex (growth) | 16,301 | 18,000 | 20,000 | 22,000 |
| Investments | 18,945 | 20,000 | 20,000 | 20,000 |
| Proceeds from sale of assets | 442 | - | - | - |
| Others | (46,192) | (55,048) | (59,306) | (63,448) |
| **Financing** | **(3,133)** | **(3,456)** | **(2,144)** | **7,890** |
| Dividend payments | (1,226) | (3,456) | (2,144) | (2,110) |
| Issue of shares | 357 | - | - | - |
| Proceeds from borrowings | 22,106 | 10,000 | 10,000 | 20,000 |
| Loan repayment | 12,812 | 10,000 | 10,000 | 10,000 |
| Others/interest paid | (37,183) | (20,000) | (20,000) | (20,000) |
| **Net cash inflow (outflow)** | **(1,009)** | **(8,068)** | **(9,131)** | **(362)** |
| **Beginning cash & cash equivalent** | **27,908** | **26,899** | **18,831** | **9,700** |
| Change due to forex impact | 317 | - | - | - |
| **Ending cash & cash equivalent** | **26,899** | **18,831** | **9,700** | **9,337** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | (0.6) | (0.4) | (0.3) | (0.2) |
| Pre-tax margin | 6.4 | 2.8 | 2.1 | 1.9 |
| Net margin | 1.8 | 2.5 | 1.9 | 1.6 |
| ROA | 4.6 | 2.1 | 1.7 | 1.5 |
| ROE | 13.0 | 6.2 | 5.1 | 4.7 |
| | | | | |
| **Growth** | | | | |
| Turnover | 0.7 | 18.1 | 12.5 | 11.1 |
| EBITDA | (29.4) | (31.0) | (16.7) | (20.0) |
| Pre-tax profit | 17.7 | (48.6) | (15.0) | 0.1 |
| Net profit | 22.9 | (50.7) | (15.0) | (5.4) |
| Net profit (adj.) | (39.6) | 66.3 | (15.0) | (5.4) |
| EPS | (36.3) | 71.8 | (15.0) | (5.4) |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 16.6 | 15.4 | 14.6 | 17.6 |
| Debt to equity | 47.1 | 46.0 | 44.5 | 57.2 |
| Net debt/(cash) to equity | (7.7) | 4.5 | 17.6 | 31.6 |
| Interest cover (x) | n.a. | n.a. | 15.7 | 7.6 |

## COMPANY RESULTS

# Haidilao International Holding (6862 HK)

2022: In Line; Margin Expansion On Higher Table Turnover And Staff Efficiency

**In line with its profit alert, Haidilao's revenue (excluding Super Hi) dropped 20.6% yoy and turned profitable in 2022, thanks to improved operations and staff efficiency. Management remains cautiously optimistic on restaurant openings in 2023 while staying upbeat on table turnover rate growth. We estimate a 0.7ppt yoy net profit margin expansion in 2023 on a higher table turnover rate and a lower staff costs ratio. Maintain HOLD and lift target price to HK$23.00.**

### 2022 RESULTS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | yoy % |
|---|---|---|---|
| Revenue | 39,097 | 31,039 | -20.6% |
| Cost of sales | (17,243) | (12,906) | -25.2% |
| Gross profit | 21,853 | 18,132 | -17.0% |
| Gross profit margin | 55.9% | 58.4% | 2.5ppt |
| EBIT | 666 | 2,239 | 236.1% |
| EBIT margin | 1.7% | 7.2% | 5.5ppt |
| Attributable net profit | (3,250) | 1,638 | - |

*Source: Haidilao, UOB Kay Hian*

### RESULTS

- **Results in line with profit alert.** Haidilao International (Haidilao) reported 2022 revenue of Rmb31b (-20.6% yoy) and attributable net profit of Rmb1.6b (vs 2021's loss of Rmb3.3b). Including the spun-off Super Hi and its subsidiaries (reported as "discontinued operations"), revenue of Rmb34.7b (-15.5% yoy) and attributable net profit of RMb1.4b (vs 2021's loss of Rmb4.2b) were largely in line with profit alert. Gross profit margin grew 2.5ppt yoy while EBIT margin expanded by 5.5ppt yoy in 2022, mainly due to lower staff expense ratio at 33% (-2.7ppt yoy).
- **Net opening of 22 restaurants in 2022 with an overall stable table turnover rate.** The total number of Haidilao restaurants rose to 1,371 as of end-Dec 22. It opened 24 new restaurants, resumed operations of 48 suspended restaurants under the "Hard Bone" plan and closed 50 restaurants under the "Woodpecker" plan. Overall table turnover rate stayed stable at 3x per day in 2022 (2021: 3x), while same-store table turnover rate was down to 3.1x per day (2021: 3.4x). Excluding impact from the pandemic, same-store table turnover rate increased slightly yoy in 2022.
- **Average spending per guest rose.** The total number of guests served declined by 24.9% yoy to 276.3m while average spending per guest was up by Rmb2.60 yoy to Rmb104.90 in 2022.

### KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 39,097 | 31,039 | 43,748 | 53,576 | 61,501 |
| EBITDA | 4,049 | 2,239 | 3,865 | 6,871 | 7,926 |
| Operating profit | 666 | 2,239 | 3,673 | 5,041 | 6,714 |
| Net profit (rep./act.) | (3,250) | 1,638 | 2,638 | 3,763 | 4,839 |
| Net profit (adj.) | (3,250) | 1,638 | 2,638 | 3,763 | 4,839 |
| EPS (sen) | (61.2) | 29.4 | 47.3 | 67.5 | 86.8 |
| PE (x) | n.m. | 63.3 | 39.3 | 27.6 | 21.4 |
| P/B (x) | 13.1 | 13.9 | 10.8 | 8.3 | 6.4 |
| EV/EBITDA (x) | 25.2 | 45.6 | 26.4 | 14.9 | 12.9 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin (%) | (8.3) | 5.3 | 6.0 | 7.0 | 7.9 |
| Net debt/(cash) to equity (%) | 115.4 | 43.8 | (18.0) | (20.8) | (32.3) |
| Interest cover (x) | 6.9 | 4.7 | 11.9 | 29.2 | 24.6 |
| ROE (%) | n.a. | 21.3 | 31.0 | 34.0 | 33.6 |
| Consensus net profit | - | - | 2,761 | 3,854 | 4,346 |
| UOBKH/Consensus (x) | - | - | 0.96 | 0.98 | 1.11 |

*Source: Haidilao, Bloomberg, UOB Kay Hian*

## HOLD

(Maintained)

| | |
|---|---|
| Share Price | HK$21.25 |
| Target Price | HK$23.00 |
| Upside | +8.2% |
| *(Previous TP* | *HK$21.20)* |

### COMPANY DESCRIPTION

Haidilao operates hotpot restaurants in Mainland China, HK, Taiwan, Singapore, US, South Korea and Japan. It also taps into condiment sales and delivery business.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | 6862 HK |
| Shares issued (m): | 5,574.0 |
| Market cap (HK$m): | 118,447.5 |
| Market cap (US$m): | 15,089.2 |
| 3-mth avg daily t'over (US$m): | 55.4 |

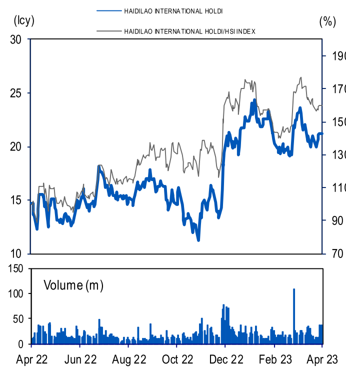
**Price Performance (%)**

52-week high/low HK$24.35/HK$11.21

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (2.1) | (5.1) | 43.5 | 43.9 | (5.1) |

| Major Shareholders | % |
|---|---|
| NP United | 32.33 |
| ZY NP Ltd. | 20.61 |
| - | - |
| FY23 NAV/Share (Rmb) | 1.69 |
| FY23 Net Debt/Share (Rmb) | 0.28 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Ng Jo Yee**
+603 2147 1984
joyee@uobkayhian.com
**Shen Zhifeng**
+8621 5404 7225 ext.811
zhifeng@uobkayhian.com
**Jiang Xin**
+86 21 5404 7225 ext.819
jiangxin@uobkayhian.com

- **Revenue from delivery business rose 103.3% yoy.** Haidilao's Community Operation business model, which comprises "takeaway + community + live broadcast + online mall", ran in >1,400 restaurants as of end-Dec 22 (vs 450 at the beginning of 2022) and covered >300 cities. Revenue of the delivery business rose 103.3% yoy and accounted for 4.1% of total revenue in 2022, vs 2021/1H22 at 1.6%/2.8%.

## STOCK IMPACT

- **Management remains cautiously optimistic on new restaurant openings in 2023,** backed by an economic recovery while overexpansion in the past has made the company more selective in its openings. Nevertheless, the newly opened restaurants in 2022 recorded decent performance and we expect management to apply that experience into 2023. The 24 new restaurants in 2022 reached profit breakeven within three months of opening while >96% of the reopened restaurants under "Hard Bone" plan reached positive operating cash flow in 2M23.

- **Upbeat on table turnover rate growth.** Management stated that table turnover rate saw a consistent increase in 1Q23, with Mar 23 seeing "a relatively better" yoy increase. The company is upbeat on overall table turnover rate growth, on the back of: a) launching new products and promoting regional products, b) providing better services with customer satisfaction as one of the KPIs, c) renovation of old restaurants to be more aesthetically pleasing and comfortable, and d) price adjustments. Table turnover threshold is currently at 2-3x per day for store profits to breakeven (vs around 3x before the pandemic) as it had increased staff efficiency. In 2023, Haidilao will continue to optimise staff costs via product standardisation and management process enhancement.

- **Digitalisation and experience to gain consumer insights.** Management emphasises the importance of in-person interactions, and digitalisation represents the tool to gain consumer insights and achieve performance targets.

- **Building a younger brand image.** Haidilao has carried out initiatives to create a youthful atmosphere in the following aspects: a) in consumer groups, it created marketing activities to increase interaction with the young consumer group, as well as cross-collaboration with other brands, b) in consumption methods, it launched 1- or 2-person set meals in live stream channels with lower ASP, and c) in consumption topics, Haidilao topics were trending on Xiaohongshu and Weibo.

## EARNINGS REVISION/RISK

- **Earnings revision.** We adjust our earnings estimates for 2023/24 by +2.2%/+3.2% respectively mainly to reflect improved staff efficiency.

- **Risks.** a) lower-than-expected table turnover rate growth, and b) higher-than-expected staff cost expense.

## VALUATION/RECOMMENDATION

- **We maintain HOLD and lift target price to HK$23.00.** Despite the reiteration of a cautious optimistic stance in opening new restaurants, we believe the opening pace could accelerate once overall table turnover rate improves significantly. Improving table turnover rate as a result of the economy reopening, as well as the optimised staff costs should boost bottom line margins in 2023. We maintain HOLD and our target price implies 43.7 2023F PE and 0.7x 2023 PEG.

## OVERALL OPERATIONAL PERFORMANCES

| Number of restaurants | as of end 1H22 | as of end 2022 | hoh chg |
|---|---|---|---|
| Tier 1 cities | 238 | 234 | (4) |
| Tier 2 cities | 522 | 538 | 16 |
| Tier 3 cities and below | 559 | 577 | 18 |
| Mainland China | 1,319 | 1,349 | 30 |
| HK, Macao, and Taiwan region | 20 | 22 | 2 |
| Total | **1,339** | **1,371** | **32** |

| Table turnover rate (times/day) | 2021 | 2022 | yoy chg |
|---|---|---|---|
| Tier 1 cities | 3.1 | 3.0 | -0.1 |
| Tier 2 cities | 3.1 | 3.0 | -0.1 |
| Tier 3 cities and below | 2.9 | 2.9 | 0.0 |
| Mainland China restaurants | 3.0 | 2.9 | -0.1 |
| HK, Macao, and Taiwan region | 3.0 | 3.5 | 0.5 |
| Newly-opened restaurants | 2.4 | 2.4 | 0.0 |
| Existing restaurants | 3.0 | 3.2 | 0.2 |
| Overall | **3.0** | **3.0** | **0.0** |

| Average spending per guest (Rmb) | 2021 | 2022 | yoy chg |
|---|---|---|---|
| Tier 1 cities | 111.8 | 114.2 | 2.1% |
| Tier 2 cities | 101.7 | 104.3 | 2.6% |
| Tier 3 cities and below | 95.7 | 97.9 | 2.3% |
| Mainland China restaurants | 101.2 | 103.2 | 2.0% |
| HK, Macao, and Taiwan region | 202.6 | 197.4 | -2.6% |
| Overall | **102.3** | **104.9** | **2.5%** |

*Source: Haidilao, UOB Kay Hian*

## SAME-STORE PERFORMANCES

| Table turnover rate (times/day) | 2021 | 2022 | yoy chg |
|---|---|---|---|
| Tier 1 cities | 3.4 | 3.1 | -0.3 |
| Tier 2 cities | 3.6 | 3.1 | -0.5 |
| Tier 3 cities and below | 3.6 | 3.1 | -0.5 |
| HK, Macao, and Taiwan region | 2.7 | 3.6 | 0.9 |
| Overall | **3.5** | **3.1** | **-0.4** |

| Average SSS per day (thousands RMB) | 2021 | 2022 | yoy chg |
|---|---|---|---|
| Tier 1 cities | 89.9 | 79.1 | -12.0% |
| Tier 2 cities | 87.0 | 72.1 | -17.1% |
| Tier 3 cities and below | 83.9 | 69.7 | -16.9% |
| HK, Macao, and Taiwan region | 95.0 | 138.7 | 46.0% |
| Overall | **87.4** | **73.8** | **-15.6%** |

*Source: Haidilao, UOB Kay Hian*

### PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **31,038.6** | **43,747.9** | **53,575.8** | **61,501.3** |
| EBITDA | 2,239.2 | 3,632.8 | 6,856.8 | 7,550.6 |
| Deprec. & amort. | 0.0 | 192.0 | 1,830.0 | 1,212.0 |
| EBIT | 2,239.2 | 3,440.8 | 5,026.8 | 6,338.6 |
| Total other non-operating income | 286.9 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 65.4 | 65.4 | 65.4 | 65.4 |
| Net interest income/(expense) | (473.9) | (308.3) | (224.9) | (318.0) |
| **Pre-tax profit** | **2,117.6** | **3,198.0** | **4,867.3** | **6,086.0** |
| Tax | (480.3) | (725.4) | (1,104.0) | (1,521.5) |
| Minorities | 1.2 | (2.2) | (3.4) | (4.1) |
| **Net profit** | **1,638.5** | **2,470.4** | **3,759.9** | **4,560.4** |
| Net profit (adj.) | 1,638.5 | 2,470.4 | 3,759.9 | 4,560.4 |

### BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 5,644.8 | 5,932.8 | 8,677.8 | 10,495.8 |
| Other LT assets | 5,287.8 | 5,325.4 | 5,363.0 | 5,400.6 |
| Cash/ST investment | 6,621.2 | 5,903.0 | 9,382.4 | 13,855.8 |
| Other current assets | 3,885.4 | 5,896.1 | 7,043.9 | 7,859.6 |
| **Total assets** | **21,439.2** | **23,057.3** | **30,467.0** | **37,611.9** |
| ST debt | 3,303.8 | 2,485.9 | 1,227.4 | 3,734.7 |
| Other current liabilities | 3,928.3 | 9,094.7 | 10,935.6 | 12,538.3 |
| LT debt | 6,574.1 | 1,862.7 | 5,667.8 | 5,266.0 |
| Other LT liabilities | 176.9 | 176.9 | 176.9 | 176.9 |
| Shareholders' equity | 7,443.2 | 9,422.0 | 12,440.8 | 15,873.2 |
| Minority interest | 12.9 | 15.1 | 18.5 | 22.6 |
| **Total liabilities & equity** | **21,439.2** | **23,057.3** | **30,467.0** | **37,611.9** |

### CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **2,721.2** | **6,033.5** | **6,343.6** | **6,626.7** |
| Pre-tax profit | 2,117.6 | 3,198.0 | 4,867.3 | 6,086.0 |
| Tax | (480.3) | (725.4) | (1,104.0) | (1,521.5) |
| Deprec. & amort. | 0.0 | 192.0 | 1,830.0 | 1,212.0 |
| Associates | 93.6 | (65.4) | (65.4) | (65.4) |
| Working capital changes | 536.8 | 3,155.7 | 693.2 | 787.0 |
| Other operating cashflows | 453.5 | 278.7 | 122.5 | 128.6 |
| **Investing** | **3,402.0** | **760.9** | **(4,444.8)** | **(2,812.8)** |
| Capex (growth) | 0.0 | (480.0) | (4,575.0) | (3,030.0) |
| Investments | 264.4 | 0.0 | 0.0 | 0.0 |
| Others | 3,137.6 | 1,240.9 | 130.2 | 217.2 |
| **Financing** | **(5,307.0)** | **(7,512.6)** | **1,580.6** | **659.6** |
| Dividend payments | 0.0 | (491.5) | (741.1) | (1,128.0) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 0.0 | 576.0 | 5,032.5 | 3,333.0 |
| Loan repayment | (4,833.2) | (7,288.8) | (2,485.9) | (1,227.4) |
| Others/interest paid | (473.9) | (308.3) | (224.9) | (318.0) |
| **Net cash inflow (outflow)** | **816.2** | **(718.2)** | **3,479.4** | **4,473.5** |
| **Beginning cash & cash equivalent** | **5,805.0** | **6,621.2** | **5,903.0** | **9,382.4** |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **6,621.2** | **5,903.0** | **9,382.4** | **13,855.8** |

### KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 7.2 | 8.3 | 12.8 | 12.3 |
| Pre-tax margin | 6.8 | 7.3 | 9.1 | 9.9 |
| Net margin | 5.3 | 5.6 | 7.0 | 7.4 |
| ROA | 6.6 | 11.1 | 14.0 | 13.4 |
| ROE | 21.3 | 29.3 | 34.4 | 32.2 |
| | | | | |
| **Growth** | | | | |
| Turnover | (20.6) | 40.9 | 22.5 | 14.8 |
| EBITDA | (44.7) | 62.2 | 88.7 | 10.1 |
| Pre-tax profit | n.a. | 51.0 | 52.2 | 25.0 |
| Net profit | n.a. | 50.8 | 52.2 | 21.3 |
| Net profit (adj.) | n.a. | 50.8 | 52.2 | 21.3 |
| EPS | n.a. | 50.8 | 52.2 | 21.3 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 57.0 | 31.5 | 35.6 | 36.2 |
| Debt to equity | 132.7 | 46.2 | 55.4 | 56.7 |
| Net debt/(cash) to equity | 43.8 | (16.5) | (20.0) | (30.6) |
| Interest cover (x) | 4.7 | 11.8 | 30.5 | 23.7 |

## COMPANY RESULTS

# Haier Smart Home (6690 HK)

### 2022: Results Dragged By 4Q22 Performance; Double-digit Profit Growth In 2023

**Haier's revenue grew 7.2% in 2022, while attributable net profit grew 12.5%. The weak sales (+2.2% yoy) and net profit (-2.7% yoy) growth in 4Q22 dragged its full-year performance. It guided a mid-to-high single digit sales growth and a double-digit earnings growth (ideally at 15%) for 2023. It also aims to achieve a 7% operating margin for its overseas business in 2023. We expect earnings growth to be higher than sales growth in the next few years. Maintain BUY and trim target price to HK$29.80.**

**2022 RESULTS**

| Year to 31 Dec (Rmbm) | 4Q21 | 4Q22 | yoy % chg | 2021 | 2022 | yoy % chg |
|---|---|---|---|---|---|---|
| Total revenue | 57,475 | 58,765 | 2.2 | 227,081 | 243,485 | 7.2 |
| Cost of sales | (37,712) | (38,803) | 2.9 | (157,528) | (168,919) | 7.2 |
| Gross profit | 19,763 | 19,962 | 1.0 | 69,553 | 74,566 | 7.2 |
| Gross profit margin | 34.4% | 34.0% | -0.4ppt | 30.6% | 30.6% | 0ppt |
| EBIT (estimated) | 4,312 | 3,777 | (12.4) | 13,588 | 15,361 | 13.0 |
| EBIT margin (estimated) | 7.5% | 6.4% | -1.1ppt | 6.0% | 6.3% | 0.3ppt |
| Attributable net profit | 3,130 | 3,045 | (2.7) | 13,079 | 14,711 | 12.5 |
| Core attributable net profit | 2,776 | 2,742 | (1.2) | 11,831 | 13,963 | 18.0 |

*Source: Haier, UOB Kay Hian*

**RESULTS**

- **Double-digit earnings growth in 2022.** Haier Smart Home (Haier) recorded 7.2% yoy revenue growth in 2022, and its attributable net profit grew by 12.5% yoy to Rmb14.7b, which was 3.2% and 3.5% lower than our and market expectations respectively. This was dragged by its relatively weak performance in 4Q22 with a 2.2% yoy sales growth and a 2.7% yoy earnings drop. Management attributed the lower-than-expected earnings growth to: a) the 10% domestic sales drop in 4Q22 caused by the pandemic; and b) the profit margin drop given the weak demand in the Europe and US markets. It attributed the overseas operating margin drop (0.7ppt/0.2ppt yoy dip in 2H22/2022) to: a) the rising ocean freight fees that cannot be covered by price hikes; and b) hikes in raw material prices. Its overall gross margin remained flat in 2022, while overall EBIT margin edged up 0.3ppt yoy.

- **Rising market share in China.** According to GfK China, Haier's overall market share of retail sales hiked 2ppt yoy to 27.2% in 2022. The offline/online market share of its refrigerators, washing machines, and residential air conditioners rose 2.5ppt/0.5ppt, 1.8ppt/0ppt, and 2.8ppt/0.8ppt, to 43.9%/39.2%, 46%/40.4%, and 19.5%/14.4%. Casarte's core appliance market share increased by 1.4ppt yoy to 12.3% in 2022. Three-Winged Bird stores' retail sales hiked 257% yoy in 2022 with over 900 new stores opened last year.

**KEY FINANCIALS**

| Year to 31 Dec (Rmbm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 227,081 | 243,485 | 263,390 | 285,246 | 309,484 |
| EBITDA | 18,648 | 19,464 | 22,872 | 25,895 | 29,410 |
| Operating profit | 13,588 | 15,361 | 18,769 | 21,792 | 25,307 |
| Net profit (rep./act.) | 13,079 | 14,711 | 16,694 | 19,100 | 21,988 |
| Net profit (adj.) | 13,079 | 14,711 | 16,694 | 19,100 | 21,988 |
| EPS (fen) | 141.0 | 158.0 | 177.5 | 202.2 | 232.8 |
| PE (x) | 15.3 | 13.7 | 12.2 | 10.7 | 9.3 |
| P/B (x) | 2.5 | 2.2 | 1.9 | 1.7 | 1.5 |
| EV/EBITDA (x) | 10.5 | 10.1 | 8.6 | 7.6 | 6.7 |
| Dividend yield (%) | 2.1 | 2.6 | 2.9 | 3.3 | 3.8 |
| Net margin (%) | 5.8 | 6.0 | 6.3 | 6.7 | 7.1 |
| Net debt/(cash) to equity (%) | (13.9) | (15.2) | (11.9) | (11.8) | (8.8) |
| ROE (%) | 17.8 | 17.0 | 16.8 | 17.1 | 17.5 |
| Consensus net profit | - | - | 17,547 | 20,041 | 20,966 |
| UOBKH/Consensus (x) | - | - | 0.95 | 0.95 | 1.05 |

*Source: Haier, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | HK$24.70 |
| Target Price | HK$29.80 |
| Upside | +20.6% |
| *(Previous TP* | *HK$31.20)* |

**COMPANY DESCRIPTION**

Haier Smart Home is one of the world's leading home appliance brands and smart home ecosystem builders, and has demonstrated leadership in smart home scenarios, solutions and technologies. The company dominates the refrigerator and washing machine markets in China. It has acquired foreign brands to expand overseas.

**STOCK DATA**

| | |
|---|---|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | 6690 HK |
| Shares issued (m): | 9,446.6 |
| Market cap (HK$m): | 236,896.7 |
| Market cap (US$m): | 30,178.7 |
| 3-mth avg daily t'over (US$m): | 33.2 |

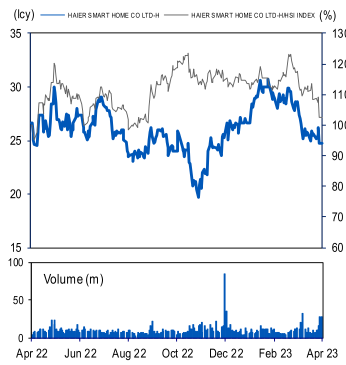
**Price Performance (%)**

52-week high/low HK$30.70/HK$19.64

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (11.0) | (7.1) | 2.7 | (2.9) | (7.1) |

| Major Shareholders | % |
|---|---|
| Haier Group Co | 25.3 |
| FY23 NAV/Share (Rmb) | 11.10 |
| FY23 Net Cash/Share (Rmb) | 1.32 |

**PRICE CHART**




*Source: Bloomberg*

**ANALYST(S)**

**Shen Zhifeng**
+8621 5404 7225 ext.811
zhifeng@uobkayhian.com

**Ng Jo Yee**
+603 2147 1984
joyee@uobkayhian.com

**Jiang Xin**
+8621 5404 7225 ext.819
jiangxin@uobkayhian.com

## STOCK IMPACT

- **Double-digit earnings growth guidance.** Management guided a mid-to-high single-digit sales growth, and a double-digit earnings growth (ideally at 15%) in 2023. It also aims to achieve a 7% operating margin for its overseas business in 2023 as material prices have eased and ocean freight fees have dropped to normal levels. In mid-to-long term, Haier targets to achieve an 8% net profit margin and a 15% earnings growth. In 1Q23, Haier achieved a mid-to-high single-digit sales growth in both domestic and overseas markets.

- **Management is confident on significant savings in operating expenses,** thanks to the implementation of various measures. These include: a) establishing the digitalisation platform to reduce the related operating expenditures by 10-15%; b) launching the user system to achieve the precise use of the expenses; c) the restructure of service and logistics system; d) the reduction of logistic fees via algorithm method but not the manpower; and e) the efficient customer oriented marketing strategies.

- **Positive outlook for the development of Three-Winged Bird and Casarte.** Haier will focus on the Three-Winged Bird brand's actual contributions in 2023 after the three-year development. Core implementations include: a) the brand's store management system will provide better support to all the stores; b) optimising the brand's central intelligent system and increasing customer stickiness; and c) deploying the whole house quality control system. The Casarte brand is poised for further growth in 2023 as Haier has: a) completed the construction of the system for Casarte products iteration; b) solved the high inventory problem for some of its categories (eg air conditioner); and c) made preparations in 2022 for Casarte's overseas expansion in 2023. This year, management is confident that Casarte's sales growth will gradually return to the level (32.3% yoy growth) seen in 1Q22.

- **Increasing retailing capabilities in the online channel.** Management stated that the sales from online channel and franchise stores accounted for respective 35% and 51% of domestic revenue in 2022. It attributed the 20% yoy online GMV growth in 2022 to: a) the effective digitalisation strategy to increase the conversion rate; b) Haier's rising competitiveness as the online sales growth contributions from penetrating into the low tier channels have entered into a relatively mature stage.

- **Remain optimistic on overseas expansion.** Although Haier expects more uncertain factors in overseas markets in 2023 than in 2022, it emphasised the following positives: a) materials prices have eased and ocean freight fees have dropped to normal levels; b) de-stocking has been generally completed in 1Q23; and c) its premium products saw good sales momentum continue into 1Q23 and will likely see sustainable solid growth ahead. In order to deal with the domestic competitors in overseas markets, Haier will: a) further enhance its competitive advantage in premium products segment (eg Casarte's expansion); b) further increase the ASP of mass products via the launch of new products; and c) accelerate the launch of customised products.

## EARNINGS REVISION/RISKS

- **Earnings revision.** We trim 2023/24 earnings estimates by 5.2%/5.7%.

- **Risks.** A sharp decline in economic growth; sales recovery and savings in operating expenses may not meet expectation.

## VALUATION/RECOMMENDATION

- **Maintain BUY and trim target price to HK$29.80.** We are confident that Haier will likely achieve a higher earnings growth than sales growth in the next few years thanks to the widening of gross margin and savings in operating expenses. We believe the low-to-mid teens earnings growth expectation is rational, based on the high single-digit sales growth and the improvement in operating margin ahead. We trim target price to HK$29.80, which implies 15.0x 2023F PE and 13.2x 2024F PE.

## KEY SEGMENTAL DATA

| | 2021 | 2022 | yoy chg |
|---|---|---|---|
| **Revenue by category (Rmbm)** | | | |
| China smart home business | **105,660** | **111,126** | 5.2 |
| Refrigerator/freezers | 36,842 | 39,010 | 5.9 |
| Kitchen Appliances | 3,013 | 3,114 | 3.4 |
| Air Conditioners | 27,409 | 28,384 | 3.6 |
| Laundry Appliances | 25,917 | 27,076 | 4.5 |
| Water Appliances | 12,479 | 13,542 | 8.5 |
| Overseas smart home business | **113,090** | **124,704** | 10.3 |
| **OPM by category** | | | |
| China smart home business | **7.0%** | **8.6%** | 1.5ppt |
| Refrigerator/freezers | 8.1% | 9.7% | 1.6ppt |
| Kitchen Appliances | 1.8% | 2.2% | 0.4ppt |
| Air Conditioners | 0.9% | 3.1% | 2.2ppt |
| Laundry Appliances | 10.4% | 11.3% | 0.9ppt |
| Water Appliances | 11.7% | 12.6% | 1ppt |
| Overseas smart home business | **5.2%** | **5.0%** | -0.2ppt |
| **Revenue by region (Rmbm)** | | | |
| Mainland China | 111,842 | 116,726 | 4.4 |
| North America | 70,277 | 76,630 | 9.0 |
| Europe | 19,737 | 23,031 | 16.7 |
| South Asia | 7,138 | 8,284 | 16.1 |
| Australia and New Zealand | 7,012 | 6,962 | (0.7) |
| Southeast Asia | 4,740 | 5,180 | 9.3 |
| Japan | 3,491 | 3,569 | 2.2 |
| Middle East and Africa | 1,479 | 1,970 | 33.2 |
| Other country/regions | 1,365 | 1,133 | (17.0) |

| | 2H21 | 2H22 | yoy chg |
|---|---|---|---|
| **Revenue by category (Rmbm)** | | | |
| China smart home business | **55,465** | **55,144** | (0.6) |
| Refrigerator/freezers | 19,944 | 19,752 | (1.0) |
| Kitchen Appliances | 1,518 | 1,458 | (4.0) |
| Air Conditioners | 12,314 | 12,465 | 1.2 |
| Laundry Appliances | 15,016 | 14,604 | (2.7) |
| Water Appliances | 6,673 | 6,865 | 2.9 |
| Overseas smart home business | **56,421** | **63,508** | 12.6 |
| **OPM by category** | | | |
| China smart home business | **6.4%** | **8.3%** | 1.8ppt |
| Refrigerator/freezers | 4.7% | 7.5% | 2.8ppt |
| Kitchen Appliances | 1.0% | 1.5% | 0.5ppt |
| Air Conditioners | 0.1% | 3.3% | 3.2ppt |
| Laundry Appliances | 12.4% | 12.2% | -0.2ppt |
| Water Appliances | 11.0% | 12.6% | 1.6ppt |
| Overseas smart home business | **4.8%** | **4.1%** | -0.7ppt |
| **Revenue by region (Rmbm)** | | | |
| Mainland China | 58,148 | 57,380 | (1.3) |
| North America | 34,952 | 39,196 | 12.1 |
| Europe | 10,643 | 12,786 | 20.1 |
| South Asia | 3,212 | 3,461 | 7.8 |
| Australia and New Zealand | 3,553 | 3,472 | (2.3) |
| Southeast Asia | 2,129 | 2,258 | 6.1 |
| Japan | 1,713 | 1,732 | 1.1 |
| Middle East and Africa | 570 | 807 | 41.6 |
| Other country/regions | 439 | 547 | 24.6 |

*Source: Haier; UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **243,485.0** | **263,390.5** | **285,246.2** | **309,483.9** |
| EBITDA | 19,463.8 | 22,872.1 | 25,894.6 | 29,410.1 |
| Deprec. & amort. | 4,103.0 | 4,103.0 | 4,103.0 | 4,103.0 |
| EBIT | 15,360.8 | 18,769.1 | 21,791.6 | 25,307.1 |
| Associate contributions | 1,582.0 | 1,582.0 | 1,582.0 | 1,582.0 |
| Net interest income/(expense) | (995.0) | (1,057.9) | (1,031.9) | (1,063.8) |
| **Pre-tax profit** | **17,790.0** | **20,093.2** | **23,141.8** | **26,625.2** |
| Tax | (3,058.0) | (3,315.4) | (3,945.7) | (4,526.3) |
| Minorities | (21.0) | (83.9) | (96.0) | (110.5) |
| **Net profit** | **14,711.0** | **16,694.0** | **19,100.1** | **21,988.4** |
| Net profit (adj.) | 14,711.0 | 16,694.0 | 19,100.1 | 21,988.4 |

## BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 31,857.0 | 36,732.0 | 41,607.0 | 46,482.0 |
| Other LT assets | 73,603.0 | 74,239.0 | 74,875.0 | 75,511.0 |
| Cash/ST investment | 53,369.0 | 50,865.9 | 51,217.0 | 52,424.2 |
| Other current assets | 77,014.0 | 90,233.3 | 102,597.8 | 121,391.2 |
| **Total assets** | **235,843.0** | **252,070.2** | **270,296.8** | **295,808.4** |
| ST debt | 22,718.0 | 21,128.5 | 19,559.3 | 19,226.0 |
| Other current liabilities | 96,029.0 | 101,504.4 | 107,516.2 | 114,183.2 |
| LT debt | 16,451.0 | 17,312.5 | 17,743.3 | 21,507.3 |
| Other LT liabilities | 5,931.0 | 5,931.0 | 5,931.0 | 5,931.0 |
| Shareholders' equity | 93,423.0 | 104,819.0 | 118,076.2 | 133,379.6 |
| Minority interest | 1,291.0 | 1,374.9 | 1,470.9 | 1,581.4 |
| **Total liabilities & equity** | **235,843.0** | **252,070.2** | **270,296.8** | **295,808.4** |

## CASH FLOW

| Year to 31 Dec (Rmbm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **20,154.0** | **10,988.9** | **14,798.5** | **11,927.5** |
| Pre-tax profit | 17,790.0 | 20,093.2 | 23,141.8 | 26,625.2 |
| Tax | (3,058.0) | (3,315.4) | (3,945.7) | (4,526.3) |
| Deprec. & amort. | 6,046.0 | 2,591.0 | 2,591.0 | 2,591.0 |
| Working capital changes | (1,583.0) | (7,743.9) | (6,352.6) | (12,126.4) |
| Non-cash items | (182.0) | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 1,141.0 | (636.0) | (636.0) | (636.0) |
| **Investing** | **(8,920.0)** | **(7,466.0)** | **(7,466.0)** | **(7,466.0)** |
| Capex (growth) | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | (22.0) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | (218.0) | 0.0 | 0.0 | 0.0 |
| Others | (8,680.0) | (7,466.0) | (7,466.0) | (7,466.0) |
| **Financing** | **(3,822.0)** | **(6,026.0)** | **(6,981.4)** | **(3,254.3)** |
| Dividend payments | (5,135.0) | (5,298.0) | (5,842.9) | (6,685.0) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 3,673.0 | (728.0) | (1,138.5) | 3,430.8 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (2,360.0) | 0.0 | 0.0 | 0.0 |
| **Net cash inflow (outflow)** | **7,412.0** | **(2,503.1)** | **351.1** | **1,207.2** |
| **Beginning cash & cash equivalent** | **45,198.0** | **53,369.0** | **50,865.9** | **51,217.0** |
| Changes due to forex impact | 759.0 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **53,369.0** | **50,865.9** | **51,217.0** | **52,424.2** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 8.0 | 8.7 | 9.1 | 9.5 |
| Pre-tax margin | 7.3 | 7.6 | 8.1 | 8.6 |
| Net margin | 6.0 | 6.3 | 6.7 | 7.1 |
| ROA | 6.5 | 6.8 | 7.3 | 7.8 |
| ROE | 17.0 | 16.8 | 17.1 | 17.5 |
| **Growth** | | | | |
| Turnover | 7.2 | 8.2 | 8.3 | 8.5 |
| EBITDA | 4.4 | 17.5 | 13.2 | 13.6 |
| Pre-tax profit | 11.6 | 12.9 | 15.2 | 15.1 |
| Net profit | 12.5 | 13.5 | 14.4 | 15.1 |
| Net profit (adj.) | 12.5 | 13.5 | 14.4 | 15.1 |
| EPS | 12.1 | 12.4 | 13.9 | 15.1 |
| **Leverage** | | | | |
| Debt to total capital | 29.3 | 26.6 | 23.8 | 23.2 |
| Debt to equity | 41.9 | 36.7 | 31.6 | 30.5 |
| Net debt/(cash) to equity | (15.2) | (11.9) | (11.8) | (8.8) |
| Interest cover (x) | 19.6 | 21.6 | 25.1 | 27.6 |

## COMPANY RESULTS

# MicroPort Scientific Corporation (853 HK)

### 2022: Results Miss Expectations; GPO And Uncertain Global Economic Environment May Continue to Cloud Growth

**MicroPort reported revenue growth of 8.0% yoy and a net loss of US$436.5m in 2022, up from 2021's loss of US$276.5m, missing our and market estimates. MicroPort has guided revenue growth of 20-25% yoy and significant improvement in operating efficiency in 2023, while we believe that possible GPO tenders and further weakening of global economic conditions could continue to cloud its growth outlook for the next few years. Maintain SELL with a lower target price of HK$14.50.**

## 2022 RESULTS

| Year to 31 Dec (US$m) | 2H21 | 2H22 | yoy % | 2021 | 2022 | yoy % |
|---|---|---|---|---|---|---|
| **Revenue** | **393.7** | **435.8** | *10.7%* | **778.6** | **840.8** | *8.0%* |
| *Orthopedics devices* | 105.5 | 115.8 | *9.8%* | 215.6 | 223.6 | *3.7%* |
| *Cardiovascular devices* | 72.7 | 73.4 | *1.0%* | 139.5 | 134.1 | *-3.9%* |
| *CRM business* | 112.2 | 99.8 | *-11.0%* | 220.4 | 204.2 | *-7.3%* |
| *Endovascular devices* | 50.2 | 62.4 | *24.4%* | 106.0 | 133.2 | *25.6%* |
| *Neurovascular devices* | 33.7 | 48.6 | *44.2%* | 59.1 | 79.9 | *35.3%* |
| *Surgical devices* | 2.4 | 2.1 | *-14.8%* | 4.7 | 4.5 | *-4.6%* |
| *Heart valves* | 17.9 | 17.8 | *-0.7%* | 31.3 | 36.8 | *17.5%* |
| *Surgical robots* | 0.3 | 2.9 | *792.4%* | 0.3 | 3.1 | *839.8%* |
| **Gross profit** | **244.2** | **254.1** | ***4.1%*** | **491.8** | **501.8** | ***2.0%*** |
| Selling expense | (166.8) | (181.6) | *8.9%* | (297.5) | (328.2) | *10.3%* |
| G&A expense | (147.0) | (114.3) | *-22.3%* | (250.0) | (247.5) | *-1.0%* |
| R&D expense | (180.7) | (233.4) | *29.2%* | (297.8) | (419.8) | *41.0%* |
| **Operating profit** | **(201.0)** | **(311.1)** | ***54.8%*** | **(293.6)** | **(507.0)** | ***72.7%*** |
| Net profit to shareholders | (186.2) | (238.4) | *28.0%* | (276.5) | (436.5) | *57.9%* |
| **EPS (diluted) US$/cents** | **(10.2)** | **(13.1)** | ***28.2%*** | **(16.5)** | **(24.9)** | ***50.8%*** |
| **Ratios (%)** | **2H21** | **2H22** | **+/- ppt** | **2021** | **2022** | **+/- ppt** |
| GP margin % | 62.0% | 58.3% | *(3.7)* | 63.2% | 59.7% | *(3.5)* |
| Selling expense /Revenue | 42.4% | 41.7% | *(0.7)* | 38.2% | 39.0% | *0.8* |
| G&A expense / Revenue | 37.3% | 26.2% | *(11.1)* | 32.1% | 29.4% | *(2.7)* |
| R&D expense / Revenue | 45.9% | 53.6% | *7.6* | 38.2% | 49.9% | *11.7* |
| OP margin % | -51.1% | -71.4% | *(20.3)* | -37.7% | -60.3% | *(22.6)* |
| Net profit margin% | -47.3% | -54.7% | *(7.4)* | -35.5% | -51.9% | *(16.4)* |

*Source: MicroPort, UOB Kay Hian*

## RESULTS

- **Lower-than-expected 2022 results.** MicroPort Scientific Corporation (MicroPort) reported total revenue of US$840.8m (up 8.0% yoy) and a net loss of US$436.5m in 2022, surging by 57.9% yoy from 2021's net loss of US$276.5m. The results are disappointing and significantly weaker than our and market estimates. Excluding the forex impact, revenue grew 15.6% yoy in 2022.

## KEY FINANCIALS

| Year to 31 Dec (US$m) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 778.6 | 840.8 | 919.2 | 1,000.4 | 1,087.7 |
| EBITDA | (214.4) | (417.8) | (356.4) | (326.0) | (439.0) |
| Operating profit | (293.6) | (507.0) | (455.5) | (445.0) | (439.4) |
| Net profit (rep./act.) | (276.5) | (436.5) | (382.1) | (371.2) | (365.5) |
| Net profit (adj.) | (276.5) | (436.5) | (382.1) | (371.2) | (365.5) |
| EPS (US$ cent) | (15.3) | (24.0) | (21.0) | (20.4) | (20.1) |
| PE (x) | n.m. | n.m. | n.m. | n.m. | n.m. |
| P/B (x) | 2.9 | 3.8 | 3.6 | 3.5 | 3.4 |
| EV/EBITDA (x) | n.m. | n.m. | n.m. | n.m. | n.m. |
| Dividend yield (%) | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin (%) | (35.5) | (51.9) | (41.6) | (37.1) | (33.6) |
| Net debt/(cash) to equity (%) | (93.2) | (60.0) | (49.4) | (43.7) | (39.0) |
| Interest cover (x) | (4.5) | (5.3) | (5.7) | (5.2) | (7.0) |
| ROE (%) | n.a. | n.a. | n.a. | n.a. | n.a. |
| Consensus net profit | - | - | (259) | (194) | (108) |
| UOBKH/Consensus (x) | - | - | 1.48 | 1.91 | 3.38 |

*Source: MicroPort, Bloomberg, UOB Kay Hian*
*n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."*

## SELL

(Maintained)

| | |
|---|---|
| Share Price | HK$18.46 |
| Target Price | HK$14.50 |
| Upside | -21.4% |
| *(Previous TP* | *HK$15.50)* |

### COMPANY DESCRIPTION

MicroPort is a leading developer, manufacturer and marketer of medical devices in China, mainly focusing on minimally invasive interventional products for the treatment of vascular diseases and orthopaedic products.

### STOCK DATA

| | |
|---|---|
| GICS sector | Health Care |
| Bloomberg ticker: | 853 HK |
| Shares issued (m): | 1,829.2 |
| Market cap (HK$m): | 33,766.4 |
| Market cap (US$m): | 4,301.6 |
| 3-mth avg daily t'over (US$m): | 24.7 |

**Price Performance (%)**

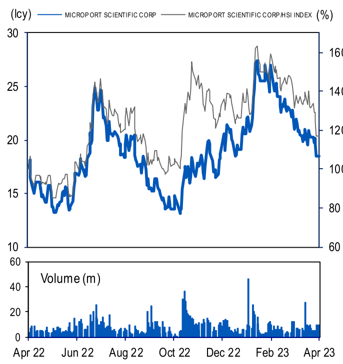
52-week high/low HK$27.45/HK$13.08

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (16.8) | (10.2) | 36.5 | 3.8 | (10.2) |

| Major Shareholders | % |
|---|---|
| Otsuka Medical Devices Co., Ltd. | 20.9 |
| - | - |
| - | - |

| | |
|---|---|
| FY23 NAV/Share (Rmb) | 0.65 |
| FY23 Net Cash/Share (Rmb) | 0.32 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Carol Dou**
+852 2236 6749
carol.dou@uobkayhian.com.hk

**Sunny Chen**
+852 2826 4857
sunny.chen@uobkayhian.com.hk

## STOCK IMPACT

- **MicroPort reported 2022 revenue of US$840.8m, up 8.0% yoy.** Excluding the forex impact, revenue would have grown 15.6% yoy in 2022. The company's three largest revenue contributors - orthopaedics, endovascular devices, and neurovascular devices - reported revenue increases of 3.7% yoy, 25.6% yoy and 35.3% yoy respectively. Meanwhile, cardiovascular devices and CRM businesses posted revenue decreases of 3.9% yoy and 7.3% yoy respectively in 2022. Its emerging segments, such as surgical robots and heart valves experienced revenue expansion of 839.8% yoy and 17.5% yoy, respectively. The company's overseas business contributed US$435.2m (or 51.8%) of total revenue, up 3.2% yoy in 2022. Revenue from China increased by 13.6% yoy to US$405.6m (or 48.2% of total revenue) in 2022.

- **Gross margin softened further by 3.5ppt to 59.7%.** Gross margin stood at 59.7% in 2022, down further from 63.2% in 2021, due to unfavourable sales mix and cost increase as a result of the COVID-19 lockdowns, new manufacturing plants and inflation. Selling expenses increased by 10.3% to US$328.2m in 2022, as the company enhanced sales and marketing efforts, particularly for the surgical robots and heart valve businesses. G&A expenses decreased by 1.0% yoy to US$247.5m in 2022. MicroPort has been ramping up efforts in new product R&D, and spent 49.9% of 2022's total revenue on R&D (or US$419.8m, up 41.0% yoy) vs 38.2% in 2021. The increase in the R&D expenses was primarily attributable to the increased investment in development of medical robots, heart valves, as well as new R&D projects in 2022.

- **Management guided revenue to grow 25-30% yoy in 2023, focuses on improving operating efficiency and core businesses.** Management indicates strong sales growth of 1Q23 business and is optimistic about the company's business outlook and guided 25-30% yoy revenue growth for 2023 (excluding forex impact). It expects sales of cardiovascular devices, orthopaedics, and CRM business to see 20-25% yoy, 10-15% yoy and 10% yoy revenue growths respectively in 2023 and high double-digit revenue growth for other segments (ie heart valve, neurovascular and endovascular products) in 2023. It also estimates gross margin to improve further to 62% in 2023. MicroPort also intends to improve operating efficiency by reduce SG&A expenses/revenue ratio from 67% to 60% in 2023. The company plans to focus on its core businesses and targets to reduce R&D/revenue ratio from 50% in 2022 to 35% in 2023, it also guided a significant reduction in net loss in 2023.

- **We expect revenue and margin expansion to come in weaker than management guidance.** We believe that the normalisation of business environment could support a sales growth recovery in China. However, it may be challenging for its overseas business to achieve such optimistic growth targets given the continued weakening of global business environment. In addition, GPO tenders and weaker synergy because of the separation of different listing entities may result in a relatively modest revenue growth and margin recovery in 2023. We believe the company is unlikely to turn profitable in the next two years.

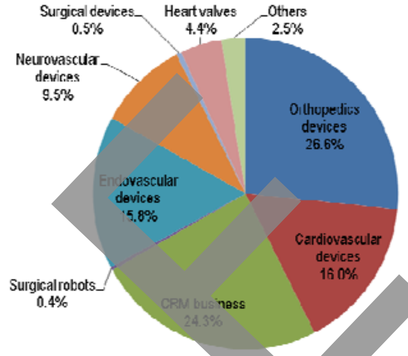
## EARNINGS REVISION/RISKS

- Possible further weakening of global economic conditions.
- Potential GPO tenders on its cardiovascular products, orthopaedics and CRM products could depress margins.

## VALUATION/RECOMMENDATION

- **Maintain SELL with a lower target price of HK$14.50.** The target price is based on SOTP, by applying: a) 11x 2023F PE to the company's cardio-cerebral vascular (CCV)/endovascular stent segment at HK$2.69/share, b) DCF-based valuation of HK$2.95/share for the orthopaedic business, c) HK$3.69/share for pacemakers, d) HK$1.90/share for TAVI, and e) HK$3.27/share for the surgical robot business.

### SEGMENT REVENUE (2022)




*Source: MicroPort, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (US$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **840.8** | **919.2** | **1,000.4** | **1,087.7** |
| EBITDA | (417.8) | (356.4) | (326.0) | (439.0) |
| Deprec. & amort. | 89.2 | 99.1 | 119.0 | 0.4 |
| EBIT | (507.0) | (455.5) | (445.0) | (439.4) |
| Associate contributions | (42.5) | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (78.4) | (62.6) | (62.6) | (62.6) |
| **Pre-tax profit** | **(581.5)** | **(518.2)** | **(507.6)** | **(502.0)** |
| Tax | (6.6) | (15.5) | (15.2) | (15.1) |
| Minorities | 151.6 | 151.6 | 151.6 | 151.6 |
| **Net profit** | **(436.5)** | **(382.1)** | **(371.2)** | **(365.5)** |
| Net profit (adj.) | (436.5) | (382.1) | (371.2) | (365.5) |

## BALANCE SHEET

| Year to 31 Dec (US$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 999.6 | 1,058.9 | 1,108.2 | 1,146.6 |
| Other LT assets | 1,055.3 | 1,107.6 | 1,119.8 | 1,133.0 |
| Cash/ST investment | 1,203.0 | 1,099.8 | 1,048.4 | 1,006.1 |
| Other current assets | 736.2 | 773.4 | 833.0 | 897.1 |
| **Total assets** | **3,994.1** | **4,039.6** | **4,109.3** | **4,182.7** |
| ST debt | 185.4 | 185.4 | 185.4 | 185.4 |
| Other current liabilities | 476.7 | 488.2 | 522.8 | 560.1 |
| LT debt | 336.7 | 336.7 | 336.7 | 336.7 |
| Other LT liabilities | 1,202.6 | 1,202.6 | 1,202.6 | 1,202.6 |
| Shareholders' equity | 1,135.0 | 1,169.1 | 1,204.2 | 1,240.3 |
| Minority interest | 657.6 | 657.6 | 657.6 | 657.6 |
| **Total liabilities & equity** | **3,994.1** | **4,039.6** | **4,109.3** | **4,182.7** |

## CASH FLOW

| Year to 31 Dec (US$m) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **(616.7)** | **(397.7)** | **(376.1)** | **(362.3)** |
| Pre-tax profit | (581.5) | (518.2) | (507.6) | (502.0) |
| Tax | (6.6) | (15.5) | (15.2) | (15.1) |
| Deprec. & amort. | 178.3 | 198.2 | 218.1 | 238.0 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | (23.4) | (25.7) | (24.9) | (26.8) |
| Other operating cashflows | (183.6) | (36.5) | (46.4) | (56.4) |
| **Investing** | **(196.8)** | **(176.1)** | **(176.1)** | **(177.1)** |
| Capex (growth) | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex (maintenance) | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | (41.5) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (155.4) | (176.1) | (176.1) | (177.1) |
| **Financing** | **262.2** | **470.6** | **500.8** | **497.1** |
| Dividend payments | 0.0 | 0.0 | 0.0 | 0.0 |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 315.4 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (53.2) | 470.6 | 500.8 | 497.1 |
| **Net cash inflow (outflow)** | **(551.4)** | **(103.2)** | **(51.4)** | **(42.3)** |
| **Beginning cash & cash equivalent** | **1,754.4** | **1,203.0** | **1,099.8** | **1,048.4** |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| **Ending cash & cash equivalent** | **1,203.0** | **1,099.8** | **1,048.4** | **1,006.1** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | (49.7) | (38.8) | (32.6) | (40.4) |
| Pre-tax margin | (69.2) | (56.4) | (50.7) | (46.2) |
| Net margin | (51.9) | (41.6) | (37.1) | (33.6) |
| ROA | n.a. | n.a. | n.a. | n.a. |
| ROE | n.a. | n.a. | n.a. | n.a. |
| | | | | |
| **Growth** | | | | |
| Turnover | 8.0 | 9.3 | 8.8 | 8.7 |
| EBITDA | n.a. | n.a. | n.a. | n.a. |
| Pre-tax profit | n.a. | n.a. | n.a. | n.a. |
| Net profit | n.a. | n.a. | n.a. | n.a. |
| Net profit (adj.) | n.a. | n.a. | n.a. | n.a. |
| EPS | n.a. | n.a. | n.a. | n.a. |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 22.6 | 22.2 | 21.9 | 21.6 |
| Debt to equity | 46.0 | 44.7 | 43.4 | 42.1 |
| Net debt/(cash) to equity | (60.0) | (49.4) | (43.7) | (39.0) |
| Interest cover (x) | (5.3) | (5.7) | (5.2) | (7.0) |

## STRATEGY – INDONESIA

# Alpha Picks: Outperformance In 1Q23

**Using the market cap weighted method which mimics the JCI, our portfolio delivered a 1.9% return in 1Q23, outperforming the JCI which fell 0.7%. In Mar 23, after more than one year of outperformance, our portfolio underperformed and declined 2.1% vs the JCI's return of 1.2%. We drop EXCL due to further risk of share price decline. We also remove BBYB as there could be hiccups in asset quality and wide share price fluctuation. Our picks are HMSP, ROTI, BBNI, BMRI, BUKA, SMGR, KLBF and MAPI.**

### WHAT'S NEW

- **Our portfolio underperformed in Mar 23.** Our portfolio delivered a -2.1% return in Mar 23; underperforming the JCI which delivered a 1.2% return. The biggest gainer is BMRI with a 5.0% return, followed by MAPI with 1.7% and KLBF with 1.3%. The biggest loser is SMGR with an 11.1% decline; followed by BBYB with a 4.5% decline, BUKA with a 3.6% decline and EXCL with a 3.5% decline.
- **Outperformed in 1Q23.** The market cap weighted method is the most appropriate benchmark to measure against the JCI as the JCI is also market cap weighted. Using the market cap weighted method, the JCI declined by 0.7% in 1Q23 while our portfolio outperformed and delivered a 1.9% return in 1Q23.
- **Drop EXCL and BBYB.** We have decided to drop EXCL from our portfolio. We also drop BBYB as market uncertainty could equate to a wide swing in the share price and we expect a hiccup in asset quality.

### ANALYSTS' ALPHA* PICKS

| Analyst | Company | Rec | Performance# | Catalyst |
|---|---|---|---|---|
| Posmarito Pakpahan | Bank Mandiri | BUY | 5.0% | Targeting 19-20% ROE. The bank plans to conduct a stock split in Apr 23. |
| Posmarito Pakpahan | Bank Negara Indonesia | BUY | NA | Expecting continuous recovery in ROE. |
| Stevanus Juanda | Kalbe Farma | BUY | 47.7% | Low valuation with steady earnings growth. |
| Stevanus Juanda | Mitra Adiperkasa | BUY | 45.5% | Earnings surprise on the upside. Over 15% EPS growth for the next two years. |
| Stevanus Juanda | Nippon Indosari | BUY | 19.9% | Potential strong profit growth of 31.2% in 2022, followed by 16.2% EPS in 2023. |
| Limartha Adhiputra | Semen Indonesia | BUY | -8.9% | Expect 1Q23 earnings to remain strong on a yoy basis as margins improve. Coal has been 100% secured at DMO prices. |
| Stevanus Juanda | HM Sampoerna | BUY | 21.0% | Purchasing power recovery, selling price increased, attractively priced at -1SD PE. |
| Stevanus Juanda | Bukalapak.com | BUY | -3.6% | Path to profitability and attractive valuation with 60% of market cap consisting of cash. |
| | | | | Drop: EXCL, BBYB |

** 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

| Ticker | Rec | Price 31-Mar-23 (Rp) | Target Price (Rp) | Potential Upside (%) |
|---|---|---|---|---|
| BBNI | BUY | 9,350 | 11,200 | 19.8 |
| KLBF | BUY | 2,100 | 2,300 | 9.5 |
| BMRI | BUY | 10,325 | 11,500 | 11.4 |
| SMGR | BUY | 6,300 | 9,200 | 46.0 |
| ROTI | BUY | 1,490 | 2,000 | 34.2 |
| MAPI | BUY | 1,510 | 1,600 | 6.0 |
| BUKA | BUY | 248 | 480 | 93.5 |
| HMSP | BUY | 1,125 | 1,700 | 51.1 |

*Source: UOB Kay Hian*

### CHANGE IN SHARE PRICE

| Company | Rec | Mar-23 (%) | To Date (%) |
|---|---|---|---|
| BBYB | BUY | -4.5% | -4.5% |
| BMRI | BUY | 5.0% | 5.0% |
| KLBF | BUY | 1.3% | 47.7% |
| SMGR | BUY | -11.1% | -8.9% |
| MAPI | BUY | 1.7% | 45.5% |
| ROTI | BUY | -1.2% | 19.9% |
| EXCL | BUY | -3.5% | -3.2% |
| BUKA | BUY | -3.6% | -3.6% |
| HMSP | BUY | -3.3% | 21.0% |
| JCI | | 1.2% | |
| USD-IDR X-RATE | | 1.7% | |

*Source: UOB Kay Hian*

### PORTFOLIO RETURN

| | 2022 | 1Q23 |
|---|---|---|
| JCI return | 4.1% | -0.7% |
| **Alpha Picks Return** | | |
| Price-weighted | 8.9% | -0.5% |
| Market cap-weighted | 9.7% | 1.9% |
| Equal-weighted | 6.6% | -0.1% |

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

*Source: UOB Kay Hian*

ANALYST(S)

**Indonesia Research Team**
+6221 2993 3845
researchindonesia@uobkayhian.com

### VALUATION

| Company | Ticker | Rec | Price 31-Mar-23 (Rp) | Target Price (Rp) | Potential Upside (%) | Market Cap (US$m) | 3M Avg Turnover (US$m) | PE 2022F (x) | PE 2023F (x) | P/B 2022F (x) | P/B 2023F (x) | ROE 2023F (%) | Div. Yield 2023F (%) | Net Gearing (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Negara Indonesia | BBNI | BUY | 9,350 | 11,200 | 20 | 11,642 | 15 | 8.0 | 7.1 | 1.2 | 1.0 | 15 | 3.9 | (74) |
| Kalbe Farma | KLBF | BUY | 2,100 | 2,300 | 10 | 6,571 | 3 | 24.5 | 22.8 | 4.2 | 3.8 | 17 | 1.8 | (13) |
| Bank Mandiri Persero | BMRI | BUY | 10,325 | 11,500 | 11 | 32,165 | 33 | 10.3 | 9.6 | 1.9 | 1.8 | 19 | 5.3 | (55) |
| Semen Indonesia | SMGR | BUY | 6,300 | 9,200 | 46 | 2,839 | 5 | 13.7 | 12.3 | 0.9 | 0.9 | 7 | 3.0 | 18 |
| Nippon Indosari | ROTI | BUY | 1,490 | 2,000 | 34 | 615 | 0 | 18.6 | 16.2 | 3.0 | 2.9 | 16 | 2.7 | (3) |
| Mitra Adiperkasa | MAPI | BUY | 1,510 | 1,600 | 6 | 1,673 | 2 | 15.6 | 12.8 | 2.7 | 2.2 | 21 | 1.8 | 15 |
| Bukalapak.Com | BUKA | BUY | 248 | 480 | 94 | 1,706 | 3 | NA | NA | 1.0 | 1.0 | 12 | - | (81) |
| HM Sampoerna | HMSP | BUY | 1,125 | 1,700 | 51 | 8,736 | 2 | 15.6 | 14.9 | 4.4 | 4.3 | 29 | 5.7 | (10) |

*Source: Bloomberg, UOB Kay Hian*

**Bank Negara Indonesia (Posmarito Pakpahan)**

- **Net profit to grow 19% in 2023, mainly driven by 45bp decline in CoC.** BBNI could deliver a 19% net profit growth in 2023, derived from: a) high single-digit loan growth, b) stable NIM at 4.65%, c) high single-digit fee-based income (FBI), and d) a 45bp decline in CoC.

- **Focusing on the low-risk segment, risk-adjusted NIM to improve.** Underpinned by improving asset quality and growth focus on the low-risk segments, CoC is expected to normalise, falling to 100bp by 2025. As of Dec 22, LaR dropped to 16% (Dec 21: 23%) with LaR coverage of 49%. We expect CoC to reach 1.5% in 2023.

- **Targeting 18% ROE by 2025.** BBNI targets to deliver 18% ROE by 2025 which will be driven by: a) high single-digit loan growth, b) higher contribution from FBI, and c) CoC of 100bp. In 2022, ROAE recovered faster than we had expected to 15%, up 5.5% from 9.4% in 2021.

- **NIM improvement on the back of loan repricing.** About 80% of BBNI's loans are floating rate loans which could see higher yield in a rising interest rate environment. However, the bank may focus on asset quality which could delay the adjustment of rates for some banks, while competition in the low-risk corporate segment could lead to lower lending rates.

- **Reiterate BUY with a target price of Rp11,200.** We arrive at 1.3x P/B by using GGM and assumptions of ROE: 15%, cost of equity: 12.5%, and long-term growth: 5%. The bank plans to increase its DPR to 30-40% which is offering 3.0%.

- **Risks:** Adverse economic development, worsening geopolitical issues, and prolonged COVID-19 situation.

**SHARE PRICE CATALYSTS**

- We expect BBNI to announce its 1Q23 results this month.

- The bank could achieve ROE of 18% faster than expected (2022: 14%).

- BBNI is the cheapest stock among the Big Four banks, trading at 1.1x average of its five-year historical P/B. It is at a 50% discount to the Big Four banks' forward P/B of 2.4x.

**Bukalapak.com – BUY (Stevanus Juanda)**

- **10 new specialty programmes for monetisation.** Bukalapak.com's (BUKA) management has instructed a team to search for 10 new specialty programmes for monetisation. The criteria for the selection are: a) a large enough market size, b) a take rate that is accretive or higher than the current take rate of 2.46%, and c) the market has to be fragmented. We support this strategy as it could lead to a path of recovery.

- **Cell phone re-commerce with 9% take rate to increase overall take rate.** A specialty programme that BUKA is currently focusing on is the cell phone re-commerce business. BUKA offers a six-month guarantee on second-hand cell phones, which has proven to be favourable to customers. The second-hand cell phone re-commerce business is US$2b-2.5b with a 9% take rate, which is accretive compared with Mitra's take rate of 2.46% in 3Q22. In this business, consumers will be able to purchase higher-grade second-hand phones such as Samsung S23 rather than Xiaomi. Another advantage of this programme is that the selling price is 9x the selling price of instant noodles, which enables higher revenue per transaction.

- **3-5% price advantage in AlloFresh.** BUKA states that its 35%-owned AlloFresh business has a higher take rate than its current average. This translates to BUKA's prices being 3-5% cheaper than Mitra's, and is beneficial to consumers. BUKA could split the 3-5% extra margins with its Mitra partners. If it is split by 50:50, 1.5-2.5% should be added to Mitra's current take rate of 2.46%.

- **US$1,000 vendor financing by AlloBank with 0.2% NPL.** AlloBank has started to offer credit line of US$1,000 to its Mitra partners. This credit can be spent on the Bukalapak platform. Currently, the NPL of this programme stands at a low 0.2%, which is lower than that of most banks. AlloBank's liability is limited to US$1,000 per customer.
- **Competitors are unlikely to make a push into Mitra.** BUKA believes that the investors are currently pressuring e-commerce companies to be more profit-oriented. Profit focus will equate to a slowdown in spending. Tokopedia and Shopee.
- **Maintain BUY with a target price of Rp480.** Our target price is derived using our target EV/GMV of Sea Limited of 0.30x applied to the expected gross merchandise value of BUKA in 2023. Our target price of Rp480 provides a potential 81.8% upside from the current level.

SHARE PRICE CATALYSTS

- BUKA becoming EBITDA positive by 4Q23.
- Continuous path to profitability is observed.

**Bank Mandiri - BUY (Posmarito Pakpahan)**

**13% net profit growth with ROE of 18% in 2023.** BMRI could deliver a 13% net profit growth with ROE of 18% in 2023, driven by: a) high single-digit loan growth, b) 16bp NIM expansion, and c) cost-to-income ratio (CIR) of 41%.

**NIM expansion mostly on the back of loan repricing and growth from the high-yield loan segment.** Supported by its growing current account and savings account (CASA) and huge exposure to floating rate loans, BMRI has historically posted a resilient NIM during the interest rate hike. We expect BMRI to book 5.63% NIM in 2023, up 16bp from 5.47% in 2022, derived from loan repricing and growth from the high-yield loan segment.

- **•11% loan growth in 2023 to be supported by retail and wholesale segments as well as subsidiaries.** We expect BMRI's loans to grow 11% in 2023, supported by the retail and wholesale segments. We also expect its subsidiaries, including Bank Syariah Indonesia (BRIS), to book solid loan growth which will contribute 22% of total loans. With huge potential growth in syariah banking supported by market dominance, we expect BRIS to achieve above-industry growth.
- **CoC normalisation as LaR trends down.** Improving asset quality, prudent underwriting policies and robust coverage could lead to CoC normalisation. LaR trended down to 11.7% in Dec 22 from 17% in Dec 21 while LaR and NPL coverage stand at 46% and 285% respectively. We forecast CoC of 1.4% in 2023.
- **Maintain BUY with a higher target price of Rp11,500.** We expect BMRI to sustain its 18% ROE in 2023. We arrive at 2.1x fair P/B by assuming 60% dividend payout ratio, ROE: 18% and cost of equity: 12.4%. BMRI is trading at 1.9x forward P/B, slightly above its 1SD historical forward P/B as the valuation re-rated following the ROE recovery.

SHARE PRICE CATALYSTS

- BMRI plans to conduct a stock split which will be conducted in Apr 23.
- We expect BMRI to announce its 1Q23 result this month.

**HM Sampoerna – BUY (Stevanus Juanda)**

- **Excise tax increase of 10% on average for 2023-24.** The Ministry of Finance has decided that the 2023 and 2024 cigarettes excise tax will rise by an average of 10%. For unfiltered hand-rolled clove cigarettes, the excise tax jump will be 5% for the largest producers. The excise tax increase for machine-rolled clove cigarettes will be 11.50-11.75% for the largest producers. For non-clove machine-rolled cigarettes, the excise tax hike will be 11-12%. For e-cigarettes, the increase will be 15% in 2023-24.

- **Recovery in purchasing power could bode well for 2023 volume and pricing power.** We think that the potential recovery in purchasing power could bode well for cigarette consumption volume as smokers will trade up their cigarette consumption to the more expensive national brand. We assume that HMSP's machine-rolled and hand-rolled cigarettes volume will increase by 3% for each segment. An increase in purchasing power will also bode well for pricing as we believe ASP will rise 10% for machine-rolled cigarettes, 12% for non-clove cigarettes and 5% for hand-rolled cigarettes.

- **Prices have been increasing since 4Q22.** Our channel check indicates that prices have started to increase since 4Q22. According to our source, industry volume declined by 5%. We think profit should rise given that the elasticity of demand is 0.6 for cigarettes consumption.

- **Maintain BUY with a target price of Rp1,700.** Our target price is derived using the historical five-year -0.5SD PE of 26.3x applied to 2023F EPS. With 44.2% upside from the current level, we maintain BUY on HMSP with a target price of Rp1,700.

SHARE PRICE CATALYSTS

- Positive momentum on cigarettes stocks.

- Announcement of strong 4Q22 results.

**Nippon Indosari Corpindo – BUY (Stevanus Juanda)**

- **Daily sales in Oct 22 and Nov 22 up 3% qoq, indicating a potentially stronger 4Q22.** Nippon Indosari (ROTI) stated that daily sales in Oct 22 and Nov 22 were 3% higher than the average daily sales in 3Q22. This is encouraging because it recorded a 42.9% yoy and 156.6% qoq NPAT growth in 3Q22. If the 3% qoq higher sales translate into a 3% qoq increase in 4Q22 NPAT, 4Q22 NPAT could come in at Rp129.4b, rising 80.8% yoy compared with 4Q21 NPAT of Rp71.6b. If 4Q22 NPAT comes in at Rp129.4b, 2022 NPAT could be Rp392.4b, up 39.5% yoy.

- **Margins could improve in 4Q22 and 2023 as flour prices are adjusted downwards.** ROTI indicated that 4Q22 gross margin could be better than that in 3Q22 due to the downward adjustment in flour prices. ROTI has started to reap the benefits of lower wheat prices and has requested a monthly adjustment to its flour prices. We believe that ROTI's margin could be better in 2023 as flour prices could continue to decline.

- **Keeping general trade productivity two times higher than in pre-COVID-19 times.** In 2019, general trade productivity was Rp14.2m/outlet, but rose to Rp32.7m/outlet during the peak of the pandemic in 2021, and remained relatively flat at Rp32.3m/outlet in 9M22. This was mainly due to consumers staying at home and making purchases from delivery vendors instead. ROTI stated that it is continuing to push for its general trade partners to maintain their productivity levels.

- **Guiding for 2022 net profit of Rp370b, up 31.5% yoy.** ROTI expects 2022 NPAT to rise 31.5% yoy to Rp370b. We expect 2022 NPAT to come in at Rp369.1b, up 31.2% yoy. For 2023, we expect NPAT to increase 16.2% yoy to Rp428.7b.

- **Maintain BUY with a target price of Rp2,000.** Our target price is derived using the historical five-year average PE of 26.7x applied to 2023F EPS. With 39.2% upside from the current level, we maintain BUY on ROTI with a target price of Rp2,000.

SHARE PRICE CATALYSTS

- Strong profit delivery in 4Q22 onwards.

**Semen Indonesia - BUY (Limartha Adhiputra)**

- **Pushing sales volume growth in 2023 as SMGR plans to recoup its eroding market share.** In 2023, SMGR will focus on recouping its lost market share in the bag cement segment by using the micro-market approach strategy. It plans to release new fighting cement brand in certain areas with fierce competition such as West and East Java as well as South Sulawesi. In the bulk cement segment, SMGR will focus on maintaining its leadership in government strategic infrastructure projects such as Ibu Kota Nusantara (IKN) projects. SMGR would also maintain its ASP as the energy prices have normalised with 100% coal supply from domestic market obligation (DMO) but it still has room to increase the ASP in the bulk segment.

- **Coal at DMO prices still delivers a higher profit margin in 2023.** SMGR has secured 100% of its coal supply at the DMO prices of around US$45/tonne. It has signed a long-term contract with coal suppliers to supply its low calorific value (LCV) coal requirements. Semen Baturaja (SMBR) also has secured 100% of its coal supply from Bukit Asam (PTBA) due to the closer distance between SMBR's plants and PTBA's coal mines. All in all, we believe SMGR could deliver a higher profit margin in 2023 as the risk of coal price fluctuations has been minimised by securing 100% of its coal supply at DMO prices.

- **Cement sales volume could remain weak in 1Q23 but NPAT will likely grow on margin expansion.** 1Q23 cement sales volume is still growing slowly compared with last year's sales volume as we are experiencing heavy rainy season, fasting, and the upcoming Eid al-Fitr holiday. However, we expect sales volume to start growing faster in 2H23 as many projects resume construction progress. SMGR's NPAT could still grow in 2023 as margins expand on lower coal input cost and potentially higher cement demand from the New Capital City Nusantara (IKN) project.

- **We maintain BUY with a target price of Rp9,200.** We still believe SMGR can record higher NPAT and margin growth in 2023 as it has secured 100% of its coal at DMO prices. We base our target price on the stock's -0.5SD to its five-year 2023 forward EV/EBITDA of 7.9x. Currently, SMGR is traded at -1.5SD to its five-year EV/EBITDA, which is still very attractively priced.

SHARE PRICE CATALYSTS

- Margins will continue to expand in 2023 as coal has been secured at DMO prices. Expect 1Q23 earnings to remain strong on a yoy basis as margins improve.

**Mitra Adiperkasa – BUY (Stevanus Juanda)**

- **Over 150 profitable and exclusive brands.** A key factor in Mitra Adiperkasa's (MAPI) success is its >150 exclusive brands that are profitable. This exclusivity creates barriers of entry to competitors as well as better margins. Only Nike, Sephora (60% of products), Puma and Adidas (which contributed about 4.7% of MAPI's sales) are non-exclusive brands. MAPI has worked hard to rationalise its brands portfolio over the past few years, and non-performing brands have been divested.

- **Key to higher margins lies in exclusive brands.** MAP Active's (MAPA) net margin of 9.0% is much higher than its regional peers' 4.5% and investors want to know if there is a risk of future margin erosion. MAPI stated that about 90% of its brands are exclusive to it in Indonesia, and only Nike, Adidas, Puma and Sephora are not exclusive. The exclusivity should translate to barriers of entry to competitors. MAPA's top five brands are Skechers, Converse, Reebok, New Balance and Nike, of which three are exclusive to MAPI.
- **Exclusivity of brands extended to regional markets.** A key competitive advantage of MAPI is the exclusivity of its brands in Indonesia which creates barriers of entry and better margins earned compared with its regional peers. Fortunately, this exclusivity has also extended into its international operations such as Vietnam. In Vietnam, all Inditex Group (Zara, Massimo Dutti, Pull & Bear, etc), Birkenstock, Converse, Champion and Digimap brands are exclusive. In the Philippines, the exclusive brands are Converse, New Balance, Haddad, Airwalk, Hoka and Fitflop. In Singapore and Malaysia, JVs are formed with Converse and Reebok.

- **All business segments except department stores have recorded higher sales than pre-pandemic levels.** With the exception of department stores, all other business segments (fashion, sportswear, F&B and Digimap) have recorded sales higher than

2019's levels. This should be viewed positively as GDP growth recovery will continue to support MAPI's sales going forward.

- **Maintain BUY with a target price of Rp1,600,** derived using historical average five-year PE applied to average 2022 and 2023 EPS. Given a 13% upside from the current level, we maintain BUY on MAPI.

SHARE PRICE CATALYSTS

- Strong profit growth from 4Q22 onwards.
- Recovery in the F&B business.

**Kalbe Farma – BUY (Stevanus Juanda)**

- **Guiding for 11-15% sales growth and stable margins in 2022;** likely to meet its 11-15% NPAT growth target for 2022. Kalbe Farma's (KLBF) share price has appreciated by 31.7% since its inclusion in this portfolio as its valuation re-rated from below -2SD PE previously to below -1SD PE currently. A further re-rating is possible if KLBF can deliver a 15% EPS growth in 2022.
- **Return of outpatients to hospitals to benefit pharmaceutical division.** KLBF is seeing non-COVID-19 patients return to hospitals, with some hospitals experiencing pre-COVID-19 traffic levels. This could accelerate the sales of pharmaceutical products. KLBF expects an 11-13% sales growth for its pharmaceutical division, vs 11% in 9M21.
- **Exports of biological products; increased participation in BPJS Health.** KLBF will start to export three biosimilar products to the Middle East and Southeast Asia. It has received approvals for these Erythropoietin (EPO) products. It will also introduce two new biosimilar products in Indonesia and increase the unbranded products' participation in e-catalogues. Operating profit from unbranded generic products (23% of pharmaceutical sales) is 7-10% while that from branded generic products is 10-18%.
- **Maintain BUY with a target price of Rp2,300.** KLBF is trading at 24.4x 2023F PE or below average historical five-year PE of 24.5x. We maintain BUY on KLBF with a target price of Rp2,300.

SHARE PRICE CATALYSTS

- Strong earnings delivery in 2023.

## COMPANY RESULTS

# Bukalapak.com (BUKA IJ)

### 4Q22: Net Loss Continues To Narrow With Adjusted EBITDA Positive By 4Q23

**BUKA's 4Q22 core net loss continued to improve and came in at Rp249b compared with Rp546b last year. BUKA's 2022 core net loss improved 13.7% yoy to Rp1,444b, in line with our forecast but 11.4% below consensus forecast. BUKA expects adjusted EBITDA to be positive by 4Q23, with 2023 EBITDA guidance at Rp525b or better. This will be driven by revenue growth, and monetisation of specialty programmes. Maintain BUY with a target price of Rp480.**

### 2022 AND 4Q22 RESULTS

| (Rpb) | 2022 | yoy % chg | 4Q22 | 4Q21 | yoy % chg | qoq % chg | Remarks |
|---|---|---|---|---|---|---|---|
| Revenue | 3,618 | 93.6% | 1,029 | 521 | 97.3% | 14.5% | |
| Gross Profit | 1,058 | -25.9% | 283 | 288 | -2.0% | 13.8% | |
| Operating Profit | 1,760 | -202.9% | (1,774) | (493) | 259.7% | -65.0% | |
| Core Op Profit | (2,175) | 27.3% | (579) | (493) | 17.3% | 41.2% | |
| Net Profit | 1,984 | -218.6% | (1,640) | (546) | 200.4% | -67.0% | Core net loss |
| Core NPAT | (1,444) | -13.7% | (249) | (546) | -54.3% | 9.5% | continue to improve |
| **Margin** | **2022** | **yoy bp chg** | **4Q22** | **4Q21** | **yoy bp chg** | **qoq bp chg** | |
| Gross Margin | 29.3 | (4,713) | 27.5 | 55.3 | (2,785) | (19) | |
| Op Margin | 48.6 | 14,008 | (172.4) | (94.6) | (7,782) | 39,227 | |
| Core Op Margin | (60.1) | 3,133 | (56.2) | (94.6) | 3,833 | (1,062) | |
| Net Margin | 54.8 | 14,433 | (159.4) | (104.7) | (5,469) | 39,381 | |
| Core Net Margin | (39.9) | 4,959 | (24.2) | (104.7) | 8,048 | 111 | |

*Source: BUKA, UOB Kay Hian*

### RESULTS

- **BUKA reported a core net loss of Rp249b in 4Q22,** an improvement from a loss of Rp546b in 4Q21. Revenue nearly doubled, driven by 20% growth in overall TPV and increase in take rate. Mitra's take rate came in at 2.76% in 4Q22 compared to 1.98% in 4Q21. The marketplace's take rate came in at 2.30% in 4Q22 compared to 0.94% in 4Q21.
- **BUKA's 2022 core net loss improved by 13.7% yoy to Rp1,444b.** The reported net loss for 2022 was in line with our forecast of Rp1,436b but 11.4% below consensus forecast of Rp1,297b.
- **BUKA guided adjusted EBITDA to be positive by 4Q23.** The positive adjusted EBITDA in 4Q23 will be driven by revenue growth, cost control, and monetizing speciality program with a higher take rate than the current 2.76%. Adjusted EBITDA is guided at -Rp200 to -Rp225b for 1Q23, -Rp150 to -Rp175b for 2Q23, and -Rp100 to -Rp125b for 3Q23. Adjusted EBITDA should be positive by 4Q23. For 2023, the adjusted EBITDA is expected to be -Rp525b or better.

### KEY FINANCIALS

| Year to 31 Dec (Rpb) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 1,869.1 | 3,618.4 | 4,837.4 | 6,169.1 | 7,723.6 |
| EBITDA | (1,709.3) | 1,759.6 | 4,094.5 | 4,922.6 | 6,273.5 |
| Operating profit | (1,709.3) | 1,759.6 | 4,094.5 | 4,922.6 | 6,273.5 |
| Net profit (rep./act.) | (1,675.7) | 1,801.1 | 3,751.5 | 4,351.8 | 5,557.7 |
| Net profit (adj.) | (1,690.1) | (2,484.2) | (992.6) | (533.9) | 526.0 |
| EPS (Rp) | (1.6) | (2.4) | (1.0) | (0.5) | 0.5 |
| PE (x) | n.m. | n.m. | n.m. | n.m. | 485.9 |
| P/B (x) | 10.9 | 9.6 | 8.5 | 7.4 | 6.4 |
| EV/EBITDA (x) | n.m. | 3.8 | 1.6 | 1.3 | 1.1 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net margin (%) | (89.7) | 49.8 | 77.6 | 70.5 | 72.0 |
| Net debt/(cash) to equity (%) | (96.7) | (61.4) | (62.7) | (64.9) | (67.2) |
| ROE (%) | n.a. | 7.2 | 13.2 | 13.4 | 14.9 |
| Consensus net profit | - | - | (521) | 364 | 1,325 |
| UOBKH/Consensus (x) | - | - | 1.91 | n.m. | 0.40 |

*Source: Bukalapak.com, Bloomberg, UOB Kay Hian*
*n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | Rp248 |
| Target Price | Rp480 |
| Upside | +93.5% |

### COMPANY DESCRIPTION

Bukalapak.com is one of Indonesia's top three e-commerce platforms. It operates three divisions: a) Bukalapak.com, which is the e-commerce platform; b) Mitra, which is an O2O business with E-Warung as its major platform and serves SMEs; and c) BukaPegadaia.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | BUKA IJ |
| Shares issued (m): | 103,062.0 |
| Market cap (Rpb): | 25,559.4 |
| Market cap (US$m): | 1,704.4 |
| 3-mth avg daily t'over (US$m): | 2.6 |

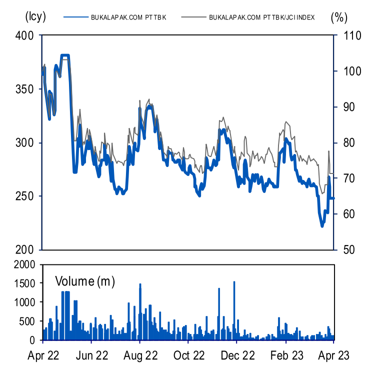
**Price Performance (%)**

52-week high/low Rp382/Rp222

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (5.3) | (5.3) | (8.8) | (35.1) | (5.3) |

| Major Shareholders | % |
|---|---|
| PT Kreatif Media Karya | 24.6 |
| API Hong Kong Invt Ltd | 13.1 |
| - | - |
| FY23 NAV/Share (Rp) | 29 |
| FY23 Net Cash/Share (Rp) | 184 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Stevanus Juanda**
+6221 2993 3845
stevanusjuanda@uobkayhian.com

## STOCK IMPACT

### SELECTED OPERATIONAL 2022 AND 4Q22 DATA

| | Unit | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | QoQ 3Q22-4Q22 | YoY 4Q21-4Q22 | FY21 | FY22 | YoY FY21-FY22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Overall TPV** | **IDR bn** | **34,721** | **34,115** | **36,541** | **41,307** | **41,777** | **1%** | **20%** | **122,619** | **153,739** | **25%** |
| Mitra TPV | IDR bn | 16,241 | 17,256 | 17,715 | 19,709 | 18,959 | -4% | 17% | 56,201 | 73,638 | 31% |
| Marketplace TPV | IDR bn | 18,480 | 16,859 | 18,826 | 21,598 | 22,818 | 6% | 23% | 66,418 | 80,101 | 21% |
| **Overall Revenue** | **IDR bn** | **521** | **788** | **903** | **898** | **1,029** | **15%** | **97%** | **1,869** | **3,618** | **94%** |
| Mitra Revenue | IDR bn | 321 | 472 | 498 | 477 | 522 | 10% | 63% | 818 | 1,969 | 141% |
| Marketplace Revenue | IDR bn | 173 | 293 | 393 | 411 | 526 | 28% | 204% | 959 | 1,622 | 69% |
| ***Overall Take Rate*** | **%** | ***1.50%*** | ***2.31%*** | ***2.47%*** | ***2.17%*** | ***2.46%*** | ***29 bps*** | ***96 bps*** | ***1.52%*** | ***2.35%*** | ***83 bps*** |
| *Mitra Take Rate* | % | *1.98%* | *2.73%* | *2.81%* | *2.42%* | *2.76%* | *34 bps* | *78 bps* | *1.45%* | *2.67%* | *122 bps* |
| *Marketplace Take Rate* | % | *0.94%* | *1.74%* | *2.09%* | *1.91%* | *2.30%* | *40 bps* | *137 bps* | *1.44%* | *2.03%* | *58 bps* |
| **Overall Contribution Margin[1]** | **IDR bn** | **-35** | **-50** | **-24** | **31** | **74** | **139%** | **311%** | **-212** | **31** | **114%** |
| *Overall Contribution Margin as % TPV* | % | *-0.10%* | *-0.15%* | *-0.06%* | *0.07%* | *0.18%* | *10 bps* | *28 bps* | *-0.17%* | *0.02%* | *19 bps* |
| *Mitra Contribution Margin as % Mitra TPV* | % | *-0.49%* | *-0.40%* | *-0.37%* | *-0.28%* | *-0.25%* | *2 bps* | *24 bps* | *-0.47%* | *-0.32%* | *14 bps* |
| *Marketplace Contribution Margin as % Marketplace TPV* | % | *0.28%* | *0.22%* | *0.29%* | *0.49%* | *0.62%* | *13 bps* | *33 bps* | *0.09%* | *0.42%* | *33 bps* |
| G&A | IDR bn | -424 | -1,024 | -298 | -549 | -674 | -23% | -59% | -1,452 | -2,545 | -75% |
| G&A (excl. Stock Based Compensation) | IDR bn | -355 | -357 | -365 | -394 | -296 | 25% | 17% | -1,376 | -1,412 | -3% |
| **EBITDA** | **IDR bn** | **-469** | **14,448** | **-5,788** | **-5,048** | **-1,760** | **65%** | **-275%** | **-1,555** | **1,853** | **219%** |
| *EBITDA as % TPV* | % | *-1.35%* | *42.35%* | *-15.84%* | *-12.22%* | *-4.21%* | *801 bps* | *-286 bps* | *-1.27%* | *1.21%* | *247 bps* |
| **Adjusted EBITDA** | **IDR bn** | **-393** | **-372** | **-360** | **-327** | **-235** | **28%** | **40%** | **-1,411** | **-1,294** | **8%** |
| *Adjusted EBITDA as % TPV* | % | *-1.13%* | *-1.09%* | *-0.99%* | *-0.79%* | *-0.56%* | *23 bps* | *57 bps* | *-1.15%* | *-0.84%* | *31 bps* |
| **Net Profit** | **IDR bn** | **-548** | **14,549** | **-5,959** | **-4,972** | **-1,641** | **67%** | **-200%** | **-1,676** | **1,978** | **218%** |

*Source: UOB Kay Hian*

- **Mitra:** 4Q22 net loss was Rp90.1b, roughly equivalent to the Rp90.8b loss in 4Q21. 2022 net loss was Rp348.3b, 12.8% worse than the Rp309b loss in 2021.
- **Buka Pegadaian:** 4Q22 net loss was Rp2.5b, compared to the Rp0.3b loss in 4Q21. 2022 net loss was Rp11.7b, 10.2% worse than the Rp10.7b loss in 2021.
- **Marketplace:** 4Q22 net loss was Rp429b; compared to the Rp129b loss in 4Q21. 2022 net loss was Rp1,128b, 14.9% better than the Rp1,326b loss in 2021.

### 9M22 AND 3Q22 SEGMENTAL ANALYSIS

| 2022 | Mitra | Buka Pegadaian | Marketplace | Elimination | Consolidated | Growth YoY (%) | Mitra | Buka Pegadaian | Marketplace | Elimination | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenue | 1,968.6 | 135.6 | 1,622.5 | (108.3) | 3,618.4 | Net Revenue | 140.8% | 21.7% | 69.2% | 483.5% | 93.6% |
| Cost of Revenue | (1,767.7) | (127.3) | (669.4) | 4.5 | (2,559.9) | Cost of Revenue | 480.2% | 23.0% | 1880.6% | 743.4% | 479.9% |
| Gross Profit | 200.9 | 8.3 | 953.1 | (103.8) | 1,058.5 | Gross Profit | -60.8% | 4.5% | 3.1% | 475.8% | -25.9% |
| Operating Profit | (359.2) | (13.2) | 2,166.7 | (34.8) | 1,759.6 | Operating Profit | 14.6% | 21.0% | -260.0% | 13.4% | -202.9% |
| Net Income (Loss) | (348.3) | (11.7) | 2,372.4 | (34.8) | 1,977.6 | Net Income (Loss) | 12.8% | 10.2% | -279.0% | 13.4% | -218.0% |
| Core NPAT | (348.3) | (11.7) | (1,128.2) | | (1,450.3) | Core NPAT | 12.8% | 10.2% | -14.9% | -100.0% | -13.5% |
| **4Q22** | **Mitra** | **Buka Pegadaian** | **Marketplace** | **Elimination** | **Consolidated** | **Growth YoY (%)** | **Mitra** | **Buka Pegadaian** | **Marketplace** | **Elimination** | **Consolidated** |
| Net Revenue | 522.5 | 26.0 | 525.6 | (45.3) | 1,028.9 | Net Revenue | 62.5% | -33.3% | 204.0% | 278.0% | 97.3% |
| Cost of Revenue | (487.0) | (24.7) | (236.8) | 2.2 | (746.2) | Cost of Revenue | 174.2% | -32.4% | 1142.9% | 1404.8% | 220.3% |
| Gross Profit | 35.5 | 1.4 | 288.8 | (43.1) | 282.6 | Gross Profit | -75.3% | -45.8% | 87.7% | 264.4% | -2.0% |
| Operating Profit | (92.6) | (3.3) | (1,655.5) | (22.3) | (1,773.7) | Operating Profit | -0.5% | 936.9% | 348.6% | -27.3% | 259.7% |
| Net Income (Loss) | (90.1) | (2.5) | (1,465.7) | (22.3) | (1,580.6) | Net Income (Loss) | -0.7% | 655.1% | 241.7% | -27.3% | 187.0% |
| Core NPAT | (90.1) | (2.5) | (128.6) | 12.5 | (170.8) | Core NPAT | -0.7% | 655.1% | -70.0% | -140.8% | -69.0% |

*Source: BUKA, UOB Kay Hian*

## EARNINGS REVISION/RISK

- **Adjust our 2023 and 2024 core NPAT forecasts by 27.9% and 38.1% respectively.** After incorporating the 2022 NPAT, we raise our 2023 core NPAT forecast by 27.9% and 2024 core NPAT forecast by 38.1%.

### NEW, ORIGINAL AND CONSENSUS FORECASTS

| | New | | Original | | Difference (%) | | Street | | Difference (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F | 2023F | 2024F |
| Sales | 4,837 | 6,169 | 4,755 | 5,942 | 1.7% | 3.8% | 4,822 | 6,352 | 0.3% | -2.9% |
| Gross Profit | 3,831 | 4,913 | 4,568 | 5,731 | -16.1% | -14.3% | 1,748 | 2,829 | 119.2% | 73.6% |
| Op Profit | 4,095 | 4,923 | 3,109 | 4,024 | 31.7% | 22.3% | (716) | (141) | -671.9% | -3581.3% |
| Net Income | 3,752 | 4,352 | 3,589 | 4,601 | 4.5% | -5.4% | (259) | 686 | -1551.3% | 534.3% |
| Core NPAT | (993) | (534) | (1,376) | (863) | 27.9% | 38.1% | (521) | 364 | 90.5% | -246.6% |
| Gross Margin | 79.2 | 79.6 | 96.1 | 96.4 | (1,688) | (1,681) | 36.2 | 44.5 | 4,295 | 3,509 |
| Op Margin | 84.6 | 79.8 | 65.4 | 67.7 | 1,926 | 1,207 | -14.8 | -2.2 | 9,949 | 8,202 |
| Net Margin | 77.6 | 70.5 | 75.5 | 77.4 | 207 | (688) | -5.4 | 10.8 | 8,292 | 5,974 |
| Core Net Margin | -20.5 | -8.7 | -28.9 | -14.5 | 842 | 587 | -10.8 | 5.7 | (971) | (1,438) |

*Source: BUKA, UOB Kay Hian*

## VALUATION/RECOMMENDATION

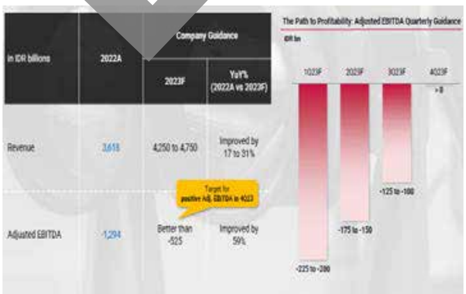
- **Maintain BUY with a target price of Rp480.** We use a 50% discount to account for a potential miss in reverting to profitability. We extend our time horizon to 2023 and assign a target price of Rp480 to BUKA. With a 93.5% upside, we maintain BUY on BUKA.

### 2022 AND 4Q22 SG&A EXPENSES

| | 2022 | 2021 | YoY(%) | 4Q22 | 4Q21 | YoY(%) | QoQ(%) |
|---|---|---|---|---|---|---|---|
| Revenue | 3,618 | 1,869 | 93.6% | 1,029 | 521 | 97.3% | 14.5% |
| Core SGA | 4,600 | 4,731 | -2.8% | 1,092 | 1,071 | 2.0% | 11.0% |
| | **2022** | **2021** | **YoY(%)** | **4Q22** | **4Q21** | **YoY(%)** | **QoQ(%)** |
| Vouchers | 106 | 204 | -48.0% | 22 | 53 | -57.8% | -20.9% |
| Online to Offline | 381 | 680 | -44.0% | 72 | 156 | -54.1% | 12.0% |
| Festures Subsidy | 164 | 353 | -53.7% | 33 | 10 | 245.8% | -5.9% |
| Payment Channel | 146 | 130 | 11.9% | 33 | 37 | -10.9% | -11.2% |
| Online Advertising | 133 | 136 | -2.6% | 27 | 39 | -30.8% | -2.7% |
| Offline advertising | 69 | 85 | -19.1% | 15 | 24 | -34.7% | 8.7% |
| Others | 31 | 52 | -40.7% | 7 | 5 | 26.2% | -42.5% |
| **Total Selling** | **1,028** | **1,640** | **-37.3%** | **209** | **323** | **-35.4%** | **-4.0%** |
| | **2022** | **2021** | **YoY(%)** | **4Q22** | **4Q21** | **YoY(%)** | **QoQ(%)** |
| Salary | 917 | 736 | 24.6% | 214 | 212 | 0.7% | -13.5% |
| Internet Hosting Data Service | 297 | 346 | -14.3% | 72 | 91 | -19.9% | -11.8% |
| Depreciation & Amortization | 67 | 135 | -50.3% | 7 | 19 | -62.4% | -58.5% |
| Rent | 16 | 13 | 24.0% | 4 | 2 | 76.8% | 38.2% |
| Employee Benefit | (11) | 15 | -171.1% | (35) | (3) | 1151.1% | -532.7% |
| Right use Asset Depreciation | 26 | 19 | 34.8% | 7 | 5 | 52.6% | -6.8% |
| Utilities | 16 | 11 | 52.0% | 3 | 3 | 9.2% | -34.0% |
| Consultation & Mgmt Charges | 69 | 95 | -27.1% | 17 | 24 | -27.6% | -12.9% |
| Stock Option for Employee | 1,133 | 76 | 1394.1% | 379 | 69 | 450.2% | 145.6% |
| Others | 14 | 5 | 184.9% | 5 | 2 | 151.0% | 23.9% |
| **Total Gen & Admin** | **2,545** | **1,452** | **75.2%** | **674** | **424** | **59.1%** | **23.0%** |

*Source: Bloomberg*

### 2023 EBITDA GUIDANCE




*Source: Bloomberg*

### VALUATION

| | 2023F |
|---|---|
| BUKA TPV (Rp b) | 186,166 |
| TPV as % of GMV | 70.0% |
| BUKA GMV (Rp b) | 265,952 |
| Fair EV/GMV (Using Sea Ltd Multiple) | 0.30 |
| BUKA EV (Rp b) | 79,786 |
| Minus Debt (Rp b) | 0 |
| Plus Cash (RpB) | 18,980 |
| BUKA Market Cap (Rp b) | 98,766 |
| No of Shares (b shares) | 103 |
| Fair Value (Rp per share) | 958 |
| Fair Value after 50% discount (Rp per share) | 479 |
| **Target Price** | **480** |

*Source: Bloomberg*

## PROFIT & LOSS

| Year to 31 Dec (Rpb) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **3,618** | **4,837** | **6,169** | **7,724** |
| EBITDA | 1,760 | 4,095 | 4,923 | 6,274 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 1,760 | 4,095 | 4,923 | 6,274 |
| Associate contributions | (23) | (86) | (57) | (29) |
| Net interest income/(expense) | 357 | 313 | 369 | 440 |
| **Pre-tax profit** | **2,094** | **4,322** | **5,234** | **6,685** |
| Tax | (293) | (570) | (882) | (1,127) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net profit** | **1,801** | **3,752** | **4,352** | **5,558** |
| Net profit (adj.) | (2,484) | (993) | (534) | 526 |

## BALANCE SHEET

| Year to 31 Dec (Rpb) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 23 | 601 | 941 | 1,413 |
| Other LT assets | 5,378 | 5,632 | 5,897 | 6,176 |
| LT debt | n.a. | n.a. | n.a. | n.a. |
| Cash/ST investment | 16,256 | 18,965 | 22,466 | 26,999 |
| Other current assets | 5,749 | 6,206 | 6,693 | 7,230 |
| **Total assets** | **27,406** | **31,404** | **35,997** | **41,818** |
| ST debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current liabilities | 809 | 1,041 | 1,274 | 1,532 |
| Other LT liabilities | 99 | 113 | 121 | 125 |
| Shareholders' equity | 26,487 | 30,239 | 34,591 | 40,148 |
| Minority interest | 11 | 11 | 12 | 13 |
| **Total liabilities & equity** | **27,406** | **31,404** | **35,997** | **41,818** |

## CASH FLOW

| Year to 31 Dec (Rpb) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **(632)** | **497** | **1,638** | **3,155** |
| Pre-tax profit | 2,094 | 4,322 | 5,234 | 6,685 |
| Tax | (293) | (570) | (882) | (1,127) |
| Deprec. & amort. | 120 | 126 | 123 | 125 |
| Working capital changes | (4,799) | (225) | (254) | (279) |
| Other operating cashflows | 2,246 | (3,156) | (2,582) | (2,248) |
| **Investing** | **(6,008)** | **(568)** | **(329)** | **(460)** |
| Capex (growth) | (12) | (578) | (340) | (471) |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 10 | 10 | 11 | 12 |
| Others | (6,006) | 0.0 | 0.0 | 0.0 |
| **Financing** | **(2,010)** | **2,986** | **1,985** | **2,045** |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (2,010) | 2,986 | 1,985 | 2,045 |
| **Net cash inflow (outflow)** | **(8,650)** | **2,915** | **3,295** | **4,739** |
| **Beginning cash & cash equivalent** | **24,700** | **16,256** | **18,965** | **22,466** |
| Changes due to forex impact | 206 | (206) | 206 | (206) |
| **Ending cash & cash equivalent** | **16,256** | **18,965** | **22,466** | **26,999** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 48.6 | 84.6 | 79.8 | 81.2 |
| Pre-tax margin | 57.9 | 89.3 | 84.8 | 86.6 |
| Net margin | 49.8 | 77.6 | 70.5 | 72.0 |
| ROA | 6.7 | 12.8 | 12.9 | 14.3 |
| ROE | 7.2 | 13.2 | 13.4 | 14.9 |
| | | | | |
| **Growth** | | | | |
| Turnover | 93.6 | 33.7 | 27.5 | 25.2 |
| EBITDA | n.a. | 132.7 | 20.2 | 27.4 |
| Pre-tax profit | n.a. | 106.4 | 21.1 | 27.7 |
| Net profit | n.a. | 108.3 | 16.0 | 27.7 |
| Net profit (adj.) | n.a. | n.a. | n.a. | n.a. |
| EPS | n.a. | n.a. | n.a. | n.a. |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt to equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt/(cash) to equity | (61.4) | (62.7) | (64.9) | (67.2) |

**SECTOR UPDATE**

# Banking – Malaysia

## Loans Growth Partly Boosted By Seasonality

**Loans growth improved marginally to 5.1% in Feb 23 (Jan 23: 4.9%). However, the stronger growth is partly seasonal in nature due to the different CNY base effect. We are maintaining our 4.5% loans growth assumption for 2023, a moderation from the 5.7% growth in 2022. The sector's current risk-to-reward profile remains balanced with pedestrian PBT growth of 5% offset by relatively attractive valuations (-1SD) and dividend yields (5%). Maintain MARKET WEIGHT.**

### WHAT'S NEW

- **Loans growth edges up due to seasonality.** Loans growth improved marginally to 5.1% yoy in Feb 23 (Jan 23: 4.9%) on stronger business loans growth of 4.4% yoy (Jan 23: 3.9%). We believe that this could be partially attributed to the different Chinese New Year (CNY) base effect which fell on January in 2023 vs February in 2022. Household loans grew 5.7% yoy (Jan 23: 5.6%), supported largely by stronger auto loans growth of 8.1% yoy (Jan 23: 7.6%). However, we expect a sharp downward normalisation in auto loans growth as cars registered after end-Mar 23 are no longer entitled for the sales and service tax (SST) exemption. We note that the higher interest rates are already starting to take a toll on mortgage growth which has declined from 7.5% in Aug 22 to 6.9% in Feb 23. As such, we are retaining our 2023 system loans growth estimates of 4.5% (2022: 5.7%).
- **Strong loans approval and application due to seasonal factor.** Loan applications and approval grew a robust 43.2% yoy (Jan 23: -13.2%) and 49.1% yoy (Jan 23: -6.1%). Similarly, we partly attribute this strong growth to the seasonal impact of the different CNY period in 2023 vs 2022.
- **CASA mix continues to normalise downwards.** Overall deposit growth remained healthy at 7.5% (Jan 23: 7.0%). However, in terms of deposit growth by segment, CASA contracted 0.2% yoy (Jan 23: -0.2%) while fixed deposit growth continues to gain traction at 7.1% yoy (Jan 23: +6.1%). This has resulted in a continued normalisation in CASA ratio to 29.7% (Jan 23: 29.8%, pre-COVID-19: 25-26%). We note that fixed deposit competition remains elevated as at Apr 23 despite BNM's interest rate hike pause. This will continue to fuel the sector-wide downward normalisation in CASA ratio and hence NIM.

### ACTIONS

- **Maintain MARKET WEIGHT.** Although current valuations of -1.0SD to historical P/B is not particularly rich, sector earnings growth is likely to moderate downwards in 2023 on: a) mid-single-digit compression in NIM, b) moderating loans growth, and c) elevated opex growth. However, downside support will be underpinned by relatively attractive average dividend yields of 5%, valuations of -1SD and relatively manageable asset quality trends. As such, we think that current risk-to-reward is balanced which helps to justify ourMARKET WEIGHT call.
- **Top pick.** Public Bank for its high provision buffers providing scope for potential provision write-backs when macroeconomic conditions permit. We also like CIMB, as its share price underperformance over the past month (-5% vs sector: -3%) has brought valuations down to a compelling 0.76x FY23 P/B vs ROE: 9%.

## MARKET WEIGHT

(Maintained)

### SECTOR PICKS

| Company | Rec | Share Price (RM) | Target Price (RM) |
|---|---|---|---|
| Public Bank | BUY | 4.47 | 5.10 |
| CIMB Group | BUY | 5.52 | 6.30 |
| RHB Bank | BUY | 5.72 | 6.60 |
| Alliance Bank | BUY | 3.70 | 4.50 |

*Source: UOB Kay Hian*

### BANKS' SHARE PRICE PERFORMANCE

| Company | Price (RM) | yoy % chg | ytd % chg |
|---|---|---|---|
| Affin | 2.24 | 31.8 | 29.5 |
| Alliance Bank | 3.70 | 34.5 | 29.4 |
| AMMB | 4.09 | 21.7 | 29.0 |
| HL Bank | 21.16 | 12.4 | 13.6 |
| HLFG | 19.08 | 4.0 | 10.0 |
| Public Bank | 4.47 | 7.2 | 7.5 |
| RHB Bank | 5.72 | 2.5 | 6.5 |
| Maybank | 8.59 | 6.7 | 3.5 |
| CIMB Group | 5.52 | 5.7 | 1.3 |
| Bank Islam | 2.53 | (20.9) | (15.7) |

*Source: Bloomberg*

### SUMMARY OF BANKING DATA

| | ------------------ yoy % chg ------------------ | | |
|---|---|---|---|
| | Dec-22 | Jan-23 | Feb-23 |
| Loan Outstanding | 5.7 | 4.9 | 5.1 |
| - Business | 5.3 | 3.9 | 4.4 |
| - Household | 5.9 | 5.6 | 5.7 |
| Loan Applied | (16.1) | (13.2) | 34.2 |
| - Business | (11.0) | (2.4) | 40.4 |
| - Household | (19.1) | (18.8) | 30.2 |
| Loan Approved | (16.1) | (6.1) | 49.1 |
| - Business | (16.1) | 3.0 | 71.2 |
| - Household | (16.0) | (12.2) | 33.2 |
| Loan Disbursed | 8.9 | 4.0 | 3.4 |
| - Business | 8.5 | 2.8 | 17.8 |
| - Household | 11.1 | 9.6 | 23.8 |
| Loan Repaid | 10.0 | 14.4 | 22.1 |
| - Business | 8.8 | 12.9 | 21.5 |
| - Household | 16.3 | 21.4 | 24.7 |
| Impaired Loans | 8.6 | 8.4 | 9.5 |
| - Business | 4.2 | 4.8 | 4.8 |
| - Household | 15.2 | 13.7 | 16.5 |

*Source: BNM,*

ANALYST(S)

**Keith Wee Teck Keong**
+603 2147 1981
keithwee@uobkayhian.com

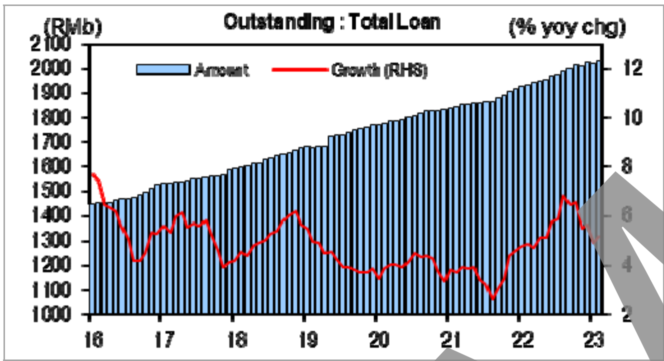
### PEER COMPARISON

| Company | Ticker | Rec | Share Price (RM) | Target Price (RM) | Market Cap (US$m) | ------------PE (x)------------ 2022 | 2023F | 2024F | ROE 2023F (%) | P/B 2023F (x) | Div 2023F (sen) | Div Yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Maybank | MAY MK | BUY | 8.59 | 9.45 | 21,900 | 12.0 | 11.7 | 10.1 | 9.2 | 1.1 | 55.0 | 6.4 |
| Public Bank | PBK MK | BUY | 4.47 | 5.10 | 18,351 | 14.1 | 15.2 | 12.8 | 11.6 | 1.7 | 14.7 | 3.3 |
| CIMB Group | CIMB MK | BUY | 5.52 | 6.30 | 12,452 | 12.9 | 10.7 | 8.5 | 8.5 | 0.9 | 25.9 | 4.7 |
| HL Bank | HLBK MK | BUY | 21.16 | 24.00 | 9,702 | 13.4 | 11.4 | 10.7 | 12.0 | 1.3 | 65.2 | 3.1 |
| RHB Bank | RHBBANK MK | BUY | 5.72 | 6.60 | 5,096 | 8.0 | 9.0 | 7.4 | 8.8 | 0.8 | 35.1 | 6.1 |
| HLFG | HLFG MK | BUY | 19.08 | 21.70 | 4,622 | 8.9 | 7.8 | 7.4 | 11.0 | 0.8 | 47.5 | 2.5 |
| Alliance Bank | ABMB MK | BUY | 3.70 | 4.50 | 1,212 | 10.1 | 8.3 | 7.8 | 10.5 | 0.8 | 22.3 | 6.0 |
| AMMB | AMM MK | HOLD | 4.09 | 3.70 | 2,865 | 8.2 | 8.4 | 7.8 | 9.3 | 0.8 | 18.6 | 4.6 |
| Bank Islam | BIMB MK | HOLD | 2.53 | 2.45 | 1,153 | 9.0 | 11.6 | 9.9 | 6.9 | 0.8 | 9.8 | 3.9 |
| Affin | ABANK MK | HOLD | 2.24 | 1.90 | 1,048 | 8.2 | 8.5 | 7.2 | 5.1 | 0.4 | 7.9 | 3.5 |

*Source: Bloomberg, UOB Kay Hian*

- **Malaysian banking institutions well-insulated from current banking crisis in the US and Europe.** As highlighted in our recent sector update, Malaysia's banks remain well-insulated from the ongoing banking crisis in the US and Europe given: a) limited exposure to the recently impacted banks in US and Switzerland, b) more diversified deposit base (retail: 36%, business: 33%, non-bank financial institutions: 18%, government & statutory agencies: 7%), c) fixed income securities composition of total banking system assets is low at less than 10%, d) impact of marked to market losses on capital is estimated at only 1ppt, and e) stringent liquidity coverage ratio requirements are enforced on all the banks regardless of their size.
- **GIL ratio remains manageable.** System gross impaired loans (GIL) ratio ticked up 3bp mom to 1.76% in Feb 23. We expect system GIL ratio to continue edging upwards towards the 2.0-2.3% level over the course of 2023 as repayment assistance continues to unwind. That said, we think that banks have made sufficient pre-emptive provisions which should help keep sector net credit cost stable at 29bp in 2023 (2022: 33bp).

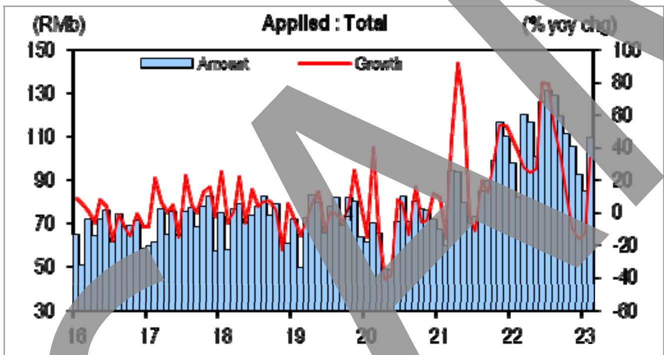
### TOTAL OUTSTANDING LOANS




Source: Bloomberg

- Loans growth improved marginally to 5.1% yoy in Feb 23 (Jan 23: 4.9%) on stronger business loans of 4.4% (Jan 23: 4.9%).
- We believe that this could be partly attributed to the CNY base effect which fell on January in 2023 vs February in 2022.

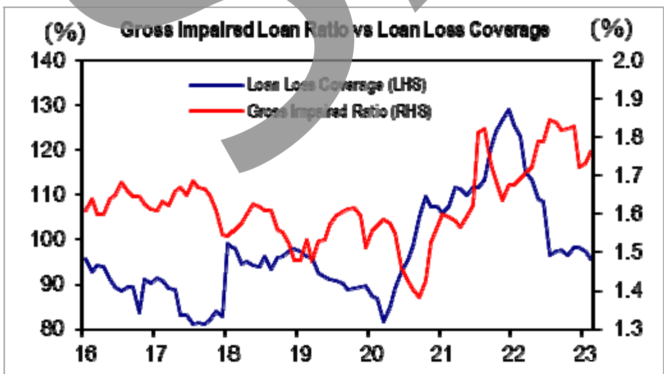
### TOTAL LOAN APPLICATION




Source: Bloomberg

- Loan applications and approval grew at a robust 43.2% yoy (Jan 23: -13.2%) and 49.1% yoy (-6.1%).
- We attribute this strong growth to the seasonal impact of the different CNY period in 2023 vs 2022.

### TOTAL LOAN APPLICATION




Source: Bloomberg

- System GIL ratio ticked up 3bp mom to 1.76% in Feb 23. We expect system GIL ratio to continue edging upwards towards the 2.0-2.3% level over the course of 2023 as repayment assistance continues to unwind.

**COMPANY UPDATE**

# MyNews Holdings (MNHB MK)

## Uneven Path To Recovery

**We come away downbeat from MyNews' briefing, and have decided to trim earnings further as issues related to labour are clouding our visibility on earnings. However, MyNews has room to manoeuvre by potentially raising its ASPs closer to its peers. Looking beyond near-term volatility in earnings, we believe MyNews' earnings will rebound soon, which is a catalyst for MyNews. Maintain BUY but with a lower target price of RM0.62 (from RM0.67).**

### WHAT'S NEW

- **MyNews hosted its 1QFY23 results briefing.** Here are our key takeaways:

  a) **Net store expansion of 1.9% skewed towards MyNews stores.** MyNews rolled out 12 new stores for the quarter. This brought its store count to 596 stores, or a net addition of 1.9%. The 12 stores comprise eight MyNews stores, which the remainder being CU stores. Management indicated that it is fine-tuning its requirements for its CU expansion, detailing the rationale behind the slower rollout vs MyNews Stores.

  b) **Better revenue generation but offset by higher opex.** Despite the higher revenue generation of CU stores compared with MyNews stores, we gather that CU stores remain unprofitable. We believe this in part stems from higher rent for more prominent areas and strategic locations, as well as higher headcount required to operate the stores that consist of more costly local hires.

  c) **Headcount shortage complexes turnaround.** Currently, management indicated a headcount shortfall of 250, predominantly frontliners at its CU stores. These positions are intended to be fulfilled by locals as it is the preferred choice by consumers when it comes to food handling. The headcount shortfall is unlikely to be resolved immediately, and thus a potential limiting factor to CU enhancing revenue through shorter operating hours and more costly labour

  d) **More costly overtime.** The headcount shortage is further compounded by an amendment to the employment act in regards to overtime payment. All employees with wages below RM4,000/month will be entitled to overtime payments. This has translated to an additional RM250,000/month in wages for MyNews.

### KEY FINANCIALS

| Year to 31 Oct (RMm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 401 | 631 | 723 | 798 | 875 |
| EBITDA | 6 | 53 | 84 | 107 | 117 |
| Operating profit | (51) | (16) | 16 | 38 | 49 |
| Net profit (rep./act.) | (43) | (18) | 9 | 27 | 39 |
| Net profit (adj.) | (43) | (18) | 9 | 27 | 39 |
| EPS (sen) | (6.3) | (2.7) | 1.4 | 3.9 | 5.7 |
| PE (x) | n.m. | n.m. | 36.9 | 12.7 | 8.8 |
| P/B (x) | 1.4 | 1.5 | 1.5 | 1.4 | 1.2 |
| EV/EBITDA (x) | 71.3 | 7.5 | 4.7 | 3.7 | 3.4 |
| Dividend yield (%) | 0.0 | 0.0 | 0.5 | 1.8 | 2.6 |
| Net margin (%) | (10.8) | (2.9) | 1.3 | 3.4 | 4.4 |
| Net debt/(cash) to equity (%) | 22.6 | 34.9 | 24.1 | (6.4) | (33.9) |
| Interest cover (x) | 0.9 | 6.0 | 10.7 | 22.9 | 133.5 |
| ROE (%) | n.a. | n.a. | 4.1 | 11.2 | 14.8 |
| Consensus net profit | - | - | 9 | 21 | 30 |
| UOBKH/Consensus (x) | - | - | 1.08 | 1.31 | 1.28 |

*Source: MyNews Holdings, Bloomberg, UOB Kay Hian*
*n.m. : not meaningful; negative P/E reflected as "n.m."*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | RM0.50 |
| Target Price | RM0.62 |
| Upside | +33.7% |
| *(Previous TP* | *RM0.67)* |

### COMPANY DESCRIPTION

MyNews operates the largest homegrown convenience store chain in Malaysia.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Discretionary |
| Bloomberg ticker: | MNHB MK |
| Shares issued (m): | 682.2 |
| Market cap (RMm): | 341.1 |
| Market cap (US$m): | 77.3 |
| 3-mth avg daily t'over (US$m): | 0.1 |

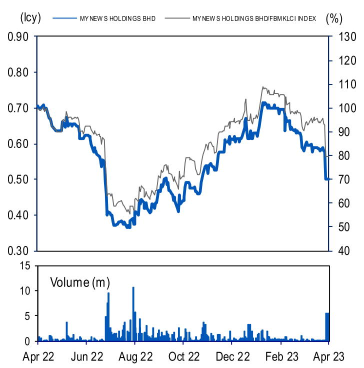
**Price Performance (%)**

52-week high/low RM0.715/RM0.365

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (19.4) | (20.6) | 16.3 | (29.6) | (20.6) |

| Major Shareholders | % |
|---|---|
| D&D Consolidated | 57.4 |
| Aberdeen | 5.1 |
| EPF | 4.9 |
| FY23 NAV/Share (RM) | 0.34 |
| FY23 Net Debt/Share (RM) | 0.08 |

### PRICE CHART




*Source: Bloomberg*

### ANALYST(S)

**Philip Wong**
+603 2147 1996
philipwong@uobkayhian.com

e) **But CU should see increasing gestation over the next one year.** CU was introduced in Malaysia in Apr 21. Given the usual gestational period of two years, a high proportion of its >100 stores will be increasingly gestated over the next one year. Coupled with longer operating hours and gained traction with its customer base, we hold hope for CU to breakeven by year end.

f) **Higher electricity surcharge nullifies FPC progress.** Its food processing centre's (FPC) utilisation rate was 60% for the quarter while wastage declined to 3.3% of revenue (from 4.0% qoq). Despite the improvement in operating metrics, FPC losses widened to RM2.5m from -RM1.7m sequentially, due to higher electricity surcharge and rising raw material cost. We continue to expect its FPC to breakeven by year end.

g) **Potential ASP hike could uplift earnings sustainably.** Positively, management indicated that ASPs for both CU and MyNews were lagging behind its peers. We think this could be key to profitable earnings being sustained going forward.

## STOCK IMPACT

- **The FPC is on the verge of breakeven.** Despite the recent setback of widening losses, we believe the FPC is on track to becoming profitable towards the tail end of FY23, driven by its food-centric CU expansion. The FPC's quoted utilisation rate is based on a single shift, which can be doubled up once it reaches a saturation point.

## EARNINGS REVISION/RISK

- We further trim our FY23-25 earnings by 2%/7%/10% as deep underlying issues prompt us to raise our opex assumptions. Key risks include CU store execution and slowdown in consumer spending.

## VALUATION/RECOMMENDATION

- **Maintain BUY but with a lower target price of RM0.62 (from RM0.67)** as we cut our earnings. Our target price is based on a PE peg of 17x or its -1.5SD of its mean PE to FY24's earnings. MyNews' recovery will be uneven, as exemplified by this quarter's performance. However, we expect recovery nonetheless. Looking past its near-term headwinds, MyNews offers decent value ahead and remains relatively well-managed.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

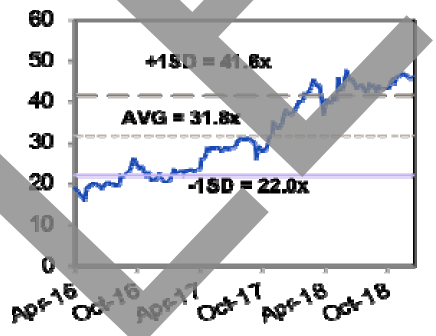
| |
|---|
| • **Environmental** |
| - **Renewable energy.** MyNews is embarking on solar energy for its HQ and food processing centres. This project will reduce 546 tonnes of $CO_2$ emission. |
| • **Social** |
| - **Diversity & inclusion.** 48% of its over 2,000-strong workforce is female. |
| • **Governance** |
| - **Board composition.** Independent Non-Executive Directors make up 50% of the board. |

## REVENUE DRIVERS ASSUMPTIONS

| | 2023F | 2024F | 2025F |
|---|---|---|---|
| **Revenue (RMm)** | 723 | 798 | 875 |
| Growth yoy (%) | 14.5% | 10.4% | 9.7% |
| **Avg store count for the year** | 610 | 660 | 710 |
| **Net store addition** | 50 | 50 | 50 |
| Growth yoy (%) | 10.6% | 8.2% | 7.6% |
| **Revenue per store (in '000)** | 1184.8 | 1208.5 | 1232.7 |
| Growth yoy (%) | 3.5% | 2.0% | 2.0% |

*Source: MyNews, UOB Kay Hian*

## FORWARD PE BAND (PRE-COVID-19)




*Source: Bloomberg, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Oct (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **631** | **723** | **798** | **875** |
| EBITDA | 53 | 84 | 107 | 117 |
| Deprec. & amort. | 68 | 68 | 69 | 68 |
| EBIT | (16) | 16 | 38 | 49 |
| Total other non-operating income | 3 | 2 | 2 | 3 |
| Associate contributions | 1 | 1 | 1 | 1 |
| Net interest income/(expense) | (9) | (8) | (5) | (1) |
| **Pre-tax profit** | **(21)** | **11** | **36** | **52** |
| Tax | (1) | (3) | (9) | (13) |
| Minorities | 4 | 1 | 0 | 0 |
| **Net profit** | **(18)** | **9** | **27** | **39** |
| Net profit (adj.) | (18) | 9 | 27 | 39 |

## BALANCE SHEET

| Year to 31 Oct (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 248 | 225 | 189 | 154 |
| Other LT assets | 226 | 226 | 226 | 226 |
| Cash/ST investment | 12 | 14 | 66 | 113 |
| Other current assets | 142 | 156 | 166 | 176 |
| **Total assets** | **628** | **621** | **646** | **669** |
| ST debt | 53 | 33 | 23 | 13 |
| Other current liabilities | 183 | 189 | 216 | 242 |
| LT debt | 37 | 37 | 27 | 7 |
| Other LT liabilities | 132 | 132 | 132 | 132 |
| Shareholders' equity | 224 | 230 | 249 | 276 |
| **Total liabilities & equity** | **628** | **621** | **646** | **669** |

## CASH FLOW

| Year to 31 Oct (RMm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **92** | **78** | **117** | **123** |
| Pre-tax profit | (21) | 10 | 34 | 49 |
| Tax | (1) | (3) | (9) | (13) |
| Deprec. & amort. | 68 | 68 | 69 | 68 |
| Associates | (3) | (3) | (3) | (3) |
| Working capital changes | 16 | (26) | (4) | (4) |
| Other operating cashflows | 32 | 32 | 30 | 27 |
| **Investing** | **(71)** | **(45)** | **(33)** | **(33)** |
| Capex (growth) | (72) | (45) | (33) | (33) |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 1 | 0 | 0 | 0 |
| **Financing** | **(24)** | **(31)** | **(33)** | **(43)** |
| Dividend payments | 0 | (2) | (6) | (9) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | 52 | 0 | 0 | 0 |
| Loan repayment | (33) | 0 | (10) | (20) |
| Others/interest paid | (43) | (29) | (17) | (14) |
| **Net cash inflow (outflow)** | **(4)** | **3** | **51** | **48** |
| **Beginning cash & cash equivalent** | **15** | **12** | **14** | **66** |
| Changes due to forex impact | 0 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **12** | **14** | **66** | **113** |

## KEY METRICS

| Year to 31 Oct (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 8.3 | 11.6 | 13.4 | 13.4 |
| Pre-tax margin | (3.3) | 1.5 | 4.5 | 5.9 |
| Net margin | (2.9) | 1.3 | 3.4 | 4.4 |
| ROA | n.a. | 1.5 | 4.2 | 5.9 |
| ROE | n.a. | 4.1 | 11.2 | 14.8 |
| | | | | |
| **Growth** | | | | |
| Turnover | 57.6 | 14.5 | 10.4 | 9.7 |
| EBITDA | 846.4 | 59.7 | 26.7 | 9.7 |
| Pre-tax profit | n.a. | n.a. | 230.9 | 43.7 |
| Net profit | n.a. | n.a. | 191.3 | 43.8 |
| Net profit (adj.) | n.a. | n.a. | 191.3 | 43.8 |
| EPS | n.a. | n.a. | 191.3 | 43.8 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 28.7 | 23.3 | 16.7 | 6.7 |
| Debt to equity | 40.2 | 30.4 | 20.0 | 7.2 |
| Net debt/(cash) to equity | 34.9 | 24.1 | (6.4) | (33.9) |
| Interest cover (x) | 6.0 | 10.7 | 22.9 | 133.5 |

## STRATEGY – SINGAPORE

# Alpha Picks: Adding OCBC, LREIT, AZTECH and SMM While Taking Profit On GENS

**Our Alpha Picks portfolio easily surpassed the STI by 8.0ppt on an equal-weighted basis in Mar 23. For 1Q23, our portfolio rose 9.1%, materially outpacing the STI's 0.2% gain. For Apr 23, we add OCBC, LREIT, AZTECH and SMM. We have also taken profit on GENS as it has done well since its inclusion and is close to our target price. Our Alpha Picks portfolio has beaten the STI in 12 out of the past 13 months.**

### WHAT'S NEW

- **Market review.** Global investor sentiment took a nosedive in the first half of Mar 23, largely due to the US banking crisis along with the rescue of Credit Suisse. With fears of a broader global financial crisis, the STI index fell sharply in mid-Mar 23, down -4.6% at its lowest point. However, subsequent decisive measures from the US authorities and the US Fed to shore up the financial system eased any remaining bank jitters. Also, softer messaging from the US Fed raised expectations for a pause in interest rate hikes, rallying the Nasdaq 100 into a bull market. Similarly, the STI rallied in the second half of Mar 23, ending up just -0.1% lower mom.

- **Material outperformance in Mar 23.** Our Alpha picks portfolio continued its outperformance yet again in Mar 23, increasing 7.9% mom on an equal weighted basis and beating the STI by 8.0ppt. Our portfolio's top performers were driven by both large and small caps, primarily Food Empire (+30% mom), Sembcorp Industries (+21% mom) and Delfi (+14% mom). Outperformance for Food Empire and Delfi were largely due to higher dividends, share buybacks and robust earnings growth, while Sembcorp Industries has continued its ESG-based re-rating. Our only two underperformers were CapLand Ascott Trust (-1.5% mom) and Yangzijiang Shipbuilding (-7.0% mom) with the latter suffering from poor capital management.

- **Adding OCBC, Lendlease Global Commercial REIT (LREIT), Aztech and Sembcorp Marine (SMM) while taking profit on Genting Singapore (GENS).** For Apr 23, we add OCBC, LREIT, Aztech and SMM to our portfolio, taking into account favourable tailwinds for the respective industries that these companies are expected to ride on. We also take profit on GENS, having risen 40% since its inclusion into our Alpha Picks portfolio.

### ANALYSTS' ALPHA* PICKS

| Analyst | Company | Rec | Performance# | Catalyst |
|---|---|---|---|---|
| John Cheong | Aztech | BUY | n.a. | Robust orderbook and strong earnings visibility. |
| Jonathan Koh | CapLand Ascott Trust | BUY | 7.6 | A play on COVID-19 reopening in the EU & UK. |
| John Cheong | Civmec | BUY | 6.2 | Earnings surprise due to higher-than-expected contract wins and margin. |
| John Cheong | Delfi | BUY | n.a. | Higher revenue contribution from Indonesia. |
| John Cheong | Food Empire | BUY | 36.9 | Improving net margin from better-than-expected ASPs. |
| Adrian Loh | Keppel Corp | BUY | 21.9 | Moving to a more asset-light business model. |
| Jonathan Koh | Lendlease REIT | BUY | n.a. | Beneficiary of Chinese tourist arrivals to Singapore. |
| Jonathan Koh | Mapletree Log T | BUY | 7.5 | Reopening play for HK/China. |
| Jonathan Koh | OCBC | BUY | n.a. | Attractive dividend yield and less susceptible to NIM compression. |
| Adrian Loh | Sembcorp Ind | BUY | 47.5 | Re-rating prospects as a green energy play. |
| Adrian Loh | Sembcorp Marine | BUY | n.a. | New order win momentum from oil and gas as well as renewables industry |
| Chong Lee Len/ Llelleythan Tan | Singtel | BUY | -2.3 | Proxy to regional economic recovery and reopening. |
| Adrian Loh | Yangzijiang Ship | BUY | -7.7 | Announcement of new order wins; better capital management |

** 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$) 31 Mar | Price (S$) Target | Up/(down) to TP (%) |
|---|---|---|---|---|
| Aztech Gbl | BUY | 0.81 | 1.05 | 29.6 |
| CapLand Ascott T | BUY | 0.995 | 1.39 | 39.7 |
| Civmec | BUY | 0.685 | 1.1 | 60.6 |
| Delfi | BUY | 1.13 | 1.71 | 51.3 |
| Food Empire | BUY | 1.02 | 1.28 | 25.5 |
| Keppel Corp | BUY | 5.63 | 9.09 | 61.5 |
| Lendlease REIT | BUY | 0.68 | 0.87 | 27.9 |
| MapletreeLog | BUY | 1.71 | 1.99 | 16.4 |
| O C B C | BUY | 12.37 | 16.92 | 36.8 |
| Sembcorp Ind | BUY | 4.38 | 4.64 | 5.9 |
| Sembcorp Marine | BUY | 0.119 | 0.156 | 31.1 |
| SingTel | BUY | 2.46 | 3.15 | 28.0 |
| YZJ ShipBldg SGD | BUY | 1.20 | 1.58 | 31.7 |

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

### CHANGE IN SHARE PRICE

| Company | Rec | Mar 23[1] (% mom) | To-date[2] (%) |
|---|---|---|---|
| CapLand Ascott T | BUY | (1.5) | 7.6 |
| Civmec * | BUY | 5.7 | 6.2 |
| Delfi | BUY | 13.6 | 6.6 |
| Food Empire | BUY | 29.9 | 36.9 |
| Genting Singapore | BUY | 9.8 | 40.0 |
| Keppel Corp | BUY | 2.7 | 21.9 |
| MapletreeLog | BUY | 1.2 | 7.5 |
| Sembcorp Ind | BUY | 20.7 | 47.5 |
| SingTel | BUY | 3.8 | (2.3) |
| YZJ ShipBldg SGD | BUY | (7.0) | (7.7) |
| **UOBKH portfolio** | | **7.9** | |
| **FSSTI** | | **(0.1)** | |

** Adjusted for DPS for the monthly performance*
*# Adjusted for Distribution in specie*
*Source: UOB Kay Hian*

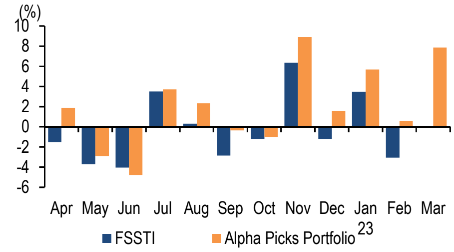
### PORTFOLIO RETURNS (%)

| | 2022 | 1Q23 | Jan-23 | Feb-23 | Mar-23 |
|---|---|---|---|---|---|
| FSSTI return | 4.1 | 0.2 | 3.5 | -3.1 | -0.1 |
| **Alpha Picks Return** | | | | | |
| - Price-weighted | 5.6 | 5.5 | 6.0 | -2.3 | 7.5 |
| - Market cap-weighted | 8.1 | 2.9 | 4.0 | -2.9 | 4.5 |
| - Equal-weighted | 2.8 | 9.1 | 5.7 | 0.6 | 7.9 |

*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)

**Singapore Research**
+65 6535 6868
research@uobkayhian.com

**CapLand Ascott Trust – BUY (Jonathan Koh)**

- **Portfolio RevPAU recovered 78% yoy and 17% qoq to S$155 in 4Q22,** reaching pre-pandemic pro forma RevPAU on continued improvement in occupancy (78%) and average daily rate (ADR). Japan, Australia and the US had the largest sequential improvement of 98%, 29% and 21% qoq respectively.
- **CLAS invested S$420m in 15 accretive acquisitions,** comprising 12 longer-stay properties (student accommodation properties in the US and rental housing in Japan) and three serviced residences. Management has raised the asset allocation target in longer-stay assets by 10ppt from 15-20% to 25-30% in the medium term.
- **Maintain BUY.** Our target price of S$1.39 for CLAS is based on DDM (cost of equity: 7.5%, terminal growth: 2.8%).

SHARE PRICE CATALYSTS

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

**Keppel Corp – BUY (Adrian Loh)**

- **KEP reported slightly weaker-than-expected profit for 2022** largely as a result of its exposure to the China property market as well as losses on investments and lower disposal gains. Its dividend of S$0.33 was slightly better than expected. With the divestment of KOM around the corner and all other business segments performing well operationally, 2023 will be a transformative year for KEP.
- **Operationally a solid year in 2022.** Apart from the difficulties seen in the operating environment in China, we view KEP as having had a solid year overall with Keppel Infrastructure's earnings more than doubling yoy, its asset management business continuing to report higher fee income, while M1 and its data centre businesses also saw better performance on a yoy basis.
- **We retain our BUY rating on KEP with pro forma SOTP-based target price of S$9.09.** With the exit of its KOM segment, the company is moving towards a more asset-light and recurring earnings business model, with an achievable 15% ROE target in the medium term in our view (2022 ROE: 8.1%). Of interest will be whether KEP upgrades its asset monetisation target given that it is on track to exceed its S$5.0b target by end-23. If so, we believe that this could bolster earnings in 2023 and into 2024.

SHARE PRICE CATALYSTS

- **Events:** Resumption of normal business conditions in China; continued success in its capital recycling program.
- **Timeline:** 3-6 months.

**Mapletree Logistics Trust – BUY (Jonathan Koh)**

- **MLT achieved broad-based positive rental reversion** of +2.9% for 3QFY23 (South Korea: 6.2%, Vietnam: 4.2%, Hong Kong: 3.2%, Singapore: 3%, Malaysia: 3%, China: 1.6% (Tier 1 cities: 2.7%, Tier 2 cities: 1.4%) and Japan: 1.2%).
- **MLT benefits from the reopening of Mainland China and Hong Kong.** Mainland China and Hong Kong accounted for 20.7% and 22.9% of MLT's portfolio valuation respectively as of Dec 22.
- MLT has a resilient balance sheet with low aggregate leverage of 37.4% and long weight average debt maturity of 3.6 years.

- **Maintain BUY.** Our target price for MLT of S$1.99 is based on DDM (cost of equity: 7.0%, terminal growth: 2.8%).

SHARE PRICE CATALYSTS

- **Events:** Resiliency of DPU and balance sheet; reopening of Mainland China and Hong Kong.
- **Timeline:** 6-12 months.

**Sembcorp Industries – BUY (Adrian Loh)**

- **Strong 2022 results set up another year of growth in 2023.** On 21 Feb 23, the company reported better-than-expected 2022 results with net profit from continuing operations (before exceptional items) up nearly four-fold to S$727m. The robust yoy performance was due to the renewables and conventional energy business segments, both of which registered >100% yoy net profit increases. Apart from a S$0.04 final dividend, a special dividend of S$0.04 was also declared, bringing total 2022 DPS to S$0.12.
- **Longer-term growth plans in green hydrogen production.** During its 2022 results briefing, SCI highlighted hydrogen projects as growth areas, which could lead the company into the Middle East and Australia. We note that in 4Q22, SCI entered into strategic partnerships with the Japanese government and various companies to explore hydrogen and other decarbonisation initiatives. These include: a) an MOU with Japan Bank for International Cooperation (JBIC) to assist SCI in its hydrogen project, b) MOU with Sojitz Corporation for green hydrogen production, battery energy storage and net zero industrial parks, and c) MOU with IHI Corporation to build an integrated green ammonia supply chain.
- **Maintain our BUY rating.** After the company's strong results, we upgrade our PE-based target price from S$4.10 to S$4.57. Our target PE multiple is 13.6x which is 1SD 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 2023 EPS estimate. We highlight that SCI generated ROE of nearly 22% in 2022 and given that this was generated by assets that are on average five years old, this level of ROE should be sustainable. In our view, SCI remains inexpensive as it trades at a 11-27% discount to its global utilities peers' average 2023F PE, EV/EBITDA and P/B of 14.5x, 9.4x and 1.7x respectively.

SHARE PRICE CATALYSTS

- **Events:** a) Sustained economic recovery after the peak of COVID-19, leading to increased energy and utilities, b) value-accretive acquisitions in the green energy space, and c) potential to increase targets for its gross renewables capacity.
- **Timeline:** 6+ months.

**Singapore Telecommunications – BUY (Chong Lee Len/Llelleythan Tan)**

- **Further upside from travel boost and mobile recovery.** Data roaming revenue is currently at 70-75% of pre-COVID-19 levels. The reopening of China towards end-Dec 22 will help to further lift roaming revenue for the group. Also, Singtel implemented a price increase in Jan 23 with competitors following suit. Coupled with the continued strong take-up of 5G bundled plans in Singapore, we expect post-paid ARPU to continue its upward momentum in 2023, backed by rational competition from incumbent telcos.
- **Recovery in Optus subscriber base.** Postpaid ARPU is set to improve in 2023 from the overall market recovery, implemented price hikes, higher data roaming and robust uptake of Optus 5G Choice plans. February saw a peak in returning students (academic year: Jan-Dec) given that a large majority were Chinese students. After its data-breach incident,

Optus's customer churn has normalised to pre-incident levels and returned to customer net adds since mid-Dec 22.

- **Robust expansion data centre pipeline.** Singtel plans to double its data centre (DC) capacity in Singapore in the next three years to about 120MW, up from 60MW currently. In 1HFY23, its regional DCs contributed S$132m in annual revenue and S$86m in EBITDA. Through partnerships with AIS and Telkom, Singtel plans to add another 20MW in Thailand and 51MW in Indonesia.
- **Maintain BUY with a target price of S$3.15,** based on a 10-year DCF valuation (discount rate: 7%, growth rate: 2.0%), underpinned by improving fundamentals and a decent 5-6% FY23 dividend yield.

SHARE PRICE CATALYSTS

- **Events:** a) Successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.
- **Timeline:** 6+ months.

**Civmec – BUY (John Cheong)**

- **We expect Civmec to deliver record earnings growth of 11% yoy in FY23 and a potential dividend surprise given a strong balance sheet,** backed by a robust orderbook of around A$1.2b. 1HFY23 earnings grew 25% yoy. Civmec sees a strong pipeline of new projects in the sectors it operates in and new opportunities in the green energy space. Civmec's interim dividend for 1HFY23 of 2 A cents exceeded our expectation of 1 A cent by 100% due to its strong operating cash flow of A$67m, which brought Civmec to a net cash position for the first time since 2016.
- **One of Australia's leading engineering players,** Civmec serves key sectors including resources and energy (82% of FY22 revenue), as well as defence and infrastructure (18%). Its serves blue-chip clients including Chevron, Rio Tinto, Alcoa, BHP, Thyssenkrupp and the Australian Navy. At favourable commodity prices, Civmec stands to benefit as its clients undertake more mining and O&G production activities.
- **Increasing opportunities for maintenance works,** which will translate to more recurring earnings. Civmec announced on Jan 23 that the projects for its maintenance and capital work division has increased significantly through their inclusions into the blue chip customers' engineering panel and the award of a construction services agreement. Being on the panel means that the maintenance projects can be awarded promptly and Civmec can be contracted without having to go through any tendering where rates have already been agreed. This is a positive development as it could accelerate Civmec's target to increase its recurring revenue to 40% in the mid- to long-term, from around 20% currently.
- **Maintain BUY.** Our target price of S$1.10 is pegged to 11x FY23F PE (based on 1SD below five-year mean). We think the current valuation of 6x FY23F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's peers are trading at an average of 12x FY22F PE.

SHARE PRICE CATALYSTS

- **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.

**Food Empire – BUY (John Cheong)**

- **Good entry point for a regional coffee mix player.** Trading at 8x 2023F PE vs peers' average of >13x, its valuation is due for a re-rating, in our view.

- **Strong demand for consumer staple products.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. FEH's products in the coffee segment continue to be affordable with mass appeal, leading to stronger demand in 2022.
- **We expect higher earnings and improved margins moving forward.** 2022 core earnings of US$45.1m (+134% yoy) outperformed our expectations. Revenue grew 25% yoy mainly from both the Russia and Ukraine, Kazakhstan and Commonwealth of Independent States (CIS) markets, with each recording a 29% yoy increase on the back of strong demand and higher ASP despite currency volatilities. Although revenue from the Southeast Asia segment fell 4% upon post-pandemic normalisation in Vietnam, the new capacity expansion of its non-dairy creamer facility is currently underway and expected to contribute in 4Q23. Core net profit margin also expanded a substantial 5.3ppt to 11.3% in 2022, indicating the group's successful cost-control measures and optimised operations. With further normalising of key costs, margins will likely improve in 2023.
- **Maintain BUY.** Our target price of S$1.28 is based on 10.5x 2023F EPS, or its long-term historical mean.

SHARE PRICE CATALYSTS

- **Events:** a) Better-than-expected earnings or dividend surprise, and b) improving net margin from better-than-expected ASPs and easing of key costs including freight and raw material costs.
- **Timeline:** 3-6 months.

**Yangzijiang Shipbuilding – BUY (Adrian Loh)**

- **At an early stage of shipbuilding margin expansion.** Overall gross margins improved in 2022 as the company secured favourable contract prices and locked in a lower cost of steel used for its shipbuilding segment. YZJ stated that it expects its shipbuilding margins to improve in 2023 and we expect it to stabilise at around 15%.
- **Now an office building owner.** In late Mar 23, YZJ announced that it had bought 39 Robinson Road for S$399m in an all-cash deal, equivalent to S$2,360psf. Clearly this is a less than ideal outcome for shareholders who had been hoping for higher dividends. At an assumed rental of $8psf, this would equate to a 4% yield, and at least the cash is in a freehold office building in Singapore instead of an offshore bank account.
- **We have a BUY rating on YZJ with a target price of S$1.58** using a target PE multiple of 9.0x to our 2023 EPS forecast. Our target PE multiple is 1SD above YZJ's past five-year average of 6.7x which we view as fair given the company's earnings growth in 2023, as well as the stability of its earnings due to its US$10.3b orderbook at present. We note that at our fair value of S$1.55, YZJ would trade at a 2023 P/B of 1.3x.

SHARE PRICE CATALYSTS

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

**Delfi – BUY (John Cheong/Heidi Mo)**

- **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. Delfi'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) gradual improvement in gross margin as Delfi continues to gain traction in its premiumisation strategy.

- **Maintain BUY.** Our target price of S$1.71 is based on 17x 2023F EPS, or its long-term historical mean. Trading at 12x 2023F PE, which is a 50% discount vs peers' average of >22x, we believe there are re-rating prospects going forward.

### SHARE PRICE CATALYSTS

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

- **Timeline:** 3-6 months.

**Aztech Global – BUY (John Cheong)**

- **Strong orderbook provides good visibility of earnings growth in 2023,** Aztech Global's (Aztech) orderbook remained strong at $634m as at 31 Dec 22. Aztech has since received additional orders of S$85m as at 17 Feb 23 to bring the total orderbook to S$719m, with all of these scheduled for completion in 2023. As a result of the robust orderbook, we are expecting a strong earnings growth of 43% yoy.

- **Aztech is cautiously optimistic on its 2023 business outlook,** as it expects a double-digit growth in its major customer's revenue. Additionally, Aztech is continuing with these approaches to manage component tightness: a) collaborating with customers on alternative components, and b) expanding its supplier base.

- **Expanding manufacturing capacity in Malaysia.** Aztech's newly acquired 300,000sf Pasir Gudang Facility in Malaysia is expected to commence operations by 2Q23 and is equipped with surface mount technology (SMT), final assembly, test and packaging capabilities. The plant will be completed in time to meet anticipated demand growth from existing and potential new customers.

- **Maintain BUY and target price of S$1.05,** pegged to an unchanged 8.5x 2023F EPS. This is based on Aztech's long-term mean PE. We continue to like Aztech as it is a proxy to high-growth IoT products, for which we believe orders will continue to grow in 2023.

### SHARE PRICE CATALYSTS

- **Events:** a) steady order wins, b) better-than-expected cost management and c) dividend surprise.

- **Timeline:** 3-6 months.

**Lendlease Global Commercial REIT – BUY (Jonathan Koh)**

- **Revival in tourism.** 313@Somerset (27% of portfolio valuation) benefits from the reopening of China and return of tourists to Orchard Road. The multi-functional event space constructed on Grange Road Car Park is expected to be completed by end-23.
- **Resiliency from spending on necessities at suburban mall Jem,** which accounted for 46% of portfolio valuation.
- **Maintain BUY.** LREIT provides attractive FY23 distribution yield of 6.9%. Our target price for LREIT of S$0.87 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

SHARE PRICE CATALYSTS

- **Events:** Recovery of visitor arrivals to Singapore, including those from Mainland China. Resiliency from necessity spending at suburban mall Jem.
- **Timeline:** 6-12 months.

**Oversea-Chinese Banking Corp – BUY (Jonathan Koh)**

- **OCBC is less susceptible to NIM compression** in the event that the Fed cuts interest rates due to its lower CASA ratio of 51.8% (DBS: 60.3%).
- **Consistent dividend.** Management intends to maintain dividend payout ratio at 50% going forward. OCBC provides attractive dividend yield of 6.3% for 2024.
- **Maintain BUY.** Our target price of S$16.92 based on 1.39x 2023F P/B is derived from the Gordon Growth Model (ROE: 12.5%, COE: 9.0%, Growth: 0.0%).

SHARE PRICE CATALYSTS

- **Events:** Resiliency from high CET-1 CAR of 15.2% and being less susceptible to NIM compression, and b) attractive 2024 dividend yield of 6.3% from commitment to new dividend payout ratio of 50%.
- **Timeline:** 6-12 months.

**Sembcorp Marine – BUY (Adrian Loh)**

- **Largest ever offshore renewables contract for SMM.** SMM announced that, together with its consortium partner GE Renewables, it had won a €6b contract to supply the high voltage direct current (HVDC) electrical transmission systems for three large offshore wind farms in the Netherlands. The three 2GW wind farms each have a contract value of €2b. We highlight that in its release, SMM stated that this is the "largest offshore renewables project secured by the Group".
- **A landmark order for the enlarged SMM entity.** We see this order win as a clear vote of confidence by key industry players as this contract has been in negotiations for the past 12 months and during SMM's merger with Keppel Offshore Marine. With today's order win, SMM's orderbook has increased by c.24% from S$18b to S$22.3b with earnings visibility out to 2031.
- **We maintain our BUY rating on SMM with a P/B-based target price of S$0.156.** We believe that in an offshore marine/offshore construction upcycle like the present one, stocks like SMM should not trade <1.0x P/B but instead be between 1.2-1.5x P/B, which equates to S$0.148-0.185/share.

SHARE PRICE CATALYSTS

- **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.

## VALUATION

| Company | Ticker | Rec* | Price 31 Mar 23 (S$) | Target Price (S$) | Upside To TP (%) | Last Year End | PE 2022E (x) | PE 2023E (x) | PE 2024E (x) | Yield 2023E (%) | ROE 2023E (%) | Market Cap. (S$m) | Price/ NTA ps (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aztech Gbl | AZTECH SP | BUY | 0.81 | 1.05 | 29.6 | 12/22 | 9.3 | 6.5 | 6.2 | 6.9 | 29.4 | 625.3 | 2.2 |
| CapLand Ascott T | CLAS SP | BUY | 0.995 | 1.39 | 39.7 | 12/22 | 31.4 | 21.0 | 19.8 | 6.3 | 3.8 | 3,438.8 | 0.9 |
| Civmec | CVL SP | BUY | 0.685 | 1.1 | 60.6 | 6/22 | 6.9 | 6.9 | 6.2 | 5.2 | 13.9 | 346.0 | 1.0 |
| Delfi | DELFI SP | BUY | 1.13 | 1.71 | 51.3 | 12/22 | 11.4 | 11.1 | 10.3 | 4.5 | 18.1 | 690.6 | 2.1 |
| Food Empire | FEH SP | BUY | 1.02 | 1.28 | 25.5 | 12/22 | 6.6 | 8.5 | 7.9 | 4.2 | 16.4 | 544.1 | 1.5 |
| Keppel Corp | KEP SP | BUY | 5.63 | 9.09 | 61.5 | 12/22 | 10.8 | 10.8 | 10.5 | 3.7 | 8.2 | 10,025.5 | 0.9 |
| Lendlease REIT | LREIT SP | BUY | 0.68 | 0.87 | 27.9 | 6/22 | 13.6 | 18.3 | 19.3 | 6.9 | 5.3 | 1,580.1 | 0.9 |
| MapletreeLog | MLT SP | BUY | 1.71 | 1.99 | 16.4 | 3/22 | 20.1 | 22.2 | 22.1 | 5.1 | 4.9 | 8,235.4 | 1.2 |
| O C B C | OCBC SP | BUY | 12.37 | 16.92 | 36.8 | 12/22 | 9.7 | 8.3 | 7.9 | 6.1 | 12.2 | 55,591.0 | 1.1 |
| Sembcorp Ind | SCI SP | BUY | 4.38 | 4.64 | 5.9 | 12/22 | 9.2 | 12.2 | 12.1 | 2.5 | 15.9 | 7,793.3 | 2.0 |
| Sembcorp Marine | SMM SP | BUY | 0.119 | 0.156 | 31.1 | 12/22 | n.a. | 64.5 | 42.7 | 0.0 | 1.5 | 8,120.2 | 1.0 |
| Singtel | ST SP | BUY | 2.46 | 3.15 | 28.0 | 3/22 | 16.8 | 15.5 | 14.4 | 5.1 | 9.1 | 40,601.0 | 1.5 |
| YZJ ShipBldg SGD | YZJSGD SP | BUY | 1.2 | 1.58 | 31.7 | 12/22 | 8.7 | 7.3 | 6.7 | 3.5 | 16.2 | 4,740.7 | 1.4 |

** Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation*

*Source: UOB Kay Hian*

## COMPANY RESULTS

# PTT Exploration & Production PCL (PTTEP TB)

### We Expect 1Q23 Net Profit To Increase Both QOQ And YOY

**We expect 1Q23 net profit to increase both qoq and yoy due to a decline in unit cost, including a decrease in losses from extraordinary items. The 1Q23 net profit will account for 27% of the 2023 net profit forecast of Bt62.6b. We have a positive outlook on crude oil prices due to strong seasonal demand, with China's recovery set to boost demand to record-high levels. Maintain BUY with a target price of Bt174.00.**

### 1Q23 RESULTS

| Year to 31 Dec (Btm) | 1Q22 | 4Q22 | 1Q23F | yoy % chg | qoq % chg |
|---|---|---|---|---|---|
| Sales and service revenue | 68,149 | 91,611 | 77,841 | 14% | -15% |
| Operating Profit | 35,867 | 39,135 | 37,154 | 4% | -5% |
| Norm. Net Income | 18,805 | 24,817 | 20,646 | 10% | -17% |
| **Net Income** | **10,519** | **15,611** | **19,811** | **88%** | **27%** |
| EBITDA | 58,129 | 62,801 | 60,281 | 4% | -4% |
| EPS | 2.65 | 3.93 | 5.20 | 10% | -17% |
| Gross Profit Margin | 65.1% | 61.1% | 60.2% | | |
| EBITDA Margin | 85.3% | 68.6% | 77.4% | | |
| Net profit margin | 15.4% | 17.0% | 25.5% | | |

*Source: PTTEP, UOB Kay Hian*

### RESULTS

- **Expect 1Q23 net profit to increase qoq and yoy.** We expect PTT Exploration & Production (PTTEP) to post a net profit of Bt19.8b in 1Q23, up 27% qoq and 88% yoy. Core profit was affected by the decline in average selling price (ASP) and decreased petroleum sales volume. However, we expect 1Q23 net profit to increase both qoq and yoy because unit cost has declined, including a decrease in losses from extraordinary items.
- **Key factors in 1Q23 include:** a) weak ASP – we expect 1Q23 ASP of US$49.5/bbl (1Q22: US$51.35/bbl, 4Q22: US$52.76/bbl), down 6.1% qoq, due to Dubai crude oil price dropping 4% qoq in 1Q23, b) sales volume expected to drop 5.7% qoq to 469,000 barrel oil equivalent per day (boed) due to decreases in the Oman project (Block 61) and other petroleum production fields including the Sabah H project in Malaysia, the Yandana Project in Myanmar and the Algeria Hassi Bir Rekaiz (HBR) project, c) unit cost declining qoq – we expect a unit cost of US$27/bbl (1Q22: US$26.5/bbl, 4Q22: US$29.3/bbl) because PTTEP is preparing for the transfer of Block B16 and B17 in the Bongkot (G2/61) project under the production sharing contract (PSC), and d) decrease in losses from extraordinary items at Bt835m (1Q22: loss of Bt8.3b, 4Q22: loss of Bt9.2b).

### KEY FINANCIALS

| Year to 31 Dec (Btm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 219,068 | 331,350 | 281,513 | 301,878 | 282,746 |
| EBITDA | 160,693 | 253,734 | 214,824 | 229,308 | 210,445 |
| Operating profit | 90,399 | 170,566 | 121,388 | 144,467 | 132,459 |
| Net profit (rep./act.) | 38,864 | 70,901 | 62,601 | 75,501 | 68,916 |
| Net profit (adj.) | 42,888 | 90,721 | 62,601 | 75,501 | 68,916 |
| EPS (Bt) | 10.8 | 22.9 | 15.8 | 19.0 | 17.4 |
| PE (x) | 14.0 | 6.6 | 9.6 | 8.0 | 8.7 |
| P/B (x) | 1.5 | 1.4 | 1.3 | 1.2 | 1.1 |
| EV/EBITDA (x) | 3.6 | 2.3 | 2.7 | 2.5 | 2.8 |
| Dividend yield (%) | 3.3 | 6.1 | 5.3 | 6.3 | 5.8 |
| Net margin (%) | 17.7 | 21.4 | 22.2 | 25.0 | 24.4 |
| Net debt/(cash) to equity (%) | 12.7 | 2.3 | (4.4) | (18.4) | (29.2) |
| Interest cover (x) | 24.8 | 30.9 | 26.0 | 28.9 | 26.5 |
| ROE (%) | 9.8 | 16.7 | 13.7 | 15.4 | 13.1 |
| Consensus net profit | - | - | 69,357 | 62,540 | 56,780 |
| UOBKH/Consensus (x) | - | - | 0.90 | 1.21 | 1.21 |

*Source: PTTEP, Bloomberg, UOB Kay Hian*

## BUY

### (Upgraded)

| | |
|---|---|
| Share Price | Bt151.50 |
| Target Price | Bt174.00 |
| Upside | +14.9% |
| *(Previous TP* | *Bt185.00)* |

### COMPANY DESCRIPTION

PTTEP explores for crude oil and natural gas, and develops fields for production.

### STOCK DATA

| | |
|---|---|
| GICS sector | Energy |
| Bloomberg ticker: | PTTEP TB |
| Shares issued (m): | 3,970.0 |
| Market cap (Btm): | 601,452.8 |
| Market cap (US$m): | 17,564.3 |
| 3-mth avg daily t'over (US$m): | 49.6 |

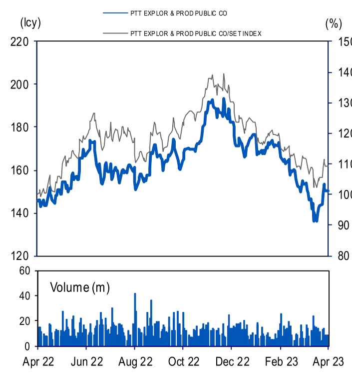
**Price Performance (%)**

52-week high/low Bt193.50/Bt136.00

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 1.0 | (14.2) | (5.6) | 2.4 | (14.2) |

| Major Shareholders | % |
|---|---|
| PTT | 64.8 |
| NVDR | 6.2 |
| Social Security Office | 2.0 |
| FY23 NAV/Share (Bt) | 117.96 |
| FY23 Net Cash/Share (Bt) | 5.20 |

### PRICE CHART




*Source: Bloomberg*

ANALYST(S)

**Tanaporn Visaruthaphong**
+662 659 8305
tanaporn@uobkayhian.co.th

**Benjaphol Suthwanish**
+662 659 8301
benjaphol@uobkayhian.co.th

**KEY ASSUMPTION IN EARNINGS PREVIEW 1Q23**

| | 1Q22 | 4Q22 | 1Q23F | yoy % chg | qoq % chg |
|---|---|---|---|---|---|
| Sales volume (BOED) | 427,368 | 500,455 | 469,000 | 9.7% | -6.3% |
| Gas price (US$ per MMBTU) | 6.1 | 6.7 | 6.7 | 10.4% | 0.0% |
| Avg. selling price (US$ per BOE) | 51.4 | 52.8 | 49.5 | -3.5% | -6.1% |
| Avg. Dubai (US$ per bbl) | 95.6 | 84.8 | 80.0 | -16.3% | -5.6% |
| Liquid price (US$ per BOE) | 61.18 | 64.18 | 78.00 | 27.5% | 21.5% |
| Unit Cost (US$ per bbl) | 26.54 | 29.32 | 27.00 | 1.7% | -7.9% |

*Source: PTTEP, UOB Kay Hian*

- **Losses from extraordinary items in 1Q23 decreased significantly.** (1Q23: Bt835m loss, 4Q22: Bt9.2b loss, 1Q22: Bt8.3b loss) In 1Q23, PTTEP's lost about Bt1.0b from extraordinary items from the Bongkot project (less working capital and goodwill for the project after the project contract expires), compared to 4Q22 where there were large losses from: a) administrative expenses since the provision of Bt4.5b from the Montana incident was recognized, and b) impairment loss on the Mozambique Area 1 project and Block [illegible] project (Angola) of Bt7.4b.

**STOCK IMPACT**

- **Strong crude oil prices.** Crude oil prices dropped in March, hitting a low [illegible] as a result of concerns over the banking crisis in Europe and the US. However, the fundamentals of crude oil prices stayed unchanged because crude oil demand [illegible]023 is expected to increase by 2.0 million barrels per day (MBD) to 102.0 MBD according to The Oil Market Report of IEA (OMR, Mar 23). The world's oil demand growth is set to accelerate sharply over the course of 2023, from 0.71MBD in 1Q23 to 2.6MBD in 4Q23. Rebounding air traffic and the release of pent-up Chinese demand will dominate recovery. On the supply side, we expect non-OPEC+ to drive global output growth of 1.[illegible] MBD this year, enough to meet demand in 1H23 but falling short in the second half when seasonal trends and China's recovery are set to boost demand to record-high levels. Currently, Dubai crude oil price 1Q23 qtd is at US$80.0/bbl, down 5.9% qoq and 17.2% yoy

- **Long-term earnings to fluctuate less** [illegible] proportion of gas production increased from 65% in the past few years to 73% in 20[illegible] and [illegible] expected to [illegible] to 75% in 2026-27. PTTEP's plan is to increase gas production capacity in the Gulf of Thailand (Erawan Project and Bongkot Project), as well as overseas gas production fields in Malaysia, Vietnam, UAE, Oman and Mozambique. This is a major reason why earnings are likely to fluctuate less than crude oil prices. In addition, the lifespan of petroleum reserves will increase from 4.7 years in 2020 to 6.8 years in [illegible] due to the ongoing expansion of investment.

**EARNINGS REVISION/RISK**

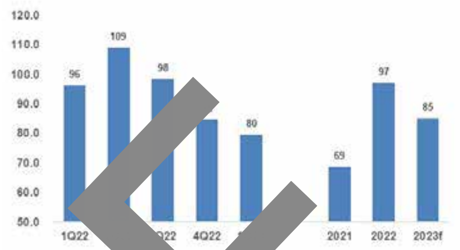
- **None.** If the 1Q23 net profit forecast is in line, [illegible] profit will account for 32% of the 2023 net profit forecast of Bt62[illegible]

- **Our assumption sensitivity.** For oil price assumption, every US$1/bbl decrease in oil price would lower our 2023 core profit forecast by 1.3%, or Bt815m. Our Dubai oil price assumption for 2023 is US$85/bbl [illegible] PTTEP's Dubai crude oil price assumption of US[illegible]/bbl). For [illegible] assumption, every US$1/bbl decline in unit cost would raise our 2023 [illegible] forecast by [illegible]%, or Bt3.42b. Our new unit cost assumption for 2023 is US$27.0/bbl. For our forex assumption, every Bt1/US$ depreciation would raise our 2023 core profit forecast by 0.7%, or [illegible]415m. Our forex assumption for 2023 is Bt34/US$1.

**VALUATION/RECOMMENDATION**

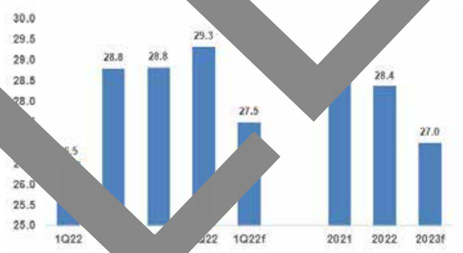
- **Maintain BUY with a target price of Bt174.0,** based on five-year regional forward PE mean of 11x. We believe that the market is overreacting to the banking crisis, causing PTTEP's stock price to drop 14%, compared to a 4% drop in the SET and a 3% drop in crude oil prices, but the fundamentals are unchanged. In the short term, we view crude oil recovery as a positive for PTTEP's share price as it has a significant 83% correlation with crude oil prices. In the oil & gas sector, we prefer PTTEP. We maintain BUY due to attractive valuation, positive outlook in oil price trend and PTTEP's high average dividend yield of 5.8% over the next three years.

**DUBAI CRUDE OIL PRICE ($/BBL)**



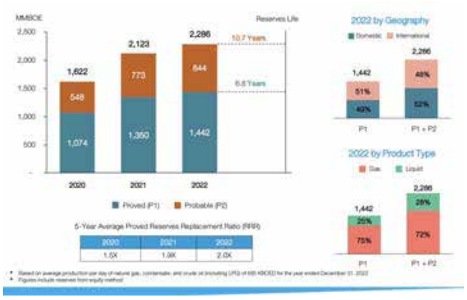
*Source: Bloomberg, UOB Kay Hian*

**COST PER UNIT ($/BOE)**



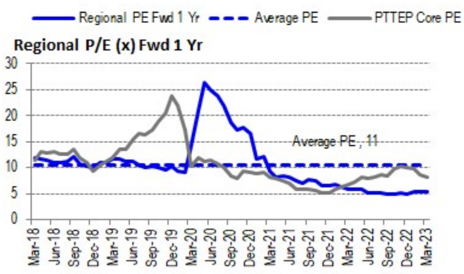
*Source: Bloomberg, UOB Kay Hian*

**2022 RESERVES**



*Source: PTTEP, UOB Kay Hian*

**FIVE-YEAR REGIONAL FORWARD PE BAND**




*Source: Bloomberg, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **331,350** | **281,513** | **301,878** | **282,746** |
| EBITDA | 253,734 | 214,824 | 229,308 | 210,445 |
| Deprec. & amort. | 83,168 | 93,436 | 84,841 | 77,986 |
| EBIT | 170,566 | 121,388 | 144,467 | 132,459 |
| Associate contributions | 668 | 701 | 736 | 773 |
| Net interest income/(expense) | (8,218) | (8,271) | (7,930) | (7,930) |
| **Pre-tax profit** | **143,196** | **113,819** | **137,274** | **125,302** |
| Tax | (72,295) | (51,219) | (61,773) | (56,386) |
| Minorities | 0 | 0 | 0 | 0 |
| **Net profit** | **70,901** | **62,601** | **75,501** | **68,916** |
| Net profit (adj.) | 90,721 | 62,601 | 75,501 | 68,916 |

## BALANCE SHEET

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 410,614 | 367,872 | 334,031 | 307,045 |
| Other LT assets | 262,408 | 224,385 | 239,922 | 225,326 |
| Cash/ST investment | 122,324 | 142,632 | 216,075 | 280,497 |
| Other current assets | 74,519 | 67,317 | 69,997 | 65,998 |
| **Total assets** | **869,864** | **802,206** | **860,026** | **878,867** |
| ST debt | 10,479 | 0 | 0 | 0 |
| Other current liabilities | 104,137 | 46,067 | 49,475 | 46,743 |
| LT debt | 121,999 | 121,999 | 121,999 | 121,999 |
| Other LT liabilities | 166,129 | 141,142 | 151,352 | 141,760 |
| Shareholders' equity | 442,422 | 468,301 | 512,501 | 543,667 |
| **Total liabilities & equity** | **869,864** | **802,206** | **860,026** | **878,867** |

## CASH FLOW

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **164,916** | **105,168** | **161,070** | **148,169** |
| Pre-tax profit | 143,196 | 113,819 | 137,274 | 125,302 |
| Tax | (72,295) | (51,219) | (61,773) | (56,386) |
| Deprec. & amort. | 83,168 | 93,436 | 84,841 | 77,986 |
| Working capital changes | (30,141) | (50,869) | 728 | 1,267 |
| Other operating cashflows | 40,987 | 0 | 0 | 0 |
| **Investing** | **(58,760)** | **(37,658)** | **(56,327)** | **(45,996)** |
| Investments | (61,755) | (50,694) | (51,000) | (51,000) |
| Others | 2,995 | 13,036 | (5,327) | 5,004 |
| **Financing** | **(69,958)** | **(47,201)** | **(31,300)** | **(37,750)** |
| Dividend payments | (28,670) | (36,722) | (31,300) | (37,750) |
| Proceeds from borrowings | (41,288) | (10,479) | 0 | 0 |
| **Net cash inflow (outflow)** | **36,198** | **20,308** | **73,443** | **64,423** |
| **Beginning cash & cash equivalent** | **85,528** | **122,324** | **142,632** | **216,075** |
| Changes due to forex impact | 598 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **122,324** | **142,632** | **216,075** | **280,497** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 76.6 | 76.3 | 76.0 | 74.4 |
| Pre-tax margin | 43.2 | 40.4 | 45.5 | 44.3 |
| Net margin | 21.4 | 22.2 | 25.0 | 24.4 |
| ROA | 8.6 | 7.5 | 9.1 | 7.9 |
| ROE | 16.7 | 13.7 | 15.4 | 13.1 |
| | | | | |
| **Growth** | | | | |
| Turnover | 51.3 | (15.0) | 7.2 | (6.3) |
| EBITDA | 57.9 | (15.3) | 6.7 | (8.2) |
| Pre-tax profit | 78.1 | (20.5) | 20.6 | (8.7) |
| Net profit | 82.4 | (11.7) | 20.6 | (8.7) |
| Net profit (adj.) | 111.5 | (31.0) | 20.6 | (8.7) |
| EPS | 111.5 | (31.0) | 20.6 | (8.7) |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 22.1 | 19.8 | 18.5 | 17.7 |
| Debt to equity | 29.9 | 26.1 | 23.8 | 22.4 |
| Net debt/(cash) to equity | 2.3 | (4.4) | (18.4) | (29.2) |
| Interest cover (x) | 30.9 | 26.0 | 28.9 | 26.5 |

UOBKayHian



## COMPANY UPDATE

# Thai Union Group (TU TB)

Weaker-than-expected Short-term Earnings Momentum

**We expect TU's 1Q23 earnings to drop 43% yoy and 20% qoq following the weakened top-line and gross margin. We conservatively cut 2023-24 earnings by 18.4% and 11.7% to factor in weaker-than-expected sales and gross margin. 2023 earnings are expected to decrease 15% yoy and increase 15.3% yoy in 2024. The earnings improvement will be mainly in 2H23. Maintain BUY. Target price: Bt17.00.**

### 1Q23 EARNINGS PREVIEW

| Year to 31 Dec (Btm) | 1Q22 | 4Q21 | 1Q23F | yoy % chg | qoq % chg |
|---|---|---|---|---|---|
| Revenue | 36,272 | 39,613 | 32,896 | -9.3% | -17.0% |
| Gross profit | 6,355 | 6,868 | 5,428 | -14.6% | -21.0% |
| SG&A/Sales | 4,688 | 4,484 | 4,030 | -14.0% | -10.1% |
| EBT | 1,543 | 1,676 | 1,154 | -25.2% | -31.1% |
| Net profit | 1,746 | 1,238 | 989 | -43.3% | -20.1% |
| Core profit | 1,716 | 1,706 | 989 | -42.3% | -42.0% |
| Core EPS (Bt) | 0.36 | 0.36 | 0.21 | -42.3% | -42.0% |
| **Ratio (%)** | | | | | |
| Gross margin | 17.5% | 17.3% | 16.5% | -1.0% | -0.8% |
| SG&A/Sales | 12.9% | 11.3% | 12.3% | -0.7% | 0.9% |
| Net profit margin | 4.8% | 3.1% | 3.0% | -1.8% | -0.1% |

*Source: TU, UOB Kay Hian*

### WHAT'S NEW

- **Net profit momentum to be lower than our earlier expectations.** We estimate 1Q23 earnings of Bt989m, down 43% yoy and 20% qoq. The softened 1Q23 earnings is mainly due to weak top-line momentum both yoy and qoq, and lower gross profit margin following the top-line. The decline in freight cost and better Red Lobster operations could not offset everything.

- **Pet food to be key pressure in 1Q23.** The key pressures on 1Q23 performance were from top-line and gross profit margin. 1Q23 sales are expected to decline 9.3% yoy and 17% qoq. The softened sales are from the pet food and frozen businesses. Pet food sales are expected to decrease 20% yoy on the back of high inventory of customers. The company also saw some normalisation in the frozen seafood business. Gross profit margin was down both yoy and qoq, pressured by lower economies of scale and higher tuna prices.

### KEY FINANCIALS

| Year to 31 Dec (Btm) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| Net turnover | 141,048 | 155,586 | 152,795 | 158,096 | 158,096 |
| EBITDA | 14,129 | 13,574 | 13,949 | 15,606 | 15,743 |
| Operating profit | 10,359 | 9,654 | 9,926 | 11,375 | 11,544 |
| Net profit (rep./act.) | 8,013 | 7,138 | 6,064 | 6,990 | 7,369 |
| Net profit (adj.) | 7,431 | 6,981 | 6,064 | 6,990 | 7,369 |
| EPS (Bt) | 1.6 | 1.5 | 1.3 | 1.5 | 1.5 |
| PE (x) | 9.1 | 9.6 | 11.1 | 9.6 | 9.1 |
| P/B (x) | 1.1 | 0.8 | 0.8 | 0.8 | 0.8 |
| EV/EBITDA (x) | 8.2 | 8.6 | 8.3 | 7.5 | 7.4 |
| Dividend yield (%) | 6.7 | 6.0 | 5.1 | 5.8 | 6.1 |
| Net margin (%) | 5.7 | 4.6 | 4.0 | 4.4 | 4.7 |
| Net debt/(cash) to equity (%) | 102.4 | 57.9 | 51.6 | 48.4 | 44.2 |
| Interest cover (x) | 8.2 | 6.8 | 6.2 | 7.2 | 7.4 |
| ROE (%) | 14.4 | 10.2 | 7.4 | 8.3 | 8.4 |
| Consensus net profit | - | - | 7,448 | 8,171 | 8,917 |
| UOBKH/Consensus (x) | - | - | 0.81 | 0.86 | 0.83 |

*Source: Thai Union Group, Bloomberg, UOB Kay Hian*

## BUY

(Maintained)

| | |
|---|---|
| Share Price | Bt14.10 |
| Target Price | Bt17.00 |
| Upside | +20.6% |
| *(Previous TP* | *Bt20.00)* |

### COMPANY DESCRIPTION

TU manufactures and exports frozen and canned seafood, including canned food, frozen food and snacks. It is also involved in pet food, value added product and animal feed.

### STOCK DATA

| | |
|---|---|
| GICS sector | Consumer Staples |
| Bloomberg ticker: | TU TB |
| Shares issued (m): | 4,771.8 |
| Market cap (Btm): | 67,282.4 |
| Market cap (US$m): | 1,922.4 |
| 3-mth avg daily t'over (US$m): | 10.7 |

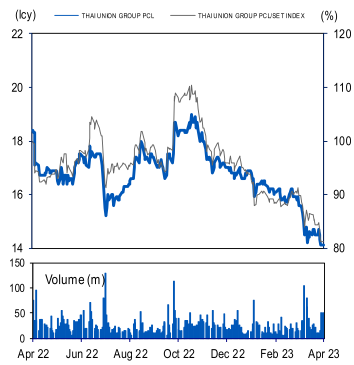
**Price Performance (%)**

52-week high/low Bt19.00/Bt14.10

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| (11.3) | (16.6) | (24.6) | (25.4) | (16.6) |

| Major Shareholders | % |
|---|---|
| Chansiri Family | 19.6 |
| Thai NVDR | 13.3 |
| Mitsubishi Corporation | 7.3 |
| FY23 NAV/Share (Bt) | 17.39 |
| FY23 Net Debt/Share (Bt) | 8.98 |

### PRICE CHART




*Source: Bloomberg*

ANALYST(S)

**Kampon Akaravarinchai**
+662 659 8031
kampon@uobkayhian.co.th

- **Some improvement on SG&A-to-sales and Red Lobster.** Although the freight rate continued to go down yoy and qoq in 1Q23, we expect 1Q23's SG&A-to-sales to increase to 12.3%, up from 11.3% in 4Q23 due to lower sales but lower than the 12.9% in 1Q22. In addition, the share of profit is expected to improve yoy following the recovery of Red Lobster due to the high season in 1Q23.

## STOCK IMPACT

- **We conservatively cut our 2023-24 earnings forecast.** We cut our 2023-24 earnings projection by 18.4% and 11.7% respectively. The key assumptions are: a) lower sales of the pet food and frozen businesses, and b) lower gross profit margin. We factored in a more conservative assumption to our 2023-24 earnings projection. 2023 earnings are expected to decrease 15% yoy and increase by 15.3% yoy in 2024.

- **Expect qoq earnings improvement in 2Q23.** We expect 2Q23 net profit to continue decreasing on a yoy basis following some impact on the pet food business. However, the qoq earnings momentum is expected to improve in all key operations except the share of profit from Red Lobster due to seasonality. We expect more significant earnings improvement in 2H23 following better pet food and frozen businesses recovery momentum. Also, Red Lobster is expected to improve this year.

- **2023 guidance revised downward.** Thai Union Group (TU) revised down its 2023 guidance on sales and gross profit margin. It revised down top-line growth in 2023 from 5-6% yoy to 3-4% yoy. The gross profit margin is also expected at 17.5-18%, lower than the previous guidance of 18-18.5%.

## EARNINGS REVISIONS

| (Bt m) | 2023F Old | 2023F New | 2023F chg | 2024F Old | 2024F New | 2024F chg |
|---|---|---|---|---|---|---|
| Sales (Btm) | 163,696 | 152,795 | -6.7% | 169,473 | 158,096 | -6.7% |
| Net profit (Btm) | 7,435 | 6,064 | -18.4% | 7,916 | 6,990 | -11.7% |
| Core profit (Btm) | 7,435 | 6,064 | -18.4% | 7,916 | 6,990 | -11.7% |
| Gross margin (%) | 18.0% | 17.0% | -1.0% | 18.1% | 17.7% | -0.4% |
| Effective tax (%) | 7.5% | 5.0% | -2.5% | 10.0% | 10.0% | 0.0% |

*Source: TU, UOB Kay Hian*

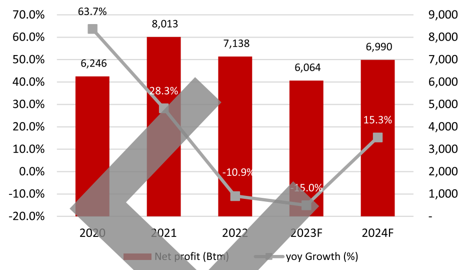
## VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of Bt17.00.** We peg the forward PE target to TU's five-year mean of latest PE band, which is equivalent to 13.1x. Although we factored in a more conservative assumption on TU's operation, there is still a 21% upside to our target price. Also, given the high dividend yield and undemanding valuation, we maintain BUY on TU.

## SHARE PRICE CATALYST

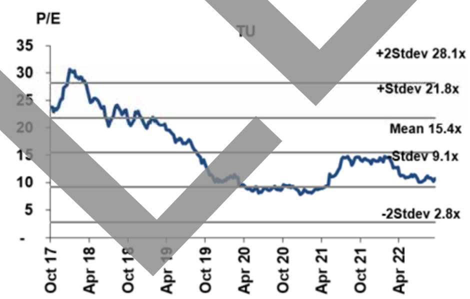
- a) Better-than-expected 1Q23 earnings momentum, and b) significant improvement in TU's profitability from lower raw material and logistics costs.

## NET PROFIT AND GROWTH




*Source: UOB Kay Hian*

## FORWARD PE BAND




*Source: Bloomberg, UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Net turnover** | **155,586** | **152,795** | **158,096** | **158,096** |
| EBITDA | 13,574 | 13,949 | 15,606 | 15,743 |
| Deprec. & amort. | 3,920 | 4,022 | 4,231 | 4,198 |
| EBIT | 9,654 | 9,926 | 11,375 | 11,544 |
| Total other non-operating income | 0 | 0 | 0 | 0 |
| Associate contributions | (1,030) | (358) | (25) | 562 |
| Net interest income/(expense) | (1,998) | (2,232) | (2,178) | (2,124) |
| **Pre-tax profit** | **6,626** | **7,336** | **9,172** | **9,982** |
| Tax | 621 | (367) | (917) | (1,248) |
| Minorities | (265) | (905) | (1,265) | (1,365) |
| **Net profit** | **7,138** | **6,064** | **6,990** | **7,369** |
| Net profit (adj.) | 6,981 | 6,064 | 6,990 | 7,369 |

## BALANCE SHEET

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| Fixed assets | 28,475 | 29,952 | 29,721 | 29,523 |
| Other LT assets | 66,470 | 66,850 | 67,234 | 67,621 |
| Cash/ST investment | 12,241 | 14,032 | 14,304 | 14,498 |
| Other current assets | 75,383 | 70,564 | 72,009 | 71,614 |
| **Total assets** | **182,569** | **181,398** | **183,268** | **183,256** |
| ST debt | 11,664 | 16,663 | 22,613 | 18,113 |
| Other current liabilities | 25,160 | 24,499 | 24,955 | 24,860 |
| LT debt | 47,263 | 40,213 | 33,500 | 36,000 |
| Other LT liabilities | 10,351 | 10,455 | 10,559 | 10,665 |
| Shareholders' equity | 80,642 | 82,985 | 86,322 | 89,664 |
| Minority interest | 7,489 | 6,584 | 5,319 | 3,953 |
| **Total liabilities & equity** | **182,569** | **181,398** | **183,268** | **183,256** |

## CASH FLOW

| Year to 31 Dec (Btm) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Operating** | **5,871** | **13,969** | **9,952** | **11,585** |
| Pre-tax profit | 6,564 | 6,064 | 6,990 | 7,369 |
| Tax | (960) | 0 | 0 | 0 |
| Deprec. & amort. | 3,920 | 4,022 | 4,231 | 4,198 |
| Associates | 0 | 0 | 0 | 0 |
| Working capital changes | (7,551) | 3,883 | (1,269) | 18 |
| Non-cash items | 3,898 | 0 | 0 | 0 |
| Other operating cashflows | 0 | 0 | 0 | 0 |
| **Investing** | **(5,415)** | **(5,500)** | **(4,000)** | **(4,000)** |
| Capex (growth) | (5,340) | (5,500) | (4,000) | (4,000) |
| Capex (maintenance) | 0 | 0 | 0 | 0 |
| Investments | (429) | 0 | 0 | 0 |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 354 | 0 | 0 | 0 |
| **Financing** | **2,742** | **(6,678)** | **(5,680)** | **(7,392)** |
| Dividend payments | (4,190) | (3,721) | (3,653) | (4,026) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from borrowings | (10,605) | (2,052) | (763) | (2,000) |
| Loan repayment | 0 | 0 | 0 | 0 |
| Others/interest paid | 17,537 | (905) | (1,265) | (1,365) |
| **Net cash inflow (outflow)** | **3,198** | **1,791** | **272** | **194** |
| **Beginning cash & cash equivalent** | **8,828** | **12,241** | **14,032** | **14,304** |
| Changes due to forex impact | 215 | 0 | 0 | 0 |
| **Ending cash & cash equivalent** | **12,241** | **14,032** | **14,304** | **14,498** |

## KEY METRICS

| Year to 31 Dec (%) | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA margin | 8.7 | 9.1 | 9.9 | 10.0 |
| Pre-tax margin | 4.3 | 4.8 | 5.8 | 6.3 |
| Net margin | 4.6 | 4.0 | 4.4 | 4.7 |
| ROA | 4.1 | 3.3 | 3.8 | 4.0 |
| ROE | 10.2 | 7.4 | 8.3 | 8.4 |
| | | | | |
| **Growth** | | | | |
| Turnover | 10.3 | (1.8) | 3.5 | 0.0 |
| EBITDA | (3.9) | 2.8 | 11.9 | 0.9 |
| Pre-tax profit | (21.9) | 10.7 | 25.0 | 8.8 |
| Net profit | (10.9) | (15.0) | 15.3 | 5.4 |
| Net profit (adj.) | (6.0) | (13.1) | 15.3 | 5.4 |
| EPS | (6.0) | (13.1) | 15.3 | 5.4 |
| | | | | |
| **Leverage** | | | | |
| Debt to total capital | 40.1 | 38.8 | 38.0 | 36.6 |
| Debt to equity | 73.1 | 68.5 | 65.0 | 60.4 |
| Net debt/(cash) to equity | 57.9 | 51.6 | 48.4 | 44.2 |
| Interest cover (x) | 6.8 | 6.2 | 7.2 | 7.4 |

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