ASEAN Equity Research

2024 ASEAN Conference Takeaways

Industry Overview

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Equity
ASEAN

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2024 ASEAN Conference Takeaways

From January 10-12, BofA Securities hosted the 2024 ASEAN Conference in Singapore. 27 corporates from across the region attended the event as well as a panel of investors providing their insights for 2024. We summarize the key takeaways in this report.

Positive outlook for consumption plays

The tone from most presenting corporates as well as our panel discussion was one of cautious optimism. Consumption plays (especially consumer and financial services) were seen benefiting from lower inflation, declining interest rates and improving political clarity. Among individual markets, corporates in Indonesia appeared to have the stronger outlook with elections in February seen as a potential catalyst. Interest in Vietnam was high, but continued consumption weakness continued to be reported for corporates.

Attending corporates - presentation summaries

Selected company summaries can be found from page 2 onwards in this report.

Financial services: Bank Mandiri (BMRI IJ), Bank of the Philippine Islands (BPI PM), Bank Central Asia Tbk PT (BBCA IJ), Oversea-Chinese Banking Corp (OCBC SP), United Overseas Bank Ltd (UOB SP)

Consumer & Healthcare: IHH Healthcare (IHH MK), Universal Robina Corp (URC PM), SM Investment Corp (SM PM), Vietnam Dairy Products JSC (VNM VN), Masan Group (MSN VN)

Real Estate: Fraser Logistics & Commercial Trust (FLT SP), Vinhomes JSC (VHM VN)

Transportation and related services: Singapore Airlines (SIA SP), SATS Ltd (SATS SP)

Telecoms and Internet: Singapore Telecommunications (ST SP), Starhub (STH SP), Axiata Group Bhd (AXIATA MK), Telekomunikasi Indonesia Persero Tbk PT (TLKM IJ)

Utilities: ACEN Corporation (ACEN PM)

Financial services

Bank Mandiri (BMRI IJ)

- **Growth momentum shaping up to be better than expected –** management highlighted that the growth momentum in December turned out to be better than expected, thanks partly to government spending picking up in late December. Demand looks pretty robust across corporate, SME and retail segments.

- **Loan growth – 2024 likely better than 2023 –** Bank Mandiri continues to focus on gaining market share and execution remains above guidance (13.8% credit growth as of November vs FY guidance of 10-12%). The bank expects the 2024 loan growth to be even better than 2023 levels. The improvement in corporate related loan growth has offset some weakness in the subsidiaries. The full impact of their digital initiatives will likely show up more in 2024.

- **Loan growth – election related spending/liquidity to help in 2024 –** There was some election related uncertainty in 1H23 as there was no clarity around the candidate slate and policy implications. The situation has now improved and the bank is seeing improved corporate sentiment. This election cycle is unique as the Presidential and Parliamentary elections are happening around the same time – this increases overall spending/consumption and liquidity in the system.

- **NIMs – likely to remain resilient even during the rate cut cycle –** there might be some minor near-term risks to NIMs – but the bank is confident about defending the NIMs within a narrow range. As the rate cut cycle begins, the key headwind might be from the USD book. But there are many offsetting factors – improving loan mix (partly also driven by higher contribution from subsidiaries), some scope to increase LDR, some room to manage current account rates lower and better contribution from the treasury book.

- **Asset quality – on track to deliver on guidance –** Asset quality trends continue to remain robust – loan at risk ratios should continue to edge down. NPA coverage ratio might edge up in the near term due to paydown of legacy NPAs. The bank is confident of defending its 1.0-1.2% medium term credit cost targets. Towards 2H24, the management will take a call on the appropriate coverage level – there is some scope for some provision reversals.

- **Focus on market share gains + 20% ROEs –** The banks focus in the next few years to continue to deliver on market share gains. The bank is comfortable with 20% RoE levels in the medium term.

Bank of the Philippine Islands (BPI PM)

- Management anticipates the Bangko Sentral ng Pilipinas (BSP) will commence policy rate cuts in July 2024, and reduce the policy rate by a total of 75bp in 2024. It believes the initial impact of a policy rate cut may be to increase margins as high-cost time deposits reprice sooner than loans. It also thinks the BSP may cut the commercial bank reserve requirement, which is supportive of margins.

- 2024 outlook: NIM outlook is flat to slightly up on a YoY basis. Credit growth to accelerate to 10-12% YoY, from 8-10% in FY23E. Deposit growth of 7-8% YoY, opex growth will slow YoY but will still be double-digit. BSP to potentially cut RRR, positive for banks.

- The loan book of BPI was previously 80/20 split between corporate and consumer. This is presently around 78/22 and is targeted to be closer to 75/25 over the next 5 years.

- The recent merger with Robinsons Savings Bank is thought to be dilutive near-term mainly on integration costs. They have already identified at least Php600mn worth of costs that need to be incurred to effect the systems integration of the 2 banks. Total may be closer to Php1bn. They think the merger would be accretive by 2025 as branch rationalization and new business takes root. Biggest benefit from merger is access to Gokongwei ecosystem.

Bank Central Asia Tbk PT (BBCA IJ)

- **Loan growth – well placed to deliver or beat guidance –** the loan growth momentum in December has turned to much better than expect across segments. The bank is well placed to meet or beat its 10-12% guidance. The improved liquidity from government spending is a tailwind. The usual election related slowdown is not apparent this time.

- **NIMs – funding advantage and other levers will help defend NIMs through cycle –** the bank is confident of maintaining NIMs close to current levels as long as the rate cut cycle is gradual. The bank focused more on volume growth in 2023, but will take a more balanced approach in 2024. The bank is confident of managing its FD rates lower with the rate cycle. There is also some scope to move up LDRs.

- **Opex growth – likely to slow down in 2024 –** the bank spent a lot on transaction channels, branch modernization and building the SME team last year. Tech investments and hiring was also up a lot last year. With most major expenses done, there is scope to manage cost growth down in 2024. The bank should comfortably be able to maintain its cost-inc ratio over the next few years.

- **Digital investments will continue –** the bank will continue to focus on digitizing its channels and offer the best products. Last year saw more investments in the retail and transaction banking channels. In 2024, the bank will look to increase investments in the business banking channels.

- **Asset quality outlook remains robust –** there is no change in the asset quality outlook. All segments continue to perform well and management doesn't see any meaningful risks near term.

- **Payout ratios – will likely go up only gradually –** the bank would prefer to keep a surplus buffer over peer banks. More importantly the nominal level of capital is important in driving the bank's ability to lend to big corporates

Oversea-Chinese Banking Corp (OCBC SP)

- **On track to meet 2023 guidance –** OCBC management re-iterated 2023 guidance targets. Loan growth continues to remain lackluster (low single digit), but there is potentially some upside risk to NIMs. Asset quality continues to remain benign and see no risks to credit cost expectations.

- **Funding costs – some Fixed Deposit (FD) rate increases are more tactical –** The recent increase in SGD FD rate were more tactical in nature – to better capture the seasonal flows at the start of the year. The bank is not facing any issues in garnering deposits – the flows remain strong especially driven by wealth management business.

- **Dividends – 50% payout policy remains –** management re-iterated the 50% dividend payout policy. The bank's medium-term target is 14% CET1 – incremental dividend decisions will be dependent various factors including macro/growth outlook and organic/inorganic considerations.

- **Greater China focus will remain –** The bank continues to see Greater China as strategically important. The bank's strategy has been on better capturing the opportunities through its customers looking to expand into the region. Wealth management flows are also quite important in the regional context.

- **On track to achieve medium term ROE targets –** As the rate cycle turns, there might be some headwinds from lower NIMs. But this could be offset by several other factors – better loan growth, focused opex management and better profit contribution from the wealth business as investment sentiment improves. The bank is also confident on delivering the incremental S$3 bn revenues above the current growth trajectory, as envisaged under the CEO's 3yr strategic plan.

United Overseas Bank Ltd (UOB SP)

- **Loan growth momentum likely to improve in 2024 –** The bank is confident of delivering mid-single digit loan growth in 2024. The loan pipeline is starting to look better for 2H as corporates might look to make use of lower rates. The flows between ASEAN and Greater China likely to remain strong as well.

- **Bank's ESG focus provides a strategic advantage –** CFO explained that the bank's ESG product expertise and framework should help it gain an advantage over peers across asset management and corporate finance. Incrementally, this is becoming a key strategic advantage in attracting flows. The governments and regulators in the region are also increasing focus on ESG.

- **NIMs – confident of holding steady around December levels –** CFO is confident that bank should be able to maintain 2024 NIMs around exit-Dec 2023 levels. The deposit repricing cycle is almost close to a peak now. The should be able to hold NIMs above 2% levels through cycle. There is some scope for improving NIMs in the USD book as well.

- **Asset quality – no signs of stress showing up –** the bank is not seeing any signs of incremental asset quality stress. Very comfortable with meeting the 25-30 bp credit cost targets for 2024, especially given the surplus GP buffer.

- **Citi retail acquisition – moving to realize synergy benefits –** CFO explained that the ongoing integration of the Citi retail business in ASEAN is on track. The bank has done better than expectations on retaining customers/employees and brand perception. The bank is now moving on to realize more of the targeted synergy benefits – focus on liability/CASA, improving product cross-sell and further boosting Singapore retail unsecured business.

Consumer & Healthcare

IHH Healthcare (IHH MK)

- **Reaccelerating organic growth in core markets.** IHH's focus remains on its core markets - Singapore, Malaysia, India and Türkiye and will add 3,800 bed capacity (33%) to add to its existing hospitals over the next 5 years at relatively low cost.

- **New markets, M&A remain on the table.** While growth in existing markets is the priority IHH identified Indonesia and Vietnam as attractive markets longer-term given IHH's existing strong reputation (largest two countries for foreign patients in its Singapore hospital) and recent reforms in Indonesia making it easier for foreign medical practitioners to operate.

- **Mainland China sees a change of direction.** While conditions in China remain challenging, rather than exit its China clinics business, the new CEO highlighted plans to instead retain this business and better integrate them into IHH's Shanghai hospitals.

- **Moving up the technology ladder a competitive priority.** IHH is investing in cutting-edge, specialized equipment to capture the growing demand for oncology related diagnostics and treatments. It is also building out complex-testing capabilities in its Laboratories business.

- **Mount Elizabeth refurbishment.** One of its flagship Singapore hospitals is undergoing a major S$300mn refurbishment over a 3-year period, that should dramatically enhance the patient experience and support operational efficiency and higher revenue per patient once completed.

Universal Robina Corp (URC PM)

- **BCF PH: Scale and wide margins.** 1) As of end 9M23, the revenue split is 50%/22%/28% in Branded Consumer Foods Philippines (BCF PH), BCF International (Intl), and Agro-Industrial+Commodity (AIC), respectively. BCF PH has the best gross margins (GPM) among the three segments because of scale. BCF Intl GPM are lower but expected to improve with increased regional scale. BCF is composed of 6 categories, namely, 1) Snacks, 2) Bakery, 3) Candies, 4) Ready-to-drink teas, 5) Powdered beverages/coffee, and 6) Instant Noodles. URC is #1 in snacks and candies categories while #2 or #3 in the other categories. Meanwhile, BCF Intl's Malaysia is doing well, Indonesia back to profitability with focus on Java/Sumatra area. Reiterate Buy rating.

- **AIC: pet foods an emerging category.** Apart from sugar, AIC revenues gets a lift from high margin pet foods, where URC tops the category. Pet foods segment is seen to be a medium-term significant earnings contributor driven by sales-volume growth with high GPM. Prices of sugar are very high in the past nine months as it is a well-protected sector in the Philippines. However, in FY24, sugar prices are expected to ease.

- **Cost reduction program on track; sustain dividend payout.** In 2021, URC set a goal to cut costs by Php5bn over 5 years. As of 9M23, URC is on track as costs is reduced by more than Php2bn. URC also targets to grow EBIT, increase ad spend, and grow top-line further, (low to mid-teens % digit growth). Production capacity would also be increased by 30% over 5 years. A new mega-plant is set to open in 2024 - reducing production and distribution costs and may allow rationalization of aging plants, smaller plants and dispose properties (to affiliate Robinsons Land). Meanwhile, dividend policy is a 50% pay-out but they have paid closer to 70% in practice. Free cash flow use is prioritized as (1) fund all capex internally, (2) pay dividends, (3) do M&A, and (4) buy-back shares.

SM Investment Corp (SM PM)

- SM is focused on high-growth sectors – banks, retail, consumer, property. They choose new businesses that can have synergy with businesses they already have and where they can increase market penetration.

- Capex is presently focused on property development, mall development, and land banking. Half of capex is funded with internal cash generation. They maintain a net debt to equity ratio of 35/65, but this values equity at cost. If these are marked-to-market, the net D/E ratio may be 15/85.

- The Manila Bay reclamation project is underway. It would reclaim a total of 360 hectares, to be done in three phases (Phase 1 – 60ha, Phase 2 – 150ha, Phase 3 – 150ha). The first 60 hectares is being reclaimed at a net cost to SM of about P70k/sqm. They believe that this would be valued >8x their cost once ready to market. Execution risk is low given that the project has now been reviewed and approved by two presidents. Each Phase will require about 5 years to complete. SM to retain 49% ownership valued at US$2.5bn.

- SM pays only modest cash dividends as SM is still in reinvestment mode.

Vietnam Dairy Products JSC (VNM VN)

- **Target more market share gains in 2024.** Vinamilk targets to increase market share from the current 42% to ~43.5% - implying +5-6% revenue growth vs. +2-3% for the industry. Aided by its recent rebranding exercise It aims to gain market share in both core categories (liquid milk, yogurt, condensed milk) and Infant Milk Formula (IMF), where it has been particularly challenged in recent years.

- **Gross margins are recovering as lower cost inventories arrive.** Vinamilk is benefiting from a steep decline in powdered milk prices, while local fresh milk prices have increased (which has hurt main domestic competitor – TH Milk, which focuses more on fresh). It has locked in powdered milk prices of US$2,700/tonne through mid-2024, versus around US$4,000 in late 2022/early 2023.

- **Export revenue is expected to recover in 2024** led by Africa and introduction of fresh milk products into Cambodia to rollout fresh milk products. Its US school milk business - Driftwood is seen remaining stable.

- **New farms to allow for higher in-house share of fresh milk.** Vinamilk aims to lift the share of its own self-produced fresh milk from 50% to around 2/3 in the next 3-5 years as it opens more farms in Laos. This should facilitate greater volumes and lower costs (all in costs around 25% lower than purchasing from third-party farmers)

- **Expansion into chilled beef is on track.** Vinamilk believes it could generate US$40-50m revenue within 3 years from its chilled beef venture with Sojitz. Its processing complex commences operations in 2H.

Masan Group (MSN VN)

- **FMCG performing despite macro weakness.** Masan expects the Vietnam macroeconomic environment to remain weak in 2024, but sees continued strength in its FMCG business (Masan Consumer Holdings) benefiting from cook at home. Strong margin expansion in 9M23 came from lower input costs, price increases, favorable mix and logistics efficiencies. An area of weakness is beer due to tighten Government regulations on alcohol consumption.

- **WinCommerce revenue per store deeply negative in '23, turnround the focus for 2024.** WinCommerce lost share in 2023 as price-sensitive consumers downtraded to general trade and cheaper competitors offering greater discounts. Revenue per store was consistently negative through 2023, but narrowed towards year-end. Management aims to achieve EBIT breakeven in 2024 by renovating and converting its stores to either urban or rural-oriented formats to lift revenue per store, slow store growth and better leverage its membership program.

- **Looking to reduce net debt/EBITDA <3.5x in next 18 months.** Its gearing remains too high (net debt/EBITDA around 4x) and management hopes to reduce this. Liquidity has been enhanced with Bain Capital's US$250bn investment via a preferred convertible bond and further investors are being sought. It is also looking for options to divest part or all of its legacy Tungsten mining business and may review the future of its beer business.

- **SK Group's put option remains a stock overhang**. SK Group has an option to dispose of its 9.2% through October 2024. The two companies are in discussions. SK has also invested in Masan's subsidiaries - The CrownX and WinCommerce.

Real Estate

Fraser Logistics & Commercial Trust (FLT SP)

- **Current strategy:** Management will not be opportunistically looking at commercial assets and has set an 85% target for FLT's logistics & industrial (L&I) exposure (70% currently) via acquisitions by utilizing its debt headroom. There is no specified timeline to achieving this target. When debt headroom has been used up, management will then look at divesting FLT's commercial assets.

- **Acquisitions**: Target markets for acquisitions will be FLT's existing markets, while Japan will be a new market to explore given the spread between cap rates and borrowing cost, sufficient transaction volume, and is conducive for foreign investors. Preference will be for master lease assets, and assets can be of any size. Management considers data centers as part of L&I but will not acquire colocation assets.

- **Cap rates:** Most of the geographies FLT operates in saw an expansion because of higher interest rates and inflation. Valuers also adopted higher cap rates to reflect the current business environment. The sharpest drops were seen in commercial assets. Management noted that FLT's overall portfolio value took quite a hit but is not expecting a similar drop in valuations in FY 2024 unless something drastic happens.

- **Key expiring leases**: Google has exercised its right to give up 150K sqft of space at Alexandra Technopark (ATP) effective Feb-24. FLT is now in talks with different parties to backfill this space. Google's rents were already at market rates, and management does not expect positive rent reversion, though negotiations are still ongoing. Google has also expressed that they will not be renewing their remaining space at ATP coming up in Dec-24. FLT is also in advanced negotiations with a single tenant for Caroline Chisholm Centre, and is talking to some prospective tenants to backfill space given up by CBA in 357 Collins St.

Vinhomes JSC (VHM VN)

- **Market conditions have eased**: Management believes that current general market conditions have eased from a year ago when VHM's retail sales were absent, banks restricted loan disbursements, and there was a sense of imminent casualties in the sector. Today, VHM can sell reasonable volumes of residential real estate, though it has not recovered to previous levels – VHM's retail sales grew from 10k a month to 150k over the course of last year. Mortgage rates have also come down to 6.8%-7.2% from a peak of 15%.

- **Gradual recovery expected**: Management sees a tale of two halves where consumer spending and exports are weak, while the overall Vietnam economy is doing well due to the government's continued investment in good infrastructure projects such as ring roads, highways, airports, and metro lines. Additionally, FDI inflows to Vietnam have grown significantly since 2010 and continue to increase, with further visibility of FDI spend 3-5 years ahead. Overall, there remains a sentiment of concern in the market, but VHM expects to see a gradual recovery.

- **Proven access to financing**: VHM has VND43tn in debt outstanding where 60% of that is in bank loans and 15% is in real estate corporate bonds. The company had a bond maturity due before the RE corporate bond market reopened that it has fully repaid and returned. Since then, VHM accessed the corporate bond market three times, and is paying ~10% coupon. Holders of VHM's corporate bonds are currently 60% retail.

- **No internal issues**: Management highlighted that since May-22 VHM has not had any internal issues relating to difficulties faced in the broader real estate market, noting that the size and scale of VHM's projects involve increased government scrutiny. VHM has not issued any convertibles and is not keen to issue new shares which would dilute shareholders.

Transportation and related services

Singapore Airlines (SIA SP)

- ***Demand*: Broadly resilient, China not fully recovered.** SIA sees demand staying broadly resilient to macro and rising competition - although acknowledged normal weaker seasonality into March 2024 quarter. SIA's transit share gains during COVID have largely reversed (transit back to 40% of total mix), but SIA sees Scoot's LCC market share gains as perhaps more sustainable. Premium cabin demand has been supported by a higher mix of leisure post-COVID which SIA has identified as a segment it will further target going forwards.

- ***Ticket pricing*: No real signs of cracks for now.** SIA sees no real signs of ticket price pressure for now although it is building a baseload of demand outside of the peak using promotional fares as usual. Looking ahead – SIA cannot rule out some risk of moderation in ticket prices at some point - although ticket prices are likely to remain above pre-COVID levels given lingering supply constraints from higher cost of capital, pilot shortages, aircraft delivery and maintenance delays.

- ***Air cargo*: December 2023 quarter demand upturn.** Air cargo saw a demand uptick during the seasonally stronger December 2023 quarter, and cargo loads have stabilized at pre-COVID levels with yields above pre-COVID levels. SIA has not seen signs of a demand boost from the Red Sea disruptions so far. SIA will progressively take new freighter deliveries to replace higher unit cost older aircraft.

- ***Unit costs*: Some cost pressures ahead.** 1H FY23/24 remains a good base for projecting SIA's ex-fuel unit costs going forwards. SIA acknowledged that service providers are looking to reset contract prices given cost inflation – but SIA is looking for productivity improvements from partners in return.

- ***Earnings*: Transformation has boosted earnings power.** SIA believes its transformation program has helped increase the structural earnings power of the business. Load factors have moved higher on improved revenue management, while transformation savings have improved the cost base.

SATS Ltd (SATS SP)

- Management is seeing some early signs of air cargo demand bottoming also with tailwinds from seasonality. Although SATS is uncertain of the strength of the air cargo market into 2024 or how much of a boost is coming from Red Sea disruptions.

- SATS is currently negotiating core ground handling contracts with key clients to pass on some cost inflations, meanwhile some important competitors had announced price hikes.

- SATS has already achieved 15% of WFS targeted synergies in addition to financing synergies, and is working on meeting revenue synergy targets by expanding market shares of existing SATS customers outside of Asia through local WPS presence.

- The company is also working on improving tax effectiveness, and prioritizing the goals of deleveraging, ramping ROE to pre-Covid levels and resuming dividends.

Telecoms and Internet

Singapore Telecommunications (ST SP)

- Singtel is not just a Singaporean telco – over 70%-80% of their net profit comes from outside Singapore. They have 100% owned subsidiary in Australia, Optus and also significant minority stakes in quite a few of the regional telcos – #2 telco in India, Bharti, #2 telco in Thailand, AIS, #1 telco in Indonesia, Telkomsel and #2 telco in Philippines, Globe. Overall they touch 770mn mobile customers across these markets.

- Singtel also has various digital initiatives across the regions – covering things like ICT services, data centers, digibank. Together these contribute to only 12% of the EBITDA – but they're slowly scaling up – and in three years should hit 20% of overall EBITDA. In the Data Center business – Singtel had brought in a strategic investor, KKR, buying 20% stake in the business.

- **NCS**. Faced cost pressures last year, with IT staff costs having increased, but this has eased now, also staff costs eventually get adjusted into contract costs, however with a lag. A majority contributor for NCS is government sector – with high government spending, they are not as concerned vs other ICT peers. They therefore see 70% of their business secure, growing at low single digit, the remaining 30% is the new business which is seeing incremental growth – growing at 20%+. Margin opportunity for NCS exists in the cost to sell, with the government more open to offshoring – only 20-30% for NCS right now. Normalized margins for NCS at EBIT level should be able to hit low-teens in the next 3 years.

- **Optus.** The outage at Optus was a result of auto shutdown of routers during a software update exercise – with higher volume of data than usual. The churn as a result of this outage was not as high as during the cyberattack. With the exit of the previous CEO, Peter Kaliaropoulos, former Starhub CEO, has been brought in as an interim CEO and a CEO replacement should be decided on in 6 months or so. Despite these issues, overall there has been some improvement in the Australia market and there could be further positive impact of network consolidation – with Optus open to it if TPG wants to consolidate.

- **Singapore competition.** The price competition in the market is led by the 4th player – while their network quality is weaker – they're charging much lesser. While Singtel can't consolidate, but the regulator is open to consolidation from any of the other three – there is no legacy need to maintain 4 players. They recognize that if they want to continue to push Singapore as a smart nation – they need to make it more conducive for telcos to invest. They're watchful of SIMBA (TPG) on the fiber broadband side but have not seen much impact yet.

Starhub (STH SP)

- StarHub management indicated that consolidation in the Singapore market requires a willing buyer and a willing seller and while Starhub feels ready as a willing buyer – having grown its business well, there needs to be agreement from a willing seller, with agreement on the pricing.

- Per Starhub mgmt., while regulators never push consolidation, they believe the Singapore regulator will not be averse to it either. Consolidation is important to boost innovation in the industry as well – where Starhub believes they're the only telco really innovating as Singtel doesn't need to and M1 doesn't have the capital to.

- Management also noted that there are only two sizeable MVNOs (Mobile virtual network operator) left in the Singapore market – Circles.Life and MyRepublic. Starhub believes, while both are formidable operators, the businesses are challenged – the MVNO operating model is not structured to make a lot of money and a greater benefit goes to the MNO (Mobile network operator) on whose network the MVNO operates.

- StarHub sees Cloud Infinity as the greatest investment opportunity for itself. Through Cloud infinity Starhub is launching unique platforms that enable multi-cloud at the very edge to run smart city solutions for government and enterprises in a way that it isn't available today. Starhub also sees Cybersecurity as a key focus – and hopes to continue to bolster it to drive its Cybersecurity business with Ensign.

- On the bottom-line growth – Starhub expects a S$80mn incremental net income on top of the $150mn net income base of 2021 by 2027 – Starhub expects a steady trajectory between the 2023 FY net income and the S$230mn net income in 2027 – this will not necessarily be linear growth, but a good steady growth from 2023-2027.

Axiata Group Bhd (AXIATA MK)

- Management sees Malaysia as a fairly profitable market with strong cash flows + they see benefit from CelcomDigi merger synergies on RM8bn, of which RM300mn odd have come in in Year 1 – in line with the strategi plans. The key focus priority for Axiata w.r.t to CelcomDigi is to sit on the board and work with partner Telenor to ensure synergies are delivered.

- Indonesia – Axiata has two large businesses in Indonesia – XL Axiata (17% market share) and fixed broadband company Linknet. The focus in Indonesia is around structural transformation – converting Linknet to a wholesale fiber company because management sees a strong opportunity in Indonesia with low broadband penetration – they want to be the second largest broadband company in Indonesia and are moving customers from Linknet to XL Axiata. In Linknet – to make it a strong fiber company – they're looking for new investors, and by latter part of the year they expect these investments to come in. They've signed agreement with XL to build 3mn new homes passes over the next 2 years.

- Edotco – the focus is to move more towards emerging markets and reduce exposure of some of the frontier markets – including plans to exit Myanmar. To grow this business they are looking for new investors. Eventually management said they may look to IPO this business – in 2-3 years.

- Frontier markets exposure – Axiata has exposure in Bangladesh, Sri Lanka and Cambodia – these markets, especially Sri Lanka, have seen macro challenges and seen devaluation of the currency. With interest rates expected to come down and inflation settling down – and certainty around political/international support –

management expects them to be better positioned as things improve. Bangladesh and Sri Lanka however may continue to see forex challenges.

Telekomunikasi Indonesia Persero Tbk PT (TLKM IJ)

- It has been two quarters since Telkmosel started fixed mobile convergence – or integration of cellular and broadband – with the spin-off of broadband business Indihome from Telkom group into Telkomsel. This was the first leg of the 5 bold move strategy, the next is going to be InfraCo – the company has already been established in Dec'23 and going into 2024 they will further grow this business, another focus is going to be data centers – they finished building the first campus of the Cikarang DC and by early 2025 they're looking to build the Batam DC (in collaboration with Singtel).

- Competition – Telkomsel has been a leader in ex-Java market with 70-80% market shares, they are making a call on productivity of this market. Other players have started being aggressive in this market last 3-4 years. Telkomsel is willing to give up on a bit of subscriber share as long as they can maintain the overall revenue market share largely stable. Overall the ARPU gap with other telcos has been narrowing and will likely continue.

- Broadband – Telkomsel is eyeing a broadband subscriber addition of 800K-1mn every year, and their target is to lock the next 10mn customers for Indihome. When capturing these customers they'll be addressing a different affordability customer – therefore the ARPU they'd be looking at will be lower at IDR180k-IDR200K as against the current ARPU of IDR257K.

- Data centers – Telkom has two hyperscale data centers – one in Batam, to capture the spillover demand from Singapore and another in Cikarang, a low latency, high quality DC. All the data centers have been merged under one roof – Telkom Data ecosystem. This entity is open for strategic investors to come in. For Indonesia – the domestic DC demand is still low but the demand by 2030 is expected to grow to 1000MW – of this Telkom wants to capture 20-25% or total 400MW capacity (additional 200-250MW). To unlock this opportunity – Telkom is looking to partner with strategic investors – and have already signed a financial advisor earlier this year to find the right strategic investor. They will not give a majority stake – maybe in the range of c.30% stake.

Utilities

ACEN Corporation (ACEN PM)

- **Philippines**. 90% of PH capacity is effectively contracted given share of Renewable Energy Sources. Average contract tenor ~7 years. PH demand-supply situation remains favorable. ACEN thinks supply remains a risk. Additional capacity from competitors is a net positive.

- **Australia**. Increased focus on contracted capacity. Cost of funding - ~4% and goal is to fund in functional currency. Will recognize revenues in Feb. 2024 associated with green certificates. Double-digit A$'mn guidance.

- **Strategy.** Shift in focus to contracted from merchant capacity – for both PH and Australia. This is to ensure predictability of earnings. Target - End-2025: 100% renewable, currently 99%.

- **Funding.** No need to raise money over the next 18 months. Ability to tap debt markets is not an issue.

- **How to mitigate execution risk.** Moving forward, increased focus on project delivery timelines. The company has hired a third-party project management firm to ensure targets are met.

Disclosures

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