# Uniquely RHB

Regional Thematic | MAY 2020

MARKET DATELINE
PP19489/05/2019 (035080)


ALIVE | HOME | HEALTHY | ONLINE

19 May 2020

Strategy | Regional Outlook

# Regional Thematic

## STAY: Alive | Home | Healthy | Online

- **Looking for silver linings.** This thematic report attempts to take a higher level regional view of the stocks/sectors that can benefit from COVID-19. Mankind is in unchartered territory with the terrible toll that COVID-19 is exacting on lives and livelihoods. Industries, sectors and businesses have been adversely impacted in the unprecedented, draconian, rolling lock down measures in place across the globe. Businesses have had to adapt and lifestyles will change. As we look for opportunities in adversity, we identify the shifts in the economy and society to determine the resilient companies, those that benefit from extended confinement and limited consumer mobility, the renewed focus on the preservation of life and those providing services that enable us to stay connected.

- **Alive.** The STAY Alive sub-theme outlines opportunities for investors to reposition from defensive names amid the COVID-19 fallout, to a more aggressive portfolio aligned to fiscal and monetary measures put in place to jumpstart the regional economic engine, and the underlying shifts in industry fundamentals as both businesses and individuals come to terms with a post-pandemic new normal. Our 10 picks under the 'STAY Alive' sub-theme comprise three companies from Malaysia, two from Indonesia, three from Singapore, and two from Thailand. These companies operate across various sectors, from construction and engineering, transportation and logistics, to technology, financial services, REITs, and utilities.

- **Home.** The lockdown procedures implemented in many parts of the world have given rise to the concept of social distancing and promoted the alternative of working from home. The ensuing limited consumer mobility and longer-than-usual stay home period have led to higher consumption of home-delivered packaged food & beverage (F&B) or fast-moving consumer goods (FMCG) products as well as home entertainment services. On top of that, we highlight grocery stores and retailers of essential goods located in close proximity to residential areas have also enjoyed elevated sales during this period. Businesses and individuals have had to improvise and adjust in order to adapt to the unprecedented pandemic outbreak.

- **Healthy.** We believe there are major health lessons from COVID-19 for everyone. Firstly, governments should be better prepared for future pandemics by establishing new Standard Operating Procedures and improving education on health and hygiene. Secondly, we expect people to implement safe hygiene practices throughout their homes and workplace to reduce the risk of the COVID-19 spread. For example, we expect higher usage of gloves due to COVID-19 from the non-healthcare sector as the fear of infection compels the use of face masks, hand sanitizers and gloves as we go about our everyday lives. Lastly, we expect companies to invest more on employees' health and wellness in the future as a precautionary step against COVID-19.

- **Online.** The need to stay connected and informed has seen the proliferation of technology and digital solutions. The implications straddle the communications value chain, technology solution providers, financial intermediaries and broadcasters (including over-the-top (OTT) providers), amongst others. As more people work from home and students turn to online lessons, telcos globally have reported strong increases in demand for broadband and connectivity solutions with a corresponding surge in data traffic. Across the ASEAN-4 markets, the largest increase in mobile data traffic can be seen from Indonesia, Thailand and Malaysia where handsets are indispensable for communication and basic internet access.

**Analysts**

Alexander Chia
+603 9280 8889
alexander.chia@rhbgroup.com

Andrey Wijaya
+6221 5093 9846
andrey.wijaya@rhbgroup.com

Kasamapon Hamnilrat
+66 2088 9739
kasampon.ha@rhbgroup.com

Shekhar Jaiswal
+65 6232 3894
shekhar.jaiswal@rhbgroup.com

# Regional Thematic

# STAY Alive

**Economic activities across the world have turned sluggish,** no thanks to COVID-19. For starters, non-essential activities have been halted in countries with a severe number of COVID-19 cases. This ensures social movement is minimised and tightly controlled to curb the spread of the virus. However, many companies are now being adversely impacted, as they were not able to generate income normally during the shutdown period.

As the number of new cases ease, both Malaysia and Thailand have relaxed certain restrictions by allowing most sectors and certain public activities to resume. We do not rule out the possibility that movement restrictions may be prolonged, but it remains imperative for companies to keep afloat until the macroeconomic environment improves.

In the meantime, companies are left with no option but to stay alive. In our view, impacted companies will not pass this period unscathed, but those which manage to pull through will have proven their ability to handle a major crisis like COVID-19.

**Opportunities in adversity.** The STAY Alive sub-theme outlines opportunities for investors to reposition from purely defensive names – amid the COVID-19 fallout – to a more aggressive portfolio. This would be aligned to fiscal and monetary measures put in place to jumpstart the region's economic engine and the underlying shifts in industry fundamentals, as both businesses and individuals come to terms with a post-pandemic new normal.

**Helping businesses to live to fight another day.** Broadly speaking, the ASEAN member states have announced – and started the implementation of – synchronised fiscal and monetary stimulus packages. This includes – but not limited to – cash handouts, tax breaks, debt financing reliefs, wage subsidies, and interest rate cuts, which are aimed at ensuring the survival of businesses, jobs, and households affected by COVID-19, while ensuring that social distancing directives are maintained. Specific supplementary measures have also been extended towards the worst-hit segments of the economy, such as small & medium enterprises (SMEs), construction, real estate, aviation, tourism & hospitality, and manufacturing. Likewise, the conditional lifting of lockdowns around the world is intended to revive economic activity.

**Saved by the internet.** One of the key disruptions arising from COVID-19 has been the shift in business and social activities online, which is likely to turn into a permanent feature in the post-pandemic era. Sectors that appear poised to benefit from this paradigm shift include technology, IT, and logistics services.

**Stock picks.** Our Top 10 picks under the STAY Alive sub-theme comprise three companies from Malaysia, two from Indonesia, three from Singapore, and two from Thailand. These companies operate across various sectors, from construction & engineering, transportation and logistics, to technology, financial services, REITs, and utilities.

**Parcel carriers shaping up to be the post-pandemic winners.** Express delivery operators – being directly exposed to the pandemic-induced secular shift towards e-commerce – are set to witness a sustainable increase in demand. The courier industry's strong growth trajectory in ASEAN – prior to the spread of COVID-19 – was set to rise even higher. This was because the online marketplace had been spurred by an uplift in user penetration while accompanied by various government initiatives to aid SMEs – which comprise c.95% of all enterprises in the region – with digitalisation to survive in the post-pandemic era.

**Unravelling a resilient candidate.** In Malaysia, we see construction-related play in Sunway Construction (SCGB MK, NEUTRAL, TP: MYR1.72) as well. The company, throughout the years, has participated in the completion of many of the country's mega projects. Its prowess continues to stand out, with steady flows of fresh contracts secured despite facing scarcity of large-scale public jobs. Its balance sheet instils confidence, with much headroom to compete for – and accept – new orders. The company looks well prepared to properly restart works following the shutdown period, and will potentially recover faster than its peers. Taken together, we believe SunCon is the right fit for the STAY Alive sub-theme.

**Diversified sector picks for Singapore.** For Singapore, the STAY Alive sub-theme includes companies from logistics, manufacturing and industrial sectors. Our logistics sector pick, ARA LOGOS Logistics Trust (ALLT SP, BUY, TP: SGD0.64) has a portfolio of 27 strategically located (such as near airport hubs and ports) logistics assets across Singapore and Australia, which stand to benefit from the expected rise in logistics demand during and post COVID-19 pandemic. The REIT also offers a sustainable high dividend yield of 9%, which should provide investors with income stability. Avi-Tech Electronics (AVIT SP, BUY, TP: SGD0.50) will be the beneficiary of ongoing recovery in global semiconductor industry.

Being in the burn-in and testing segment of the semiconductor industry mainly for automotive sector, AVIT is expected to see demand for its services grow despite COVID-19 as it is a crucial part of the automotive supply chain. Moreover, with its net cash balance sheet and strong operating FCF, AVIT should continue to reward shareholders with a high dividend yield of 6.3%. With its business spread across four segments and across geographies, ST Engineering (STE SP, BUY, TP: SGD3.90) has a well-diversified portfolio – ensuring resilient earnings through the current pandemic. While its record orderbook of SGD16.3bn offers over two years' revenue visibility, government support of c.SGD100m should enable the company to keep operating costs in check during 2020. We expect STE to maintain its 15 SG cents DPS payout in 2020, implying 4.5% yield. The pandemic has also created new demand opportunities for STE in cybersecurity and robotics.

**Micro loan and mortgaged segment impacted by COVID-19, but likely to recover faster.** In Indonesia, the COVID-19 pandemic has dampened Bank Rakyat Indonesia's (BBRI IJ, BUY, TP: IDR3,400) profitability, as loan growth softened and credit costs grew. However, it should benefit from government stimulus measures for the banking sector – implemented to prevent NPLs from spiking, and to buffer against a steep plunge in profitability. BBRI is the country's biggest and oldest state-owned enterprise (SOE) lender, and has the largest exposure to micro-lending in Indonesia. Meanwhile, Bank Tabungan Negara (BBTN IJ, NEUTRAL, TP: IDR820) would benefit from government support amidst troubling times like now, due to its loan book composition, which is largely catering to the mid-low segments. Following the details from Financial Services Authority's subsidy released to ease customer's burden during the pandemic, BBTN's mortgage customers will receive up to 6% interest rate subsidy for three months. This will ease pressure for the bank's NII as well as asset quality.

**Basic needs, key industry players – short-term impact.** Public transits and expressway in Bangkok experienced a sharp decline in ridership in April but busier in the second half of May due to the government's gradual easing of lockdown measures. Since late April, we have seen a higher number of vehicles on the expressway, especially during working hours and greater passenger flow in the MRT stations. We expect to see a V-shape recovery for expressway traffic and MRT ridership in 2Q20 onwards.

With 5,026MW capacity, Global Power Synergy (GPSC TB, BUY, TP: THB80.00) is one of the largest small power producers (SPP) in Thailand. GPSC's earnings are quite resilient and have not seen any material impact on electricity demand from its industrial customers as a result of Thailand's lockdown in April. Specifically, there was no decline in demand from its petrochemicals' customers. The only impact may be from the refineries that have lowered their utilisation rate to c.80% from 100%. The refineries account for c.5% of the company's total electricity output.

| STAY Alive | Rating | Target Price (LCY) | % Upside (Downside) | P/E (x) 20F | P/BV (x) 20F | Yield (%) 20F |
|---|---|---|---|---|---|---|
| GD Express | Buy | MYR0.40 | 21.2 | 94.3 | 3.8 | 0.4 |
| Sunway Construction | Neutral | MYR1.72 | (7.0) | 16.2 | 3.4 | 3.1 |
| Bank Rakyat Indonesia | Buy | IDR3,400 | 51.8 | 11.3 | 1.3 | 5.0 |
| Bank Tabungan Negara | Neutral | IDR820 | 10.1 | 11.2 | 0.5 | 0.5 |
| ARA Logos Logistics Trust | Buy | SGD0.64 | 29.3 | 22.1 | 0.9 | 9.6 |
| Avi-Tech Electronics | Buy | SGD0.50 | 26.6 | 11.9 | 1.3 | 6.3 |
| ST Engineering | Buy | SGD3.90 | 19.3 | 20.2 | 4.5 | 4.6 |
| Global Power Synergy | Buy | THB80.00 | 11.5 | 29.6 | 1.9 | 1.7 |
| Bangkok Expressway and Metro | Buy | THB11.50 | 21.1 | 30.4 | 3.6 | 1.7 |

*Source: Company data, RHB*

# Stay Home

**Thriving in difficult times.** Essentially, lockdown enforcement across the world amidst the COVID-19 pandemic has made social distancing an imperative and a given rise to the work-from-home (WFH) trend. The ensuing limited consumer mobility and longer-than-usual stay-home or WFH periods should lead to higher consumption of packaged F&B and/or FMCG products. In Malaysia, Power Root (PWRT MK, BUY, TP: MYR2.80) saw a sales spike of 10-15% in the beginning stage of the Movement Control Order (MCO) as consumers stocked up on durable essential goods for the partial lockdown enforcement. Additionally, we highlight that grocery stores or retailers located in close proximity to residential areas should also enjoy elevated sales during this crisis period. For example, Sheng Siong (SSG SP, BUY, TP: SGD1.63) chalked up 31% YoY growth in 1Q20 sales, triggered by a spate of panic buying. In a nutshell, businesses and individuals have had to improvise and adjust to adapt to this unprecedented pandemic.

**Embracing the new normal.** We believe the surge in demand may not be temporary or a one-off event. Beyond the lockdown and pandemic containment measures, the effects of trauma or stigma could persist, in our view. This could result in structural changes in consumer behaviour. Generally, consumers may be inclined towards moderating the frequency of outdoor activities and continuing to stay home or WFH. Consequently, the number of shopping trips would be reduced, and ticket sizes would increase correspondingly. There could be a rising trend of consumers doing grocery shopping in convenience stores or supermarkets near their offices or homes, avoiding large and crowded shopping malls. Apart from shifting to online platforms, shoppers are also likely to spend less time browsing or comparing products in physical stores. As such, we believe consumer companies will have to tweak marketing strategies accordingly and expand their online exposure.

**Stock picks.** We have cherry-picked eight potential regional stocks: Two from Malaysia, three from Indonesia, one from Singapore, and two from Thailand. We believe they can benefit from the abovementioned scenarios, as well as the shifts in consumer demand.

FMCG manufacturers – including Power Root (instant beverages mix), Indofood CBP (ICBP IJ, BUY, TP: IDR 11,700) (instant noodles and cooking oil), and Nippon Indosari (ROTI IJ, BUY, TP: IDR1,600) (bread) – are straightforward picks. We believe they are in a good position to capitalise on the rising consumption of convenient packaged food, thanks to established brand names and quality product offerings.

Meanwhile, we believe convenience store operators like Mynews (MNHB MK, BUY, TP: MYR1.25) and CP ALL (CPALL TB, BUY, TP: THB84.00) could see higher footfalls given their wide network of stores as well as the convenient and strategic locations within office and residential areas. The trend of cooking at home to avoid dining in crowded areas should spur demand and volume of grocery goods, and we recommend Sheng Siong and Berli Jucker (BJC TB, BUY, TP: THB49.00) given their entrenched market positions and efficient operations. On top of that, most of the retailers are ready to embark on the digitalisation drive via online platforms and/or delivery channels.

Lastly, Surya Citra Media (SCMA IJ, NEUTRAL, TP: IDR915), one of the largest media companies in Indonesia, should enjoy higher viewership and advertising expenditure as consumers opt for home entertainment instead of being exposed to contagion risk in public areas such as cinemas.

| STAY Home | Rating | Target Price (LCY) | % Upside (Downside) | P/E (x) 20F | P/BV (x) 20F | Yield (%) 20F |
|---|---|---|---|---|---|---|
| Power Root^ | Buy | MYR2.80 | 22.8 | 16.4 | 3.8 | 4.8 |
| Mynews Holdings | Buy | MYR1.25 | 47.1 | 22.0 | 1.9 | 1.1 |
| Indofood CBP | Buy | IDR11700 | 20.6 | 19.5 | 4.0 | 2.7 |
| Nippon Indosari | Buy | IDR1600 | 32.2 | 27.8 | 2.3 | 1.0 |
| Surya Citra Media | Neutral | IDR915 | 14.4 | 9.9 | 2.1 | 6.3 |
| Sheng Siong | Buy | SGD1.63 | 5.3 | 24.1 | 6.8 | 2.9 |
| Berli Jucker | Buy | THB49.00 | 32.4 | 24.5 | 1.3 | 1.8 |
| CP ALL | Buy | THB84.00 | 20.9 | 25.6 | 6.7 | 1.9 |

*Note: ^FY20 refer to FY21*
*Source: Company data, RHB*

# STAY Healthy

**Health is wealth.** Even before the COVID-19 pandemic erupted, the level of health awareness had already been on a rise. For example, the third goal under the United Nation's (UN) 17 Sustainable Development Goals was "Good Health and Well Being". According to the UN, ensuring healthy lives and promoting well-being for people of all ages are essential to sustainable development. It also said: "COVID-19 is spreading human suffering, destabilising the global economy, and upending the lives of billions of people around the globe."

The International Monetary Fund (IMF) has projected a grim outlook for 2020, as it expects world GDP to contract sharply by 3%. This compares against the 4.1% average growth achieved over the last 10 years, ie during 2002-2011. Having said that, the IMF is projecting for a better 2021 – with an estimated 5.8% growth – as major governments around the world jump-start their economies, ie a key factor in our related STAY Alive sub-theme.

**The US has the highest number of cases and deaths globally.** As at 15 May, there were more than 4.5m reported cases of infections worldwide and over 300,000 deaths – and these numbers continue to rise. Amongst all nations, the US has the highest number of cases: 1.5m. It also has the highest number of deaths: c.90,000.

Among the ASEAN states, Singapore has the highest number of cases: 28,000. This is followed by Indonesia and Malaysia, with 17,000 and 6,800 cases. However, the country with the highest number of deaths within ASEAN is Indonesia: 1,100. This is followed by Malaysia and Thailand, with 110 and 50 deaths.

**COVID-19 is much more serious** than influenza-A virus subtype H1N1 (H1N1), severe acute respiratory syndrome (SARS), and Middle East Respiratory Syndrome (MERS) combined. It has killed around 300,000 people as at 15 May, and this number is still increasing. By comparison, the total deaths caused by H1N1, MERS, and SARS combined stood at an estimated 20,081.

In summary, COVID-19 is an unprecedented pandemic in our modern times. As a graphic illustration, the number of deaths caused by COVID-19 alone is already 10x more than the figure you get when you add together the number of people killed by H1N1, SARS, and MERS.

**All this has caused a severe shortage of personal protection equipment (PPE), of which gloves are a part.** Recall that, on 3 Mar, World Health Organisation (WHO) Director General Dr Tedros Adhanom Ghebreyesus issued a plea to all relevant industries – the production of PPE needed to increase by 40% to meet the rising global demand. PPE is the only way to protect healthcare workers against the onslaught of COVID-19 and, as gloves are an essential part of PPE, their demand has surged as well.

**The "healthy" concept during and after this pandemic.** While lockdowns are being lifted around the world – again, related to the STAY Alive sub-theme – the likelihood of asymptomatic carriers in a community, coupled with the lack of a vaccine against COVID-19, suggests the risk of a new wave of infections remains uncomfortably high. Hence, it is important for everyone to protect themselves against COVID-19 – at home and at the workplace. WHO recommends for the regular washing of hands with soap or alcohol-based hand sanitisers, social distancing of at least 1m, the avoidance of crowded places, and following good personal hygiene practices. WHO's full recommendation can be found here. We also note other self-prescribed changes in behaviour, such as the consumption of vitamin C and other health supplements. This is due to the belief that boosting one's immunity may lower the chances of being infected with COVID-19.

**Continued emphasis on hygiene and health post COVID-19.** We believe there are major health lessons from COVID-19 for everyone. Firstly, governments should be better prepared for future pandemics by establishing new Standard Operating Procedures and improved education on health and hygiene. Secondly, we expect people to implement safe hygiene practices throughout their homes and workplaces to reduce the risk of COVID-19. For example, we expect a higher usage of gloves from non-healthcare sectors due to this pandemic. This is because the fear of infection compels the use of face masks, hand sanitisers, and gloves as we go about our daily lives.

Lastly, we expect companies to invest more on employees' health and wellness in future, as a precautionary step against the spread of COVID-19.

**Malaysia's gloves industry responded well in providing assistance during the COVID-19 emergency.** In January, when COVID-19 started in China, the Malaysian gloves industry responded fast – donating 18m pieces of medical gloves to the East Asian nation. This move was aimed at protecting healthcare workers there against the COVID-19 threat. When the disease hit Malaysia in March, the Malaysian Rubber Glove Manufacturers Association donated 19m pieces of medical gloves to the Government.

We are positive on the gloves companies' fast response in providing assistance to the Government – this should lead to better environmental, social & governance (ESG) scores for such firms. It should also bode well for these companies' valuations in the long run, as more investment funds are putting a higher emphasis on ESG as an important criterion besides profitability.

**A straight forward implication to healthcare**. Chularat Hospital (CHG TB, BUY, TP: THB2.80) is the best proxy for Thai healthcare during COVID-19 and economic slowdown. CHG has strong revenue exposure to government healthcare schemes, where we expect it to gain higher patient traffic from the rising of price sensitivity and lower purchasing power prospects. Its short-term growth catalysts are the volume ramp-up in two pre-opening hospitals and upward price adjustment from the social security scheme, while its longer term growth catalysts are the new green field projects in its pipeline and margin enhancement through the upper market segment.

| STAY Healthy | Rating | Target Price (LCY) | % Upside (Downside) | P/E (x) 20F | P/BV (x) 20F | Yield (%) 20F |
|---|---|---|---|---|---|---|
| Top Glove | Buy | MYR13.30 | 28.1 | 38.1 | 9.2 | 1.3 |
| Duopharma Biotech | Buy | MYR1.95 | 16.1 | 19.7 | 2.1 | 3.8 |
| UG Healthcare | Buy | SGD0.33 | (5.7) | 13.6 | 1.4 | 0.9 |
| Chularat Hospital | Buy | THB2.80 | 13.8 | 33.9 | 6.4 | 2.0 |

*Source: Company data, RHB*

# STAY Online

The need to stay connected and informed has seen the proliferation of technology and digital solutions. The implications straddle the communications value chain, technology solution providers, financial intermediaries and broadcasters (including over-the-top (OTT) providers), amongst others.

As more people work from home and students turn to online lessons, telcos globally have reported strong increases in demand for broadband and connectivity solutions with a corresponding surge in data traffic. Across the ASEAN-4 markets, the largest increase in mobile data traffic can be seen from Indonesia, Thailand and Malaysia where handsets are indispensable for communication and basic internet access. The Big-3 mobile operators in Malaysia witnessed a 20-30% jump in data usage in the first three phases of the MCO as demand shifted from the business district to residential areas. Meanwhile, Thailand and Indonesian operators reported 10-20% jump in average data usage MoM in April. While the Singapore telcos also witnessed data usage spikes, the increase is less pronounced given the already extensive fixed (fibre) broadband penetration nationwide.

Although higher data usage should help to drive industry mobile revenues, it is important to note that the majority of data plans in the market today are bundled with significant data quotas. Hence, there would be less opportunities for telcos to monetise the increase in data consumption. We believe industry mobile ARPUs are more likely to be affected by the sharp decline in roaming traffic due to global travel restrictions and the many lockdowns implemented across many countries, which had also dampened the sale of prepaid packs. The closure of traditional/physical reload channels would also crimp industry mobile revenues in 2Q20 while the more price-sensitive subs may be compelled to re-assess their spending habits with job losses on the rise. Meanwhile, we see the impact on fixed/fibre broadband revenue as minimal given that subs are typically contracted on monthly plans. For a broad play on data revenue growth across the ASEAN-4 markets and fixed broadband (FBB) space, we like XL AXIATA (EXCL IJ, BUY, TP: IDR3,850), AIS (ADVANC TB, BUY, TP: THB220) and Time dotCom (TDC) (TDC MK, BUY, TP: MYR11.00). We also see Malaysian pay-TV/OTT operator, ASTRO (ASTRO MK, BUY, TP: MYR1.65) benefitting somewhat in the current environment from stronger home shopping revenue and the deferment of major content costs.

On a more positive note, we see telcos with good infrastructure assets such as data centers (DC) and exposure to the enterprise segment benefitting from the current environment and the new normal, going forward. The unprecedented scale of the COVID-19 pandemic has accelerated the digitalisation efforts of companies with public and hybrid cloud services in high demand. Alibaba recently reported that it is committed to investing USD28bn in its cloud business over the next three years, focusing on infrastructure development including servers, chips, network and operating systems. The online commerce stalwart has cloud services offerings in Malaysia.

In Malaysia, TDC's DC subsidiary, AIMS is investing MYR200m to boost the capacity of its downtown Kuala Lumpur DC. It is also building a new 10,000 sq ft hyper-scale DC in Cyberjaya, set to be completed in 3Q20. The investment looks to be most timely considering the rise in demand from OTT companies, streaming video-on demand (SVOD) services and organisations intensifying disaster recovery efforts. TDC's main business of bandwidth wholesaling (over 60% of group revenue) is also gaining from higher data traffic. In Singapore, we see Singtel (ST SP, BUY, TP: SGD3.30) as a strategic beneficiary of stronger demand for enterprise and ICT solutions with the move to implement the circuit breaker catalysing fresh demand for technology solutions including cloud computing. In addition to owing the largest DC in Singapore, Singtel commands the largest market share and proportion of enterprise revenues among the local telcos, at over 30% in 9MFY20.

With online banking and payment transactions likely to be the new normal, banks and financial intermediaries stand to also benefit. HL Bank (HLBANK MK, BUY, TP: MYR16.20) has been actively digitalising its operations in the past two years with more than 80% of its banking transactions on digital channels. The bank is taking the lead in developing tailor-made holistic banking solutions powered by digital innovations for SMEs. In recognition of its efforts, HL Bank was named Malaysia's Best SME Bank and Best Digital Bank by Asiamoney in 2019.

We also see a tech related play in GHL Systems (GHL) (GHLS MK, NEUTRAL, TP: MYR1.70) as another beneficiary for its exposure to the online transaction and e-commerce space via eGHL. The company's transaction processed value (TPV) posted a CAGR of 73% since 2016 and had surpassed MYR2bn pa. Boasting unrivalled payment channels across ASEAN, GHL is well positioned to capture the secular growth trend spurred by digitalisation and the migration towards a cashless society.

| STAY Online | Rating | Target Price (LCY) | % Upside (Downside) | P/E (x) 20F | P/BV (x) 20F | YIELD (%) 20F |
|---|---|---|---|---|---|---|
| Time dotCom | Buy | MYR11.00 | 8.1 | 15.7 | 2.0 | 3.2 |
| GHL Systems | Neutral | MYR1.70 | (17.1) | 44.5 | 3.2 | 0.0 |
| XL Axiata | Buy | IDR3850 | 56.5 | 4.5 | 1.2 | 2.8 |
| SingTel^ | Buy | SGD3.30 | 24.1 | 16.7 | 1.4 | 6.0 |
| Advanced Info Service | Buy | THB220.00 | 16.4 | 17.5 | 7.1 | 4.0 |

*Note: ^FY20 refer to FY21*
*Source: Company data, RHB*

# Malaysia Company Update

19 May 2020

Transport | Logistics

# GD Express Carrier (GDX MK)

**Buy** (Maintained)

## Riding On The Digital Boom; BUY

| | |
|---|---|
| Target Price (Return): | MYR0.40 (+21%) |
| Price: | MYR0.33 |
| Market Cap: | USD428m |
| Avg Daily Turnover (MYR/USD) | 1.51m/0.35m |

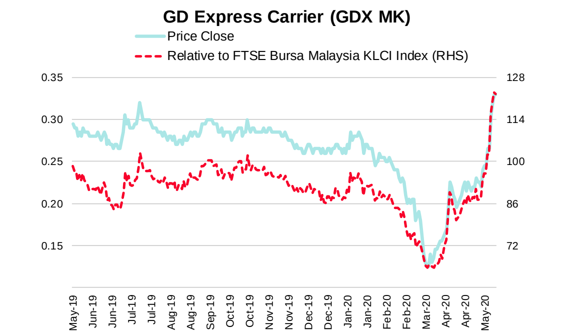
- **Maintain BUY and MYR0.40 TP, 21% upside.** GD Express is the second largest courier service operator in Malaysia, with expanded presence in Indonesia and Vietnam. Our investment thesis is centred on its regional growth prospects as the pandemic rolls over, backed by a hastened shift towards digitalisation and e-commerce, which is expected to boost demand for parcel deliveries.
- **Leveraging on expedited digital migration.** The move towards a digital economy has accelerated as businesses and individuals adapt to outlet closures and movement restrictions following social distancing measures, with the support of various Government-led initiatives. This has given rise to a surge in both GDEX's domestic and regional courier volumes which are expected to stick around after the lockdown period.
- **Short-term pain paving the way for long-term gain.** Earnings pressure in 2HFY20 (Jun) appears inevitable due to the Movement Control Order's (MCO) hit on its business-to-business (B2B) segment, which accounts for 60% of group turnover, while partially offset by an ensuing acceleration in business-to-consumer (B2C) and customer-to-customer (C2C) volumes and fall in fuel prices. A brief uptick in cost intensity also appears plausible as the group grapples with the abrupt nationwide increase in parcel deliveries and online portal traffic. Subsequently however, GDEX should progressively realise the benefits of scale and thereby register healthy productivity gains. The early launch of its myGDEX online portal amidst local SMEs' take towards e-commerce is also set to pay off by way of greater customer stickiness and differentiation of service offerings. Although the initial tilt in product mix is likely to compress its operating margins due to B2B's higher delivery yields, we nonetheless expect earnings to pick up strongly on the back of persisting volume uplift post-pandemic, alongside stronger earnings contribution from its Indonesia and Vietnam associates which also possess robust growth potential.
- **Critical factors, financials and key risks.** Execution will be the key success factor for GDEX as it strives to cater to the surge in courier demand and online traffic while undertaking the expansion of its regional footprint at the same time. A recovery of the broader economy is also essential to its B2B segment's longer-term outlook. We expect the group's earnings to rebound strongly in FY21F after a weak FY20F showing. Our SOP-derived TP of MYR0.40 implies 54x FY21F P/E (vs 70-80x historical mean) with its premium valuations justified in our view by a scarcity of profitable listed peers, in addition to its sustainable growth prospects within the ASEAN last-mile delivery space. Downside risks to our BUY call include worsening economic conditions, stiffer courier price competition and higher-than-expected operating costs.


**Analyst**

Lester Siew
+603 9280 2181
lester.siew@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 22.2 | 61.0 | 29.4 | 17.9 | 13.8 |
| Relative | 33.9 | 59.9 | 38.5 | 29.9 | 26.7 |
| 52-wk Price low/high (MYR) | | | | | 0.13 – 0.33 |




*Source: Bloomberg*

| Forecasts and Valuation | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 293 | 314 | 329 | 361 | 400 |
| Recurring net profit (MYRm) | 25 | 26 | 20 | 35 | 41 |
| Recurring net profit growth (% | (33.5) | 4.4 | (22.8) | 74.9 | 17.7 |
| Recurring P/E (x) | 75.24 | 72.47 | 94.32 | 53.93 | 45.81 |
| P/B (x) | 4.1 | 3.9 | 3.8 | 3.6 | 3.5 |
| P/CF (x) | 68.04 | 70.68 | 35.78 | 34.76 | 28.29 |
| Dividend Yield (%) | 0.6 | 0.8 | 0.4 | 0.7 | 0.9 |
| EV/EBITDA (x) | 25.47 | 26.64 | 35.42 | 27.31 | 23.87 |
| Return on average equity (%) | 5.4 | 7.0 | 4.1 | 6.9 | 7.7 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Transport
**GD Express Carrier**
GDX MK
Buy

**Valuation basis**

We valued GDX using a SOP approach to arrive at our TP on a fully diluted basis.

**Key drivers**

Key earnings drivers are:
i. Better-than-expected volume growth for its courier business;
ii. Earnings-accretive acquisitions or an expansion strategy

**Key risks**

Key risks to earnings include:
i. Capacity constraints limiting future volume growth;
ii. A sudden surge in operating costs such as fuel;
iii. Heightened competition in the last-mile delivery space leading to pressure in pricing.

**Company Profile**

GD Express offers domestic courier or package delivery services through its extensive network coverage in Malaysia. In addition to offering international courier or package delivery services through its partner network, the company also offers warehousing and other logistics services in Malaysia.

| Financial summary (MYR) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS | 0.08 | 0.09 | 0.09 | 0.09 | 0.10 |
| Return on average equity (%) | 5.4 | 7.0 | 4.1 | 6.9 | 7.7 |

| Valuation metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 75.24 | 72.47 | 94.32 | 53.93 | 45.81 |
| P/B (x) | 4.1 | 3.9 | 3.8 | 3.6 | 3.5 |
| FCF Yield (%) | 1.0 | 0.1 | 0.6 | 1.1 | 1.7 |
| Dividend Yield (%) | 0.6 | 0.8 | 0.4 | 0.7 | 0.9 |
| EV/EBITDA (x) | 25.47 | 26.64 | 35.42 | 27.31 | 23.87 |
| EV/EBIT (x) | 33.67 | 39.53 | 75.13 | 46.33 | 40.31 |

| Income statement (MYRm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover | 293 | 314 | 329 | 361 | 400 |
| Gross profit | 244 | 256 | 274 | 307 | 337 |
| EBITDA | 61 | 59 | 45 | 58 | 66 |
| Depreciation and amortisation | (15) | (19) | (24) | (24) | (27) |
| Operating profit | 46 | 40 | 21 | 34 | 39 |
| Net interest | (2) | (2) | (2) | (2) | (2) |
| Pre-tax profit | 45 | 32 | 24 | 42 | 50 |
| Taxation | (21) | 0 | (5) | (8) | (9) |
| Reported net profit | 24 | 32 | 20 | 35 | 41 |
| Recurring net profit | 25 | 26 | 20 | 35 | 41 |

| Cash flow (MYRm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Change in w orking capital | (2.8) | 0.0 | 6.6 | (6.8) | (3.8) |
| Cash flow from operations | 27.1 | 26.2 | 52.0 | 53.6 | 65.8 |
| Capex | (9.1) | (24.5) | (41.7) | (33.4) | (35.0) |
| Cash flow from investing activities | (55.3) | (7.8) | (41.7) | (33.4) | (35.0) |
| Dividends paid | (0.7) | (1.1) | (7.9) | (13.8) | (16.3) |
| Cash flow from financing activities | (13.8) | (21.1) | (7.4) | (13.3) | (15.8) |
| Cash at beginning of period | 16.8 | 32.6 | 30.1 | 28.3 | 31.0 |
| Net change in cash | (42.0) | (2.7) | 2.9 | 6.9 | 15.0 |
| Ending balance cash | 32.7 | 30.0 | 33.0 | 63.4 | 77.0 |

| Balance sheet (MYRm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 286 | 268 | 266 | 268 | 279 |
| Tangible fixed assets | 86 | 109 | 128 | 139 | 149 |
| Total investments | 34 | 50 | 50 | 50 | 50 |
| Total assets | 518 | 556 | 564 | 584 | 613 |
| Short-term debt | 15 | 20 | 20 | 20 | 20 |
| Total long-term debt | 26 | 20 | 21 | 21 | 22 |
| Total liabilities | 68 | 76 | 71 | 71 | 75 |
| Total equity | 450 | 479 | 493 | 514 | 538 |
| Total liabilities & equity | 518 | 556 | 564 | 584 | 613 |

| Key metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Revenue grow th (%) | 17.0 | 7.1 | 4.8 | 9.6 | 10.8 |
| Recurrent EPS grow th (%) | (33.9) | 3.8 | (23.2) | 74.9 | 17.7 |
| Gross margin (%) | 83.2 | 81.7 | 83.2 | 85.2 | 84.4 |
| Operating EBITDA margin (%) | 21.0 | 18.9 | 13.6 | 16.1 | 16.5 |
| Net profit margin (%) | 8.1 | 10.3 | 6.0 | 9.6 | 10.2 |
| Dividend payout ratio (%) | 47.4 | 43.4 | 40.0 | 40.0 | 40.0 |
| Capex/sales (%) | 3.1 | 7.8 | 12.7 | 9.3 | 8.8 |
| Interest cover (x) | 24.8 | 19.4 | 10.5 | 16.8 | 19.0 |

*Source: Company data, RHB*

**Figure 1: SOP valuation**

| FYE Jun (MYR m) | FY21F | FY22F | FY23F | FY24F | FY25F | FY26F | FY27F | FY28F | FY29F | FY30F | Terminal |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EBIT | 34.2 | 39.1 | 52.2 | 72.7 | 90.1 | 104.3 | 121.8 | 138.0 | 158.1 | 176.4 | |
| - Income tax | (8.2) | (9.4) | (12.5) | (17.4) | (21.6) | (25.0) | (29.2) | (33.1) | (37.9) | (42.3) | |
| + D&A | 23.8 | 26.9 | 30.1 | 33.6 | 37.1 | 40.9 | 42.4 | 46.3 | 47.5 | 51.5 | |
| - Δ in net working capital | (6.8) | (3.8) | (10.2) | (14.9) | (6.6) | (4.5) | (4.7) | (4.9) | (5.2) | (5.4) | |
| - capital expenditure | (33.4) | (35.0) | (36.8) | (38.6) | (40.5) | (42.6) | (44.7) | (46.9) | (49.3) | (51.8) | |
| **Free cash flow to firm (FCFF)** | **9.6** | **17.8** | **22.8** | **35.3** | **58.4** | **73.0** | **85.5** | **99.3** | **113.2** | **128.5** | **2,617.9** |
| Discount factor | 0.93 | 0.86 | 0.80 | 0.75 | 0.70 | 0.65 | 0.60 | 0.56 | 0.52 | 0.48 | 0.48 |
| PV of FCFF | 9.0 | 15.4 | 18.3 | 26.4 | 40.6 | 47.2 | 51.4 | 55.5 | 58.9 | 62.2 | 1,266.7 |

| | |
|---|---|
| Risk-free | 2.9% |
| Beta | 0.90 |
| Cost of equity | 8.6% |
| WACC | 7.5% |
| Terminal growth | 2.5% |

| | | |
|---|---|---|
| Enterprise value (MYRm) | 1,652 | |
| Net cash / (debt) | 225 | |
| Web Bytes | 4 | 8x P/E |
| PT SAP | 303 | 40x P/E |
| Netco | 60 | 30x P/E |
| Equity value (MYRm) | 2,243 | |
| No of shares (m) | 5,641 | |
| **Fair value (MYR)** | **0.40** | |

*Source: RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-19 | Neutral | 0.13 | 0.13 |
| 2020-02-21 | Neutral | 0.26 | 0.24 |
| 2019-11-19 | Neutral | 0.30 | 0.28 |
| 2019-08-27 | Neutral | 0.31 | 0.28 |
| 2019-05-28 | Neutral | 0.30 | 0.29 |
| 2019-02-26 | Neutral | 0.31 | 0.36 |
| 2019-01-17 | Neutral | 0.33 | 0.32 |
| 2018-09-03 | Neutral | 0.42 | 0.45 |

*Source: RHB, Bloomberg*

# Malaysia Company Update

19 May 2020

Construction & Engineering | Construction

# Sunway Construction (SCGB MK)

# Neutral (Maintained)

## Stay Healthy, Stay Strong, Stay Alive

| | |
|---|---|
| Target Price (Return): | MYR1.72 (-5%) |
| Price: | MYR1.81 |
| Market Cap: | USD538m |
| Avg Daily Turnover (MYR/USD) | 1.59m/0.37m |

- **Maintain NEUTRAL** and TP of MYR1.72, -5% downside. We remain optimistic on Sunway Construction's earnings growth recovery. This is supported by its strength in work execution and aggressive ongoing tenders. While we favour its resilience, the stock looks fairly valued now, trading at 14.3x P/E to FY21F EPS. Our 13.2x P/E is already higher than peers of 12x to reflect strength of its job pipeline.
- **Backed by sound fundamentals.** Among the big players, SunCon is our favourite due to its strength in orderbook replenishment, resilient balance sheet, and laudable commitment for dividend payout. YTD, the company has secured MYR508m worth of contracts, bringing its orderbook to c.MYR5.7bn. Taken together, we note that the latter figure is approximately three times of the group's revenue. Meanwhile, its tender book remains high at c.RM6.5bn, equally split between internal and external jobs.
- **Building steam to restart construction work.** SunCon continues to face constraints due to COVID-19. While this has deferred its billings, management stays focus on ramping up construction work, which is expect to properly begin in June. The company remains optimistic on its prospects and projects to achieve higher revenue in 2020 (2019: MYR1.8bn). While this may sound encouraging, the impact from the Movement Control Order (MCO) will likely be felt at the bottomline due to fixed expenses incurred during this period.
- **Cushioned by its mettle.** SunCon is backed by a strong balance sheet, which provides headroom to further reinforce its foothold in the sector. It stays discipline in executing and undertaking jobs at hand, seen through the stable net margin it fetched. In view of potential earnings deferment, the possibility of a reduced dividend payout cannot be ruled out. The company has a 35% dividend payout policy (at c.4 sen/share).
- **Usual suspect for mega jobs.** The stock is our preferred name for its prowess in the segment and resilient balance sheet. Over the years, SunCon has instilled confidence through its competency in clinching large scale construction packages, which include the Mass Rapid Transit 2 (MRT2) and Light Rail Transit 3 (LRT3). Given its proven track record, it stays in the sweet spot to land more jobs of that size, which will support long term earnings accretion. At this juncture, valuation is supported by the committed dividend policy, which provides certainty and bodes well with investors on the back of rising risk aversion.
- **Key downside risks** include failure to secure new contracts and a prolonged downturn in the sector. On the other hand, upside risk stems from the Government taking a more aggressive approach to pump prime the economy via the resumption of large-scale public infrastructure projects.

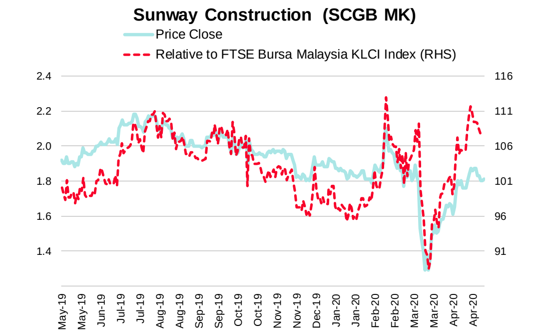
### Analysts


Muhammad Danial bin Abd Razak
+603 9280 8682
muhammad.danial.abd@rhbgroup.com

Eddy Do Wey Qing
+603 9280 8856
wey.qing.do@rhbgroup.com


### Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (5.2) | 9.7 | (2.7) | (8.1) | (11.3) |
| Relative | 7.8 | 8.2 | 8.4 | 6.0 | 4.1 |
| 52-wk Price low/high (MYR) | | | | | 1.29 – 2.18 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 2,257 | 1,769 | 2,130 | 2,368 | 2,055 |
| Recurring net profit (MYRm) | 147 | 116 | 148 | 163 | 145 |
| Recurring net profit growth (%) | 11.6 | (20.9) | 27.2 | 10.5 | (11.3) |
| Recurring P/E (x) | 15.93 | 20.15 | 15.84 | 14.33 | 16.17 |
| P/B (x) | 4.0 | 3.8 | 3.4 | 3.0 | 2.8 |
| P/CF (x) | 12.15 | 9.89 | na | 13.33 | 9.81 |
| Dividend Yield (%) | 3.9 | 3.4 | 3.2 | 3.5 | 3.1 |
| EV/EBITDA (x) | 8.97 | 11.15 | 9.21 | 8.12 | 8.30 |
| Return on average equity (%) | 25.5 | 19.7 | 22.4 | 22.1 | 17.8 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Construction & Engineering
**Sunway Construction**
SCGB MK
Neutral

**Valuation basis**

We value the company based on FY21F P/E of 13.2x. Sunway Construction's net cash position allows it to gear up for more jobs moving forward.

**Key drivers**

Sunway Construction's earnings are backed by:

i. An outstanding order backlog of MYR5.7bn, of which more than 90% is from construction that may keep the firm busy for the next three years;
ii. Recurring orders from its parent company.

**Key risks**

Upside risks include better-than-expected margins at the construction segment and new job wins coming in ahead of our estimates. Downside risks include possible cost overruns and higher material costs.

**Company Profile**

Sunway Construction is one of the largest construction companies in Malaysia. Apart from civil & infrastructure construction services, the company also provides the more specialised foundation & geotechnical engineering services as well as mechanical, electrical & plumbing (MEP) services. In addition, it runs a highly profitable precast concrete product manufacturing operation in Malaysia and Singapore. Aside from fulfilling local requirements, it also largely supplies hose concrete products for Housing & Development Board (HDB) projects in Singapore.

| Financial summary (MYR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.11 | 0.09 | 0.11 | 0.13 | 0.11 |
| DPS | 0.07 | 0.06 | 0.06 | 0.06 | 0.06 |
| BVPS | 0.46 | 0.48 | 0.54 | 0.60 | 0.66 |
| Return on average equity (%) | 25.5 | 19.7 | 22.4 | 22.1 | 17.8 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 15.93 | 20.15 | 15.84 | 14.33 | 16.17 |
| P/B (x) | 4.0 | 3.8 | 3.4 | 3.0 | 2.8 |
| FCF Yield (%) | 5.8 | 9.8 | (4.4) | 5.2 | 7.8 |
| Dividend Yield (%) | 3.9 | 3.4 | 3.2 | 3.5 | 3.1 |
| EV/EBITDA (x) | 8.97 | 11.15 | 9.21 | 8.12 | 8.30 |
| EV/EBIT (x) | 10.89 | 14.83 | 11.55 | 10.24 | 11.07 |

| Income statement (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 2,257 | 1,769 | 2,130 | 2,368 | 2,055 |
| Gross profit | 447 | 121 | 387 | 458 | 391 |
| EBITDA | 215 | 170 | 221 | 244 | 223 |
| Depreciation and amortisation | (38) | (42) | (45) | (50) | (56) |
| Operating profit | 177 | 128 | 176 | 193 | 167 |
| Net interest | 8 | 12 | 5 | 4 | 7 |
| Pre-tax profit | 183 | 148 | 186 | 205 | 182 |
| Taxation | (38) | (27) | (38) | (42) | (37) |
| Reported net profit | 145 | 120 | 148 | 163 | 145 |
| Recurring net profit | 147 | 116 | 148 | 163 | 145 |

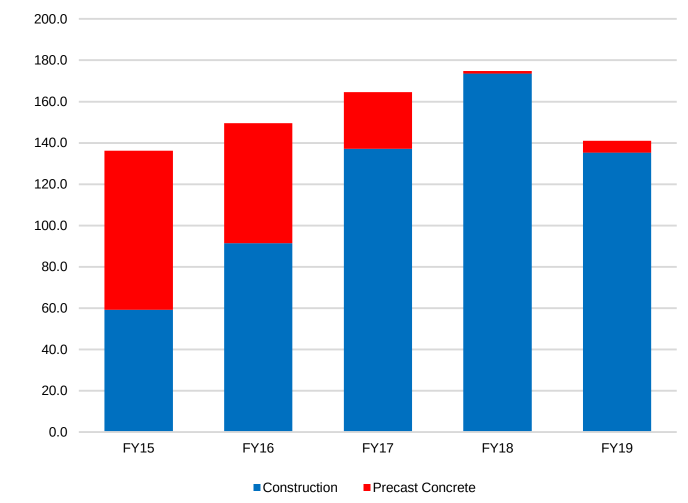
| Cash flow (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (10) | 86 | (240) | (38) | 38 |
| Cash flow from operations | 193 | 237 | (47) | 176 | 238 |
| Capex | (56) | (8) | (55) | (55) | (55) |
| Cash flow from investing activities | (74) | (51) | (55) | (55) | (55) |
| Dividends paid | (97) | (91) | (74) | (82) | (72) |
| Cash flow from financing activities | (118) | 72 | (36) | (74) | (65) |
| Cash at beginning of period | 487 | 485 | 693 | 554 | 601 |
| Net change in cash | 0 | 257 | (138) | 47 | 119 |
| Ending balance cash | 489 | 741 | 554 | 601 | 720 |

| Balance sheet (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 485 | 693 | 575 | 622 | 740 |
| Tangible fixed assets | 163 | 139 | 149 | 154 | 153 |
| Total investments | 45 | 49 | 49 | 49 | 49 |
| Total assets | 1,754 | 1,905 | 1,993 | 2,163 | 2,125 |
| Short-term debt | 114 | 233 | 253 | 243 | 233 |
| Total long-term debt | 0 | 62 | 62 | 62 | 62 |
| Total liabilities | 1,162 | 1,280 | 1,294 | 1,383 | 1,272 |
| Total equity | 593 | 625 | 699 | 781 | 853 |
| Total liabilities & equity | 1,754 | 1,905 | 1,993 | 2,163 | 2,125 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 8.7 | (21.6) | (3.3) | 38.4 | (13.2) |
| Recurrent EPS growth (%) | 11.6 | (20.9) | 27.2 | 10.5 | (11.3) |
| Gross margin (%) | 19.8 | 6.8 | 18.2 | 19.3 | 19.0 |
| Operating EBITDA margin (%) | 9.5 | 9.6 | 10.4 | 10.3 | 10.8 |
| Net profit margin (%) | 6.4 | 6.8 | 6.9 | 6.9 | 7.0 |
| Capex/sales (%) | 2.5 | 0.5 | 2.6 | 2.3 | 2.7 |
| Interest cover (x) | 21.3 | 9.7 | 13.2 | 14.3 | 12.7 |

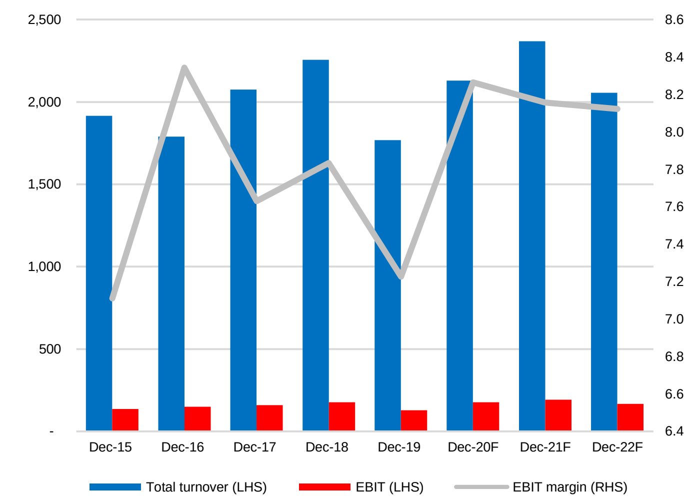
*Source: Company data, RHB*

**Figure 1: Segmental breakdown of operating profit**



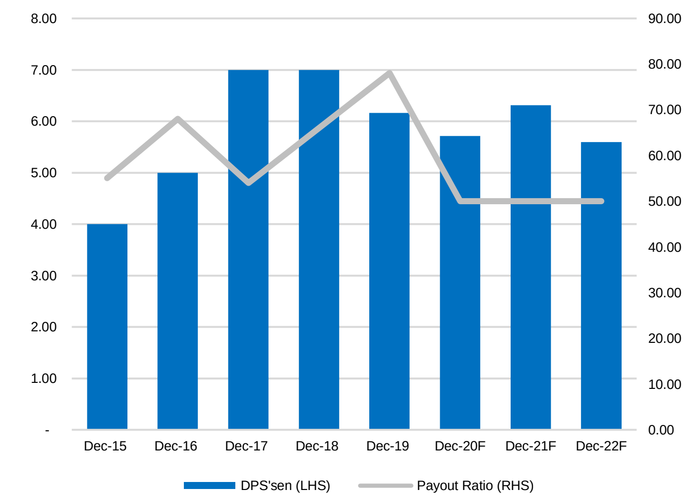

*Source: Company data, Bursa Malaysia*

**Figure 2: SunCon's yearly revenue and EBIT**



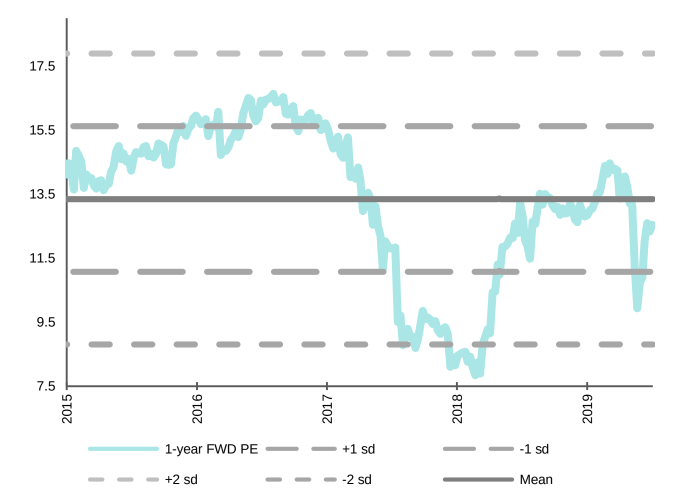

*Source: Company data, Bursa Malaysia*

**Figure 3: SunCon's yearly DPS**




*Source: Company data, Bursa Malaysia*

**Figure 4: 12-month forward KLCON P/E**




*Source: Company data, Bursa Malaysia*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-04-23 | Neutral | 1.72 | 1.76 |
| 2020-04-09 | Neutral | 1.51 | 1.67 |
| 2020-02-21 | Neutral | 1.95 | 1.95 |
| 2020-02-18 | Neutral | 1.95 | 1.97 |
| 2020-02-18 | Neutral | 1.95 | 1.97 |
| 2019-11-20 | Neutral | 1.95 | 1.97 |
| 2019-10-09 | Neutral | 2.03 | 1.95 |
| 2019-08-20 | Neutral | 2.09 | 2.05 |
| 2019-05-17 | Neutral | 2.12 | 1.90 |

*Source: RHB, Bloomberg*

19 May 2020

Financial Services | Banks

# Bank Rakyat Indonesia (BBRI IJ)

**Buy** (Maintained)

## Too Big To Fall; Stay BUY

| | |
|---|---|
| Target Price (Return): | IDR3,400 (+52%) |
| Price: | IDR2,240 |
| Market Cap: | USD18,593m |
| Avg Daily Turnover (IDR/USD) | 701,724m/46.1m |

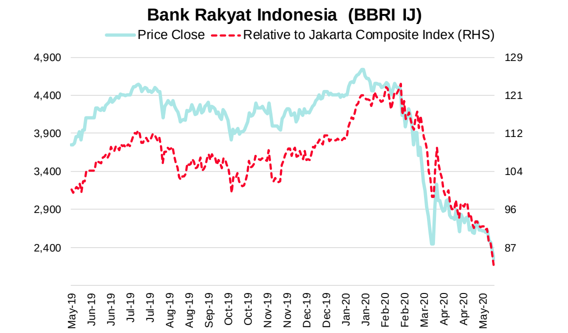
- **Maintain BUY, IDR3,400 TP, 52% upside with 5% yield.** The COVID-19 pandemic has dampened Bank Rakyat Indonesia's profitability, as loan growth softened and credit costs grew. However, it should benefit from government stimulus measures for the banking sector – implemented to prevent NPLs from spiking, and to buffer against a steep plunge in profitability. BBRI is the country's biggest and oldest state-owned enterprise (SOE) lender, and has the largest exposure to micro-lending in Indonesia.
- **Micro segment impacted by COVID-19, but is likely to recover faster.** BBRI has the biggest exposure to micro-lending compared to its three large peers. As at FY19, the micro and consumer segments accounted for about 54% of its IDR859trn loan book. While the bank has not elaborated on how much its loans have been impacted by the pandemic, we believe that its micro and consumer loans will be restructured. Nonetheless, management also believes micro-lending is very resilient, and should pick up faster when economic activities begin to ramp up again. As some investors expect economic activities to pick up again after May, there is hope that micro-lending will recover in 2H20.
- **Strong funding franchise to support liquidity.** As the biggest SOE lender in Indonesia, BBRI has the largest funding franchise, compared to its SOE peers. As at FY19, its CASA ratio stood at 59%, and this metric has always been stable at 59-61% over the past few years. The robust funding franchise contributed to BBRI's extensive network growth across Indonesia, as well as its edge in digital banking over SOE peers. On 1 May, Bank Indonesia relaxed its reserve requirement ratio by 200bps. This will boost system liquidity by IDR120trn, which may benefit BBRI's loan growth. As of March, its market share in funding was at around 15% of the total system's IDR6,200trn – putting it in second place after Bank Central Asia (BBCA IJ, BUY, TP: IDR36,000).
- **NPL may dampen results ahead.** As we approach 2Q20, we believe the lack of indication over COVID-19's impact on NPL will be an additional risk to BBRI's results ahead. The significant increase in credit cost and lower NIM will pressure numbers further. However, some government stimulus measures may allay fears, as the Government is allowing banks to classify restructured loans under "collectability 1" status, instead of turning them into special mention loans or NPL. This should buffer their interest-earning assets and lower credit costs – even though banks will need to pay this cost by recording lower yields. As BBRI is Indonesia's largest and oldest SOE bank, we believe it will remain strong due to government support. Its loan growth should also accelerate once economic activities pick up again.


**Analyst**

Christopher Andre Benas
+6221 5093 9847
christopher.benas@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (49.1) | (18.9) | (50.8) | (45.2) | (42.4) |
| Relative | (20.6) | (16.3) | (27.6) | (18.7) | (17.8) |
| 52-wk Price low/high (IDR) | | | | | 2,240 – 4,740 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Reported net profit (IDRb) | 32,351 | 34,373 | 24,102 | 32,629 | 38,262 |
| Net profit growth (%) | 11.6 | 6.2 | (29.9) | 35.4 | 17.3 |
| Recurring net profit (IDRb) | 32,330 | 34,426 | 24,157 | 32,687 | 38,323 |
| Recurring EPS (IDR) | 330.59 | 281.64 | 197.63 | 267.41 | 313.51 |
| BVPS (IDR) | 1,496.83 | 1,687.90 | 1,766.42 | 1,963.94 | 2,163.72 |
| DPS (IDR) | 106.92 | 13.86 | 112.48 | 78.87 | 106.77 |
| Recurring P/E (x) | 6.78 | 7.95 | 11.33 | 8.38 | 7.14 |
| P/B (x) | 1.50 | 1.33 | 1.27 | 1.14 | 1.04 |
| Dividend Yield (%) | 4.8 | 0.6 | 5.0 | 3.5 | 4.8 |
| Return on average equity (%) | 18.5 | 17.7 | 11.4 | 14.3 | 15.2 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Financial Services
**Bank Rakyat Indonesia**
BBRI IJ
Buy

**Valuation basis**

P/BV backed by GGM. Assumptions include:
- i. COE of 12.6%;
- ii. ROE of 15%;
- iii. 10.2% long-term growth.

**Key drivers**

- i. Faster-than-expected loan growth;
- ii. Lower cost of funds;
- iii. Improvements in asset quality

**Key risks**

- i. Faster-than-expected loan growth;
- ii. Lower cost of funds;
- iii. Improvements in asset quality

**Company Profile**

Bank Rakyat Indonesia (BBRI) is the largest bank in Indonesia, with assets totalling IDR1,418trn. It focuses on loans in the micro and small enterprises segment.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| EPS | 330.81 | 281.20 | 197.17 | 266.93 | 313.02 |
| Recurring EPS | 330.59 | 281.64 | 197.63 | 267.41 | 313.51 |
| DPS | 106.92 | 13.86 | 112.48 | 78.87 | 106.77 |
| BVPS | 1,496.83 | 1,687.90 | 1,766.42 | 1,963.94 | 2,163.72 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 6.78 | 7.95 | 11.33 | 8.38 | 7.14 |
| P/B (x) | 1.5 | 1.3 | 1.3 | 1.1 | 1.0 |
| Dividend Yield (%) | 4.8 | 0.6 | 5.0 | 3.5 | 4.8 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Interest income | 111,583 | 121,756 | 120,649 | 132,406 | 146,019 |
| Interest expense | (33,917) | (40,049) | (41,623) | (45,571) | (50,989) |
| **Net interest income** | **77,666** | **81,707** | **79,026** | **86,835** | **95,030** |
| Non interest income | 24,371 | 29,450 | 32,853 | 36,751 | 41,113 |
| **Total operating income** | **102,037** | **111,157** | **111,879** | **123,586** | **136,143** |
| Overheads | (41,990) | (44,966) | (46,764) | (50,038) | (53,540) |
| **Pre-provision operating profit** | **60,047** | **66,192** | **65,114** | **73,548** | **82,603** |
| Loan impairment allowances | (17,780) | (21,493) | (32,612) | (29,922) | (31,565) |
| Other impairment allowances | (541) | (1,267) | (1,330) | (1,463) | (1,609) |
| Other exceptional items | 28 | (68) | (71) | (75) | (79) |
| **Pre-tax profit** | **41,754** | **43,364** | **31,101** | **42,089** | **49,351** |
| Taxation | (9,335) | (8,950) | (6,953) | (9,410) | (11,034) |
| Minority interests | (67) | (41) | (45) | (50) | (55) |
| **Reported net profit** | **32,351** | **34,373** | **24,102** | **32,629** | **38,262** |
| **Recurring net profit** | **32,330** | **34,426** | **24,157** | **32,687** | **38,323** |

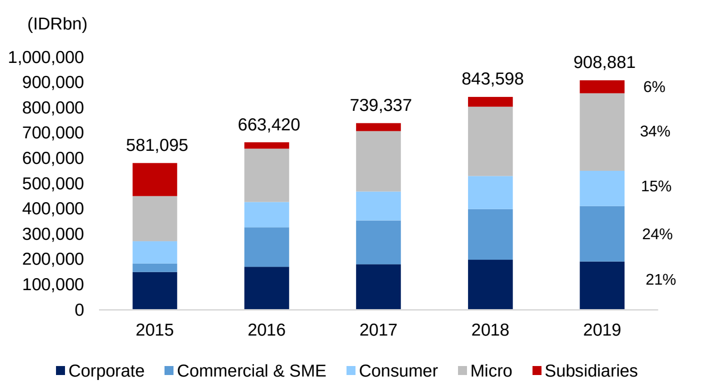
| Profitability ratios | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Return on average assets (%) | 2.7 | 2.5 | 1.6 | 2.0 | 2.1 |
| Return on average equity (%) | 18.5 | 17.7 | 11.4 | 14.3 | 15.2 |
| Return on IEAs (%) | 9.9 | 9.6 | 8.9 | 9.2 | 9.3 |
| Cost of funds (%) | 3.8 | 4.0 | 3.8 | 3.8 | 3.8 |
| Net interest spread (%) | 6.1 | 5.6 | 5.0 | 5.3 | 5.6 |
| Net interest margin (%) | 6.9 | 6.4 | 5.8 | 6.0 | 6.1 |
| Non-interest income / total income (%) | 23.9 | 26.5 | 29.4 | 29.7 | 30.2 |
| Cost to income ratio (%) | 41.2 | 40.5 | 41.8 | 40.5 | 39.3 |
| Credit cost (bps) | 226 | 247 | 351 | 300 | 290 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total gross loans | 839,710 | 903,197 | 954,686 | 1,040,088 | 1,136,791 |
| Other interest earning assets | 371,079 | 426,730 | 438,836 | 457,353 | 490,189 |
| Total gross IEAs | 1,210,789 | 1,329,927 | 1,393,522 | 1,497,441 | 1,626,980 |
| Total provisions | (35,019) | (39,229) | (66,776) | (64,268) | (64,621) |
| Net loans to customers | 804,691 | 863,968 | 887,910 | 975,820 | 1,072,170 |
| Total net IEAs | 1,175,770 | 1,290,698 | 1,326,746 | 1,433,172 | 1,562,359 |
| Total non-IEAs | 121,129 | 126,061 | 195,482 | 253,231 | 330,987 |
| Total assets | 1,296,898 | 1,416,759 | 1,522,228 | 1,686,403 | 1,893,346 |
| Customer deposits | 944,269 | 1,021,197 | 1,092,680 | 1,191,022 | 1,298,214 |
| Other interest-bearing liabilities | 9,131 | 17,970 | 35,364 | 69,595 | 136,961 |
| Total IBLs | 953,400 | 1,039,166 | 1,128,044 | 1,260,617 | 1,435,175 |
| Total non-IBLs | 158,223 | 168,808 | 175,554 | 182,742 | 190,408 |
| Total liabilities | 1,111,623 | 1,207,975 | 1,303,599 | 1,443,359 | 1,625,583 |
| Share capital | 6,167 | 6,167 | 6,167 | 6,167 | 6,167 |
| Shareholders' equity | 182,968 | 206,323 | 215,922 | 240,067 | 264,487 |
| Minority interests | 2,308 | 2,461 | 2,707 | 2,978 | 3,275 |

| Asset quality and capital | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Reported NPLs / gross cust loans (%) | 1.1 | 1.3 | 3.0 | 2.8 | 2.6 |
| CET-1 ratio (%) | 20.2 | 21.1 | 18.6 | 21.4 | 22.3 |
| Tier-1 ratio (%) | 21.4 | 22.6 | 20.0 | 22.8 | 23.6 |
| Total capital ratio (%) | 22.6 | 23.7 | 21.1 | 23.9 | 24.8 |

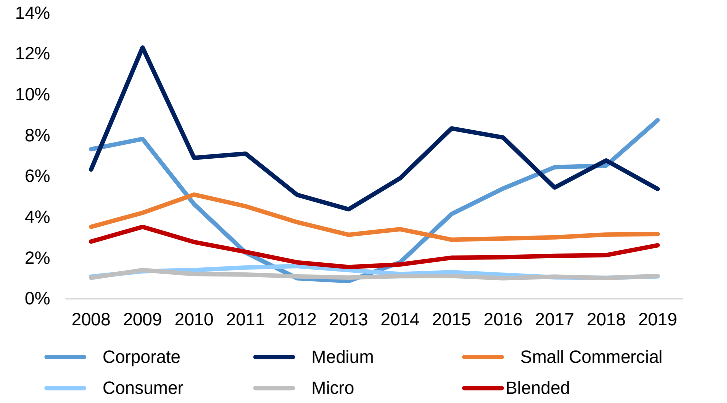
*Source: Company data, RHB*

**Figure 1: Breakdown of BBRI's loan book**



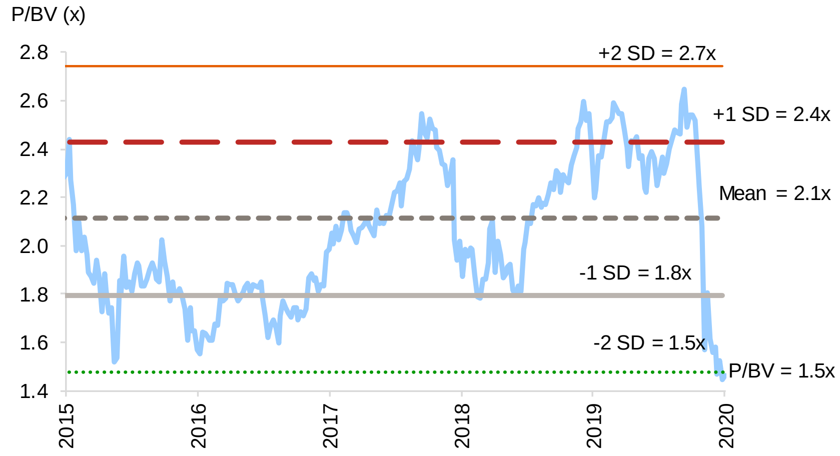

*Source: Company data, RHB*

**Figure 2: NPL breakdown by segment**




*Source: Company data, RHB*

**Figure 3: BBRI's 5-year P/BV band**




*Source: Bloomberg, RHB*

- After the sell-off, BBRI is now trading at 1.5x P/BV, or -2SD from its 5-year mean

## Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-15 | Buy | 3,400 | 2,240 |
| 2020-04-16 | Buy | 3,600 | 2,610 |
| 2020-03-11 | Neutral | 4,400 | 3,910 |
| 2020-01-24 | Neutral | 5,000 | 4,740 |
| 2019-11-14 | Buy | 5,000 | 3,940 |
| 2019-10-25 | Buy | 5,000 | 4,230 |
| 2019-08-15 | Buy | 5,000 | 4,250 |
| 2019-07-08 | Buy | 5,000 | 4,400 |
| 2019-04-25 | Buy | 5,000 | 4,330 |

*Source: RHB, Bloomberg*

19 May 2020

Financial Services | Banks

# Bank Tabungan Negara (BBTN IJ)

## Neutral (Maintained)

## Government Support For Mortgages; NEUTRAL

| | |
|---|---|
| Target Price (Return): | IDR820 (+10%) |
| Price: | IDR745 |
| Market Cap: | USD531m |
| Avg Daily Turnover (IDR/USD) | 37,707m/2.48m |

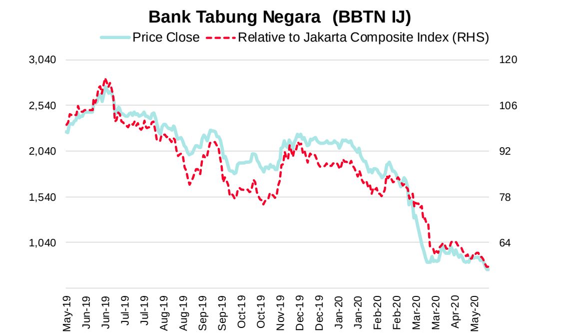
- **Maintain NEUTRAL, IDR820 TP, 10% upside.** Bank Tabungan Negara should benefit from government support, as its loans largely cater to the mid- to low-income segments. As the OJK subsidy is aimed at easing banking customers' burdens during the COVID-19 pandemic, BBTN's mortgage clients will receive up to a 6% interest rate subsidy for three months. This should ease pressure on its NII, as well as asset quality.
- **Interest rate subsidy to support mortgage segment.** Through the joint effort from the Financial Services Authority (OJK), the Ministry of Finance, and Bank Indonesia, customers affected by the COVID-19 pandemic can apply for an interest rate subsidy. Mortgage customers with houses spanning 21-70 sqm will receive a 6% subsidy for the first three months, and a 3% subsidy for the following three months. This will take effect from April to September. Following relaxation measures imposed on loan restructuring, the bank can change the interest payments, and receive the difference at a later date. This will ease pressure on net interest income, allowing BBTN to still charge a portion of interest from the Government, as well as ease any downgrade in asset quality – since the restructured loans will be booked as collectible loans.
- **The struggle is not over.** Just as management's focus shifts to asset quality improvement, the pandemic brings new risks of deterioration as well. However, worsening asset quality in its key segment – mortgages (75% of total loans) – may be buffered by government stimulus measures, in our view. Risks still remain for its construction and commercial segments, as a result of decelerated economic activities (the main reasons behind the uptick in NPL and special mention loans). As at FY19, the construction segment had a 18.7% NPL ratio while commercial loans had a 8.9% NPL ratio. Fortunately, management has been planning to sell off IDR7trn of NPL (57% of current outstanding loans). These NPL comprise c.IDR3.5trn in consumer loan collaterals, and c.IDR3.5trn worth of commercial loans. Asset quality should strengthen in the next three years – although this feat may be difficult to achieve.
- **A make-or-break year.** Although downside risks exist (from worsening asset quality, pressure on margins, and decelerating loan growth), if the new management team – with the help of government stimulus measures – can navigate through the tough environment, 2020F-2021F may bring about a turning point for the bank. Note that the stock is trading at a cheap 0.5x FY20F P/BV.

**Analyst**

Indonesia Research Team
+6221 5093 9842 888
rhb.id.research@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (64.9) | (22.4) | (57.8) | (61.2) | (67.3) |
| Relative | (36.4) | (19.8) | (34.6) | (34.7) | (42.7) |
| 52-wk Price low/high (IDR) | | | | | 745 – 2,740 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Reported net profit (IDRb) | 2,808 | 209 | 607 | 1,477 | 2,418 |
| Net profit growth (%) | (7.3) | (92.6) | 190.5 | 143.4 | 63.7 |
| Recurring net profit (IDRb) | 2,795 | 265 | 702 | 1,581 | 2,533 |
| Recurring EPS (IDR) | 263.94 | 25.05 | 66.28 | 149.33 | 239.16 |
| BVPS (IDR) | 2,269.19 | 2,268.12 | 1,592.70 | 1,701.36 | 1,860.86 |
| DPS (IDR) | 57.18 | 53.03 | 3.95 | 11.46 | 27.89 |
| Recurring P/E (x) | 2.82 | 29.74 | 11.24 | 4.99 | 3.12 |
| P/B (x) | 0.33 | 0.33 | 0.47 | 0.44 | 0.40 |
| Dividend Yield (%) | 7.7 | 7.1 | 0.5 | 1.5 | 3.7 |
| Return on average equity (%) | 12.2 | 0.9 | 3.0 | 8.5 | 12.8 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Financial Services
**Bank Tabungan Negara**
BBTN IJ
Neutral

**Valuation basis**

i. P/BV backed by GGM. Assumptions include:
ii. COE of 15.9%;
iii. ROE of 14%;
iv. 10.4% long-term growth.

**Key drivers**

i. Better-than-expected loan growth;
ii. Better than expected operational efficiency;
iii. Higher-than-expected increase in CASA.

**Key risks**

i. Lower loan disbursements from the government
ii. Higher cost of funds;
iii. Worsening asset quality;.

**Company Profile**

BBTN is an SOE bank focusing on housing loans. Nearly 80% of its loan book consists of housing related loans such as subsidised and non-subsidised mortgage loans.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| EPS | 265.15 | 19.73 | 57.31 | 139.47 | 228.30 |
| Recurring EPS | 263.94 | 25.05 | 66.28 | 149.33 | 239.16 |
| DPS | 57.18 | 53.03 | 3.95 | 11.46 | 27.89 |
| BVPS | 2,269.19 | 2,268.12 | 1,592.70 | 1,701.36 | 1,860.86 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 2.82 | 29.74 | 11.24 | 4.99 | 3.12 |
| P/B (x) | 0.3 | 0.3 | 0.5 | 0.4 | 0.4 |
| Dividend Yield (%) | 7.7 | 7.1 | 0.5 | 1.5 | 3.7 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Interest income | 22,852 | 25,720 | 25,696 | 27,281 | 29,467 |
| Interest expense | (12,763) | (16,758) | (17,156) | (17,869) | (18,799) |
| **Net interest income** | **10,089** | **8,962** | **8,540** | **9,412** | **10,668** |
| Non interest income | 2,072 | 2,110 | 2,203 | 2,472 | 2,763 |
| **Total operating income** | **12,161** | **11,072** | **10,742** | **11,884** | **13,431** |
| Overheads | (6,853) | (7,063) | (6,701) | (7,070) | (7,462) |
| **Pre-provision operating profit** | **5,308** | **4,008** | **4,042** | **4,814** | **5,969** |
| Loan impairment allowances | (1,714) | (3,487) | (3,142) | (2,786) | (2,722) |
| Other exceptional items | 16 | (111) | (122) | (134) | (147) |
| **Pre-tax profit** | **3,610** | **411** | **778** | **1,894** | **3,100** |
| Taxation | (802) | (202) | (171) | (417) | (682) |
| **Reported net profit** | **2,808** | **209** | **607** | **1,477** | **2,418** |
| **Recurring net profit** | **2,795** | **265** | **702** | **1,581** | **2,533** |

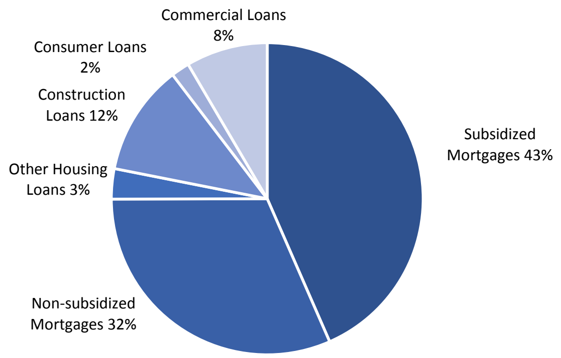
| Profitability ratios | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Return on average assets (%) | 1.0 | 0.1 | 0.2 | 0.4 | 0.7 |
| Return on average equity (%) | 12.2 | 0.9 | 3.0 | 8.5 | 12.8 |
| Return on IEAs (%) | 8.3 | 8.6 | 8.1 | 8.0 | 8.0 |
| Cost of funds (%) | 5.1 | 6.1 | 6.0 | 5.9 | 5.9 |
| Net interest spread (%) | 3.3 | 2.5 | 2.1 | 2.1 | 2.1 |
| Net interest margin (%) | 3.7 | 3.0 | 2.7 | 2.8 | 2.9 |
| Non-interest income / total income (%) | 17.0 | 19.1 | 20.5 | 20.8 | 20.6 |
| Cost to income ratio (%) | 56.3 | 63.8 | 62.4 | 59.5 | 55.6 |
| Credit cost (bps) | 86.4 | 155.7 | 126.0 | 100.3 | 90.3 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total gross loans | 215,716 | 232,213 | 266,546 | 289,021 | 313,658 |
| Other interest earning assets | 79,932 | 72,551 | 59,358 | 64,267 | 68,482 |
| Total gross IEAs | 295,648 | 304,763 | 325,904 | 353,288 | 382,140 |
| Total provisions | (3,320) | (6,145) | (16,327) | (26,089) | (35,716) |
| Net loans to customers | 212,938 | 226,787 | 250,251 | 262,966 | 277,978 |
| Total net IEAs | 292,328 | 298,618 | 309,577 | 327,199 | 346,424 |
| Total non-IEAs | 14,108 | 13,159 | 14,475 | 15,922 | 17,515 |
| Total assets | 306,436 | 311,777 | 324,052 | 343,122 | 363,939 |
| Customer deposits | 229,829 | 225,383 | 232,460 | 245,060 | 258,358 |
| Other interest-bearing liabilities | 43,089 | 50,322 | 61,397 | 65,369 | 69,716 |
| Total IBLs | 272,918 | 275,705 | 293,857 | 310,428 | 328,074 |
| Total non-IBLs | 9,678 | 12,236 | 13,459 | 14,805 | 16,286 |
| Total liabilities | 282,596 | 287,941 | 307,316 | 325,234 | 344,360 |
| Share capital | 7,349 | 7,349 | 7,349 | 7,349 | 7,349 |
| Shareholders' equity | 24,031 | 24,019 | 16,867 | 18,017 | 19,707 |

| Asset quality and capital | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Reported NPLs / gross cust loans (%) | 3.1 | 5.3 | 5.1 | 4.4 | 3.0 |
| Total provisions / reported NPLs (%) | 49.2 | 50.0 | 0.0 | 0.0 | 0.0 |
| CET-1 ratio (%) | 11.8 | 11.7 | 8.9 | 9.0 | 9.6 |
| Tier-1 ratio (%) | 16.0 | 15.6 | 11.8 | 11.6 | 12.0 |
| Total capital ratio (%) | 18.2 | 17.3 | 17.3 | 16.6 | 16.8 |

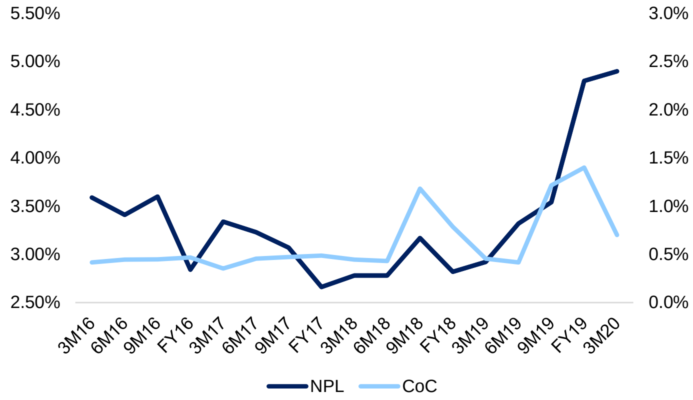
*Source: Company data, RHB*

**Figure 1: BBTN's loan book breakdown**



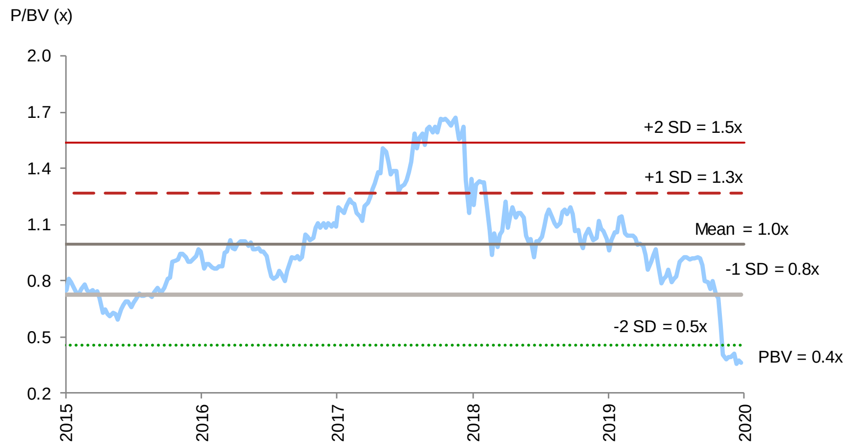

*Source: Company data, RHB*

**Figure 2: BBTN's NPL & CoC**




*Source: Company data, RHB*

**Figure 3: BBTN's 5-year P/BV band**




*Source: Bloomberg, RHB*

- BBTN is currently trading at a low 0.4x P/BV (Bloomberg's estimated BVPS), below -2SD from its 5-year mean

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-17 | Neutral | 820 | na |
| 2020-04-16 | Neutral | 950 | 900 |
| 2020-02-18 | Sell | 1,500 | 1,895 |
| 2020-02-17 | Sell | 1,500 | 1,795 |
| 2019-11-15 | Sell | 1,500 | 1,920 |
| 2019-07-29 | Neutral | 2,150 | 2,390 |
| 2019-07-04 | Neutral | 2,150 | 2,450 |
| 2019-04-24 | Neutral | 2,150 | 2,550 |
| 2019-04-23 | Neutral | 2,150 | 2,630 |

*Source: RHB, Bloomberg*

19 May 2020

Property | REITS

# ARA LOGOS Logistics Trust (ALLT SP)

**Buy** (Maintained)

## Beneficiary Of Rising Logistics Demand

| | |
|---|---|
| Target Price (Return): | SGD0.64 (+21%) |
| Price: | SGD0.53 |
| Market Cap: | USD407m |
| Avg Daily Turnover (SGD/USD) | 1.68m/1.19m |

- **Keep BUY and SGD 0.64 TP, 21% upside with c.9% yield.** ARA LOGOS Logistics Trusts' (ALLT) portfolio of 27 strategically-located logistics assets across Singapore and Australia stand to benefit from the expected rise in logistics demand. The entry of LOGOS as sponsor adds impetus to its operational capabilities and medium-term growth potential. The REITs high yield offers investors income stability and provides downside support.
- **Logistics demand to grow on the back of increased stockpiling and e-commerce trends.** The global lockdown from COVID-19 has resulted in a surge in digital economy with both consumer and retail tenants ramping up online activities. In addition, demand for supermarket goods have surged tremendously and this, combined with supply chain disruption, has led to a rising demand for good quality logistics assets. Countries like Singapore are also looking to increase their stockpiles to prepare for uncertainties ahead. ALLT's strategically-located logistic assets (such as near airport hubs and ports) stand to benefit from the above trends. Some of these positives were reflected in 1Q data, with portfolio occupancy improving 1.8ppts to 97.1% with 1.1m sqf of leases signed. While near-term pressures are expected in terms of rental relief/deferments, mid to long-term outlook remains positive.
- **Singapore: Supply pressures wearing off post 2020.** Based on JTC's latest industrial data, c.313sqm of new warehouse space will be completed in 2020 (compared to c.300sqm in 2019 and a 10-year average of c.400sqm) but supply tapers off sharply in 2021. Only 8% of leases are pending renewal in 2020 for which we expect slightly negative rent reversions (0 to -5%) with some transition vacancies expected in some of its assets. The outlook for Australia industrial market remains stable growth in consumer staples, infrastructure spending and growth in e-commerce.
- **Entry of LOGOS enhances operational capabilities and growth potential.** In Mar 2020, Logos Group (LOGOS) announced its acquisition of the entire manager stake and shareholding (10.3%) in the REIT. ARA still retains control of the REIT manager via its holding in LOGOS. LOGOS is one of Asia Pacific's leading logistics property groups with over 6m sqm of property owned and under development, and a completed value of SGD9.4bn across 18 ventures. We see strong benefits to ALLT from the above transaction in the form of a healthy acquisition pipeline which has been difficult to find amidst tight capital market conditions, and synergistic operational capabilities which should result in some cost savings and an enhanced regional network.

  While gearing remains on the high side at 40.8%, there is limited refinancing risk with no loan maturing this year. Interest cover remains healthy at 4.0x. The manager has also hedged 92.5% of distributable income to mitigate FX risks.

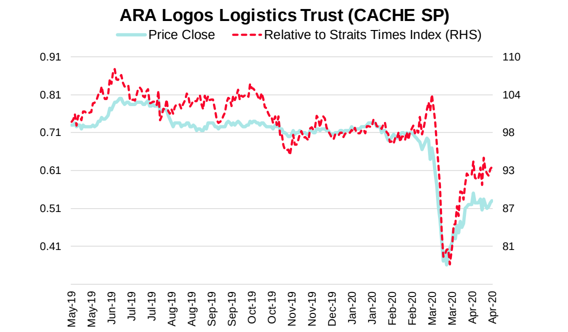

**Analyst**

Vijay Natarajan
+65 6232 3872
vijay.natarajan@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (25.9) | 16.5 | (25.9) | (26.4) | (29.3) |
| Relative | (6.3) | 14.0 | (7.3) | (7.5) | (5.4) |

52-wk Price low/high (SGD) 0.36 – 0.80




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 122 | 114 | 116 | 121 | 125 |
| Net property income (SGDm) | 90.9 | 85.8 | 86.7 | 91.1 | 94.0 |
| Reported net profit (SGDm) | 25.9 | (8.0) | 24.6 | 54.6 | 63.0 |
| Total distributable income (SGDm) | 58.4 | 57.7 | 55.5 | 60.8 | 61.0 |
| DPS (SGD) | 0.06 | 0.06 | 0.05 | 0.05 | 0.05 |
| DPS growth (%) | (9.6) | (6.7) | (13.7) | 7.8 | 2.2 |
| P/B (x) | 0.80 | 0.90 | 0.96 | 0.97 | 0.98 |
| Dividend Yield (%) | 11.2 | 10.4 | 9.0 | 9.7 | 9.9 |
| Return on average equity (%) | 3.5 | (1.2) | 3.9 | 9.0 | 10.4 |
| Return on average assets (%) | 2.0 | (0.6) | 1.8 | 4.1 | 4.6 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Property
**ARA Logos Logistics Trust**
ALLT SP
Buy

**Valuation basis**

DDM

**Key drivers**

i. Logistics/warehouse sector to remain relatively resilient amid changing consumer patterns;
ii. The entry of Logos provides added operational and growth advantage; and
iii. Investors continued appetite for yields

**Key risks**

i. Continued pressure in rents from new supply;
ii. Spike in tenant defaults; and
iii. Relocation of tenants to cheaper markets

**Company Profile**

ARA Logos Logistics Trust is a Singapore-based REIT. The REIT invests in income-producing real estate used for logistics purposes in Asia-Pacific, as well as real estate-related assets.

| Financial summary | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS (SGD) | 0.02 | - 0.01 | 0.02 | 0.05 | 0.06 |
| EPS (SGD) | 0.02 | - 0.01 | 0.02 | 0.05 | 0.06 |
| DPS (SGD) | 0.06 | 0.06 | 0.05 | 0.05 | 0.05 |
| BVPS (SGD) | 0.66 | 0.59 | 0.55 | 0.54 | 0.54 |
| Return on average equity (%) | 3.5 | (1.2) | 3.9 | 9.0 | 10.4 |
| Weighted avg adjusted shares (m) | 1,072.18 | 1,082.85 | 1,094.28 | 1,105.84 | 1,117.50 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 21.95 | na | 23.62 | 10.73 | 9.41 |
| P/E (x) | 21.95 | na | 23.62 | 10.73 | 9.41 |
| P/B (x) | 0.8 | 0.9 | 1.0 | 1.0 | 1.0 |
| FCF Yield (%) | 13.7 | 12.9 | 12.3 | 12.8 | 13.4 |
| Dividend Yield (%) | 11.2 | 10.4 | 9.0 | 9.7 | 9.9 |
| EV/EBITDA (x) | - 3.25 | - 3.50 | - 3.00 | - 2.72 | - 2.59 |
| EV/EBIT (x) | - 3.28 | - 3.52 | - 3.00 | - 2.72 | - 2.59 |

| Income statement (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 122 | 114 | 116 | 121 | 125 |
| EBITDA | 81 | 76 | 76 | 80 | 83 |
| Depreciation and amortisation | (1) | (0) | 0 | 0 | 0 |
| Operating profit | 80 | 75 | 76 | 80 | 83 |
| Net interest | (18) | (21) | (22) | (23) | (23) |
| Pre-tax profit | 28 | (6) | 27 | 57 | 66 |
| Taxation | (3) | (2) | (3) | (3) | (3) |
| Recurring net profit | 26 | (8) | 25 | 55 | 63 |

| Cash flow (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Cash flow from operations | 83 | 77 | 74 | 78 | 82 |
| Capex | (5) | (3) | (3) | (3) | (3) |
| Cash flow from investing activities | (110) | (42) | (3) | (3) | (3) |
| Dividends paid | (64) | (59) | (52) | (54) | (57) |
| Cash flow from financing activities | 49 | (56) | (76) | (72) | (84) |
| Cash at beginning of period | 15 | 33 | 15 | 13 | 19 |
| Net change in cash | 22 | (21) | (5) | 3 | (5) |
| Ending balance cash | 36 | 12 | 10 | 16 | 15 |

| Balance sheet (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 33 | 15 | 13 | 19 | 18 |
| Total investments | 1,269 | 1,334 | 1,322 | 1,325 | 1,334 |
| Total other assets | 1 | 1 | 1 | 1 | 1 |
| Total assets | 1,310 | 1,359 | 1,342 | 1,351 | 1,360 |
| Short-term debt | 28 | 113 | 0 | 0 | 0 |
| Total long-term debt | 442 | 397 | 528 | 540 | 545 |
| Total liabilities | 495 | 618 | 634 | 647 | 653 |
| Shareholders' equity | 713 | 639 | 607 | 602 | 605 |
| Total equity | 815 | 741 | 708 | 704 | 707 |
| Net debt | 437 | 495 | 514 | 521 | 527 |
| Total liabilities & equity | 1,310 | 1,359 | 1,342 | 1,351 | 1,360 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 8.6 | (6.6) | 1.8 | 5.1 | 3.1 |
| Recurrent EPS growth (%) | (1.9) | (130.4) | 0.0 | 120.1 | 14.2 |
| Operating EBITDA margin (%) | 66.3 | 66.8 | 65.7 | 65.9 | 66.1 |
| Net profit margin (%) | 21.3 | (7.0) | 21.2 | 44.9 | 50.3 |
| Dividend payout ratio (%) | 244.9 | (750.7) | 212.3 | 104.1 | 93.1 |
| Capex/sales (%) | 4.2 | 2.3 | 2.3 | 2.2 | 2.1 |
| Interest cover (x) | 4.33 | 3.51 | 3.47 | 3.53 | 3.53 |

*Source: Company data, RHB*

### Figure 1: ALLT – fair value based on Dividend Discount Model

| | FY20F | FY21F | FY22F | FY23F | Terminal value |
|---|---|---|---|---|---|
| DPU (SGD cents) | 4.76 | 5.14 | 5.19 | 5.24 | 66.4 |
| **Fair value (SGD)** | **0.64** | | | | |
| Current price (SGD) | 0.53 | | | | |
| Price upside (%) | 20.8 | | | | |
| Distribution yield (%) | 9.0 | | | | |
| **Assumptions** | | | | | |
| Risk-free rate: (%) | 2.8 | | | | |
| Beta | 1.0 | | | | |
| Cost of equity (%) | 9.0 | | | | |
| Terminal growth: (%) | 1.0 | | | | |

*Source: RHB*

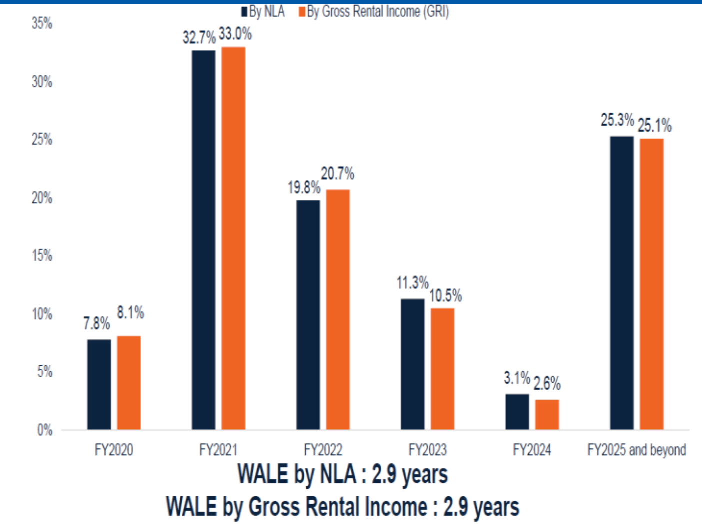
### Figure 2: Singapore portfolio


*Source: Company*

### Figure 3: Australia portfolio

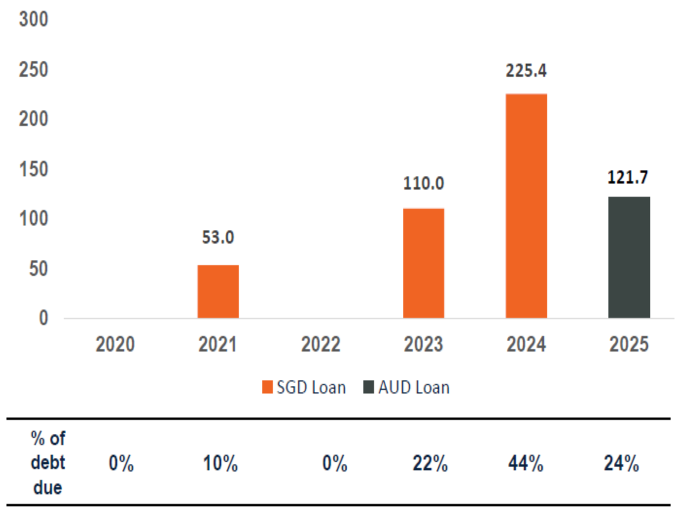

*Source: Company*

**Figure 4: Lease expiry profile**




Source: Company data

**Figure 5: Debt maturity profile**




Source: Company data

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-04-29 | Buy | 0.64 | 0.53 |
| 2020-03-09 | Buy | 0.74 | 0.64 |
| 2019-07-26 | Buy | 0.80 | 0.77 |
| 2019-06-17 | Buy | 0.83 | 0.78 |
| 2019-01-28 | Buy | 0.81 | 0.74 |
| 2018-10-29 | Buy | 0.84 | 0.71 |
| 2018-10-16 | Buy | 0.84 | 0.72 |
| 2018-04-26 | Buy | na | 0.83 |
| 2018-02-02 | Buy | na | 0.87 |

*Source: RHB, Bloomberg*

19 May 2020

Technology | Semiconductors

# Avi-Tech Electronics (AVIT SP)

**Buy** (Maintained)

## Positioned In a Crucial Part Of The Supply Chain

| | |
|---|---|
| Target Price (Return): | SGD0.50 (+39%) |
| Price: | SGD0.36 |
| Market Cap: | USD43.6m |
| Avg Daily Turnover (SGD/USD) | 0.14m/0.10m |

- **Maintain BUY with a DCF-derived SGD0.50 TP, 39% upside with c.7% yield.** Avi-Tech Electronics reported strong 2Q20, with PATMI surging c.47% YoY to SGD1.4m. The semiconductor sector's slowdown has likely bottomed out for the company and its performance should improve ahead. FY20F (Jun) ought to be a much better year, with earnings having likely bottomed in FY19.
- **Burn-in testing for automotive component still growing strongly.** With the sector slowdown in effect since 2018, we believe the correction has bottomed. As a result, the outlook should improve, especially with China and the US having struck the Phase One trade deal. Avi-Tech's performance should continue to pick up in 2HFY20, with strong growth from burn-in services, which have much higher gross margins. This, coupled with previously completed cost-cutting measures, should help improve margins even further. The company's gross margin improved significantly to 39.7% in 2QFY20 from 27.9% in 1QFY19. We expect it to continue charting a strong performance as we move into 2HFY20.
- **Staying alive with net cash in a critical industry.** With a net cash balance sheet and strong operating FCF, management should continue to reward shareholders with attractive dividends despite the drop in profits in the previous year. Being in the burn-in and testing segment of the semiconductor industry focused mainly on the automotive sector, it is also positioned in a crucial part of the supply chain which would see demand for its services still growing despite an on-going world-wide pandemic.
- **Attractive yield of c.7% for FY20F.** For FY19, a total of 2.3 SG cents DPS was declared, translating into a PATMI payout ratio of 84.7%. A higher interim DPS of 1 SG cent was paid in 2QFY20 vs 0.8 SG cents a year ago, due to its strong performance. We expect management to continue to reward its shareholders with the same or an even higher amount going forward.
- **M&A opportunities available at such drastic times.** Management is actively exploring M&A opportunities and hopes to close a deal by the end of 1H20. Any potential earnings-accretive M&A should be a positive.
- **A key downside risk** is a slowdown in the economy.

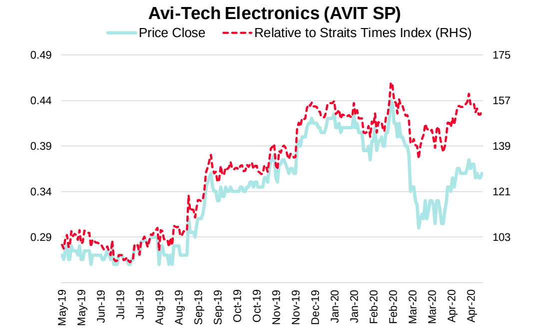

**Analysts**

Jarick Seet
+65 6232 3891
jarick.seet@rhbgroup.com

Lee Cai Ling
+65 6232 3892
lee.cai.ling@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (14.3) | 9.1 | (6.5) | (4.0) | 28.6 |
| Relative | 5.3 | 7.0 | 12.0 | 16.6 | 49.7 |
| 52-wk Price low/high (SGD) | | | | | 0.26 – 0.44 |




*Source: Bloomberg*

| Forecasts and Valuation | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 36 | 34 | 35 | 36 | 37 |
| Recurring net profit (SGDm) | 5 | 5 | 6 | 6 | 6 |
| Recurring net profit growth (%) | (30.9) | (4.5) | 22.0 | 5.2 | 5.2 |
| Recurring P/E (x) | 12.66 | 13.25 | 10.87 | 10.33 | 9.82 |
| P/B (x) | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |
| P/CF (x) | 8.17 | 10.11 | 9.13 | 8.46 | 7.86 |
| Dividend Yield (%) | 7.2 | 6.4 | 6.9 | 6.9 | 6.9 |
| EV/EBITDA (x) | 4.11 | 3.87 | 3.28 | 3.15 | 2.94 |
| Return on average equity (%) | 10.0 | 9.5 | 11.2 | 11.4 | 11.5 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Technology
**Avi-Tech Electronics**
AVIT SP
Buy

**Valuation basis**

DCF-backed TP of SGD0.50

**Key drivers**

i. Attractive dividend yield
ii. Sector correction

**Key risks**

Economic recession

**Company Profile**

Avi-Tech Electronics manufactures semiconductor products. The Company produces and prints circuit board assembling products, as well as provides static burn-in, test during burn-in, and high power burn-in services for semiconductor manufacturers. Avi-Tech Electronics serves customers worldwide.

| Financial summary (SGD) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 |
| DPS | 0.03 | 0.02 | 0.03 | 0.03 | 0.03 |
| BVPS | 0.28 | 0.29 | 0.30 | 0.31 | 0.33 |
| Return on average equity (%) | 10.0 | 9.5 | 11.2 | 11.4 | 11.5 |

| Valuation metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 12.66 | 13.25 | 10.87 | 10.33 | 9.82 |
| P/B (x) | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |
| FCF Yield (%) | 11.6 | 8.6 | 6.1 | 5.3 | 6.2 |
| Dividend Yield (%) | 7.2 | 6.4 | 6.9 | 6.9 | 6.9 |
| EV/EBITDA (x) | 4.11 | 3.87 | 3.28 | 3.15 | 2.94 |
| EV/EBIT (x) | 4.98 | 4.73 | 3.84 | 3.73 | 3.55 |

| Income statement (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover | 35.7 | 33.6 | 34.6 | 35.6 | 36.8 |
| Gross profit | 9.9 | 10.5 | 11.9 | 12.3 | 12.6 |
| EBITDA | 6.9 | 7.0 | 8.3 | 8.8 | 9.4 |
| Depreciation and amortisation | (1.2) | (1.3) | (1.2) | (1.4) | (1.6) |
| Operating profit | 5.7 | 5.7 | 7.1 | 7.4 | 7.8 |
| Net interest | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) |
| Pre-tax profit | 5.7 | 5.7 | 7.1 | 7.4 | 7.8 |
| Taxation | (0.8) | (1.1) | (1.4) | (1.5) | (1.5) |
| Reported net profit | 4.9 | 4.6 | 5.7 | 6.0 | 6.3 |
| Recurring net profit | 4.9 | 4.6 | 5.7 | 6.0 | 6.3 |

| Cash flow (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Change in working capital | 0.8 | (0.6) | (0.2) | (0.2) | (0.2) |
| Cash flow from operations | 7.5 | 6.1 | 6.7 | 7.3 | 7.8 |
| Capex | (0.4) | (0.8) | (3.0) | (4.0) | (4.0) |
| Cash flow from investing activities | 1.9 | (3.8) | (3.0) | (4.0) | (4.0) |
| Dividends paid | (5.3) | (3.6) | (4.3) | (4.3) | (4.3) |
| Cash flow from financing activities | (5.7) | (3.6) | (4.3) | (4.3) | (4.3) |
| Cash at beginning of period | 23.5 | 31.2 | 33.9 | 33.8 | 33.2 |
| Net change in cash | 3.7 | (1.3) | (0.5) | (1.0) | (0.4) |
| Ending balance cash | 27.2 | 29.8 | 33.3 | 32.8 | 32.8 |

| Balance sheet (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 32.7 | 34.5 | 34.4 | 33.8 | 33.8 |
| Tangible fixed assets | 12.7 | 12.1 | 13.8 | 16.3 | 18.5 |
| Total investments | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total assets | 54.6 | 56.6 | 58.4 | 60.6 | 63.2 |
| Total liabilities | 6.1 | 7.1 | 7.0 | 7.2 | 7.3 |
| Total equity | 48.5 | 49.5 | 51.4 | 53.5 | 55.9 |
| Total liabilities & equity | 54.6 | 56.6 | 58.4 | 60.6 | 63.2 |

| Key metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | (10.7) | (5.9) | 3.0 | 3.1 | 3.1 |
| Recurrent EPS growth (%) | (30.9) | (4.5) | 22.0 | 5.2 | 5.2 |
| Gross margin (%) | 27.9 | 31.4 | 34.4 | 34.4 | 34.4 |
| Operating EBITDA margin (%) | 19.4 | 20.8 | 23.9 | 24.7 | 25.7 |
| Net profit margin (%) | 13.6 | 13.8 | 16.4 | 16.7 | 17.1 |
| Capex/sales (%) | 1.1 | 2.3 | 8.7 | 11.2 | 10.9 |
| Interest cover (x) | 815 | 1,144 | 1,415 | 1,487 | 1,564 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-17 | Buy | 0.50 | 0.41 |
| 2020-02-17 | Buy | 0.50 | 0.41 |
| 2019-11-18 | Buy | 0.41 | 0.37 |
| 2019-11-07 | Buy | 0.41 | 0.37 |
| 2019-09-10 | Neutral | 0.31 | 0.31 |
| 2019-07-16 | Neutral | 0.27 | 0.28 |
| 2019-02-14 | Neutral | 0.30 | 0.30 |
| 2018-11-13 | Neutral | 0.34 | 0.31 |
| 2018-09-12 | Neutral | 0.38 | 0.35 |

*Source: RHB, Bloomberg*

19 May 2020

Industrials | Aerospace & Defence

# ST Engineering (STE SP)

**Buy** (Maintained)

## Diversified Business Model To Support Earnings

| | |
|---|---|
| Target Price (Return): | SGD3.90 (+19%) |
| Price: | SGD3.27 |
| Market Cap: | USD7,159m |
| Avg Daily Turnover (SGD/USD) | 26.2m/18.5m |

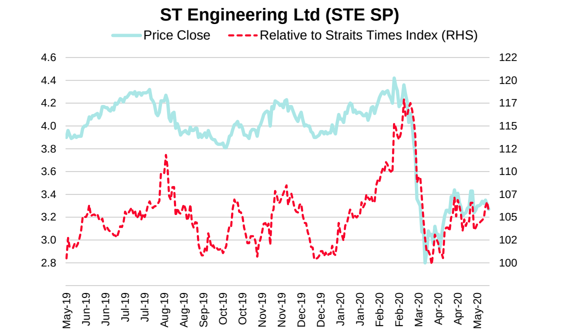
- **Keep BUY with SGD3.90 TP, 19% upside and c. 5% yield.** While 2020F profit is expected to decline on lower customer demand, supply chain disruption and workforce disruption amidst COVID-19, earnings growth should return in 2021 as global aviation gradually recovers and order deliveries across all business segments normalise. STE should continue to outperform the STI, as its well-diversified business portfolio, record-high orderbook and sustainable DPS should help it to better withstand current economic weakness vs other large-cap index stocks in Singapore.
- **STAY Alive with a diversified business model and sustainable long-term growth.** With its business spread across four segments (Aerospace, Electronics, Land Systems and Marine) and across geographies, ST Engineering has a well-diversified portfolio – ensuring resilient earnings through business cycles. Moreover, its record orderbook of SGD16.3bn offers over two years' revenue visibility. STE remains focused on long-term growth by strengthening core businesses and capitalising on new demand opportunities in cybersecurity and robotics. We expect Smart City initiatives, in Singapore and overseas, to be a key contributor to earnings in the long term. Given its positive FCF generation, strong balance sheet and liquidity position with AAA-rated debt, we believe STE could also undertake earnings accretive acquisition to support long-term growth.
- **Near-term earnings support.** STE is undertaking a group-wide cost reduction initiative, especially for businesses that will see long-term revenue impact from COVID-19. In addition, government support of c.SGD100m should enable STE to keep operating costs in check during 2020. The defence business, which spreads across all segments and accounts for 30-35% of revenue, is expected to remain steady in 2020. STE will ramp up Hunter Armoured Fighting Vehicles (HAV) supply under Phase 1 of the contract from Singapore's Ministry of Defence by mid-2020. While Phase 1 will continue for 2-3 years, STE has already secured the Phase 2 contract for HAV.
- **Sustainable dividends and reasonable valuations.** Despite 14% earnings decline in 2020F, STE would be able to sustain its 15 SG cents DPS payout vs that of other large-cap stocks, which are reducing payout. Our SGD3.90 TP is based on blended valuations, average of P/E, P/BV, EV/EBITDA and DCF. STE is trading at a 2021F P/E of 18x, below its 10-year average of 19x. Given expectations of earnings recovery in 2021, STE should trade above its historical average.
- **Key risks.** Slower recovery in Aerospace MRO business, deferment of contracts in Electronics, lower contribution from recently completed acquisitions and delays in Singapore's smart nation initiative could derail long-term earnings growth recovery.

**Analyst**

Shekhar Jaiswal
+65 6232 3894
shekhar.jaiswal@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (17.0) | (2.7) | (24.0) | (22.3) | (16.2) |
| Relative | 4.7 | 0.5 | (2.4) | (0.2) | 5.4 |
| 52-wk Price low/high (SGD) | | | | | 2.80 – 4.42 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 6,698 | 7,868 | 6,980 | 7,442 | 8,002 |
| Recurring net profit (SGDm) | 527 | 589 | 506 | 568 | 650 |
| Recurring net profit growth (%) | 9.2 | 11.8 | (14.2) | 12.3 | 14.5 |
| Recurring P/E (x) | 19.34 | 17.29 | 20.19 | 17.98 | 15.70 |
| P/B (x) | 4.5 | 4.6 | 4.5 | 4.4 | 4.1 |
| P/CF (x) | 15.93 | 17.27 | 12.39 | 9.85 | 9.09 |
| Dividend Yield (%) | 4.6 | 4.6 | 4.6 | 4.7 | 4.7 |
| EV/EBITDA (x) | 12.96 | 12.07 | 12.25 | 11.14 | 9.88 |
| Return on average equity (%) | 22.2 | 25.9 | 22.6 | 24.7 | 26.8 |
| Net debt to equity (%) | 3.2 | 75.7 | 72.9 | 61.6 | 46.3 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Industrials
**ST Engineering**
STE SP
Buy

**Valuation basis**

Our TP is derived by using an average of forward P/E, P/BV, EV/EBITDA and DCF of adjusted free cash flows.

**Key drivers**

i. Strong order wins; and
ii. Contributions from MRAS and Newtec acquisitions.

**Key risks**

i. Poor execution of diversification in the aerospace sector;
ii. Lower-than-expected contribution from acquisitions; and
iii. Delay in the implementation of Singapore's smart nation initiative.

**Company Profile**

ST Engineering is an integrated engineering group in the aerospace, electronics, land systems and marine sectors. The company has over the years diversified its businesses and geographical coverage.

| Financial summary (SGD) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.17 | 0.19 | 0.16 | 0.18 | 0.21 |
| DPS | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 |
| BVPS | 0.72 | 0.71 | 0.72 | 0.75 | 0.80 |
| Return on average equity (%) | 22.2 | 25.9 | 22.6 | 24.7 | 26.8 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 19.34 | 17.29 | 20.19 | 17.98 | 15.70 |
| P/B (x) | 4.5 | 4.6 | 4.5 | 4.4 | 4.1 |
| FCF Yield (%) | 3.0 | 4.1 | 5.4 | 7.5 | 8.5 |
| Dividend Yield (%) | 4.6 | 4.6 | 4.6 | 4.7 | 4.7 |
| EV/EBITDA (x) | 12.96 | 12.07 | 12.25 | 11.14 | 9.88 |
| EV/EBIT (x) | 18.51 | 18.86 | 19.75 | 17.63 | 15.20 |

| Income statement (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 6,698 | 7,868 | 6,980 | 7,442 | 8,002 |
| Gross profit | 1,406 | 1,635 | 1,495 | 1,616 | 1,776 |
| EBITDA | 814 | 1,022 | 1,007 | 1,089 | 1,197 |
| Depreciation and amortisation | (244) | (368) | (383) | (401) | (419) |
| Operating profit | 570 | 654 | 624 | 688 | 778 |
| Net interest | (34) | (37) | (86) | (78) | (74) |
| Pre-tax profit | 621 | 695 | 608 | 683 | 782 |
| Taxation | (104) | (103) | (90) | (101) | (115) |
| Reported net profit | 494 | 578 | 506 | 568 | 650 |
| Recurring net profit | 527 | 589 | 506 | 568 | 650 |

| Cash flow (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (166) | (439) | (168) | (55) | (71) |
| Cash flow from operations | 639 | 590 | 824 | 1,037 | 1,123 |
| Capex | (332) | (172) | (275) | (270) | (260) |
| Cash flow from investing activities | (65) | (1,273) | (232) | (225) | (213) |
| Dividends paid | (468) | (468) | (468) | (480) | (483) |
| Cash flow from financing activities | (1,161) | 720 | 540 | (589) | (591) |
| Cash at beginning of period | 999 | 416 | 453 | 1,586 | 1,809 |
| Net change in cash | (587) | 37 | 1,133 | 223 | 320 |
| Ending balance cash | 416 | 453 | 1,586 | 1,809 | 2,129 |

| Balance sheet (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 416 | 453 | 1,586 | 1,809 | 2,129 |
| Tangible fixed assets | 1,743 | 1,805 | 1,800 | 1,772 | 1,716 |
| Total investments | 456 | 453 | 410 | 365 | 318 |
| Total assets | 7,573 | 9,521 | 10,563 | 10,784 | 11,107 |
| Short-term debt | 225 | 1,869 | 0 | 0 | 0 |
| Total long-term debt | 270 | 469 | 3,438 | 3,438 | 3,438 |
| Total liabilities | 5,038 | 7,030 | 8,022 | 8,140 | 8,279 |
| Total equity | 2,535 | 2,491 | 2,541 | 2,643 | 2,827 |
| Total liabilities & equity | 7,573 | 9,521 | 10,563 | 10,784 | 11,107 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 2.7 | 17.5 | (11.3) | 6.6 | 7.5 |
| Recurrent EPS growth (%) | 9.2 | 11.8 | (14.3) | 12.3 | 14.5 |
| Gross margin (%) | 21.0 | 20.8 | 21.4 | 21.7 | 22.2 |
| Operating EBITDA margin (%) | 12.2 | 13.0 | 14.4 | 14.6 | 15.0 |
| Net profit margin (%) | 7.4 | 7.3 | 7.2 | 7.6 | 8.1 |
| Dividend payout ratio (%) | 94.7 | 81.0 | 92.6 | 84.6 | 74.2 |
| Capex/sales (%) | 5.0 | 2.2 | 3.9 | 3.6 | 3.2 |
| Interest cover (x) | 10.2 | 12.8 | 6.5 | 6.0 | 6.8 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-18 | Buy | 3.90 | na |
| 2020-04-28 | Buy | 4.15 | 3.28 |
| 2020-04-17 | Buy | 4.65 | 3.36 |
| 2020-02-25 | Buy | 4.90 | 4.42 |
| 2020-01-13 | Buy | 4.55 | 4.03 |
| 2019-11-29 | Buy | 4.55 | 4.13 |
| 2019-11-12 | Buy | 4.55 | 4.17 |
| 2019-11-11 | Buy | 4.70 | 4.00 |
| 2019-10-14 | Buy | 4.70 | 4.04 |

*Source: RHB, Bloomberg*

19 May 2020

Transport | Road & Rail

# Bangkok Expressway & Metro
(BEM TB)

**Buy** (Maintained)

## Fast & Furious Recovery; Maintain BUY

| | |
|---|---|
| Target Price (Return): | THB11.50 (+21%) |
| Price: | THB9.50 |
| Market Cap: | USD4,524m |
| Avg Daily Turnover (THB/USD) | 711m/22.1m |

- **Keep BUY and DCF-based THB11.50 TP, 21% upside.** We expect public transportation services to resume their lively business activities as soon as Thailand's lockdown is relaxed and people's lives can gradually return to normal. As the major operator of two mass rapid transit (MRT) routes and a core expressway network in Bangkok and its vicinity, Bangkok Expressway & Metro was affected by the lockdown. However, future earnings' downside risks should disappear during the post-lockdown period, in our view.
- **Inevitable impact.** The Government's measures to curb COVID-19 – especially the work-from-home campaign, social distancing, a partial curfew between 10pm and 4am, and temporary closures of leisure and entertainment centres – have been the major pressures on BEM's two core businesses. The impact began to be felt from February, with the heaviest effect likely seen in April, when a partial curfew was enforced from 3 Apr. Traffic volumes on its expressway network began to decline 4.3% YoY in February, with the situation worsening in March (-26% YoY) and April (-50% YoY). Note that the organic growth of traffic volumes is normally within the range of 1-7% YoY. Likewise, ridership on the Blue-Line MRT network grew only 13% YoY, and began to decline sharply in March and April, down 29% and 73% YoY.
- **Turning point in May.** We believe the lockdown's gradual relaxation – starting from May – will bode significantly well for BEM's core businesses, as transport via expressways and MRTs are essential for residents of Bangkok and its vicinity, especially during work day peak traffic hours. Expressway traffic volumes should be the first indicator of a recovery from the abnormal low point level of <600,000 trips/day in April. It may bounce back by almost 50% to >800,000 trips/day, in our view, given that social distancing principles remain valid for road transportation. Albeit at a slower pace, ridership on the Blue-Line MRT network should follow suit and start recovering from May – as soon as people get back to work and the lockdown is relaxed on a step-by-step basis. Contrary to other businesses, we expect both transportation modes to recover fast and furiously, especially when the recovery can be felt throughout 3Q20. By then, expressway traffic could return to 1.2m trips/day, while Blue-Line MRT passenger numbers should go back to the 400,000/day previous high. BEM has strong potential in generating ridership growth after that.
- **Non-stop expansion.** Although the expressway business is enjoying a new concession and the Blue-Line MRT's full-loop network just began operations, expansion opportunities still lie ahead, include a bid for the Orange-Line MRT's operations & maintenance concession, for which BEM – with its track record – has the upper hand.

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 15,614 | 16,107 | 17,912 | 19,175 | 20,667 |
| Recurring net profit (THBm) | 2,867 | 2,719 | 4,784 | 5,260 | 5,923 |
| Recurring net profit growth (%) | (8.2) | (5.2) | 75.9 | 10.0 | 12.6 |
| Recurring P/E (x) | 50.64 | 53.40 | 30.36 | 27.61 | 24.52 |
| P/B (x) | 4.2 | 3.9 | 3.6 | 3.4 | 3.1 |
| P/CF (x) | 18.00 | 18.76 | 28.67 | 16.68 | 19.10 |
| Dividend Yield (%) | 1.4 | 1.6 | 1.7 | 1.6 | 1.8 |
| EV/EBITDA (x) | 22.16 | 21.69 | 17.98 | 19.06 | 16.70 |
| Return on average equity (%) | 16.2 | 15.1 | 12.4 | 12.7 | 13.3 |
| Net debt to equity (%) | 170.1 | 166.1 | 156.0 | 141.9 | 131.1 |

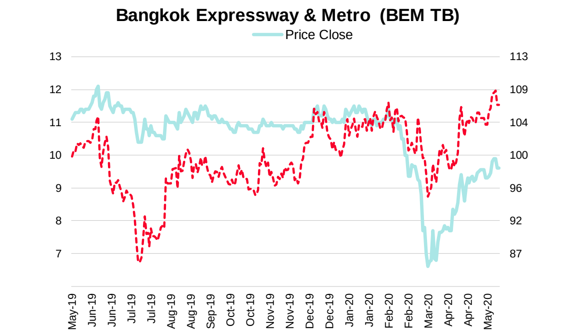
*Source: Company data, RHB*

**Analyst**

Chatree Srismaicharoen
+66 2088 9743
chatree.sr@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (12.9) | 6.7 | (13.6) | (12.0) | (15.9) |
| Relative | 6.0 | 3.1 | 2.5 | 8.1 | 5.1 |
| 52-wk Price low/high (THB) | | | | | 6.50 – 12.0 |




*Source: Bloomberg*

# Financial Exhibits

**Asia**
Thailand
Transport
**Bangkok Expressway and Metro**
BEM TB
Buy

**Valuation basis**

We use SOP methodology:

i. The company's core businesses are based on DCF;
ii. CK Power and TTW are based on Bloomberg consensus.

**Key drivers**

Chance for winning new infrastructure projects under public-private partnership schemes.

**Key risks**

Weaker-than-expected in future traffic and ridership growth numbers.

**Company Profile**

BEM conducts construction and operations of expressways, operations management of MRT systems, and other related businesses.

| **Financial summary (THB)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Recurring EPS | 0.19 | 0.18 | 0.31 | 0.34 | 0.39 |
| DPS | 0.13 | 0.15 | 0.16 | 0.15 | 0.17 |
| BVPS | 2.26 | 2.46 | 2.61 | 2.80 | 3.02 |
| Return on average equity (%) | 16.2 | 15.1 | 12.4 | 12.7 | 13.3 |

| **Valuation metrics** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Recurring P/E (x) | 50.64 | 53.40 | 30.36 | 27.61 | 24.52 |
| P/B (x) | 4.2 | 3.9 | 3.6 | 3.4 | 3.1 |
| FCF Yield (%) | (1.5) | 0.1 | (5.3) | (4.2) | (6.3) |
| Dividend Yield (%) | 1.4 | 1.6 | 1.7 | 1.6 | 1.8 |
| EV/EBITDA (x) | 22.16 | 21.69 | 17.98 | 19.06 | 16.70 |
| EV/EBIT (x) | 43.05 | 43.16 | 30.01 | 27.00 | 23.03 |

| **Income statement (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Total turnover | 15,614 | 16,107 | 17,912 | 19,175 | 20,667 |
| Gross profit | 5,841 | 5,797 | 7,740 | 8,494 | 9,814 |
| EBITDA | 8,699 | 8,877 | 10,703 | 10,022 | 11,427 |
| Depreciation and amortisation | (4,222) | (4,416) | (4,289) | (2,946) | (3,142) |
| Operating profit | 4,477 | 4,460 | 6,414 | 7,075 | 8,284 |
| Net interest | (1,407) | (1,330) | (680) | (749) | (1,132) |
| Pre-tax profit | 6,525 | 7,207 | 6,064 | 6,661 | 7,493 |
| Taxation | (1,189) | (1,755) | (1,213) | (1,332) | (1,499) |
| Reported net profit | 5,317 | 5,435 | 4,784 | 5,260 | 5,923 |
| Recurring net profit | 2,867 | 2,719 | 4,784 | 5,260 | 5,923 |

| **Cash flow (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Change in working capital | 1,777 | 1,911 | 1,040 | 14 | (136) |
| Cash flow from operations | 8,067 | 7,741 | 5,064 | 8,704 | 7,604 |
| Capex | (10,302) | (7,610) | (12,714) | (14,734) | (16,734) |
| Cash flow from investing activities | (7,353) | (7,563) | (12,456) | (14,456) | (16,456) |
| Dividends paid | (1,987) | (2,293) | (2,487) | (2,367) | (2,665) |
| Cash flow from financing activities | (2,815) | (1) | 7,654 | 6,519 | 7,632 |
| Cash at beginning of period | 2,627 | 526 | 704 | 966 | 1,713 |
| Net change in cash | (2,101) | 177 | 263 | 766 | (1,220) |
| Ending balance cash | 527 | 703 | 966 | 1,733 | 493 |

| **Balance sheet (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Total cash and equivalents | 1,809 | 1,861 | 2,124 | 2,871 | 1,631 |
| Tangible fixed assets | 324 | 311 | 306 | 298 | 286 |
| Total investments | 13,178 | 17,217 | 17,217 | 17,217 | 17,217 |
| Total assets | 103,831 | 111,697 | 114,296 | 118,537 | 120,723 |
| Short-term debt | 10,856 | 8,916 | 10,500 | 10,700 | 10,164 |
| Total long-term debt | 51,544 | 57,416 | 56,000 | 55,000 | 54,000 |
| Total liabilities | 68,219 | 72,874 | 73,041 | 74,250 | 73,035 |
| Total equity | 35,612 | 38,823 | 41,255 | 44,286 | 47,688 |
| Total liabilities & equity | 103,831 | 111,697 | 114,296 | 118,537 | 120,723 |

| **Key metrics** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Revenue growth (%) | 3.0 | 3.2 | 11.2 | 7.1 | 7.8 |
| Recurrent EPS growth (%) | (8.2) | (5.2) | 75.9 | 10.0 | 12.6 |
| Gross margin (%) | 37.4 | 36.0 | 43.2 | 44.3 | 47.5 |
| Operating EBITDA margin (%) | 55.7 | 55.1 | 59.8 | 52.3 | 55.3 |
| Net profit margin (%) | 34.1 | 33.7 | 26.7 | 27.4 | 28.7 |
| Dividend payout ratio (%) | 37.4 | 42.2 | 52.0 | 45.0 | 45.0 |
| Capex/sales (%) | 66.0 | 47.2 | 71.0 | 76.8 | 81.0 |
| Interest cover (x) | 2.41 | 2.59 | 4.19 | 5.13 | 5.87 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-24 | Buy | 9.3 | 6.7 |
| 2020-02-28 | Neutral | 10.8 | 9.3 |
| 2019-12-24 | Neutral | 10.8 | 11.0 |
| 2019-11-13 | Neutral | 10.8 | 10.8 |
| 2019-08-13 | Neutral | 10.8 | 10.9 |
| 2019-06-28 | Neutral | 10.8 | 11.4 |
| 2019-05-10 | Neutral | 10.8 | 11.0 |
| 2019-02-28 | Neutral | 10.8 | 10.6 |
| 2019-01-10 | Buy | 10.8 | 9.8 |

*Source: RHB, Bloomberg*

19 May 2020

Utilities | Power

# Global Power Synergy (GPSC TB)

**Buy** (Maintained)

## Stability Amidst Turmoil

| | |
|---|---|
| Target Price (Return): | THB80.00 (+11%) |
| Price: | THB72.00 |
| Market Cap: | USD6,337m |
| Avg Daily Turnover (THB/USD) | 1,527m/47.5m |

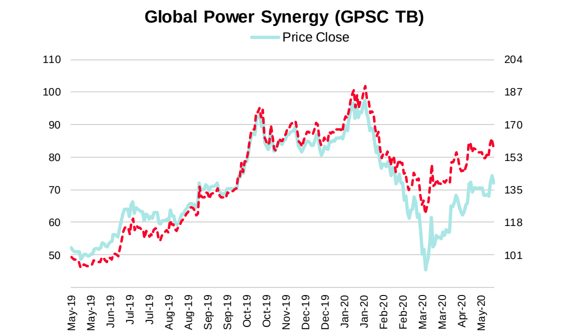
- **Maintain BUY and TP THB80.00, 11% upside and c.2% yield.** We expect earnings to be THB6.8bn (+68% YoY) from the full-year recognition of GLOW, Xayaburi, and CUP-4 power plants. We also like Global Power Synergy's diversification into energy storage where it will be manufacturing semi-solid state batteries by year end. Key risk this year will be the drought, where its hydroelectric plants in Laos could be affected.
- **GPSC's earnings are quite resilient and have not seen any** material impact on electricity demand from its industrial customers as a result of Thailand's lockdown in April. Specifically, there was no decline in demand from its petrochemicals' customers. The only impact may be from the refineries that have lowered their utilisation rate to c.80% from 100%. The refineries account for c.5% of the company's total electricity output. In terms of electricity demand in Thailand, the Electricity Authority of Thailand (EGAT) expects electricity demand to decline marginally by 1-2% this year.
- **2020F earnings are expected to grow to THB6.8bn (+68% YoY**) as a result of full-year recognition of the GLOW Energy acquisition as well as Xayaburi hydro-electric power plant and Central Utility Plant Project 4 (CUP-4) power plants that started commercial operations in 4Q19. Apart from this, GPSC is looking at a gas-to-power project in Myanmar. Phase 1 of the project should be c.600-1200MW. We estimate transaction value to be in the range of USD360-960m, depending on the size of the power plant and cost.
- **GPSC is one of the largest small power producers (SPP) in Thailand**, with total capacity of 5,026MW and 2,876t/h of steam. The PTT group holds a 75% stake in this company and its growth will be aligned with that of PTT. Apart from being a utilities company, GPSC is also looking to diversify as an energy storage systems integrator and an energy management solution provider. GPSC will be soon start to manufacture semi-solid battery storage. The pilot plant, with 30MWh, should have its first battery cell produced by Nov or Dec 2020. It plans to scale up to 2GWh over the longer term.
- **Main risk for this year is the drought situation,** where the impact is likely to be on Xayaburi, Huay Ho and Nam Lik power plants in Laos (c.10% of its earnings). These plants are running at c.60-70% of planned utilisation rate at the moment. Apart from this, its industrial customers in Thailand have yet to be affected by the lockdown, but GPSC continues to monitor the situation.

### Analyst

Kannika Siamwalla CFA
+66 2088 9744
kannika.si@rhbgroup.com

### Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (16.0) | 7.5 | (6.5) | (14.0) | 32.5 |
| Relative | 2.1 | 2.8 | 9.1 | 5.9 | 53.6 |
| 52-wk Price low/high (THB) | | | | | 45.5 – 97.5 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 24,880 | 66,562 | 73,509 | 74,239 | 75,071 |
| Recurring net profit (THBm) | 3,359 | 4,061 | 6,825 | 8,335 | 10,512 |
| Recurring net profit growth (% | 5.8 | 20.9 | 68.1 | 22.1 | 26.1 |
| Recurring P/E (x) | 32.11 | 32.00 | 29.75 | 24.36 | 19.31 |
| P/B (x) | 2.7 | 1.3 | 1.9 | 1.9 | 1.8 |
| P/CF (x) | 11.01 | na | 11.48 | 12.63 | 11.15 |
| Dividend Yield (%) | 1.7 | 1.8 | 1.7 | 2.1 | 2.6 |
| EV/EBITDA (x) | 19.97 | 12.89 | 15.43 | 14.24 | 12.64 |
| Return on average equity (%) | 8.6 | 5.8 | 6.6 | 7.8 | 9.5 |
| Net debt to equity (%) | 27.1 | 78.1 | 82.7 | 81.7 | 79.4 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Thailand
Utilities
**Global Power Synergy**
GPSC TB
Buy

**Valuation basis**

SOP

**Key drivers**

i. Gas price as the main feedstock;
ii. Dispatch factor from EGAT and industrial customers;
iii. Availability and capacity factor

**Key risks**

i. Fuel cost;
ii. Seasonality of demand

**Company Profile**

Global Power Synergy is one of the largest small power producers (SPP) in Thailand in terms of total installed capacity

| Financial summary (THB) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 2.24 | 2.25 | 2.42 | 2.96 | 3.73 |
| DPS | 1.25 | 1.30 | 1.21 | 1.48 | 1.86 |
| BVPS | 26.69 | 55.90 | 37.03 | 38.50 | 40.37 |
| Return on average equity (%) | 8.6 | 5.8 | 6.6 | 7.8 | 9.5 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 32.11 | 32.00 | 29.75 | 24.36 | 19.31 |
| P/B (x) | 2.7 | 1.3 | 1.9 | 1.9 | 1.8 |
| FCF Yield (%) | 9.1 | (113.0) | 3.8 | 3.0 | 4.0 |
| Dividend Yield (%) | 1.7 | 1.8 | 1.7 | 2.1 | 2.6 |
| EV/EBITDA (x) | 19.97 | 12.89 | 15.43 | 14.24 | 12.64 |
| EV/EBIT (x) | 29.84 | 22.69 | 28.58 | 23.71 | 19.63 |

| Income statement (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 24,880 | 66,562 | 73,509 | 74,239 | 75,071 |
| Gross profit | 4,565 | 11,499 | 12,325 | 14,321 | 16,684 |
| EBITDA | 5,447 | 16,394 | 18,688 | 20,112 | 22,436 |
| Depreciation and amortisation | (1,802) | (7,079) | (8,600) | (8,028) | (7,988) |
| Operating profit | 3,645 | 9,315 | 10,088 | 12,084 | 14,447 |
| Net interest | (514) | (5,140) | (2,959) | (2,905) | (2,851) |
| Pre-tax profit | 4,132 | 6,248 | 8,624 | 10,725 | 13,273 |
| Taxation | (243) | (247) | (657) | (1,183) | (1,454) |
| Reported net profit | 3,359 | 4,061 | 6,825 | 8,335 | 10,512 |
| Recurring net profit | 3,359 | 4,061 | 6,825 | 8,335 | 10,512 |

| Cash flow (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | 5,111 | (22,808) | 2,608 | 54 | 73 |
| Cash flow from operations | 9,801 | (11,802) | 17,680 | 16,079 | 18,203 |
| Capex | 0 | (135,000) | (10,000) | (10,000) | (10,000) |
| Cash flow from investing activities | 1,684 | (135,922) | (12,000) | (12,000) | (12,000) |
| Dividends paid | (1,873) | (2,346) | (3,413) | (4,167) | (5,256) |
| Cash flow from financing activities | (9,426) | 161,450 | (9,200) | (7,413) | (8,645) |
| Cash at beginning of period | 3,965 | 6,009 | 20,053 | 16,533 | 13,198 |
| Net change in cash | 2,059 | 13,726 | (3,520) | (3,335) | (2,442) |
| Ending balance cash | 6,010 | 20,053 | 16,533 | 13,198 | 10,757 |

| Balance sheet (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 6,009 | 20,053 | 16,533 | 13,198 | 10,756 |
| Tangible fixed assets | 30,902 | 183,503 | 184,903 | 186,874 | 188,886 |
| Total investments | 12,979 | 13,901 | 15,901 | 17,901 | 19,901 |
| Total assets | 64,439 | 252,017 | 256,648 | 257,450 | 259,208 |
| Short-term debt | 1,052 | 26,731 | (38,269) | (38,269) | (38,269) |
| Total long-term debt | 16,452 | 79,356 | 147,856 | 145,856 | 143,856 |
| Total liabilities | 22,090 | 141,841 | 144,107 | 141,948 | 139,757 |
| Total equity | 42,349 | 110,176 | 112,542 | 115,502 | 119,451 |
| Total liabilities & equity | 64,439 | 252,017 | 256,648 | 257,450 | 259,208 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 24.2 | 167.5 | 10.4 | 1.0 | 1.1 |
| Recurrent EPS growth (%) | 5.8 | 0.4 | 7.6 | 22.1 | 26.1 |
| Gross margin (%) | 18.3 | 17.3 | 16.8 | 19.3 | 22.2 |
| Operating EBITDA margin (%) | 21.9 | 24.6 | 25.4 | 27.1 | 29.9 |
| Net profit margin (%) | 13.5 | 6.1 | 9.3 | 11.2 | 14.0 |
| Dividend payout ratio (%) | 55.8 | 57.8 | 50.0 | 50.0 | 50.0 |
| Capex/sales (%) | 0.0 | 202.8 | 13.6 | 13.5 | 13.3 |
| Interest cover (x) | 7.10 | 1.81 | 3.41 | 4.16 | 5.07 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-08 | Buy | 80.0 | 68.0 |
| 2020-02-20 | Buy | 80.0 | 73.0 |
| 2020-02-19 | Buy | 80.0 | 71.8 |
| 2020-02-13 | Neutral | 80.0 | 77.0 |
| 2020-02-13 | Neutral | 80.0 | 77.0 |
| 2019-11-06 | Neutral | 80.0 | 81.8 |
| 2019-10-28 | Neutral | 80.0 | 91.8 |
| 2019-09-25 | Buy | 80.0 | 68.5 |

*Source: RHB, Bloomberg*

# Malaysia Company Update

19 May 2020

Consumer Cyclical | Retailing

# Mynews (MNHB MK)

# Buy (Maintained)

## Wide Network Provides Convenience

| | |
|---|---|
| Target Price (Return): | MYR1.25 (+42%) |
| Price: | MYR0.88 |
| Market Cap: | USD139m |
| Avg Daily Turnover (MYR/USD) | 0.69m/0.16m |

- **Maintain BUY with DCF-derived (WACC: 6.1%, TG: 1.0%) MYR1.25 TP, 42% upside,** premised on business scalability over the long run, which should be achieved through growing the number of outlets and improvements in product offerings to drive SSSG. We think the manufacturing unit will play pivotal role in anchoring earnings sustainability over the long run by capturing the rising demand for convenience food.
- **Investment thesis**. The company offers strong earnings growth potential, underpinned by expansion plans to grow the number of outlets and fresh food product offerings. Its strategy to go upstream is necessary to ensure sustainable growth over the long run and complement its store expansion plans, in our view. The sales volume and utilisation rate of the manufacturing plant may increase ahead, as management fine-tunes product offerings and intensifies marketing initiatives to improve consumer acceptance and awareness of fresh food offerings which will narrow the losses, moving forward. We also like the entrepreneurial and visionary management team.
- **Neighbourhood Mynews outlets to benefit.** We believe Mynews could benefit with public less inclined to travel too far and crowded places ie shopping malls and opt for neighbourhood Mynews outlets instead, to get basic household necessities and foods. With traditional restaurants or dining places not fully operational, the demand for convenience fresh food offered by Mynews could rise. In addition, Mynews also offers its products through e-commerce platform by partnering with Grab and via the setup of its in-house delivery service, MyNEWSDASH. While the online sales have yet to contribute significantly to its topline, we believe the online presence is essential in capturing consumer demand under current environment.
- **Getting back on feet.** After two weeks of MCO (end of March), Mynews has closed 10% of its stores and management expects this could rise to 20% under a worst-case scenario. The pandemic also likely to slow down the company's outlet expansion plan in 2020. However, with the economy reopening and shift to conditional MCO, we should expect foot traffic to gradually recover for Mynews outlets located at in public transport hubs and offices. Given that the company's policy has always been an extra emphasis on the hygiene of food preparation at the central kitchen, it should not have any problem to comply with the Government's guideline to operate during this pandemic with minimal operation disruption risk.
- **Key risks.** A prolonged pandemic, higher-than-expected increases in operating costs, competition, weak consumer sentiment, and longer-than-expected gestational period of the central kitchen.

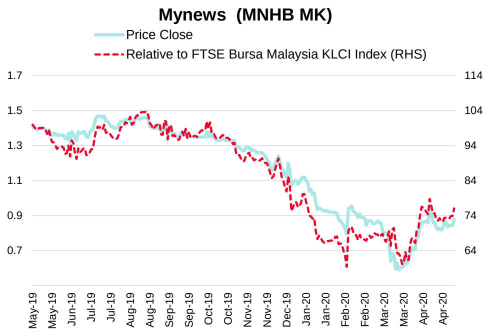

**Analysts**

Muhammad Afif Bin Zulkaplly
+603 9280 8883
muhammad.afif.zulkaplly@rhbgroup.com

Soong Wei Siang
+603 9280 8865
soong.wei.siang@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (21.4) | 12.8 | (6.4) | (30.7) | (37.2) |
| Relative | (8.4) | 11.3 | 4.7 | (16.6) | (21.8) |
| 52-wk Price low/high (MYR) | | | | | 0.59 – 1.47 |




*Source: Bloomberg*

| Forecasts and Valuation | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 392 | 528 | 556 | 712 | 874 |
| Recurring net profit (MYRm) | 29 | 32 | 26 | 35 | 43 |
| Recurring net profit growth (%) | 22.0 | 8.4 | (16.9) | 31.8 | 24.1 |
| Recurring P/E (x) | 20.47 | 18.88 | 22.73 | 17.25 | 13.90 |
| P/B (x) | 2.3 | 2.1 | 2.0 | 1.8 | 1.7 |
| P/CF (x) | 61.09 | 7.30 | 15.34 | 14.03 | 11.16 |
| Dividend Yield (%) | na | na | 1.1 | 1.4 | 3.6 |
| EV/EBITDA (x) | 12.47 | 9.10 | 10.79 | 8.82 | 7.41 |
| Return on average equity (%) | 11.7 | 11.7 | 9.0 | 11.0 | 12.7 |
| Net debt to equity (%) | net cash | net cash | net cash | 5.0 | 10.1 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Consumer Cyclical
**Mynews**
MNHB MK
Buy

**Valuation basis**

DCF valuation

**Key drivers**

Faster-than-expected expansion, better-than-expected outlet sales growth, lower-than-expected operating costs

**Key risks**

Intense competition, labour shortage, weaker-than-expected consumer sentiment

**Company Profile**

Mynews' principal business activity is press and convenience retailing, which involves the conceptualisation, development, expansion, management and operations of a press and convenience retail chain throughout Malaysia under its home-grown trade names of "myNEWS.com", "newsplus", "MAGBIT", "THE FRONT PAGE"; as well as the trade name of "WHSmith" (under its equal joint venture with WH Smith Travel Limited) that retail news, books and convenience products within international airports in Malaysia.

| Financial summary (MYR) | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.04 | 0.05 | 0.04 | 0.05 | 0.06 |
| DPS | - | - | 0.01 | 0.01 | 0.03 |
| BVPS | 0.38 | 0.42 | 0.44 | 0.48 | 0.51 |
| Return on average equity (%) | 11.7 | 11.7 | 9.0 | 11.0 | 12.7 |

| Valuation metrics | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 20.47 | 18.88 | 22.73 | 17.25 | 13.90 |
| P/B (x) | 2.3 | 2.1 | 2.0 | 1.8 | 1.7 |
| FCF Yield (%) | (12.9) | (5.7) | (0.1) | (2.0) | (0.2) |
| Dividend Yield (%) | - | - | 1.1 | 1.4 | 3.6 |
| EV/EBITDA (x) | 12.47 | 9.10 | 10.79 | 8.82 | 7.41 |
| EV/EBIT (x) | 15.30 | 13.47 | 16.50 | 12.89 | 10.68 |

| Income statement (MYRm) | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Total turnover | 392 | 528 | 556 | 712 | 874 |
| Gross profit | 148 | 187 | 209 | 267 | 328 |
| EBITDA | 44 | 65 | 55 | 70 | 86 |
| Depreciation and amortisation | (8) | (21) | (19) | (22) | (26) |
| Operating profit | 36 | 44 | 36 | 48 | 59 |
| Net interest | (0) | (3) | (2) | (2) | (3) |
| Pre-tax profit | 36 | 41 | 34 | 45 | 56 |
| Taxation | (6) | (9) | (8) | (11) | (13) |
| Reported net profit | 29 | 32 | 26 | 35 | 43 |
| Recurring net profit | 29 | 32 | 26 | 35 | 43 |

| Cash flow (MYRm) | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Change in working capital | (3.2) | (7.9) | (1.6) | (9.0) | (9.3) |
| Cash flow from operations | 9.8 | 82.2 | 39.1 | 42.8 | 53.8 |
| Capex | (87.1) | (116.3) | (40.0) | (55.0) | (55.0) |
| Cash flow from investing activities | (61.6) | (112.6) | (40.0) | (55.0) | (55.0) |
| Dividends paid | (6.8) | (6.8) | (6.6) | (8.7) | (21.6) |
| Cash flow from financing activities | (16.8) | (20.3) | 7.5 | 1.3 | (1.6) |
| Cash at beginning of period | 23.0 | 23.6 | 16.3 | 24.6 | 16.1 |
| Net change in cash | (68.6) | (50.7) | 6.6 | (10.9) | (2.8) |
| Ending balance cash | (45.6) | (27.1) | 22.9 | 13.7 | 13.3 |

| Balance sheet (MYRm) | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 69 | 33 | 41 | 33 | 33 |
| Tangible fixed assets | 156 | 251 | 272 | 305 | 334 |
| Total investments | 6 | 22 | 22 | 22 | 22 |
| Total assets | 341 | 468 | 504 | 551 | 604 |
| Short-term debt | 2 | 11 | 25 | 25 | 25 |
| Total long-term debt | 2 | 15 | 15 | 25 | 45 |
| Total liabilities | 60 | 166 | 182 | 203 | 235 |
| Total equity | 281 | 302 | 322 | 348 | 370 |
| Total liabilities & equity | 341 | 468 | 504 | 551 | 604 |

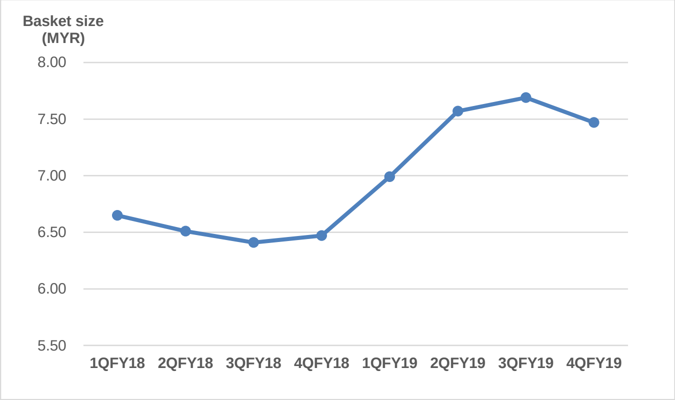
| Key metrics | Oct-18 | Oct-19 | Oct-20F | Oct-21F | Oct-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 19.9 | 34.8 | 5.4 | 28.1 | 22.7 |
| Recurrent EPS growth (%) | 22.0 | 8.4 | (16.9) | 31.8 | 24.1 |
| Gross margin (%) | 37.7 | 35.4 | 37.5 | 37.5 | 37.5 |
| Operating EBITDA margin (%) | 11.2 | 12.3 | 9.9 | 9.8 | 9.8 |
| Net profit margin (%) | 7.5 | 6.0 | 4.7 | 4.9 | 4.9 |
| Dividend payout ratio (%) | 0.0 | 0.0 | 25.0 | 25.0 | 50.0 |
| Capex/sales (%) | 22.3 | 22.0 | 7.2 | 7.7 | 6.3 |
| Interest cover (x) | 100 | 14 | 21 | 20 | 19 |

*Source: Company data, RHB*

# Wide Network Provides Convenience

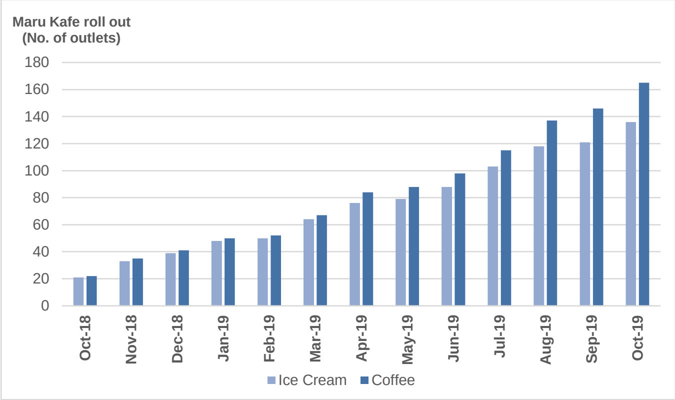
**Financial overview.** Mynews recorded net profit of MYR4.7m (-43.3% YoY, +46.9% QoQ) in 1QFY20 (Oct). We see positive traction, as manufacturing losses shrank to MYR1.9m vs MYR3.6m and MYR3.9m in 4QFY19 and 3QFY19. Meanwhile, underlying convenience store sales have continued to grow on a higher number of outlets and progressive roll out of the ready-to-eat and bakery offerings in more stores. As at the end of the quarter, Mynews has 535 outlets – a net addition of 22 outlets. Based on the latest announced figures, the company has an interest coverage of 4.5x and net gearing of 0.03x.

**Figure 1: Average basket size**



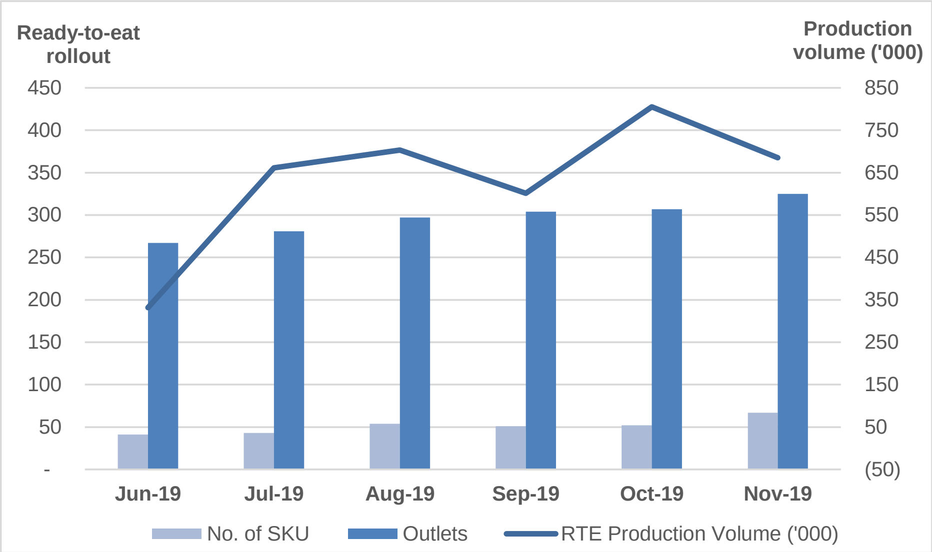

*Source: Company data*

**Figure 2: Maru Kafe rollout**




*Source: Company data*

**Figure 3: RTE rollout**




*Source: Company data*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-23 | Buy | 1.25 | 0.59 |
| 2020-01-24 | Buy | 1.45 | 0.92 |
| 2019-12-20 | Buy | 1.45 | 1.07 |
| 2019-09-27 | Buy | 1.70 | 1.35 |
| 2019-06-24 | Buy | 1.75 | 1.37 |
| 2019-03-25 | Buy | 1.75 | 1.37 |
| 2018-12-17 | Buy | 1.45 | 1.43 |
| 2018-09-25 | Buy | 2.03 | 1.41 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Non-cyclical | Beverages

# Power Root (PWRT MK)

**Buy** (Maintained)

## Additional Power To Growth; Reiterate BUY

| | |
|---|---|
| Target Price (Return): | MYR2.80 (+23%) |
| Price: | MYR2.22 |
| Market Cap: | USD208m |
| Avg Daily Turnover (MYR/USD) | 0.84m/0.19m |

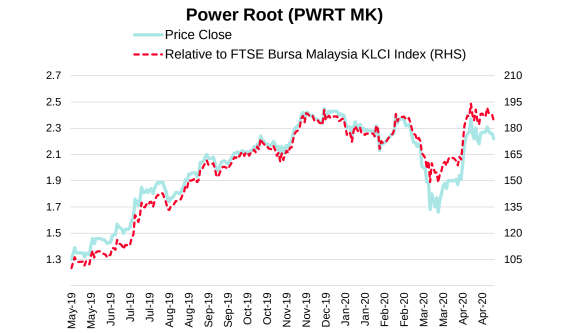
- **Reiterate BUY and TP of MYR2.80, 23% upside and 5% yield.** Earnings growth trajectory should be underpinned by robust sales growth on the back of new product launches and market penetration. We expect margin expansion driven by favourable raw material prices and FX. More efficiency gain could potentially be derived from business rationalisation and cost optimisation initiatives in the function areas of manufacturing, distribution as well as sales and marketing. The sturdy balance sheet and healthy cash flow generation will sustain the generous dividend payout.
- **Benefitting from STAY Home theme.** Power Root saw sales spiked by 10-15% at the beginning of Movement Control Order (MCO) as a result of consumer frontloading or panic buying in preparation for the lockdown enforcement. Nonetheless, we believe the underlying consumption of Its FMCG instant beverages products should increase correspondingly with the higher instances of stay home/ work from home initiatives. Classified under the essential goods category, operations are not significantly affected by MCO. Hence, we foresee both domestic and export sales to continue delivering healthy growth.
- **Outlook in next 12 months.** We forecast 12.4% net profit growth in FY21 which should be propelled by resilient topline growth and margin expansion as explained above. We expect Power Root to continue develop or penetrate new sales channel in exports market supported by innovative new product launches. Meanwhile in local arena, the management is looking to enhance its marketing strategy to be more ROI driven. On top of that, we think Power Root is in good position to rake in higher sales should the stay at home/ work from home trend prolongs.
- **Success factor and recommendation.** Apart from the well-known brand names and quality products, the established marketing team is one of the essential factors for Power Root to thrive in the competitive instant coffee market. Besides, the experienced founding members-led management team is also critical in steering the company to success. Our DCF-derived TP of MYR2.80 implies 20.6x P/E 2020F, as we believe the stock will continue to rerate premised on the sustained earnings growth momentum. In addition, we opine that the market pursuit of quality *shariah*-compliant consumer stocks that offer solid earnings growth and decent dividend yields should continue to drive interest in Power Root.
- **Risks** to our recommendation include lower-than-expected sales and a sharp rise in input costs.


**Analyst**

Soong Wei Siang
+603 9280 8865
soong.wei.siang@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (7.5) | 18.7 | 0.0 | 2.8 | 64.4 |
| Relative | 5.5 | 17.2 | 11.1 | 16.9 | 79.8 |
| 52-wk Price low/high (MYR) | | | | | 1.30 – 2.45 |




*Source: Bloomberg*

| Forecasts and Valuation | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 425 | 338 | 384 | 411 | 429 |
| Recurring net profit (MYRm) | 9 | 27 | 50 | 56 | 59 |
| Recurring net profit growth (%) | (78.8) | 195.9 | 81.9 | 12.4 | 5.9 |
| Recurring P/E (x) | 96.39 | 32.57 | 17.91 | 15.94 | 15.05 |
| P/B (x) | 4.3 | 4.1 | 3.9 | 3.7 | 3.5 |
| P/CF (x) | 54.75 | 21.42 | 19.12 | 15.53 | 14.14 |
| Dividend Yield (%) | 3.8 | 3.6 | 4.5 | 5.0 | 5.3 |
| EV/EBITDA (x) | 53.15 | 20.41 | 12.54 | 10.65 | 10.03 |
| Return on average equity (%) | 4.0 | 12.8 | 22.3 | 23.9 | 24.1 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Consumer Non-cyclical
**Power Root**
PWRT MK
Buy

**Valuation basis**

Discounted Cash Flow

**Key drivers**

i. Successful new product launches;
ii. Favourable raw material costs.

**Key risks**

i. Intense competition;
ii. Sharp rise in input costs.

**Company Profile**

Power Root manufactures and distributes beverage products in Malaysia. It also exports products, primarily to the Middle East. The company offers products under the Alicafe, Per'l, Ah Huat White Coffee, Alitea, Oligo, Per'l Café, Ah Huat Coco, and Power Root Extra brands.

| Financial summary (MYR) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.02 | 0.07 | 0.12 | 0.14 | 0.15 |
| DPS | 0.08 | 0.08 | 0.10 | 0.11 | 0.12 |
| BVPS | 0.52 | 0.54 | 0.57 | 0.60 | 0.63 |
| Return on average equity (%) | 4.0 | 12.8 | 22.3 | 23.9 | 24.1 |

| Valuation metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 96.39 | 32.57 | 17.91 | 15.94 | 15.05 |
| P/B (x) | 4.3 | 4.1 | 3.9 | 3.7 | 3.5 |
| FCF Yield (%) | 1.0 | 3.7 | 4.4 | 5.7 | 5.4 |
| Dividend Yield (%) | 3.8 | 3.6 | 4.5 | 5.0 | 5.3 |
| EV/EBITDA (x) | 53.15 | 20.41 | 12.54 | 10.65 | 10.03 |
| EV/EBIT (x) | 87.07 | 23.60 | 14.06 | 11.80 | 11.15 |

| Income statement (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total turnover | 425 | 338 | 384 | 411 | 429 |
| Gross profit | 175 | 163 | 182 | 198 | 206 |
| EBITDA | 16 | 43 | 69 | 81 | 86 |
| Depreciation and amortisation | (6) | (6) | (8) | (8) | (9) |
| Operating profit | 10 | 37 | 62 | 73 | 77 |
| Net interest | 1 | (1) | 0 | 1 | 1 |
| Pre-tax profit | 10 | 36 | 62 | 74 | 78 |
| Taxation | (1) | (9) | (12) | (18) | (19) |
| Reported net profit | 9 | 27 | 50 | 56 | 59 |
| Recurring net profit | 9 | 27 | 50 | 56 | 59 |

| Cash flow (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Change in w orking capital | 34.1 | 20.2 | (10.3) | (5.9) | (4.1) |
| Cash flow from operations | 16.3 | 41.6 | 46.6 | 57.4 | 63.0 |
| Capex | (7.0) | (8.7) | (7.0) | (7.0) | (15.0) |
| Cash flow from investing activities | (17.9) | (2.1) | (7.0) | (7.0) | (15.0) |
| Dividends paid | (34.0) | (23.1) | (40.2) | (44.2) | (47.4) |
| Cash flow from financing activities | (15.2) | (34.1) | (33.4) | (48.7) | (51.7) |
| Cash at beginning of period | 68.2 | 51.4 | 41.5 | 47.8 | 49.5 |
| Net change in cash | (16.8) | 5.4 | 6.3 | 1.7 | (3.7) |
| Ending balance cash | 51.4 | 56.8 | 47.8 | 49.5 | 45.8 |

| Balance sheet (MYRm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 51 | 42 | 48 | 49 | 46 |
| Tangible fixed assets | 75 | 82 | 81 | 80 | 87 |
| Total investments | 8 | 0 | 0 | 0 | 0 |
| Total assets | 347 | 332 | 360 | 373 | 385 |
| Short-term debt | 32 | 19 | 25 | 20 | 15 |
| Total long-term debt | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 137 | 113 | 131 | 133 | 132 |
| Total equity | 209 | 219 | 229 | 241 | 252 |
| Total liabilities & equity | 347 | 332 | 360 | 373 | 385 |

| Key metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Revenue grow th (%) | 6.3 | (20.4) | 13.7 | 6.9 | 4.5 |
| Recurrent EPS grow th (%) | (78.8) | 195.9 | 81.9 | 12.4 | 5.9 |
| Gross margin (%) | 41.1 | 48.2 | 47.4 | 48.2 | 48.1 |
| Operating EBITDA margin (%) | 3.8 | 12.6 | 18.0 | 19.7 | 20.0 |
| Net profit margin (%) | 2.2 | 8.1 | 13.0 | 13.6 | 13.8 |
| Dividend payout ratio (%) | 367.6 | 117.4 | 80.7 | 79.0 | 80.0 |
| Capex/sales (%) | 1.6 | 2.6 | 1.8 | 1.7 | 3.5 |
| Interest cover (x) | 17.1 | 58.9 | 84.4 | 96.7 | 131.5 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-28 | Buy | 2.80 | 2.23 |
| 2019-11-26 | Buy | 2.80 | 2.40 |
| 2019-09-05 | Buy | 2.49 | 2.10 |
| 2019-08-28 | Buy | 2.19 | 1.93 |
| 2019-07-16 | Buy | 2.19 | 1.83 |
| 2019-05-29 | Buy | 2.06 | 1.41 |
| 2019-05-10 | Buy | 2.02 | 1.30 |
| 2019-02-27 | Buy | 2.02 | 1.46 |
| 2018-11-28 | Buy | 2.20 | 1.38 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Non-cyclical | Food & Beverage

# Indofood CBP (ICBP IJ)

**Buy** (Maintained)

## Resilient Demand With Strong Pricing Power; BUY

| | |
|---|---|
| Target Price (Return): | IDR11,700 (+20%) |
| Price: | IDR9,750 |
| Market Cap: | USD7,634m |
| Avg Daily Turnover (IDR/USD) | 62,945m/4.23m |

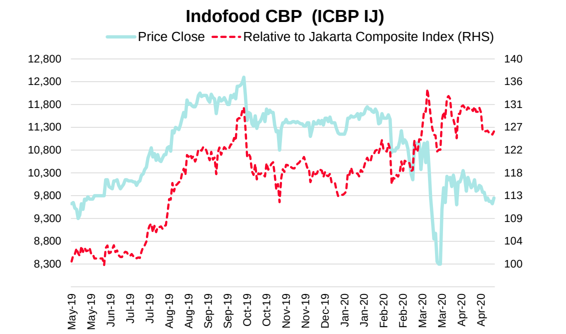
- **Maintain BUY and TP of IDR11,700, 20% upside and c.3% yield.** Being Indonesia's largest food FMCG manufacturer catering to primary needs, the company is a primary beneficiary of our STAY Home theme. Its strong brand equity and dominant market share have allowed it to control prices in the instant noodles industry. The fear of contamination in food delivery services has caused more consumers to cook while at home, with instant noodle as one of the most convenient meals.
- **ASP hike ahead of COVID-19.** Post 4Q19 results, management indicated that there was an ASP hike in Jan 2020 by 3-5%. As a result, we believe that company will deliver outstanding performance in FY20. Note that, Indonesia's main diet is instant noodles and rice. Management indicated that its strongest competitor, Wings Group, has also followed the price adjustment this year. This is in anticipation of higher flour prices, given wheat has rallied previously in February but continued to decline in March (flat YTD in IDR).
- **Strong volume growth and margin support.** We expect to see solid earnings in FY20 as sales volume indication is solid in 1Q20. Margins should expand as the company increases ASP ahead of raw materials inflation. We expect a soft *Aidil Fitri* due to the ongoing state of emergency but 1Q20 results should offset the soft volume during that period.
- **Consumption to remain soft in 2020 but F&B should stay solid.** Bank Indonesia's Apr 2020's Consumer Confidence Index showed signs of contraction, with a drop of 29 pts to 84.8. This was primarily held back by lower expectations of job availability in the near future. A Nielsen survey found that only groceries and household supplies saw an increase as large-scale social distancing measures were introduced. Additionally, lower disposable income and fear of being contamination via food delivery services may have increased efforts to cook at home.
- **Social aid and potentially lower fuel prices could improve demand.** An additional IDR58.9trn in cash transfer and social aid were announced by the Government due to COVID-19. This should cover about four months of loss in income, enough to cushion the weak economy with the expectation of recovery in 4Q20. In addition, potential lower fuel prices (given oil prices in IDR has fallen 56% YTD) should be another positive catalyst as fuel comprises c.9% of household monthly expenditure.
- **Key risks: corporate governance issue with the related-party transaction.** The company is in a due diligence process to acquire a sister company, Pinehill Company Ltd based in Africa. Any negative development in the potential transaction could provide negative sentiment on the stock. Nevertheless, management is required to seek for minority approval. Hence, the transaction value has to be acceptable.

**Analyst**

Michael Setjoadi
+6221 5093 9844
michael.setjoadi@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (12.6) | (3.5) | (15.0) | (14.5) | (0.8) |
| Relative | 13.8 | (3.3) | 7.1 | 10.1 | 24.5 |
| 52-wk Price low/high (IDR) | | | | | 8,300 – 12,400 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (IDRb) | 38,413 | 42,297 | 46,676 | 50,639 | 55,173 |
| Recurring net profit (IDRb) | 4,151 | 5,017 | 5,797 | 6,413 | 7,100 |
| Recurring net profit growth (%) | 1.7 | 20.8 | 15.5 | 10.6 | 10.7 |
| Recurring P/E (x) | 27.39 | 22.67 | 19.62 | 17.73 | 16.02 |
| P/B (x) | 5.3 | 4.5 | 4.0 | 3.7 | 3.4 |
| P/CF (x) | 27.65 | 15.89 | 17.83 | 15.76 | 14.10 |
| Dividend Yield (%) | 2.3 | 1.4 | 2.7 | 3.3 | 4.0 |
| EV/EBITDA (x) | 16.55 | 12.66 | 11.02 | 9.86 | 8.83 |
| Return on average equity (%) | 22.2 | 21.5 | 21.8 | 21.9 | 22.2 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Consumer Non-cyclical
**Indofood CBP**
ICBP IJ
Buy

**Valuation basis**

We derive our 12-month TP IDR11,700 based on 10-year DCF with WACC of 11.1% and terminal growth rate of 4%.

**Key drivers**

Defensive noodle demand

**Key risks**

i. Peaked margins on rising raw material prices;
ii. Unfavourable restructuring in its snacks division;
iii. Sooner-than-expected correction in commodities price recovery as global demand slowdown continues.

**Company Profile**

Indofood CBP manufactures instant noodles, dairy, baby food, food seasonings, coffee, and snacks.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 355.96 | 430.17 | 497.05 | 549.89 | 608.80 |
| DPS | 220.00 | 137.00 | 259.24 | 324.45 | 386.52 |
| BVPS | 1,853.81 | 2,169.53 | 2,409.45 | 2,637.16 | 2,861.94 |
| Return on average equity (%) | 22.2 | 21.5 | 21.8 | 21.9 | 22.2 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 27.39 | 22.67 | 19.62 | 17.73 | 16.02 |
| P/B (x) | 5.3 | 4.5 | 4.0 | 3.7 | 3.4 |
| FCF Yield (%) | 2.2 | 5.0 | 4.3 | 4.1 | 3.9 |
| Dividend Yield (%) | 2.3 | 1.4 | 2.7 | 3.3 | 4.0 |
| EV/EBITDA (x) | 16.55 | 12.66 | 11.02 | 9.86 | 8.83 |
| EV/EBIT (x) | 18.96 | 14.45 | 12.17 | 10.94 | 9.87 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 38,413 | 42,297 | 46,676 | 50,639 | 55,173 |
| Gross profit | 12,266 | 14,404 | 15,235 | 16,575 | 18,117 |
| EBITDA | 6,613 | 8,305 | 9,216 | 10,175 | 11,329 |
| Depreciation and amortisation | (841) | (1,027) | (866) | (1,002) | (1,194) |
| Operating profit | 5,772 | 7,278 | 8,351 | 9,173 | 10,135 |
| Net interest | 87 | 128 | 207 | 295 | 346 |
| Pre-tax profit | 6,447 | 7,437 | 8,592 | 9,504 | 10,522 |
| Taxation | (1,788) | (2,077) | (2,399) | (2,654) | (2,938) |
| Reported net profit | 4,576 | 5,039 | 5,821 | 6,439 | 7,129 |
| Recurring net profit | 4,151 | 5,017 | 5,797 | 6,413 | 7,100 |

| Cash flow (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (1,197) | 1,187 | (310) | (225) | (257) |
| Cash flow from operations | 4,112 | 7,155 | 6,376 | 7,216 | 8,065 |
| Capex | (1,577) | (1,438) | (1,464) | (2,569) | (3,645) |
| Cash flow from investing activities | (5,939) | (2,768) | (555) | (2,558) | (3,675) |
| Cash flow from financing activities | (2,243) | (754) | (3,415) | (2,935) | (3,554) |
| Cash at beginning of period | 8,797 | 4,727 | 8,359 | 10,766 | 12,489 |
| Net change in cash | (4,070) | 3,632 | 2,407 | 1,724 | 836 |
| Ending balance cash | 4,727 | 8,359 | 10,766 | 12,489 | 13,325 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 4,727 | 8,359 | 10,766 | 12,489 | 13,325 |
| Tangible fixed assets | 10,742 | 11,342 | 11,940 | 13,507 | 15,958 |
| Total investments | 2,705 | 3,890 | 3,890 | 3,890 | 3,890 |
| Total assets | 34,367 | 38,709 | 41,694 | 45,744 | 49,942 |
| Short-term debt | 1,391 | 654 | 808 | 858 | 913 |
| Total long-term debt | 667 | 1,695 | 0 | 0 | 0 |
| Total liabilities | 11,660 | 12,038 | 11,854 | 12,837 | 13,960 |
| Total equity | 22,707 | 26,671 | 29,840 | 32,906 | 35,982 |
| Total liabilities & equity | 34,367 | 38,709 | 41,694 | 45,744 | 49,942 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 7.9 | 10.1 | 10.4 | 8.5 | 9.0 |
| Recurrent EPS growth (%) | 1.7 | 20.8 | 15.5 | 10.6 | 10.7 |
| Gross margin (%) | 31.9 | 34.1 | 32.6 | 32.7 | 32.8 |
| Operating EBITDA margin (%) | 17.2 | 19.6 | 19.7 | 20.1 | 20.5 |
| Net profit margin (%) | 11.9 | 11.9 | 12.5 | 12.7 | 12.9 |
| Dividend payout ratio (%) | 56.1 | 31.7 | 51.9 | 58.8 | 63.2 |
| Capex/sales (%) | 4.1 | 3.4 | 3.1 | 5.1 | 6.6 |
| Interest cover (x) | 25.6 | 45.1 | 191.3 | 324.1 | 358.1 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-24 | Buy | 11,700 | 8,300 |
| 2019-12-27 | Neutral | 11,700 | 11,175 |
| 2019-08-01 | Buy | 12,300 | 10,700 |
| 2019-03-25 | Buy | 12,300 | 9,400 |
| 2019-01-30 | Buy | 12,300 | 10,775 |
| 2018-11-01 | Buy | 10,300 | 8,925 |
| 2018-10-03 | Buy | 10,300 | 8,825 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Non-cyclical | Food & Beverage

# Nippon Indosari (ROTI IJ)

**Buy** (Maintained)

## Growth Engine From New Markets; Stay BUY

| | |
|---|---|
| Target Price (Return): | IDR1,600 (+36%) |
| Price: | IDR1,180 |
| Market Cap: | USD489m |
| Avg Daily Turnover (IDR/USD) | 4,979m/0.33m |

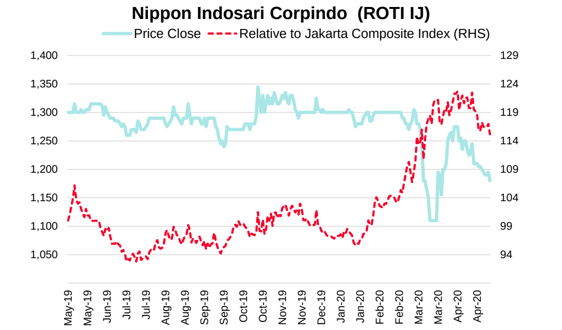
- **Maintain BUY and IDR1,600 TP, 36% upside.** Although convenience-type food (ie bread) may not be as resilient as their home-cooked equivalents, sales demand could still stem from four recent factory expansions to new markets in Indonesia's outer islands. Large-scale social distancing has made Nippon Indosari focus on residential areas and more product distribution through the general trade channel. ROTI should gain some market share from the temporary closure of boutique bakeries in shopping malls, which have a cumulative 12% market share.
- **Growth to be fuelled by new plants opening outside Java.** ROTI's new plants in Banjarmasin and Pekanbaru will commence operations in 2H20 – they will cater for demand in new markets to support sales growth, in our view. 2020F revenue should be positively impacted by full-year contributions from these new plants, on top of the company's still-growing distribution network. In addition, ROTI plans to add two additional plants this year, so that it can eventually reach a production capacity of 5.5m pieces/day (+10% YoY) and utilisation rate of 70%. The outer islands, eg Sumatera and Eastern Indonesia, have driven the company's consolidated sales growth: 1Q20 at IDR362bn (+26% YoY). Currently, these outer islands contribute c.40% to ROTI's revenue. Conversely, the company managed to improve its sales return rate to 11% for the domestic market, an improvement from 1Q19's 12.8%.
- **Higher demand in residential areas, focus on modern trade residential and general trade.** Due to the pandemic, ROTI has decided to shift its strategy to focus on residential areas, as workers and students – its main target markets – are mostly staying at home. As a result, ROTI has focused on modern trade channels with strong residential penetration – eg mini markets – as well as general trade channels. In addition, most boutique bakeries are closed during the Government's large-scale social distancing programme or PSBB. Cumulatively, these bakeries hold a c.12% market share in the industry. We also believe there could be an increase in demand for ROTI's products during this PSBB period.
- **Risks: delayed ASP and volume hike.** On the back of an expected weak purchasing power environment, the company is postponing its 2% ASP hike plan to the end of this year. It is still guiding for an 18% sales growth, though, with net margins at 9% (flat YoY). The Philippines market – with bread considered as a staple food – has seen a drop in demand. 1Q20 sales dropped 18% YoY, and there was a spike in the sales return rate, as the country has implemented a much more aggressive lockdown than Indonesia since February. Although the Philippines only contributed 2.9% to ROTI's sales, similar trends could be seen for the Indonesian market in 2Q20. However, a 9.3% share price underperformance YTD has mostly priced in most of the bad news, in our view.

**Analyst**

Michael Setjoadi
+6221 5093 9844
michael.setjoadi@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (9.2) | (7.5) | (9.2) | (10.3) | (9.2) |
| Relative | 17.2 | (7.3) | 12.9 | 14.3 | 16.1 |
| 52-wk Price low/high (IDR) | | | | | 1,110 – 1,345 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (IDRb) | 2,767 | 3,337 | 3,459 | 3,884 | 4,296 |
| Recurring net profit (IDRb) | 141 | 267 | 271 | 325 | 371 |
| Recurring net profit growth (%) | 21.4 | 88.6 | 1.6 | 19.9 | 14.2 |
| Recurring P/E (x) | 46.95 | 27.44 | 27.06 | 22.58 | 19.78 |
| P/B (x) | 2.6 | 2.4 | 2.2 | 2.0 | 1.9 |
| P/CF (x) | 30.14 | 18.30 | 15.73 | 12.71 | 11.55 |
| Dividend Yield (%) | 0.5 | 0.8 | 1.0 | 1.1 | 1.3 |
| EV/EBITDA (x) | 22.28 | 15.27 | 13.15 | 11.24 | 9.74 |
| Return on average equity (%) | 6.1 | 10.2 | 9.9 | 10.8 | 11.3 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Consumer Non-cyclical
**Nippon Indosari**
ROTI IJ
Buy

**Valuation basis**

10-year DCF with WACC of 9.3% and terminal growth rate of 3.5%.

**Key drivers**

Newly built factories unlocking values in new markets in Eastern Indonesia and a successful implementation of sales data analytics by lowering the sales return rate.

**Key risks**

i. Implementation risk to rollouts in new markets in the Philippines;
ii. Lower margins on higher depreciation costs from the new plants, as well as elevated wheat prices.
iii. Tight competition;
iv. Cut in fuel subsidies;
v. Weak consumer purchasing power.

**Company Profile**

Nippon Indosari manufactures, sells, and distributes breads. The company makes white and sweet breads, bread crumbs, and chiffon cupcakes. ROTI serves customers in Indonesia and the Philippines.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 25.13 | 43.00 | 43.60 | 52.26 | 59.66 |
| DPS | 5.82 | 9.62 | 12.12 | 12.68 | 15.09 |
| BVPS | 459.37 | 494.23 | 532.82 | 580.50 | 634.13 |
| Return on average equity (%) | 6.1 | 10.2 | 9.9 | 10.8 | 11.3 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 46.95 | 27.44 | 27.06 | 22.58 | 19.78 |
| P/B (x) | 2.6 | 2.4 | 2.2 | 2.0 | 1.9 |
| FCF Yield (%) | (2.2) | (1.5) | 1.2 | 4.7 | 5.2 |
| Dividend Yield (%) | 0.5 | 0.8 | 1.0 | 1.1 | 1.3 |
| EV/EBITDA (x) | 22.28 | 15.27 | 13.15 | 11.24 | 9.74 |
| EV/EBIT (x) | 44.83 | 23.55 | 19.81 | 16.47 | 14.03 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 2,767 | 3,337 | 3,459 | 3,884 | 4,296 |
| Gross profit | 1,492 | 1,849 | 1,836 | 2,062 | 2,288 |
| EBITDA | 279 | 453 | 526 | 591 | 653 |
| Depreciation and amortisation | (140) | (159) | (177) | (188) | (200) |
| Operating profit | 138 | 293 | 349 | 403 | 453 |
| Net interest | 2 | 3 | (17) | (6) | 1 |
| Pre-tax profit | 187 | 347 | 390 | 464 | 529 |
| Taxation | (60) | (111) | (98) | (116) | (132) |
| Reported net profit | 173 | 301 | 315 | 375 | 427 |
| Recurring net profit | 141 | 267 | 271 | 325 | 371 |

| Cash flow (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (81) | (36) | (24) | 14 | 8 |
| Cash flow from operations | 220 | 400 | 466 | 577 | 634 |
| Capex | (367) | (506) | (379) | (235) | (256) |
| Cash flow from investing activities | (407) | (425) | (389) | (269) | (289) |
| Dividends paid | (36) | (60) | (75) | (79) | (94) |
| Cash flow from financing activities | (414) | (84) | (301) | 33 | 26 |
| Cash at beginning of period | 1,895 | 1,295 | 1,186 | 964 | 1,305 |
| Net change in cash | (601) | (109) | (224) | 341 | 370 |
| Ending balance cash | 1,295 | 1,186 | 962 | 1,305 | 1,675 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 1,295 | 1,186 | 964 | 1,305 | 1,675 |
| Tangible fixed assets | 2,222 | 2,540 | 2,743 | 2,790 | 2,847 |
| Total assets | 4,394 | 4,682 | 4,695 | 5,172 | 5,689 |
| Short-term debt | 41 | 552 | 500 | 550 | 605 |
| Total long-term debt | 706 | 206 | 0 | 0 | 0 |
| Total liabilities | 1,477 | 1,589 | 1,341 | 1,494 | 1,649 |
| Total equity | 2,917 | 3,093 | 3,354 | 3,677 | 4,040 |
| Total liabilities & equity | 4,394 | 4,682 | 4,695 | 5,172 | 5,689 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 11.1 | 20.6 | 3.6 | 12.3 | 10.6 |
| Recurrent EPS growth (%) | 9.3 | 71.1 | 1.4 | 19.9 | 14.2 |
| Gross margin (%) | 53.9 | 55.4 | 53.1 | 53.1 | 53.3 |
| Operating EBITDA margin (%) | 10.1 | 13.6 | 15.2 | 15.2 | 15.2 |
| Net profit margin (%) | 6.2 | 9.0 | 9.1 | 9.6 | 9.9 |
| Dividend payout ratio (%) | 20.9 | 19.8 | 23.9 | 21.0 | 22.0 |
| Capex/sales (%) | 13.3 | 15.2 | 11.0 | 6.1 | 6.0 |
| Interest cover (x) | 1.68 | 4.43 | 6.58 | 11.53 | 11.77 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-03 | Buy | 1,600 | 1,280 |
| 2019-12-19 | Buy | 1,600 | 1,300 |
| 2019-10-10 | Neutral | 1,240 | 1,270 |
| 2019-07-23 | Neutral | 1,240 | 1,290 |
| 2019-06-18 | Neutral | 1,240 | 1,290 |
| 2019-04-24 | Neutral | 1,240 | 1,300 |
| 2019-03-15 | Neutral | 1,140 | 1,200 |
| 2018-10-23 | Neutral | 1,000 | 1,100 |

*Source: RHB, Bloomberg*

19 May 2020

Communications | Media

# Surya Citra Media (SCMA IJ)

## Neutral (Maintained)

## Stay Home: Vidio Gaining Traction

| | |
|---|---|
| Target Price (Return): | IDR915 (+14%) |
| Price: | IDR800 |
| Market Cap: | USD795m |
| Avg Daily Turnover (IDR/USD) | 24,721m/1.65m |

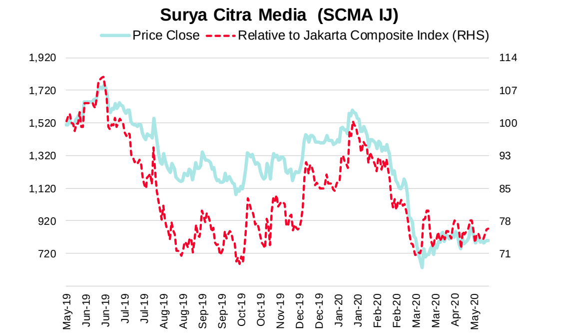
- **Maintain NEUTRAL and IDR915 TP, 14% upside with c.6% yield.** Despite lower ad spending, which impacted Surya Citra Media's free-to-air TV business, the company is benefiting from a rising number of users and subscribers of its over-the-top (OTT) platform Vidio.com. While the increased TV audience has not translated to higher ad spending due to advertisers' lower budgets, Vidio's increased figures may pave the way for the platform's profitability – not to mention attract potential strategic investors in the future, unlocking value for the company.
- **Rising active users and subscribers during stay at home.** As most people stay indoors during the large-scale social distancing imposed by the Government, media consumption has increased. TV audience numbers and users and subscribers of OTT platforms, including Vidio, have increased. Vidio recorded a jump of 30% in both monthly active users (MAU) to 60m and subscribers to 500,000. Although the company is still budgeting for a loss of IDR240-260bn for the year, the combined topline growth of the digital businesses (Vidio, KLY, and EYE) saw a 14% increase YoY during 1Q20, albeit still contributing a small 7% to total revenue.
- **New business model: live streaming to offset deferred revenue from live events.** Amidst COVID-19 movement restriction measures, SCMA is unable to host live events that were already planned, reducing potential revenue. The good news is that Vidio, along with the group's end-to-end media capabilities, enabled the company to host a live streaming event which was able to generate new revenue.
- **Seeking to unlock value of Vidio through strategic partnership.** SCMA has been looking for a strategic partnership for Vidio, in an effort to reduce its expenses. The increased MAU and conversion rate may be attractive to potential investors. This is especially considering that Vidio has an edge over other OTT platforms in Indonesia, due to the group's own local content production house and marketing capabilities. The inclusion of a strategic partnership would be crucial for the success of Vidio and the group as a whole, with profitability as its next focus.
- **Road to recovery is still long, but possible.** Although ad spend budgets are still seeing a slowdown at the moment, a recovery in earnings – which depends on an improvement in economic conditions – may lead to higher ad spending. Once consumer confidence returns, fast-moving consumer goods players may start to launch products once more. SCMA may also start to book revenue from the deferred live events once it is possible to resume these events. The group's increased viewership and decent audience share numbers may also translate to better ad spend ahead.

**Analyst**

Indonesia Research Team
+6221 5093 9842
rhb.id.research@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (43.3) | (4.8) | (41.6) | (38.0) | (46.3) |
| Relative | (14.8) | (2.2) | (18.4) | (11.5) | (21.7) |
| 52-wk Price low/high (IDR) | | | | | 635 – 1,750 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (IDRb) | 5,002 | 5,523 | 5,532 | 6,334 | 6,899 |
| Recurring net profit (IDRb) | 1,393 | 956 | 1,198 | 1,537 | 1,736 |
| Recurring net profit growth (%) | 8.2 | (31.4) | 25.3 | 28.3 | 12.9 |
| Recurring P/E (x) | 8.48 | 12.36 | 9.87 | 7.69 | 6.81 |
| P/B (x) | 2.6 | 2.4 | 2.1 | 1.9 | 1.7 |
| P/CF (x) | 7.25 | 9.60 | 6.73 | 5.86 | 6.45 |
| Dividend Yield (%) | 9.2 | 6.3 | 6.3 | 7.3 | 9.2 |
| EV/EBITDA (x) | 5.50 | 7.87 | 6.14 | 4.57 | 3.93 |
| Return on average equity (%) | 33.0 | 20.0 | 22.8 | 26.2 | 26.5 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Communications
**Surya Citra Media**
SCMA IJ
Neutral

**Valuation basis**

11x P/E

**Key drivers**

Our forecasts are most sensitive to:

i. Ad rate;
ii. Ad spend volume and occupancy rate;
iii. Digital revenue growth.

**Key risks**

i. Economic downturn, execution risk, and legal risk;
ii. Regulatory risks from new licensing fee.

**Company Profile**

Surya Citra Media owns and operates two FTA TV channels: Surya Citra Televisi (SCTV) and Indosiar Visual Mandiri (Indosiar/IVM). The company also operates in house production, talent management, out-of-home (OOH) billboards, and OTT platform.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 94.31 | 64.72 | 81.08 | 104.03 | 117.50 |
| DPS | 73.89 | 50.25 | 50.70 | 58.18 | 73.30 |
| BVPS | 308.75 | 336.82 | 374.49 | 421.03 | 465.91 |
| Return on average equity (%) | 33.0 | 20.0 | 22.8 | 26.2 | 26.5 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 8.48 | 12.36 | 9.87 | 7.69 | 6.81 |
| P/B (x) | 2.6 | 2.4 | 2.1 | 1.9 | 1.7 |
| FCF Yield (%) | 14.0 | 6.6 | 13.2 | 15.4 | 13.8 |
| Dividend Yield (%) | 9.2 | 6.3 | 6.3 | 7.3 | 9.2 |
| EV/EBITDA (x) | 5.50 | 7.87 | 6.14 | 4.57 | 3.93 |
| EV/EBIT (x) | 5.95 | 8.91 | 6.84 | 5.02 | 4.31 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 5,002 | 5,523 | 5,532 | 6,334 | 6,899 |
| Gross profit | 2,845 | 2,660 | 2,955 | 3,577 | 3,949 |
| EBITDA | 2,096 | 1,507 | 1,804 | 2,258 | 2,544 |
| Depreciation and amortisation | (159) | (177) | (185) | (204) | (224) |
| Operating profit | 1,938 | 1,331 | 1,619 | 2,054 | 2,320 |
| Net interest | (22) | (43) | (5) | 5 | 5 |
| Pre-tax profit | 1,906 | 1,288 | 1,614 | 2,059 | 2,325 |
| Taxation | (494) | (322) | (406) | (512) | (579) |
| Reported net profit | 1,393 | 956 | 1,198 | 1,537 | 1,736 |
| Recurring net profit | 1,393 | 956 | 1,198 | 1,537 | 1,736 |

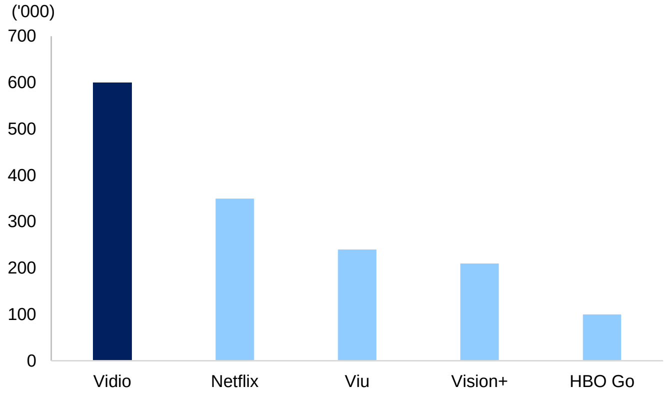
| Cash flow (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (8) | (229) | 352 | 273 | (133) |
| Cash flow from operations | 1,631 | 1,231 | 1,755 | 2,017 | 1,831 |
| Capex | 27 | (450) | (200) | (200) | (200) |
| Cash flow from investing activities | (193) | (617) | (375) | (392) | (412) |
| Dividends paid | (1,092) | (742) | (749) | (860) | (1,083) |
| Cash flow from financing activities | (833) | (1,064) | (671) | (860) | (1,083) |
| Cash at beginning of period | 234 | 830 | 545 | 1,311 | 2,062 |
| Net change in cash | 605 | (449) | 709 | 765 | 337 |
| Ending balance cash | 839 | 380 | 1,254 | 2,077 | 2,399 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 830 | 545 | 1,311 | 2,062 | 2,382 |
| Tangible fixed assets | 1,050 | 1,502 | 1,702 | 1,902 | 2,102 |
| Total assets | 6,138 | 6,717 | 7,470 | 8,207 | 8,909 |
| Short-term debt | 16 | 0 | 0 | 0 | 0 |
| Total long-term debt | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 1,035 | 1,228 | 1,366 | 1,426 | 1,475 |
| Total equity | 5,103 | 5,489 | 6,104 | 6,781 | 7,434 |
| Total liabilities & equity | 6,138 | 6,717 | 7,470 | 8,207 | 8,909 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 12.3 | 10.4 | 0.1 | 14.5 | 8.9 |
| Recurrent EPS growth (%) | 8.2 | (31.4) | 25.3 | 28.3 | 12.9 |
| Gross margin (%) | 56.9 | 48.2 | 53.4 | 56.5 | 57.2 |
| Operating EBITDA margin (%) | 41.9 | 27.3 | 32.6 | 35.7 | 36.9 |
| Net profit margin (%) | 27.9 | 17.3 | 21.7 | 24.3 | 25.2 |
| Dividend payout ratio (%) | 78.4 | 77.6 | 62.5 | 55.9 | 62.4 |
| Capex/sales (%) | (0.5) | 8.1 | 3.6 | 3.2 | 2.9 |
| Interest cover (x) | (668) | (578) | (324) | (411) | (464) |

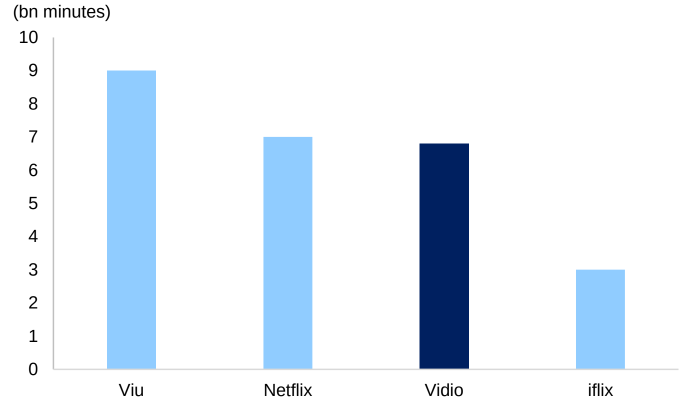
*Source: Company data, RHB*

**Figure 1: Top OTT platforms by paying subscribers (Indonesia)**



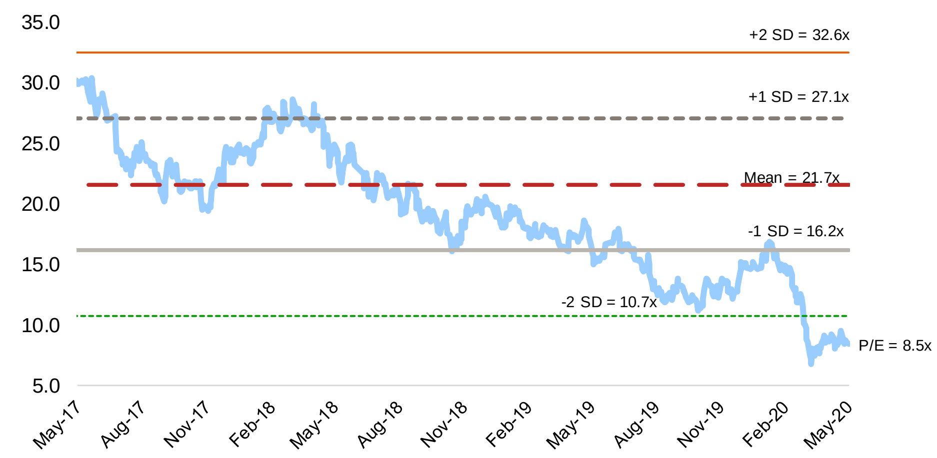

*Source: Company data, RHB*

**Figure 2: Top OTT platforms by minutes streamed (Indonesia)**




*Source: Company data, RHB*

**Figure 3: SCMA's 3-year P/BV band**




*Source: Bloomberg, RHB*

- SCMA is currently trading at 8.5x P/E (Bloomberg estimate EPS), below its -2SD from its past 3-year mean

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-04 | Neutral | 915 | 820 |
| 2020-04-15 | Neutral | 940 | 840 |
| 2019-11-05 | Buy | 1,870 | 1,185 |
| 2019-08-01 | Buy | 2,415 | 1,470 |
| 2019-04-23 | Buy | 2,800 | 1,680 |
| 2019-04-05 | Buy | 2,800 | 1,615 |
| 2019-04-01 | Buy | 2,800 | 1,635 |
| 2019-03-12 | Buy | 2,800 | 1,795 |
| 2018-11-29 | Buy | 2,800 | 1,950 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Cyclical | Retailing

# Sheng Siong (SSG SP)

**Buy** (Maintained)

## More Sales As More People Stay Home; Stay BUY

| | |
|---|---|
| Target Price (Return): | SGD1.63 (+11%) |
| Price: | SGD1.47 |
| Market Cap: | USD1,560m |
| Avg Daily Turnover (SGD/USD) | 6.15m/4.34m |

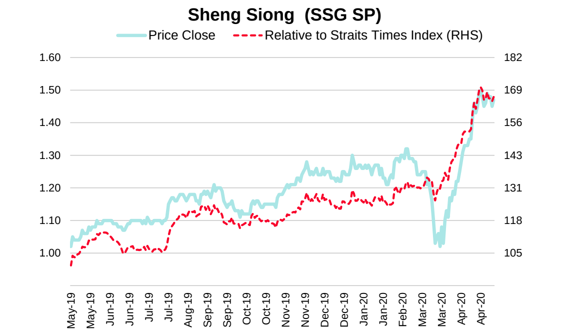
- **Maintain BUY and TP SGD1.63,** 11% upside and 3% yield. Grocery sales are likely to stay heightened as a result of the prolonged social impact from COVID-19. Although Singapore is poised to see a gradual easing of movement restrictions in June, working from home and eating at home are likely to remain the norm for some time. With most of its outlets located in the heartlands of Singapore, we expect Sheng Siong to benefit as grocery pickup is made easier for consumers staying at home.
- **Benefiting from STAY Home theme.** Sheng Siong saw a 31% YoY jump in 1Q20 sales, triggered by a spate of panic buying following the COVID-19 outbreak. With the circuit breaker measures implemented from 7 Apr-1 Jun, we expect grocery sales to stay elevated in 2Q20, with demand shifting from pantry-loading and stocking up of necessities to more fresh produce for eating at home. Besides more people staying at home as result of workplace and school closures, the restrictions on dining out and closure of non-essential standalone food & beverage (F&B) businesses (beverages, snacks, dessert stores) are also likely to shift demand to supermarkets.
- **Outlook for the next 12 months.** Ministers have stated that working from home would remain for the foreseeable future. Dining out at F&B places would also take a longer time to resume even as circuit breaker measures are eased in phases. As such, we still expect more people to stay at home compared to pre-COVID-19 days. This would continue to support grocery retail. Management expects revenue to taper off from the elevated levels when COVID-19 is contained. YTD, Sheng Siong has secured five new stores. The maturing of these new stores could help to cushion tapering sales when the pandemic is over.
- **Success factors.** Sheng Siong has a wide outreach to the masses. Most of its outlets are located in residential estates, which makes grocery shopping at its outlets convenient amidst the work-from-home trend. The group's ability to act swiftly during this period further enables it to leverage on the situation to capture sales. Having recently expanded its distribution centre, the group is carrying more inventories in anticipation of higher sales and potential disruption in supply chain. It also diversified its suppliers to prevent stock out situations. In addition, following the Movement Control Order in Malaysia, the group was able to quickly arrange accommodation for its Malaysian staff to prevent labour disruption during the period.
- **Key risks.** Successful development and mass production of a COVID-19 vaccine could quickly end the stay-at-home trend. Escalation of COVID-19 cases in neighbouring countries could cause supply disruptions.


**Analyst**

Juliana Cai
+65 6232 3871
juliana.cai@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 18.5 | 20.5 | 19.5 | 24.6 | 41.3 |
| Relative | 38.7 | 12.8 | 39.1 | 45.4 | 65.5 |
| 52-wk Price low/high (SGD) | | | | | 1.02 – 1.50 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 891 | 991 | 1,174 | 1,127 | 1,178 |
| Recurring net profit (SGDm) | 71 | 76 | 97 | 91 | 97 |
| Recurring net profit growth (%) | 4.7 | 7.0 | 27.8 | (5.9) | 6.0 |
| Recurring P/E (x) | 31.22 | 29.18 | 22.83 | 24.26 | 22.88 |
| P/B (x) | 7.6 | 7.1 | 6.5 | 6.0 | 5.5 |
| P/CF (x) | 23.97 | 18.84 | 17.51 | 17.90 | 17.18 |
| Dividend Yield (%) | 2.3 | 2.4 | 3.1 | 2.9 | 3.1 |
| EV/EBITDA (x) | 21.20 | 19.31 | 14.70 | 15.05 | 14.13 |
| Return on average equity (%) | 25.2 | 25.1 | 29.5 | 25.6 | 24.7 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Consumer Cyclical
**Sheng Siong**
SSG SP
Buy

**Valuation basis**

DCF valuation

**Key drivers**

New store openings and SSSG

**Key risks**

i. Inventory shortage in the event of major supply chain disruptions;
ii. Inability to find affordable areas to lease; and
iii. Market sell-down.

**Company Profile**

With 52 stores located in suburban areas, Sheng Siong operates the third-largest supermarket chain in Singapore that caters to the country's mass market.

| Financial summary (SGD) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.05 | 0.05 | 0.06 | 0.06 | 0.06 |
| DPS | 0.03 | 0.04 | 0.05 | 0.04 | 0.05 |
| BVPS | 0.19 | 0.21 | 0.23 | 0.25 | 0.27 |
| Return on average equity (%) | 25.2 | 25.1 | 29.5 | 25.6 | 24.7 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 31.22 | 29.18 | 22.83 | 24.26 | 22.88 |
| P/B (x) | 7.6 | 7.1 | 6.5 | 6.0 | 5.5 |
| FCF Yield (%) | 2.9 | 2.9 | 5.2 | 5.1 | 5.3 |
| Dividend Yield (%) | 2.3 | 2.4 | 3.1 | 2.9 | 3.1 |
| EV/EBITDA (x) | 21.20 | 19.31 | 14.70 | 15.05 | 14.13 |
| EV/EBIT (x) | 25.36 | 23.07 | 17.61 | 18.36 | 17.24 |

| Income statement (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 891 | 991 | 1,174 | 1,127 | 1,178 |
| Gross profit | 238 | 267 | 318 | 305 | 319 |
| EBITDA | 100 | 111 | 142 | 136 | 141 |
| Depreciation and amortisation | (16) | (18) | (23) | (24) | (26) |
| Operating profit | 84 | 93 | 119 | 111 | 116 |
| Net interest | 1 | (1) | (1) | 0 | 1 |
| Pre-tax profit | 85 | 92 | 118 | 112 | 117 |
| Taxation | (14) | (16) | (20) | (19) | (20) |
| Reported net profit | 71 | 76 | 97 | 91 | 95 |
| Recurring net profit | 71 | 76 | 97 | 91 | 97 |

| Cash flow (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | 6.9 | (2.2) | 3.6 | 5.0 | 4.6 |
| Cash flow from operations | 92.2 | 117.3 | 126.2 | 123.5 | 128.7 |
| Capex | (27.9) | (53.5) | (10.6) | (10.6) | (10.6) |
| Cash flow from investing activities | (27.0) | (52.2) | (10.6) | (10.6) | (10.6) |
| Dividends paid | (51.1) | (52.6) | (68.6) | (64.8) | (67.8) |
| Cash flow from financing activities | (51.1) | (75.9) | (68.6) | (64.8) | (67.8) |
| Cash at beginning of period | 73.4 | 87.2 | 76.4 | 123.4 | 171.5 |
| Net change in cash | 14.1 | (10.8) | 47.0 | 48.1 | 50.2 |
| Ending balance cash | 87.6 | 76.5 | 123.4 | 171.5 | 221.7 |

| Balance sheet (SGDm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 87 | 76 | 123 | 171 | 222 |
| Tangible fixed assets | 266 | 295 | 282 | 269 | 254 |
| Total assets | 436 | 533 | 589 | 611 | 649 |
| Total liabilities | 144 | 217 | 243 | 236 | 243 |
| Total equity | 292 | 315 | 346 | 375 | 406 |
| Total liabilities & equity | 436 | 533 | 589 | 611 | 649 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 7.4 | 11.3 | 18.4 | (4.0) | 4.5 |
| Recurrent EPS growth (%) | 4.7 | 7.0 | 27.8 | (5.9) | 6.0 |
| Gross margin (%) | 26.8 | 26.9 | 27.1 | 27.1 | 27.1 |
| Operating EBITDA margin (%) | 11.3 | 11.2 | 12.1 | 12.1 | 12.0 |
| Net profit margin (%) | 7.9 | 7.6 | 8.2 | 8.1 | 8.1 |
| Dividend payout ratio (%) | 72.2 | 70.5 | 70.9 | 71.1 | 71.2 |
| Capex/sales (%) | 3.1 | 5.4 | 0.9 | 0.9 | 0.9 |
| Interest cover (x) | | 46 | 59 | 55 | 57 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-04-29 | Buy | 1.63 | 1.49 |
| 2020-02-23 | Buy | 1.42 | 1.29 |
| 2019-12-10 | Buy | 1.39 | 1.26 |
| 2019-10-31 | Buy | 1.32 | 1.17 |
| 2019-07-30 | Buy | 1.32 | 1.15 |
| 2019-04-30 | Buy | 1.23 | 1.03 |
| 2019-03-15 | Buy | 1.25 | 1.09 |
| 2019-02-27 | Buy | 1.25 | 1.09 |
| 2018-11-01 | Buy | 1.27 | 1.05 |

*Source: RHB, Bloomberg*

# Thailand Company Update

19 May 2020

Consumer Cyclical | Retailing

# Berli Jucker (BJC TB)

**Buy** (Maintained)

## Another Staple Retail Play; Keep BUY

| | |
|---|---|
| Target Price (Return): | THB49.00 (+32%) |
| Price: | THB37.00 |
| Market Cap: | USD4,619m |
| Avg Daily Turnover (THB/USD) | 393m/12.2m |

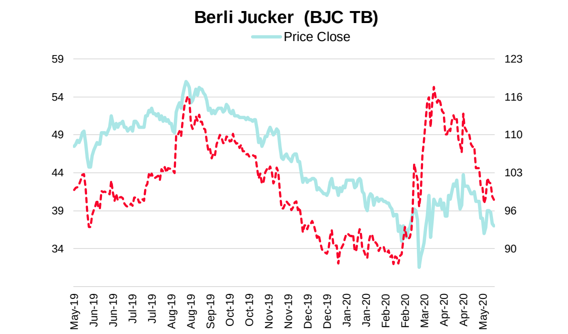
- **BUY, with DCF-based FY20F THB49.00 TP, 32% upside and c.2% yield.** ~80% of earnings from Berli Jucker's three business supply chains may benefit from a COVID-19-led windfall. We expect improved 2H20 performances from a low base. Social distancing measures may help boost Big C's staple ticket size to partially offset smaller stores' customer traffic.
- **Discount store proxy.** BJC operates Big C – Thailand's second-largest discount store network – which comprises 151 hypermarkets, 61 supermarkets, and 1,016 proximity stores. As CP ALL (CPALL TB, BUY, TP: THB84.00) is acquiring market leader Tesco Lotus and earnings performance may be partially booked as share of profits from equity investments, we believe Big C – which contributes almost two-thirds of earnings – should be a better proxy for this retail platform.
- **Another stockpiling destination.** Apart from cash-and-carry wholesales, discount stores are another platform that may benefit from a COVID-19-led windfall, given several instances of people stockpiling necessities. General consumers, particularly the middle-to-lower income segments, may prefer discount stores' products assortment, pricing, and accessibility vis-à-vis wholesalers. All Big C stores are open during Thailand's lockdown period (late March to end May), but with non-food sections (18% of group revenue) temporarily closed in accordance with government restriction measures.
- **SSSG and margins set to improve.** Similar to other staple retailers, it is likely that Big C will generate a bigger sales basket size, which may help offset the slower customer traffic during this period. It should also help maintain profit margins on a sales mix change due to the increase in fresh food and having no marketing campaigns to attract shoppers. SSSG improved to -5.3% YoY in 1Q20 (4Q19: -6.3% YoY). Despite a poor 2Q20F outlook, we believe possible business unlocking from June onwards will ramp up economic activities and may gradually ease in a 2H20 recovery in SSSG vs a low base of -5.6% YoY during the same period last year.
- **Upstream businesses are another support.** This segment includes consumer products manufacturing (eg tissue paper, personal care items, and snacks) and BJC's healthcare supply chain, ie medical equipment imports. It contributed an aggregated c.19% to net profit, and may gain an advantages from COVID-19's spread. Going forward, rising hygienic and health consciousness may create opportunities for BJC to deliver more products to capture such trends and bolster its earnings performance.
- **Post COVID-19,** the aftereffects to purchasing power may further undermine discretionary retail sales, but staple goods should remain favourable. Possible measures to limit the number of customers allowed at a time at retail stores, for hygiene and safety, may continue enhancing customer ticket sizes. Big C is still upgrading its online sales platform, which may help boost long-term sales from <1% of 2019 revenue currently.


**Analyst**

Vatcharut Vacharawongsith
+66 2088 9736
vatcharut.va@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (11.9) | (9.2) | (7.5) | (19.1) | (24.1) |
| Relative | 7.0 | (12.8) | 8.6 | 1.0 | (3.1) |
| 52-wk Price low/high (THB) | | | | | 31.50 – 56.00 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 156,142 | 158,009 | 155,855 | 162,273 | 169,441 |
| Recurring net profit (THBm) | 6,444 | 7,497 | 6,061 | 7,567 | 8,936 |
| Recurring net profit growth (%) | 25.8 | 16.3 | (19.2) | 24.8 | 18.1 |
| Recurring P/E (x) | 22.96 | 19.77 | 24.46 | 19.59 | 16.59 |
| P/B (x) | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 |
| P/CF (x) | 9.03 | 7.70 | 10.41 | 10.06 | 9.17 |
| Dividend Yield (%) | 2.0 | 2.5 | 1.8 | 2.3 | 2.7 |
| EV/EBITDA (x) | 12.70 | 12.33 | 13.07 | 11.69 | 10.57 |
| Return on average equity (%) | 6.1 | 6.4 | 5.2 | 6.3 | 7.1 |
| Net debt to equity (%) | 132.5 | 126.2 | 119.9 | 110.1 | 99.8 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Thailand
Consumer Cyclical
**Berli Jucker**
BJC TB
Buy

**Valuation basis**

DCF

**Key drivers**

i. Overseas business expansion;
ii. Production capacity increases;
iii. Attaining new customers for the packaging business;
iv. Opening of new Big C stores;
v. Consumers' stockpiling necessities.

**Key risks**

i. Domestic consumption remains weak;
ii. Raw material price volatility;
iii. Intense competition in hypermarkets, which may squeeze profit margins;
iv. Uncertainties, ie natural disasters and political unrest.

**Company Profile**

Berli Jucker is a Thai consumer conglomerate. It operates four business lines: Packaging products (glass bottles and aluminium cans), consumer products (tissue paper, snacks, and personal products), technical & healthcare products, and modern retailers. The company also has presence in Cambodia, Laos, Myanmar, and Vietnam – particularly in the latter nation.

| Financial summary (THB) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 1.61 | 1.87 | 1.51 | 1.89 | 2.23 |
| DPS | 0.73 | 0.91 | 0.68 | 0.85 | 1.00 |
| BVPS | 27.78 | 28.84 | 29.52 | 30.68 | 32.02 |
| Return on average equity (%) | 6.1 | 6.4 | 5.2 | 6.3 | 7.1 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 22.96 | 19.77 | 24.46 | 19.59 | 16.59 |
| P/B (x) | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 |
| FCF Yield (%) | 3.9 | 7.8 | 4.5 | 6.2 | 7.2 |
| Dividend Yield (%) | 2.0 | 2.5 | 1.8 | 2.3 | 2.7 |
| EV/EBITDA (x) | 12.70 | 12.33 | 13.07 | 11.69 | 10.57 |
| EV/EBIT (x) | 19.83 | 19.13 | 21.06 | 18.12 | 15.96 |

| Income statement (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 156,142 | 158,009 | 155,855 | 162,273 | 169,441 |
| Gross profit | 29,968 | 30,889 | 30,216 | 31,697 | 33,329 |
| EBITDA | 21,000 | 21,505 | 20,111 | 22,027 | 23,756 |
| Depreciation and amortisation | (7,556) | (7,652) | (7,629) | (7,826) | (8,018) |
| Operating profit | 13,444 | 13,853 | 12,482 | 14,201 | 15,739 |
| Net interest | (4,719) | (4,971) | (4,880) | (4,710) | (4,530) |
| Pre-tax profit | 8,931 | 8,664 | 7,602 | 9,491 | 11,209 |
| Taxation | (1,647) | (890) | (1,140) | (1,424) | (1,681) |
| Reported net profit | 6,650 | 7,278 | 6,061 | 7,567 | 8,936 |
| Recurring net profit | 6,444 | 7,497 | 6,061 | 7,567 | 8,936 |

| Cash flow (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (1,399) | 155 | 669 | (658) | (795) |
| Cash flow from operations | 16,393 | 19,245 | 14,236 | 14,734 | 16,159 |
| Capex | (10,693) | (7,640) | (7,500) | (5,500) | (5,500) |
| Cash flow from investing activities | (11,155) | (8,397) | (7,332) | (5,621) | (5,628) |
| Dividends paid | (2,399) | (2,923) | (3,743) | (2,931) | (3,590) |
| Cash flow from financing activities | (3,896) | (10,496) | (8,236) | (8,355) | (10,877) |
| Cash at beginning of period | 4,368 | 5,710 | 6,062 | 4,730 | 5,488 |
| Net change in cash | 1,342 | 352 | (1,332) | 758 | (345) |
| Ending balance cash | 5,710 | 6,062 | 4,730 | 5,488 | 5,143 |

| Balance sheet (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 6,278 | 6,346 | 4,730 | 5,488 | 5,143 |
| Tangible fixed assets | 79,027 | 80,524 | 81,857 | 80,821 | 79,598 |
| Total investments | 39,389 | 38,872 | 37,721 | 36,528 | 35,335 |
| Total assets | 324,060 | 325,804 | 321,545 | 321,054 | 319,509 |
| Short-term debt | 55,777 | 41,872 | 32,000 | 36,000 | 38,000 |
| Total long-term debt | 103,924 | 115,603 | 120,000 | 110,000 | 100,000 |
| Total liabilities | 208,286 | 206,068 | 198,721 | 193,465 | 186,373 |
| Total equity | 115,774 | 119,736 | 122,824 | 127,590 | 133,136 |
| Total liabilities & equity | 324,060 | 325,804 | 321,545 | 321,054 | 319,509 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 4.7 | 1.2 | (1.4) | 4.1 | 4.4 |
| Recurrent EPS growth (%) | 25.6 | 16.2 | (19.2) | 24.8 | 18.1 |
| Gross margin (%) | 19.2 | 19.5 | 19.4 | 19.5 | 19.7 |
| Operating EBITDA margin (%) | 13.4 | 13.6 | 12.9 | 13.6 | 14.0 |
| Net profit margin (%) | 4.3 | 4.6 | 3.9 | 4.7 | 5.3 |
| Dividend payout ratio (%) | 36.1 | 40.2 | 0.0 | 0.0 | 0.0 |
| Capex/sales (%) | 6.8 | 4.8 | 4.8 | 3.4 | 3.2 |
| Interest cover (x) | 2.85 | 2.79 | 2.56 | 3.02 | 3.47 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2019-08-30 | Buy | 61.0 | 54.3 |
| 2019-02-20 | Buy | 65.0 | 48.0 |
| 2018-09-28 | Buy | 73.0 | 59.5 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Cyclical | Retailing

# CP ALL (CPALL TB)

**Buy** (Maintained)

## Best-In-Class Thai Retailer; Keep BUY

| | |
|---|---|
| Target Price (Return): | THB84.00 (+21%) |
| Price: | THB69.50 |
| Market Cap: | USD19,451m |
| Avg Daily Turnover (THB/USD) | 2,637m/82.0m |

- **BUY with DCF-based THB84.00 TP, 21% upside and c.2% yield.** As our Thai retailer Top Pick, we believe CP ALL will see the least COVID-19 impact vs its local peers. While 7-Eleven may see some challenges, Siam Makro (Makro) may stay strong, which should help sustain 2020 earnings. Synergies with Charoen Pokphand Group (CP) may help CPALL develop platforms and capture the food and retail new normal going forward.
- **CPALL is Thailand's biggest staple retailer** in sales and stores coverage terms, based on the 7-Eleven convenience store (CVS) network (78% of earnings) – the country's largest – and Makro cash-and-carry wholesaler chain (22% of net profit). 7-Eleven remains a key ready-to-eat food hub during the lockdown, when dine-in activities at restaurants and stalls are temporarily prohibited due to social distancing measures. Some CVS at gas stations, business areas, and tourist destinations were affected by low traffic volumes during this period, though. We expect limited impact from the night curfews, as this off-peak period may only contribute <10% to CVS sales.
- **The Makro business has been on fire,** as consumers stockpile necessities in bulk during the lockdown. Robust sales for fresh and dry food have completely offset those of non-food items, which have been temporarily halted. There was also a sales decline from small hotel operators. These two represent <10% of Makro's topline. All this resulted in an outstanding 1Q20 SSSG of 7% YoY (1Q19: +4.4% YoY) and a 0.2ppts YoY GPM hike. We expect the strong profit margins momentum to continue in 2Q20, although SSSG may hit bottom.
- **FY20 outlook.** 7-Eleven's performance may be softer than Makro's, but we still see limited downside of <10% to CPALL's FY20F earnings. We believe it will see the least impact to bottomline from COVID-19 vis-à-vis its Thai retail peers. It is inevitable that we will see a weak 2Q20 results due to a high base in 2Q19, but we expect a gradual recovery in CVS sales in 2H20. This is amid rising opex from hygiene issues to its massive store network – c.12,000 and 134 7-Eleven and Makro stores – as the new challenge.
- **Post the pandemic period,** investments in new CVS remain unchanged at 700 stores pa, while Makro may lean on the side of caution in 2020, but are likely to resume next year. This includes overseas expansion, which should be CPALL's key longer-term growth driver. Cooking-at-home and food delivery activities may also become the new normal for the food & beverage sector, while the tourism industry may start to see a FY21 rebound and become sustainable going forward. These factors may consequently benefit Makro. Additionally, both store platforms may attain synergies with CPALL's parent CP – Thailand's agricultural and telco conglomerate – in developing food retail and groceries delivery logistics, as well as an omni-channel business model to capture the new normal.

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 508,212 | 550,901 | 591,412 | 643,399 | 695,829 |
| Recurring net profit (THBm) | 21,203 | 23,049 | 24,340 | 27,871 | 31,636 |
| Recurring net profit growth (%) | 6.5 | 8.7 | 5.6 | 14.5 | 13.5 |
| Recurring P/E (x) | 29.45 | 27.09 | 25.65 | 22.40 | 19.73 |
| P/B (x) | 9.3 | 8.1 | 6.7 | 5.7 | 4.9 |
| P/CF (x) | 12.20 | 16.46 | 13.98 | 13.71 | 12.37 |
| Dividend Yield (%) | 1.7 | 1.8 | 1.9 | 2.2 | 2.5 |
| EV/EBITDA (x) | 17.70 | 16.85 | 15.45 | 13.84 | 12.43 |
| Return on average equity (%) | 33.2 | 29.9 | 28.5 | 27.5 | 26.8 |
| Net debt to equity (%) | 118.3 | 105.7 | 80.0 | 61.8 | 45.9 |

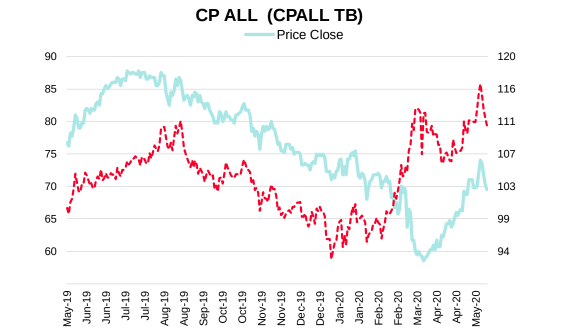
*Source: Company data, RHB*

**Analyst**

Vatcharut Vacharawongsith
+66 2088 9736
vatcharut.va@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (3.8) | 9.0 | (0.4) | (10.6) | (9.2) |
| Relative | 15.1 | 5.4 | 15.7 | 9.5 | 11.8 |
| 52-wk Price low/high (THB) | | | | | 58.50 – 87.75 |




*Source: Bloomberg*

# Financial Exhibits

**Asia**
Thailand
Consumer Cyclical
**CP ALL**
CPALL TB
Buy

**Valuation basis**

DCF-based.

**Key drivers**

i. Opening of new stores both in Thailand and overseas;
ii. Launches of new and exclusive products;
iii. Rising sales contributed from high-GPM ready-to-eat and private label products.

**Key risks**

i. Slowdown in domestic consumption;
ii. Intense competition in hypermarkets, which may squeeze the profit margins of the cash-and-carry retail stores;
iii. Increasing financial leverage.

**Company Profile**

CP ALL is the sole operator of 7-Eleven stores in Thailand with a 53% market share. The company has more than 11,712 stores across the country as at 2019 and plans to expand to 13,000 stores by 2021. In 2013, the group acquired the country's biggest cash-and-carry retailer, Makro. As of 2019, Makro operates 134 stores throughout Thailand and seven stores overseas, including Cambodia, India, and China.

| **Financial summary (THB)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Recurring EPS | 2.36 | 2.57 | 2.71 | 3.10 | 3.52 |
| DPS | 1.20 | 1.25 | 1.35 | 1.55 | 1.76 |
| BVPS | 7.49 | 8.62 | 10.41 | 12.16 | 14.13 |
| Return on average equity (%) | 33.2 | 29.9 | 28.5 | 27.5 | 26.8 |

| **Valuation metrics** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Recurring P/E (x) | 29.45 | 27.09 | 25.65 | 22.40 | 19.73 |
| P/B (x) | 9.3 | 8.1 | 6.7 | 5.7 | 4.9 |
| FCF Yield (%) | 5.9 | 3.7 | 4.3 | 4.1 | 4.6 |
| Dividend Yield (%) | 1.7 | 1.8 | 1.9 | 2.2 | 2.5 |
| EV/EBITDA (x) | 17.70 | 16.85 | 15.45 | 13.84 | 12.43 |
| EV/EBIT (x) | 23.41 | 22.50 | 20.64 | 18.48 | 16.60 |

| **Income statement (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Total turnover | 508,212 | 550,901 | 591,412 | 643,399 | 695,829 |
| Gross profit | 113,581 | 124,838 | 134,546 | 147,342 | 160,358 |
| EBITDA | 42,792 | 44,705 | 47,800 | 52,413 | 57,250 |
| Depreciation and amortisation | (10,444) | (11,220) | (12,012) | (13,154) | (14,408) |
| Operating profit | 32,347 | 33,485 | 35,788 | 39,260 | 42,842 |
| Net interest | (7,196) | (6,721) | (6,461) | (5,678) | (4,725) |
| Pre-tax profit | 24,878 | 26,058 | 29,327 | 33,582 | 38,118 |
| Taxation | (3,969) | (4,070) | (4,692) | (5,373) | (6,099) |
| Reported net profit | 20,656 | 21,638 | 24,340 | 27,871 | 31,636 |
| Recurring net profit | 21,203 | 23,049 | 24,340 | 27,871 | 31,636 |

| **Cash flow (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Change in working capital | (4,991) | (5,788) | 12,187 | (794) | (87) |
| Cash flow from operations | 51,175 | 37,939 | 44,674 | 45,527 | 50,458 |
| Capex | (14,327) | (15,121) | (17,976) | (20,019) | (21,974) |
| Cash flow from investing activities | (15,707) | (15,519) | (20,952) | (23,143) | (25,255) |
| Dividends paid | (9,881) | (10,780) | (11,229) | (12,170) | (13,936) |
| Cash flow from financing activities | (30,324) | (26,583) | (21,827) | (27,152) | (27,960) |
| Cash at beginning of period | 28,879 | 34,023 | 29,861 | 31,755 | 26,986 |
| Net change in cash | 5,144 | (4,163) | 1,895 | (4,769) | (2,757) |
| Ending balance cash | 34,023 | 29,861 | 31,755 | 26,986 | 24,229 |

| **Balance sheet (THBm)** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Total cash and equivalents | 35,490 | 30,519 | 32,414 | 27,645 | 24,888 |
| Tangible fixed assets | 111,287 | 116,082 | 122,047 | 128,912 | 136,478 |
| Total assets | 373,742 | 375,617 | 389,554 | 398,491 | 410,067 |
| Short-term debt | 26,671 | 15,855 | 34,687 | 29,000 | 28,559 |
| Total long-term debt | 126,893 | 129,193 | 97,304 | 85,304 | 68,745 |
| Total liabilities | 273,923 | 267,250 | 265,048 | 258,284 | 252,160 |
| Total equity | 99,819 | 108,368 | 124,506 | 140,207 | 157,907 |
| Total liabilities & equity | 373,742 | 375,617 | 389,554 | 398,491 | 410,067 |

| **Key metrics** | **Dec-18** | **Dec-19** | **Dec-20F** | **Dec-21F** | **Dec-22F** |
|---|---|---|---|---|---|
| Revenue growth (%) | 7.9 | 8.4 | 7.4 | 8.8 | 8.1 |
| Recurrent EPS growth (%) | 6.5 | 8.7 | 5.6 | 14.5 | 13.5 |
| Gross margin (%) | 22.3 | 22.7 | 22.8 | 22.9 | 23.0 |
| Operating EBITDA margin (%) | 8.4 | 8.1 | 8.1 | 8.1 | 8.2 |
| Net profit margin (%) | 4.1 | 3.9 | 4.1 | 4.3 | 4.5 |
| Dividend payout ratio (%) | 47.8 | 49.8 | 0.0 | 0.0 | 0.0 |
| Capex/sales (%) | 2.8 | 2.7 | 3.0 | 3.1 | 3.2 |
| Interest cover (x) | 4.50 | 4.98 | 5.54 | 6.91 | 9.07 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-10 | Buy | 84.0 | 66.5 |
| 2020-02-26 | Buy | 84.0 | 66.8 |
| 2019-11-13 | Buy | 95.0 | 79.0 |
| 2019-08-14 | Buy | 95.0 | 83.5 |
| 2019-02-27 | Buy | 90.0 | 78.5 |
| 2019-02-22 | Buy | 88.0 | 78.8 |

*Source: RHB, Bloomberg*

19 March 2020

Consumer Non-cyclical | Pharmaceuticals

# Duopharma Biotech (DBB MK)

Buy (Maintained)

## STAY Healthy With Vitamin C!

| | |
|---|---|
| Target Price (Return): | MYR1.95 (13.4%) |
| Price: | MYR1.72 |
| Market Cap: | USD269m |
| Avg Daily Turnover (MYR/USD) | 1.82m/0.42m |

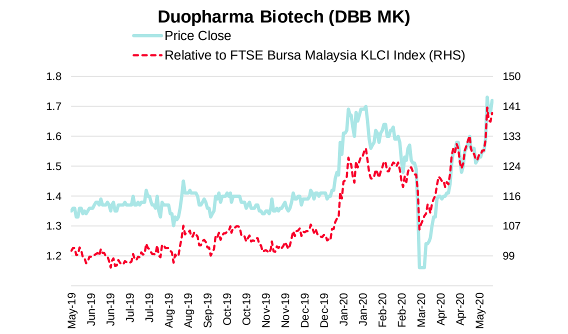
- **Reiterate BUY with DCF-derived TP of MYR1.95, 13% upside plus c.4% yield.** Duopharma Biotech is a beneficiary of the STAY Healthy theme due to improved demand for vitamin C products. We see a change in consumer behaviour which has increased vitamin C consumption amidst the COVID-19 pandemic. We like Duopharma for its stable 3-year CAGR earnings growth of 5.5%, good dividend yield of c.4% and as a beneficiary of higher healthcare budget allocations. Our TP implies 21.1x FY21 P/E, or +1.6SD valuation.
- **STAY Healthy by boosting immunity.** We expect vitamin C sales to improve on consumers' belief that boosting immunity is important during the COVID-19 pandemic. Note that vitamin C sales contribute 10-15% to the group's overall sales. This should lead to better earnings in FY20F.
- **Results better than expected.** 1QFY20 core earnings of MYR19.4m (+35% YoY; +60% QoQ) beat expectations as it makes up 33%/34% of consensus/our FY20F expectations. We gather that the outperformance is caused by good performance from the private sector sales. This could be attributed to stellar demand for Vitamin C after COVID-19 started in March.
- **Stable prospects in 2020.** We expect Duopharma to benefit from the Government's record-high allocation for the healthcare sector of MYR30.6bn. This represents an increase of 6.6% YoY. Recall that the company's sales to the Government made up 49% of its FY19 total sales.
- **Supply chain risk has declined.** Separately, as COVID-19 cases have declined significantly in China, the supply chain risk for the pharmaceutical industry has eased as factories in China have resumed operations.
- **Keep BUY with TP of MYR1.95.** We like the stock due to its stable 3-year forward earnings CAGR of 5.5%, consistent improvement in ROE, decent dividend yield of 4.6%, and strong management team. Risks are worse-than-expected drug price controls by the Government and unfavourable FX movements. The FX rate is also a risk (8% of sales from exports, 60% of costs in USD).


**Analyst**

Alan Lim, CFA
+603 9280 8890
alan.lim@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 21.1 | 8.9 | 7.5 | 26.5 | 27.4 |
| Relative | 32.4 | 8.7 | 15.8 | 38.6 | 39.6 |
| 52-wk Price low/high (MYR) | | | | | 1.16 – 1.73 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 499 | 576 | 646 | 704 | 739 |
| Recurring net profit (MYRm) | 48 | 55 | 58 | 63 | 67 |
| Recurring net profit growth (%) | - | 16.0 | 5.5 | 8.5 | 6.2 |
| Recurring P/E (x) | 24.71 | 21.30 | 20.18 | 18.60 | 17.51 |
| P/B (x) | 2.4 | 2.2 | 2.2 | 2.1 | 2.0 |
| P/CF (x) | 15.81 | 17.57 | 21.26 | 13.80 | 11.47 |
| Dividend Yield (%) | 3.1 | 3.5 | 3.7 | 4.0 | 4.2 |
| EV/EBITDA (x) | 14.10 | 12.31 | 11.21 | 10.48 | 9.93 |
| Return on average equity (%) | - | 10.9 | 10.9 | 11.4 | 11.8 |
| Net debt to equity (%) | 30.2 | 27.1 | 47.1 | 52.5 | 54.9 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Consumer Non-cyclical
**Duopharma Biotech**
DBB MK
Buy

**Valuation basis**

We use DCF-FCFF to value the stock. Key parameters are a WACC of 8.9% and terminal growth rate of 2%.

**Key drivers**

i. Increase in health awareness leading to higher demand for pharmaceutical products;
ii. Better efficiency from its new plant.

**Key risks**

i. Worse-than-expected drug price controls by the Government;
ii. Unfavourable FX movements.

**Company Profile**

Duopharma is the largest local pharmaceutical company by volume and market cap. It produces vitamin C and solutions for diabetes, hepatitis C, cancer, and kidney disease treatments.

| Financial summary (MYR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.07 | 0.08 | 0.09 | 0.09 | 0.10 |
| DPS | 0.05 | 0.06 | 0.06 | 0.07 | 0.07 |
| BVPS | 0.70 | 0.77 | 0.80 | 0.82 | 0.84 |
| Return on average equity (%) | - | 10.9 | 10.9 | 11.4 | 11.8 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 24.71 | 21.30 | 20.18 | 18.60 | 17.51 |
| P/B (x) | 2.4 | 2.2 | 2.2 | 2.1 | 2.0 |
| FCF Yield (%) | (1.3) | 1.3 | (1.7) | 0.9 | 2.3 |
| Dividend Yield (%) | 3.1 | 3.5 | 3.7 | 4.0 | 4.2 |
| EV/EBITDA (x) | 14.10 | 12.31 | 11.21 | 10.48 | 9.93 |
| EV/EBIT (x) | 19.44 | 16.33 | 16.34 | 15.38 | 14.78 |

| Income statement (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 499 | 576 | 646 | 704 | 739 |
| Gross profit | 204 | 232 | 252 | 271 | 284 |
| EBITDA | 90 | 103 | 123 | 135 | 145 |
| Depreciation and amortisation | (25) | (25) | (39) | (43) | (48) |
| Operating profit | 65 | 78 | 85 | 92 | 98 |
| Net interest | (6) | (7) | (11) | (13) | (13) |
| Pre-tax profit | 60 | 71 | 73 | 80 | 85 |
| Taxation | (12) | (16) | (15) | (16) | (17) |
| Reported net profit | 48 | 55 | 58 | 63 | 67 |
| Recurring net profit | 48 | 55 | 58 | 63 | 67 |

| Cash flow (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (18) | (17) | (39) | (19) | (10) |
| Cash flow from operations | 74 | 67 | 55 | 85 | 103 |
| Capex | (89) | (51) | (75) | (75) | (75) |
| Cash flow from investing activities | (172) | (60) | (76) | (76) | (76) |
| Dividends paid | (13) | (6) | (43) | (47) | (50) |
| Cash flow from financing activities | 100 | 27 | 17 | (37) | (70) |
| Cash at beginning of period | 96 | 98 | 121 | 117 | 89 |
| Net change in cash | 2 | 34 | (4) | (28) | (43) |
| Ending balance cash | 98 | 132 | 117 | 89 | 46 |

| Balance sheet (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 98 | 121 | 117 | 89 | 46 |
| Tangible fixed assets | 386 | 412 | 508 | 543 | 572 |
| Total investments | 53 | 53 | 53 | 53 | 53 |
| Total assets | 836 | 920 | 1,051 | 1,088 | 1,092 |
| Short-term debt | 122 | 125 | 112 | 115 | 109 |
| Total long-term debt | 122 | 140 | 261 | 268 | 254 |
| Total liabilities | 355 | 390 | 506 | 527 | 514 |
| Total equity | 481 | 530 | 545 | 561 | 578 |
| Total liabilities & equity | 836 | 920 | 1,051 | 1,088 | 1,092 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 0.0 | 15.6 | 12.0 | 9.0 | 5.0 |
| Recurrent EPS growth (%) | 0.0 | 16.0 | 5.5 | 8.5 | 6.2 |
| Gross margin (%) | 41.0 | 40.3 | 39.0 | 38.5 | 38.5 |
| Operating EBITDA margin (%) | 18.0 | 17.9 | 19.1 | 19.2 | 19.7 |
| Net profit margin (%) | 9.6 | 9.6 | 9.0 | 9.0 | 9.1 |
| Capex/sales (%) | 17.9 | 8.9 | 11.6 | 10.7 | 10.1 |
| Interest cover (x) | 8.45 | 9.36 | 6.15 | 6.09 | 6.53 |

*Source: Company data, RHB*

# Valuation

**TP of MYR1.83.** We use DCF-FCFF to value Duopharma. Key parameters are a WACC of 9.2% and terminal growth rate of 2%. Our TP of MYR1.83 implies FY21F P/E of 17.7x, +0.56SD above its average P/E. We believe that the premium is justified on Duopharma's market leadership, stable earnings growth prospects and strong management.

### Figure 1: DCF valuation

| FYE Dec (MYR m) | FY21F | FY22F | FY23F | FY24F | FY25F | FY26F | FY27F | FY28F | FY29F | FY30F | Terminal |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CFO | 115.9 | 134.0 | 142.3 | 142.7 | 146.4 | 148.2 | 155.9 | 163.5 | 171.5 | 176.6 | |
| + Interest (1 - Tax Rate) | 12.9 | 12.8 | 11.7 | 10.1 | 8.6 | 7.7 | 7.6 | 7.4 | 7.3 | 7.5 | |
| - capital expenditure | (76.0) | (76.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | |
| **Free cash flow to firm (FCFF)** | **52.9** | **70.8** | **102.9** | **101.9** | **104.0** | **105.0** | **112.5** | **119.8** | **127.8** | **133.2** | **1881.8** |
| Discount factor | 0.92 | 0.84 | 0.77 | 0.70 | 0.64 | 0.59 | 0.54 | 0.49 | 0.45 | 0.41 | 0.41 |
| PV of FCFF | 48.4 | 59.3 | 79.0 | 71.6 | 66.9 | 61.8 | 60.7 | 59.2 | 57.8 | 55.1 | 779.2 |

| | |
|---|---|
| Risk-free | 4.0% |
| Beta | 1.08 |
| Cost of Equity | 10.5% |
| WACC | 9.2% |
| Terminal growth | 2.0% |

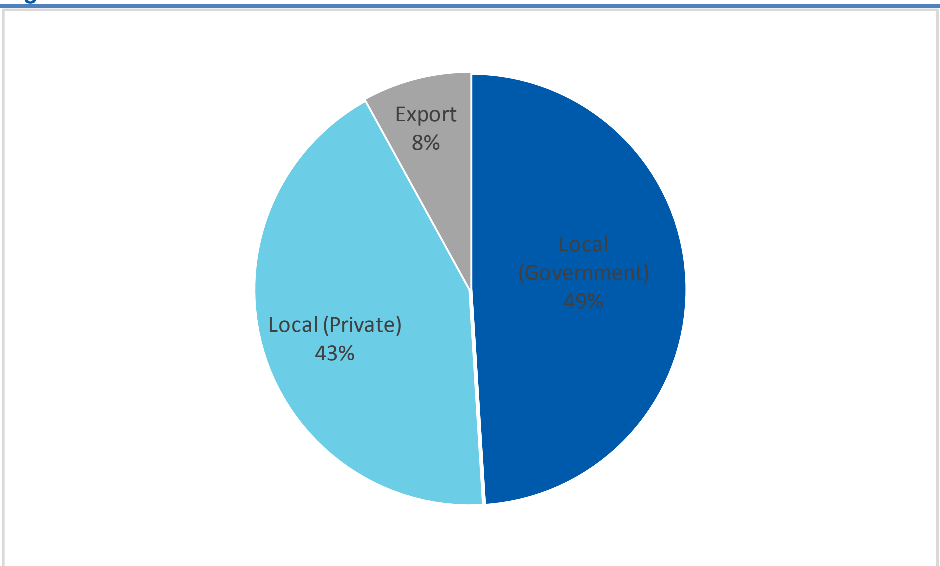
| | |
|---|---|
| Enterprise Value (MYR m) | 1399.1 |
| Cash | 120.7 |
| - Debt | -264.4 |
| Equity Value (MYR m) | 1255.3 |
| No of shares (m) | 684.4 |
| **Target Price (MYR)** | **1.83** |

*Source: RHB*

## Still undervalued

**Beneficiary of higher budget allocation to healthcare sector.** In Budget 2020, the Government allocated a record-high amount for the healthcare sector of MYR30.6bn. This represents an increase of 6.6% YoY. We expect Duopharma to benefit from this as its sales to the Government made up 49% of its total sales in FY19.

### Figure 2: Sales breakdown




*Source: Bloomberg*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-05-12 | Buy | 1.83 | 1.59 |
| 2020-03-16 | Buy | 1.65 | 1.16 |
| 2020-02-14 | Buy | 1.88 | 1.64 |

*Source: RHB, Bloomberg*

# Malaysia Company Update

19 May 2020

Consumer Non-cyclical | Rubber Products

# Top Glove Corp (TOPG MK)

**Buy** (Maintained)

## STAY Healthy STAY Wealthy

| | |
|---|---|
| Target Price (Return): | MYR13.30 (+28%) |
| Price: | MYR10.38 |
| Market Cap: | USD6,130m |
| Avg Daily Turnover (MYR/USD) | 75.2m/16.5m |

- **Keep BUY and DCF-derived MYR13.30 TP, 28% upside and 2% yield.** Top Glove is a beneficiary of the STAY Healthy theme due to the exceptionally high demand for gloves – the tight demand-supply dynamics have driven up ASPs. We also note that gloves are an essential component of personal protective equipment (PPE), which are in high demand globally. We expect superb 3QFY20 (Aug) results – almost double QoQ. Our TP implies 34.9x FY21F P/E (peak forward P/E: 40.9x).

- **Beneficiary of the STAY Healthy theme due to the exceptionally high demand for gloves.** Globally, there is an extreme shortage of PPEs. On 3 Mar, World Health Organisation Director General Dr Tedros Adhanom Ghebreyesus called on all relevant industries to increase PPE production by 40% – this was to meet the rising global demand for such equipment, essential for the protection of healthcare workers against COVID-19. As gloves are an essential component of PPEs, Top Glove is an important contributor in the battle to protect such workers against the pandemic.

- **Rises in lead time and utilisation rates.** Due to the unusually high demand, Top Glove's lead time has surged to almost a year, ie much higher than the normal range of 1-1.5 months. Its plants' utilisation rate is now almost full (97%) vs normal levels of 80-85% before COVID-19.

- **ASPs have increased, as the demand-supply dynamics have tightened up further.** On the demand side, a worse-than-expected COVID-19 spread globally could lead to higher gloves demand, as affected nations gear up to protect their healthcare workers. On the supply side, Malaysia's Movement Control Order (MCO) has slowed construction of new gloves manufacturing plants. Under such market conditions, we believe an ASP rise is inevitable, and will be across the board for all gloves companies. See Page 3 for our sector demand-supply analysis.

- **We expect 3QFY20 earnings to almost double QoQ,** driven by higher ASPs QoQ, strong volume growth QoQ, a better USD/MYR, and lower raw material prices. We note that the impact of higher ASPs is extremely strong on earnings, as they flow directly to bottomline. Coupled with the factors stated above, we expect 3QFY20 earnings to surge 85% to MYR215m (2QFY20: MYR116m).

- **BUY with a MYR13.30 TP**. We expect a superb 3QFY20 in the near term. Over the long run, Top Glove should be a beneficiary of the long-term uptrend in global gloves consumption: 8-10% pa, even without COVID-19.

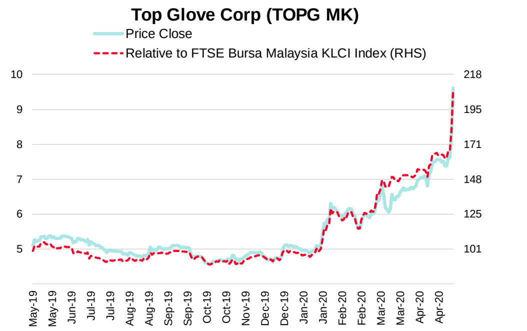
- **Downside risks to our call:** Lower-than-expected sales volumes, weaker-than-expected USD/MYR, and higher-than-expected raw material prices.


**Analyst**

Alan Lim, CFA
+603 9280 8890
alan.lim@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 98.1 | 39.6 | 58.9 | 109.2 | 99.4 |
| Relative | 110.2 | 36.6 | 68.1 | 121.7 | 112.1 |
| 52-wk Price low/high (MYR) | | | | | 4.25 – 9.31 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 499 | 576 | 646 | 704 | 739 |
| Recurring net profit (MYRm) | 48 | 55 | 58 | 63 | 67 |
| Recurring net profit growth (%) | - | 16.0 | 5.5 | 8.5 | 6.2 |
| Recurring P/E (x) | 24.71 | 21.30 | 20.18 | 18.60 | 17.51 |
| P/B (x) | 2.4 | 2.2 | 2.2 | 2.1 | 2.0 |
| P/CF (x) | 15.81 | 17.57 | 21.26 | 13.80 | 11.47 |
| Dividend Yield (%) | 3.1 | 3.5 | 3.7 | 4.0 | 4.2 |
| EV/EBITDA (x) | 14.10 | 12.31 | 11.21 | 10.48 | 9.93 |
| Return on average equity (%) | - | 10.9 | 10.9 | 11.4 | 11.8 |
| Net debt to equity (%) | 30.2 | 27.1 | 47.1 | 52.5 | 54.9 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Consumer Non-cyclical
**Top Glove Corp**
TOPG MK
Buy

**Valuation basis**

DCF.

**Key drivers**

Our earnings forecasts are most sensitive to:

i. Sales volume;
ii. USD/MYR;
iii. Raw material prices.

**Key risks**

i. Lower-than-expected sales volume;
ii. Weaker-than-expected USD/MYR;
iii. Higher-than-expected raw material prices.

**Company Profile**

Top Glove is the world's largest disposable gloves manufacturer.

| **Financial summary (MYR)** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Recurring EPS | 0.17 | 0.14 | 0.27 | 0.38 | 0.45 |
| DPS | 0.09 | 0.08 | 0.14 | 0.19 | 0.23 |
| BVPS | 0.93 | 0.99 | 1.13 | 1.32 | 1.55 |
| Return on average equity (%) | - | 14.8 | 25.7 | 31.2 | 31.7 |

| **Valuation metrics** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Recurring P/E (x) | 55.59 | 65.37 | 34.20 | 24.41 | 20.48 |
| P/B (x) | 10.0 | 9.4 | 8.3 | 7.1 | 6.0 |
| FCF Yield (%) | (0.5) | (0.2) | 0.9 | 3.8 | 4.9 |
| Dividend Yield (%) | 0.9 | 0.8 | 1.5 | 2.0 | 2.4 |
| EV/EBITDA (x) | 37.14 | 37.46 | 23.44 | 16.72 | 14.16 |
| EV/EBIT (x) | 47.20 | 52.21 | 27.58 | 18.92 | 15.84 |

| **Income statement (MYRm)** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Total turnover | 4,221 | 4,801 | 6,411 | 7,068 | 7,308 |
| Gross profit | 842 | 884 | 1,490 | 1,955 | 2,176 |
| EBITDA | 688 | 690 | 1,105 | 1,534 | 1,786 |
| Depreciation and amortisation | (147) | (195) | (166) | (179) | (189) |
| Operating profit | 541 | 495 | 939 | 1,355 | 1,597 |
| Net interest | (25) | (69) | (58) | (54) | (46) |
| Pre-tax profit | 523 | 424 | 884 | 1,305 | 1,555 |
| Taxation | (90) | (56) | (186) | (326) | (389) |
| Reported net profit | 429 | 365 | 697 | 976 | 1,164 |
| Recurring net profit | 429 | 365 | 697 | 976 | 1,164 |

| **Cash flow (MYRm)** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Change in working capital | (289) | (42) | (260) | (70) | (8) |
| Cash flow from operations | 341 | 526 | 618 | 1,101 | 1,357 |
| Capex | (459) | (567) | (400) | (200) | (200) |
| Cash flow from investing activities | (1,698) | (494) | (393) | (194) | (191) |
| Cash flow from financing activities | 1,283 | (35) | (314) | (666) | (755) |
| Cash at beginning of period | 239 | 165 | 166 | 21 | 134 |
| Net change in cash | (74) | (2) | (89) | 241 | 410 |
| Ending balance cash | 159 | 160 | 70 | 311 | 721 |

| **Balance sheet (MYRm)** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Total cash and equivalents | 359 | 254 | 108 | 222 | 441 |
| Tangible fixed assets | 2,105 | 2,480 | 2,609 | 2,759 | 2,985 |
| Total investments | 164 | 164 | 164 | 164 | 164 |
| Total assets | 5,298 | 5,688 | 5,941 | 6,284 | 6,747 |
| Short-term debt | 883 | 1,041 | 941 | 891 | 841 |
| Total long-term debt | 1,330 | 1,379 | 1,382 | 1,283 | 1,211 |
| Total liabilities | 2,899 | 3,134 | 3,036 | 2,888 | 2,766 |
| Total equity | 2,399 | 2,554 | 2,905 | 3,396 | 3,981 |
| Total liabilities & equity | 5,298 | 5,688 | 5,941 | 6,284 | 6,747 |

| **Key metrics** | **Aug-18** | **Aug-19** | **Aug-20F** | **Aug-21F** | **Aug-22F** |
|---|---|---|---|---|---|
| Revenue growth (%) | 0.0 | 13.8 | 33.5 | 10.3 | 3.4 |
| Recurrent EPS growth (%) | 0.0 | (15.0) | 91.1 | 40.1 | 19.2 |
| Gross margin (%) | 20.0 | 18.4 | 23.2 | 27.7 | 29.8 |
| Operating EBITDA margin (%) | 16.3 | 14.4 | 17.2 | 21.7 | 24.4 |
| Net profit margin (%) | 10.2 | 7.6 | 10.9 | 13.8 | 15.9 |
| Capex/sales (%) | 10.9 | 11.8 | 6.2 | 2.8 | 2.7 |
| Interest cover (x) | 14.7 | 6.2 | 14.5 | 22.5 | 28.8 |

*Source: Company data, RHB*

# Demand-Supply Dynamics Have Tightened Further

**Industry lead time has increased to 10 months on average.** Our channel checks reveal that industry lead times have increased significantly in the past one month. This was likely caused by a surge in demand of at least 50%, based on our estimates.

On supply side, the industry is only able to expand by a maximum 10% in a best case scenario during the next three months. This is caused by the Government's MCO, which – while helping to slow the spread of the pandemic – has significantly slowed the construction of new manufacturing plants. As a result, this has caused lead times to increase to 10 months – a significant increase when compared to the 3-4-month lead times seen in April.

In short, the demand-supply dynamics have tightened up, with buyers willing to wait until Jan 2021 for orders to arrive. Under such market conditions, an ASP rise is inevitable, and will be across the board for all gloves companies, in our view.

**Demand growth increased while supply was delayed by the MCO.** We have increased our 2020 demand growth estimate to 15-18%, which is higher than our previous 13-15% forecasts. We have factored in a worse-than-expected COVID-19 spread globally, which should lead to higher demand for gloves – needed as part of the PPEs used to protect healthcare workers against COVID-19. On the supply side, the MCO has caused construction delays for new facilities being set up by most gloves companies under our coverage. Consequently, we have reduced our supply growth estimate to 10.1% from 11% previously.

**Long-term prospects remain positive.** Even after COVID-19 subsides – which we believe will eventually – the world is unlikely to see lower gloves consumption. This is because the fear factor will remain, which should result in structural increases in gloves demand, in our view. This ought to lead to a rising in global health awareness. The demand driver: Low per capita consumption in China and India – at c.10 pieces pa (ppa) – which is much lower than developed countries' more than 200ppa.

- Our capacity supply assumptions may be less aggressive than glove producers' plans
- Our key assumption: Rational capacity expansion, in which producers will balance between volume growth and margins

**Figure 1: Demand-supply estimates**

| Pieces (m) | 2017 | 2018 | 2019 | 2020F | 2021F |
|---|---|---|---|---|---|
| Hartalega | 30,000 | 33,000 | 36,600 | 40,100 | 44,100 |
| *Growth (%)* | *39.5%* | *10.0%* | *10.9%* | *9.6%* | *10.0%* |
| Kossan | 22,000 | 26,500 | 29,000 | 32,000 | 35,000 |
| *Growth (%)* | *0.0%* | *20.5%* | *9.4%* | *10.3%* | *9.4%* |
| Top Glove | 51,600 | 60,500 | 70,100 | 76,000 | 84,000 |
| *Growth (%)* | *15.7%* | *17.2%* | *15.9%* | *8.4%* | *10.5%* |
| Supermax | 23,400 | 22,000 | 21,700 | 25,700 | 27,700 |
| *Growth (%)* | *10.9%* | *(6.0%)* | *(1.4%)* | *18.4%* | *7.8%* |
| Sri Trang* | 21,000 | 21,000 | 25,000 | 27,000 | 30,000 |
| *Growth (%)* | *NA* | *NA* | *19.0%* | *8.0%* | *11.1%* |
| **Estimated manufacturing capacity** | **148,001** | **163,000** | **182,401** | **200,800** | **220,800** |
| *Supply growth* | *13.7%* | *10.1%* | *11.9%* | *10.1%* | *10.0%* |
| *Demand growth* | *8.6%* | *7.9%* | *8%-10%* | *15-18%* | *8%-10%* |

*Source: Bloomberg, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-20 | Buy | 7.0 | 6.3 |
| 2020-03-03 | Buy | 6.4 | 5.7 |
| 2020-01-23 | Buy | 6.4 | 5.4 |
| 2019-12-18 | Neutral | 4.5 | 4.8 |
| 2019-10-07 | Neutral | 4.5 | 4.5 |
| 2019-09-27 | Neutral | 4.7 | 4.6 |
| 2019-06-19 | Neutral | 4.9 | 4.9 |
| 2019-04-10 | Buy | 5.1 | 4.6 |
| 2019-03-25 | Buy | 5.1 | 4.5 |

*Source: RHB, Bloomberg*

19 May 2020

Healthcare | Medical Equipment & Devices

# UG Healthcare (UGHC SP)

**Buy** (Maintained)

## Strong Demand For Gloves Due To COVID-19

| | |
|---|---|
| Target Price (Return): | SGD0.33 (+10%) |
| Price: | SGD0.30 |
| Market Cap: | USD41.6m |
| Avg Daily Turnover (SGD/USD) | 1.15m/0.81m |

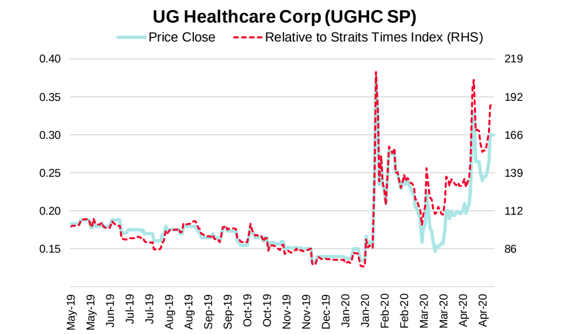
- **Keep BUY and SGD0.33 TP, 10% upside.** UG Healthcare is on track to achieve optimal utilisation with existing 2.9bn gloves pa production capacity in FY20 (Jun). The additional 300m gloves pa capacity is planned to come on-stream in FY21. UGHC received a surge in orders for latex and nitrile gloves following the COVID-19 pandemic. This should support revenue growth. To meet demand, UGHC will reduce downtime by delaying the modification of certain production lines.
- **Glove manufacturing is hot during COVID-19 pandemic.** UGHC manufactures gloves based on demand from its own distribution companies located in Europe, the US, China, Africa and South America, where it markets and sells its own proprietary Unigloves brand of gloves. End users of UGHC's Unigloves brand include healthcare providers such as hospitals, dental clinics, and nursing homes, as well as the manufacturing, life sciences, food & beverage, and beauty sectors.
- **A play on STAY Healthy theme.** The recent outbreak of the COVID-19 pandemic led to UGHC receiving a surge in orders for latex and nitrile gloves. While this slightly delayed the modification of certain production lines, UGHC remains on track to achieve optimal utilisation with existing production capacity of 2.9bn gloves pa in this FY. In addition, some 300m gloves pa new capacity is expected to come on-stream in FY21F.
- **UGHC's 2HFY20 earnings expected to surge.** We forecast 2HFY20 net profit of SGD4.1m, 5x that of 1HFY20. The current strong glove demand will lead to higher margins for 2HFY20F and also into 1HFY21F. Together with higher volume output, UGHC's earnings are expected to surge going forward. Both gross profit and net margins are expected to be elevated due to higher margin and better operating efficiency from higher utilisation levels.
- **SGD0.33 TP gives good upside.** Our TP is pegged to 9.2x FY21F EPS, which is at a discount to the peer average of low thirties. This factors in UGHC's relatively smaller production output vs peers, most of which are listed on Bursa Malaysia.
- **Key risks** include higher gas and raw material prices, which could narrow margins.

**Analyst**

Leng Seng Choon CFA, PBM
+65 6232 3890
leng.seng.choon@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 114.3 | 50.8 | 20.0 | 87.5 | 66.7 |
| Relative | 133.9 | 48.7 | 38.5 | 108.1 | 87.8 |
| 52-wk Price low/high (SGD) | | | | | 0.13 – 0.38 |




*Source: Bloomberg*

| Forecasts and Valuation | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 78 | 92 | 120 | 130 | 141 |
| Recurring net profit (SGDm) | 4 | 3 | 5 | 7 | 8 |
| Recurring net profit growth (%) | 77.4 | (42.2) | 98.7 | 38.7 | 16.2 |
| Recurring P/E (x) | 13.25 | 23.13 | 11.64 | 8.39 | 7.22 |
| P/B (x) | 1.4 | 1.4 | 1.2 | 1.1 | 1.0 |
| P/CF (x) | 808.99 | na | na | na | 23.89 |
| Dividend Yield (%) | 0.8 | 0.9 | 1.0 | 1.4 | 1.7 |
| EV/EBITDA (x) | 10.86 | 16.65 | 11.10 | 8.79 | 8.07 |
| Return on average equity (%) | 11.0 | 5.9 | 11.2 | 13.9 | 14.3 |
| Net debt to equity (%) | 48.0 | 78.3 | 81.8 | 83.8 | 80.5 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Healthcare
**UG Healthcare**
UGHC SP
Buy

**Valuation basis**

Valuation is P/E derived

**Key drivers**

Integrated upstream manufacturing and downstream distribution channels, and proprietary Unigloves brand, allow UGHC to manage the entire value chain seamlessly.

**Key risks**

Earnings are subject to volatility in raw material prices.

**Company Profile**

UG Healthcare is a disposable gloves manufacturer with its own established global downstream distribution that markets and sells disposable glove products in its proprietary Unigloves brand

| Financial summary (SGD) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.02 | 0.01 | 0.03 | 0.04 | 0.04 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BVPS | 0.22 | 0.22 | 0.24 | 0.27 | 0.31 |
| Return on average equity (%) | 11.0 | 5.9 | 11.2 | 13.9 | 14.3 |

| Valuation metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 13.25 | 23.13 | 11.64 | 8.39 | 7.22 |
| P/B (x) | 1.4 | 1.4 | 1.2 | 1.1 | 1.0 |
| FCF Yield (%) | (8.0) | (27.0) | (7.7) | (9.8) | (7.0) |
| Dividend Yield (%) | 0.8 | 0.9 | 1.0 | 1.4 | 1.7 |
| EV/EBITDA (x) | 10.86 | 16.65 | 11.10 | 8.79 | 8.07 |
| EV/EBIT (x) | 13.87 | 23.97 | 14.45 | 10.89 | 9.72 |

| Income statement (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover | 78.1 | 91.7 | 120.0 | 130.0 | 141.0 |
| Gross profit | 12.8 | 18.7 | 22.8 | 26.5 | 29.5 |
| EBITDA | 6.6 | 5.3 | 8.2 | 10.9 | 12.4 |
| Depreciation and amortisation | (1.4) | (1.6) | (1.9) | (2.1) | (2.1) |
| Operating profit | 5.2 | 3.7 | 6.3 | 8.8 | 10.3 |
| Net interest | (0.8) | (1.6) | (2.0) | (2.3) | (2.5) |
| Pre-tax profit | 5.0 | 2.8 | 5.4 | 7.7 | 9.1 |
| Taxation | (0.7) | (0.5) | (0.9) | (1.3) | (1.5) |
| Reported net profit | 4.3 | 2.5 | 5.0 | 6.9 | 8.0 |
| Recurring net profit | 4.3 | 2.5 | 5.0 | 6.9 | 8.0 |

| Cash flow (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Change in working capital | (6.8) | (8.0) | (5.7) | (6.0) | (5.0) |
| Cash flow from operations | 0.1 | (6.2) | (2.5) | (0.7) | 2.4 |
| Capex | (4.7) | (9.5) | (2.0) | (5.0) | (6.5) |
| Cash flow from investing activities | (4.7) | (7.6) | (0.4) | (3.2) | (4.5) |
| Dividends paid | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 |
| Cash flow from financing activities | 12.7 | 11.0 | 10.0 | 10.0 | 10.0 |
| Cash at beginning of period | 3.5 | 6.7 | 4.9 | 11.1 | 16.1 |
| Net change in cash | 8.1 | (2.8) | 7.1 | 6.1 | 7.9 |
| Ending balance cash | 12.0 | 3.8 | 12.0 | 17.2 | 25.0 |

| Balance sheet (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 6.7 | 4.9 | 11.1 | 16.1 | 21.8 |
| Tangible fixed assets | 23.4 | 31.3 | 31.4 | 34.3 | 38.7 |
| Total investments | 5.9 | 4.6 | 5.0 | 6.0 | 8.0 |
| Total assets | 85.2 | 98.4 | 115.0 | 134.3 | 159.1 |
| Short-term debt | 21.4 | 32.2 | 42.2 | 52.2 | 62.2 |
| Total long-term debt | 5.5 | 6.4 | 7.0 | 8.0 | 8.5 |
| Total liabilities | 43.3 | 55.2 | 68.3 | 81.6 | 98.3 |
| Total equity | 41.9 | 43.2 | 46.6 | 52.7 | 60.8 |
| Total liabilities & equity | 85.2 | 98.4 | 115.0 | 134.3 | 159.1 |

| Key metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 19.7 | 17.5 | 30.8 | 8.3 | 8.5 |
| Recurrent EPS growth (%) | 77.4 | (42.7) | 98.7 | 38.7 | 16.2 |
| Gross margin (%) | 16.4 | 20.4 | 19.0 | 20.4 | 20.9 |
| Operating EBITDA margin (%) | 8.4 | 5.8 | 6.8 | 8.4 | 8.8 |
| Net profit margin (%) | 5.6 | 2.7 | 4.2 | 5.3 | 5.7 |
| Dividend payout ratio (%) | 10.4 | 20.0 | 12.0 | 12.0 | 12.0 |
| Capex/sales (%) | 6.0 | 10.3 | 1.7 | 3.8 | 4.6 |
| Interest cover (x) | 6.81 | 2.27 | 3.15 | 3.83 | 4.11 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-21 | Buy | 0.33 | 0.25 |
| 2020-02-20 | Buy | 0.33 | 0.24 |
| 2019-08-28 | Buy | 0.30 | 0.18 |
| 2019-03-11 | Buy | 0.32 | 0.18 |
| 2018-11-13 | Buy | 0.32 | 0.22 |
| 2018-08-24 | Buy | 0.32 | 0.22 |

*Source: RHB, Bloomberg*

19 May 2020

Consumer Non-cyclical | Healthcare

# Chularat Hospital (CHG TB)

**Buy** (Maintained)

## Local Play With Solid Outlook

| | |
|---|---|
| Target Price (Return): | THB2.80 (+16%) |
| Price: | THB2.42 |
| Market Cap: | USD827m |
| Avg Daily Turnover (THB/USD) | 76.2m/2.38m |

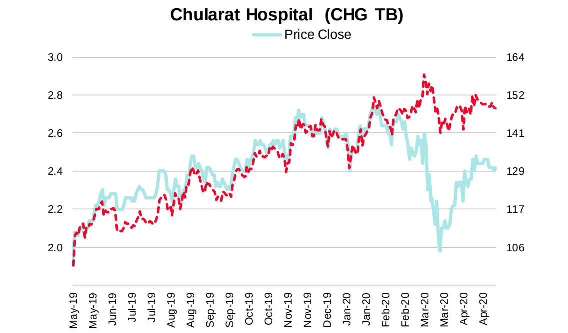
- **Maintain BUY with unchanged TP of THB 2.80, 16% upside and c.2% yield.** Chularat Hospital's lowest exposure to the medical tourism segment vs other hospital groups under our coverage and the strong revenue exposure to government healthcare schemes (Social Security Scheme (SSS), National Health Security Office) should see its core operations outlook remain intact during the economic slowdown. This is thanks to the better payment scheme from SSS with higher patient traffic amidst lower purchasing power and weakened private consumption prospects.
- **Positive view on COVID-19 situation.** Management views that the current COVID-19 situation in Thailand has improved, and believes that the Government's plan to partially lift control measures at end-May is sound. The optimistic view is mainly thanks to the lower number of detected cases – despite the higher testing – significant increase in testing facilities and rising public awareness of infection prevention measures.
- **Immaterial impact with limited exposure to international segment.** The small decrease in outpatient traffic amidst fears of infection and absence of international patients (3% of total revenue) due to travel restrictions would not have a significant impact on core operations. This is mainly due to the relatively low contribution from the international patient segment. However, the night curfew under the Government's emergency decree will result in a slight delay in construction of new projects in its pipeline.
- **Step-up in facilities to handle virus spread.** CHG has prepared 200 beds for COVID-19 cases, whereby patients with respiratory tract infection will be kept separately in a controlled area. It also launched a testing service for private customers; however, the volume of this service remains insignificant due to the strict testing criteria.
- **Core operations remain solid.** The positive impact from the upward payment scheme adjustment by the Social Security Office should outweigh the negative impact from the non-Thai segment due to its higher revenue contribution. We maintain our high single-digit growth forecast on its topline, driven by services expansion in its existing projects and higher utilisation rate of two new hospitals (Chularat 304 and Ruampat). Lower purchasing power should also lead to a higher flow of patients under the government healthcare system, which CHG has the highest exposure to vs peers.
- **Building up scale and scope.** While investment in two new greenfield projects should create upside to the company in the longer term, we think its plan to ramp up the proportion of A-class patients (from 60% to c.70%) with relatively higher margins vs other segments will be its key margin driver, while bolstering earnings growth organically in the short term.
- **Keep BUY.** CHG remains our sector Top Pick with its tangible growth outlook. Its core operations should also remain solid with limited impact from the current unprecedented situation. Key risks are a change in SSS policy and delay of its new projects under construction.


**Analyst**

Pakorn Khaoeian
+662 088 9627
pakorn.kh@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (6.2) | 3.4 | (4.7) | (4.0) | 26.7 |
| Relative | 12.3 | (1.4) | 10.8 | 16.7 | 48.6 |
| 52-wk Price low/high (THB) | | | | | 1.91 – 2.76 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 4,407 | 5,165 | 5,560 | 6,040 | 6,513 |
| Recurring net profit (THBm) | 634 | 705 | 783 | 904 | 1,084 |
| Recurring net profit growth (%) | 12.2 | 11.1 | 11.1 | 15.5 | 19.9 |
| Recurring P/E (x) | 41.99 | 37.78 | 34.00 | 29.45 | 24.56 |
| P/B (x) | 7.5 | 7.2 | 6.8 | 6.3 | 5.7 |
| P/CF (x) | 27.85 | 34.66 | 26.81 | 25.12 | 22.83 |
| Dividend Yield (%) | 2.1 | 2.1 | 2.1 | 2.4 | 2.8 |
| EV/EBITDA (x) | 25.76 | 22.77 | 21.04 | 18.74 | 15.96 |
| Return on average equity (%) | 18.5 | 19.4 | 20.5 | 22.1 | 24.4 |
| Net debt to equity (%) | 19.8 | 26.4 | 13.9 | 2.6 | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Thailand
Consumer Non-cyclical
**Chularat Hospital**
CHG TB
Buy

**Valuation basis**

DCF

**Key drivers**

i. Healthy volume growth;
ii. Harvesting period from earlier expansion; and
iii. Enhanced margin from cash patients.

**Key risks**

i. Change in policy of SSO; and
ii. Intense competition in strategic areas.

**Company Profile**

Chularat Hospital has nine hospitals and four clinics in five provinces in the eastern region, especially in Thailand's industrial zone (EEC).

| Financial summary (THB) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.06 | 0.06 | 0.07 | 0.08 | 0.10 |
| DPS | 0.05 | 0.05 | 0.05 | 0.06 | 0.07 |
| BVPS | 0.32 | 0.34 | 0.36 | 0.39 | 0.42 |
| Return on average equity (%) | 18.5 | 19.4 | 20.5 | 22.1 | 24.4 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 41.99 | 37.78 | 34.00 | 29.45 | 24.56 |
| P/B (x) | 7.5 | 7.2 | 6.8 | 6.3 | 5.7 |
| FCF Yield (%) | 1.2 | 0.1 | 0.2 | 3.4 | 3.8 |
| Dividend Yield (%) | 2.1 | 2.1 | 2.1 | 2.4 | 2.8 |
| EV/EBITDA (x) | 25.76 | 22.77 | 21.04 | 18.74 | 15.96 |
| EV/EBIT (x) | 34.77 | 31.19 | 28.41 | 24.68 | 20.30 |

| Income statement (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 4,407 | 5,165 | 5,560 | 6,040 | 6,513 |
| Gross profit | 1,335 | 1,536 | 1,719 | 1,907 | 2,159 |
| EBITDA | 1,065 | 1,218 | 1,298 | 1,433 | 1,647 |
| Depreciation and amortisation | (276) | (329) | (337) | (345) | (352) |
| Operating profit | 789 | 889 | 961 | 1,088 | 1,295 |
| Net interest | (24) | (40) | (36) | (17) | (4) |
| Pre-tax profit | 765 | 849 | 925 | 1,072 | 1,292 |
| Taxation | (150) | (184) | (185) | (214) | (258) |
| Reported net profit | 634 | 705 | 783 | 904 | 1,084 |
| Recurring net profit | 634 | 705 | 783 | 904 | 1,084 |

| Cash flow (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (111) | (116) | 26 | (79) | (43) |
| Cash flow from operations | 956 | 768 | 993 | 1,060 | 1,166 |
| Capex | (648) | (742) | (933) | (152) | (152) |
| Cash flow from investing activities | (648) | (742) | (933) | (152) | (152) |
| Dividends paid | (396) | (352) | (550) | (549) | (590) |
| Cash flow from financing activities | (251) | 168 | (49) | (1,149) | (857) |
| Cash at beginning of period | 414 | 471 | 467 | 625 | 433 |
| Net change in cash | 57 | 194 | 10 | (242) | 156 |
| Ending balance cash | 471 | 467 | 625 | 433 | 617 |

| Balance sheet (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 471 | 467 | 625 | 433 | 617 |
| Tangible fixed assets | 3,831 | 4,221 | 4,034 | 3,839 | 3,622 |
| Total investments | 114 | 114 | 114 | 114 | 114 |
| Total assets | 5,708 | 6,265 | 6,188 | 5,933 | 5,985 |
| Short-term debt | 629 | 956 | 500 | 150 | 150 |
| Total long-term debt | 583 | 540 | 700 | 400 | 0 |
| Total liabilities | 1,965 | 2,370 | 2,042 | 1,442 | 1,082 |
| Total equity | 3,743 | 3,895 | 4,146 | 4,491 | 4,903 |
| Total liabilities & equity | 5,708 | 6,265 | 6,188 | 5,933 | 5,985 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 13.7 | 17.2 | 7.6 | 8.6 | 7.8 |
| Recurrent EPS growth (%) | 12.2 | 11.1 | 11.1 | 15.5 | 19.9 |
| Gross margin (%) | 30.3 | 29.7 | 30.9 | 31.6 | 33.1 |
| Operating EBITDA margin (%) | 24.2 | 23.6 | 23.3 | 23.7 | 25.3 |
| Net profit margin (%) | 14.4 | 13.6 | 14.1 | 15.0 | 16.6 |
| Capex/sales (%) | 14.7 | 14.4 | 16.8 | 2.5 | 2.3 |
| Interest cover (x) | 32.9 | 22.0 | 26.7 | 65.9 | 345.5 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|

*Source: RHB, Bloomberg*

19 May 2020

Technology | Software & Services

# GHL Systems (GHLS MK)

## Neutral (Maintained)

## Payment Digitalisation Is Here To Stay

| | |
|---|---|
| Target Price (Return): | MYR1.70 (+1%) |
| Price: | MYR1.68 |
| Market Cap: | USD289m |
| Avg Daily Turnover (MYR/USD) | 4.39m/1.05m |

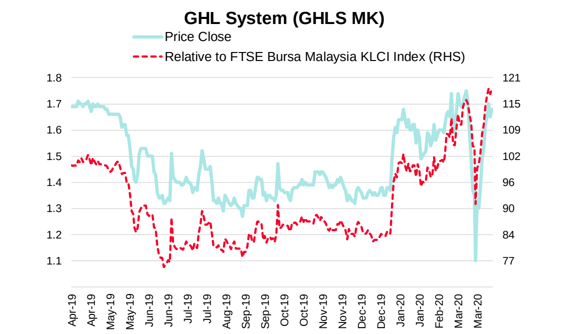
- **Maintain NEUTRAL and MYR1.70 TP, 1% upside.** We like GHL Systems as a direct beneficiary of the payment digitalisation and cashless transaction megatrend and its unrivalled presence in the growing middle class in ASEAN. GHL's touchpoints base is close to 400,000 and still growing. Its fast-growing transaction payment acquisition segment processed c.MYR10bn of transaction payment value (TPV) in 2019 (+56% YoY). We foresee pent-up demand from COVID-19 restrictions for its payment solutions on a consumer shift to contactless or online payments.
- **Benefiting from STAY Alive theme.** As Malaysia is currently under Conditional Movement Control Order (CMCO), people have been largely confined at home due to pandemic fears. Even after containment of COVID-19, we believe this would be a new normal for society and it will take time before people regain confidence to socially engage freely without fear. Businesses will have to rethink their business models, eg setting up virtual businesses in various marketplaces and invest in payment acceptance solutions, which will benefit payment acquirers and solutions providers such as GHL. In fact, many small & medium enterprises (SME), including food & beverage, apparel, gadgets and fresh food, are going online and penetrating e-commerce channels as a primary medium to generate revenue to survive.
- **Benefiting from STAY Online theme.** While we foresee weakness in the transaction payment acquisition (TPA) segment, given the sharp contraction in retail spending due to MCO, it is set to benefit from the increase in online transactions. The TPV for GHL's online payment arm GHL ePayments' (eGHL) online e-transactions achieved more than c.MYR2bn in 2019, growing at a supernormal 3-year CAGR of >70%. The current pandemic has accelerated the speed of digitalisation, and the boom in e-commerce will continue to benefit payment acquirers like GHL, which has among the widest coverage of card payment schemes, e-wallets, internet processing and TPA partners with banks across the region.
- **A timely move to capture new markets.** eGHL recently launched eGHL SWIFT to help physical businesses and shops to get online and e-commerce operations ready in three days. We think there are many businesses that are looking to penetrate e-commerce sales channels due to MCO. This bodes well for GHL's strategy to embark on direct merchant acquisitions, targeting the underserved merchant base precluded from normal banking channels to expand this base.
- **Risks to our call** include weaker consumer sentiment, slower adoption of e-payment solutions, and regulatory issues.

**Analyst**

Lee Meng Horng
+603 9280 8866
lee.meng.horng@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 24.4 | 5.7 | 21.7 | 22.6 | (1.2) |
| Relative | 40.6 | 15.0 | 38.7 | 38.1 | 17.3 |
| 52-wk Price low/high (MYR) | | | | | 1.10 – 1.75 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 299 | 348 | 377 | 408 | 426 |
| Recurring net profit (MYRm) | 28 | 31 | 35 | 39 | 41 |
| Recurring net profit growth (%) | 37.3 | 9.5 | 10.9 | 11.8 | 6.1 |
| Recurring P/E (x) | 44.25 | 40.42 | 36.43 | 32.57 | 30.71 |
| P/B (x) | 3.1 | 2.8 | 2.6 | 2.4 | 2.2 |
| P/CF (x) | na | 12.69 | 18.96 | 17.06 | 16.36 |
| Dividend Yield (%) | na | na | na | na | na |
| EV/EBITDA (x) | 19.23 | 15.27 | 12.76 | 11.35 | 10.58 |
| Return on average equity (%) | 8.4 | 7.3 | 7.5 | 7.7 | 7.6 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Malaysia
Technology
**GHL Systems**
GHLS MK
Neutral

**Valuation basis**

GHL is valued at 33x FY21 P/E

**Key drivers**

i. EDC terminal sales;
ii. Adoption level of E-commerce; and
iii. Consumer spending.

**Key risks**

i. Lower-than-expected consumer spending; and
ii. Slower-than-expected deployment of EDC terminal.

**Company Profile**

GHL Systems is engaged in developing and selling in-house software programs, sale and rental of Electronic Data Capture (EDC) equipment and its related software and services, inclusive of installation, training and maintenance. It has exposure in Malaysia, Philippines, Thailand and Cambodia.

| Financial summary (MYR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.04 | 0.04 | 0.05 | 0.05 | 0.05 |
| BVPS | 0.54 | 0.60 | 0.64 | 0.69 | 0.75 |
| Return on average equity (%) | 8.4 | 7.3 | 7.5 | 7.7 | 7.6 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 44.25 | 40.42 | 36.43 | 32.57 | 30.71 |
| P/B (x) | 3.1 | 2.8 | 2.6 | 2.4 | 2.2 |
| FCF Yield (%) | (1.9) | 4.5 | 1.8 | 2.2 | 2.3 |
| EV/EBITDA (x) | 19.23 | 15.27 | 12.76 | 11.35 | 10.58 |
| EV/EBIT (x) | 31.42 | 27.02 | 22.37 | 18.94 | 17.09 |

| Income statement (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 299 | 348 | 377 | 408 | 426 |
| Gross profit | 150 | 183 | 161 | 173 | 179 |
| EBITDA | 59 | 75 | 87 | 96 | 100 |
| Depreciation and amortisation | (23) | (32) | (38) | (38) | (38) |
| Operating profit | 36 | 42 | 50 | 57 | 62 |
| Net interest | (2) | (3) | (3) | (5) | (6) |
| Pre-tax profit | 37 | 41 | 46 | 52 | 55 |
| Taxation | (9) | (12) | (14) | (16) | (17) |
| Reported net profit | 28 | 31 | 35 | 39 | 41 |
| Recurring net profit | 28 | 31 | 35 | 39 | 41 |

| Cash flow (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (42) | 34 | (4) | (1) | 0 |
| Cash flow from operations | (1) | 99 | 66 | 74 | 77 |
| Capex | (23) | (43) | (43) | (45) | (48) |
| Cash flow from investing activities | (48) | (46) | (43) | (45) | (48) |
| Cash flow from financing activities | 78 | (9) | 22 | 23 | 24 |
| Cash at beginning of period | 108 | 120 | 126 | 170 | 221 |
| Net change in cash | 29 | 44 | 45 | 51 | 53 |
| Ending balance cash | 116 | 123 | 170 | 221 | 274 |

| Balance sheet (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 145 | 150 | 194 | 245 | 298 |
| Tangible fixed assets | 93 | 102 | 108 | 115 | 125 |
| Total investments | 0 | 0 | 0 | 0 | 0 |
| Total assets | 637 | 669 | 739 | 813 | 885 |
| Short-term debt | 13 | 7 | 14 | 21 | 28 |
| Total long-term debt | 11 | 19 | 34 | 49 | 66 |
| Total liabilities | 231 | 217 | 254 | 292 | 325 |
| Total equity | 406 | 452 | 485 | 521 | 560 |
| Total liabilities & equity | 637 | 669 | 739 | 813 | 885 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 17.9 | 16.3 | 8.5 | 8.2 | 4.4 |
| Recurrent EPS growth (%) | 37.3 | 9.5 | 10.9 | 11.8 | 6.1 |
| Gross margin (%) | 50.1 | 52.7 | 42.6 | 42.4 | 42.1 |
| Operating EBITDA margin (%) | 19.8 | 21.5 | 23.2 | 23.4 | 23.4 |
| Net profit margin (%) | 9.5 | 9.0 | 9.2 | 9.5 | 9.6 |
| Capex/sales (%) | 7.5 | 12.3 | 11.5 | 11.1 | 11.2 |
| Interest cover (x) | 18.9 | 15.2 | 17.3 | 12.0 | 10.3 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-20 | Buy | 1.77 | 1.59 |
| 2019-11-29 | Buy | 1.77 | 1.35 |
| 2019-09-10 | Buy | 1.77 | 1.38 |
| 2019-08-30 | Buy | 1.77 | 1.31 |
| 2019-05-31 | Neutral | 1.57 | 1.51 |
| 2019-03-28 | Neutral | 1.72 | 1.69 |
| 2019-02-28 | Neutral | 1.62 | 1.70 |
| 2019-01-16 | Neutral | 1.62 | 1.64 |

*Source: RHB, Bloomberg*

**Malaysia Company Update**

19 May 2020

Communications | Telecommunications

# Time dotCom (TDC MK)

**Buy** (Maintained)

## Strong Proxy To The Secular Data Trend

| | |
|---|---|
| Target Price (Return): | MYR11.00 (+12%) |
| Price: | MYR9.80 |
| Market Cap: | USD1,373m |
| Avg Daily Turnover (MYR/USD) | 8.49m/1.97m |

- **Reiterate BUY** and DCF-derived TP of MYR11.00, 12% upside. Time dotCom is a strategic play on the secular demand for data, cloud computing and managed connectivity solutions. The group's key businesses of regional bandwidth sales, DC, and managed services are recurring in nature, providing good revenue and earnings visibility. The stock is trading at -1.5SD from its historical EV//EBITDA mean, supported by decent dividend yield of 3.6% and steady 2-year EPS CAGR of 7%.
- **Strong beneficiary of the digitalisation trend.** TDC is a key beneficiary of the drive by enterprises to digitalise their operations. This is on the back of the challenging economic environment and the new normal brought about by the COVID-19 pandemic. The group's crown jewel is its expansive submarine and terrestrial fibre optic network which traverses the globe and Peninsular Malaysia with unparalleled intra-ASEAN connectivity, encompassing direct links to Singapore, Thailand and Vietnam. The explosion in data growth across the region and rising demand from over-the-top (OTT) providers will continue to catalyse demand for bandwidth, benefitting TDC's wholesale arm, which makes up over 60% of revenue.
- **Fibre broadband (FBB) still the fastest growing segment.** We expect the FFB/retail business to remain the fastest growing segment for the group (FY19: +27% YoY), underpinned by a larger number of homes pass and the attractive product value proposition. Management is targeting 1m homes passes for FBB by end-2020 from 830,000 as at end-2019, with the focus on secondary cities and townships. TDC's FBB footprint, which covers only multi-dwelling units (MDUs), also meant that it can be selective in its rollout, focusing on areas adjacent to its existing fibre infrastructure to maximise ROI. Over the longer term, we see TDC as a beneficiary of the regulatory proposal for the liberalisation of broadband access network and the National Fiberisation & Connectivity Plan (NFCP). This should hopefully allow the company to expand its FBB services to landed properties.
- **Data centre (DC) a new leg of growth**. TDC owns the largest carrier neutral DC in the Kuala Lumpur Central Business District (AIMS), which is home to the Malaysian Internet Exchange (MyIX), local telcos and over 80% of international carriers. AIMS is the approved partner for Amazon Web Services (AWS)'s cloud solution, Microsoft Azure and the Google Cloud platform, and counts some of the leading OTT principals such as Alibaba Group, Astro Malaysia (ASTRO MK, BUY, TP: MYR1.65) and Netflix as its key customers. We see the addition of DC capacity (TDC has allocated MYR200m in FY20 to construct a new 10,000 sq ft hyperscale DC in Cyberjaya), as timely to capture the rising demand for cloud services and managed connectivity, as enterprises look to protect their data from unforeseen disasters.
- **Key risks** are competition from existing FBB providers and new access seekers, weaker-than-expected margin and higher-than-expected capex.

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 983 | 1,114 | 1,247 | 1,372 | 1,482 |
| Recurring net profit (MYRm) | 281 | 344 | 381 | 415 | 437 |
| Recurring net profit growth (%) | 42.8 | 22.5 | 10.7 | 8.9 | 5.3 |
| Recurring P/E (x) | 20.44 | 16.69 | 15.07 | 13.84 | 13.14 |
| P/B (x) | 2.3 | 2.1 | 1.9 | 1.8 | 1.7 |
| P/CF (x) | 19.39 | 6.17 | 5.67 | 5.20 | 4.96 |
| Dividend Yield (%) | 1.9 | 2.7 | 3.3 | 3.6 | 3.8 |
| EV/EBITDA (x) | 11.95 | 10.20 | 9.00 | 8.23 | 7.72 |
| Return on average equity (%) | 12.1 | 11.9 | 13.3 | 13.6 | 13.3 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

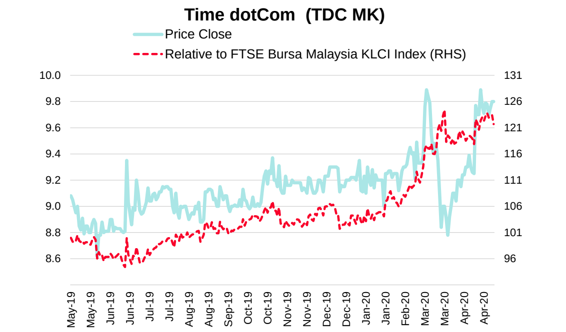
*Source: Company data, RHB*


**Analyst**

Jeffrey Tan
+603 9280 8863
jeffrey.tan@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 6.3 | 8.4 | 5.9 | 5.3 | 9.5 |
| Relative | 17.7 | 2.5 | 14.8 | 16.2 | 23.8 |
| 52-wk Price low/high (MYR) | | | | | 8.62 – 9.89 |




*Source: Bloomberg*

# Financial Exhibits

**Asia**
Malaysia
Communications
**Time dotCom**
TDC MK
Buy

**Valuation basis**

DCF methodology

**Key drivers**

i. Stronger than expected margins;
ii. Wider fibre footprint;
iii. Data centre growth

**Key risks**

i. Retail fibre broadband competition;
ii. Weaker than expected margins

**Company Profile**

Time dotCom (TDC) owns extensive sub-sea and land-based cable infrastructure with extensive points-of-presence (POPs) overseas. It also has an expanding regional presence and is the challenger fiber broadband brand in Malaysia with a dominant share of multi-dwelling units

| Financial summary (MYR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.48 | 0.59 | 0.65 | 0.71 | 0.75 |
| DPS | 0.18 | 0.27 | 0.33 | 0.35 | 0.37 |
| BVPS | 4.30 | 4.72 | 5.04 | 5.40 | 5.77 |
| Return on average equity (%) | 12.1 | 11.9 | 13.3 | 13.6 | 13.3 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 20.44 | 16.69 | 15.07 | 13.84 | 13.14 |
| P/B (x) | 2.3 | 2.1 | 1.9 | 1.8 | 1.7 |
| FCF Yield (%) | 0.8 | 10.7 | 8.4 | 12.3 | 13.2 |
| Dividend Yield (%) | 1.9 | 2.7 | 3.3 | 3.6 | 3.8 |
| EV/EBITDA (x) | 11.95 | 10.20 | 9.00 | 8.23 | 7.72 |
| EV/EBIT (x) | 16.88 | 14.82 | 12.89 | 11.90 | 11.34 |

| Income statement (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 983 | 1,114 | 1,247 | 1,372 | 1,482 |
| Gross profit | 559 | 633 | 724 | 803 | 860 |
| EBITDA | 427 | 480 | 565 | 619 | 657 |
| Depreciation and amortisation | (125) | (149) | (170) | (191) | (210) |
| Operating profit | 302 | 330 | 394 | 428 | 447 |
| Net interest | (9) | (17) | (11) | (11) | (11) |
| Pre-tax profit | 305 | 328 | 401 | 437 | 460 |
| Taxation | (16) | (14) | (20) | (22) | (23) |
| Reported net profit | 289 | 314 | 381 | 415 | 437 |
| Recurring net profit | 281 | 344 | 381 | 415 | 437 |

| Cash flow (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in w orking capital | (87) | (1) | (24) | (10) | (4) |
| Cash flow from operations | 296 | 931 | 1,014 | 1,104 | 1,159 |
| Capex | (248) | (318) | (530) | (400) | (400) |
| Cash flow from investing activities | (309) | (368) | (571) | (431) | (419) |
| Dividends paid | (100) | (120) | (171) | (191) | (208) |
| Cash flow from financing activities | (420) | (270) | (331) | (368) | (396) |
| Cash at beginning of period | 577 | 389 | 507 | 314 | 302 |
| Net change in cash | (433) | 293 | 112 | 305 | 344 |
| Ending balance cash | 144 | 683 | 619 | 619 | 646 |

| Balance sheet (MYRm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 389 | 507 | 314 | 302 | 327 |
| Tangible fixed assets | 1,484 | 1,587 | 1,947 | 2,156 | 2,346 |
| Total investments | 425 | 460 | 460 | 460 | 460 |
| Total assets | 3,178 | 3,521 | 3,735 | 3,977 | 4,230 |
| Short-term debt | 63 | 70 | 70 | 70 | 70 |
| Total long-term debt | 110 | 43 | 43 | 43 | 43 |
| Total liabilities | 658 | 754 | 777 | 812 | 847 |
| Total equity | 2,520 | 2,767 | 2,957 | 3,165 | 3,383 |
| Total liabilities & equity | 3,178 | 3,521 | 3,735 | 3,977 | 4,230 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue grow th (%) | 14.3 | 13.3 | 12.0 | 10.0 | 8.0 |
| Recurrent EPS grow th (%) | 42.8 | 22.5 | 10.7 | 8.9 | 5.3 |
| Gross margin (%) | 56.8 | 56.9 | 58.1 | 58.5 | 58.0 |
| Operating EBITDA margin (%) | 43.4 | 43.1 | 45.3 | 45.1 | 44.3 |
| Net profit margin (%) | 29.3 | 28.2 | 30.5 | 30.2 | 29.5 |
| Dividend payout ratio (%) | 41.6 | 54.3 | 50.0 | 50.0 | 50.0 |
| Capex/sales (%) | 25.3 | 28.6 | 42.5 | 29.2 | 27.0 |
| Interest cover (x) | 16.4 | 12.4 | 18.8 | 20.4 | 21.3 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-03-02 | Buy | 11.0 | 9.4 |
| 2019-12-02 | Buy | 11.0 | 9.1 |
| 2019-08-28 | Buy | 10.9 | 9.1 |
| 2019-08-27 | Buy | 10.3 | 8.9 |
| 2019-05-27 | Buy | 10.3 | 8.9 |
| 2019-03-01 | Buy | 9.6 | 8.2 |
| 2018-11-28 | Buy | 9.3 | 8.0 |
| 2018-10-08 | Buy | 9.3 | 8.0 |
| 2018-08-29 | Buy | 9.3 | 8.3 |

*Source: RHB, Bloomberg*

19 May 2020

Communications | Telecommunications

# XL Axiata (EXCL IJ)

**Buy** (Maintained)

## Higher Data Traffic With Intensifying Competition

| | |
|---|---|
| Target Price (Return): | IDR3,850 (+60%) |
| Price: | IDR2,400 |
| Market Cap: | USD1,725m |
| Avg Daily Turnover (IDR/USD) | 37,953m/2.54m |

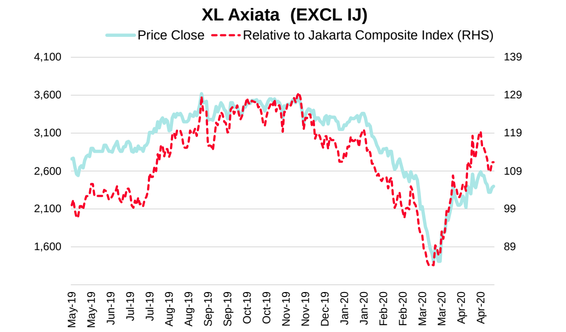
- **Keep BUY and IDR3,850 TP, 60% upside with c.3% yield.** Given that XL Axiata has the least business-to-business (enterprise) exposure among Indonesia's three listed operators, it is the main beneficiary of STAY Online theme during this partial lockdown period. Higher data traffic stabilised after one month of lockdown, while weaker purchasing power may have led to intensifying competition, as consumers seek better-value data packages. Higher data traffic was also seen in residential and rural areas, indicating that many may have taken their *Lebaran* exodus or *mudik* earlier.
- **15% data traffic growth with healthy gross sub additions.** Due to the growing fear over COVID-19's spread, EXCL has continued to see data monetisation through higher data consumption – ie an increase in data ARPU – while data prices have remained flat over the past few quarters due to intense competition. Despite a potential soft purchasing power environment, it is management's view that data remains one of Indonesia's key essential needs. Hence, demand for data packages may continue to be resilient despite the weaker economic outlook.
- **Competition is heating up, while strong data traffic growth is observed during the partial lockdown.** The challenging economic environment has led to rising competition, with increases in operators' churn rates and demand for cheaper data access during this work from/study at home period. Given that the highest data traffic usage stems from video-streaming apps, EXCL sees higher purchases of booster packs with smaller main quota packages. In addition, weaker purchasing power has led to smaller, but higher frequency data pack purchases. The company experienced a spike in data traffic at the initial stage of the Government's large-scale social distancing measures (PSBB), but this has stabilised towards the end of Apr 2020. In addition, PSBB has led to an accelerated decline in its legacy business (12.4% of gross revenue in 1Q20). Higher sales distribution via digital platforms is margins accretive. It also allows EXCL to have better control over pricing.
- **Other earnings support from lower interconnect and interest rates.** Given the industry's structural change from legacy to data, EXCL has been enjoying lower interconnect expenses. Another earnings support should stem from the lower interest rate environment, as several bonds and *sukuk* are maturing this year. Hence, EXCL has no exposure to USD debt currently, while the bulk of its capex is in IDR (<30% in USD).
- **Key risks: Intensifying competition, sub migration.** Management has indicated that value-seeking subs migrated to smaller players due to more attractive data offerings. Hence, we believe that both Indosat (ISAT IJ, BUY, TP: IDR4,000) and EXCL's QoQ subs loss were due to migrations to either Smartfren (FREN IJ, NR) or Hutchinson 3 Indonesia.


**Analyst**

Michael Setjoadi
+6221 5093 9844
michael.setjoadi@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (23.8) | 11.6 | (16.1) | (27.3) | (18.1) |
| Relative | 2.6 | 11.8 | 6.0 | (2.7) | 7.2 |
| 52-wk Price low/high (IDR) | | | | | 1,410 – 3,620 |




*Source: Bloomberg*

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (IDRb) | 23,001 | 25,150 | 28,843 | 33,143 | 37,159 |
| Recurring net profit (IDRb) | (3,626) | 1,008 | 5,833 | 7,031 | 8,434 |
| Recurring net profit growth (%) | 3,615.9 | - | 478.4 | 20.6 | 20.0 |
| Recurring P/E (x) | na | 25.44 | 4.40 | 3.65 | 3.04 |
| P/B (x) | 1.4 | 1.3 | 1.2 | 1.1 | 1.1 |
| P/CF (x) | 3.82 | 3.41 | 4.32 | 2.11 | 1.87 |
| Dividend Yield (%) | na | na | 2.8 | 1.6 | 4.3 |
| EV/EBITDA (x) | 5.60 | 5.12 | 3.03 | 2.69 | 2.38 |
| Return on average equity (%) | (16.5) | 3.8 | 17.7 | 6.3 | 9.3 |
| Net debt to equity (%) | 120.1 | 132.6 | 115.6 | 116.1 | 110.0 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Indonesia
Communications
**XL Axiata**
EXCL IJ
Buy

**Valuation basis**

10-year DCF valuation with WACC assumption of 11.5% and terminal growth of 2%. Our WACC assumption includes 7.3% risk-free rate, 1 beta, and 6% equity risk premium. We also adjust the finance lease to EBIT for WACC calculation purposes.

**Key drivers**

i. Strong data growth momentum;
ii. Market share gains ex Java;
iii. Operating efficiency improvements.

**Key risks**

i. Another price war;
ii. Unfavourable regulations;
iii. Slow network deployment and expansion.

**Company Profile**

XL Axiata (EXCL) provides a wide range of mobile telecommunications services in Indonesia.

| Financial summary (IDR) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | (339.25) | 94.34 | 545.71 | 657.86 | 789.15 |
| DPS | - | - | 68.04 | 39.59 | 102.16 |
| BVPS | 1,716.24 | 1,789.11 | 2,061.28 | 2,153.66 | 2,255.82 |
| Return on average equity (%) | (16.5) | 3.8 | 17.7 | 6.3 | 9.3 |

| Income statement (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 23,001 | 25,150 | 28,843 | 33,143 | 37,159 |
| Gross profit | 20,518 | 23,218 | 26,639 | 30,629 | 34,361 |
| EBITDA | 8,512 | 9,966 | 16,890 | 19,466 | 21,948 |
| Depreciation and amortisation | (11,621) | (7,363) | (8,350) | (9,293) | (10,028) |
| Operating profit | (3,109) | 2,603 | 8,540 | 10,174 | 11,920 |
| Net interest | (1,259) | (1,031) | (764) | (799) | (674) |
| Pre-tax profit | (4,396) | 1,144 | 4,848 | 1,881 | 2,912 |
| Taxation | 1,099 | (432) | (1,212) | (470) | (728) |
| Reported net profit | (3,297) | 713 | 3,636 | 1,410 | 2,184 |
| Recurring net profit | (3,626) | 1,008 | 5,833 | 7,031 | 8,434 |

| Cash flow (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | 849 | 1,114 | (2,129) | 890 | 789 |
| Cash flow from operations | 6,721 | 7,513 | 5,938 | 12,138 | 13,712 |
| Capex | (12,885) | (11,684) | (8,703) | (12,993) | (12,474) |
| Cash flow from investing activities | (11,811) | (10,914) | (5,315) | (12,970) | (12,427) |
| Dividends paid | 0 | 0 | (727) | (423) | (1,092) |
| Cash flow from financing activities | 3,682 | 3,958 | (1,946) | 1,142 | (206) |
| Cash at beginning of period | 2,455 | 1,047 | 1,603 | 281 | 592 |
| Net change in cash | (1,408) | 556 | (1,322) | 311 | 1,080 |
| Ending balance cash | 1,047 | 1,603 | 281 | 592 | 1,672 |

| Balance sheet (IDRb) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 1,047 | 1,603 | 281 | 592 | 1,672 |
| Tangible fixed assets | 36,760 | 42,082 | 45,673 | 49,373 | 51,819 |
| Total assets | 57,614 | 62,725 | 66,392 | 71,458 | 76,016 |
| Short-term debt | 2,578 | 7,492 | 3,140 | 3,309 | 3,231 |
| Total long-term debt | 20,493 | 19,470 | 22,604 | 24,000 | 24,964 |
| Total liabilities | 39,271 | 43,603 | 44,361 | 48,439 | 51,906 |
| Total equity | 18,343 | 19,122 | 22,031 | 23,018 | 24,110 |
| Total liabilities & equity | 57,614 | 62,725 | 66,392 | 71,458 | 76,016 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 0.4 | 9.3 | 14.7 | 14.9 | 12.1 |
| Recurrent EPS growth (%) | 3615.9 | 0.0 | 478.4 | 20.6 | 20.0 |
| Gross margin (%) | 89.2 | 92.3 | 92.4 | 92.4 | 92.5 |
| Operating EBITDA margin (%) | 37.0 | 39.6 | 58.6 | 58.7 | 59.1 |
| Net profit margin (%) | (14.3) | 2.8 | 12.6 | 4.3 | 5.9 |
| Dividend payout ratio (%) | 0.0 | 0.0 | 20.0 | 30.0 | 50.0 |
| Capex/sales (%) | 56.0 | 46.5 | 30.2 | 39.2 | 33.6 |
| Interest cover (x) | (1.78) | 2.28 | 9.58 | 12.39 | 16.52 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-04-06 | Buy | 3,850 | 2,380 |
| 2020-02-12 | Buy | 3,850 | 2,860 |
| 2019-11-08 | Buy | 3,850 | 3,450 |
| 2019-11-04 | Buy | 3,850 | 3,550 |
| 2019-08-02 | Buy | 3,850 | 3,260 |
| 2019-03-27 | Buy | 3,400 | 2,690 |

*Source: RHB, Bloomberg*

# Singapore Company Update

19 May 2020

Communications | Telecommunications

# Singtel (ST SP)

**Buy** (Maintained)

## Best-Of-Breed Telco Exposure

| | |
|---|---|
| Target Price (Return): | SGD3.30 (+23%) |
| Price: | SGD2.66 |
| Market Cap: | USD32,660m |
| Avg Daily Turnover (SGD/USD) | 108m/76.3m |

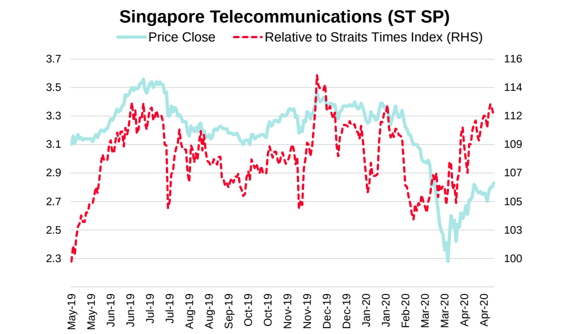
- **Reiterate BUY** with SOP-derived TP of SGD3.30, 23% upside and c.6% yield. Singtel is a strategic beneficiary of the economic calamity brought about by COVID-19, being the largest fully integrated communications enabler in Asia. We see further share price upside with valuations at -1.5SD of post-Global Financial Crisis EV/EBITDA mean (-2SD of 5-year mean). Near-term headwinds aside, the stock's more favourable risk-reward profile, diversified earnings base and attractive dividend yields should still fuel longer-term outperformance.
- **Strong beneficiary of the digitalisation thrust.** We see Singtel as a strong beneficiary of the drive by enterprises to accelerate their digital ambitions amidst the challenging economic environment brought about by COVID-19. Singtel's deep domain expertise in cybersecurity (Trustwave), mobile advertising (Amobee), cloud services and unified communications solutions alongside ownership of key/strategic infrastructure assets such as data centres and sub-sea cables makes it a choice pick for our STAYs thematic online sub-theme. The group has a dominant share of enterprise revenue locally and across the region with over 35% of group revenue from the enterprise segment – the highest among Singapore telcos.
- **Recovery in associates intact but some hiccups expected.** We see the recovery in Airtel's ARPU being sustained in 4QFY20 with the full-quarter impact of the industry-wide re-pricing that took effect last December (4Q19: +5% QoQ). However, the extended lock-down in India may crimp 1QFY21 (Jun) revenue momentum given the high dependence of subscribers on traditional recharge methods. Singtel's other key associates in Thailand and Indonesia should see little direct impact from the viral pandemic, although competition is looking keener in both markets.
- **Dividend payout looks to be recalibrated.** There is risk to Singtel's dividend payout going forward which hinges largely on the group's capex intensity. The current guidance (absolute payout of 17.5 cents per share) will be reviewed post the announcement of its FY20 (Mar) results by end-May. We think the group may still want to be ahead of the game on 5G with some spending allocated for FY21. Recent media reports of Optus exploring a tower sale – to raise up to AUD2bn – could provide some buffer for dividends. We believe management may also want to keep its powder dry, taking on a more prudent stance on capital allocation due to the economic uncertainties.
- **Core earnings to rebound in FY21.** We expect Singtel's core earnings to grow by FY20F-22F CAGR of 6%, underpinned by the recovery in associate earnings and group-wide cost efficiencies, albeit partially mitigated by competitive pressures in the Singapore/Australian mobile markets.
- **Key risks** are weaker-than-expected revenue from roaming weakness and travel restrictions imposed, competition, capex and dividend surprises.

**Analyst**

Singapore Research
+65 6533 0781
sg.research@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (16.0) | 16.9 | (16.0) | (13.2) | (10.7) |
| Relative | 2.6 | 8.3 | 1.2 | 5.0 | 12.1 |
| 52-wk Price low/high (SGD) | | | | | 2.28 – 3.56 |




*Source: Bloomberg*

| Forecasts and Valuation | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 17,371 | 17,371 | 17,029 | 16,997 | 17,419 |
| Recurring net profit (SGDm) | 3,647 | 2,823 | 2,512 | 2,632 | 2,795 |
| Recurring net profit growth (%) | (5.8) | (22.6) | (11.0) | 4.8 | 6.2 |
| Recurring P/E (x) | 12.37 | 15.98 | 17.96 | 17.14 | 16.15 |
| P/B (x) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| P/CF (x) | 5.53 | 5.95 | 6.37 | 6.44 | 6.33 |
| Dividend Yield (%) | 7.2 | 6.2 | 6.2 | 5.7 | 5.7 |
| EV/EBITDA (x) | 7.88 | 8.60 | 9.14 | 9.43 | 9.34 |
| Return on average equity (%) | 12.6 | 9.5 | 8.5 | 8.9 | 9.5 |
| Net debt to equity (%) | 33.4 | 34.1 | 35.3 | 37.2 | 39.2 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Communications
**SingTel**
ST SP
Buy

**Valuation basis**

SOP valuation

**Key drivers**

i. Recovery in associate earnings;
ii. Cost efficiencies;
iii. Revenue opportunities within the enterprise segment.

**Key risks**

i. Stronger-than-expected mobile competition across its mobile footprint;
ii. Higher-than-expected capex;
iii. Currency volatility.

**Company Profile**

Singtel is the largest integrated telecommunications group in the Asia Pacific with class leading mobile assets in Singapore, Australia, India, Indonesia, Thailand and the Philippines, amongst others

| Financial summary (SGD) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.23 | 0.18 | 0.16 | 0.17 | 0.18 |
| DPS | 0.21 | 0.18 | 0.18 | 0.16 | 0.16 |
| BVPS | 1.86 | 1.87 | 1.85 | 1.84 | 1.86 |
| Return on average equity (%) | 12.6 | 9.5 | 8.5 | 8.9 | 9.5 |

| Valuation metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 12.37 | 15.98 | 17.96 | 17.14 | 16.15 |
| P/B (x) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| FCF Yield (%) | 12.9 | 13.0 | 10.8 | 10.9 | 11.1 |
| Dividend Yield (%) | 7.2 | 6.2 | 6.2 | 5.7 | 5.7 |
| EV/EBITDA (x) | 7.88 | 8.60 | 9.14 | 9.43 | 9.34 |
| EV/EBIT (x) | 14.10 | 16.33 | 21.58 | 23.97 | 24.10 |

| Income statement (SGDm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total turnover | 17,371 | 17,371 | 17,029 | 16,997 | 17,419 |
| Gross profit | 4,844 | 4,466 | 4,237 | 4,156 | 4,280 |
| EBITDA | 5,103 | 4,691 | 4,442 | 4,362 | 4,482 |
| Depreciation and amortisation | (2,250) | (2,222) | (2,560) | (2,646) | (2,746) |
| Operating profit | 2,853 | 2,469 | 1,881 | 1,717 | 1,736 |
| Net interest | (345) | (355) | (461) | (464) | (486) |
| Pre-tax profit | 4,969 | 3,650 | 3,248 | 3,404 | 3,614 |
| Taxation | (1,343) | (850) | (756) | (793) | (842) |
| Reported net profit | 3,647 | 2,823 | 2,512 | 2,632 | 2,795 |
| Recurring net profit | 3,647 | 2,823 | 2,512 | 2,632 | 2,795 |

| Cash flow (SGDm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Cash flow from operations | 8,165 | 7,583 | 7,084 | 7,005 | 7,124 |
| Capex | (2,349) | (1,718) | (2,200) | (2,100) | (2,100) |
| Cash flow from investing activities | (1,951) | (2,329) | (2,400) | (2,300) | (2,300) |
| Dividends paid | (2,857) | (2,857) | (2,857) | (2,727) | (2,612) |
| Cash flow from financing activities | (4,009) | (3,056) | (3,280) | (2,740) | (3,049) |
| Cash at beginning of period | 534 | 525 | 513 | 763 | 731 |
| Net change in cash | 2,205 | 2,198 | 1,404 | 1,964 | 1,776 |
| Ending balance cash | 2,739 | 2,723 | 1,917 | 2,727 | 2,507 |

| Balance sheet (SGDm) | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 525 | 513 | 763 | 731 | 558 |
| Tangible fixed assets | 11,801 | 11,050 | 10,690 | 10,144 | 9,498 |
| Total investments | 14,789 | 14,918 | 14,918 | 14,918 | 14,918 |
| Total assets | 48,254 | 48,915 | 49,016 | 49,361 | 50,173 |
| Short-term debt | 1,824 | 1,880 | 1,880 | 1,880 | 1,880 |
| Total long-term debt | 8,607 | 8,784 | 9,284 | 9,784 | 10,284 |
| Total liabilities | 18,600 | 19,105 | 19,530 | 19,949 | 20,556 |
| Total equity | 29,654 | 29,810 | 29,486 | 29,412 | 29,617 |
| Total liabilities & equity | 48,254 | 48,915 | 49,016 | 49,361 | 50,173 |

| Key metrics | Mar-18 | Mar-19 | Mar-20F | Mar-21F | Mar-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 3.9 | 0.0 | (2.0) | (0.2) | 2.5 |
| Recurrent EPS growth (%) | (5.8) | (22.6) | (11.0) | 4.8 | 6.2 |
| Gross margin (%) | 27.9 | 25.7 | 24.9 | 24.5 | 24.6 |
| Operating EBITDA margin (%) | 29.4 | 27.0 | 26.1 | 25.7 | 25.7 |
| Net profit margin (%) | 21.0 | 16.3 | 14.8 | 15.5 | 16.0 |
| Dividend payout ratio (%) | 91.8 | 101.2 | 0.0 | 0.0 | 0.0 |
| Capex/sales (%) | 13.5 | 9.9 | 12.9 | 12.4 | 12.1 |
| Interest cover (x) | 7.63 | 6.41 | 3.83 | 3.34 | 3.24 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-14 | Neutral | 3.45 | 3.22 |
| 2019-11-15 | Neutral | 3.50 | 3.18 |
| 2019-08-08 | Neutral | 3.40 | 3.26 |
| 2019-07-23 | Neutral | 3.40 | 3.52 |
| 2019-05-15 | Neutral | 3.35 | 3.13 |
| 2019-03-11 | Neutral | 3.09 | 2.93 |
| 2019-02-14 | Neutral | 3.22 | 3.03 |
| 2018-11-09 | Neutral | 3.22 | 3.10 |

*Source: RHB, Bloomberg*

19 May 2020

Communications | Telecommunications

# Advanced Info Service (ADVANC TB)

**Buy** (Maintained)

## Still The Best Proxy To TH Telco

| | |
|---|---|
| Target Price (Return): | THB220 (+16%) |
| Price: | THB190.00 |
| Market Cap: | USD17,877m |
| Avg Daily Turnover (THB/USD) | 2,000m/62.3m |

- **Maintain BUY and TP of THB220.00, 16% upside plus c.4% yield.** Advanced Info Service remains the best proxy to Thailand's telecommunications sector and is one of the best defensive plays during this pandemic and economic slowdown. While rising data consumption during the lockdown should not lead to a spike in revenue or network expenses, its earnings are expected to be weaken along with private consumption and the overall economy.
- **The real impact so far.** Excluding weakened consumption and rising price sensitivity in the prepaid segment, the closure of physical channels due to the lockdown has resulted in a drop in postpaid subs acquisition (-33% QoQ) and device unit sales (-29% QoQ) in the recent quarter. While softened revenue prospects are foreseeable due to the absence of traveller tourist SIM cards and international roaming (2.5% of total), the launch of two economic measures by the National Broadcasting and Telecommunications Commission (NBTC) to support a reduction in the cost of living (ie free data and free voice call) did not create significant impact to its earnings, thanks to the size of these packages that are relatively small, aside from the compensation offered to it by the regulator.
- **What we expect next?** Despite rising data consumption during the lockdown, lower purchasing power should cause data yield to fall (1Q20: -20% QoQ). Pricing pressure from unlimited data packages is likely to prolong as the industry shifts to competitive pricing strategy to preserve its subs base during this economic slowdown. We expect the company to turn more defensive by focusing on cost optimisation (ie head count control, rental saving, etc) to minimise the negative impact of its bottomline.
- **Preparing for the new normal in digitalisation.** The significant increase of digital service activities, payment transactions via online channels, and chatbot call centres during the lockdown have shown potential cost optimisation across its work process. We also see a positive signal from the cross selling between the work-from-home (WFH) package, cloud services and other enterprise solutions – some enterprises are considering to move a portion of their workforce to work from home. Acceleration of this demand could also be a potential upside for its corporate segment in the future.
- **Competitive position with highest room to scale up.** Its superior spectrum portfolio, highest cumulative investment in its mobile network and largest market share should allow AIS to continue to sustain its cost advantage during this economic crisis. It also has the highest room (vs peers) to leverage on its mobile subs base to boost organic growth through pre-to-post migration or FBB business expansion, which should allow it to sustain profitability during this unusual low churn rate environment.
- **Keep BUY.** While its core operations have been toned down in line with the economy, we believe AIS' outlook remains outstanding vs peers, thanks to its strong market position with a solid balance sheet that could be a good buffer during the economic slowdown. Our TP implies 18x FY20F's P/E, offering FY20F yield of 3.9% – in line with its historical payment. Downside risks to our call are the price control urged by government and the intense competition drove by its key competitors.

| Forecasts and Valuation | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover (THBm) | 169,856 | 180,894 | 180,486 | 184,059 | 187,024 |
| Recurring net profit (THBm) | 29,816 | 31,647 | 32,005 | 34,113 | 35,915 |
| Recurring net profit growth (%) | (1.3) | 6.1 | 1.4 | 6.9 | 5.3 |
| Recurring P/E (x) | 19.29 | 18.17 | 17.96 | 16.85 | 16.01 |
| P/B (x) | 10.0 | 8.3 | 7.2 | 6.4 | 5.6 |
| P/CF (x) | 8.71 | 7.20 | 12.90 | 8.69 | 8.37 |
| Dividend Yield (%) | 3.7 | 3.8 | 3.9 | 4.2 | 4.4 |
| EV/EBITDA (x) | 9.11 | 8.19 | 8.09 | 7.62 | 7.17 |
| Return on average equity (%) | 55.0 | 49.2 | 43.0 | 40.1 | 37.3 |
| Net debt to equity (%) | 173.5 | 107.2 | 106.2 | 69.8 | 40.0 |

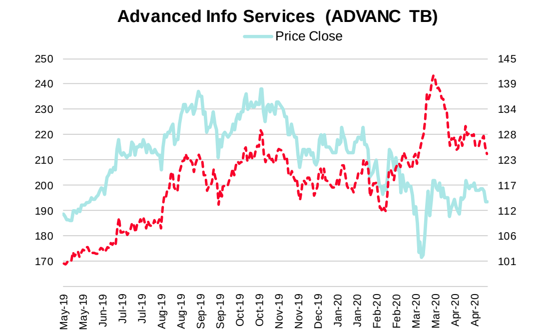
*Source: Company data, RHB*


**Analyst**

Pakorn Khaoeian
+662 088 9627
pakorn.kh@rhbgroup.com


**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (10.8) | (0.8) | (6.9) | (18.1) | 1.3 |
| Relative | 8.2 | (2.7) | 9.2 | 2.4 | 22.9 |
| 52-wk Price low/high (THB) | | | | | 172 – 238 |




*Source: Bloomberg*

# Financial Exhibits

**Asia**
Thailand
Communications
**Advanced Info Service**
ADVANC TB
Buy

**Valuation basis**

DCF (WACC: 8.43%, TG: 1%) given its solid operating cash flow and leading market share position

**Key drivers**

i. Higher-than-expected data yield (RPMB);
ii. Rising pre-to-post migration;
iii. The growing of FBB business.

**Key risks**

i. Intense competition;
ii. Lower dividend payout ratio;
iii. Ineffective data monetisation.

**Company Profile**

Advanced Info Service (AIS) is the Thailand-based telecommunication services provider with more than 27 years experienced in mobile service. Company operating three core businesses: Mobile business (94% included products sales and interconnection revenue), Fixed broadband (3%) and Other service (3%).

| Financial summary (THB) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring EPS | 10.03 | 10.65 | 10.77 | 11.48 | 12.09 |
| DPS | 7.08 | 7.34 | 7.54 | 8.04 | 8.46 |
| BVPS | 19.35 | 23.31 | 26.75 | 30.44 | 34.28 |
| Return on average equity (%) | 55.0 | 49.2 | 43.0 | 40.1 | 37.3 |

| Valuation metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 19.29 | 18.17 | 17.96 | 16.85 | 16.01 |
| P/B (x) | 10.0 | 8.3 | 7.2 | 6.4 | 5.6 |
| FCF Yield (%) | 8.0 | 9.9 | 2.0 | 7.7 | 8.2 |
| Dividend Yield (%) | 3.7 | 3.8 | 3.9 | 4.2 | 4.4 |
| EV/EBITDA (x) | 9.11 | 8.19 | 8.09 | 7.62 | 7.17 |
| EV/EBIT (x) | 16.77 | 15.43 | 15.59 | 14.53 | 13.68 |

| Income statement (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total turnover | 169,856 | 180,894 | 180,486 | 184,059 | 187,024 |
| Gross profit | 66,570 | 69,854 | 67,845 | 69,675 | 70,610 |
| EBITDA | 74,154 | 79,342 | 81,556 | 83,727 | 85,872 |
| Depreciation and amortisation | (33,879) | (37,229) | (39,247) | (39,809) | (40,841) |
| Operating profit | 40,275 | 42,113 | 42,310 | 43,919 | 45,031 |
| Net interest | (5,148) | (4,777) | (4,531) | (3,624) | (2,586) |
| Pre-tax profit | 35,636 | 37,402 | 38,380 | 40,908 | 43,068 |
| Taxation | (5,923) | (6,209) | (6,371) | (6,791) | (7,150) |
| Reported net profit | 29,682 | 31,190 | 32,005 | 34,113 | 35,915 |
| Recurring net profit | 29,816 | 31,647 | 32,005 | 34,113 | 35,915 |

| Cash flow (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Change in working capital | (1,791) | (739) | (26,676) | (7,772) | (8,048) |
| Cash flow from operations | 66,014 | 79,922 | 44,580 | 66,153 | 68,711 |
| Capex | (20,198) | (23,029) | (32,908) | (21,758) | (21,758) |
| Cash flow from investing activities | (44,050) | (26,973) | (32,908) | (21,758) | (21,758) |
| Dividends paid | (21,852) | (21,050) | (21,786) | (23,142) | (24,511) |
| Cash flow from financing activities | (23,542) | (42,395) | (26,615) | (40,983) | (44,905) |
| Cash at beginning of period | 10,650 | 9,067 | 19,637 | 4,639 | 7,894 |
| Net change in cash | (1,578) | 10,554 | (14,943) | 3,412 | 2,048 |
| Ending balance cash | 9,067 | 19,637 | 4,693 | 8,092 | 10,094 |

| Balance sheet (THBm) | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 9,067 | 19,637 | 4,693 | 8,092 | 10,094 |
| Tangible fixed assets | 130,212 | 125,510 | 117,848 | 110,084 | 101,384 |
| Total investments | 60 | 67 | 67 | 67 | 67 |
| Total assets | 290,505 | 289,669 | 268,320 | 254,252 | 237,655 |
| Short-term debt | 17,104 | 24,872 | 24,389 | 22,603 | 20,559 |
| Total long-term debt | 92,030 | 69,172 | 64,826 | 48,756 | 30,360 |
| Total liabilities | 232,836 | 220,275 | 188,704 | 163,660 | 135,656 |
| Total equity | 57,669 | 69,394 | 79,617 | 90,592 | 101,999 |
| Total liabilities & equity | 290,505 | 289,669 | 268,320 | 254,252 | 237,655 |

| Key metrics | Dec-18 | Dec-19 | Dec-20F | Dec-21F | Dec-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 7.7 | 6.5 | (0.2) | 2.0 | 1.6 |
| Recurrent EPS growth (%) | (1.3) | 6.2 | 1.5 | 6.9 | 5.3 |
| Gross margin (%) | 39.2 | 38.6 | 37.6 | 37.9 | 37.8 |
| Operating EBITDA margin (%) | 43.7 | 43.9 | 45.2 | 45.5 | 45.9 |
| Net profit margin (%) | 17.5 | 17.2 | 17.7 | 18.5 | 19.2 |
| Dividend payout ratio (%) | 70.9 | 70.0 | 70.0 | 70.0 | 70.0 |
| Capex/sales (%) | 11.9 | 12.7 | 18.2 | 11.8 | 11.6 |
| Interest cover (x) | 7.82 | 8.82 | 9.34 | 12.12 | 17.41 |

*Source: Company data, RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-02-07 | Buy | 250 | 200 |
| 2020-02-07 | Buy | 250 | 200 |
| 2019-11-04 | Buy | 250 | 231 |
| 2019-09-27 | Buy | 250 | 221 |
| 2019-08-07 | Buy | 227 | 220 |

*Source: RHB, Bloomberg*

## RHB Guide to Investment Ratings

**Buy:** Share price may exceed 10% over the next 12 months
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months
**Take Profit:** Target price has been attained. Look to accumulate at lower levels
**Sell:** Share price may fall by more than 10% over the next 12 months
**Not Rated:** Stock is not within regular research coverage

**Investment Research Disclaimers**

RHB has issued this report for information purposes only. This report is intended for circulation amongst RHB and its affiliates' clients generally or such persons as may be deemed eligible by RHB to receive this report and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. This report is not intended, and should not under any circumstances be construed as, an offer or a solicitation of an offer to buy or sell the securities referred to herein or any related financial instruments.

This report may further consist of, whether in whole or in part, summaries, research, compilations, extracts or analysis that has been prepared by RHB's strategic, joint venture and/or business partners. No representation or warranty (express or implied) is given as to the accuracy or completeness of such information and accordingly investors should make their own informed decisions before relying on the same.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to the applicable laws or regulations. By accepting this report, the recipient hereof (i) represents and warrants that it is lawfully able to receive this document under the laws and regulations of the jurisdiction in which it is located or other applicable laws and (ii) acknowledges and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of applicable laws.

All the information contained herein is based upon publicly available information and has been obtained from sources that RHB believes to be reliable and correct at the time of issue of this report. However, such sources have not been independently verified by RHB and/or its affiliates and this report does not purport to contain all information that a prospective investor may require. The opinions expressed herein are RHB's present opinions only and are subject to change without prior notice. RHB is not under any obligation to update or keep current the information and opinions expressed herein or to provide the recipient with access to any additional information. Consequently, RHB does not guarantee, represent or warrant, expressly or impliedly, as to the adequacy, accuracy, reliability, fairness or completeness of the information and opinion contained in this report. Neither RHB (including its officers, directors, associates, connected parties, and/or employees) nor does any of its agents accept any liability for any direct, indirect or consequential losses, loss of profits and/or damages that may arise from the use or reliance of this research report and/or further communications given in relation to this report. Any such responsibility or liability is hereby expressly disclaimed.

Whilst every effort is made to ensure that statement of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable and must not be construed as a representation that the matters referred to therein will occur. Different assumptions by RHB or any other source may yield substantially different results and recommendations contained on one type of research product may differ from recommendations contained in other types of research. The performance of currencies may affect the value of, or income from, the securities or any other financial instruments referenced in this report. Holders of depositary receipts backed by the securities discussed in this report assume currency risk. Past performance is not a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors.

This report does not purport to be comprehensive or to contain all the information that a prospective investor may need in order to make an investment decision. The recipient of this report is making its own independent assessment and decisions regarding any securities or financial instruments referenced herein. Any investment discussed or recommended in this report may be unsuitable for an investor depending on the investor's specific investment objectives and financial position. The material in this report is general information intended for recipients who understand the risks of investing in financial instruments. This report does not take into account whether an investment or course of action and any associated risks are suitable for the recipient. Any recommendations contained in this report must therefore not be relied upon as investment advice based on the recipient's personal circumstances. Investors should make their own independent evaluation of the information contained herein, consider their own investment objective, financial situation and particular needs and seek their own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to RHB and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. RHB expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

The use of any website to access this report electronically is done at the recipient's own risk, and it is the recipient's sole responsibility to take precautions to ensure that it is free from viruses or other items of a destructive nature. This report may also provide the addresses of, or contain hyperlinks to, websites. RHB takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to RHB own website material) are provided solely for the recipient's convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or RHB website shall be at the recipient's own risk.

This report may contain information obtained from third parties. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content.

The research analysts responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. The research analysts that authored this report are precluded by RHB in all circumstances from trading in the securities or other financial instruments referenced in the report, or from having an interest in the company(ies) that they cover.

The contents of this report is strictly confidential and may not be copied, reproduced, published, distributed, transmitted or passed, in whole or in part, to any other person without the prior express written consent of RHB and/or its affiliates. This report has been delivered to RHB and its affiliates' clients for information purposes only and upon the express understanding that such parties will use it only for the purposes set forth above. By electing to view or accepting a copy of this report, the recipients have agreed that they will not print, copy, videotape, record, hyperlink, download, or otherwise attempt to reproduce or re-transmit (in any form including hard copy or electronic distribution format) the contents of this report. RHB and/or its affiliates accepts no liability whatsoever for the actions of third parties in this respect.

The contents of this report are subject to copyright. Please refer to Restrictions on Distribution below for information regarding the distributors of this report. Recipients must not reproduce or disseminate any content or findings of this report without the express permission of RHB and the distributors.

The securities mentioned in this publication may not be eligible for sale in some states or countries or certain categories of investors. The recipient of this report should have regard to the laws of the recipient's place of domicile when contemplating transactions in the securities or other financial instruments referred to herein. The securities discussed in this report may not have been registered in such jurisdiction. Without prejudice to the foregoing, the recipient is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

The term "RHB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case, RHB Investment Bank Berhad and its affiliates, subsidiaries and related companies.

### RESTRICTIONS ON DISTRIBUTION

**Malaysia**

This report is issued and distributed in Malaysia by RHB Investment Bank Berhad ("RHBIB"). The views and opinions in this report are our own as of the date hereof and is subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. RHBIB has no obligation to update its opinion or the information in this report.

**Thailand**

This report is issued and distributed in the Kingdom of Thailand by RHB Securities (Thailand) PCL, a licensed securities company that is authorised by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is a member of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. RHB Securities (Thailand) PCL does not endorse, confirm nor certify the result of the Corporate Governance Report of Thai Listed Companies.

**Indonesia**

This report is issued and distributed in Indonesia by PT RHB Sekuritas Indonesia. This research does not constitute an offering document and it should not be construed as an offer of securities in Indonesia. Any securities offered or sold, directly or indirectly, in Indonesia or to any Indonesian citizen or corporation (wherever located) or to any Indonesian resident in a manner which constitutes a public offering under Indonesian laws and regulations must comply with the prevailing Indonesian laws and regulations.

**Singapore**
This report is issued and distributed in Singapore by RHB Securities Singapore Pte Ltd which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. RHB Securities Singapore Pte Ltd may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, RHB Securities Singapore Pte Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact RHB Securities Singapore Pte Ltd in respect of any matter arising from or in connection with the report.

**Hong Kong**
This report is distributed in Hong Kong by RHB Securities Hong Kong Limited (興業僑豐證券有限公司) (CE No.: ADU220) ("RHBSHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities). Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact RHBSHK. RHBSHK is a wholly owned subsidiary of RHB Hong Kong Limited; for the purposes of disclosure under the Hong Kong jurisdiction herein, please note that RHB Hong Kong Limited with its affiliates (including but not limited to RHBSHK) will collectively be referred to as "RHBHK." RHBHK conducts a full-service, integrated investment banking, asset management, and brokerage business. RHBHK does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this research report. Investors should consider this report as only a single factor in making their investment decision. Importantly, please see the company-specific regulatory disclosures below for compliance with specific rules and regulations under the Hong Kong jurisdiction. Other than company-specific disclosures relating to RHBHK, this research report is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such.

**United States**
This report was prepared by RHB and is being distributed solely and directly to "major" U.S. institutional investors as defined under, and pursuant to, the requirements of Rule 15a-6 under the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Accordingly, access to this report via Bursa Marketplace or any other Electronic Services Provider is not intended for any party other than "major" US institutional investors, nor shall be deemed as solicitation by RHB in any manner. RHB is not registered as a broker-dealer in the United States and does not offer brokerage services to U.S. persons. Any order for the purchase or sale of the securities discussed herein that are listed on Bursa Malaysia Securities Berhad must be placed with and through Auerbach Grayson ("AG"). Any order for the purchase or sale of all other securities discussed herein must be placed with and through such other registered U.S. broker-dealer as appointed by RHB from time to time as required by the Exchange Act Rule 15a-6. This report is confidential and not intended for distribution to, or use by, persons other than the recipient and its employees, agents and advisors, as applicable. Additionally, where research is distributed via Electronic Service Provider, the analysts whose names appear in this report are not registered or qualified as research analysts in the United States and are not associated persons of Auerbach Grayson AG or such other registered U.S. broker-dealer as appointed by RHB from time to time and therefore may not be subject to any applicable restrictions under Financial Industry Regulatory Authority ("FINRA") rules on communications with a subject company, public appearances and personal trading. Investing in any non-U.S. securities or related financial instruments discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in the United States. The financial instruments discussed in this report may not be suitable for all investors. Transactions in foreign markets may be subject to regulations that differ from or offer less protection than those in the United States.

## DISCLOSURE OF CONFLICTS OF INTEREST

RHB Investment Bank Berhad, its subsidiaries (including its regional offices) and associated companies, ("RHBIB Group") form a diversified financial group, undertaking various investment banking activities which include, amongst others, underwriting, securities trading, market making and corporate finance advisory.

As a result of the same, in the ordinary course of its business, any member of the RHBIB Group, may, from time to time, have business relationships with or hold positions in the securities (including capital market products) or perform and/or solicit investment, advisory or other services from any of the subject company(ies) covered in this research report.

While the RHBIB Group will ensure that there are sufficient information barriers and internal controls in place where necessary, to prevent/manage any conflicts of interest to ensure the independence of this report, investors should also be aware that such conflict of interest may exist in view of the investment banking activities undertaken by the RHBIB Group as mentioned above and should exercise their own judgement before making any investment decisions.

**Malaysia**
Save as disclosed in the following link RHB Research conflict disclosures – May 2020 and to the best of our knowledge, RHBIB hereby declares that:
1. RHBIB does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report.
2. RHBIB is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of RHBIB's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report

*For the avoidance of doubt, the confirmation is only limited to the staff of research department*

4. RHBIB did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. RHBIB did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report.

**Thailand**
Save as disclosed in the following link RHB Research conflict disclosures – May 2020 and to the best of our knowledge, RHB Securities (Thailand) PCL hereby declares that:
1. RHB Securities (Thailand) PCL does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report.
2. RHB Securities (Thailand) PCL is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of RHB Securities (Thailand) PCL's staff or associated person serve as a director or board member* of the subject company(ies) covered in this report
1. *For the avoidance of doubt, the confirmation is only limited to the staff of research department
4. RHB Securities (Thailand) PCL did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. RHB Securities (Thailand) PCL did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report.

**Indonesia**
Save as disclosed in the following link RHB Research conflict disclosures – May 2020 and to the best of our knowledge, PT RHB Sekuritas Indonesia hereby declares that:
1. PT RHB Sekuritas Indonesia and its investment analysts, does not have any interest in the securities of the subject company(ies) covered in this report.
   For the avoidance of doubt, interest in securities include the following:
   a) Holding directly or indirectly, individually or jointly own/hold securities or entitled for dividends, interest or proceeds from the sale or exercise of the subject company's securities covered in this report*;
   b) Being bound by an agreement to purchase securities or has the right to transfer the securities or has the right to pre subscribe the securities*.
   c) Being bound or required to buy the remaining securities that are not subscribed/placed out pursuant to an Initial Public Offering*.
   d) Managing or jointly with other parties managing such parties as referred to in (a), (b) or (c) above.
2. PT RHB Sekuritas Indonesia is not a market maker in the securities or capital market products of the subject company(ies) covered in this report.
3. None of PT RHB Sekuritas Indonesia's staff** or associated person serve as a director or board member* of the subject company(ies) covered in this report.
4. PT RHB Sekuritas Indonesia did not receive compensation for investment banking or corporate finance services from the subject company in the past 12 months.
5. PT RHB Sekuritas Indonesia** did not receive compensation or benefit (including gift and special cost arrangement e.g. company/issuer-sponsored and paid trip) in relation to the production of this report:

*Notes:*
**The overall disclosure is limited to information pertaining to PT RHB Sekuritas Indonesia only.*
***The disclosure is limited to Research staff of PT RHB Sekuritas Indonesia only.*

**Singapore**
Save as disclosed in the following link RHB Research conflict disclosures – May 2020 and to the best of our knowledge, RHB Securities Singapore Pte Ltd hereby declares that:
1. RHB Securities Singapore Pte Ltd, its subsidiaries and/or associated companies do not make a market in any issuer covered in this report.
2. RHB Securities Singapore Pte Ltd, its subsidiaries and/or its associated companies and its analysts do not have a financial interest (including a shareholding of 1% or more) in the issuer covered in this report.
3. RHB Securities, its staff or connected persons do not serve on the board or trustee positions of the issuer covered in this report.
4. RHB Securities Singapore Pte Ltd, its subsidiaries and/or its associated companies do not have and have not within the last 12 months had any corporate finance advisory relationship with the issuer covered in this report or any other relationship that may create a potential conflict of interest.
5. RHB Securities Singapore Pte Ltd, or person associated or connected to it do not have any interest in the acquisition or disposal of, the securities, specified securities based derivatives contracts or units in a collective investment scheme covered in this report.
6. RHB Securities Singapore Pte Ltd and its analysts do not receive any compensation or benefit in connection with the production of this research report or recommendation.

**Analyst Certification**
The analyst(s) who prepared this report, and their associates hereby, certify that:
(1) they do not have any financial interest in the securities or other capital market products of the subject companies mentioned in this report, except for:

| Analyst | Company |
|---|---|
| - | - |

(2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.


### KUALA LUMPUR

**RHB Investment Bank Bhd**
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

### JAKARTA

**PT RHB Sekuritas Indonesia**
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

### HONG KONG

**RHB Securities Hong Kong Ltd.**
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

### BANGKOK

**RHB Securities (Thailand) PCL**
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

### SINGAPORE

**RHB Securities Singapore Pte Ltd.**
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211