13 February 2023

Market Outlook | Event

Market Strategy

Small Cap Corporate Access 2023

- **SCCA 2023.** Our third instalment of RHB Small Cap Corporate Access, held last week, featured 16 corporations from Indonesia, Malaysia, Singapore and Thailand. About 130 fund managers and analysts across the region attended the event, to explore new investment ideas in the small-cap space and gain insights from these corporations. Overall market sentiment in the market has improved of late, thanks to renewed confidence in the global economy, strengthening emerging market (EM) currencies, and the reopening of China – the latter should boost the growth prospects of certain small-cap companies.
- **Reasons to be more optimistic.** With the weakening of the USD and the brewing expectation of a peaking Fed Funds Rate in 2023, the improved investor sentiment could potentially spur fund flow into EM counters, where valuations for the rate-sensitive growth names have bottomed-up. As such, we see compelling opportunities in the small-cap space. Also, the divergence of the state of the economy in China post reopening vs the decelerating global economic growth could lend the support to global demand and benefit ASEAN players.
- **Not all doom and gloom.** Most of the companies featured in SCCA 2023 agreed on the potential challenges that were exacerbated by: Decreasing economic growth, high inflation and volatile exchange rates, the escalation of input costs, and certain demand uncertainties. However, they still see growth opportunities with differentiated strategies, country and industry exposure, domestic-demand growth, relatively low bases and production capacity relocation exercises taking place.
- **Something for everyone.** We featured corporates from various sectors including healthcare, industrial products, oil & gas, technology, consumer products, consumer discretionary, financial services, construction and REITs. As there is no one size that fits all, we tried to present a wide range of investment ideas to suit the diverse needs of investors. The snapshot of the 10 companies from Malaysia, as well as two each from Indonesia, Singapore and Thailand is shown in Figure 2.
- **The key takeaways** from the respective breakout sessions are summarised in the subsequent pages. We highlight a few names that caught our eye:
    1. **Indonesia: Arwana Citramulia (ARNA IJ)** is a leading ceramic tile manufacturer in Indonesia that is slated to benefit from its aggressive expansion plan and new products that target the low-to-middle income group. Potential margin expansion from a favourable product mix, close proximity to target markets, coupled with a strong balance sheet and superior ROE and healthy dividend yield, are among the key selling points.
    2. **Malaysia: Wah Seong (WSC MK).** We see strong earnings growth potential, led by a strengthening orderbook (c.MYR3bn) and tenders (MYR4-4.5bn) for both pipecoating, engineering & construction businesses. Its capabilities in the fabrication of equipment in renewable energy and modules could also help to fuel growth.
    3. **Singapore: Bumitama Agri (BAL SP)** should post record year-high results for FY22, with stronger FFB yield and higher ASPs likely to continue into FY23 – partially offsetting the higher input costs. Despite the expectation of lower earnings, its below-peer valuation and potential yields of 13% and 8% in FY22-FY23, based on a 40% payout, serves as a support.
    4. **Thailand: Index Living Mall (ILM TB).** The largest home furnishing player is set to benefit from a recovery in consumption and tourism activity, with a mid-single digit SSSG and double-digit income growth target into 2023. Resumption of store expansions and potential margin expansion should fuel its growth along with favourable policies like shopping tax breaks.

Analyst

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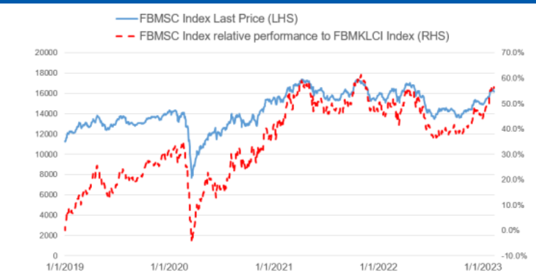
Performance of Indonesia's small-cap index

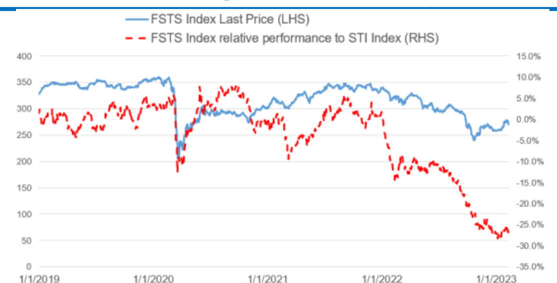
Source: Company data, RHB

Performance of Malaysia's small-cap index



Source: Company data, RHB

Performance of Singapore's small-cap index



Source: Company data, RHB

Performance of Thailand's small-cap index

Source: Company data, RHB

RHB Small Cap Corporate Access 2023

Figure 1: RHB Small Cap Corporate Access 2023

RHB

Small Cap Corporate Access

zoom

DATE : 9 February 2023, Thursday
TIME : 9.00 am – 5.00 pm (MY/SG Time) / 8.00 am – 4.00 pm (JKT/BKK Time)

Come join us for our RHBIB's 3rd Edition, Small Cap Corporate Access event and explore Small Cap investment opportunities. Featuring 16 Small Cap Public Listed Companies (PLCs) across the region.

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Source: RHB

Figure 2: Snapshot of featured companies

Company Name	Bloomberg Ticker	Sector	Last Price (Local Currency)	P/E (x) Actual	P/BV (x) Actual	ROE (%) Actual	Yield (%) Actual
Focus Point Holdings	FPHB MK	Health Care	1.32	12.55	5.75	41.81	2.27
Kimlun Corp	KICB MK	Industrials	0.77	18.09	0.37	2.04	1.31
Malayan Flour Mills	MFL MK	Consumer Staples	0.81	11.74	0.89	9.47	4.32
Optimax Holdings	OPTIMAX MK	Health Care	0.69	28.29	6.72	26.69	1.59
QES Group	QES MK	Information Technology	0.69	22.46	4.21	17.81	0.58
Scicom MSC	SCIC MK	Information Technology	1.14	12.42	3.56	28.80	6.58
Thong Guan Industries	TGI MK	Materials	2.37	8.73	1.27	13.69	2.53
Tune Protect Group	TIH MK	Financials	0.41	NA	0.55	-8.64	NA
Wah Seong Corp	WSC MK	Energy	0.78	NA	1.02	-10.45	NA
YBS International	YBS MK	Industrials	0.57	12.75	2.15	11.16	NA
Arwana Citramulia	ARNA IJ	Industrials	1020.00	12.75	4.79	37.49	4.41
Nippon Indosari Corpindo	ROTI IJ	Consumer Staples	1380.00	25.50	2.86	12.24	4.36
AIMS APAC REIT	AAREIT SP	Real Estate	1.36	12.98	0.96	7.52	7.62
Bumitama Agri	BAL SP	Consumer Staples	0.61	3.54	0.00	32.45	7.52
Index Livingmall	ILM TB	Consumer Discretionary	19.10	15.42	1.82	11.76	2.08
SISB	SISB TB	Consumer Discretionary	25.75	88.40	12.02	12.89	0.35

Source: Company data, Bloomberg

Key Takeaways From Breakout Sessions

Focus Point (FPHB MK)

Optical segment – multi-brand expansion to capture all market segments

- FPHB targets to open 12 new optical stores in FY23 across its numerous brands (Focus Point, Focus Point Signature, Whoosh, etc.). Different brands are designed to cater to different target markets, as the company aims to maintain a well-diversified customer base.
- Currently, about 50% of children in Malaysia are myopic, vs c.80% in more developed countries. As Malaysia progresses towards achieving developed country status, management estimates the rate of myopia among children can go up to 60-70% – a sustainable growth catalyst for the optical segment, especially the Whoosh stores.
- An average of MYR800k in capex is required for each new store, with a payback period of 1-3 years depending on the location. The Klang Valley remains the key focus area for the company, but it is also looking at expanding its footprint in Kelantan, Terengganu and Pahang.

F&B segment – gaining traction in B2B partnerships

- FPHB secured a partnership agreement with Malaysia Airlines (MAS) to supply 14 stock-keeping units (SKUs). The first products under this partnership are expected to be supplied beginning 2Q23.
- The company is also embarking on a pilot test project to offer its Komugi brand products in Aeon supermarkets. Previously, FPHB supplied SKUs to Aeon that were repackaged into white-label Aeon bakery goods.
- The company's first central kitchen (CK1) is operating at full utilisation rate, whereas CK2 is operating at 50%. Management expects CK2 utilisation to go up to 90% from 2Q23 onwards, once the partnership with MAS kicks off.
- Management is expecting c.MYR5m in corporate sales in 4Q22 (9M22: MYR15m). For FY23, a target of 50% growth in corporate sales was provided.

Financials and guidance

- The company is targeting 10% revenue growth in FY23 (9M22: MYR180m) across the entire group. However, PAT is expected to be flattish (9M22: MYR25m) due to inflationary pressures affecting personnel costs, among others.
- MYR15m in capex has been allocated towards both its optical and F&B segments. These will mainly be for the opening of 12 new optical stores and two new F&B outlets.
- Dividend payouts will depend on its FY23 earnings, but the company does have a minimum payout ratio of 30% as part of its dividend policy.

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Kimlun Corporation (KICB MK)

Updates on Kimlun's ongoing and prospective jobs

- The Sabah-Sarawak Link Road phase 1 project undertaken by Kimlun for a value of MYR780m (expected completion in 2025) is now 15-20% completed as of late January, vs a 10% completion rate as at end-Nov 2022. Management cited some hurdles related to unfavourable weather but the project is still expected to be finished on time.
- Kimlun has not submitted or participated in any tenders for the Kuching Autonomous Rapid Transit (ART) project, as only work packages related to the supply of rolling stock and systems implementation amongst others with a cumulative value of MYR1.9bn have been awarded.
- Given its exposure in the Pan Borneo Highway (PBH) Sarawak Phase 1 with a contract sum of MYR1.46bn (Kimlun's effective share: MYR438m) in Mar 2016, Kimlun will definitely be eyeing opportunities under the PBH Sarawak Phase 2 which is expected to be rolled out this year according to the Ministry of Works. At the moment, the overall progress of PBH Sarawak Phase 1 is at 91%.
- Kimlun has also submitted a bid to supply precast products to the Johor Bahru-Singapore Rapid Transit System (RTS) Link, and is awaiting the outcome. The company has a precast plant in Ulu Choh, Johor and, therefore, logistics would not be much of an issue for it to supply precast products for the project (should it win the contract). This would mitigate the impact of the slow job replenishment due to the delay of contract rollouts under the Mass Rapid Transit 3 or MRT3 project.
- Other bids include a water-related job for improving Johor's water reticulation system, estimated at c.MYR300m.

Labour developments

- As of late, Kimlun has received around 200 foreign workers out of the 667 quota approved, vs only 70 workers during 4Q22. The remaining foreign workers are expected to arrive in batches until March or April, bringing its foreign labour workforce to around 1,000 foreign workers. This should enable better work progress at sites, with lesser possible delays.

Job replenishment outlook and earnings visibility

- In FY22, Kimlun secured c.MYR280m worth of new construction jobs (slightly lower than its initial target of MYR400-500m, due to project owners (particularly property developers) that delayed launching amidst volatility in building material prices and labour shortages.
- As for the manufacturing and trading segment, it clinched MYR180m worth of new purchase orders in FY22 – near the average historical average of MYR200-230m.
- For FY23, Kimlun targets to win MYR500-600m worth of new jobs with its tenderbook size at MYR1.5bn as at 1 Jan – comprising mainly private sector and public infrastructure jobs. The replenishment target for the orders for the manufacturing and trading segment for FY23 is set at MYR180-230m, with the bulk coming from Singapore's Cross Island Line project, and Deep Tunnel Sewerage System Phase 2.

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Malayan Flour Mills (MFL MK)

Flour business to provide steady recurring earnings

- The flour business should continue to provide MFM with steady recurring earnings, given its large customer base and geographical reach. Its flour milling utilisation rates of 53% in Malaysia, 88% in Vietnam, and 70% in Indonesia show that there is still room to grow.
- The key concern is the fluctuating wheat prices. Although wheat prices have come off from their highs, MFM still has high-priced stock in its inventory that it would need to run down before being able to reduce its flour prices. Management expects to only be able to potentially reduce selling prices after 1Q23, once the new US wheat crop comes through.

Growth driver to come from poultry integration business

- MFM has Malaysia's largest poultry processing plant with a daily capacity of 280k birds. It was running at 60% utilisation as at end-2022.
- Demand remains robust, especially with MFM's partnership with Tyson Foods via its 49% stake in Dindings Tyson. New avenues of revenue growth include the 5-year supply agreement it has with Mac Food for the Malaysian market, especially since Mac Food is doubling its production capacity in Malaysia to 120,000 tonnes by end-2023. Beside this, the Tyson Foods tie-up will open up new markets for MFM, namely the Middle-East and Singapore.
- The main issue is the supply of chickens – in view of the bird flu, which has been spreading through Vietnam, the Philippines and Indonesia. As the problem is caused by migratory birds, there are concerns that it can be spread to Malaysia, too. The only way to protect against this is via vaccines, which have to be administered every 1.5 years. In Malaysia, given the high cost structure due to high feed prices over the last few years and weak COVID-19-affected demand, the Government has been giving subsidies to chicken farmers, and this is expected to continue until 1H23. The subsidy is, however, likely to be reduced over time. In 4Q22, the subsidy was around MYR0.70 per kg.
- With the Tyson Foods partnership, MFM has an EBITDA guarantee that it needs to meet, of MYR141m for 2022 and MYR173m for 2023. However, tied up within this guarantee is also a net debt/cash target which needs to be met. While MFM is confident of meeting the EBITDA targets for FY22 and FY23, the net cash target of MYR100m for 2023 is likely to be difficult to achieve. As such, MFM intends to negotiate with Tyson Foods on adjusting this target.

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Optimax (OPTIMAX MK)

Strong track record with consistent revenue and net profit growth

- From FY17 to FY21, revenue and net profit charted CAGRs of 24.3% and 15.3%. In FY21, the impact of the various lockdown restrictions was mitigated, as Optimax was selected as one of the vaccination centres to administer COVID-19 vaccines.
- While revenue and PBT in 3Q22 declined by 4% and 10% YoY (due to lower revenue contributions related to COVID-19 vaccinations) on a YTD basis, 9M22 revenue and PBT improved by 19.7% and 22%, with a higher number of surgeries performed following the relaxation of movement restrictions.
- Optimax's branding and track record is exemplified by organic growth in the number of surgeries, at a CAGR of 16% from FY16 to FY21.
- While the population of Malaysia is expected to expand at a CAGR of 1.4% in the next 10 years, the number of people aged 50 years and above is expected to increase at a higher CAGR of 4.1%. The growth of the aging population highlights the potential increase in demand for age-related eye specialist services such as cataract surgery.

Expanding both locally and regionally

- Optimax currently has a stable of 13 ambulatory care centres (ACC), three satellite clinics, and one specialist hospital. Moving forward, the group will continue to identify suitable locations in West and East Malaysia to expand its geographical footprint.
- Regionally, the group first targets to expand into Cambodia and Vietnam. Locally, it expects to see the completion of its new Kempas Eye Hospital in FY24, which can capture the increase in demand from neighbouring countries like Singapore and Indonesia due to the lower cost of eye surgeries in Malaysia.
- Optimax's most recently opened ACC in Bahau is fully operational, with only one resident doctor stationed. Similar to other small ACC's, it is expected to break even within 12 months compared to 3-6 months for larger ACCs.
- Optimax also intends to increase the footprint of satellite clinics around the Klang Valley, with a target of seven more by 4Q23. The expected capex in FY23 for the expansion plans is around MYR8m.

Shortage of doctors a stumbling block

- Management guided that the occupancy rate of the new ACC with only one doctor is only at 50%. While the group has a few doctors in line to join, the shortage of doctors available is considered the biggest challenge in Optimax's expansion plan, especially for locations outside of the Klang Valley.
- In contrast to global inflationary pressures, we understand that the cost of medication procured from external vendors has remained stable. Staff costs continue to make up the biggest proportion of the group's total cost.

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QES Group (QES MK)

Growth from global wafer fabrication (fab) expansion, higher chip content in cars, and EV adoption

- Global wafer fab firms are still ordering equipment for their ongoing expansion, despite the cyclical slowdown in the semiconductor industry. This is supporting the orders for QES' various equipment, especially for its automated handling system, wafer identification and sorting machines.
- Internal combustion engine (ICE) cars have growing chip content, and EVs use significantly more chips than ICE cars do. As automotive semiconductors require stringent testing for safety and reliability, demand for QES' testing equipment should increase.
- QES is looking to further penetrate the China market (currently ~5% of revenue, aiming for >10% of revenue), namely in the manufacturing division, by selling semiconductor equipment for automotive end-usage. Currently, QES is working on establishing the sales channels and the necessary partnerships in China.

Diversification and recurring income stream provide resilience amidst a downturn

- In 9M22, the revenue breakdown was: Semiconductor (50.4%), automotive (21.8%), electrical & electronics (E&E) (19%), and others (8.8%). Having the other segments allowed QES to weather through the semiconductor and E&E downcycle.
- While semiconductor and E&E equipment such as dynamic random access memory (DRAM) chips and hard disk drives have seen softer demand, resilient demand from automotive integrated circuits and power devices help support QES' orderbook and earnings.
- Furthermore, c.20% of QES' revenue is from the servicing and supply of spare parts, which provide the group a steady and high-margin source of earnings. This income stream is only set to grow along with the cumulative number of QES-distributed-and-manufactured machines in circulation.
- Despite the semiconductor downturn, QES' customers have not requested for deliveries to be held back. Its customers are still chasing for orders to be delivered.

Steady orders for 1H23's delivery, hopeful on memory chips' recovery in 2H23

- As of Dec 2022, QES had an orderbook of MYR102m. MYR84m (82%) is for its distribution segment, while the remaining MYR18m (18%) is for its manufacturing unit. These outstanding orders should sustain the group's earnings for 1H23.
- In the coming years, we believe QES will see improving profitability, as its manufacturing division (higher margin) moves towards its targeted revenue mix (35% in 2-3 years) from the current 10-18% of revenue. The margin improvement will be further aided by economies of scale as QES continues to expand.
- Management believes that the current excess inventory of memory chips could persist into 2Q23, before recovering in 3Q23. Nevertheless, QES is continuing with its Batu Kawan expansion, which should be completed by 2Q24 – in time to capture the potential semiconductor upcycle.
- Management is targeting high-single digit revenue growth in FY23.

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SCICOM (SCIC MK)

About the company

- SCICOM is an industry leader in business process outsourcing (BPO) services and integrated digital solutions. It offers education services as well.
- It has operations worldwide, including in Malaysia, Singapore, China, the Philippines, Thailand, Hong Kong, the UK, Indonesia, India, Cambodia, and Sri Lanka.

Diverse customer base – natural hedge against industries

- SCICOM serves over 40 customers from different industries including telecommunications, hospitality, airlines, e-commerce, education, and E&E. Therefore, it does not depend on a single industry or customer.
- Post pandemic, the group is seeing a strong recovery in BPO contracts from its leisure and hospitality customers. This recovery is offsetting the drop in BPO contracts from its e-commerce customers.
- In terms of its digital government solutions, SCICOM has seen resilient demand in foreign student applications due to the endemic situation, as well as geopolitical issues which resulted in more China students coming to Malaysia. The group has also generated some income from back-end operations for foreign students staying in Malaysia during the pandemic.

Moving up the value chain

- SCICOM has been working hard to create new customer offerings to move up the value chain.
- It recently started providing higher-value operations services (such as social media support, text support, fulfilment, robotic automation) rather than the conventional customer care services. This should increase stickiness with its customers and bode well for the group's income growth.

Competitive advantage – digital ecosystem and competitive pricing

- With a wider range of services, SCICOM is delivering one-stop digital solutions for business operations to retain its customers, increase customer share, and indirectly increase income.
- Being innovative and continuing to develop its own Internet Protocol enables SCICOM to be more independent and sustainable in the market, without much reliance on any other company. Its forte is in delivering one-stop digital solutions by building a complete integrated ecosystem for various complex environments.
- SCICOM's reasonable pricing, with more than 20 years of experience, gives it a firm position in the market – especially foreign markets. Foreign markets are believed to be providing higher margins to SCICOM, as competitors there have pushed up the price floor, partly due to the currency differences.

Potential challenges

- Difficulty in hiring staff remains a problem due to the supply and demand mismatch, which could lead to higher staff costs. Nonetheless, it is able to pass on the costs to customers, and this has continued over the years.
- Risk of replacement by artificial intelligence (AI) products such as ChatGPT. As SCICOM offers more complex customer care services, AI customer care products are not able to replace SCICOM's services at the moment. This is as AI is unable to handle complicated issues – it can only manage simple operational problems. We believe there is still a need for human customer care services to maintain the customer relationship and sustain the brand.

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Thong Guan Industries (TGI MK)

Resin prices stabilising, and thus orders are returning

- In 4Q22, as resin prices continued to fall from the peak in Apr 2022, TGI's customers withheld their orders in hopes of seeing lower product prices. As such, orders in 4Q22 were soft. In 4Q22, the group was also using expensive resin that it had previously procured, and this may have resulted in margin softness, in our view.
- However, in Jan and Feb 2023, resin prices bottomed out and started to inch up again. TGI is currently purchasing more resin than it needs, in anticipation of rising prices.
- The stabilisation and gradual increase in resin prices have prompted customers to resume their orders – marking a turnaround from 2H22, when customers withheld their orders in fear of overstocking in view of a potential recession.

PVC and courier bags making a comeback

- TGI's PVC food wrap demand saw a strong recovery in 2H22, with the global economic reopening and recovery of the hospitality industry. In 2023, the group's PVC food wrap will likely see strong growth in the US, where its PVC products are gaining traction, and as it gains market share from smaller competitors.
- The courier bag segment clocked dismal numbers in 2Q22 and 3Q22, with its lines operating at 30-40% utilisation rates, mainly due to significantly lower orders from an important US e-commerce giant. However, after depleting its excess inventory, the customer began placing orders in 4Q22. TGI has also since expanded its courier bag business in Europe, where it recently on-boarded several large retail chain customers.

Future earnings growth will be driven by:

- Its continued striving towards the next MYR1bn revenue. TGI is on track with its 2022-2027 roadmap, where it strives to achieve its next MYR1bn revenue. Not only is demand for its stretch film recovering, but the group is also on-boarding new customers and introducing new products (eg printed lamination film in Malaysia), which should continue to utilise any new capacity that it adds to its 16-acre plant.
- Margin expansion will partly be driven by the continued growth in its higher-margin nano-stretch film sales. Management's efforts to deal directly with brand owners in Europe should also help it cut middlemen costs.
- Cost savings. TGI will eventually shift its garbage bag production (for Japan) to Myanmar from China due to lower labour costs.

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Tune Protect Group (TIH MK)

Targeting the millennial and Gen Z market

- Tune Protect Group's target market will be focused on the millennial and Gen Z population. Convenience, affinity, and price have been identified as customer priorities that the company will focus on addressing.
- Products to capture the target market will include embedded insurance products such as travel insurance, e-wallet protection, and hyper-personalised health insurance, among others, to capture growth among mobile phone users, frequent travellers, and the health-focused population.

Expense ratio management – key to returning to the black

- The group currently operates with a combined ratio of >100%. For 2023, its main strategy is to bring this down to below 100% by prioritising topline growth – the widespread return of travel and China's reopening should support this strategy.
- Overall claims are expected to trend upwards as the group diversifies its earnings base beyond travel insurance (which historically tends to generate lower claims). Elevated motor claims are also to be expected, in line with industry trends among general insurers.
- The management expense (ME) ratio is also expected to remain at the 40-50% level (9M22: 49%) as the group continues to invest in IT, people, marketing, and branding. However, significant cuts in ME should be possible through robotic process automation.

New projects to diversify earnings base

- In 2022, the group secured two new insurance partnerships in Vietnam, on top of a new digital payment partnership with one of the country's largest fintech players (15m active users and >150k corporate clients). These partnerships will serve to expand TIH's health, lifestyle, and travel insurance segments. The group is also currently in discussions to partner with Vietnam's largest marketplace and airline operators.
- The group launched its Life business, Tune Protect Life (TPL), on 10 Jan 2023. For now, TPL will focus on selling small-ticket life insurance products to SMEs and SME employees.

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Wah Seong Corporation (WSC MK)

Strong orderbook

- As of Sep 2022, the group's orderbook stood at c.MYR3bn with 86% coming from energy solutions services, 13% from renewable energy (RE), and 1% from industrial trading & services or ITS.
- The East African Crude Oil Pipeline or EACOP project, awarded at the end of 2021, is only currently gaining momentum. Hence, it will only start to see revenue contributions over FY23-24.
- Wasco Engineering (Wasco) guided that Qatar will remain an important business opportunity hub for the group and expects more jobs to be awarded in the future.
- For its EPC side, the biggest job is c.MYR559m Yinson Agogo FPSO Topside modules, which was secured at the end of 2022. The group has secured extra yard space with the growth of its EPC projects.
- For large-value jobs, WSC works in a price adjustment mechanism into its contracts. This is to manage the risk of the fluctuating raw material prices. It is managed differently from project to project, but the group tries to manage it on an ongoing basis.

Tenderbook and future prospects

- WSC's tenderbook is in the range of c.MYR4-4.5bn with a 50:50 split between pipe coating and EPC business.
- For pipe coating, it is mainly gas pipeline projects with a significant concentration in Qatar. WSC is expecting a continuous flow of projects coming from this country. In Europe, carbon capture projects that require pipelines are coming up. Hence, this is a new field that the group is looking to capitalise on.
- WSC is also expanding beyond the energy sector for its EPC segment. Its capabilities allow the group to venture into fabrication of equipment in RE and modules for data storage centres.
- The group expects 2023-2025 to be busy, in view of capex expansion after the 2015-2021 market slowdown.
- For replenishment targets, Wasco hopes to maintain its orderbook to be above MYR3bn for the next few quarters.

Sustainability goals

- The group has a net zero carbon emission target it aims to achieve by 2026. With 2020 as its baseline, Wasco is estimating a 5% reduction of emissions from various reduction initiatives and another 30% from the usage of RE in its operations. The residual carbons emission is expected to be offset by carbon credits.
- For its RE initiative, WSC is exploring the option to install solar panels for its yards. Furthermore, Wasco had subscribed to 500k kWh per month of Tenaga Nasional's (TNB MK, NEUTRAL, TP: MYR9.60) green electricity tariff.
- It is also continuously monitoring its Scopes 1 & 2 carbon emissions on a monthly basis.

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YBS International (YBS MK)

Orderbook remains strong

- Orderbook on hand remains strong (c.MYR60m), despite supply chain disruptions. YBS aims to deliver the orders within six months.
- Management aims to grow its revenue further to c.MYR120m (currently c.MYR80m) in three years.
- The new Penang Science Park factory caters for four plants – Plant 1 for surface mount technology (SMT) line and printed circuit board assembly (PCBA); Plant 2 for machining and cable assembly; Plant 3 for paper board packaging; and Plant 4 for moulding and assembly.
- Its three SMT lines are currently at full capacity until Apr 2023. Management plans to have a total of 10 SMT lines in the future.

Positive growth from telecommunication, automotive, and aerospace industries

- YBS is able to meet high requirements in small and lightweight parts with precise tolerance (up to 3 micrometres of accuracy).
- Revenue from the automotive industry is growing, driven by increasing adoption of EVs.
- Due to the US-China trade tensions, customers in the telecommunications industry are sourcing for engineering supporting services providers in Malaysia as part of their diversification strategy from China. The telecommunications industry accounts for 20-25% of YBS's total revenue, and management expects this to go up to c.40%.
- Orders from aerospace customers to produce high-mix low-volume signal and energy connection components continue to grow.
- With more than 10 years of relationships with its key customers, YBS aims to be recognised as the supplier of choice.

Key challenges

- YBS customers experienced a shortage of high-end components (chips) due to supply chain disruptions. Nevertheless, management expects the supply chain disruption to ease in 2H, especially in 4QFY23.
- Manpower shortage is one of its major constraints. Management is seeking to hire more workers in the near future.
- YBS derives c.95% of its revenue in USD. The group adjusts its price on a quarterly basis to account for the depreciation/appreciation of the USD.

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Arwana Citramulia (ARNA IJ)

Indonesia's largest ceramic tile manufacturer with cost advantages

- ARNA is a leading ceramic tile manufacturer in Indonesia, with an annual capacity of 64m sq m. The company's target market consists of low- to middle-income individuals. It entered a new market segment in 2021 by offering porcelain ceramic tiles. ARNA's high-end ceramics – which offer higher GPMs – are also in high demand.
- Because ceramic tiles are bulky products, transportation and logistics costs are significant in the industry. ARNA has manufacturing facilities in a variety of locations – two in West Java, two in East Java, and one in South Sumatra. Meanwhile, most of its competitors' manufacturing facilities are concentrated in a single location. As a result, ARNA has lower transportation costs, which is a competitive advantage because its manufacturing facilities are closer to the market.
- As its plants operate at full capacity, ARNA's fixed cost per unit is lower than that of its competitors, as evidenced by its highest GPM vs that of peers. By 2023, ARNA targets to reduce its gas consumption per unit of production to 1.35Nm3 per sq m. It has reduced its gas consumption per unit of production in the last five years, from 1.77Nm3 per sq m in 2017 to 1.47Nm3 per sq m in 2021. Lower gas usage is one of the primary drivers of its COGS per unit falling to IDR24,150 per sq m in 2021 from IDR25,651 per sq m in 2017, despite increased porcelain ceramic and Digi UNO tile production, both of which require more gas in the manufacturing process.

New capacity to make porcelain ceramic tiles to come in Mar 2023

- ARNA's new cement plant with a capacity of 4.5m sq m per year is nearing completion. This should increase its total annual capacity by 7%, while also increasing the production of high-end ceramic tiles. It is also constructing a new factory, which is expected to begin production in early 2024. It should be noted that ARNA's limited production capacity of high-end ceramic tiles is a major impediment to revenue growth, as its existing plants are already operating at full capacity.
- ARNA's goal is to increase its high-end ceramic tile sales contribution to 9% of total sales in 2023 and 13% in 2024 (up from 4% in 2022). Lower-end tiles (such as Best Buy brand) are expected to contribute 15% of total sales in 2024, down from 25% in 2022. As a result, GPM should increase because porcelain ceramic tiles have GPMs ranging 42-45% compared to Best Buy tiles' 30%. While its high-end tiles are more expensive than those produced by Chinese competitors, management claims that demand for its products remains high due to its superior design.

Expansion to be funded by internal cash, while still paying high dividends

- ARNA plans to build three new plants over the next three years, with capital expenditure of around IDR1trn funded by internal cash flow. ARNA now has a net cash position and no long-term debts. With a FY23F dividend yield of around 7%, the dividend payout ratio is quite lucrative.
- A strong balance sheet and cash position have resulted from good working capital management, such as maintaining a low inventory level and matching payable and receivable payment terms.

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Nippon Indosari Corpindo (ROTI IJ)

Strong performance to continue 2023

- Nippon Indosari Corpindo (ROTI) expects to book c.20% revenue growth in 2022 with a 10% net margin. Revenue may merely inch up a tad in 4Q22, on seasonal factors. However, lower commodity prices might help to beef up margins – which is in line with our expectations.
- This year, it expects to grow topline by c.20% YoY. Sales volume may grow 12-14% YoY as it reaps the benefit of the full reopening of the economy. January sales were flattish MoM, on seasonality. However, ROTI remains confident about meeting its internal targets – which are higher than our and Street projections of c.9-10% YoY.
- ROTI guided for steady margins in 2023 – we think this may be conservative, due to declining commodity prices and major price hikes in 2022 (around 10-12%). It is considering adjusting prices by 5-6% YoY in 2023, although there were no ASP increases in January. We have minimal concerns that price hikes will dampen sales volumes, as it garnered a commendable 90% share of Indonesia's mass bread production market.

Solid nationwide foothold along with continuous product innovation

- ROTI has 14 factories across Indonesia that allow it to serve customers across 34 provinces easily. It plans to add another factory in Pekanbaru, which is expected to commence operations by 2H23. This may help to strengthen its presence in Sumatra. Note that the company sees sturdy growth in ex-Java areas, and a minimal impact from lower commodity price on its customers' purchasing power
- Strong growth has come from modern trade channels, given the improvement in mobility. The company may continue to pursue more opportunities in the minimarket space, and capitalise on the segment's burgeoning growth. However, general trade (GT) still performed well, much higher than pre-pandemic levels, given its more prudent strategies. ROTI thinks that productivity in GT might soften, but it would still be higher than pre-pandemic figures.
- The company has continuously launched new products such as Sari Kue Red Velvet, Brownies, Tiramisu and Triple Coco. We remain upbeat over their potential – due to the products' longer shelf life of 14 days (vs 5-6 days for bread). This may help ROTI penetrate markets in tier-2 and tier-3 cities, while lowering its return rate. New product ranges may also encourage ROTI to explore new marketing channels like e-commerce. Sari Kue has contributed around 7% of 9M22 (vs. 5% in 9M21)

Ample cash liquidity and expected improvement in stock trading liquidity

- ROTI's current utilisation rate is around 55-60%. The additional Pekanbaru factory may boost its total capacity to 5.7m pieces of bread per day. All in, the 15 plants should be sufficient to support sales growth until 2025. Therefore, we expect that it may not need to embark on a major capex cycle in the near future.
- The company has a cash pile of c.IDR600-700bn in 9M22. That said, dividend payout ratios may continue to be at least 100%, translating to approximately 4-5% dividend yields, as per its latest share prices.
- ROTI has just finished its share buyback programme, with an average price of c.IDR1,320-1,330/share. The company is mulling over to increase its share floating portion from 9% currently to c.10%, to comply with the latest regulations – which would increase its trading liquidity.

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AIMS APAC REIT (AAREIT SP)

A resilient logistics-focused industrial player

- **Building quality assets.** Management is constantly working to create and maintain high-quality assets to deliver the long-term performance of its portfolio. Its key strategy is to focus on asset and lease management, with the objective of driving growth and ultimately, DPU. It adopts conservative capital management practices, with hedge ratios at close to 85%.
- **Strategy to increase rental income and occupancy through master leases.** Its current strategy is focused on restructuring leases and working with tenants to achieve 100% leases in properties for growth in the medium term. Increasing negotiations for master leases would enable it to charge rental for common areas, increase income, and generate reasonable returns. It has seen prospects and enquiries to lease entire multi-tenanted buildings. These master leases are typically for 10 years and have embedded rising rental escalation.
- **Active cost management.** Costs are constantly being monitored, especially with the rise of inflation and energy costs. For example, it has in place active initiatives with energy vendors to lock in contract rates, which result in little or no exposure to rising energy costs, aside from other operational cost-saving initiatives.
- **Less focused on redevelopment and acquisitions.** Redevelopment and acquisitions remain opportunistic for now, with construction costs and funding costs increasing. The company will redevelop its properties when there is demand. Acquiring properties is not a priority at the moment, but it remains open to opportunities.

FY23 outlook

- **Even though the outlook for Singapore and Australia is slowing, or has started to slow, Singapore' industrial sector is benefitting from tight supply**, supported by occupancy and rental rate growth. Australia's demand for business parks is still strong.
- **Rental reversion yet to peak.** Tenants have not asked for shorter lease terms on the back of slowing GDP and manufacturing output. Demand has come from life science, chipmakers, and vaccine providers developing facilities. As far as its relationship with tenants is concerned, the REIT has not seen a real slowdown in demand from its customers. It is halfway through the increase in actual rents and sees a small runway in the next 6-12 months for the rental increase to fully complete.
- **Not expecting huge increase in cap rates.** Both Singapore and Australia have had limited property transactions. Singapore saw two recent transactions at yields that were similar to two years ago. A movement in cap rates is not expected until yields move. Australia's transactions were subdued at the turn of 2023, but yields are expected to increase based on the current market sentiment.

BUY, TP of SGD1.50. AAREIT's recent set of numbers slightly exceeded our and market expectations. More importantly, portfolio occupancy continues to trend higher, with strong double-digit rental reversions highlighting continued strong underlying demand, particularly for the logistics sector. Gearing remains sound with a well-hedged balance sheet, and costs mostly passed through, putting it in a good position. Valuation remains attractive at slightly below book, offering 7% dividend yields.

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Bumitama Agri (BAL SP)

Bumitama Agri is on track to post record year-high results

- Bumitama Agri recorded a strong outperformance in 9M22, and it should be on track to post record-high results in FY22. Productivity is recovering significantly, as 9M22 FFB yield has increased 14% YoY to 16.6 tonnes/ha and the momentum is expected to continue towards the end of the year.
- BAL's 9M22 ASP showed a strong increase of 47% YoY to IDR12.9k per kg thanks to its spot selling strategy while sales volume only saw a 1% uptick YoY as a result of tightened export policies by the Indonesian Government, which resulted in stocks flooding the domestic market.
- Management noted that the weather conditions were more severe in 2022 compared to the previous years due to the *La Nina* phenomenon. This has not only hampered harvesting, but also maintenance activities such as manuring as well as logistics given the bad weather. Therefore, it is likely that inventory levels as at end-2022 are still high while fertiliser applications for the year were not fully completed.

Indonesia's policies continue to be deciding factors

- BAL sees tackling domestic supply of cooking oil in Indonesia as one of the main focuses by the Indonesian Government. In addressing this, a few main policies have been mentioned.
- The Government had its Domestic Market Obligation (DMO) revised where an additional 150k tonnes of CPO per month will be allocated to be sold domestically, making the total allocation under the DMO to be 450k tonnes of CPO per month, ie a 50% increase. To facilitate this, the Government has tightened its DMO domestic:export ratio to 1:6 (from 1:8). On top of that, the Government is also planning to freeze some of the export quotas as numerous exporters have not been utilising their export permits that were granted in the past.
- While the supply of cooking oil is no longer tight like a year ago, we understand from management that domestic prices seem to remain elevated, currently at IDR20-25,000/kg. This is different from bulk cooking oil prices which have a price ceiling of IDR9300/kg.
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Guidance for 2023

- While no specific guidance has been given by management, it is hopeful that FY23F production will be stable, and is expecting a single digit growth in FFB output. To recap, its 9M22 internal FFB output growth recorded a 13% increase YoY.
- 2023 may not be the end of elevated production costs for BAL, as management is guiding for fertiliser costs to increase YoY in FY23F despite fertiliser prices coming off from their highs. This is particularly due to the time lag effect, as fertilisers for FY23F were tendered at high prices in FY22. On top of that, management is expecting the minimum wage hike to rise by 6-8% this year. However, this should be partially offset by the anticipated high FFB production.
- There was no comment given on whether there would be special dividends for FY22F, but management indicated that BAL is on track to maintaining its 40% dividend payout ratio for the year as well as FY23F, which should yield 13% and 8%, based on our forecasts.

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Index Living Mall (ILM TB)

Ramping up business expansion

- Index Living Mall has the largest market share in Thailand's home furnishing industry. It operates furniture, home decoration, and home appliance retail businesses under its own and other brands. This is done via retail, private projects, dealerships, and online channels. ILM also provides franchise rights to foreign firms and original equipment manufacturer (OEM) services for its overseas clients. As of 9M22, the company has 59 retail stores in nine countries – 42 in Thailand and 17 overseas.
- After having no expansion initiatives for two years, ILM resumed its plans to open new stores following the easing of the COVID-19 situation. In Dec 2022, it opened a mixed-use project in Bangkok's Lat Krabang area – comprising the Index Living Mall retail store and Little Walk community mall – which has been successful, with a 100% occupancy rate at the project's leasable area. It plans to open another Little Walk project in Bangkok's Krungthep Kreetha area in 3Q23, and a three new Index Living Mall retail stores in 2023-2024.
- The company aims to spend THB900m in capex in 2023, mainly for new stores, existing stores enhancements, and investments into IT systems and machineries. Its internal cash flow may be sufficient for such expansions and the repayments of short-term debts going forward. A healthier balance sheet than 3Q22's 0.8x IBD/E ratio is expected.

Benefitting from consumption and tourism recovery

- Thailand's post-pandemic consumption recovery, the return of international visitors, and the year-end festive season led to a strong sales performance in 4Q22, especially for the Index Living Mall stores located in major tourist destinations, which currently contribute c.30% of its topline. There may be a boost in demand for furnishing products among tourism-related operators.
- 2022 earnings may exceed the pre-pandemic numbers. Retail sales (excluding electronic appliances) for the year may slightly surpass 2019's levels, while both GPM and NPM have achieved 2019's levels throughout 1Q-4Q22.
- In 2023, ILM targets mid-single digit SSSG, with double-digit total sales and recurring income growth – to be driven by the ongoing demand recovery and additional revenue from new stores and malls opened in 2022-2023.
- The increasing number of Chinese tourists to Thailand, and the Government's stimulus campaigns including the shopping tax break scheme may act as short-term catalysts for its 1Q23 performance.

Seeking lower costs

- Prices of ILM's key raw materials – particle board and steel – went up in 2021 and were stable in 2022. Management expects that particle board prices have peaked, and look forward easing costs in the near future.
- The GPM uptrend is likely to continue in 2023, based on: An improving sales mix, promotional campaign management for online transactions, the short-term THB appreciation which is positive for raw material imports, and higher occupancy rates for its community malls' leasable areas.
- Electricity charges contribute only c.1% of ILM's total costs. Still, to lower the impact of the cost hike, the company has installed solar panels at all its retail stores and community malls' rooftops.

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SISB (SISB TB)

International school for young adults

- SISB started its first international school, the Singapore International School of Bangkok, in 2001. Over past 20 years, it has grown to four campuses in Thailand. SISB's fourth and fifth campuses are currently under construction and will start operations by August.
- With more than 3,000 students, SISB is the largest international schools player in Thailand. Its schools provide a through-train education pathway from kindergarten to Grade 12 and uses the best curricula from around the world. For its kindergarten, SISB adopts the Early Years Foundation Stage as its curriculum. In the primary school years, its students learn using the Singapore curriculum, which is known for its quality in English, mathematics, and science. For Sixth Form students, they learn using a hybrid of the Singapore curriculum and Cambridge IGCSE, while Grade 11 and 12 students have a choice between two top systems – Cambridge International AS and A Levels, or International Baccalaureate (IB) Diploma Programme (DP).
- SISB was successfully listed on the MAI in Nov 2018. In Apr 2019, SISB was relocated to the SET – an acknowledgement of the company's quality

The game of boosting volumes

- Based on SISB's total number of registered students starting to surge in FY22, its market share in Thailand should be raised to no. 1 from no. 2 previously as there has been an inflow of Chinese families into the country after the post-pandemic resumption of international travel. The location advantage of SISB's campuses still plays a major role in tapping this market. The clear-cut evidence was that the proportion of foreign students jumped to 19% as of 3Q22 vs 15-17% in previous quarters.
- Due to its success in boosting the number of newly registered students, management recently revised up the year-end target of total registered student numbers by 10-20% from SISB's previous FY22-26 aims. For example, FY22 numbers were raised by 13% to 3,100, while its medium-term target as of end FY26 was also revised up by 18% to 5,000. This implies that the 5-year CAGR (FY22-26) should be around 15.5% pa. This growth was supported by the capacity expansion via Phase 2 of the Thonburi campus in FY22 and two new campuses in Nonthaburi and Rayong.
- When compared to other industry players, SISB's tuition fees per year – along a student's journey from nursery school to Grade 12 – has been within the range of THB400,000 and THB800,000, which is relatively affordable among Thai households and also families within regional countries. In spite of the high inflation situation over the past few years, SISB has regularly increased tuition fees by 3-5% per year on average.

Earnings trend to follow student numbers

- Based on the company's assumption of total student numbers and normal practice of a 3-5% pa rise in tuition fees, core revenue can be expanded from THB1.07bn in FY21 to THB2.5bn in FY26 – commanding a CAGR of 18.5% pa.
- Although there will be additional fixed costs from the company's two new campuses, its earnings growth prospects should remain positive, as management thinks that the breakeven point of these new campuses can be reached within 2-3 years after the start of operations.

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