

## Regional Morning Notes

Friday, 21 September 2018

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4QFY18: Earnings rise 79.7% qoq and 45.5% yoy, supported by maiden contribution from KHPI and normalised earnings at its property segment post last quarter's weakness.

### SINGAPORE

#### Update

#### Keppel Corporation (KEP SP/HOLD/S\$6.80/Target: S\$7.37)

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### THAILAND

#### Update

#### The Erawan Group (ERW TB/BUY/Bt8.05/Target: Bt10.50)

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3Q18 results preview: Earnings hiccup should be no surprise.

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	26657.0	1.0	2.0	3.2	7.8
S&P 500	2930.8	0.8	0.9	2.4	9.6
FTSE 100	7367.3	0.5	1.2	(2.6)	(4.2)
AS30	6276.9	(0.3)	0.6	(1.7)	1.8
CSI 300	3310.1	(0.1)	2.3	(0.5)	(17.9)
FSSTI	3180.4	0.1	1.6	(0.6)	(6.5)
HSCEI	10792.6	0.5	2.8	0.5	(7.8)
HSI	27477.7	0.3	1.7	(1.0)	(8.2)
JCI	5931.3	1.0	1.2	(0.2)	(6.7)
KLCI	1803.7	0.2	0.6	0.3	0.4
KOSPI	2323.5	0.6	1.6	2.4	(5.8)
Nikkei 225	23674.9	0.0	4.7	6.5	4.0
SET	1752.1	0.1	2.0	3.4	(0.1)
TWSE	10831.4	(0.2)	1.0	0.4	1.8
BDI	1373	1.3	(0.7)	(20.5)	0.5
CPO (RM/mt)	2136	(1.8)	(3.3)	(2.4)	(10.6)
Brent Crude (US\$/bbl)	79	(0.9)	0.7	9.0	17.7

Source: Bloomberg

### TOP PICKS

	Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)
BUY				
Baoshan Iron & Steel	600019 CH	7.70	9.53	23.8
Gudang Garam	GGRM IJ	75,500.00	85,000.00	12.6
PP Persero	PTPP IJ	1,510.00	3,700.00	145.0
CIMB	CIMB MK	6.14	6.70	9.1
OCBC	OCBC SP	11.10	13.68	23.2
SingTel	ST SP	3.15	3.98	26.3
Siam Cement	SCC TB	450.00	530.00	17.8
SELL				
Hartalega	HART MK	6.60	4.02	(39.1)

### KEY ASSUMPTIONS

GDP (% yoy)	2017	2018F	2019F
US	2.2	2.7	2.3
Euro Zone	2.4	2.1	1.8
Japan	1.7	1.2	1.1
Singapore	3.6	3.2	2.8
Malaysia	5.9	4.8	4.8
Thailand	3.9	4.5	4.2
Indonesia	5.1	5.3	5.4
Hong Kong	3.8	3.8	2.8
China	6.9	6.4	6.2
CPO (RM/mt)	2,783	2,400	2,500
Brent (Average) (US\$/bbl)	55.00	71.60	71.00

Source: Bloomberg, UOB ETR, UOB Kay Hian

### CORPORATE EVENTS

	Venue	Begin	Close
Roadshow with China Traditional Chinese Medicine Holdings (570 HK)	Taipei	20 Sep	21 Sep
Roadshow with PT. Sarimelati Kencana (PZZA IJ)	Taipei	25 Sep	26 Sep
Analyst Presentation on China Automobile Sector	Singapore	24 Sep	24 Sep
Corporate Roadshow with BBI Life Sciences Corporation (1035 HK)	Kuala Lumpur	25 Sep	26 Sep
Group Luncheon with Sino-Thai Engineering & Construction (STEC TB) and GUNKUL Engineering (GUNKUL TB)	Hong Kong	26 Sep	26 Sep
Analyst Presentation on 2H18 Malaysia Strategy & Outlook	Thailand	27 Sep	27 Sep
Analyst Presentation on ASEAN Plantation	Taipei	27 Sep	28 Sep
Roadshow with CSE Global (CSE SP)	Singapore	4 Oct	4 Oct
UOB Kay Hian Asian Gems Conference	Singapore	9 Oct	10 Oct
Roadshow with Digi.com (DIGI MK)	Canada	30 Oct	2 Nov
UOB Kay Hian Annual Regional 1H2019 Strategy Conference	Kuala Lumpur	13 Nov	13 Nov

## SMALL-MID CAP STRATEGY - CHINA

### Stocks For A Volatile Market

The market has been badly hit by unfavourable external macro factors and small/mid caps listed in Hong Kong have been hurt even more seriously. In light of the adverse macro environment, the aggressive strategy of pursuing growth for small/mid-cap names should take a back seat. We prefer companies with strong free cash flow and high dividend yields with consistent dividend payment capability.

#### WHAT'S NEW

- **Market risk-off hit small/mid caps' share prices severely.** The Hang Seng Composite Small and Mid Cap Index - a benchmark proxy for Hong Kong-listed small and mid-caps - fell 15% ytd, underperforming the blue chip Hang Seng Index's 8% decline. We attribute the relative underperformance of small/mid caps to: a) the perception that they are less defensive than large caps during economic downturn; b) their much poorer stock trading liquidity vs large caps; and c) their higher corporate governance risk with most of the short selling research reports targeting small/mid-cap names.
- **Criteria for screening out resilient small/mid cap names.** By our definition of small/mid-cap names, their market capitalisation should lie between US\$500m and US\$2b. In addition, we exclude the financial and real estate sectors from our analysis as the risk-reward profiles of small mid cap names in these sectors are identical to their large cap counterparts.

#### ACTION

- **High dividend yield.** We screen out 36 small-mid cap stocks whose 2018F dividend yields are higher than 4% (vs 3.7% of the Hang Seng Index).
- **Steady DPS and high payout ratio.** To fit our investment criteria of resilience to economic downcycle, we also consider the stability of dividend payment of these 41 stocks. We define these stocks as steady DPS companies by either having positive DPS growth in the past four years or not more than one year when DPS was >20% below its five-year DPS mean. There are 18 high-yield small/mid-cap stocks that we consider as steady DPS companies with less downside risk to future DPS. Looking ahead, consensus expects these 18 stocks would continue to deliver steady or even higher DPS in the next two years.

#### HIGH YIELD SMALL/MID-CAP NAMES WITH STEADY DPS

Company	Ticker	Price @ 20 Sep 18 (HK\$)	Dividend Per Share (1c)					Dividend Payout Ratio (%)				
			2015	2016	2017	2018F	2019F	2015	2016	2017	2018F	2019F
China Travel	308 HK	2.53	0.07	0.03	0.09	0.11	0.13	29.0	46.7	40.3	50.2	51.6
Smartone Telecom	315 HK	9.90	0.60	0.60	0.60	0.43	0.44	67.3	80.1	97.2	74.8	74.1
Cafe De Coral	341 HK	17.90	0.78	0.81	0.81	0.81	0.86	76.5	90.0	93.1	90.2	89.9
Sinotrans	598 HK	3.07	0.10	0.11	0.12	0.11	0.13	31.3	29.7	31.6	31.0	31.8
Tongda Group	698 HK	1.13	0.04	0.05	0.05	0.06	0.07	29.4	29.7	32.1	31.6	30.1
Huadian Fuxin Energy	816 HK	1.56	0.04	0.05	0.06	0.07	0.08	18.6	22.0	23.5	24.8	23.9
Sinopec Kantons	934 HK	3.43	0.05	0.07	0.12	0.13	0.16	12.1	17.3	24.7	24.7	26.5
Xinyi Solar	968 HK	2.21	0.09	0.14	0.15	0.14	0.15	47.0	47.6	46.0	47.9	47.8
I.T Ltd	999 HK	4.02	0.12	0.08	0.13	0.25	0.30	47.2	49.4	50.0	49.7	50.3
China Lilang	1234 HK	7.06	0.25	0.26	0.26	0.47	0.55	48.6	57.3	51.2	72.1	71.5
XTEP International	1368 HK	4.30	0.14	0.12	0.11	0.16	0.19	48.6	50.0	56.9	56.9	57.1
Pacific Textiles	1382 HK	6.32	0.80	0.80	0.60	0.52	0.57	108.1	102.6	89.6	84.0	86.4
China Machinery Engineering	1829 HK	3.80	0.20	0.20	0.17	0.21	0.24	37.5	40.0	40.5	38.2	41.5
China Aircraft Leasing Group	1848 HK	8.11	0.22	0.53	0.60	0.70	0.81	34.9	52.6	55.1	56.8	56.6
Citic Telecom	1883 HK	2.59	0.13	0.14	0.16	0.17	0.18	52.5	54.9	64.3	64.6	64.7
China Lesso	2128 HK	4.25	0.11	0.13	0.18	0.20	0.23	21.0	21.4	24.3	25.0	25.8
China Shineway Pharma	2877 HK	10.86	0.23	0.23	0.23	0.49	0.56	28.8	32.4	41.8	67.6	63.0
Wasion Holdings	3393 HK	4.13	0.20	0.20	0.19	0.21	0.23	47.9	67.0	64.7	68.9	64.3

Source: Bloomberg, UOB Kay Hian

#### STOCKS FOR ACTION

Company	Rec	Stock Price (HK\$)	Target Price (HK\$)
XCM	BUY	11.66	13.55
IT	BUY	4.02	5.60
China Oriental	BUY	6.30	8.79
TK Group	BUY	5.06	7.25
China Shineway	BUY	10.86	17.72

Source: UOB Kay Hian

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### TOP FIVE HIGH YIELD SMALL MID CAP NAMES THAT ARE OUT OF UOBKH COVERAGE

Company	Ticker	Price @ 20 Sep 18 (HK\$)	Market Cap (US\$m)	Sector	Yield 2018F (%)	ytd Chg (%)
Kingboard Laminates	1888 HK	6.72	575	Electronic Components	9.7	-44.8
Pacific Textiles	1382 HK	6.32	2,745	Textiles	8.2	-23.4
Skyworth Digital	751 HK	2.23	1,123	Consumer Electronics	7.9	-33.6
Shougang Fushan	639 HK	1.59	804	Steel	6.9	-5.4
Citic Telecom	1883 HK	2.60	754	Carriers	6.5	25.6

Source: Bloomberg, UOB Kay Hian

### HIGH YIELD SMALL MID CAP NAMES UNDER UOBKH COVERAGE

Company	Ticker	Price @ 20 Sep 18 (HK\$)	Market Cap (US\$m)	Sector	Yield 2018F (%)	ytd Chg (%)
Tongda	698 HK	1.13	913	Electronic Components	5.4	-43.5
Tianneng Power	819 HK	7.31	1,057	Auto Parts	5.6	-10.0
Xinyi Solar	968 HK	2.23	2,193	Semiconductor Equipment	6.2	-24.1
I.T Ltd	999 HK	4.02	617	Apparel Retail	6.2	20.7
China Oriental	581 HK	6.30	3,011	Steel	6.7	10.1
XTEP International	1368 HK	4.37	1,258	Apparel	4.2	46.3
TK Group	2283 HK	5.06	541	Industrial Machinery	3.6	3.7
Wasion Holdings	3393 HK	4.17	538	Electronic Equipment	5.7	9.2
Yongda Automobiles	3669 HK	6.68	1,576	Automotive Retail	5.0	-25.7
China Shineway	2877 HK	10.86	1,144	Pharmaceuticals	5.1	46.5

Source: Bloomberg, UOB Kay Hian

- **Cash is king.** In the wake of slowing economic growth in China and tighter market liquidity, we deem small/mid-cap companies with strong cash generation capability and net cash balance as more defensive. As a result, we identify 29 small/mid-cap stocks which have FCF yields at >4% with net cash. We further examine the default risk of these 29 stocks by Altman's Z-Score, and only China Machinery Engineering (1829 HK) and Shougang Fushan Resources (639 HK) may have relative high bankruptcy risk.

### SMALL MID CAP NAMES: HIGH FCF YIELD WITH NET CASH

Company	Ticker	Price @ 20 Sep 18 (HK\$)	FCF Yield 2018F (%)	Net cash to Market cap (%)	Altman's Z-Score (<1.8 is risky)
China Machinery Engineering	1829 HK	3.80	46.0	144.0	1.2
China Oriental	581 HK	6.30	17.1	9.8	4.6
Tianneng Power	819 HK	7.31	16.8	19.9	3.2
361 Degrees	1361 HK	1.95	14.9	69.7	2.5
Lonking	3339 HK	2.54	14.0	21.2	3.5
Kingboard Laminates	1888 HK	6.71	12.7	8.9	3.7
Pacific Textiles	1382 HK	6.35	12.5	5.1	6.9
Shougang Fushan	639 HK	1.57	11.1	58.4	1.9
PAX Global	327 HK	3.82	10.6	51.2	4.1
China Bluechemical	3983 HK	2.84	9.7	35.6	2.5
CIMC Enric	3899 HK	7.94	8.0	4.4	2.5
Consun Pharmaceutical	1681 HK	6.58	7.8	7.3	5.2
I.T Ltd	999 HK	4.02	7.8	10.6	3.6
Sinotrans	598 HK	3.05	7.4	14.7	2.3
XTEP	1368 HK	4.37	7.3	22.1	3.8
Man Wah	1999 HK	5.10	7.3	5.6	7.5
TCL Electronics	1070 HK	3.75	6.8	34.1	3.3
TK Group	2283 HK	5.06	6.5	10.3	6.7
China Lilang	1234 HK	7.19	5.4	23.4	12.7
Beijing Tong Ren Tang	3613 HK	15.54	5.3	14.6	40.4
Cosmo Lady China	2298 HK	3.58	5.2	14.5	6.3
JNBY Design	3306 HK	13.44	5.0	10.0	8.8
Maple Leaf Educational	1317 HK	3.76	4.9	10.9	6.8
Hutchison Telecomm Hk	215 HK	3.07	4.9	66.4	4.6
Cafe De Coral	341 HK	17.84	4.8	7.8	9.7
China Resources Phoenix	1515 HK	7.11	4.4	15.4	6.0
China Shineway	2877 HK	10.96	4.3	39.0	10.1
Li Ning	2331 HK	7.21	4.2	15.6	5.8
Xiabuxiabu Catering	520 HK	11.66	4.0	11.8	15.6

Source: Bloomberg, UOB Kay Hian

#### RECOMMENDATION

• **Stocks with high dividend and FCF yield with upside potential.** We have BUY for Shineway (2877 HK), China Oriental (581 HK), I.T (999 HK), TK Group (2283 HK) and Xiabuxiabu Catering Management (XCM) (520 HK).

- a) **China Shineway** is a TCM play with three growth catalysts, namely a) oral formulation TCM medicine; b) TCM formula granule; and c) the opening up of grassroots healthcare institution procurement limits. The company currently has HK\$3.6b cash, and thus it should see no pressure in dividend payout.
- b) **China Oriental** would benefit from the potential acceleration of China's fiscal spending in 2H18 and less steel production cut this winter. The company is deeply undervalued at 1.1x 2018F P/B and 3.5x 2018F PE.
- c) **I.T** would ride on Hong Kong's turnaround story, gross margin expansion through cutting promotions activities and higher online sales contribution in China in the near term. With better cost control and solid sales momentum, I.T's nearly 50% dividend payout ratio should sustain, although further upside in payout ratio should be limited.
- d) **TK Group** would register decent growth in the next few years, mainly driven by the booming smart electronic consumer products and deeper penetration into the US internet and smartphone giants. TK offers 2018F dividend yield of 3.6% and FCF yield of 3.8%.
- e) **XCM** should remain resilient to China's domestic consumption slowdown, given its strong free cash flow generating capability. The company would continue to gain share in China's fragmented catering and hotpot industry.

Although we have a HOLD on Tongda (698 HK), we expect it to achieve stable growth in EPS and DPS, riding on the rising tri-proof components to Apple's products.

## COMPANY UPDATE

### Alibaba Group (BABA US)

Alibaba Investor Day: New Generation Of Digitalisation

We attended BABA's Investor Day event held on 17-19 September in Hangzhou. The company gave a comprehensive update on every business segment, and Jack Ma gave his speech on his retirement as Chairman of Alibaba. We think the investment in new retail could be higher than expected, and thus cut our FY19/FY20 EPS estimates by 10%/8% to factor in a wider loss from the new retail segment, especially for Ele.me. We cut our target price to US\$225 from US\$230. Maintain BUY.

#### WHAT'S NEW

- **Taobao** recorded 617 mobile MAU as of Mar 2018 and the number of new users grew 88% yoy, driven by those ages below 18 and above 50 as well as the less developed areas as of Aug 18. Going forward, two main drivers for Taobao's ad revenue growth will be: a) the new recommendation feed application which was launched on Taobao on 31 Aug is estimated to increase the buying conversion rate by 30%, thanks to more efficient information distribution and diversified content, b) content generation which focuses on consumers' participation in content creation and community interaction. Taobao now has 1.6m content generators who generated Rmb3b revenue. It recorded rapid growth in live stream and Short-Form Videos, with 42% of product listings using short videos currently vs 15% as at end-Aug 18. We forecast customer management revenue to grow 35%/37% yoy in 3Q19/FY19 while the recommendation feed and new algorithm fully take off.
- **Tmall** recorded GMV growth of 45%/46%/51%/41% in apparel/consumer electronics/FMCG/ home goods as of FY18, 3-5 times of industry average. As of 2017, over 50% of China's listed consumer & retail companies have presence on and recorded the 76% yoy same-brand paid GMV growth on Tmall vs the 24% of their own overall growth. Tmall believes in consumption upgrade and targets the higher-tier consumers. It will also continue to empower the brand with a digitalised supply chain that leverages on the Alibaba ecosystem. We forecast a 49% yoy growth in commission revenue in 49% thanks to the strong growth of Tmall.
- **Ele.me.** Management believes the consumer services industry is a high frequency and inelastic demand market, with market size estimated to reach Rmb25t in 2020 from Rmb18t in 2017. Ele.me now has over 167m annual active buyers, 2m registered riders and 666k active riders in over 676 out of 701 cities in China covered as Jun 18. The company is confident on the synergy between Alibaba ecosystem and Ele.me, with Alibaba fuelling Ele.me's growth with strong traffic and data through all its platforms and Alipay, while Ele.me will facilitate Alibaba ecosystem's last-mile delivery with its strong logistics network. In our view, Ele.me will continue to invest aggressively gain the targeted over 50% market share (~30% as of Aug) amid intensive competition with Meituan (3690 HK) (63% market share as of Aug) over the next three years. We forecast a revenue contribution of Rmb17b of 4.6% of total revenue from Ele.me for FY19, while with the biggest margin drag for the core commerce segment.

#### KEY FINANCIALS

Year to 31 Mar (Rmbm)	2017	2018	2019F	2020F	2021F
Net turnover	158,273	249,839	396,941	560,503	709,786
EBITDA	58,461	84,796	94,461	133,558	196,890
Operating profit	48,055	68,887	69,507	102,937	159,325
Net profit (rep./act.)	43,675	63,558	55,141	94,368	145,778
Net profit (adj.)	60,309	85,339	97,767	138,162	184,842
EPS (Fen)	2,424.7	3,342.7	3,791.6	5,305.1	7,027.3
PE (x)	46.0	33.3	29.4	21.0	15.9
P/B (x)	10.3	8.0	6.7	5.4	4.2
EV/EBITDA (x)	47.9	33.0	29.6	21.0	14.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	27.6	25.4	13.9	16.8	20.5
Net debt/(cash) to equity (%)	(37.9)	(43.1)	(56.4)	(64.0)	(69.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	17.5	19.5	13.6	19.0	23.0
Consensus net profit	-	-	102,057	137,721	182,862
UOBKH/Consensus (x)	-	-	0.96	1.00	1.01

Source: Alibaba Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	US\$162.63
Target Price	US\$225.00
Upside	+38.4%
(Previous TP)	US\$230.00

#### COMPANY DESCRIPTION

Alibaba Group is the largest e-commerce marketplace operator in China.

#### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	BABA US
Shares issued (m):	2,530.0
Market cap (US\$m):	352,783.2
3-mth avg daily t'over (US\$m):	1,461.1

#### Price Performance (%)

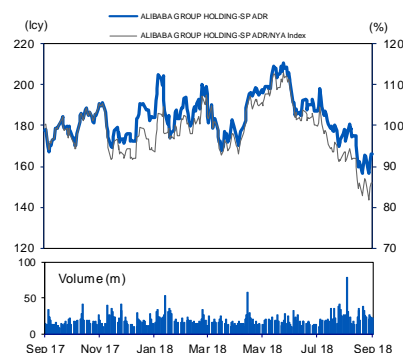
52-week high/low US\$142.34/US\$74.23

1mth	3mth	6mth	1yr	YTD
15.9	34.9	50.8	83.7	58.8

#### Major Shareholders

	%
Softbank	32
Yahoo	15.4
Jack Yun MA	7.8
FY18 NAV/Share (Rmb)	135.75
FY18 Net Cash/Share (Rmb)	50.69

#### PRICE CHART



Source: Bloomberg

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- **New retail.** The company re-iterated its confidence in its new retail strategy and aims to build a new retail ecosystem to penetrate the remaining 85% underpenetrated offline retail industry. Hema's digitalised system generates accurate customer portraits and enables efficient operation and management. It now has 64 stores in 14 cities and serves over 10m customers. For mature stores, 60% of orders are from online, and the annualized average sales per sqm has reached Rmb50, vs the traditional store of Rmb 10-20k. For RT mart, i Alibaba will help them to monetise the track on the sales and potentially charge technology fees and commission services.
- **Ant Financial (Ant).** With the comprehensive financing applications offer, its 640m users use more than two categories of Ant's service, and over 480m use over 3 categories. This is more than double the user size of last year. Ant has also launched the first Blockchain-based cross-border e-Wallet remittance service to help Philippine workers in Hong Kong transfer money directly from Alipay to GCash.
  - Ant continues to deepen its engagement with SMEs, serving unsecured lending to 11m SME businesses; cash management to 21m, and insurance to 40m SMEs. As of FY18, it had disbursed about Rmb11b inventory financing to Cainiao's customers and also provided about Rmb150b in financing to support the 2017.
  - Ant also launched the first Blockchain-based cross-border e-Wallet remittance service to help Philippine workers in Hong Kong to transfer money direct from Alipay to GCash.
  - We believe the fierce competition in payment area and the tightening regulation on lending business may cause a significant drop in Ant's profit this year. However, according to management, they are confident on the technology offered to their customers and expect tech revenue to contribute 30-40% of its total revenue this year.
- **Digital technology, Cloud and IOT.** Alicloud currently has a market share of 45.5% in China while AWS had 53.9% of the US market as of 2017. According to management, 40% of China's top 500 companies and nearly half of China's listed companies are on Alibaba Cloud. In addition, it also fuels the development of 80% technology companies in China. The company expect more system will come up to Alicould which is also the future growth potential for the existing customers.
  - After the new retail, financing, health areas, the next major targeted industry is manufacturing. Existing manufacturing enterprises need the digital transformation, data collection, computing and processing in order to increase efficiency and save cost.
  - Alibaba Group also announced it has established a semiconductor business to produce its own artificial intelligence (AI) and plans to develop quantum processors. The R&D will be supported by Damo Academy as well as the integrated circuit design vendor, Hangzhou C-Sky Microsystems which Alibaba acquired in April.
- **Jack Ma, Executive Chairman.** Jack Ma has appointed Daniel Zhang as the next Chairman of Alibaba. Alibaba will set up the partnership structure for Albiaba and look for 102 in total from current 36. He states that all 18 founders resign in year 2009. He believes the China-US trade war could not be a short-term issue but might last for 10 years. The first 1-2 years could be really tough for domestic economies. However, he's still positive on the domestic consumption and believes that goods that could be exported to US might eventually come to Alibaba's platform.
- **What is the impact from the new ecommerce law?** The street's major concern is taxation on SME sellers on Taobao. According to the company, there are 30,000 SMEs on Taobao, compared with over 10m sellers should not be significant. However, we still hold a cautious view until more details are revealed.



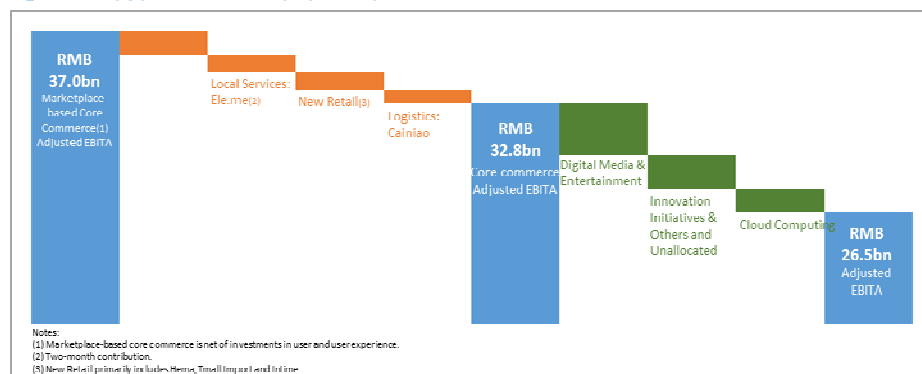
## Regional Morning Notes

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### FINANCIALS

- The company re-iterated its near-term goal of achieving US\$1t GMV in FY20 from US\$768b in FY28. We forecast a 59% and 41% revenue growth for FY19 and FY20 respectively. However, we expect further margin drag from new retail segment while Ele.me is fully consolidated. We cut our EBITA growth to 25% yoy in FY19 from previous estimates of 30% yoy.

### 1Q FY19 ADJUSTED EBITA BY SEGMENTS



Source: Alibaba Group, UOB Kay Hian

### EARNINGS REVISION/RISK

- We think the investment in new retail could be higher than expected and cut our FY19/FY20 EPS estimates by 10%/8% respectively to factor in wider loss from the new retail segment, especially on Ele.me.

### VALUATION/RECOMMENDATION

- We change our target price to US\$225 from US\$230 and maintain BUY.

### SOTP VALUATION

(US\$b)	Description	FY19F Revenue	EBITA	EV/ Revenue	EV/EBITA	Value	BABA's holdings (%)	Value to BABA	US\$ per share
<b>Core + initiatives</b>									
Core commerce business	ecommerce; new retail	47.4	23	10	20	453	100.0	453	172
Cainiao		2.7		5		14	51.0	7	3
Cloud Computing, other		3.7		10		37	100.0	37	14
Youku, Tudou and other initiatives	Online video	4.8		3		15	100.0	15	6
<b>Investees</b>									
Ant Financial	Internet finance					100	33	33	13
Other								27	10
<b>Net cash</b>								30	11
<b>Total</b>								593	225

Source: UOB Kay Hian

### SHARE PRICE CATALYST

- a) Faster-than-expected global expansion progress, b) better-than-expected advertising revenue growth with further reach towards Tmall's brand merchants, c) breakeven at Youku and Koubei, and d) potential listing of Ant Financial.

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**PROFIT & LOSS**

Year to 31 Mar (Rmbm)	2018	2019F	2020F	2021F
Net turnover	249,839.0	396,940.6	560,503.3	709,785.9
EBITDA	84,796.0	94,460.9	133,558.1	196,890.3
Deprec. & amort.	15,909.0	24,954.2	30,621.0	37,565.1
EBIT	68,887.0	69,506.7	102,937.1	159,325.2
Total other non-operating income	4,160.0	3,145.4	11,210.1	10,646.8
Associate contributions	(20,792.0)	(1,570.8)	(866.8)	(366.8)
Net interest income/(expense)	26,929.0	7,011.2	11,204.7	16,991.4
<b>Pre-tax profit</b>	<b>79,184.0</b>	<b>78,092.5</b>	<b>124,485.1</b>	<b>186,596.6</b>
Tax	(18,199.0)	(26,456.0)	(34,323.3)	(45,865.7)
Minorities	2,681.0	3,504.8	4,205.8	5,046.9
Preferred dividends	(108.0)	0.0	0.0	0.0
<b>Net profit</b>	<b>63,558.0</b>	<b>55,141.3</b>	<b>94,367.6</b>	<b>145,777.9</b>
Net profit (adj.)	85,339.0	97,767.4	138,162.2	184,841.9

**CASH FLOW**

Year to 31 Mar (Rmbm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>14,180.0</b>	<b>133,783.8</b>	<b>166,239.9</b>	<b>218,769.1</b>
Pre-tax profit	79,184.0	78,092.5	124,485.1	186,596.6
Tax	(18,199.0)	(26,456.0)	(34,323.3)	(45,865.7)
Deprec. & amort.	15,909.0	24,954.2	30,621.0	37,565.1
Associates	20,792.0	1,570.8	866.8	366.8
Working capital changes	23,260.2	57,193.0	45,457.0	40,473.0
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(106,766.2)	(1,570.8)	(866.8)	(366.8)
<b>Investing</b>	<b>(19,816.0)</b>	<b>(64,897.2)</b>	<b>(82,757.6)</b>	<b>(97,686.0)</b>
Capex (growth)	(29,836.0)	(45,418.3)	(61,330.8)	(74,116.5)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	10,020.0	(19,478.9)	(21,426.8)	(23,569.5)
<b>Financing</b>	<b>(4,605.0)</b>	<b>24,685.7</b>	<b>24,300.9</b>	<b>26,731.0</b>
Dividend payments	0.0	n.a.	n.a.	n.a.
Issue of shares	51,514.0	21,270.4	20,544.0	22,598.4
Proceeds from borrowings	52,964.0	3,415.3	3,756.8	4,132.5
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(109,083.0)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(10,241.0)</b>	<b>93,572.3</b>	<b>107,783.2</b>	<b>147,814.1</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>212,196.0</b>	<b>199,309.0</b>	<b>292,881.3</b>	<b>400,664.5</b>
Changes due to forex impact	(2,646.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>199,309.0</b>	<b>292,881.3</b>	<b>400,664.5</b>	<b>548,478.5</b>

**BALANCE SHEET**

Year to 31 Mar (Rmbm)	2018	2019F	2020F	2021F
Fixed assets	66,489.0	93,256.1	128,822.4	169,115.7
Other LT assets	393,780.0	406,955.9	423,526.2	443,353.7
Cash/ST investment	199,309.0	292,881.3	400,664.5	548,478.5
Other current assets	57,546.0	86,308.2	118,259.5	147,489.8
<b>Total assets</b>	<b>717,124.0</b>	<b>879,401.5</b>	<b>1,071,272.5</b>	<b>1,308,437.7</b>
ST debt	6,028.0	6,028.0	6,028.0	6,028.0
Other current liabilities	129,782.0	215,737.2	293,145.6	362,848.8
LT debt	34,153.0	37,568.3	41,325.1	45,457.6
Other LT liabilities	107,722.0	107,722.0	107,722.0	107,722.0
Shareholders' equity	368,823.0	441,729.9	552,435.8	715,765.2
Minority interest	70,616.0	70,616.0	70,616.0	70,616.0
<b>Total liabilities &amp; equity</b>	<b>717,124.0</b>	<b>879,401.5</b>	<b>1,071,272.5</b>	<b>1,308,437.7</b>

**KEY METRICS**

Year to 31 Mar (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	33.9	23.8	23.8	27.7
Pre-tax margin	31.7	19.7	22.2	26.3
Net margin	25.4	13.9	16.8	20.5
ROA	10.4	6.9	9.7	12.3
ROE	19.5	13.6	19.0	23.0
<b>Growth</b>				
Turnover	57.9	58.9	41.2	26.6
EBITDA	45.0	11.4	41.4	47.4
Pre-tax profit	44.0	(1.4)	59.4	49.9
Net profit	45.5	(13.2)	71.1	54.5
Net profit (adj.)	41.5	14.6	41.3	33.8
EPS	37.9	13.4	39.9	32.5
<b>Leverage</b>				
Debt to total capital	8.4	7.8	7.1	6.1
Debt to equity	10.9	9.9	8.6	7.2
Net debt/(cash) to equity	(43.1)	(56.4)	(64.0)	(69.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.



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COMPANY RESULTS

New World Development (17 HK)

FY18: In Line With Expectations

**FY18 results were in line with core profit of HK\$7,978m (+11.8% yoy). NWD achieved 247% of its FY18 Hong Kong contracted sales target and maintains its FY19 sales targets of HK\$10b and Rmb16b for Hong Kong and mainland development properties respectively. Victoria Dockside will drive recurring income growth in the next three years. Full-year dividend amounted to HK\$0.48/share, up 4.3% yoy (attractive yield of 4.6%). Maintain BUY with a new target price of HK\$13.30.**

FY18 RESULTS

Year to 30 Jun (in HK\$m)	FY17	FY18	yoy % chg	Remarks
Revenue	56,629	60,689	7.2	
Underlying profit	7,133	7,978	11.8	
IP revaluation (net of tax)	1,364	15,367	1026.8	Mainly from re-rating of Victoria Dockside
Profit attributable to shareholders	7,676	23,338	204.1	
EPS attributable to shareholders (HK\$ per share)	0.80	2.34	192.5	
DPS (HK\$ per share)	0.46	0.48	4.3	
<b>Profit contribution by segment</b>				
HK development properties (DP)	2,277	2,865	25.8	Buoyant property market
PRC DP	5,230	6,611	26.4	Higher ASPs (+20.9%)
HK investment properties (IP)	1,170	1,161	-0.7	
PRC IP	601	762	26.8	
Hotel	-114	-77	n.a.	Growth in room rates
Service	1,186	858	-27.6	Weakness in Free Duty business on soft consumer spending
Infrastructure	3,313	3,801	14.7	Boost from renminbi appreciation
Department stores	220	232	5.6	
Others	208	-370	n.a.	
Other businesses	1,724	1,853	7.5	

Source: NWD UOB Kay Hian

RESULTS

- FY18 results in line.** New World Development's (NWD) results were in line with consensus and our forecasts. Profit attributable to shareholders grew >1,000% yoy to HK\$23,338m. Excluding investment property (IP) revaluation gains of HK\$15,367m and other non-core items, FY18 core profit rose 11.8% yoy to HK\$7,978m, representing 101% of our estimate.

KEY FINANCIALS

Year to 30 Jun (HK\$m)	2016	2017	2018F	2019F	2020F
Net turnover	59,570.0	56,628.8	60,688.7	68,405.3	65,479.4
EBITDA	14,346.4	8,435.0	13,538.4	14,643.0	15,026.3
Operating profit	16,275.6	10,387.5	15,608.2	16,750.7	17,101.0
Net profit (rep./act.)	8,665.9	7,675.7	23,338.1	9,465.5	9,580.5
Net profit (adj.)	8,665.9	7,675.7	23,338.1	9,465.5	9,580.5
EPS (HK\$ cent)	94.7	80.3	233.4	94.7	95.8
PE (x)	10.9	12.9	4.4	10.9	10.8
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	14.8	25.2	15.7	14.5	14.1
Dividend yield (%)	4.2	4.4	4.6	4.8	5.0
Net margin (%)	14.5	13.6	38.5	13.8	14.6
Net debt/(cash) to equity (%)	44.5	41.0	34.3	38.9	39.8
Interest cover (x)	26.7	18.9	19.2	16.5	15.1
ROE (%)	4.8	4.1	11.1	4.2	4.1
Consensus net profit	-	-	-	9,082	9,843
UOBKH/Consensus (x)	-	-	-	1.04	0.97

Source: NWD, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$10.36
Target Price	HK\$13.30
Upside	+28.3%
(Previous TP)	HK\$15.33)

COMPANY DESCRIPTION

New World Development's core business areas include property development, infrastructure and services, retail, and hotels and serviced apartments.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	17 HK
Shares issued (m):	10,206.3
Market cap (HK\$m):	105,736.9
Market cap (US\$m):	13,480.1
3-mth avg daily t'over (US\$m):	13.6

Price Performance (%)

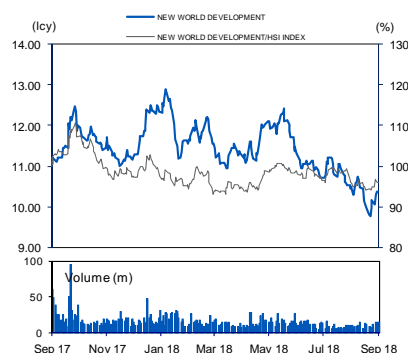
52-week high/low HK\$12.90/HK\$9.76

1mth	3mth	6mth	1yr	YTD
(1.5)	(9.8)	(10.2)	(9.4)	(11.8)

Major Shareholders

	%
Cheng Yu Tung Family	40.3
FY19 NAV/Share (HK\$)	22.13
FY19 Net Debt/Share (HK\$)	8.98

RICE CHART



Source: Bloomberg

ANALYST(S)

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### STOCK IMPACT

- Massive beat from Hong Kong development property segment: 247% contracted sales target achieved.** The group took advantage of the solid growth momentum in the property market in the FY18 reporting period and achieved an outstanding HK\$24.7b in Hong Kong contracted sales (vs FY18 Hong Kong sales target of HK\$10b). Management has maintained its HK\$10b target for FY19 and is confident about their upcoming project launches despite rising mortgage rates. Key projects to be launched going forward include the Waterloo Road project, Sheung Heung Road project, the Reach Summit and Lung Tin Tsuen 3, all of which will supply a total of 1,351 units. On the other hand, key projects to be booked in FY19 (including The Pavilia Bay, Fleur Pavilia and others) have recognised a combined HK\$40b in contracted sales and corresponding profits should support the group's dividend per share comfortably.
- Barely achieved sales target for mainland development properties.** Mainland contracted sales totalled Rmb16.3b, coming in just slightly above the Rmb16b target. Overall property sales ASP increased 20.9% yoy to Rmb22,667psm, which resulted in a 11ppt expansion in gross margin and a 26.4% yoy increase in segmental profit. However, going forward, we expect the tightening policies to give rise to a challenging environment. Management maintained its mainland contracted sales target at Rmb16b for FY19.
- Victoria Dockside to drive growth in recurring income.** The completed development should provide HK\$2b-2.5b in rental income three years from now, implying >80% growth in Hong Kong IP (including hotels) revenue from FY18's level. Leasing progress has been favourable. Currently, 70% of the K11 ATELIER (the office portion) has been leased with the latest spot rent achieved at around HK\$120psf. The retail portion of the building, K11 MUSEA, is expected to open in 3Q19 and is 50% pre-leased.
- Farmland conversion expected in 2019.** According to management, a plot of farmland which could add 600,000 sf to the group's landbank is expected to attain approval for land conversion. We expect farmland conversions to gather pace again after a five-month long public consultation on housing supply concludes this month. NWD currently has 17m sf of farmland pending for land use conversion.
- Gearing ratio improved.** Gearing ratio improved 5.5ppt to 29.3% in FY18 from 34.8% in FY17. Management stated a preference for acquisitions in the mainland and will be particularly selective towards acquisitions in Hong Kong. Management will also look to keep the group's gearing ratio under 40%, implying acquisition headroom of approximately HK\$25b.
- Full-year dividend of HK\$0.48/share**, up 4.3% yoy. This represents an attractive yield of 4.6% as of the last close price. Management guided for stable increases in dividend per share.

### VALUATION/RECOMMENDATION

- Maintain BUY with a lower target price of HK\$13.30** (previously HK\$15.33) based on a 40% discount to NAV of HK\$22.15/share (previously HK\$21.90/share). We raised our NAV estimate to include new projects and raise our NAV discount to factor in sector headwinds.

### SHARE PRICE CATALYST

- Positive newsflow on new acquisitions/disposals.
- Farmland conversions.

### NAV

	GAV (HK\$m)	% of GAV
HK DP	99,098	33
PRC DP	59,969	20
HK IP	69,632	23
PRC IP	15,198	5
Hotel	16,660	5
New World Department Store (825 HK) stake	2,169	1
NWS Holdings (659 HK) stake	35,542	12
Other investments	705	0
GAV	298,267	
Net cash / (debt)	(77,364)	
NAV	220,903	
No. of shares (m)	9,974	
NAV/share	22.15	

Source: UOB Kay Hian

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**PROFIT & LOSS**

Year to 30 Jun (HK\$m)	2017	2018F	2019F	2020F
Net turnover	56,628.8	60,688.7	68,405.3	65,479.4
EBITDA	8,435.0	13,538.4	14,643.0	15,026.3
Deprec. & amort.	(1,952.5)	(2,069.8)	(2,107.7)	(2,074.6)
EBIT	10,387.5	15,608.2	16,750.7	17,101.0
Total other non-operating income	1,363.8	15,367.1	0.0	0.0
Associate contributions	3,925.1	3,082.6	3,236.7	3,398.6
Net interest income/(expense)	(446.1)	(704.3)	(889.0)	(996.2)
<b>Pre-tax profit</b>	<b>15,230.3</b>	<b>33,353.6</b>	<b>19,098.4</b>	<b>19,503.3</b>
Tax	(4,755.6)	(6,272.4)	(5,729.5)	(5,851.0)
Minorities	(2,403.1)	(3,206.5)	(3,366.8)	(3,535.2)
Preferred dividends	(395.9)	(536.6)	(536.6)	(536.6)
<b>Net profit</b>	<b>7,675.7</b>	<b>23,338.1</b>	<b>9,465.5</b>	<b>9,580.5</b>
Net profit (adj.)	7,675.7	23,338.1	9,465.5	9,580.5

**CASH FLOW**

Year to 30 Jun (HK\$m)	2017	2018F	2019F	2020F
<b>Operating (HK\$m)</b>	<b>3,039.9</b>	<b>22,062.9</b>	<b>13,882.4</b>	<b>11,352.1</b>
Pre-tax profit	11,751.3	33,353.6	19,098.4	19,503.3
Tax	(5,276.1)	(6,272.4)	(5,729.5)	(5,851.0)
Deprec. & amort.	1,952.5	437.5	0.0	0.0
Associates	(893.3)	(6,281.1)	3,238.5	(2,789.8)
Working capital changes	(3,006.8)	1,222.0	1,352.2	960.0
Non-cash items	(1,363.8)	(3,206.5)	(3,366.8)	(3,535.2)
Other operating cashflows	(123.9)	2,809.8	(710.4)	3,064.7
<b>Investing</b>	<b>(12,085.1)</b>	<b>(41,224.5)</b>	<b>(22,860.4)</b>	<b>(33,863.2)</b>
Capex (growth)	(16,158.2)	(43,967.3)	(22,459.2)	(25,828.0)
Investments	(15,082.2)	2,742.8	(401.2)	(8,035.1)
Proceeds from sale of assets	19,155.3	0.0	0.0	0.0
<b>Financing</b>	<b>14,526.3</b>	<b>7,248.1</b>	<b>10,054.2</b>	<b>23,136.6</b>
Dividend payments	(1,484.9)	(4,787.5)	(4,987.0)	(5,186.5)
Issue of shares	207.8	0.0	0.0	0.0
Proceeds from borrowings	40,820.1	15,396.1	12,549.6	22,258.2
Loan repayment	(23,073.7)	2,411.2	2,491.6	6,064.8
Others/interest paid	(1,943.0)	(5,771.7)	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>5,481.1</b>	<b>(11,913.5)</b>	<b>1,076.3</b>	<b>625.4</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>54,297.5</b>	<b>61,763.6</b>	<b>49,850.1</b>	<b>50,926.4</b>
Changes due to forex impact	4,685.8	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>64,464.4</b>	<b>49,850.1</b>	<b>50,926.4</b>	<b>51,551.9</b>

**BALANCE SHEET**

Year to 30 Jun (HK\$m)	2017	2018F	2019F	2020F
Fixed assets	156,567.3	200,388.1	221,068.5	252,166.9
Other LT assets	101,507.4	111,767.8	122,404.8	126,396.5
Cash/ST investment	66,986.0	63,388.4	50,926.4	51,551.9
Other current assets	111,995.0	105,910.5	108,339.4	107,271.4
<b>Total assets</b>	<b>437,055.7</b>	<b>481,454.8</b>	<b>502,739.0</b>	<b>537,386.7</b>
ST debt	21,224.3	20,629.1	20,347.3	24,737.4
Other current liabilities	58,276.0	74,060.2	87,443.7	108,881.8
LT debt	125,895.3	120,123.6	120,123.6	120,123.6
Other LT liabilities	10,715.9	11,460.0	11,797.2	12,687.4
Shareholders' equity	195,542.7	225,701.7	230,180.2	234,574.3
Minority interest	25,401.5	29,480.2	32,847.0	36,382.2
<b>Total liabilities &amp; equity</b>	<b>437,055.7</b>	<b>481,454.8</b>	<b>502,739.0</b>	<b>537,386.7</b>

**KEY METRICS**

Year to 30 Jun (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	14.9	22.3	21.4	22.9
Pre-tax margin	26.9	55.0	27.9	29.8
Net margin	13.6	38.5	13.8	14.6
ROA	1.9	5.1	1.9	1.8
ROE	4.1	11.1	4.2	4.1
<b>Growth</b>				
Turnover	(4.9)	7.2	12.7	(4.3)
EBITDA	(41.2)	60.5	8.2	2.6
Pre-tax profit	(18.6)	119.0	(42.7)	2.1
Net profit	(11.4)	204.1	(59.4)	1.2
Net profit (adj.)	(11.4)	204.1	(59.4)	1.2
EPS	(15.3)	190.8	(59.4)	1.2
<b>Leverage</b>				
Debt to total capital	40.0	35.5	34.8	34.8
Debt to equity	75.2	62.4	61.0	61.8
Net debt/(cash) to equity	41.0	34.3	38.9	39.8
Interest cover (x)	18.9	19.2	16.5	15.1

## COMPANY UPDATE

### Ace Hardware Indonesia (ACES IJ)

Stable Margins Despite Rupiah Depreciation; Upgrade To BUY

The continuously strong same-store sales growth has persisted from 2017 until Aug 18. The introduction of new line of merchandises is bearing fruit. ACES should be able to comfortably pass on the rupiah depreciation as seen in its stable margins achieved. The high inventory days could support its low-cost structure and maintain margins. Valuation is now more reasonable with a potential 23% net income CAGR. Upgrade to BUY with a new target price of Rp1,700.

#### WHAT'S NEW

- **Strong SSS growth.** Ace Hardware Indonesia (ACES) continued to record strong same-store sales (SSS) growth of 14.3% in Aug 18. The biggest contribution came from Java ex-Jakarta with a 15.5% SSS growth, followed by ex-Java's 15.3% and Greater Jakarta's 11.6%. Ytd, ACES' SSS growth is 13.6%. The strong SSS should drive the strong growth in profit for 2018. Considering that the strong SSS growth for 2018 is achieved despite the high base in 2017, ACES could maintain the performance in 2019.
- **Price increases should mitigate rupiah depreciation.** Some 50% of ACES' goods are from China, 30% from the US, Europe and Other Asia, and 20% are sourced locally. Despite the high exposure to imported products, ACES should be able to pass on the cost pressure from the rupiah depreciation to its customers. Our calculation indicates that if the rupiah depreciates by 5%, ACES will need to raise prices by 2.0-2.5% to fully pass on the impact to customers.
- **Inventory days could support low-cost structure.** ACES' outstanding inventory days were 202 days in 2017 and 210 days in 1H18. This is about nine months of replenishment. Thus, the cost structure of the existing inventory is still quite low, which could protect margins. This would also allow ACES to gradually pass on the rising cost of inventory into 2019.
- **Valuation now slightly below historical average; upgrade to BUY.** With the recent share price weakness, valuation is now more reasonable at slightly below its historical average. Considering the strong EPS growth potential and reasonable valuation, we upgrade ACES to BUY (from HOLD) with a new target price of Rp1,700, based on PE valuation.

#### KEY FINANCIALS

Year to 31 Dec (Rpb)	2016	2017	2018F	2019F	2020F
Net turnover	4,936	5,939	7,151	8,567	9,530
EBITDA	881	968	1,219	1,455	1,458
Operating profit	881	968	1,219	1,455	1,458
Net profit (rep./act.)	711	777	988	1,180	1,182
Net profit (adj.)	711	777	988	1,180	1,182
EPS (Rp)	41.4	45.3	57.6	68.8	68.9
PE (x)	34.3	31.3	24.6	20.6	20.6
P/B (x)	8	6.9	5.8	4.9	4.3
EV/EBITDA (x)	26.2	23.8	18.9	15.9	15.8
Dividend yield (%)	1.1	1.2	1.3	1.6	1.9
Net margin (%)	14.4	13.1	13.8	13.8	12.4
Net debt/(cash) to equity (%)	-22.9	-25.7	-30.8	-32.2	-33.2
Interest cover (x)	60.4	193.6	202.4	201.7	181.7
ROE (%)	25	23.7	25.7	25.8	22.2
Consensus net profit	-	-	936	1,061	1,169
UOBKH/Consensus (x)	-	-	1.06	1.11	1.01

Source: ACES, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	Rp1,420
Target Price	Rp1,700
Upside	19.70%
(Previous TP)	Rp1,550

#### COMPANY DESCRIPTION

Ace Hardware Indonesia is a retailer of tools, home improvement products, lawn and garden supplies, plumbing, furniture, sporting goods and pet supplies

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	ACES IJ
Shares issued (m):	17,150.00
Market cap (Rpb):	24,353.00
Market cap (US\$m):	1,640.00
3-mth avg daily t'over (US\$m):	0.9

#### Price Performance (%)

52-week high/low			Rp1,470/Rp1,115	
1mth	3mth	6mth	1yr	YTD
6.4	10.1	6	26.2	22.9

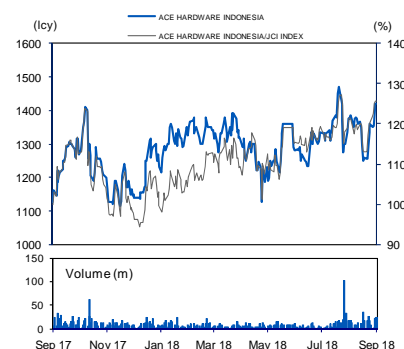
#### Major Shareholders

	%
PT Kawan Lama Sejahtera	59.97

FY18 NAV/Share (Rp)	244
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FY18 Net Cash/Share (Rp)	75
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#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## Regional Morning Notes

Friday, 21 September 2018

### STOCK IMPACT

- **23% net income CAGR in 2018-19.** We expect net income to rise 27.1% yoy in 2018 and 19% yoy in 2019 as SSS growth remains strong in the double-digit territory despite the high base starting 2Q17. We note that SSS growth has accelerated since 2Q17.

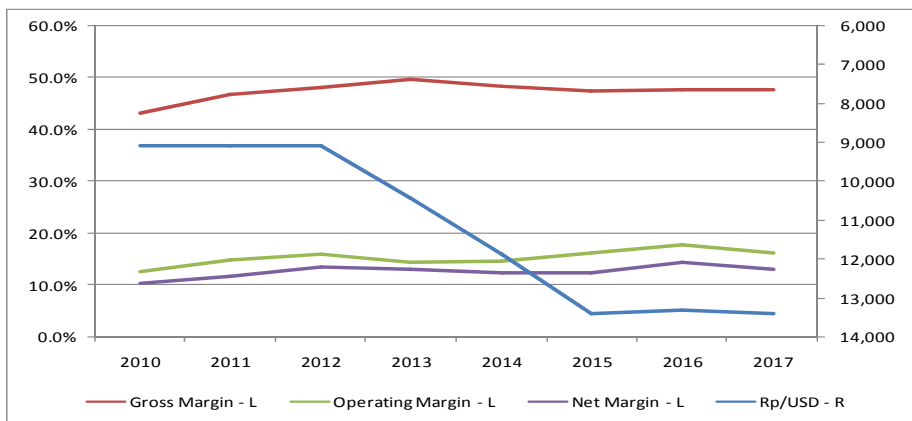
### ACES: SSS GROWTH

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Jakarta	1.8%	4.8%	6.5%	12.7%	7.6%	20.5%	0.4%	8.2%	18.3%	6.8%	11.6%	14.3%	6.7%	10.9%	13.8%	6.4%	10.2%	9.8%	12.5%	11.60%
Java Ex Jakarta	2.6%	7.7%	8.6%	14.2%	10.5%	23.5%	2.3%	12.5%	22.8%	8.9%	10.3%	18.7%	9.3%	10.3%	17.1%	9.5%	15.3%	15.5%	14.9%	15.50%
Outside Java	1.2%	3.9%	7.1%	15.4%	14.5%	24.1%	3.7%	16.4%	29.1%	12.5%	16.9%	19.2%	14.8%	22.0%	21.8%	15.8%	18.2%	16.8%	12.9%	15.30%
Total	2.0%	5.8%	7.6%	14.1%	10.7%	22.8%	2.1%	12.3%	23.2%	9.3%	12.5%	17.6%	10.1%	13.6%	17.4%	10.3%	14.6%	14.2%	13.7%	14.30%

Source: Bloomberg, UOB Kay Hian

- **Historical impact of rupiah on margins has been negligible.** Historically, the impact of a depreciating rupiah on ACES' net margins has been negligible.

### IMPACT OF RUPIAH DEPRECIATION ON ACES' MARGINS



Source: Bloomberg, UOB Kay Hian

### EARNINGS REVISION/RISK

- **We raise our 2019 net income forecast by 4.3%.** With double-digit SSS growth ytd, we raise our SSS growth assumption from 9.1% to 11% for 2019. This lifts our 2019 net income forecast by 4.3%.

### REVISED FORECASTS

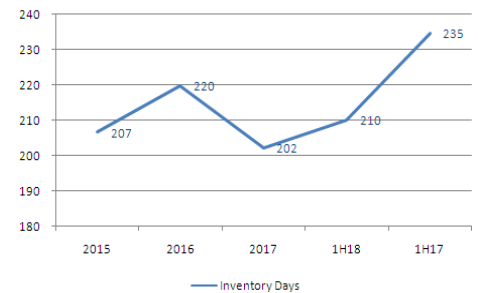
	New		Original		Change (%)		Street		Change (%)	
	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F	2018F	2019F
Revenue	7,151	8,567	7,151	8,429	0.0%	1.6%	6,927	7,835	3.2%	9.4%
Gross Profit	3,478	4,166	3,478	4,063	0.0%	2.5%	3,298	3,724	5.5%	11.9%
Operating Income	1,219	1,455	1,219	1,396	0.0%	4.2%	1,067	1,208	14.3%	20.4%
Net Income	988	1,180	988	1,132	0.0%	4.3%	936	1,061	5.6%	11.2%
Gross Margin	48.6%	48.6%	48.6%	48.2%			47.6%	47.5%		
Operating Margin	17.0%	17.0%	17.0%	16.6%			15.4%	15.4%		
Net Margin	13.8%	13.8%	13.8%	13.4%			13.5%	13.5%		

Source: Bloomberg, UOB Kay Hian

### VALUATION/RECOMMENDATION

- Upgrade to BUY with a new target price of Rp1,700, implying about 20% upside. We derive our target price by applying the historical +1SD PE of 24.8x to 2019F EPS.

### INVENTORY DAYS



Source: ACES, UOB Kay Hian

### 5-YEAR PE BAND (BEST)



Source: Bloomberg, UOB Kay Hian

Regional Morning Notes

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**PROFIT & LOSS**

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Net turnover	5,939	7,151	8,567	9,530
EBITDA	968	1,219	1,455	1,458
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	968	1,219	1,455	1,458
Total other non-operating income	(3.4)	0.0	0.0	0.0
Net interest income/(expense)	(5.0)	(6.0)	(7.2)	(8.0)
<b>Pre-tax profit</b>	<b>960</b>	<b>1,213</b>	<b>1,448</b>	<b>1,450</b>
Tax	(179)	(230)	(275)	(275)
Minorities	(3.0)	6.2	7.4	7.4
<b>Net profit</b>	<b>777</b>	<b>988</b>	<b>1,180</b>	<b>1,182</b>
Net profit (adj.)	777	988	1,180	1,182

**BALANCE SHEET**

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
Fixed assets	706	757	814	876
Other LT assets	365	416	498	552
Cash/ST investment	902	1,292	1,602	1,888
Other current assets	2,456	2,687	3,220	3,671
<b>Total assets</b>	<b>4,429</b>	<b>5,152</b>	<b>6,133</b>	<b>6,987</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	478	516	618	695
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	440	442	529	589
Shareholders' equity	3,513	4,190	4,975	5,685
Minority interest	(2.4)	3.8	11	19
<b>Total liabilities &amp; equity</b>	<b>4,429</b>	<b>5,152</b>	<b>6,133</b>	<b>6,987</b>

**CASH FLOW**

Year to 31 Dec (Rpb)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>690</b>	<b>866</b>	<b>920</b>	<b>961</b>
Pre-tax profit	960	1,213	1,448	1,450
Tax	(179)	(230)	(275)	(275)
Deprec. & amort.	59	69	84	94
Working capital changes	(260)	(172)	(385)	(343)
Other operating cashflows	110	(14)	50	36
<b>Investing</b>	<b>(187)</b>	<b>(171)</b>	<b>(223)</b>	<b>(210)</b>
Capex (growth)	(190)	(120)	(141)	(156)
Investments	0.0	(2.8)	(2.6)	(0.0)
Proceeds from sale of assets	2.7	0.0	0.0	0.0
Others	0.0	(48)	(80)	(54)
<b>Financing</b>	<b>(302)</b>	<b>(305)</b>	<b>(388)</b>	<b>(465)</b>
Dividend payments	(281)	(311)	(395)	(472)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(5.3)	0.0	0.0	0.0
Others/interest paid	(16)	6.2	7.4	7.4
<b>Net cash inflow (outflow)</b>	<b>201</b>	<b>390</b>	<b>309</b>	<b>286</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>704</b>	<b>902</b>	<b>1,292</b>	<b>1,602</b>
Changes due to forex impact	(2.5)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>902</b>	<b>1,292</b>	<b>1,602</b>	<b>1,888</b>

**KEY METRICS**

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	16.3	17.0	17.0	15.3
Pre-tax margin	16.2	17.0	16.9	15.2
Net margin	13.1	13.8	13.8	12.4
ROA	19.1	20.6	20.9	18.0
ROE	23.7	25.7	25.8	22.2
<b>Growth</b>				
Turnover	20.3	20.4	19.8	11.2
EBITDA	9.9	25.9	19.4	0.2
Pre-tax profit	11.2	26.4	19.4	0.2
Net profit	9.4	27.1	19.4	0.2
Net profit (adj.)	9.4	27.1	19.4	0.2
EPS	9.4	27.1	19.4	0.2
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(25.7)	(30.8)	(32.2)	(33.2)
Interest cover (x)	193.6	202.4	201.7	181.7



## Regional Morning Notes

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### COMPANY RESULTS

#### Scientex (SCI MK)

4QFY18: Ending The Year On A High Note

4QFY18 core net profit grew 79.7% qoq and 45.5% yoy on the maiden contribution from KHPI and normalisation of its property division. We lift our FY19-20 forecasts by 4% and 2% respectively to reflect its manufacturing unit's margin improvement and property unit's huge revenue jump. We now expect Scientex to fetch a better valuation in tandem with the re-rating of sizeable growth stocks with good earnings visibility and proven execution. Maintain BUY and lift our target price to RM10.41.

#### 4QFY18 RESULTS

Year to 31 Jul (RMm)	4QFY18	qoq % chg	yoy % chg	FY18	yoy % chg
Turnover	733.2	22.2	13.5	2,626.8	9.3
Manufacturing	527.0	16.6	21.1	1,904.6	14.1
Property	206.2	39.3	(2.2)	722.2	(1.6)
EBIT	108.2	38.7	26.5	364.4	12.1
Manufacturing	26.3	(23.3)	39.6	126.9	29.5
Property	81.9	87.4	22.8	237.5	4.6
Finance costs	(4.0)	86.9	27.3	(10.8)	(23.4)
PBT	106.9	39.2	26.8	361.7	13.7
Core net profit	100.4	79.7	45.5	287.4	13.8
Margins (%)		+/- ppt	+/- ppt	(%)	+/- ppt
EBIT	14.8	1.8	1.5	13.9	0.3
-Manufacturing	5.0	(2.6)	0.7	6.7	0.8
-Property	39.7	10.2	8.1	32.9	1.9
PBT	14.6	1.8	1.5	13.8	0.5
Core net profit	13.7	4.4	3.0	10.9	0.4

Source: Scientex, UOB Kay Hian

### RESULTS

- **Results in line with expectations.** Excluding RM12.1m of net forex loss arising from higher export sales and a weaker ringgit, 4QFY18 core net profit came in at RM100.4m (+79.7% qoq, 45.5% yoy). This brings full-year FY18 core profit to RM287.4m (+13.8% yoy), accounting for 99% and 105% of our and street's forecasts respectively. The strong set of results can be primarily attributed to: a) improved manufacturing division amid maiden contribution from Klang Hock Plastic Industries (KHPI) of RM5.7m and better product mix, and b) an exceptionally high margin at the property division, making up for the previous quarter's weaker-than-expected margins (timing recognition).

### KEY FINANCIALS

Year to 31 Jul (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	2,043	2,627	3,647	4,180	4,630
EBITDA	388	436	568	619	686
Operating profit	325	364	494	546	614
Net profit (rep./act.)	256	290	378	419	474
Net profit (adj.)	267	287	378	419	474
EPS (sen)	55.2	59.5	78.2	86.7	98.0
PE (x)	15.5	14.4	11.0	9.9	8.7
P/B (x)	2.7	2.3	2.0	1.8	1.9
EV/EBITDA (x)	12.9	11.5	8.8	8.1	7.3
Dividend yield (%)	1.9	2.1	2.7	3.0	14.9
Net margin (%)	12.5	11.0	10.4	10.0	10.2
Net debt/(cash) to equity (%)	18.0	43.2	14.7	10.4	17.3
Interest cover (x)	27.7	40.6	20.1	21.7	24.1
ROE (%)	18.9	17.6	19.9	19.3	21.1
Consensus net profit	-	-	318	364	-
UOBKH/Consensus (x)	-	-	1.19	1.15	-

Source: Scientex, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM8.57
Target Price	RM10.41
Upside	+21.4%
(Previous TP)	RM8.60

### COMPANY DESCRIPTION

Scientex is one of the largest industrial packaging companies in the world and a niche property developer in Southern Malaysia.

### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	SCI MK
Shares issued (m):	488.9
Market cap (RMm):	4,190.1
Market cap (US\$m):	1,012.6
3-mth avg daily t'over (US\$m):	0.4

### Price Performance (%)

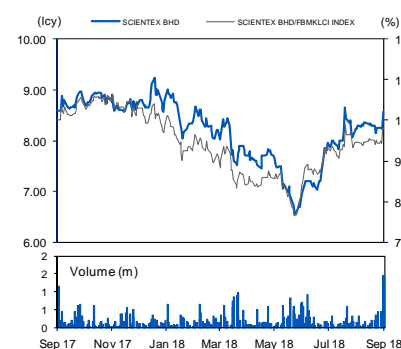
52-week high/low		RM9.25/RM6.55		
1mth	3mth	6mth	1yr	YTD
4.4	27.7	4.3	(1.7)	(1.0)

### Major Shareholders

Scientex Holdings Sdn Bhd	21.37
Scientex Leasing Sdn Bhd	9.65
Scientex Infinity Sdn Bhd	8.39

FY19 NAV/Share (RM)	4.19
FY19 Net Debt/Share (RM)	0.62

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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## Regional Morning Notes

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• **4QFY18 manufacturing EBIT surged 39.6% yoy** to RM26.3m on the back of: a) maiden contribution from the newly-acquired KHPI, which began contributing from May 18, b) higher utilisation rate of about 60% (excluding KHPI) in FY18 (FY17: 55%), and c) better product mix and margin amid higher export sales and ASP fetched. Consequently, manufacturing EBIT margin rose marginally by 0.7ppt yoy to 5.0%. Note that KHPI generated RM5.7m in profit for the quarter. Separately, the utilisation rate at the new biaxially-oriented polypropylene (BOPP) plant reached over 50% in 4QFY18, and we believe that ASP has also improved as management has embarked on an evolved strategy to focus on margins rather than volume. We understand that the BOPP plant has broken even.

• **Outperformance at property segment post last quarter's dismay.** Property EBIT rose 22.8% yoy to RM81.9m mainly on: a) spillover from sales which could not be recognised in 3QFY18 due to the longer-than-expected timeframe in attaining regulatory approvals for some property projects (due to distractions during GE14), and b) improved efficiency that led to lower material costs. Scientex launched new properties worth RM1,215m in GDV in FY18 with 85% of it comprising affordable housing that costs less than RM500k. Moving forward, management intends to maintain its property EBIT margin of approximately 30%.

### STOCK IMPACT

• **Manufacturing utilisation rate expected to improve to 70% in FY19.** The company targets to raise utilisation rate to around 70% in FY19 from FY18's 60%, mainly attributed to the expected higher utilisation from both consumer and industrial packaging. We understand that the utilisation rates of stretch film and custom film (excluding BOPP) stood at approximately 85% and 70% respectively as of end-Apr 18.

• **BOPP plant has started to break even.** Positively, after some delays from its original plan to breakeven by end-FY17, we gather that the new BOPP plant has begun to breakeven in 1QFY19 with utilisation rate at >50%. Essentially, the delay was due to Scientex's change of strategy to focus on higher-margin orders and forgo some high volume and penetrative pricing orders. Recall that the BOPP plant saw its 60,000MT capacity fully installed after the second line came on board in Dec 16, with one-third of production supplied to Futamura Japan (which owns a stake in Scientex), one-third to the domestic market, and the rest to Southeast Asia.

• **Property division's FY19 revenue to be lifted by strong sales achieved in FY18.** As FY19 should replicate FY18's achievement of having 70% take-up rates for RM1.2b worth of property launches, revenue recognised in FY19 is bound to jump from RM722m in FY18 to above RM900m in FY19. However, we conservatively forecast EBIT margin to ease to around 30% from FY18's exceptionally high 32.9%.

### EARNINGS REVISION/RISK

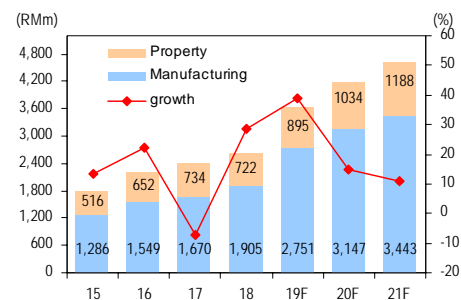
• We have raised our FY19-20 earnings forecasts by 4% and 2% respectively as we take into account better utilisation rate at its manufacturing division. We also introduce FY21 numbers.

### VALUATION/RECOMMENDATION

• **Maintain BUY with higher target price of RM10.41** (previously RM8.60) as we roll forward our valuation to FY20 from FY19 and switch our valuation methodology to PE based. Our target price implies 12x FY20F PE. This valuation methodology acknowledges the likely valuation re-rating of sizeable growth stocks with good earnings visibility and proven execution.

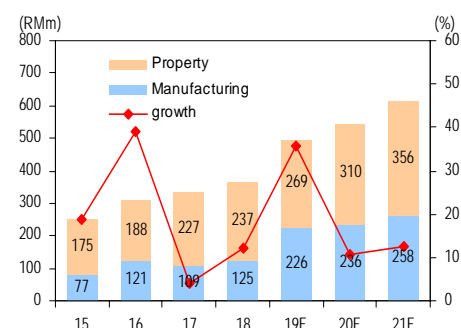
• **Scientex's solid long-term prospects** can be attributed to its proven execution power which is reflected in its earnings growth over the years. Moving forward, it intends to achieve a long-term aspiration of increasing its manufacturing capacity to 1m MT p.a. (currently approximately 230k MT) and build 50,000 homes (currently 17,000) by FY28.

### SALES BY SEGMENT



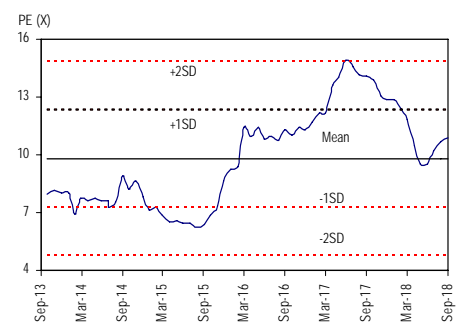
Source: Scientex, UOB Kay Hian

### EBIT BY SEGMENT



Source: Scientex, UOB Kay Hian

### 5 YEAR FORWARD PE BAND



Source: UOB Kay Hian

Regional Morning Notes

Friday, 21 September 2018

**PROFIT & LOSS**

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Net turnover	2,627	3,647	4,180	4,630
EBITDA	436	568	619	686
Deprec. & amort.	72	73	73	72
EBIT	364	494	546	614
Associate contributions	8	8	8	8
Net interest income/(expense)	(11)	(28)	(29)	(29)
Pre-tax profit	362	474	526	594
Tax	(68)	(90)	(100)	(113)
Minorities	(4)	(6)	(6)	(7)
Net profit	290	378	419	474
Net profit (adj.)	287	378	419	474

**BALANCE SHEET**

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,151	1,150	1,137	1,126
Other LT assets	1,018	1,015	1,016	1,017
Cash/ST investment	172	652	709	572
Other current assets	1,023	1,002	1,237	1,318
Total assets	3,364	3,819	4,099	4,032
ST debt	610	650	650	650
Other current liabilities	514	683	663	732
LT debt	324	300	300	300
Other LT liabilities	82	82	82	82
Shareholders' equity	1,764	2,028	2,322	2,180
Minority interest	70	76	82	89
Total liabilities & equity	3,364	3,819	4,099	4,033

**CASH FLOW**

Year to 31 Jul (RMm)	2018	2019F	2020F	2021F
Operating	392	578	243	542
Pre-tax profit	362	474	526	594
Tax	(80)	(90)	(100)	(113)
Deprec. & amort.	72	73	73	72
Working capital changes	31	121	(255)	(12)
Other operating cashflows	8	0	0	1
Investing	(703)	(80)	(60)	(60)
Capex (growth)	(65)	(80)	(60)	(60)
Investments	(147)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(491)	0	0	0
Financing	291	(18)	(127)	(619)
Dividend payments	(58)	(113)	(126)	(616)
Issue of shares	0	0	0	1
Proceeds from borrowings	365	0	0	1
Loan repayment	0	16	0	0
Others/interest paid	(16)	79	(1)	(5)
Net cash inflow (outflow)	(20)	480	56	(137)
Beginning cash & cash equivalent	192	172	652	709
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	172	652	709	572

**KEY METRICS**

Year to 31 Jul (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	16.6	15.6	14.8	14.8
Pre-tax margin	13.8	13.0	12.6	12.8
Net margin	11.0	10.4	10.0	10.2
ROA	9.8	10.5	10.6	11.7
ROE	17.6	19.9	19.3	21.1
Growth				
Turnover	28.6	38.8	14.6	10.8
EBITDA	12.3	30.2	9.0	10.9
Pre-tax profit	13.7	31.1	10.9	13.0
Net profit	13.3	30.5	10.9	13.0
Net profit (adj.)	7.7	31.5	10.9	13.0
EPS	7.7	31.5	10.9	13.0
Leverage				
Debt to total capital	33.8	31.1	28.3	29.5
Debt to equity	53.0	46.8	40.9	43.6
Net debt/(cash) to equity	43.2	14.7	10.4	17.3
Interest cover (x)	40.6	20.1	21.7	24.1

## COMPANY UPDATE

### Keppel Corporation (KEP SP)

Makes First Foray Into The Nanjing Property Market

**Keppel acquires a 40% stake in an 8.8ha site in Nanjing, China, for S\$283m. The acquisition provides a project that Keppel can quickly monetise. While the deal has its positive attributes, we refrain from being overly positive, given the weak fundamentals in the Nanjing property market. The earliest earnings impact from the deal is expected in late-19 or 2020, and we raise our 2020 net profit forecast by 1%. Our RNAV rises <1% on the acquisition. Maintain HOLD and target price of S\$7.37. Entry price: S\$6.60.**

#### WHAT'S NEW

- **Makes first foray into Nanjing.** Keppel Corporation (Keppel) has entered into a JV with Gemdale (Group) Co Ltd (600383 CH) to jointly develop an 8.8ha prime residential site in Nanjing. The site is located at the core of the Nanjing Jiangbei New Area, which is the only national-level new area in Jiangsu Province.
- **Launching 787 units in 4Q18.** The proposed development will comprise 1,728 high-rise apartments and 50 street-front shops. Permissible gross floor area (GFA) is 193,139sqm (plot ratio of 2.2). Phase 1 comprises 787 units with launch targeted in 4Q18. The entire project is expected to be completed by 2Q22.
- **Breakeven price of Rmb26,900psm.** Acquisition cost for the 40% stake is Rmb1,414m (S\$283m), payable in tranches with final payment expected in 4Q18. Total development cost on a 100% basis is Rmb5.2b (S\$1,040m), translating into a breakeven cost of Rmb26,900psm. We understand that surrounding projects are transacting at Rmb30,000psm, as compared to the market average of Rmb24,200psm as of Aug 18.

#### STOCK IMPACT

- **High speed-to-market for first foray in Nanjing.** The deal gives Keppel a project with high speed to the Nanjing property market, monetising it within months of acquisition. This is different from past acquisitions in China, which tend to have a longer gestation period. Due to the accounting treatment, earnings from the initial launch will likely manifest earliest in late-19 or 2020.
- **Acquisition price high relative to recent transactions.** While Keppel has been selective with the project location, we are cautious on being overly positive. The disposal by Gemdale reflects its need to de-risk, given the weakening property market sentiment and its net gearing of 69%. Keppel bought the land at an implied Rmb18,300psm, reflecting a premium for the site location and high speed-to-market. This price was markedly higher than recent land sales in Sep 18, such as Longfor Properties' winning bid of Rmb13,993psm.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2016	2017	2018F	2019F	2020F
Net turnover	6,767	5,964	5,479	6,292	6,495
EBITDA	1,032	988	1,585	1,332	1,517
Operating profit	795	776	1,372	1,120	1,305
Net profit (rep./act.)	784	217	1,082	792	999
Net profit (adj.)	927	508	526	792	999
EPS (\$ cent)	50.7	27.8	28.8	43.4	54.7
PE (x)	13.4	24.4	23.6	15.7	12.4
P/B (x)	1.1	1.1	1.0	1.0	0.9
EV/EBITDA (x)	18.3	19.1	11.9	14.2	12.4
Dividend yield (%)	2.9	3.2	4.1	2.5	4.0
Net margin (%)	11.6	3.6	19.7	12.6	15.4
Net debt/(cash) to equity (%)	59.7	48.3	50.1	43.8	44.2
Interest cover (x)	3.5	4.1	6.5	5.4	6.3
ROE (%)	6.9	1.9	9.2	6.4	7.8
Consensus net profit	-	-	989	1,072	1,273
UOBKH/Consensus (x)	-	-	0.53	0.74	0.78

Source: Keppel, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$6.80
Target Price	S\$7.37
Upside	+8.4%

#### COMPANY DESCRIPTION

Keppel Corp is a conglomerate with four core businesses - offshore oil & gas heavy engineering, property investment and development, infrastructure and investments

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	KEP SP
Shares issued (m):	1,812.4
Market cap (S\$m):	12,324.3
Market cap (US\$m):	9,006.4
3-mth avg daily t'over (US\$m):	17.6

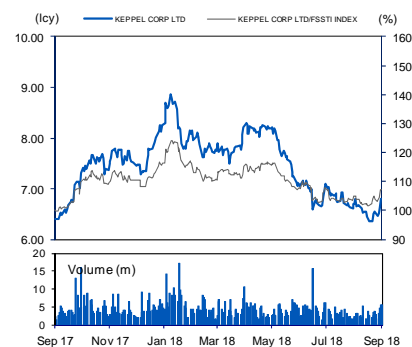
#### Price Performance (%)

52-week high/low					S\$8.86/S\$6.36
1mth	3mth	6mth	1yr	YTD	
2.7	(3.8)	(11.8)	7.5	(6.8)	

#### Major Shareholders

	%
Temasek Hldgs	20.5
FY18 NAV/Share (S\$)	6.64
FY18 Net Debt/Share (S\$)	3.33

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## Regional Morning Notes

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• **Property demand in Nanjing is weakening.** Recent newsflow points to the Nanjing property market slowing as government cooling measures take hold. Property demand is waning, and data from China Real Estate Information Corp (CRIC) showed that only 5,211 new homes were sold in Aug18, a decline of 40% mom. Recent land purchases also saw lower bids from developers. Buyers are reportedly taking a wait and see approach following the cheaper land sales as they anticipate home prices to decline.

• **Market survey sales data shows slowing trend.** According to CRIC data, home sales for Keppel Land China is slowing in 3Q18. The tracking is imperfect (relative to actual Keppel figures), but shows a strong correlation trend-wise. Property was supposed to represent the main earnings driver for Keppel for 2018. The slowing sales data, coupled with the late earnings recognition from this acquisition, does little to lift the weak earnings outlook for 2018.

### EARNINGS REVISION/RISK

• **Tweak 2020 earnings estimate to reflect latest acquisition.** We have assumed that earnings from this project will kick in only from 2020. Our 2018-19 core earnings forecasts remain unchanged at S\$526m and S\$792m respectively. Earnings estimate for 2020 has been revised upwards to S\$999m (+1.4%).

### VALUATION/RECOMMENDATION

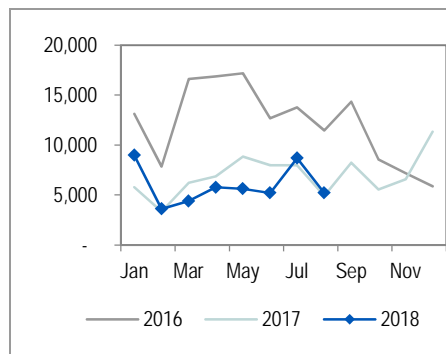
• **Maintain HOLD and target price of S\$7.37.** The new Nanjing project nudges our property RNAV by <1%, so our target price remains largely unchanged. Keppel continues to face weak earnings for its offshore and marine business, and the weakening earnings outlook for its property business gives us pause. Land sales from Tianjin Eco City have also been lacklustre. Despite this, a higher-than-expected final dividend payout as part of its 50th anniversary could provide short-term uplift for share price. Given these considerations, maintain HOLD. Entry price is S\$6.60.

### SOTP VALUATION

	Value (\$m)	Value ps (\$)
Offshore & Marine - (1)	879	0.48
Property - (2)	8,219	4.52
- Keppel Land	8,219	4.52
Infrastructure - (3)	1,882	1.04
- Keppel Infra Trust	351	0.19
- Keppel T&T	666	0.37
- Keppel Infrastructure	865	0.48
Investments - (4)	2,005	1.10
- Tianjin Eco City	627	0.34
- Keppel KBS Reit	64	0.04
- Dyna-Mac	26	0.01
- KrisEnergy	45	0.02
- Keppel Capital	1,243	0.68
Less: Est. HoldCo net cash (debt) - (5)	416	0.23
Total, S\$m: (1)+(2)+(3)+(4)-(5)	13,401	
No. of shares (m)	1,818	
SOTP/share (\$)	7.37	

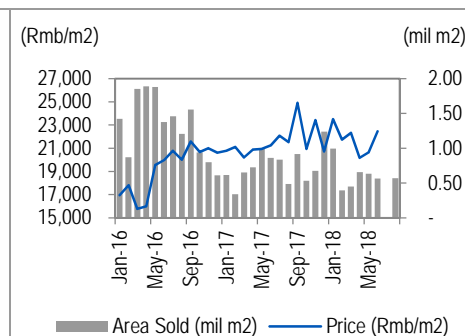
Source: UOB Kay Hian

### UNIT HOME SALES IN NANJING



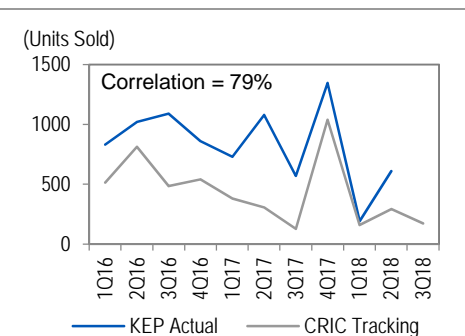
Source: CRIC, UOB Kay Hian

### NANJING: PRICES AND AREA TRANSACTED



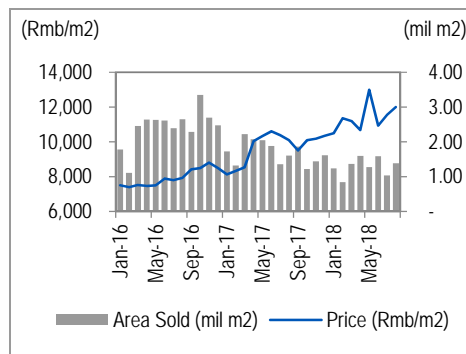
Source: CRIC, UOB Kay Hian

### KEPPEL'S HOME SALES IN CHINA



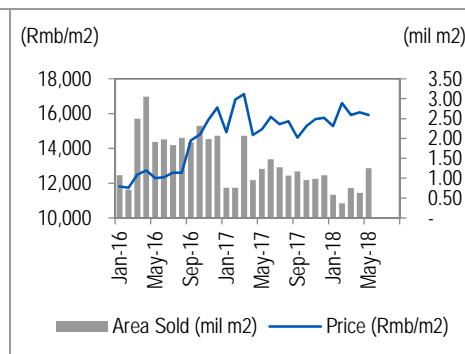
Source: CRIC, UOB Kay Hian

### CHENGDU: PRICES AND AREA TRANSACTED



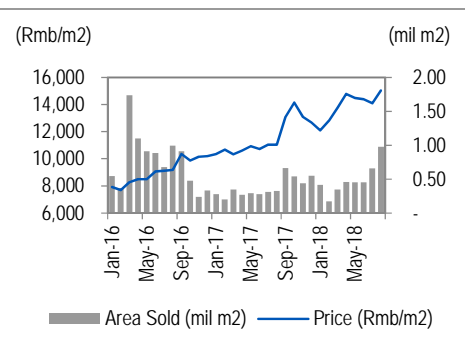
Source: CRIC, UOB Kay Hian

### TIANJIN: PRICES AND AREA TRANSACTED



Source: CRIC, UOB Kay Hian

### WUXI: PRICES AND AREA TRANSACTED



Source: CRIC, UOB Kay Hian



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**PROFIT & LOSS**

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Net turnover	5,963.8	5,478.9	6,292.4	6,495.2
EBITDA	988.1	1,584.9	1,332.4	1,517.3
Deprec. & amort.	212.4	212.4	212.4	212.4
EBIT	775.7	1,372.5	1,120.0	1,305.0
Total other non-operating income	(598.9)	19.9	19.9	19.9
Associate contributions	390.0	(9.6)	29.0	42.1
Net interest income/(expense)	(51.3)	(73.3)	(69.6)	(68.8)
<b>Pre-tax profit</b>	<b>515.6</b>	<b>1,309.5</b>	<b>1,099.3</b>	<b>1,298.1</b>
Tax	(298.4)	(216.4)	(272.3)	(270.6)
Minorities	(0.5)	(11.2)	(34.9)	(28.9)
<b>Net profit</b>	<b>216.7</b>	<b>1,081.9</b>	<b>792.0</b>	<b>998.6</b>
Net profit (adj.)	508.3	526.5	792.0	998.6

**CASH FLOW**

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>1,377.5</b>	<b>(895.4)</b>	<b>659.5</b>	<b>(166.6)</b>
Pre-tax profit	515.6	1,309.5	1,099.3	1,298.1
Tax	(321.7)	(216.4)	(272.3)	(270.6)
Deprec. & amort.	212.4	212.4	212.4	212.4
Associates	(390.0)	9.6	(29.0)	(42.1)
Working capital changes	1,290.2	(1,041.1)	(307.2)	(1,320.8)
Other operating cashflows	71.1	(1,169.3)	(43.6)	(43.6)
<b>Investing</b>	<b>382.0</b>	<b>887.5</b>	<b>290.1</b>	<b>290.1</b>
Capex (growth)	0.0	0.0	0.0	0.0
Investments	20.0	597.4	0.0	0.0
Proceeds from sale of assets	37.4	0.0	0.0	0.0
Others	324.6	290.1	290.1	290.1
<b>Financing</b>	<b>(1,478.6)</b>	<b>(233.5)</b>	<b>(949.5)</b>	<b>(123.4)</b>
Dividend payments	(390.1)	(488.7)	(383.8)	(447.9)
Issue of shares	2.9	0.0	0.0	0.0
Proceeds from borrowings	0.0	255.2	0.0	324.5
Loan repayment	0.0	0.0	(565.8)	0.0
Others/interest paid	(1,091.4)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>280.8</b>	<b>(241.4)</b>	<b>0.0</b>	<b>0.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,018.8</b>	<b>2,241.4</b>	<b>2,000.0</b>	<b>2,000.0</b>
Changes due to forex impact	(25.8)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>2,273.8</b>	<b>2,000.0</b>	<b>2,000.0</b>	<b>2,000.0</b>

**BALANCE SHEET**

Year to 31 Dec (\$m)	2017	2018F	2019F	2020F
Fixed assets	5,893.6	5,622.9	5,410.5	5,198.2
Other LT assets	7,266.8	7,024.0	6,782.8	6,554.7
Cash/ST investment	2,273.8	2,000.0	2,000.0	2,000.0
Other current assets	12,678.6	11,949.6	12,532.2	18,912.7
<b>Total assets</b>	<b>28,112.8</b>	<b>26,596.5</b>	<b>26,725.5</b>	<b>32,665.5</b>
ST debt	1,714.1	4,065.7	5,037.9	5,478.2
Other current liabilities	7,738.1	5,916.8	6,192.2	11,251.9
LT debt	6,078.9	3,982.5	2,444.5	2,328.7
Other LT liabilities	621.3	66.7	43.0	19.2
Shareholders' equity	11,432.7	12,078.3	12,527.6	13,126.3
Minority interest	527.7	486.5	480.4	461.3
<b>Total liabilities &amp; equity</b>	<b>28,112.8</b>	<b>26,596.5</b>	<b>26,725.5</b>	<b>32,665.5</b>

**KEY METRICS**

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	16.6	28.9	21.2	23.4
Pre-tax margin	8.6	23.9	17.5	20.0
Net margin	3.6	19.7	12.6	15.4
ROA	0.8	4.0	3.0	3.4
ROE	1.9	9.2	6.4	7.8
<b>Growth</b>				
Turnover	(11.9)	(8.1)	14.8	3.2
EBITDA	(4.2)	60.4	(15.9)	13.9
Pre-tax profit	(51.1)	154.0	(16.1)	18.1
Net profit	(72.4)	399.3	(26.8)	26.1
Net profit (adj.)	(45.1)	3.6	50.4	26.1
EPS	(45.1)	3.6	50.4	26.1
<b>Leverage</b>				
Debt to total capital	39.5	39.0	36.5	36.5
Debt to equity	68.2	66.6	59.7	59.5
Net debt/(cash) to equity	48.3	50.1	43.8	44.2
Interest cover (x)	4.1	6.5	5.4	6.3



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### COMPANY UPDATE

#### The Erawan Group (ERW TB)

3Q18 Results Preview: Earnings Hiccup Should Be No Surprise

We expect core profit in 3Q18 to come in at Bt58m (-27% yoy). Earnings pressure is likely to have come from: a) planned renovations at JW Marriot Bangkok, and b) a temporary dip in Russian and Chinese tourist numbers. The poor performance during the low season in 2Q-3Q18 should come as no surprise to the market, while we expect bottom-line in 4Q18 to resume strong growth momentum. Maintain BUY and target price of Bt10.50.

#### 3Q18 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q18F	2Q18	3Q17	yoy chg (%)	qoq chg (%)
Revenue from hotel business	1,393	1,293	1,393	0.0	7.7
Rental and service income	56	56	55	1.4	-0.8
<b>Total revenue</b>	<b>1,449</b>	<b>1,349</b>	<b>1,448</b>	<b>0.1</b>	<b>7.3</b>
Gross profit	563	501	605	-6.9	12.4
EBITDA	380	325	422	-10.0	16.8
Net profit	58	30	79	-27.1	95.6
Core profit	58	30	79	-27.1	95.6
EPS (Bt)	0.02	0.01	0.03	-27.1	95.6
<b>Ratio (%)</b>				<b>yoy ppt chg</b>	<b>qoq ppt chg</b>
Gross margin	38.9	37.1	41.8	-2.9	1.8
SG&A % of total revenue	26.6	27.9	26.3	0.3	-1.3
EBITDA margin	26.2	24.1	29.2	-2.9	2.1

Source: ERW, UOB Kay Hian

#### WHAT'S NEW

- **Expect core profit to drop 27% yoy.** We expect The Erawan Group (ERW) to report a 3Q18 core profit of Bt58m (-27 yoy, +96% qoq). The huge qoq growth would be due to seasonality, while key negatives affecting yoy growth would have been sluggish top-line growth as well as EBITDA margin decreasing 290bp yoy to 26.2% given the hiccups in tourist arrivals and the negative impact from hotel renovations. We expect core profit in 9M18 to remain on track, accounting for 59% of our full-year forecast.

#### KEY FINANCIALS

Year to 31 Dec (Btm)	2016	2017	2018F	2019F	2020F
Net turnover	5,571	5,996	6,677	7,272	7,852
EBITDA	1,586	1,844	2,115	2,380	2,652
Operating profit	856	1,105	1,305	1,496	1,720
Net profit (rep./act.)	367	506	631	736	867
Net profit (adj.)	346	506	631	736	867
EPS (Bt)	0.1	0.2	0.3	0.3	0.3
PE (x)	58.1	39.8	31.9	27.3	23.2
P/B (x)	4.1	3.8	3.6	3.3	3.0
EV/EBITDA (x)	18.8	16.2	14.1	12.5	11.2
Dividend yield (%)	0.5	0.7	1.3	1.5	1.7
Net margin (%)	6.6	8.4	9.5	10.1	11.0
Net debt/(cash) to equity (%)	155.1	152.6	166.3	163.4	157.0
Interest cover (x)	4.4	5.4	5.1	5.3	5.5
ROE (%)	7.6	10.0	11.6	12.5	13.6
Consensus net profit	-	-	604	690	791
UOBKH/Consensus (x)	-	-	1.05	1.07	1.10

Source: The Erawan Group, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	Bt8.05
Target Price	Bt10.50
Upside	+30.4%

#### COMPANY DESCRIPTION

The Erawan Group (ERW) is a leading hotel investment company in Thailand. Its hotel portfolio ranges from luxury to mid-scale and economy across Thailand's major tourist destinations.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	ERW TB
Shares issued (m):	2,506.6
Market cap (Btm):	20,178.2
Market cap (US\$m):	623.1
3-mth avg daily t'over (US\$m):	2.6

#### Price Performance (%)

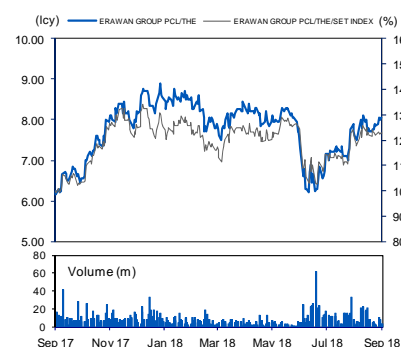
52-week high/low			Bt8.90/Bt6.15	
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.9	3.2	3.2	28.8	(7.5)

#### Major Shareholders

	%
Wattanavekin family	28.2
Vongkusolkrit family	28.4

FY18 NAV/Share (Bt)	2.26
FY18 Net Debt/Share (Bt)	3.76

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Hotel revenue to be flat yoy.** ERW's hotel performance in 3Q18 is expected to remain under pressure and we expect hotel revenue to come in at Bt1.4b (flat yoy) due to: a) the planned renovations at JW Marriot Bangkok (accounts for 15-20% of total hotel revenue), and b) slowed growth in Russian and Chinese tourist arrivals which mainly impacted hotel operations in the upcountry regions such as Phuket. Excluding budget hotels, RevPar is expected to drop 4% yoy on the back of occupancy rate which is likely to see a sharp decline of 600bp yoy to 74%; meanwhile average room rate (ARR) is expected to increase by 2% yoy.

### HOTEL OPERATING STATISTICS IN 3Q18F (PRELIMINARY FORECAST)

	3Q18F	3Q17	yoy % chg
No. of rooms	7,921	6,999	13
Occupancy (%) - excluding the budget segment	79	83	-4 ppt
RevPar (Bt) - system-wide	1,293	1,479	-13
RevPar (Bt) - excluding the budget segment	1,938	2,020	-4

Source: UOB Kay Hian

### STOCK IMPACT

- **Hotel network expansion on schedule with four new hotels slated for 4Q18 and 8-10 hotels for 2019.** In 3Q18, the company opened two new Hop Inn hotels in the Philippines and Thailand. As a result, ERW has 57 owned hotels with 7,921 rooms as at end-Aug 18. According to our recent channel checks, the company is on track to open four new hotels in 4Q18, including Novotel Sukumvit 4, Ibis Style Sukumvit 4, HOP Inn Chiangmai #2, and HOP Inn Tomas Morato (Philippines). Pre-opening expenses are not a major concern in our view with estimated expenses of Bt24m for the full-year of 2018. Going forward, ERW will continue with its aggressive expansion plan with 8-10 more HOP Inn hotels to be opened in 2019.
- **Number of tourist arrivals inched up 3% yoy in Aug 18.** Thailand's tourist arrivals increased 3.0% yoy in Aug 18 (vs 2.8% yoy in Jul 18), temporarily pressured by the FIFA World Cup and the Phuket boat tragedy. We have seen a continued improvement in the number of Russian tourist arrivals which dropped at a smaller magnitude mom for two consecutive months. So far, tourist arrivals cumulatively grew by 10% yoy in 8M18 and The Tourism Authority of Thailand has maintained its tourist arrival growth target of nearly 8% for the full-year of 2018.
- **Renovating JW Marriot Bangkok.** ERW kicked off renovations for JW Marriot Bangkok in 2017 which will continue through to 2019. ERW is expected to achieve 70% renovation completion at the end of 3Q18. We expect downside risk from the renovation plans to be limited since the renovations took place during the low season (2Q-3Q) and the hotel will resume operations during the high season. Our analysis points to a negative impact to EBITDA of nearly Bt30m-40m per year, or only 2%. In addition, there will be a ~10% increase in room rates after the completion of each phase of renovation.

### EARNINGS REVISION/RISK

- None.

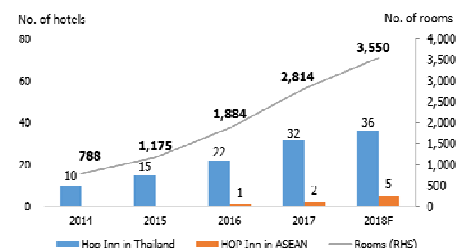
### VALUATION/RECOMMENDATION

- **Maintain BUY** and target price of Bt10.50, based on DCF (WACC: 6.5%, terminal growth: 3.0%).

### SHARE PRICE CATALYST

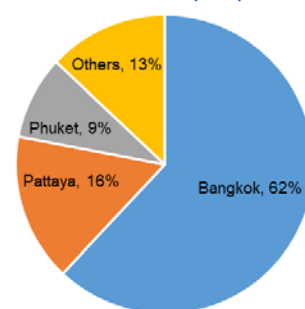
- Continued rise in Thailand's tourist arrivals.

### HOP INN HOTELS



Source: ERW, UOB Kay Hian

### HOTEL REVENUE BY REGION (2017)



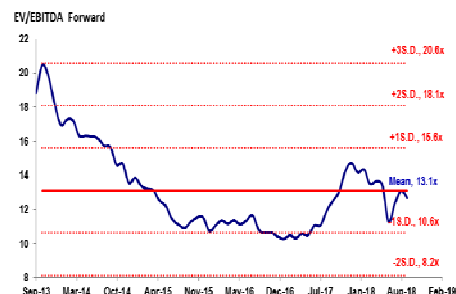
Source: ERW, UOB Kay Hian

### ERW's DCF VALUATION

Long-term D/E	67%
Beta	0.8
WACC	6.5%
Terminal growth	3.0%
<b>Valuation</b>	<b>(Btm)</b>
Enterprise value	35,905.1
Less: Net debt	9,394.1
Less: MI	234.9
<b>Equity value</b>	<b>26,276.1</b>
No. of shares	2,500
Target price (Bt)	10.5

Source: UOB Kay Hian

### EV/EBITDA BAND



Source: UOB Kay Hian

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**PROFIT & LOSS**

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Net turnover	5,996	6,677	7,272	7,852
EBITDA	1,844	2,115	2,380	2,652
Deprec. & amort.	738	810	884	932
EBIT	1,105	1,305	1,496	1,720
Total other non-operating income	0	0	0	0
Associate contributions	(24)	20	20	20
Net interest income/(expense)	(344)	(411)	(449)	(482)
<b>Pre-tax profit</b>	<b>737</b>	<b>913</b>	<b>1,067</b>	<b>1,258</b>
Tax	(172)	(214)	(251)	(297)
Minorities	(59)	(68)	(80)	(94)
<b>Net profit</b>	<b>506</b>	<b>631</b>	<b>736</b>	<b>867</b>
Net profit (adj.)	506	631	736	867

**BALANCE SHEET**

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Fixed assets	12,568	14,579	15,695	16,763
Other LT assets	1,907	1,783	1,784	1,785
Cash/ST investment	1,077	673	880	1,225
Other current assets	496	473	513	552
<b>Total assets</b>	<b>16,048</b>	<b>17,508</b>	<b>18,872</b>	<b>20,325</b>
ST debt	2,010	2,377	2,512	2,648
Other current liabilities	1,208	1,275	1,349	1,419
LT debt	7,056	7,690	8,323	8,956
Other LT liabilities	370	282	282	282
Shareholders' equity	5,236	5,650	6,091	6,611
Minority interest	167	235	314	409
<b>Total liabilities &amp; equity</b>	<b>16,048</b>	<b>17,508</b>	<b>18,872</b>	<b>20,325</b>

**CASH FLOW**

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>1,447</b>	<b>1,615</b>	<b>1,714</b>	<b>1,904</b>
Pre-tax profit	678	845	987	1,164
Tax	(172)	(214)	(251)	(297)
Deprec. & amort.	738	810	884	932
Associates	84	48	60	74
Working capital changes	120	126	34	31
Non-cash items	0	0	0	0
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(1,601)</b>	<b>(2,679)</b>	<b>(1,981)</b>	<b>(1,981)</b>
Capex (growth)	(1,544)	(2,758)	(2,000)	(2,000)
Capex (maintenance)	0	0	0	0
Investments	10	(9)	20	20
Proceeds from sale of assets	0	0	0	0
Others	(67)	89	(1)	(1)
<b>Financing</b>	<b>435</b>	<b>660</b>	<b>474</b>	<b>422</b>
Dividend payments	(150)	(252)	(294)	(347)
Issue of shares	12	(12)	0	0
Proceeds from borrowings	669	878	769	769
Loan repayment	0	0	0	0
Others/interest paid	(97)	48	0	0
<b>Net cash inflow (outflow)</b>	<b>282</b>	<b>(404)</b>	<b>208</b>	<b>345</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>795</b>	<b>1,077</b>	<b>673</b>	<b>880</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>1,077</b>	<b>673</b>	<b>880</b>	<b>1,225</b>

**KEY METRICS**

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	30.8	31.7	32.7	33.8
Pre-tax margin	12.3	13.7	14.7	16.0
Net margin	8.4	9.5	10.1	11.0
ROA	3.3	3.8	4.0	4.4
ROE	10.0	11.6	12.5	13.6
<b>Growth</b>				
Turnover	7.6	11.4	8.9	8.0
EBITDA	16.3	14.7	12.6	11.4
Pre-tax profit	39.2	23.9	16.8	17.9
Net profit	37.8	24.8	16.6	17.8
Net profit (adj.)	46.2	24.8	16.6	17.8
EPS	46.2	24.8	16.6	17.8
<b>Leverage</b>				
Debt to total capital	62.7	63.1	62.8	62.3
Debt to equity	173.2	178.2	177.9	175.5
Net debt/(cash) to equity	152.6	166.3	163.4	157.0
Interest cover (x)	5.4	5.1	5.3	5.5

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