Thursday, 15 February 2018

CREDIT SUISSE

# Asian Daily (Asia Edition)

## EPS, TP and Rating changes

| (% change) | EPS T+1 | EPS T+2 | TP Chg | TP Up/Dn | Rating |
|---|---|---|---|---|---|
| Insurance Australia Grp. | 6 | 2 | 0 | — | N (O) |
| Woodside Petroleum | (0.7) | (4.3) | 1 | (12) | U (U) |
| BAIC Motor Corp. | (27.7) | 0 | 0 | 26 | O (O) |
| Hengan International | (4.1) | (7.4) | (2) | 47 | O (O) |
| Champion REIT | | | 2 | 7 | N (U) |
| Dilip Buildcon Ltd | 12 | 0 | 8 | (8) | N (N) |
| Indian Overseas Bank | n.m | (13) | 0 | (31) | U (U) |
| Motherson Sumi Systems Limited | (10.6) | (7.3) | (4) | 24 | O (O) |
| Nestle India | 4 | 5 | 3 | 24 | O (O) |
| Sun Pharma | (7.8) | (5.0) | 0 | 11 | O (O) |
| BAT Malaysia | (18.4) | (22.7) | (22) | 12 | O (O) |
| Carlsberg Brewery Malaysia Bhd | 3 | 3 | 7 | 14 | O (O) |
| Dialog Group Bhd | 4 | 5 | 19 | 17 | O (O) |
| Heineken Malaysia Bhd | 2 | 4 | 2 | (7) | N (N) |
| OCBC | 1 | 1 | 17 | 20 | O (N) |
| Singapore Airlines | 52 | 61 | 4 | (4) | N (N) |
| StarHub Ltd | (4.9) | (1.3) | (2) | (25) | U (U) |
| United Overseas Bank | 2 | 1 | 8 | 21 | O (O) |
| BTS Rail Mass Transit | 1 | (0.7) | 0 | 3 | N (N) |
| Thai Beverage | (9.2) | (0.9) | (4) | 14 | O (O) |

## Connecting clients to corporates

### Thematic Trip

**Asia Tech Tour**
Date: 19-23 February, Seoul,Tokyo,Taiwan

**A trip to South Sumatera**
Date: 08-09 March, South Sumatera
Analyst: Jahanzeb Naseer

**Pre AIC: India Autos Tour**
Date: 12-14 March, New Delhi, Mumbai, Pune

**Pre AIC: India Consumer Tour**
Date: 14-16 March, Mumbai

**Pre AIC: Indonesia Macro, Politics and Asian Games**
Date: 15-16 March, Jakarta
Analyst: Jahanzeb Naseer

### Corporate Days / Conferences

**21st Annual Asian Investment Conference**
Date: 19-22 March, Hong Kong

**5th Annual Australian Corporate Day**
Date: 20 March, Singapore

### Hong Kong / China (Non-deal roadshow)

**Pearl Abyss Corp. (026350.KQ)**
Date: 26-27 February, Hong Kong
Analyst: Eric Cha

### Singapore (Non-deal roadshow)

**Thaibev (THBEV SP)**
Date: 21 February, Singapore
Analyst: Nicholas Teh

### US (Non-deal roadshow)

**Pearl Abyss Corp. (026350.KQ)**
Date: 27 February - 02 March, US
Analyst: Eric Cha

### Europe (Non-deal roadshow)

**MCB Bank (MCB.KA)**
Date: 20 February, London
Analyst: Farhan Rizvi

Contact: cseq.events@credit-suisse.com or your usual sales representative.

## Top of the pack ...

**Oversea-Chinese Banking Corp Ltd (OCBC.SI) – Upgrade to O** — **Danny Goh (3)**
New report: 'Kitchen-sinking' paves way for credit cost improvement in 2018

**Hengan International (1044.HK) – Maintain O** — **Charlie Chen (4)**
Jump start in 2018

**BAIC Motor Corporation Limited (1958.HK) – Maintain O** — **Bin Wang (5)**
4Q17 results miss on bigger-than-expected loss in local brand and Hyundai JV

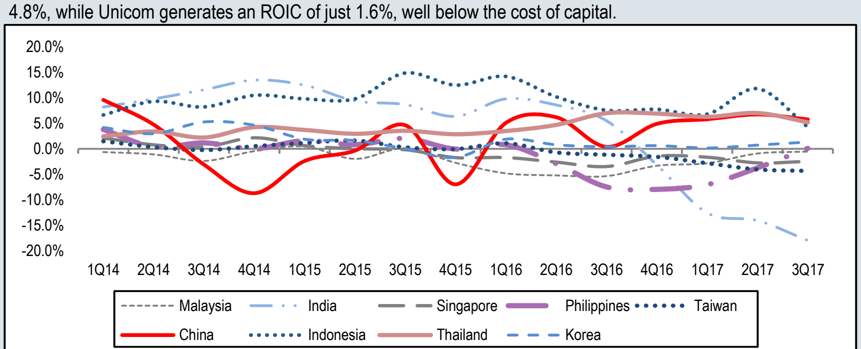
**Jollibee Foods Corporation (JFC.PS) – Maintain O** — **Hazel Tanedo (6)**
FY17 results in-line; 4Q margins weak on high input costs

**Dialog Group Bhd (DIAL.KL) – Maintain O** — **Danny Chan (7)**
2Q FY18: Numbers in line, but prospects look brighter

## CS pic of the day

**China Telecoms Sector: YoY cellular revenue growth by market—China endured three distinct policy-induced dips**

There have been three distinct policy-induced dips in revenue growth in China in recent years: (1) the introduction of VAT across 2Q14-2Q15; (2) data rollover introduced in 4Q15; and (3) the abolition of domestic roaming, commencing in 3Q16 and with a hard stop in 3Q17. In addition, the government has annual targets for "higher speeds, lower tariffs". As a result of these policies only one China telco, China Mobile, is on track to generate a return greater than the cost of capital in FY17 (at 16.7%). We forecast that China Telecom will generate an ROIC of 4.8%, while Unicom generates an ROIC of just 1.6%, well below the cost of capital.




*Source: Company data, Credit Suisse estimates.*

## ... and the whole pack

### Australia

**Insurance Australia Group (IAG.AX) – Downgrade to N** — **Andrew Adams (8)**
Downgrade to Neutral

**Woodside Petroleum (WPL.AX) – Maintain U** — **Mark Samter (9)**
When Valentine's day turns into April fool's day

### China

**BAIC Motor Corporation Limited (1958.HK) – Maintain O** — **Bin Wang (5)**
4Q17 results miss on bigger-than-expected loss in local brand and Hyundai JV

**Hengan International (1044.HK) – Maintain O** — **Charlie Chen (4)**
Jump start in 2018

### Hong Kong

**Champion REIT (2778.HK) – Upgrade to N** — **Susanna Leung (10)**
More balanced risk-reward profile

### India

**Bharti Infratel Ltd (BHRI.BO) – Maintain O** — **Sunil Tirumalai (11)**
Buying out Indus with stock: Why this appears an incomplete transaction

## Asian indices - performance

| (% change) | Closing | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| ASX300 | 5,802 | (0.3) | (0.6) | (1.6) | (3.7) |
| CSEALL | 6,532 | (0.2) | 0.4 | 1.3 | 2.6 |
| Hang Seng | 30,516 | 2.3 | 0.6 | 5.2 | 2.0 |
| H-SHARE | 12,261 | 2.1 | (1.4) | 6.3 | 4.7 |
| JCI | 6,594 | 0.2 | 0.9 | 9.2 | 3.8 |
| KLSE | 1,835 | 0.1 | (0.1) | 6.8 | 2.1 |
| KOSPI | 2,422 | 1.1 | 1.1 | (4.5) | (1.9) |
| KSE100 | 43,353 | (0.8) | (1.7) | 6.2 | 7.1 |
| NIFTY | 10,501 | (0.4) | 0.2 | 2.8 | (0.3) |
| NIKKEI | 21,154 | (0.4) | (2.3) | (5.4) | (7.1) |
| TOPIX | 1,703 | (0.8) | (2.7) | (3.3) | (6.3) |
| PCOMP | 8,598 | 0.3 | (0.8) | 4.8 | 0.5 |
| RED CHIP | 4,441 | 2.0 | (0.6) | 2.1 | 0.3 |
| SET | 1,792 | (0.4) | 0.4 | 6.0 | 2.2 |
| STI | 3,403 | (0.4) | 0.6 | 1.8 | (0.0) |
| TWSE | 10,421 | 0.5 | (4.8) | (2.5) | (2.1) |
| VNINDEX | 1,060 | 1.7 | 4.8 | 20.1 | 7.7 |

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## Asian currencies (vs US$)

| (% change) | Closing | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| A$ | 0.787 | 0.2 | 0.7 | 3.8 | 1.0 |
| Bt | 31.4 | (0.3) | (0.9) | (4.7) | (3.6) |
| D | 22,700 | (0.0) | 0.0 | (0.0) | 0.0 |
| HK$ | 7.82 | (0.0) | 0.0 | 0.1 | 0.1 |
| JPY | 107.2 | (0.5) | (1.9) | (5.1) | (4.8) |
| NT$ | 29.20 | (0.3) | (0.5) | (2.8) | (1.5) |
| P | 52.02 | 0.0 | 1.5 | 2.6 | 4.1 |
| PRs | 110.5 | 0.0 | (0.0) | 5.1 | 0.1 |
| RM | 3.92 | (0.4) | 0.4 | (6.0) | (3.0) |
| Rmb | 6.33 | (0.1) | 1.1 | (4.5) | (2.7) |
| Rp | 13,620 | (0.3) | 0.5 | 0.6 | 0.4 |
| Rs | 64.13 | (0.2) | (0.2) | (1.8) | 0.5 |
| S$ | 1.32 | (0.3) | (0.5) | (2.8) | (1.4) |
| W | 1,077 | (0.6) | (1.1) | (1.7) | 1.1 |

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## Global indices

| (% change) | Closing | 1D | 1W | 3M | YTD |
|---|---|---|---|---|---|
| DJIA | 24,655 | 0.1 | (1.0) | 5.1 | (0.3) |
| S&P 500 | 2,689 | 1.0 | 0.3 | 4.0 | 0.6 |
| NASDAQ | 7,014 | 0.5 | (1.4) | 4.6 | 1.6 |
| SOX | 1,279 | (0.0) | (1.8) | (1.1) | 2.0 |
| EU-STOX | 3,014 | 0.9 | (1.8) | (4.1) | (5.1) |
| FTSE | 7,214 | 0.6 | (0.9) | (2.3) | (6.2) |
| DAX | 12,339 | 1.2 | (2.0) | (5.4) | (4.5) |
| CAC-40 | 5,165 | 1.1 | (1.7) | (3.2) | (2.8) |
| 10 YR LB | 2.864 | 1.3 | 2.0 | 20.6 | 18.6 |
| 2 YR LB | 2.147 | 1.9 | 1.2 | 25.4 | 13.8 |
| US$:E | 1.237 | 0.2 | 0.9 | 5.1 | 3.1 |
| US$:Y | 107.2 | (0.5) | (1.9) | (5.1) | (4.8) |
| GOLD | 1,329 | 0.5 | 0.3 | 4.0 | 2.1 |
| VIX | 19.4 | (22.5) | (30.2) | 64.6 | 75.4 |

Thomson Reuters

## MSCI Asian indices – valuation & perf.

| | EPS grth. | | P/E (x) | | Performance | | |
|---|---|---|---|---|---|---|---|
| MSCI Index | 17E | 18E | 17E | 18E | 1D | 1M | YTD |
| Asia F X Japan | 20 | 11 | 15.4 | 14.0 | 1.1 | (4.6) | (0.6) |
| Asia Pac F X J. | 20 | 9 | 15.7 | 14.3 | 1.0 | (4.5) | (1.0) |
| Australia | 16 | 7 | 19.3 | 16.6 | 0.9 | (3.9) | (2.9) |
| China | 17 | 14 | 16.8 | 14.8 | 1.7 | (5.6) | 1.3 |
| Hong Kong | 9 | 7 | 18.1 | 16.8 | 1.3 | (5.3) | (3.3) |
| India | 14 | 19 | 20.7 | 17.4 | 0.0 | (3.9) | (1.9) |
| Indonesia | 17 | 14 | 19.4 | 17.0 | 1.3 | 0.3 | 1.6 |
| Japan | 16 | 12 | 17.5 | 15.6 | 0.1 | (5.0) | (0.4) |
| Korea | 43 | 7 | 10.1 | 9.5 | 1.1 | (6.6) | (4.7) |
| Malaysia | 2 | 7 | 17.3 | 16.2 | 0.2 | 0.7 | 4.3 |
| Pakistan | 5 | 15 | 9.8 | 8.5 | 0.9 | (1.6) | 7.8 |
| Philippines | 4 | 11 | 20.8 | 18.7 | 0.7 | (6.2) | (4.9) |
| Singapore | 7 | 7 | 15.6 | 14.5 | 1.1 | (3.2) | 1.2 |
| Sri Lanka | 11 | 8 | 14.4 | 13.4 | 0.0 | (2.5) | 2.7 |
| Taiwan | 7 | 9 | 17.4 | 15.9 | 0.2 | (2.4) | 0.4 |
| Thailand | 10 | 13 | 10.7 | 9.4 | 0.8 | 0.2 | 5.7 |

Thomson Reuters; All data as of the most recent market close.

**Dilip Buildcon Ltd (DIBL.BO) – Maintain N** — **Vaibhav Jain (12)**
3Q FY18 results: Mixed bag; pick-up in order activity needed to improve medium-term revenue visibility

**Hindustan Zinc Limited (HZNC.BO) – Maintain N** — **Neelkanth Mishra (13)**
The problem of excess cash and our belief why upside for HZL is capped

**Indian Overseas Bank (IOBK.BO) – Maintain U** — **Ashish Gupta (14)**
3Q18: Losses continue, non-NPA stress remains large

**Motherson Sumi Systems Limited (MOSS.BO) – Maintain O** — **Jatin Chawla (15)**
3Q FY18: Weak quarter impacted by commodities; expect a strong FY19

**Nestle India (NEST.BO) – Maintain O** — **Arnab Mitra (16)**
4Q CY17: Massive beat reaffirms our view that the turnaround is gathering momentum

**Sun Pharma (SUN.BO) – Maintain O ★Focus List stock★** — **Anubhav Aggarwal (17)**
Recovery in US sales after a year; margin guidance maintained for FY18

## Indonesia

**PT Bank Tabungan Pensiunan Nasional Tbk (BTPN.JK) – Maintain N** — **Sanjay Jain (18)**
4Q17 results: Net loss driven by one-off restructuring cost

## Japan

For Japan equity reports, please see Japan Daily (First Edition) – 15 February 2018

## Malaysia

**BAT Malaysia (BATO.KL) – Maintain O** — **Joanna Cheah, CFA (19)**
FY17: Trough earnings

**Carlsberg Brewery Malaysia Bhd (CBMS.KL) – Maintain O** — **Joanna Cheah, CFA (20)**
Strong 2017 numbers, upped dividends

**Dialog Group Bhd (DIAL.KL) – Maintain O** — **Danny Chan (7)**
2Q FY18: Numbers in line, but prospects look brighter

**Heineken Malaysia Bhd (HEIN.KL) – Maintain N** — **Joanna Cheah, CFA (21)**
2017 numbers broadly in-line

## Philippines

**Jollibee Foods Corporation (JFC.PS) – Maintain O** — **Hazel Tanedo (6)**
FY17 results in-line; 4Q margins weak on high input costs

## Singapore

**Singapore Property Sector** — **Louis Chua, CFA (22)**
Primary sales of 522 units in January (+37% YoY) marks strongest start in four years

**Oversea-Chinese Banking Corp Ltd (OCBC.SI) – Upgrade to O** — **Danny Goh (3)**
New report: 'Kitchen-sinking' paves way for credit cost improvement in 2018

**Singapore Airlines Limited (SIAL.SI) – Maintain N** — **Louis Chua, CFA (23)**
3Q FY18 above expectations on strong cargo profits

**StarHub Ltd (STAR.SI) – Maintain U** — **Varun Ahuja, CFA (24)**
4Q17 review: Weak end to 2017; bleak 2018 guidance

**United Overseas Bank Ltd (UOBH.SI) – Maintain O** — **Danny Goh (25)**
New report: Room for further positive dividend surprises

## Thailand

**Airports of Thailand (AOT.BK) – Maintain N** — **Thaniya Kevalee (26)**
1Q18 results, strong as expected

**BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIFu.BK) – Maintain N** — **Warayut Luangmettakul (27)**
3Q FY18 results in-line

**L.P.N. Development (LPN.BK) – Maintain U** — **Atul Sethi (28)**
FY17 earnings: Big miss from margins, more risk ahead

**Thai Beverage (TBEV.SI) – Maintain O** — **Nicholas Teh (29)**
1Q FY18 below expectations; alcohol volumes hurt by destocking

**O=Outperform N=Neutral U=Underperform R=Restricted OW= Overweight MW=Market Weight UW=Underweight**

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|---|---|---|---|---|---|

## Top of the pack ...

## Oversea-Chinese Banking Corp Ltd ------------------------------- Upgrade to OUTPERFORM

**New report: 'Kitchen-sinking' paves way for credit cost improvement in 2018** **EPS: ▲ TP: ▲**

Danny Goh / Research Analyst / 60 3 2723 2083 / danny.goh@credit-suisse.com
Dawei Lee / Research Analyst / 65 6212 3004 / dawei.lee@credit-suisse.com

- OCBC reported 4Q17 core net profit of S$1,033 mn (-2.3% QoQ, 30.9% YoY). FY17 net profit makes up 101.5% / 102.4% of our and consolidated FY17 estimates. Final dividend of 19c was declared (vs 18c in FY16), bringing total dividends to 37c (vs 36c in FY16) which translates to a payout ratio of 37% (vs ~43% in FY16).
- Briefing key takeaways: (1) Target high single-digit loan growth for FY18, (2) NIM can reach 1.7% in FY18 given scope to raise LDR, (3) Oil & gas (O&G) risk comfortably contained and credit cost is expected to improve, (4) aim to keep CET 1 ratio within 12.5-13.5% range.
- We revise up 2018-19 net profit estimates by 1% to factor in lower credit cost. Our ROE estimates for 2018-19 have been raised to 12.1-13.1% (vs 11.7-11.8% previously). Our revised target price of S$14.70/sh (vs S$12.60) implies 20% upside.
- We upgrade OCBC to OUTPERFORM (from Neutral). Further pick-up in NIM and any enhancement in CET 1 arising from portfolio optimisation efforts would fuel positive sentiment in the stock.

| **Bbg/RIC** | **OCBC SP / OCBC.SI** | **Price (14 Feb 18 , S$)** | **12.26** |
|---|---|---|---|
| **Rating (prev. rating)** | **O (N)** | **TP (prev. TP S$)** | **14.70 (12.60)** |
| 52-wk range (S$) | 13.3 - 9.4 | Est. pot. % chg. to TP | 20 |
| Mkt cap (S$/US$ bn) | 51.4/ 39.0 | Blue sky scenario (S$) | 16.50 |
| ADTO-6M (US$ mn) | 44.5 | Grey sky scenario (S$) | 11.60 |

| | | **Performance** | **1M** | **3M** | **12M** |
|---|---|---|---|---|---|
| Free float (%) | 73.3 | | | | |
| Major shareholders | Lee Foundation | Absolute (%) | (6.3) | 7.1 | 30.0 |
| | (18.9%) | Relative (%) | (2.5) | 5.2 | 19.3 |

| **Year** | **12/16A** | **12/17A** | **12/18E** | **12/19E** | **12/20E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (S$ mn) | 4,360.0 | 5,081.0 | 5,811.5 | 6,336.6 | 6,773.6 |
| Net profit (S$ mn) | 3,569 | 4,250 | 4,814 | 5,205 | 5,498 |
| EPS (CS adj. S$) | 0.86 | 1.01 | 1.15 | 1.24 | 1.31 |
| - Change from prev. EPS (%) | n.a. | n.a. | 1 | 1 | |
| - Consensus EPS (S$) | n.a. | n.a. | 1.08 | 1.18 | 1.29 |
| EPS growth (%) | (11.7) | 18.1 | 13.3 | 8.1 | 5.6 |
| P/E (x) | 14.3 | 12.1 | 10.7 | 9.9 | 9.3 |
| Dividend yield (%) | 2.9 | 3.0 | 3.3 | 3.4 | 3.7 |
| BVPS (CS adj. S$) | 8.5 | 9.0 | 9.7 | 10.5 | 11.3 |
| P/B (x) | 1.44 | 1.37 | 1.26 | 1.17 | 1.08 |
| ROE (%) | 10.4 | 11.6 | 12.3 | 12.3 | 12.0 |
| ROA (%) | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |
| Tier 1 ratio (%) | 15.2 | 15.0 | 14.6 | 15.3 | 16.0 |

*Note 1: ORD/ADR=2.00. Note 2: Oversea-Chinese Banking Corporation Limited (the Bank) is a financial services group. The Bank is engaged in the business of banking, life assurance, general insurance, asset management, investment holding, futures and stockbroking.*

Click here for detailed financials

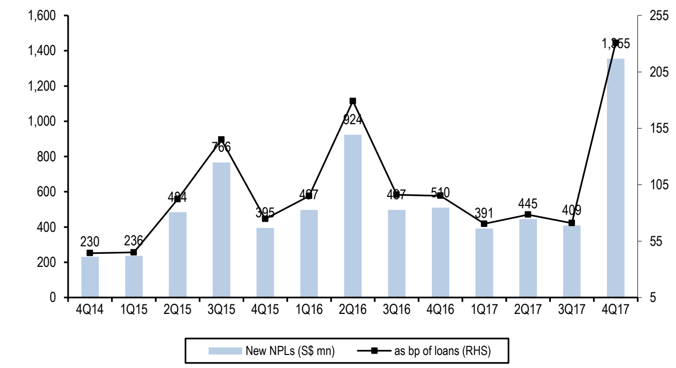
### Guidance for FY18

(1) Loan growth–targeting high single-digit loan growth in 2018. (2) NIMs–Management believes NIM can reach 1.70% in 2018 (from 1.67% in 4Q 2017). Management indicated there is scope to raise LDR to 87-88% (vs 82% currently), which should help NIM. (3) Asset quality–Management believes the worst is over with possibility of NPL improvement in 2018. Credit cost is expected to improve. (4) Dividend payout– Policy maintained at 40-50% payout.

### Oil and gas risk comfortably contained

During 4Q 2017, management has classified more OSV loans as NPL given that charter rates did not recover despite oil price rebound above US$60/barrel. As a result, NPL ratio for OSV sector rose to 40% (from 24% in previous quarter). However, of the S$1.9 bn loans classified as NPL, 75% are still servicing principal and/or interest. Management also revealed that the collateral values have been marked down by 70%. As such, overall group NPL ratio rose to 1.5% by end 2017 (vs 1.3% as at end 3Q 2017). SP rose sharply to S$1,117 mn in 4Q 2017 (vs S$192 mn in 3Q 2017), due mainly to the oil and gas sector loan downgrade. However, the group released S$887 mn of excess portfolio allowances to offset the impact of the SP spike. As such, management believes that credit cost should be benign in 2018 given that there are no signs of stress in any other part of their loan portfolio.

**Figure 1: New NPA formation (S$ mn)**




Source: Company data, Credit Suisse estimates.

### Aim to keep CET 1 ratio within 12.5-13.5% range

Fully loaded CET 1 ratio rose to 13.1% by end 4Q 2017 (from 12% in 3Q 2017). The increase QoQ can be attributed to (1) about 0.5 pp of the enhancement came from the migration to IRB for Bank of Singapore, (2) inclusion of GE's retained profit and removal of certain of its subsidiaries from RWA as well as cost of investment computation provided uplift of 0.2-0.3 pp, (3) market risk refinement for interest rate and structured FX exposures provided some RWA relief. The group is also working on IRB for Wing Hang Bank that could further enhance capital. Also we believe that GE's plans to divest 30% of its Malaysian business by mid-2018 could provide some boost to capital. Management indicated that the group would like to maintain a fully loaded CET 1 ratio of at least 12.5% but would not want to keep too much surplus capital and 13.5% would appear to be the ceiling (currently CET 1 ratio at 13.1%).

### Upgrade to OUTPERFORM

We revise up 2018-2019 net profit estimates marginally by 1% to factor in lower credit cost given that the group has already cleaned up its troubled OSV loan portfolio. Our ROE estimates for 2018-2019 have been raised to 12.1-13.1% (vs 11.7-11.8% previously). We roll forward our target price (based on Gordon Growth model) and also reduce the cost of equity to 9% (from 9.3%), on par with the levels applied for DBS and UOB given that asset quality risk has eased following the clean-up of the OSV loan book. Our revised target price of S$14.70/sh (vs S$12.60) implies 20% upside. Hence, we upgrade OCBC to an OUTPERFORM (from Neutral).

## Hengan International------------------------------------------------------ Maintain OUTPERFORM

**Jump start in 2018** **EPS: ▼ TP: ▼**

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Daisy Dai, FRM / Research Analyst / 852 2101 6591 / daisy.dai@credit-suisse.com

- EVENT – Our recent channel checks suggest Hengan's January revenue momentum bounced back strongly from a weak December last year. However, due to low base and channel re-stocking reasons, Hengan needs more data in the following months to convince investors that the real recovery is back.
- Due to weaker-than-expected December sales, we revise down our earnings forecasts by 4%/7%/10% in 2017-19 mainly on lower revenue and higher opex ratio (less operating leverage). We cut our target price to HK$108 (from HK$110), still using 25x P/E as target valuation multiple.
- Some investors are still sceptical on Hengan's Amoeba reform, which we believe is effective but takes some time to fully take effect. With a good start in January, we believe Hengan is gradually regaining investors' confidence and we expect continued strong sales numbers in the following months.
- After the recent market correction, Hengan is trading at 17x FY18 P/E, which is at the low end of consumer staple companies. We reiterate Outperform rating.

| Bbg/RIC | 1044 HK / 1044.HK | Price (13 Feb 18 , HK$) | | | 73.25 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP HK$) | | | 108.00 (110.00) |
| 52-wk range (HK$) | 88.3 - 53.2 | Est. pot. % chg. to TP | | | 47 |
| Mkt cap (HK$/US$ bn) | 88.4/ 11.3 | Blue sky scenario (HK$) | | | 117.00 |
| ADTO-6M (US$ mn) | 36.1 | Grey sky scenario (HK$) | | | 67.00 |
| Free float (%) | 55.7 | Performance | 1M | 3M | 12M |
| Major shareholders | MAN BOK SZE (19.09%)/LIN CHIT HUI (20.02%) | Absolute (%) | (7.7) | (4.7) | 14.6 |
| | | Relative (%) | (2.6) | (6.9) | (24.9) |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| Revenue (Rmb mn) | 18,663 | 19,277 | 19,753 | 21,276 | 22,944 |
| EBITDA (Rmb mn) | 5,538 | 5,396 | 5,877 | 6,611 | 7,418 |
| Net profit (Rmb mn) | 3,233 | 3,472 | 3,713 | 4,254 | 4,831 |
| EPS (CS adj. Rmb) | 2.64 | 2.86 | 3.08 | 3.53 | 4.01 |
| - Change from prev. EPS (%) | n.a. | n.a. | (4.1) | (7.4) | (9.9) |
| - Consensus EPS (Rmb) | n.a. | n.a. | 3.13 | 3.43 | 3.68 |
| EPS growth (%) | 4.5 | 8.4 | 7.6 | 14.6 | 13.6 |
| P/E (x) | 22.5 | 20.7 | 19.2 | 16.8 | 14.8 |
| Dividend yield (%) | 2.8 | 4.7 | 3.5 | 4.0 | 4.6 |
| EV/EBITDA (x) | 12.0 | 13.4 | 12.2 | 10.8 | 9.5 |
| P/B (x) | 4.9 | 4.9 | 4.5 | 4.1 | 3.8 |
| ROE (%) | 22.5 | 23.6 | 24.2 | 25.6 | 26.7 |
| Net debt(cash)/equity (%) | (34.4) | 7.0 | 0.6 | (1.3) | (7.5) |

*Note 1: ORD/ADR=5.00. Note 2: Hengan is a leading Chinese personal care producer.*

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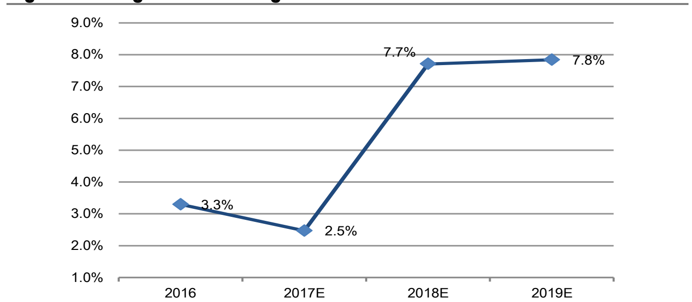
Our recent channel checks suggest that Hengan has achieved strong double-digit revenue growth in January 2018, and January sales have already reached nearly 10% of full-year sales budget. However, this is partly due to a weak December in 2017, so our contact also agrees that it may take a couple more months to see whether the strong revenue growth is sustainable. But, it is still a very good start of the year. We believe Hengan is still on a process of regaining investors' confidence after the December disappointment, but the worst time is over.

Based on our estimates of the impact from the weak December sales, we revised down our estimates of revenue and EPS in 2017 by 1% and 4%, respectively, and adjusted down our EPS forecasts in 2018 and 2019 by 7% and 10%, accordingly. Nevertheless, we still forecast revenue growth acceleration in 2018, supported by better motivated operation teams under the new Amoeba reform and the launch of new products.

After the price increase of tissue paper products in Q4 last year, we have not got confirmation of any other price increase plans from the company. With all other consumer staple products being conducting or planning price hikes, it is possible that sanitary napkins and diaper sectors will also follow. If this is the case, it would be a bonus to Hengan as we have not built in any price increase impact in our model.

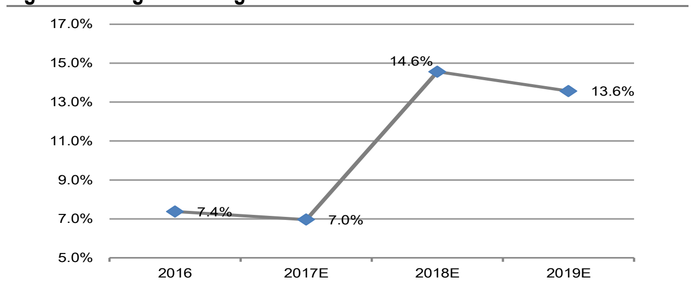
We believe the weak December sales are already well known and our new forecasts have fully priced in the negative impact. After recent market correction, Hengan is trading at 17x FY18 P/E, which is at the low end of all China consumer staple companies. We reiterate our Outperform rating and suggest investors to accumulate.

**Figure 1: Hengan's revenue growth 2016-19E**



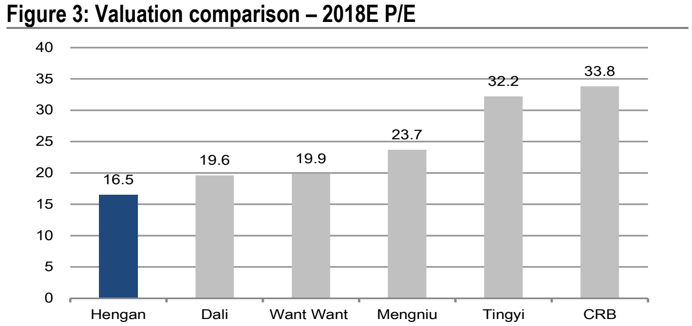

Source: Company data, Credit Suisse estimates

**Figure 2: Hengan's EPS growth 2016-19E**




Source: Company data, Credit Suisse estimates

**Figure 3: Valuation comparison – 2018E P/E**




Note: price as of 13 February 2018; Source: IBES

# BAIC Motor Corporation Limited ------------------------------------ Maintain OUTPERFORM

## 4Q17 results miss on bigger-than-expected loss in local brand and Hyundai JV  EPS: ▼ TP: ◄►

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- Below market expectation. BAIC guided its full-year 2017 earnings to decline 65% YoY to Rmb2.2 bn. In particular, 4Q17 net profit is estimated to decline 90% YoY and 76% QoQ to Rmb235 mn.
- As the read-through of Daimler AG's 4Q17 result showed a strong Benz JV's earnings contribution—up 42% YoY to Rmb2.3 bn—we attribute the 4Q17 result miss to notable loss from both BAIC's local brand operations and Hyundai JV.
- We estimate local brand operation's 4Q17 loss to stay flat QoQ at Rmb1.5 bn on a combination of (1) an 86% QoQ volume spike in 4Q17, and (2) some potential year-end expenses like dealers rebate, selling expense and asset-impairment loss. We also estimate Hyundai JV to book a big-ticket loss of Rmb 0.6 bn in 4Q17 due to reduced drop in component prices, as its key parts-suppliers like Mobis faced notable earnings decline in 4Q17.
- But our investment thesis remains intact—local brand loss to reduce from 2018 on upgraded design language, 'Wevan' brand spin-off, and transfer fixed cost (like plant) to others (like Benz JV).

| Bbg/RIC | 1958 HK / 1958.HK | Price (13 Feb 18 , HK$) | | | 11.10 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP HK$) | | | 14.00 (14.00) |
| 52-wk range (HK$) | 12.50 - 6.64 | Est. pot. % chg. to TP | | | 26 |
| Mkt cap (HK$/US$ bn) | 84.3/ 10.8 | Blue sky scenario (HK$) | | | 18.00 |
| ADTO-6M (US$ mn) | 23.8 | Grey sky scenario (HK$) | | | 6.00 |
| Free float (%) | 58.8 | Performance | 1M | 3M | 12M |
| Major shareholders | BAIC Group | Absolute (%) | (4.8) | 23.3 | 25.9 |
| | | Relative (%) | 0.3 | 21.2 | (13.7) |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| Revenue (Rmb mn) | 84,112 | 116,199 | 134,541 | 149,638 | 176,513 |
| EBITDA (Rmb mn) | 8,307 | 16,499 | 23,363 | 31,620 | 36,005 |
| Net profit (Rmb mn) | 3,319 | 6,367 | 2,204 | 8,639 | 10,406 |
| EPS (CS adj. Rmb) | 0.44 | 0.84 | 0.29 | 1.14 | 1.37 |
| - Change from prev. EPS (%) | n.a. | n.a. | (27.7) | 0 | -0 |
| - Consensus EPS (Rmb) | n.a. | n.a. | 0.52 | 0.94 | 1.15 |
| EPS growth (%) | (26.4) | 91.9 | (65.4) | 292.0 | 20.5 |
| P/E (x) | 20.5 | 10.7 | 30.9 | 7.9 | 6.5 |
| Dividend yield (%) | 1.7 | 3.2 | 1.1 | 4.4 | 5.3 |
| EV/EBITDA (x) | 8.8 | 4.0 | 2.5 | 1.4 | 0.7 |
| P/B (x) | 1.9 | 1.7 | 1.6 | 1.4 | 1.3 |
| ROE (%) | 9.7 | 16.9 | 5.4 | 19.4 | 20.5 |
| Net debt(cash)/equity (%) | 10.3 | (3.9) | (13.6) | (26.7) | (41.4) |

*Note 1: BAIC Motor is the fifth-largest auto group in China with an 8% market share. It has joint ventures with Hyundai and Mercedes-Benz, in addition to its own-brand vehicle operation.*

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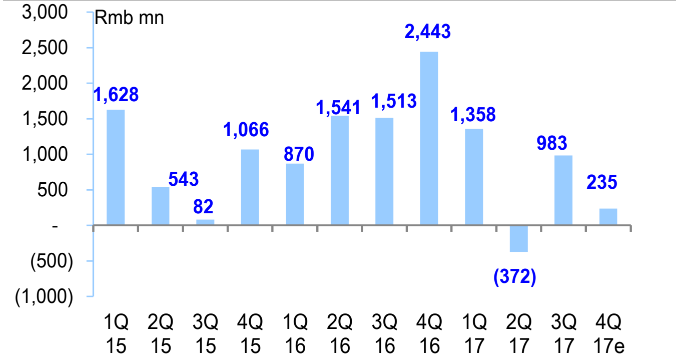
We revise down BAIC's 2017E earnings by 28% (to be in line with company earnings guidance) with a lower-margin assumption for both its local brand operations and Hyundai JV. However, we maintain our 2018-19 estimates unchanged as our investment thesis — local brand loss to reduce from 2018 — stays intact by the 2017 number.

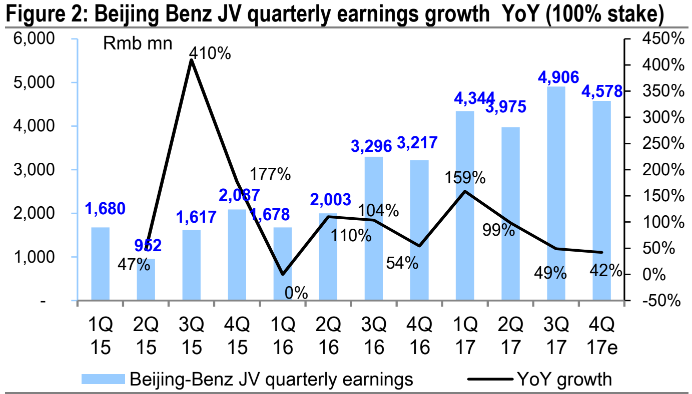
Looking ahead, the local brand operations are expected to announce the details on the 'Wevan' brand operation's spin-off to its parent in 1Q18.

**Figure 1: BAIC Group quarterly earnings**



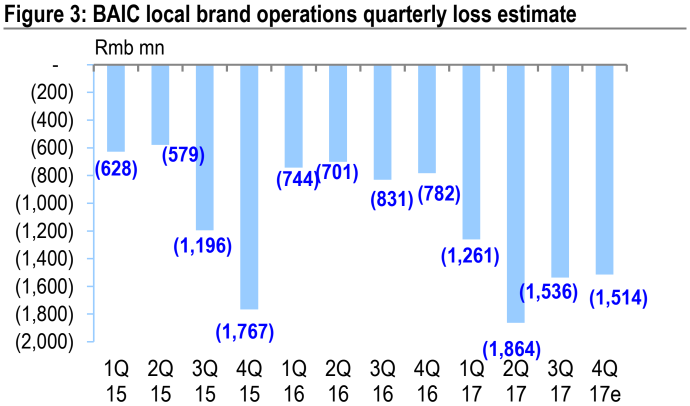

Source: Company data, Credit Suisse estimates.

**Figure 2: Beijing Benz JV quarterly earnings growth YoY (100% stake)**




Source: Company data

**Figure 3: BAIC local brand operations quarterly loss estimate**




Source: Company data, Credit Suisse estimates.

## Jollibee Foods Corporation ---------------------------------------------- Maintain OUTPERFORM

**FY17 results in-line; 4Q margins weak on high input costs** **EPS: ◄► TP: ◄►**

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- JFC's net income in 2017 grew 11% to P6.7 bn, while net income attributable to equity holders grew by 15% to P7.1 bn, in line or 100% of our full-year estimates. Revenue for the year grew 15.6%, to P132 bn, driven by a 7% SSSG, 9% store network.
- The company's full year operating income ended at P7.1 bn versus our P7.2 bn estimate. Management attributes its lower operating profits to higher input costs plus freight and manufacturing costs.
- Jollibee Foods will increase its stake in Smashburger Master LLC (Master) from 40% to 85% for US$100 mn. JFC's cash levels of US$317 mn as of 9M17 plus its latent balance sheet capacity should allow the company to easily fund this added stake.
- We maintain our positive call on Jollibee Foods at our target price of P288/sh.

| Bbg/RIC | JFC PM / JFC.PS | Price (13 Feb 18, P) | | | 277.00 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP P) | | | 288.00 (288.00) |
| 52-wk range (P) | 294.0 - 182.1 | Est. pot. % chg. to TP | | | 4 |
| Mkt cap (P/US$ bn) | 300.6/ 5.8 | Blue sky scenario (P) | | | 310.00 |
| ADTO-6M (US$ mn) | 3.9 | Grey sky scenario (P) | | | 253.00 |
| Free float (%) | 39.9 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Hyper Dynamic Corp 25% | Absolute (%) | 5.0 | 7.0 | 34.5 |
| | | Relative (%) | 8.3 | 2.6 | 15.5 |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| Revenue (P mn) | 95,811 | 108,021 | 123,466 | 139,562 | 158,485 |
| EBITDA (P mn) | 8,791 | 10,556 | 12,472 | 15,113 | 18,057 |
| Net profit (P mn) | 4,928 | 6,265 | 6,761 | 7,798 | 8,925 |
| EPS (CS adj. P) | 4.62 | 5.84 | 6.30 | 7.27 | 8.32 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (P) | n.a. | n.a. | 6.39 | 7.34 | 8.55 |
| EPS growth (%) | n.a. | 26.5 | 7.9 | 15.3 | 14.4 |
| P/E (x) | 60.0 | 47.4 | 43.9 | 38.1 | 33.3 |
| Dividend yield (%) | 0.7 | 0.7 | 0.7 | 0.8 | 1.0 |
| EV/EBITDA (x) | 34.0 | 28.0 | 23.6 | 19.3 | 15.8 |
| P/B (x) | 9.3 | 8.1 | 7.3 | 6.4 | 5.7 |
| ROE (%) | 15.5 | 18.3 | 17.5 | 18.0 | 18.1 |
| Net debt (cash)/equity (%) | (5.3) | (13.4) | (16.0) | (19.8) | (29.7) |

*Note 1: ORD/ADR=4.00. Note 2: Jollibee is the largest fast food chain in the Philippines, operating a nationwide network of over 2600 stores. The company has also embarked on an aggressive international expansion plan, firmly establishing itself as a growing international QSR player.*

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### 2017 net earnings at P7.1 bn, in line

JFC's net income in 2017 grew by 11% to P6.7 bn while net income attributable to equity holders grew 15% to P7.1 bn, in line or 100% of our full-year estimates. Revenue for the year grew 15.6% to P132 bn, driven by a 7% SSSG, 9% store network (+465 stores in 2017) growth and 1% from currency exchange rate changes. Revenue growth was driven by its domestic sales, which grew 13.2% to P135.2 bn, and its international business, which grew 23.4% to P36.0 bn. JFC's full-year operating income ended at P7.1 bn versus our P7.2 bn estimate. Management attributes its lower operating profits to higher input costs plus freight and manufacturing costs.

### JFC increases Smashburger stake to 85%

Jollibee Foods will increase its stake in Smashburger Master LLC (Master) from 40% to 85% for US$100 mn. JFC's cash levels of US$317 mn as of 9M17 plus its latent balance sheet capacity should allow the company to easily fund this added stake. Consolidation by 2Q18 may have initial implications on margin as its foreign business jumps up from 20% to 30% contribution, with Smashburger taking up 10%. Note that JFC's 9M17 share in the equity loss from Smashburger amounted to P338 mn, but it has realised better results from the October-December period. In 9M17, Smashburger incurred a net loss of P845.4 mn. On the balance sheet side, Smashburger has US$84 mn in debt, with a 9% interest rate. Management plans to immediately bring this down, closer to its existing cost of foreign debt, which stands at 3%. Lastly, the consolidation should add 375 stores to Jollibee's network of over 3,000 stores.

**Figure 1: Summary of FY17 results**

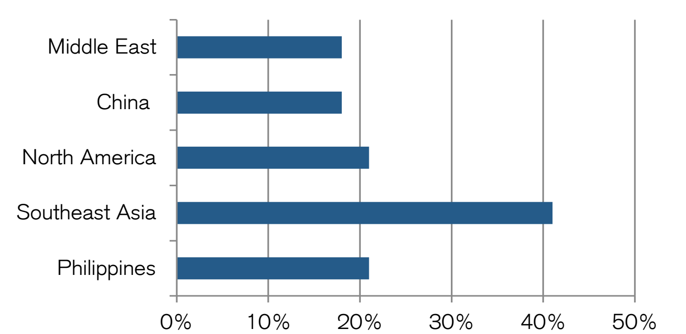
| | 4Q17 | 4Q16 | % chg | 2017 | 2016 | % chg |
|---|---|---|---|---|---|---|
| System wide retail sales | 48,382 | 41,377 | 17% | 171,770 | 149,142 | 15% |
| Revenues | 37,060 | 31,620 | 17% | 131,573 | 113,811 | 16% |
| Operating income | 1,477 | 1,549 | -5% | 7,075 | 6,465 | 9% |
| Net income | 1,821 | 1,681 | 8% | 6,714 | 6,054 | 11% |
| Net income attributable to equity holders | 1,984 | 1,776 | 12% | 7,089 | 6,165 | 15% |
| EPS | 1,830 | 1,652 | 11% | 6,561 | 5,747 | 14% |

Source: Company data, Credit Suisse estimates

### Aggressive capex set for 2018, maintain OUTPERFORM

For 2018, JFC is allotting P12.0 bn in capex mostly for new stores and the renovation of existing stores. We maintain our positive call on Jollibee Foods. Our DCF-based P288 target price implies 33x forward earnings. This corresponds to JFC's three-year average forward P/E multiple, which is above the regional average. Jollibee Foods is the Philippines' biggest and most established quick-service restaurant (QSR) chain, with more than 3,000 local and overseas stores. Apart from its flagship Jollibee fast-food outlets, it has five other brands: (1) Greenwich Pizza, (2) Chowking (Chinese fast food), (3) Red Ribbon (cakes and pastries), (4) Mang Inasal (BBQ fast food), and (5) Burger King. Overseas brand acquisitions include Yonghe King, Hongzhuangyuan, Smashburger and Highlands Coffee.

**Figure 2: JFC revenue 4Q growth—geographical split**




Source: Company data, Credit Suisse estimates

# Dialog Group Bhd ------------------------------------------------------------ Maintain OUTPERFORM

## 2Q FY18: Numbers in line, but prospects look brighter

**EPS: ▲ TP: ▲**

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- DLG's 2Q FY18 revenue was RM857 mn (+10% QoQ, +0% YoY), while its NPATAMI stood at RM116 mn (+31% QoQ, +34% YoY). Both revenue and NPATAMI formed 50% of street's full-year estimates (48% of CS for both revenue and NPATAMI).
- Despite the absence of contributions from Langsat at the JV/associate level (it is now consolidated), DLG's JV/associates grew 32% YoY in 1H FY18, mainly driven by SPV3 achieving commercial status.
- We do expect DLG's earnings momentum to strengthen over the next few quarters, mainly driven by its EPCC business and ramp up of SPV2 (it could achieve commercial status by the end of this year). More importantly, outperformance of DLG's share price is generally correlated to higher tank terminal capacity.
- Therefore, as there is a good chance that it will strike a deal soon for Phase 3, we raise our total capacity assumption in Pengerang by 20% from 7.5 mn cbm to 9.0 mn cbm. As a result, we raise EPS by 4-9% and TP to RM3.10 (from RM2.60). Maintain OUTPERFORM.

| Bbg/RIC | DLG MK / DIAL.KL | Price (14 Feb 18 , RM) | | | 2.66 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP RM) | | | 3.10 (2.60) |
| 52-wk range (RM) | 2.72 - 1.55 | Est. pot. % chg. to TP | | | 17 |
| Mkt cap (RM/US$ mn) | 15,006.8/ 3,825.3 | Blue sky scenario (RM) | | | 3.39 |
| ADTO-6M (US$ mn) | 8.5 | Grey sky scenario (RM) | | | 0.68 |
| Free float (%) | 76.6 | Performance | 1M | 3M | 12M |
| Major shareholders | Dr Ngau Boon Keat (23%) | Absolute (%) | 0.4 | 12.2 | 71.6 |
| | | Relative (%) | (0.1) | 5.4 | 64.2 |

| Year | 06/16A | 06/17A | 06/18E | 06/19E | 06/20E |
|---|---|---|---|---|---|
| Revenue (RM mn) | 2,534 | 3,393 | 3,543 | 5,299 | 7,208 |
| EBITDA (RM mn) | 326.5 | 314.8 | 543.9 | 605.9 | 593.8 |
| Net profit (RM mn) | 296.1 | 325.9 | 446.9 | 551.2 | 653.9 |
| EPS (CS adj. RM) | 0.06 | 0.06 | 0.08 | 0.10 | 0.11 |
| - Change from prev. EPS (%) | n.a. | n.a. | 4.1 | 4.8 | 8.5 |
| - Consensus EPS (RM) | n.a. | n.a. | 0.07 | 0.08 | 0.10 |
| EPS growth (%) | 14.2 | 6.7 | 30.3 | 23.4 | 18.6 |
| P/E (x) | 47.1 | 44.2 | 33.9 | 27.5 | 23.2 |
| Dividend yield (%) | 0.8 | 0.9 | 1.0 | 1.2 | 1.5 |
| EV/EBITDA (x) | 45.7 | 47.7 | 27.4 | 24.6 | 25.0 |
| P/B (x) | 5.8 | 4.8 | 4.4 | 4.0 | 3.6 |
| ROE (%) | 13.5 | 11.8 | 13.7 | 15.4 | 16.4 |
| Net debt(cash)/equity (%) | (2.8) | (0.1) | (3.7) | (2.8) | (4.0) |

*Note 1: Dialog provides engineering, procurement, construction and commissioning services, and plant maintenance services. Dialog also retails petroleum to oil, gas and petrochemical industries, as well as markets, specialty chemical and equipment.*

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### 2Q FY18: Numbers in line

DLG's 2Q FY18 revenue was RM857 mn (+10% QoQ, +0% YoY), while its NPATAMI stood at RM116 mn (+31% QoQ, +34% YoY). Both revenue and NPATAMI formed 50% of street's full-year estimates (48% of CS for both revenue and NPATAMI).

### Key numbers and takeaways

Despite the absence of contributions from Langsat at the JV/associate level (it is now consolidated), DLG's JV/associates grew 32% YoY in 1H FY18, mainly driven by SPV3 achieving commercial status (it is important to note that we do expect the same trend when SPV2 achieves commercial status later this year). Gross margins also improved in 2Q FY18 to 12% vs 10% in 1Q FY18 and 9% in 2Q FY17, probably driven by the consolidation of Langsat's numbers and its EPCC division.

### Phase 3 to be launched soon?

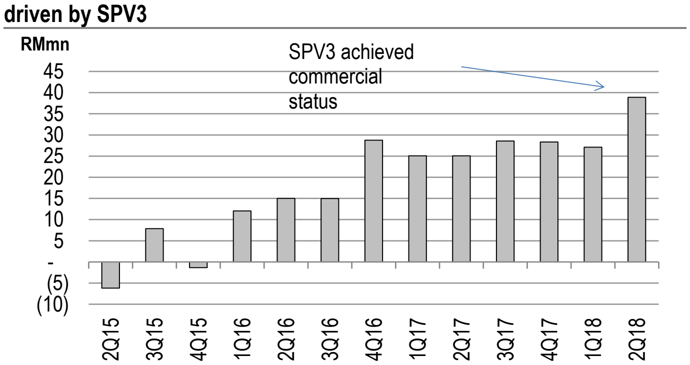
In its quarterly disclosures, DLG highlighted that it is securing new potential partners for Phase 3 (SPV4 and beyond), which will include the development of industrial land and more petroleum and petrochemical storage terminals. While this is not new, we noticed that it formed a wholly owned subsidiary (namely Pengerang CTF) on Monday, flagging that the subsidiary will build, own and operate common tankage facilities; this could imply that a deal could strike soon.

**Figure 1: 2Q FY18 results summary**

| | | 2Q18 | Δ q-q | Δ y-y | 1HFY18 | 1HFY17 | Δ y-y |
|---|---|---|---|---|---|---|---|
| FD Adj. EPS | sen | 2.06 | 31% | 28% | 3.64 | 2.82 | 29% |
| Revenue | RMmn | 857 | 10% | 0% | 1,636 | 1,510 | 8% |
| EBIT | RMmn | 99 | 38% | 39% | 171 | 104 | 64% |
| JV/assoc | RMmn | 39 | 43% | 55% | 66 | 50 | 32% |
| PBT | RMmn | 145 | 27% | 36% | 260 | 185 | 40% |
| NPATAMI | RMmn | 116 | 31% | 34% | 205 | 150 | 36% |
| ROE | % | 14 | 3 ppt | 1 ppt | 12 | 11 | 1 ppt |
| **Margins** | | | | | | | |
| Gross | % | 12 | 2 ppt | 3 ppt | 11 | 8 | 2 ppt |
| EBITDA | % | 15 | 3 ppt | 4 ppt | 13 | 10 | 4 ppt |
| EBIT | % | 12 | 2 ppt | 3 ppt | 10 | 7 | 4 ppt |
| PBT | % | 17 | 2 ppt | 4 ppt | 16 | 12 | 4 ppt |

Source: Company data, Credit Suisse estimates

**Figure 2: Associate contributions higher despite the absence of Langsat, driven by SPV3**




Source: Company data, Credit Suisse estimates

### Outlook remains positive; maintain OUTPERFORM

We do expect DLG's earnings momentum to strengthen over the next few quarters, mainly driven by its EPCC business and ramp up of SPV2 (it could achieve commercial status by the end of this year). More importantly, outperformance of DLG's share price is generally correlated to higher tank terminal capacity. Therefore, as there is a good chance that it will strike a deal soon for Phase 3, we raise our total capacity assumption in Pengerang by 20%, from 7.5 mn cbm to 9.0 mn cbm. As a result, we raise FY18-20E EPS by 4-9% and TP to RM3.10 (implies 17% upside). Maintain OUTPERFORM.

## Australia

## Insurance Australia Group----------------------------------------------Downgrade to NEUTRAL

**Downgrade to Neutral** **EPS: ▲ TP: ◄►**

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- IAG reported a 1H18 NPAT of A$551mn, 4% above our A$528mn forecast (consensus A$467mn) with an insurance profit of A$743mn, 6% above our A$702mn forecast, resulting in an insurance margin of 17.3% vs our 16.5%. Full report
- IAG increased its insurance margin guidance to 15.5–17.5% of NEP, up 175bps from its recent guidance. While there is pushback that this is lower quality reserve release driven, we note that IAG has maintained its FY18 natural peril guidance, despite a A$78mn beat in 1H18.
- We have increased our FY18 NPAT by 0.6% and FY19 by 0.9%. We have lowered our NEP slightly in outer year but kept our insurance margins largely unchanged. While we continue to see an upside to IAG's earnings, we are of the view that consensus is catching up to our earnings forecasts.
- With the share price landing exactly on our target price and the stock delivering 25% outperformance over the last 12 months, we downgrade our rating to NEUTRAL (from Outperform) with an unchanged A$7.50 target price.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **IAG AU / IAG.AX** | **Price (14 Feb 18 , A$)** | | | **7.50** |
| **Rating (prev. rating)** | **N (O)** | **TP (prev. TP A$)** | | | **7.50 (7.50)** |
| 52-wk range (A$) | 7.50 - 5.86 | Est. pot. % chg. to TP | | | — |
| Mkt cap (A$/US$ bn) | 17.8/ 14.0 | Blue sky scenario (A$) | | | 8.20 |
| ADTO-6M (US$ mn) | 43.8 | Grey sky scenario (A$) | | | 4.50 |
| Free float (%) | 99.9 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | | Absolute (%) | 5.2 | 5.0 | 26.5 |
| | | Relative (%) | 9.1 | 6.8 | 25.0 |

| **Year** | **06/16A** | **06/17A** | **06/18E** | **06/19E** | **06/20E** |
|---|---|---|---|---|---|
| Life GWP (A$ mn) | — | — | — | — | — |
| P&C GWP (A$ mn) | 11,367 | 11,805 | 11,960 | 12,364 | 12,631 |
| Net profit (A$ mn) | 625 | 929 | 974 | 993 | 1,022 |
| EPS (CS adj. A$) | 0.25 | 0.38 | 0.40 | 0.41 | 0.43 |
| - Change from prev. EPS (%) | n.a. | n.a. | 6.1 | 1.6 | 2.1 |
| - Consensus EPS (A$) | n.a. | n.a. | 0.39 | 0.40 | 0.43 |
| EPS growth (%) | (16.8) | 48.8 | 6.3 | 2.9 | 4.8 |
| P/E (x) | 29.6 | 19.9 | 18.7 | 18.2 | 17.4 |
| NTA per share (A$) | 1.30 | 1.36 | 1.46 | 1.62 | 1.79 |
| EV per share (A$) | | | | | |
| Dividend yield (%) | 4.8 | 4.4 | 4.1 | 4.4 | 4.5 |
| EV/EBITDA (x) | 19.9 | 13.6 | 12.2 | 11.8 | 11.4 |
| P/B (x) | 2.8 | 2.7 | 2.7 | 2.5 | 2.4 |
| ROE (%) | 9.3 | 14.1 | 14.7 | 14.6 | 14.4 |
| P&C combined ratio (%) | 91.3 | 88.0 | 86.2 | 84.2 | 84.0 |

*Note 1: ORD/ADR=5.00. Note 2: Insurance Australia Group Ltd is engaged in underwriting of general insurance and related corporate services, and investing activities with operations in Australia, New Zealand, the United Kingdom and Asia.*

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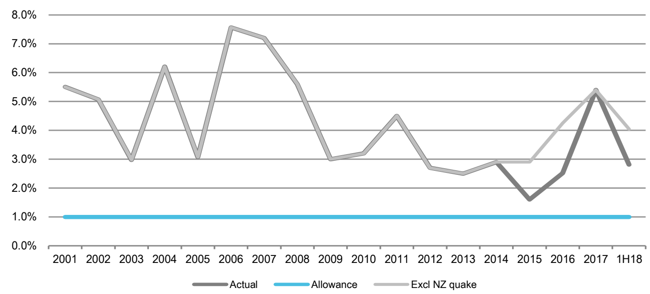
### 1H18 results

IAG reported a 1H18 NPAT of A$551mn, 4% above our A$528mn forecast (consensus A$467mn), with an insurance profit of A$743mn, 6% above our A$702mn forecast, resulting in an insurance margin of 17.3% vs our 16.5%. IAG declared an interim dividend of 14cps, below our expectations of 14.5cps.

At an underlying level, IAG's underlying insurance margin increased 140bps to 12.6%, in line with our 12.6% forecast, and importantly, IAG noted that "reduced pressure on motor profitability as increased rates earn through", which was the key downside risk to our forecasts. We calculate that the average investment yield was ~50bps lower in 1H18 than in 2H17, highlighting that the underlying COR improvement was even greater.

**Figure 1: IAG's reserve releases as a % of NEP**



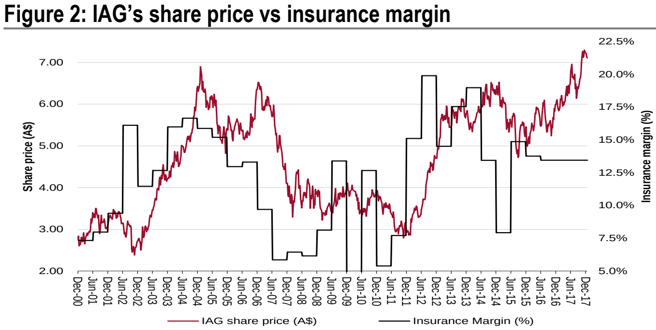

Source: Company data, Credit Suisse estimates.

In addition to an improvement in its underlying margin, significant cost-savings to come and ongoing momentum in premium rates, IAG's capital position sits above its target range, currently. We believe there are further capital benefits to come in near periods, and Asia investment is likely to be minimal. We have an A$600mn buyback in our forecasts, which may well prove to be too conservative.

### FY18 guidance

There are many moving parts in IAG at the moment, which have impacted both its earnings and guidance metrics. In this context, we note that IAG delivered an underlying insurance margin of 12.6% in 1H18, the middle of its original FY18 guidance range. Post the update of the additional quota share deals in December, IAG increased its insurance margin guidance from 13.75% to 15.75%. Post the 1H18 results, IAG has now provided an updated guidance for FY18: (1) GWP growth of "low single-digit", which has been reaffirmed from the original guidance. (2) Insurance margin of 15.5–17.5%, which now includes a reserve release allowance of "around 3%". We note that a flat underlying insurance margin gets IAG to around the middle of this increased guidance range.

**Figure 2: IAG's share price vs insurance margin**




Source: Bloomberg, Company data, Credit Suisse estimates.

*This is an extract from Andrew Adams' First Edition note on Insurance Australia Group published on 14 February 2018.*

## Woodside Petroleum------------------------------------------------- Maintain UNDERPERFORM

**When Valentine's day turns into April fool's day** **EPS: ▼ TP: ▲**

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- We'll bypass results in this note (take it from us, it was pretty inline) as the story of the day was what possessed Woodside, a company with <25% gearing and generating ~A$3bn of FCF over the next two years on our numbers, to carry out a A$2.5bn raising for a A$560m acquisition of Exxon's 50% stake in Scarborough.
- We personally struggle to believe the growth projects, so think Woodside can fund the dividend for a while still. However, if Woodside does need the incremental ~US$1.5bn of equity on top of the acquisition, don't raise at a >11% discount to last close and pay A$40-50m fees in the process. Just don't pay the dividend, that costs you nothing.
- We require a lot of clarity to believe the bull case here. If all growth projects are sanctioned on time, we estimate Woodside would need a further A$5-6bn of equity to keep gearing at the seeming limit of 25%.
- Raising equity at a premium to our NPV, and with small model adjustments post results (hence 4-6% EPS changes) our TP rises to A$27.20. We remain firmly on the Underperform though.

| Bbg/RIC | WPL AU / WPL.AX | Price (13 Feb 18 , A$) | 31.08 |
|---|---|---|---|
| Rating (prev. rating) | U (U) | TP (prev. TP A$) | 27.20 (26.90) |
| 52-wk range (A$) | 34.7 - 28.3 | Est. pot. % chg. to TP | (12) |
| Mkt cap (A$/US$ bn) | 26.2/ 20.6 | Blue sky scenario (A$) | n.a. |
| ADTO-6M (US$ mn) | 127.3 | Grey sky scenario (A$) | n.a. |
| Free float (%) | 102.0 | | |
| Major shareholders | | | |

| Performance | 1M | 3M | 12M |
|---|---|---|---|
| Absolute (%) | (9.9) | 0.6 | (2.4) |
| Relative (%) | (6.0) | 2.3 | (3.9) |

| Year | 12/16A | 12/17A | 12/18E | 12/19E | 12/20E |
|---|---|---|---|---|---|
| Revenue (US$ mn) | 3,803 | 3,616 | 4,316 | 4,269 | 4,725 |
| EBITDA (US$ mn) | 2,647 | 2,807 | 3,510 | 3,378 | 3,821 |
| Net profit (US$ mn) | 868 | 1,024 | 1,280 | 1,115 | 1,281 |
| EPS (CS adj. US$) | 1.04 | 1.22 | 1.44 | 1.19 | 1.37 |
| - Change from prev. EPS (%) | n.a. | n.a. | (0.7) | (4.3) | (6.5) |
| - Consensus EPS (US$) | n.a. | n.a. | 1.52 | 1.59 | 2.10 |
| EPS growth (%) | (23.8) | 16.7 | 18.4 | (17.3) | 14.9 |
| P/E (x) | 23.5 | 20.1 | 17.0 | 20.5 | 17.9 |
| Dividend yield (%) | 3.4 | 4.0 | 4.6 | 3.9 | 3.4 |
| EV/EBITDA (x) | 9.6 | 9.0 | 6.7 | 6.6 | 5.5 |
| P/B (x) | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 |
| ROE (%) | 6.0 | 6.8 | 7.9 | 6.4 | 7.2 |
| Net debt(cash)/equity (%) | 29.9 | 29.9 | 14.9 | 9.8 | 2.0 |

*Note 1: ORD/ADR=1.00. Note 2: Woodside explores for, develops and produces oil and gas from operating assets located in Australia and Internationally. Its key assets include interests in and/or operatorship of the North West Shelf LNG project, Pluto LNG and Wheatstone.*

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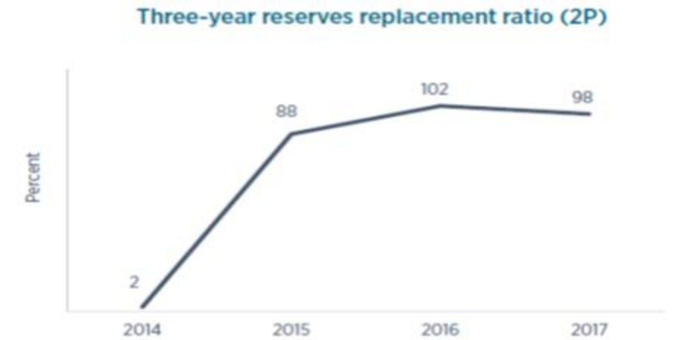
### More questions than answers

We thought the best way to address today's announcement is go through the questions we have from it all and then our potentially somewhat feeble attempts to answer them ourselves. Hopefully the market, along with us, gets the opportunity to explore these things in more detail with the company in the coming days.

**(1) Is this deal the sign post that exploration capex is going, given the (lack of) success it has seen?** Woodside reported a 0% 2P RRR (reserve replacement ratio) for 2017 in today's annual report. Why eyebrow raised? Well because, on top of the ~US$1.2bn spent on exploration in the past three years, Woodside also spent ~US$3bn acquiring Wheatstone and still couldn't actually replace everything that they produced.

**Figure 1: Woodside (inorganic + organic) 2P 3 year average RRR**




Source: Company data

**(2) Why the Dickens would an incremental US$1.5bn of dilutive equity be raised (for a balance sheet that doesn't need it currently) vs scrapping the dividend?** By definition though, surely by raising the equity rather than scrapping the dividend, is Woodside not implicitly saying that it thinks the share price is overvalued? Otherwise, why also not raise this equity, which is un-needed until project capex starts, until the project is sanctioned and intuitively the market will re-rate the stock for the new projects?

**(3) Isn't a far bigger raising coming if you believe all the growth projects?** On our numbers, if we take the mid-point of capex numbers for the major growth projects (which for Scarborough and Browse we will discuss later why we don't believe them), Woodside is going to be spending >US$15bn in new growth capex from around 2020- 2025/6. With this on our US$60/bbl real long run oil price, you can see that gearing rapidly gets above 30% before too long

**(4) What do you do with the stock?** In many ways we feel that the >11% discount being offered on this raising says it all about the deal. Only a few months ago Shell managed to get away a bigger block in Woodside, at a higher price, on only a ~2.5% discount. That said, if you are an existing shareholder, we can certainly see the logic of taking up the rights. In reality, today's announcement in isolation makes very little difference to the value of Woodside, so a >11% discount is attractive. We still think that, rights aside, today's announcement has somewhat lifted the kilt on what the future of Woodside could look like. To this extent we are extremely happy to watch everything unfold from our Underperform chair.

*This is an extract from Mark Samter's Woodside Petroleum report published on 14 February 2018.*

CREDIT SUISSE

Hong Kong

## Champion REIT ----------------------------------------------------------------Upgrade to NEUTRAL

**More balanced risk-reward profile** **DPS: ▲ TP: ▲**

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- A 5.6% YoY growth in FY17 distributable income to HK$1,487 mn is in line with our estimate and slowed down from 7.5% YoY in 1H17. Rental growth was partly offset by +15% YoY in cash interest cost (or +30% YoY in 2H17) on a 50% fixed debt ratio and an interest rate at 2.6%, vs 21.5% and 2% at end-16, respectively.
- We are looking for a slower growth in distributable income to 0.6% p.a. over FY18-20E, from 6.4% p.a. in FY15-17 on higher finance cost and more steady office rental growth amidst high occupancy rates at 94-97% and only 3-10% of leases expiring in FY18.
- No offer has been received for Langham Place office since the announcement in July 2017. While the disposal remains possible, we see a higher likelihood of the disposal not materialising and raise such probability to 35% (from 10%)
- We revise FY18/19E DPU by 0.8%/-1.9% and introduce FY20E numbers. While we capture a higher probability of the disposal not going through, we see more balanced risk-reward after a 23 pp underperformance since last results in Aug-2017. Our new TP of HK$5.6 (from HK$5.5) implies 7% upside. Upgrade to NEUTRAL.

| **Bbg/RIC** | **2778 HK / 2778.HK** | **Price (14 Feb 18 , HK$)** | | | **5.21** |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **N (U)** | **TP (prev. TP HK$)** | | | **5.60 (5.50)** |
| 52-wk range (HK$) | 6.25 - 4.29 | Est. pot. % chg. to TP | | | 7 |
| Mkt cap (HK$/US$ mn) | 30,338.0/ 3,878.9 | Blue sky scenario (HK$) | | | 8.30 |
| ADTO-6M (US$ mn) | 3.1 | Grey sky scenario (HK$) | | | 4.00 |
| Free float (%) | 38.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Lo Ka Shui (66.06%) | Absolute (%) | (8.3) | (8.1) | 21.4 |
| | | Relative (%) | (5.6) | (13.3) | (7.3) |

| **Year** | **12/16A** | **12/17A** | **12/18E** | **12/19E** | **12/20E** |
|---|---|---|---|---|---|
| Net property income (HK$ mn) | 2,027 | 2,166 | 2,241 | 2,257 | 2,293 |
| EBITDA (HK$ mn) | 1,894 | 2,033 | 2,100 | 2,113 | 2,144 |
| Net profit (HK$ mn) | 1,408 | 1,487 | 1,529 | 1,500 | 1,515 |
| Distributable income (HK$ mn) | 1,408 | 1,487 | 1,529 | 1,500 | 1,515 |
| EPS (CS adj. HK$) | 0.55 | 1.91 | 0.24 | 0.23 | 0.23 |
| - Consensus EPS (HK$) | n.a. | n.a. | 0.25 | 0.26 | |
| EPS growth (%) | (4.3) | 249.7 | (87.6) | (3.0) | 0.1 |
| P/E (x) | 9.5 | 2.7 | 21.9 | 22.6 | 22.6 |
| DPU (HK$) | 0.23 | 0.24 | 0.25 | 0.24 | 0.24 |
| - Change from prev. DPU (%) | n.a. | n.a. | 0.8 | (1.9) | |
| DPU yield (%) | 4.4 | 4.7 | 4.7 | 4.6 | 4.6 |
| P/B (x) | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| ROE (%) | 2.8 | 2.7 | 2.4 | 2.4 | 2.4 |
| Debt/Asset (%) | 21.6 | 18.9 | 17.4 | 17.5 | 16.6 |

*Note 1: Champion REIT is a real estate investment trust formed to own and invest an income-producing portfolio of commercial properties primarily in Asia. It currently owns the Citibank Plaza and Langham Place.*

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**Rental growth offset by higher interest expenses.** FY17 distributable income was up 5.6% YoY to HK$1,487 mn (in line with our estimate of HK$1,499 mn and 2% below consensus of HK$1,514 mn) with growth decelerating from 7.5% YoY in 1H17. Rental income and net property income grew by 5.7% YoY and 6.9% YoY, respectively, on positive rental reversions. However, the growth was partly offset by 15% YoY increase in cash interest expenses (or +30% YoY in 2H17) as the fixed debt ratio rose to 50% (end-16: 21.5%) with higher effective interest rate at 2.6% (end-16: 2.0%). See details in Quick Take: FY17 results inline, slower growth in 2H17

**Slower DPU growth.** Retail rentals should pick up on retail sales recovery and improving occupancy cost but the growth could be counteracted by higher finance costs on rising interest rates. Meanwhile, with office occupancy rates standing high at 94.2% for Three Garden Road and 97.1% for Langham Place (LP) office and low portion of leases expiring in 2018 (10.5% for Garden Road and 3% for LP office), DPU growth should decelerate, on our estimates. We are looking for a slower growth in distributable income to 0.6% p.a. over FY18-20E, from 6.4% p.a. in FY15-17.

**No offer received for LP Office.** No offer has been received since the announcement of the possible disposal of LP office in July 2017. While the disposal remains possible, we believe tighter controls and closer scrutiny of overseas property investments by the Chinese government will continue to have an impact on the disposal. As a result, we have lifted the probability of the disposal not materialising from 10% to 35% in setting our target price.

**More balanced risk-reward, upgrade to NEUTRAL.** We revise FY18/19E DPU by 0.8%/-1.9% and introduce FY20E numbers. We roll our DDM valuation to FY18E and fine-tune our probability-weighted fair value to HK$5.60 (from HK$5.50) accordingly. While we capture a higher probability of the disposal not going through, we see more balanced risk-reward after an 11% correction and 23 pp underperformance since last results in August 2017. Upgrade to NEUTRAL with our new TP implying 7% upside.

**Figure 1: Scenario analysis—parameters**

| | | | |
|---|---|---|---|
| GFA (sq ft) | | | 702,911 |
| Market value on book (HK$ mn) | | | 9,450 |
| Annualised FY17 gross rental income (HK$ mn) | | | 344 |
| Share price on 4 July 2017 announcement (HK$) | | | 4.92 |
| Closing price on 15 Aug 2017 (HK$) | | | 5.85 |
| Closing price on 14 Feb 2018 (HK$) | | | 5.21 |
| | **Scenario 1** | **Scenario 2** | **Scenario 3** |
| Indicative price (HK$/sq ft) | 35,566 | 24,896 | 19,917 |
| Disposal price (HK$ mn) | 25,000 | 17,500 | 14,000 |
| Disposal price per unit (HK$/sq ft) | 4.29 | 3.01 | 2.40 |
| Potential disposal gain (HK$ mn) | 15,500 | 8,050 | 4,550 |
| Potential disposal gain per unit (HK$/sq ft) | 2.67 | 1.38 | 0.78 |
| Implied gross rental yield (%) | 1.38 | 1.97 | 2.46 |

Source: Credit Suisse estimates

**Figure 2: Probability-weighted valuation**

| **Distribution payout on disposal gains/proceeds** | **Dividend upside (HK$/ share)** | **Fair value without disposal (HK$)** | **Target price (HK$)** | **Up/ (down) side (%)** | **Proba- bility (%)** | **Weighted average target price (HK$)** |
|---|---|---|---|---|---|---|
| Scenario 1 - all gains | 2.67 | 4.68 | 7.35 | 41 | 5 | 0.37 |
| Scenario 2 - all gains | 1.38 | 4.68 | 6.06 | 16 | 20 | 1.21 |
| Scenario 3 - all gains | 0.78 | 4.68 | 5.46 | 5 | 35 | 1.91 |
| Scenario 4 - all proceeds | 4.29 | 4.68 | 8.99 | 72 | 5 | 0.45 |
| Scenario 5 - not proceed | - | 4.68 | 4.68 | (10) | 35 | 1.64 |
| | | | | | **100** | **5.6** |

Source: Credit Suisse estimates

India

## Bharti Infratel Ltd ---------------------------------------------------------- Maintain OUTPERFORM

**Buying out Indus with stock: Why this appears an incomplete transaction** **EPS: ◄► TP: ◄►**

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- Recent media reports (including *The Economic Times*) suggest BHIN could buy out Vodafone's stake in Indus Towers in an all-stock deal. While we have been expecting this kind of an M&A activity, we believe the deal structure indicated in the media reports is incomplete/sub-optimal.
- An all-stock deal would push Bharti Airtel's shareholding in BHIN below 50% and shoot up its leverage close to limits set by its bond covenants. We see Singtel's equity infusion in Bharti Airtel as an interim arrangement before Bharti Airtel sells more BHIN shares.
- Secondly, an M&A of this scale is a ripe opportunity for BHIN to leverage up its balance sheet, and an all-stock deal leaves the net cash position intact. If the cash is not used subsequently, we would consider the outcome for BHIN a missed opportunity.
- We see BHIN stock's weakness (on expectation of tenancy exits) as only a short-term issue (2-3 quarters) and remain confident of growing tenancy demand driven by data volume growth. If the M&A results in Bharti Airtel losing operator-ownership in BHIN, it should help multiples rerate. We maintain OUTPERFORM.

| **Bbg/RIC** | **BHIN IN / BHRI.BO** | **Price (14 Feb 18 , Rs)** | | | **327.00** |
|---|---|---|---|---|---|
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP Rs)** | | | **430.00 (430.00)** |
| 52-wk range (Rs) | 478.2 - 284.6 | Est. pot. % chg. to TP | | | 31 |
| Mkt cap (Rs/US$ bn) | 604.8/ 9.4 | Blue sky scenario (Rs) | | | 500.00 |
| ADTO-6M (US$ mn) | 29.9 | Grey sky scenario (Rs) | | | 280.00 |
| Free float (%) | 41.2 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Bharti Airtel | Absolute (%) | (11.4) | (15.0) | 2.7 |
| | | Relative (%) | (9.4) | (18.2) | (17.8) |

| **Year** | **03/16A** | **03/17A** | **03/18E** | **03/19E** | **03/20E** |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 123,277 | 134,237 | 143,679 | 136,252 | 153,677 |
| EBITDA (Rs mn) | 54,442 | 59,388 | 63,775 | 59,674 | 68,839 |
| Net profit (Rs mn) | 22,809 | 27,890 | 25,215 | 24,134 | 29,857 |
| EPS (CS adj. Rs) | 12.0 | 15.1 | 13.7 | 13.1 | 16.2 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Rs) | n.a. | n.a. | 14.4 | 15.3 | 16.4 |
| EPS growth (%) | 14.3 | 25.4 | (9.6) | (4.3) | 23.7 |
| P/E (x) | 27.2 | 21.7 | 23.9 | 25.0 | 20.2 |
| Dividend yield (%) | 0.9 | 4.9 | 3.5 | 3.7 | 4.0 |
| EV/EBITDA (x) | 10.0 | 9.1 | 8.4 | 8.9 | 7.5 |
| P/B (x) | 3.4 | 3.9 | 3.9 | 4.0 | 4.1 |
| ROE (%) | 12.9 | 16.5 | 16.4 | 15.9 | 20.0 |
| Net debt(cash)/equity (%) | (33.1) | (39.9) | (46.2) | (50.0) | (59.9) |

*Note 1: Bharti Infratel is a leading telecom tower infrastructure provider company in India. It owns and manages communication structures, for various wireless operators. Bharti Infratel Limited is a subsidiary of Bharti Airtel Limited.*

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Recent media reports (including The Economic Times) indicate a possible deal where BHIN could buy out Vodafone's 42% stake in Indus Towers, in an all-stock deal. Potential M&As in the tower space, especially one where BHIN buys out other partners in Indus Towers, is something we have written about in the past (link). This, along with change of hands in BHIN ownership (leading to non-operator control) could be potential rating-triggers.

Having said this, we see a few reasons as to why the deal as projected in the media looks incomplete (or in other words, does not make sense if this is the end of story).

### Bharti's leverage would go up to 4x — it matters to its bond covenants

A couple of outstanding bond contracts of BHIN's parent Bharti Airtel restrict the amount of indebtedness the company can carry at a debt/EBITDA ratio of 4x. Bharti Airtel's ratio currently is 3.5x (Dec-2017 annualised). With a steady decline in EBITDA and negligible FCF generation, Bharti Airtel has been managing its leverage mostly by selling down BHIN stake (sold 18.5% stake for US$1.9 bn in the last 12 months in three tranches of US$400-950 mn each). With the stake now at 53.5%, Bharti Airtel runs the risk of suffering a deconsolidation of BHIN numbers from its financials if it sells any further "'small" stake (e.g., a 4% stake sale would generate US$380 mn in cash but shoot up leverage to 3.9x). Indeed, Bharti Airtel's management explained on recent earnings that if it does any further BHIN stake sale, it would be a large one, not small. We would see Singtel's recent capital infusion announcement in the company in this context.

Now, the deal, as proposed in the media reports—where Vodafone is paid off in BHIN stock—would lead to an eventual shareholding of: Bharti Airtel 38%, Vodafone 30% and others 33% (assuming Indus Towers' EV/EBITDA is the same as BHIN listco). If the deal was to stop here, Bharti Airtel's leverage would go up to 4x, clearly triggering a covenant breach (all ratios mentioned in this note will go down by 0.1x after factoring in the money from Singtel).

### Why not leverage up BHIN balance sheet?

One of the drawbacks of BHIN's financials over the years has been the distorted capital structure of low leverage (net cash, actually) for a steady cash flow-generating business. We see the Indus Towers buyout as a good opportunity for BHIN to increase its leverage. An all-stock deal would leave the cash position intact. Even if this goes through as proposed, we would still expect the Idea /providence leg of the deal to be in cash (given the cash needs Idea).

### Bharti Airtel/Idea need the cash; Vodafone probably not?

Overall, we believe Indian telcos would need to recapitalise themselves significantly in the face of falling EBITDA and rising capex pressures. However, the need for converting their tower ownership into hard cash may be more pressing for Bharti Airtel and Idea than for Vodafone: recall that Vodafone's stake in Indus Towers is outside of the Idea merger, and they may have the willingness to wait for a better tower company valuation benchmark. Thus, it is not inconceivable that Vodafone retains its shareholding as Bharti Airtel continually sheds its shareholding to manage leverage.

This still does not help BHIN's excess cash situation. Either there is some cash component to the Vodafone deal, or it is possible there is some alternative plan to acquire other shareable assets (say, fibre from the operators). If BHIN remains net cash after such material M&A, we would see it as a missed opportunity by BHIN to leverage up its balance sheet. Overall, we believe the next couple of quarters could see heavy news flow regarding tower company M&As.

## Dilip Buildcon Ltd --------------------------------------------------------------- Maintain NEUTRAL

### 3Q FY18 results: Mixed bag; pick-up in order activity needed to improve medium-term revenue visibility EPS: ▲ TP: ▲

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- Dilip Buildcon (DBL) posted strong YoY growth in sales/EBITDA at ~40%/24% higher than estimates. Also, inflows picked up only in January and reached the half-way mark v/s our FY18E estimate of Rs70 bn (mgmt. target is Rs 80 bn). Net debt rose due to working capital expansion (temporary), delay in GST payments.
- While execution has been strong, weak order inflows till now will limit FY19E revenue growth to single digits as compared to management's target of 15% growth. Current order book stands at ~Rs150 bn, ~2.1x FY19E sales and includes 16% orders from mining sector, which are long gestation in nature.
- Raise FY18E EPS by 12% to build in strong execution, lower tax rates (MAT credit); Tweak FY19-FY20E EPS by 1-2%. TP is revised to Rs 910 (from Rs 840) on roll forward.
- Maintain NEUTRAL on valuations as stock is trading at 23x FY19E (adj. for subs). While opportunity in roads sector is large, weak awarding activity in FY18 till date has impacted near-term growth outlook. Other sectors like mining are also yet to see pick-up in activity. Key downside risks include rise in competitive intensity.

| Bbg/RIC | DBL IN / DIBL.BO | Price (14 Feb 18 , Rs) | | | 984.30 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (N) | TP (prev. TP Rs) | | | 910.00 (840.00) |
| 52-wk range (Rs) | 1031.1 - 261.2 | Est. pot. % chg. to TP | | | (8) |
| Mkt cap (Rs/US$ bn) | 134.6/ 2.1 | Blue sky scenario (Rs) | | | 1,100 |
| ADTO-6M (US$ mn) | 6.1 | Grey sky scenario (Rs) | | | 820.00 |
| Free float (%) | 24.4 | Performance | 1M | 3M | 12M |
| Major shareholders | Promoters (75.6%) | Absolute (%) | 4.1 | 16.4 | 269.7 |
| | | Relative (%) | 6.1 | 13.2 | 249.2 |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 40,853 | 50,976 | 71,632 | 74,647 | 84,075 |
| EBITDA (Rs mn) | 7,992 | 9,923 | 12,894 | 13,437 | 15,133 |
| Net profit (Rs mn) | 2,199 | 3,610 | 5,187 | 5,510 | 7,009 |
| EPS (CS adj. Rs) | 18.8 | 26.4 | 37.9 | 40.3 | 51.2 |
| - Change from prev. EPS (%) | n.a. | n.a. | 11.9 | 0.3 | 1.6 |
| - Consensus EPS (Rs) | n.a. | n.a. | 39.4 | 52.8 | 57.9 |
| EPS growth (%) | 50.8 | 40.6 | 43.7 | 6.2 | 27.2 |
| P/E (x) | 52.4 | 37.3 | 26.0 | 24.4 | 19.2 |
| Dividend yield (%) | 0.6 | 13.9 | 13.9 | 13.9 | 13.9 |
| EV/EBITDA (x) | 19.9 | 16.0 | 12.6 | 11.2 | 9.9 |
| P/B (x) | 10.6 | 7.3 | 5.7 | 4.7 | 3.8 |
| ROE (%) | 22.4 | 24.5 | 24.7 | 21.0 | 21.7 |
| Net debt(cash)/equity (%) | 220.4 | 132.2 | 119.6 | 56.6 | 41.4 |

*Note 1: Dilip Buildcon is a construction company with focus on road sector. The company provides EPC services and also develops assets on its balance sheet (BOT, HAM projects).*

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### Strong execution; weak on inflows and working capital

DBL reported yet another strong quarter with revenue/EBITDA growth of 40%/24% YoY, which was higher than our estimates. On the order inflow front, while 3Q was weak, there has been improvement in 4Q FY18 with total of Rs35 bn of inflows in FY18 till date. As compared to our estimate of Rs70 bn in FY18E (mgmt. guidance of Rs80 bn), there are still ~Rs35 bn of orders to be secured till March, which are on the higher side (not impossible though). As on date, company has bid for Rs75 bn worth orders, and is evaluating a large pipeline for further participation. On the working capital front, there has been an upward bias in 3Q with incremental QoQ addition of Rs2 bn, driven by (1) delay in mobilisation advances from hybrid annuity model (HAM) projects, which were awaiting Appointed Dates from NHAI and (2) delay in GST payments from government authorities.

### Appointed dates received for four HAM projects— improves visibility on FY19E execution

At start of FY17, DBL had Rs60 bn of orders across six HAM projects. Of these, while Lucknow–Sultanpur project (Rs17 bn order) had received Appointed Date in May 2017, four other projects received the same over past three months. Company expects Appointed Date for Mahagaon-Yavatmal project to come through by end of the month. Company has already mobilised equipment for these projects, and expects work to pick up in coming quarters.

### Rise in debt levels due to working capital expansion, GST

While DBL was earlier targeting to reduce its debt levels with cashflow support from asset sales, debt levels have risen as there has been strong execution growth in FY18E (leading to working capital expansion). Further, it has not been able to raise mobilisation advances on HAM projects pending award of Appointed Dates from NHAI. In addition, delay in payment of GST dues to the tune of Rs2.5 bn has also impacted debt levels. While mobilisation advances will flow through to the standalone company (now that Appointed Dates have been received for most projects), it will be partly offset by equity investment in these HAM projects. In case of GST dues, timelines are difficult to predict as of now. Management shared that FY18E capex is likely to be Rs2.8 bn, which is higher than earlier (FY18 start) guidance of ~Rs2 bn in order to support strong execution during the year. FY19E capex is likely to be at Rs2 bn.

### Revise TP on roll forward; Maintain NEUTRAL on valuations

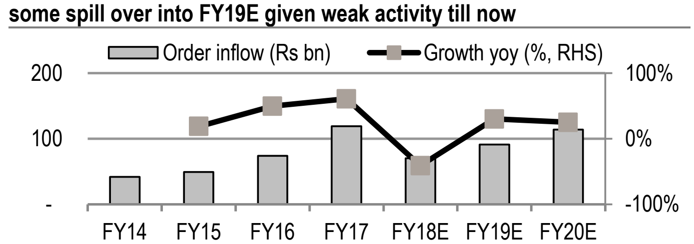
We increase FY18 revenues by 6%, and build lower tax rates, which has led to 12% change in FY18E EPS. Even though we remain sanguine on road sector ordering activity over the medium term, we maintain NEUTRAL on valuations.

**Figure 1: Another strong quarter in 3Q18**

| INR mn | 3Q18 | 3Q17 | 2Q18 | % y/y | % q/q | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **19,421** | **13,891** | **15,818** | **39.8** | **22.8** | **71,632** | **74,647** | **84,075** |
| **EBITDA** | **3,447** | **2,776** | **2,853** | **24.2** | **20.8** | **12,894** | **13,437** | **15,133** |
| Interest | 1,168 | 1,062 | 1,110 | 10.0 | 5.2 | 4,642 | 3,845 | 2,992 |
| Depreciation | 698 | 593 | 676 | 17.6 | 3.2 | 2,740 | 2,941 | 3,151 |
| **PBT** | **1,638** | **1,147** | **1,098** | **42.8** | **49.2** | **5,638** | **6,887** | **9,345** |
| **PAT** | **1,647** | **1,086** | **1,156** | **51.6** | **42.5** | **5,187** | **5,510** | **7,009** |
| **EBITDA %** | **17.7** | **20.0** | **18.0** | **-223bps** | **-29bps** | **18.0** | **18.0** | **18.0** |
| EPS (Rs) | 12.0 | 7.9 | 8.5 | 51.6 | 42.5 | 37.9 | 40.3 | 51.2 |

Source: Company data, CS estimates.

**Figure 2: Company targeting Rs80-100 bn inflows in FY18E; We expect some spill over into FY19E given weak activity till now**




Source: Company data, Credit Suisse estimates.

# Hindustan Zinc Limited -----------------------------------------------------------Maintain NEUTRAL

## The problem of excess cash and our belief why upside for HZL is capped

**EPS: ◄► TP: ◄►**

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- HZL's EV/EBITDA multiple has tracked LME Zn prices for most of its trading history. However, in the last four months these two lines have diverged. Our Neutral rating on HZL is based on CS expecting Zn prices to fall starting 2020. However, even if they sustain at current elevated levels, HZL faces a challenge.
- The challenge is that at current prices HZL generates so much cash (post capex and dividend) that it cannot deploy them back in the business. While HZL generates 40% ROCE on its operations at US$2500/t LME (80% at US$3500/t), its return on cash cannot cross 10%. "Stranded cash" in our view drives the divergence.
- Management explained recently that with the ramp to 1.2mtpa nearing completion, they are embarking on expanding to 1.5mtpa (in addition to more silver output and cutting costs further). Even including this capex, we find it would still get $1 bn of extra cash.
- We believe a higher dividend—for now–will be best use for this cash. If so, dividend yield could rise to +8%. But even this would justify only a NEUTRAL rating. Other Zn miners could be deploying gains from Zn in different commodities like coal or agri.

| Bbg/RIC | HZ IN / HZNC.BO | Price (14 Feb 18 , Rs) | | | 308.55 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (N) | TP (prev. TP Rs) | | | 325.00 (325.00) |
| 52-wk range (Rs) | 326.8 - 232.0 | Est. pot. % chg. to TP | | | 5 |
| Mkt cap (Rs/US$ bn) | 1,303.7/ 20.3 | Blue sky scenario (Rs) | | | 380.00 |
| ADTO-6M (US$ mn) | 8.4 | Grey sky scenario (Rs) | | | 255.00 |
| Free float (%) | 5.5 | Performance | 1M | 3M | 12M |
| Major shareholders | Vedanta (65%) | Absolute (%) | (4.4) | 2.2 | 11.1 |
| | | Relative (%) | (2.4) | (0.9) | (9.4) |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 139,590 | 172,730 | 221,355 | 246,208 | 237,589 |
| EBITDA (Rs mn) | 63,731 | 97,390 | 131,365 | 150,001 | 138,957 |
| Net profit (Rs mn) | 81,666 | 83,160 | 104,046 | 121,437 | 112,734 |
| EPS (CS adj. Rs) | 19.3 | 19.7 | 24.6 | 28.7 | 26.7 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Rs) | n.a. | n.a. | 22.9 | 26.6 | 27.6 |
| EPS growth (%) | (0.1) | 1.8 | 25.1 | 16.7 | (7.2) |
| P/E (x) | 16.0 | 15.7 | 12.5 | 10.7 | 11.6 |
| Dividend yield (%) | 9.0 | 9.5 | 7.4 | 8.4 | 7.8 |
| EV/EBITDA (x) | 14.9 | 10.9 | 7.9 | 6.9 | 7.5 |
| P/B (x) | 3.5 | 4.2 | 4.4 | 4.6 | 4.7 |
| ROE (%) | 20.2 | 24.4 | 34.4 | 41.7 | 40.1 |
| Net debt(cash)/equity (%) | (94.2) | (78.7) | (89.3) | (95.0) | (93.9) |

*Note 1: Hindustan Zinc Limited is an integrated producer of zinc and lead. Its core business comprises mining and smelting of zinc and lead along with captive power generation. It has five mines and smelting operations at three locations in Rajasthan.*

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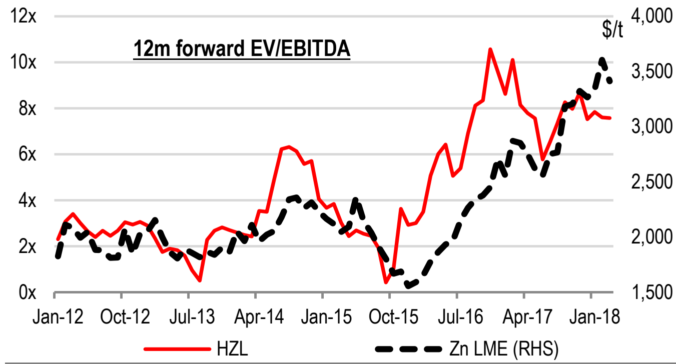
### EV/EBITDA has diverged from LME Zn in last six months

HZL is a first quartile Zn miner, with very strong FCF generation (FCF yield 9% at current Zn prices), and a strong balance sheet (15% of market cap). HZL's EV/EBITDA multiple has in the past tracked LME Zn price (Fig 1), though a year back the multiple moved up in anticipation of the spike in Zn prices. In the last four months, however, the multiple has been unchanged, even as Zn has climbed to new highs. Our NEUTRAL view on HZL is based on Zn prices falling from 2020 onwards, even though consensus expectations are of continued strength. However, we have another explanation for divergence even if one assumes sustained high Zn prices.

**Figure 1: In the last 4 months EV/EBITDA has diverged from Zn prices**

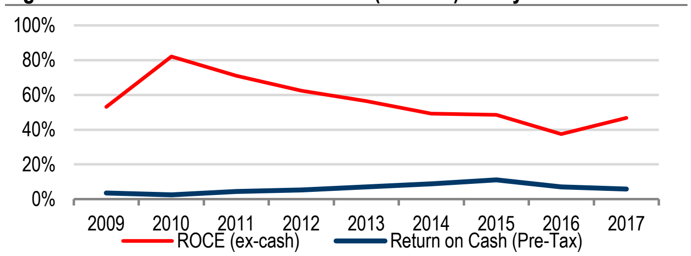



Source: RAVE, Credit Suisse estimates.

### HZL's surplus cash cannot be productively deployed

The challenge is that at current prices HZL generates so much cash (post capex and dividend) that it cannot deploy it back in the business. While HZL generates 40% ROCE on its operations at US$2500/t LME and 80% at US$3500/t, its return on cash cannot practically cross 10% (Fig 2). This "stranded cash" in our view drives the divergence.

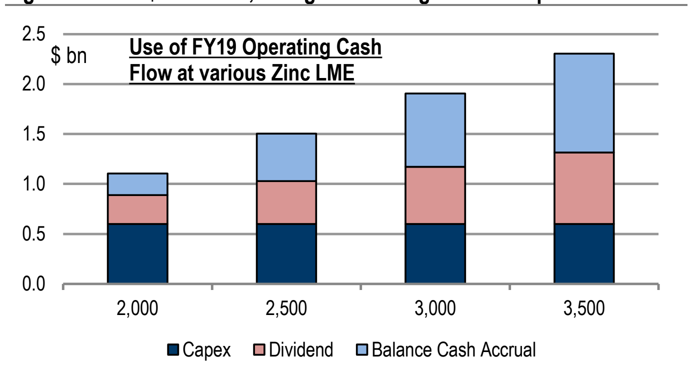
**Figure 2: Return on cash versus ROCE (ex-cash) over years**




Source: Company data, Credit Suisse estimates.

Management explained recently that with the expansion from 1mtpa to 1.2mtpa now nearly done, they have now embarked on an expansion to 1.5mtpa. Even if HZL were to spend another US$300-500 mn/year on this new expansion, it would still get $1 bn of extra cash. We believe a higher dividend—for now–may be the best use for this cash.

**Figure 3: At US$3500 LME, HZL generates significant surplus cash**




Source: Company data, Credit Suisse estimates.

## Indian Overseas Bank ------------------------------------------------- Maintain UNDERPERFORM

### 3Q18: Losses continue, non-NPA stress remains large

EPS: ▼ TP: ◄►

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- IOB reported a Rs9.7 bn loss in 3Q, its 10th consecutive quarter of loss, as NII growth remains weak (-11% YoY) despite lower slippage as NIMs declined 22 bp YoY to 1.9%.
- Loan growth remained muted, gross loans (-2% YoY), while retail loan growth was strong (+32% YoY). With the bank under RBI PCA framework, it would need to continue to rebalance its portfolio and bring down share of corporate loans to < 25% from > 35% currently. As leverage worsens, opex to NII is at 110%.
- Gross NPAs declined QoQ on elevated write-offs and higher recoveries, while credit costs remained high at ~4%. With NPL coverage at 46% and non NPA stress large at ~9% of loans, slippages and credit costs are likely to remain elevated.
- IOB continues to guzzle capital, with CET1 at 6.5%, the govt has announced infusion of Rs47 bn (~75% dilution) which should result in CET improving ~300 bp. With the requirement to shrink the corporate book (loan book now back to Dec-11 levels) growth and core operating profitability will remain weak (PPoP RoA < 1%), in our view. Maintain Underperform. We cut EPS as we build in dilution.

| Bbg/RIC | IOB IN / IOBK.BO | Price (14 Feb 18 , Rs) | | | 21.85 |
|---|---|---|---|---|---|
| Rating (prev. rating) | U (U) | TP (prev. TP Rs) | | | 15.00 (15.00) |
| 52-wk range (Rs) | 31.5 - 20.5 | Est. pot. % chg. to TP | | | (31) |
| Mkt cap (Rs/US$ mn) | 62,328.4/ 971.9 | Blue sky scenario (Rs) | | | 18.00 |
| ADTO-6M (US$ mn) | 0.5 | Grey sky scenario (Rs) | | | 13.50 |
| Free float (%) | 35.0 | Performance | 1M | 3M | 12M |
| Major shareholders | LIC, HDFC Standard Life | Absolute (%) | (7.2) | (7.8) | (17.4) |
| | | Relative (%) | (5.7) | (11.5) | (38.5) |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rs mn) | 28,869.9 | 36,663.9 | 36,724.3 | 31,914.8 | 34,250.6 |
| Net profit (Rs mn) | (28958) | (32881) | (30011) | 1,872 | 4,969 |
| EPS (CS adj. Rs) | (19.0) | (15.4) | (8.2) | 0.4 | 1.0 |
| - Change from prev. EPS (%) | n.a. | n.a. | n.m | (13) | (22) |
| - Consensus EPS (Rs) | n.a. | n.a. | (2.35) | 0.44 | 1.30 |
| EPS growth (%) | n.m. | n.m. | n.m. | n.m. | 165.5 |
| P/E (x) | n.m. | n.m. | n.m. | 57.1 | 21.5 |
| Dividend yield (%) | 0 | 0 | 0 | 0 | 0 |
| BVPS (CS adj. Rs) | 73.3 | 47.2 | 27.1 | 27.5 | 28.5 |
| P/B (x) | 0.30 | 0.46 | 0.81 | 0.79 | 0.77 |
| ROE (%) | (21.3) | (26.5) | (24.2) | 1.4 | 3.6 |
| ROA (%) | (1.0) | (1.3) | (1.2) | 0.1 | 0.2 |
| Tier 1 ratio (%) | 7.75 | 8.21 | 8.88 | 8.43 | 8.06 |

*Note 1: Indian Overseas Bank provides various banking services, including saving bank, current accounts, credit facilities and other services. The Bank's services also include personal banking services, non-residential Indian (NRI) accounts.*

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### Losses continue, loan growth remains negative

IOB reported a Rs9.7 bn loss in 3Q, its 10th consecutive quarter of loss, (Rs90 bn over the period) as NII growth remains weak (-11% YoY) despite lower slippage as NIMs declined 22 bp YoY to 1.9%.

Loan growth remained muted, gross loans (-2% YoY), while retail loan growth was strong (+32% YoY). With the bank under RBI PCA framework, it would need to continue to rebalance its portfolio and bring down share of corporate loans to < 25% from > 35% currently. As leverage worsens, opex to NII is at 110%. Cost to income has increased to 66% and core PPoP RoA is at 0.9%.

**Figure 1: 3Q18: Results Summary**

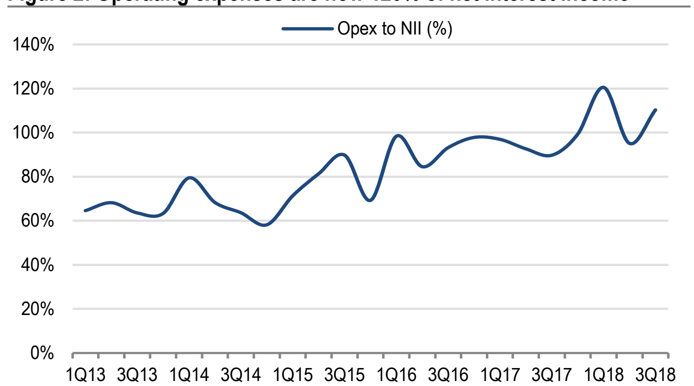
| Earnings Table (Rs mn) | 3Q18 | 3Q17 | YoY (%) | 2Q18 | QoQ (%) |
|---|---|---|---|---|---|
| **NII** | **11,895** | **13,348** | **-11%** | **15,204** | **-22%** |
| Non-Interest income | 8,077 | 7,180 | 12% | 9,646 | -16% |
| **Total Income** | **19,972** | **20,528** | **-3%** | **24,850** | **-20%** |
| Total Operating Expenses | 13,125 | 11,981 | 10% | 14,464 | -9% |
| **Operating Profit** | **6,848** | **8,546** | **-20%** | **10,386** | **-34%** |
| Total Provisions | 16,403 | 14,060 | 17% | 22,381 | -27% |
| PBT | -9,555 | -5,514 | 73% | -11,995 | -20% |
| **Reported Profit** | **-9,712** | **-5,544** | **75%** | **-12,225** | **-21%** |
| **Key Parameters** | **3Q18** | **3Q17** | **YoY (%)** | **2Q18** | **QoQ (%)** |
| Deposits (Rs bn) | 2,166 | 2,109 | 3% | 2,115 | 2% |
| **Advances (Rs bn)** | **1,360** | **1,393** | **-2%** | **1,365** | **0%** |
| **NIM (%)** | **1.9%** | **2.1%** | **-22** | **2.1%** | **-13** |
| CASA (%) | 35.3% | 36.2% | -85 | 35.6% | -27 |
| **Gross NPA (%)** | **22.0%** | **22.4%** | **-47** | **22.8%** | **-84** |
| Net NPA (%) | 13.1% | 14.3% | -123 | 13.9% | -83 |
| Cost to Income (%) | 65.7% | 58.4% | 735 | 58.2% | 751 |
| **Coverage Ratio (%)** | **46.6%** | **42.3%** | **429** | **45.4%** | **121** |
| Restructured loans (%) | 5.7% | 5.9% | -22 | 5.2% | 45 |
| CET 1 (%) | 6.54% | 7.62% | -108 | 7.08% | -54 |

Source: Company data, Credit Suisse estimates.

### Stressed loans are 1/3rd of loan book

Gross NPAs declined QoQ on elevated write-offs and higher recoveries, while credit costs remained high at ~4%. With NPL coverage at 46% and non NPA stress large at ~9% of loans, slippages and credit costs are likely to remain elevated. Total stressed loans are now at ~33% of loans and coverage low at 35%. Net NPAs alone are at ~180% of NW, with total un-provided loans at 300% of current NW and 200% of post recap networth.

**Figure 2: Operating expenses are now 120% of net interest income**




Source: Company data, Credit Suisse estimates.

### Planned capital infusion to result in large dilution

IOB continues to guzzle capital, with CET1 at 6.5%, the government has announced infusion of Rs47 bn (~75% dilution) which should result in CET improving ~300 bp. With the requirement to shrink the corporate book (loan book now back to Dec-2011 levels) growth and core operating profitability will remain weak (PPoP RoA < 1%), in our view. Maintain Underperform. We cut EPS as we build in dilution.

## Motherson Sumi Systems Limited ---------------------------------- Maintain OUTPERFORM

**3Q FY18: Weak quarter impacted by commodities; expect a strong FY19** **EPS: ▼ TP: ▼**

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- MSS 3Q results were below expectations with EBITDA at Rs12.6 bn coming in ~10% below our estimates due to lower-than-expected revenues at SMR and lower margins across entities for different reasons.
- There is a 3-6 month lag between suppliers getting commodity price escalation from OEMs; given the commodity increase in the last few months this hurt margins across entities. MSS noted PKC Group being impacted by higher freight costs on supply shortages.
- On the results, the only cause for concern for us is the Samvardhana Motherson Reflectec (SMR) revenue as we believe the rest will reverse in future quarters. SMR revenue trajectory was now flattish for the second consecutive quarter; management attributed this to slowdown in Korea and Korean OEM sales in China and some timing effect on large programs at SMR.
- We reduce our SMR revenue estimates and marginally reduce margin estimates at PKC, SMP resulting in a ~5-10% to our estimates and cut in TP to Rs 440. We believe earnings growth at MSS will accelerate to 30%+ in FY19/20; stay OUTPERFORM.

| Bbg/RIC | MSS IN / MOSS.BO | Price (14 Feb 18 , Rs) | | | 356.25 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP Rs) | | | 440.00 (460.00) |
| 52-wk range (Rs) | 392.4 - 228.8 | Est. pot. % chg. to TP | | | 24 |
| Mkt cap (Rs/US$ bn) | 750.0/ 11.7 | Blue sky scenario (Rs) | | | 550.00 |
| ADTO-6M (US$ mn) | 18.2 | Grey sky scenario (Rs) | | | 354.00 |
| Free float (%) | 35.0 | Performance | 1M | 3M | 12M |
| Major shareholders | Sehgal Family (40%) | Absolute (%) | (6.9) | (0.8) | 51.6 |
| | | Relative (%) | (5.0) | (4.0) | 31.1 |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 383,952 | 424,934 | 565,234 | 667,301 | 759,254 |
| EBITDA (Rs mn) | 34,543 | 42,847 | 53,965 | 68,959 | 89,245 |
| Net profit (Rs mn) | 13,028 | 16,517 | 19,240 | 26,741 | 35,656 |
| EPS (CS adj. Rs) | 6.2 | 7.8 | 9.1 | 12.7 | 16.9 |
| - Change from prev. EPS (%) | n.a. | n.a. | (10.6) | (7.3) | (5.0) |
| - Consensus EPS (Rs) | n.a. | n.a. | 10.5 | 14.0 | 17.1 |
| EPS growth (%) | 26.8 | 26.8 | 16.5 | 39.0 | 33.3 |
| P/E (x) | 57.6 | 45.4 | 39.0 | 28.1 | 21.0 |
| Dividend yield (%) | 0.7 | 0.8 | 1.1 | 1.3 | 1.3 |
| EV/EBITDA (x) | 23.0 | 18.8 | 15.0 | 11.7 | 8.8 |
| P/B (x) | 17.7 | 9.1 | 8.1 | 6.9 | 5.6 |
| ROE (%) | 34.4 | 26.4 | 21.9 | 26.5 | 29.5 |
| Net debt(cash)/equity (%) | 76.4 | 51.8 | 50.1 | 38.6 | 19.8 |

*Note 1: ORD/ADR=2.00. Note 2: Motherson Sumi is the leading automotive ancillary player in India and globally. It is the largest supplier of wiring harnesses in India. Through acquistions in Europe it has also become a big player globally in rear-view mirrors and plastic mouldings.*

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**India business – margins disappoint:** Standalone numbers were below expectations with 15% top-line growth lower than expectations of ~20% growth. Margins also disappointed at 17.5% (down 250 bp YoY); largely on account of lag in passing the impact of increase in commodity prices to end customers.

**SMR – weak topline growth:** SMR revenues were sluggish for the second consecutive quarter. Even adjusted for the €15.7 mn which management called out because of the strength of the Euro (purely operational), revenues were flat YoY. Management attributed the same to weakness with Korean OEMs and program seasonality.

**SMP – strong top-line growth –** SMP revenues at €897 mn were up 18% YoY. As expected margins continue to remain weak at 5.7% and even adjusted for the start-up costs at 7.6%. Start-up costs will continue for a few more quarters until the Hungary and the USA plants scale up. Once these plants scale up both top line and margins should improve significantly.

**PKC – poor margins despite strong growth.** PKC had a very strong 27% YoY growth in revenues to €271 mn on the back of strong US CV sales, start of second JV in China. With US Class 8 orders remaining strong, this should sustain. A third Chinese JV will also start in coming quarters. Margins this quarter were impacted by supplier issues. We believe PKC margins will expand significantly in the coming quarters on the back of increased vertical integration.

**Figure 1: Motherson Sumi's consolidated 3Q FY18 results summary**

| (Rs. mn) | 3Q FY17 | 2Q FY18 | 3Q FY18 | % YoY | % QoQ | vs Est. |
|---|---|---|---|---|---|---|
| Net sales | 106,041 | 134,313 | 143,978 | 35.8 | 7.2 | 0.1 |
| EBIDTA | 10,747 | 12,507 | 12,595 | 17.2 | 0.7 | (11.6) |
| *EBIDTA Margin* | *10.1%* | *9.3%* | *8.7%* | *-139 bps* | *-56 bps* | *-116 bps* |
| Depreciation | 2,733 | 3,978 | 3,937 | 44.1 | (1.0) | (1.6) |
| Interest | 1,084 | 771 | 1,031 | (4.9) | 33.8 | 21.3 |
| Other income | 433 | 156 | 151 | (65.2) | (3.1) | (24.6) |
| PBT | 7,710 | 7,914 | 7,777 | 0.9 | (1.7) | (19.0) |
| Exceptional | 0 | (48) | (21) | nm | | |
| *Tax rate* | *36.9%* | *29.5%* | *32.4%* | *-455 bps* | *284 bps* | *335 bps* |
| Minority/ JVs/ Assoc. | 706 | 1,168 | 1,595 | 126.1 | 36.6 | 32.9 |
| Adjusted PAT | 4,159 | 4,410 | 3,666 | (11.9) | (16.9) | (34.7) |

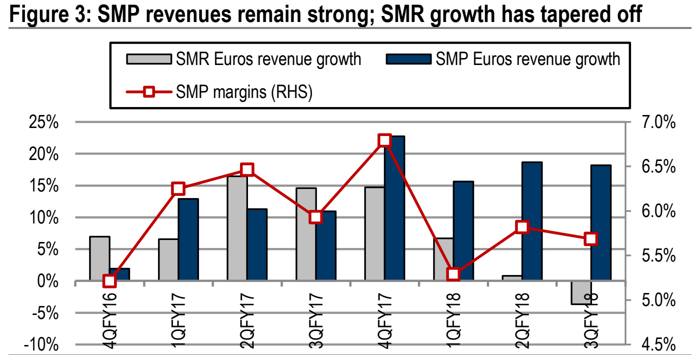
Source: Company data, Credit Suisse estimates.

**Figure 2: Segmental results summary**

| | 3QFY17 | 2QFY18 | 3QFY18A | % YoY | % QoQ |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| Standalone (Rs mn) | 15,664 | 18,563 | 17,944 | 14.6 | (3.3) |
| SMR (€ mn) | 407 | 378 | 392 | (3.7) | 3.7 |
| SMP (€ mn) | 759 | 808 | 897 | 18.2 | 11.0 |
| **EBITDA** | | | | | |
| Standalone (Rs mn) | 3,318 | 3,641 | 3,130 | (5.7) | (14.0) |
| SMR (€ mn) | 48 | 38 | 44 | (8.3) | 15.8 |
| SMP (€ mn) | 45 | 47 | 51 | 13.3 | 8.5 |
| **EBIDTA Margin** | | | | | |
| *Standalone* | *21.2%* | *19.6%* | *17.4%* | *-374 bps* | *-217 bps* |
| *SMR* | *11.8%* | *10.1%* | *11.2%* | *-57 bps* | *117 bps* |
| *SMP* | *5.9%* | *5.8%* | *5.7%* | *-24 bps* | *-13 bps* |

Source: Company data, Credit Suisse estimates.

**Figure 3: SMP revenues remain strong; SMR growth has tapered off**




Source: Company data, Credit Suisse estimates.

## Nestle India---------------------------------------------------------------------- Maintain OUTPERFORM

**4Q CY17: Massive beat reaffirms our view that the turnaround is gathering momentum** **EPS: ▲ TP: ▲**

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- Nestle's 4Q CY17 earnings beat our above-consensus estimates. Domestic revenue grew 18% YoY, EBITDA +31% YoY, PAT +35% YoY.
- Revenue growth was driven by volumes. Nestle has seen the fastest growth among its peers in this quarter despite having a relatively lower hit from demonetisation in the base, as Nestle has much lower salience of rural in its distribution.
- EBITDA margin expanded ~280 bp YoY, but individual cost line items would have been impacted by GST-related accounting changes. Overall EBITDA growth at 31% was much ahead of sales growth. We expect more tailwinds in CY18 as prices of key inputs like milk, sugar and wheat-flour are coming off.
- We had upgraded Nestle in Aug-2017, convinced of a turnaround in the company after seven years of flat volumes. This quarter reaffirms our view that the turnaround is gathering momentum. GST rate cuts in chocolates and coffee, and lowering in input costs add more tailwinds for CY18. Factoring in the beat, we increase EPS by 4-5%, and thereby TP to Rs9,000 (from Rs8,700), and maintain OUTPERFORM.

| Bbg/RIC | NEST IN / NEST.BO | Price (14 Feb 18 , Rs) | | | 7,260.10 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP Rs) | | | 9,000 (8,700) |
| 52-wk range (Rs) | 7952.4 - 6106.2 | Est. pot. % chg. to TP | | | 24 |
| Mkt cap (Rs/US$ bn) | 700.0/ 10.9 | Blue sky scenario (Rs) | | | 11,250 |
| ADTO-6M (US$ mn) | 6.2 | Grey sky scenario (Rs) | | | 7,200 |
| Free float (%) | 38.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Promoter | Absolute (%) | (6.3) | (5.2) | 16.9 |
| | | Relative (%) | (4.3) | (8.4) | (3.6) |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 81,753 | 92,238 | 102,407 | 116,700 | 133,177 |
| EBITDA (Rs mn) | 16,672 | 18,917 | 21,361 | 25,682 | 30,967 |
| Net profit (Rs mn) | 11,129 | 10,005 | 12,810 | 15,739 | 19,335 |
| EPS (CS adj. Rs) | 116 | 104 | 133 | 163 | 201 |
| - Change from prev. EPS (%) | n.a. | n.a. | 3.6 | 4.9 | 4.8 |
| - Consensus EPS (Rs) | n.a. | n.a. | 130 | 155 | 184 |
| EPS growth (%) | (6.3) | (10.5) | 28.0 | 22.8 | 22.8 |
| P/E (x) | 62.6 | 69.9 | 54.6 | 44.5 | 36.2 |
| Dividend yield (%) | 0.7 | 0.9 | 1.5 | 1.8 | 2.2 |
| EV/EBITDA (x) | 41.7 | 36.6 | 32.5 | 26.8 | 22.1 |
| P/B (x) | 24.8 | 23.2 | 23.0 | 22.2 | 21.4 |
| ROE (%) | 39.4 | 34.3 | 42.3 | 50.8 | 60.2 |
| Net debt(cash)/equity (%) | (17.1) | (28.1) | (18.6) | (34.8) | (52.0) |

*Note 1: Nestlé is India's largest player in packaged foods with market-leading positions in a large number of categories such as noodles, instant coffee and baby food.*

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### Turnaround is firmly underway gathering momentum

We had upgraded Nestle in August 2017 on the conviction that the company was seeing a turnaround after seven years of flat volumes, driven by the new CEO Suresh Narayanan's focus on volume growth and innovation. The 4Q CY17 India growth of 18% reaffirms our view. Nestle's growth this quarter is the highest in the peer-set despite not having as low a base, because demonetisation had a relatively lower on Nestle (as it has lower salience of rural in its mix than most companies that were hit more by demonetisation). Nestle is coming off a slowdown, the scale of which can be gauged by the fact that its CY16 volumes were almost similar to CY09. Margin obsession led to lower innovation, lower advertising and defocus on volumes. With a lot of focus on core products and a large number of product launches, the turnaround has started and is now likely to gain momentum. What adds a great degree of comfort is that the growth in 1H CY17 was broad-based, and led by innovation and volumes.

### Margins have major tailwinds from reducing milk, sugar and wheat-flour prices; GST rate-cuts also a positive

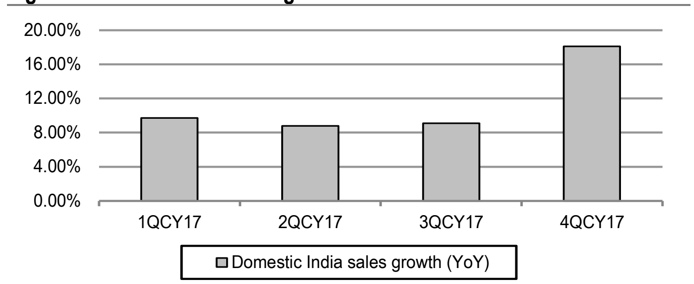
Nestle is likely to see significant gross margin-related tailwinds in CY18 as some of its key input costs—milk, sugar and wheat-flour—are seeing deflation setting in, which will start reflecting in costs going ahead. The GST rate-cut from 28% to 18% in chocolates and coffee will help grow volumes more aggressively.

**Figure 1: Nestle 4Q CY17 results summary**

| Rs mn | 4QCY16 | 3QCY17 | 4QCY17 | % YoY | % QoQ |
|---|---|---|---|---|---|
| Sales | 22,410 | 25,007 | 25,896 | 15.6% | 3.6% |
| EBITDA | 4,660 | 5,825 | 6,105 | 31.0% | 4.8% |
| *EBITDA Margin (%)* | 20.8 | 23.3 | 23.6 | 278bps | 28bps |
| Interest | (210) | (229) | (234) | 11.2% | 2.3% |
| Depreciation & Amortization | (873) | (864) | (838) | -4.1% | -3.0% |
| Other income | 668 | 564 | 629 | -5.8% | 11.5% |
| PBT | 4,244 | 5,297 | 5,662 | 33.4% | 6.9% |
| *Tax Rate (%)* | 30.1 | 33.0 | 29.2 | -81bps | -373bps |
| Pre-exceptional PAT | 2,968 | 3,550 | 4,006 | 35.0% | 12.8% |
| Reported PAT | 1,954 | 3,432 | 3,118 | 59.6% | -9.1% |
| **Cost Details (% sales)** | | | | | |
| Total Raw Material Cost | 42.8 | 43.4 | 41.3 | -155bps | -208bps |
| Employee/Staff Cost | 10.2 | 10.3 | 10.1 | -11bps | -23bps |
| Other Expenditure | 26.2 | 23.0 | 25.1 | -111bps | 203bps |

Source: Company data, Credit Suisse estimates.

**Figure 2: Nestle's India sales growth**




Source: Company data, Credit Suisse

### Global parent launching pet-care through another subsidiary a cause of long-term concern, but does not change our 3-5-year thesis on the company

There has been considerable concern over Nestle's global parent choosing to launch its pet-care products in India not through Nestle but through another wholly owned subsidiary. This is clearly a negative for the very long term. But the concern that all new launches will be done outside of Nestle, is premature at this stage, as we have seen the recent launch of Milo and Alpino happen through Nestle. We hope to get more clarity on this issue in Nestle's next analyst meeting. But it does not in any way change our investment thesis on the company for a three-five-year view.

## Sun Pharma ---------- Maintain OUTPERFORM

**Recovery in US sales after a year; margin guidance maintained for FY18** EPS: ▼ TP: ◄►

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- Key highlights of 3Q18 are (1) recovery in ex-Taro US sales after a year and Sun guiding for sustaining this base in 4Q18; (2) EBITDA guidance of 20-22% maintained for 2H FY18; (3) FY18 sales guidance reduced from single digit decline to almost 14% decline (delayed approvals for Taro like Mupirocion, Epiduo gel, etc.) which shows that Taro's decline in 3Q18 is a new normal.
- Ex-Taro US sales up 20% QoQ (+ $33 mn) driven by (1) Coreg CR launch, (2) seasonally strong quarter for DUSA, (3) market share gains like in Carbidopa/Levodopa, (4) benefit of deferred sales reflected now. Absorica should now be more profitable (despite losing market share) as Sun has reduced copay program.
- 3Q18 margins benefitted from lower other expenses which had benefit of FX gains (in our calculation FX gain is ~Rs1.0 bn). Adjusted margins were 19.7% (2H FY18 guidance of 20-22%).
- Overall 3Q18 was weak (mainly Taro). However, in the near term Sun should be driven by the outcome of (1) Halol re-inspection this month and (2) MK-3222 PDUFA date next month. We cut FY18/19/20E EPS by 8/5/3% to reflect weak Taro numbers.

| Bbg/RIC | SUNP IN / SUN.BO | Price (14 Feb 18 , Rs) | | | 574.45 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP Rs) | | | 640.00 (640.00) |
| 52-wk range (Rs) | 710.9 - 451.3 | Est. pot. % chg. to TP | | | 11 |
| Mkt cap (Rs/US$ bn) | 1,378.3/ 21.5 | Blue sky scenario (Rs) | | | 750.00 |
| ADTO-6M (US$ mn) | 46.8 | Grey sky scenario (Rs) | | | 400.00 |
| Free float (%) | 45.3 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Promoter 54.39% | Absolute (%) | (0.3) | 12.9 | (11.6) |
| | | Relative (%) | 1.6 | 9.8 | (32.2) |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (Rs mn) | 277,442 | 302,642 | 259,827 | 297,748 | 342,403 |
| EBITDA (Rs mn) | 77,983 | 87,751 | 51,606 | 75,933 | 90,391 |
| Net profit (Rs mn) | 54,010 | 69,644 | 32,769 | 55,693 | 68,826 |
| EPS (CS adj. Rs) | 22.4 | 29.0 | 13.7 | 23.2 | 28.7 |
| - Change from prev. EPS (%) | n.a. | n.a. | (7.8) | (5.0) | (2.7) |
| - Consensus EPS (Rs) | n.a. | n.a. | 14.6 | 20.9 | 26.3 |
| EPS growth (%) | 18.9 | 29.3 | (52.9) | 70.0 | 23.6 |
| P/E (x) | 25.6 | 19.8 | 42.1 | 24.7 | 20.0 |
| Dividend yield (%) | 0.2 | 0.7 | 0.3 | 0.6 | 0.8 |
| EV/EBITDA (x) | 16.8 | 14.7 | 24.3 | 16.1 | 13.2 |
| P/B (x) | 4.4 | 3.8 | 3.5 | 3.1 | 2.8 |
| ROE (%) | 18.9 | 20.5 | 8.6 | 13.4 | 14.7 |
| Net debt(cash)/equity (%) | (19.0) | (21.5) | (28.3) | (32.5) | (34.6) |

*Note 1: Sun Pharma is the largest pharma company in India.*

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**Sun Pharma is a Credit Suisse AXJ Focus List stock**

### Recovery in US sales and EBITDA margins

US sales for Sun recovered, with ex-Taro sales increasing $33 mn QoQ. This was the first QoQ increase after almost a year driven by (1) Coreg CR launch, (2) strong seasonal sales in Dusa, (3) market share gains in products like Carbidopa/Levodopa and (4) benefit of deferred sales being reflected now. While gross margins were weak, EBITDA margins were strong at 21.2% due to (1) sequential recovery in US and (2) lower other expenses (driven by cost saving efforts and forex gain – our calculation suggests about Rs1.0 bn) and (3) lower R&D, as MK-3222 spends have reduced now. Adjusting for forex, the adjusted EBITDA margin stands at 19.7% for the quarter. Sun is on track to meet its 2H FY18 EBITDA margin guidance of (20-22%).

### Weak sales ex-US; sales growth guidance cut

Sun's India growth was low (adjusted growth of 11% YoY) and the trend was weaker than peers (likely due to demonetisation benefit for chronic players in the base). Emerging market sales grew 5% while ROW sales were also weak at 2% YoY. Sun guided 4Q FY18 revenues to be around 3Q FY18, which implies FY18 revenues to be down 14% YoY (vs earlier guidance of single-digit decline). The guidance cut is likely to be driven by delayed approval for Taro for several key products such as Mupircoin, Epiduo gel, etc. Sales guidance cut also reflects that weak quarter by Taro in 3Q18 is a new normal.

### Specialty business: Odomzo ramp-up to pick-up

- **Odomzo:** Ramp-up has been slow as Sun was mainly promoting the product to Oncologists. As Odomzo is for skin cancer, Sun has recently started promoting to dermatologists also and that should help the ramp-up. Sun has also launched Odomzo in Germany.
- **MK-3222:** Sun has a PDUFA date of March 2018 and has retained its guidance of FY19 launch in the US. EU queries for extended clinical site review for MK-3222 was not taken by US FDA. Sun has started recruiting field force for MK-3222.
- **Specialty breakeven could be FY20 or beyond:** Sun has earlier guided for specialty breakeven by FY20. However, qualified the statement of breakeven today that if Sun is aggressive in marketing spends on MK-3222 or Seciera, the breakeven could be delayed by few quarters.

### Earnings call takeaways:

- Sun has dropped nine ANDAs this quarter due to lack of viability (Halol resolution delays).
- R&D is running below guidance of 9-10% of revenues as MK-3222 has been filed and Sun is relooking at generic R&D spend.
- Absorica should now be more profitable (despite losing market share) as Sun has reduced copay program.
- On the M&A front, Sun continues to look for assets in Ophthalmology and Dermatology.

**Figure 1: Recovery in margins, despite weak top line**

| Rs mn | 3Q18A | 3Q18E | Diff (%) | 3Q17A | YOY % | 2Q18A | QOQ % |
|---|---|---|---|---|---|---|---|
| **Net sales** | **65,982** | **68,143** | **-3.2%** | **76,832** | **-14%** | **65,901** | **0%** |
| Domestic | 20,850 | 21,268 | -2% | 19,693 | 5.9% | 22,210 | -6% |
| Taro | 10,061 | 10,061 | 0% | 14,853 | -32.3% | 10,922 | -8% |
| US ex-Taro | 12,199 | 12,309 | -1% | 20,854 | -41.5% | 10,045 | 21% |
| ROW | 18,972 | 20,461 | -7% | 17,717 | 7.1% | 18,603 | 2% |
| API | 3,913 | 4,044 | -3% | 3,744 | 4.5% | 4,135 | -5% |
| **Margins** | | | | | | | |
| Gross margin | 68% | 72% | -4% | 71% | -3% | 72% | -3% |
| Employee costs | 21% | 20% | 1% | 16% | 5% | 20% | 1% |
| R&D costs | 7% | 8% | -1% | 7% | 0% | 7% | 0% |
| SG&A | 19% | 26% | -7% | 19% | 0% | 24% | -5% |
| **EBITDA** | **13,984** | **12,560** | **11%** | **22,237** | **-37%** | **13,153** | **6%** |
| **EBITDA margin** | **21.2%** | **18.4%** | **3%** | **28.9%** | **-8%** | **20.0%** | **6%** |
| Depreciation | 3,393 | 3,587 | -5% | 3,068 | 11% | 3,587 | -5% |
| Non-Oper. income | 889 | 2,245 | -60% | 1,851 | -52% | 1,577 | -44% |
| **Pre-tax income** | **11,479** | **11,219** | **2%** | **21,020** | **-45%** | **11,144** | **3%** |
| Income taxes | 7,487 | 4,501 | 66% | 3,729 | 101% | 1,114 | 572% |
| **Net income** | **3,644** | **6,403** | **-43%** | **14,791** | **-75%** | **9,133** | **-60%** |

Source: Company data, Credit Suisse estimates.

## Indonesia

# PT Bank Tabungan Pensiunan Nasional Tbk------------------------------Maintain NEUTRAL

### 4Q17 results: Net loss driven by one-off restructuring cost

**EPS: ◄► TP: ◄►**

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- BTPN reported a net loss of Rp146 bn in 4Q17 vs profit of Rp432 bn in 3Q17 and Rp353 bn in 4Q16, with FY17 being 96% of our estimate. PPOP was down 68% QoQ (69% YoY) as opex was up 35% QoQ (33% YoY) due to a one-off restructuring cost of Rp669 bn. PPOP would have been up 16% QoQ (11% YoY) ex one-off.
- NPL ratio was flat QoQ at 0.9%, and special mention and restructured loan ratio improved modestly by 8 bp and 16 bp, respectively. Gross credit cost was up 104 bp QoQ, 34 bp YoY to 205 bp of loans (ann.) driven by the Syariah and SME segment.
- Margins were slightly down by 10 bp QoQ as the 30 bp lower cost of funds following the 50 bp policy rate cut was more than offset by a 61 bp compression in asset yield. Pressure on business model is evident from the slowdown in core pensioner lending (-1.6% QoQ, -1.9% YoY) where the SOE banks are aggressive.
- BTPN did not provide guidance for 2018E, but expects earnings growth on better overall cost management following the restructuring. It has cut employee strength to 7k from 12k.

| Bbg/RIC | BTPN IJ / BTPN.JK | Price (14 Feb 18 , Rp) | 3,200.00 |
|---|---|---|---|
| **Rating (prev. rating)** | **N (N)** | **TP (prev. TP Rp)** | **3,000 (3,000)** |
| 52-wk range (Rp) | 3560.0 - 2380.0 | Est. pot. % chg. to TP | (6) |
| Mkt cap (Rp/US$ bn) | 18,502.0/ 1.4 | Blue sky scenario (Rp) | 3,400 |
| ADTO-6M (US$ mn) | 0.1 | Grey sky scenario (Rp) | 1,900 |
| Free float (%) | 34.7 | | |
| Major shareholders | SMFG (40%), Summit Global (20%), TPG Nusantara (8.4%) | | |

| **Performance** | **1M** | **3M** | **12M** |
|---|---|---|---|
| Absolute (%) | 22.1 | 32.2 | 23.1 |
| Relative (%) | 18.8 | 23.0 | 0.5 |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| Pre-prov Op profit (Rp bn) | 3,121.7 | 3,380.2 | 3,486.1 | 3,565.2 | 3,873.1 |
| Net profit (Rp bn) | 1,702 | 1,752 | 1,268 | 1,875 | 2,084 |
| EPS (CS adj. Rp) | 291 | 300 | 217 | 321 | 357 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Rp) | n.a. | n.a. | 224 | 338 | 402 |
| EPS growth (%) | (8.9) | 3.0 | (27.6) | 47.9 | 11.1 |
| P/E (x) | 11.0 | 10.7 | 14.7 | 10.0 | 9.0 |
| Dividend yield (%) | 0 | 0 | 0 | 0 | 0 |
| BVPS (CS adj. Rp) | 2,325 | 2,713 | 2,931 | 3,252 | 3,609 |
| P/B (x) | 1.38 | 1.18 | 1.09 | 0.98 | 0.89 |
| ROE (%) | 13.4 | 11.9 | 7.7 | 10.4 | 10.4 |
| ROA (%) | 2.2 | 2.0 | 1.3 | 1.8 | 1.8 |
| Tier 1 ratio (%) | 22.9 | 24.1 | 24.2 | 24.9 | 25.9 |

*Note 1: Bank Tabungan Pensiunan Nasional is a financial institution that specializes in funding and lending. The bank offers accounts in deposits & savings, pension loans, small to medium sized business loans, and other financial products.*

**Figure 1: BTPN – loan composition and growth**

| (Rp tn, %) | 4Q17 | % share | '15 YoY | '16 YoY | '17 YoY | 5Y CAGR | 4Q17 QoQ | 4Q17 YoY |
|---|---|---|---|---|---|---|---|---|
| Pensioners | 39.4 | 60.3 | 9.0 | 6.1 | -1.9 | 7.0 | -1.6 | -1.9 |
| Micro | 5.5 | 8.4 | n.a. | -17.9 | -23.8 | -9.5 | -11.4 | -23.8 |
| SME | 11.6 | 17.7 | n.a. | 35.0 | 24.8 | n.a. | 2.1 | 24.8 |
| Syariah | 6.1 | 9.3 | 47.2 | 35.9 | 21.1 | 64.4 | 5.2 | 21.1 |
| Others | 2.9 | 4.4 | -29.5 | 8.4 | 84.2 | 17.2 | 15.5 | 84.2 |
| **Total loans** | **65.4** | **100** | **12.7** | **7.8** | **3.5** | **11.0** | **-0.6** | **3.5** |
| CASA deposits | 7.8 | 11.5 | -1.3 | -1.7 | 2.3 | 2.9 | -2.5 | 2.3 |
| **Total deposits** | **67.9** | **100** | **13.0** | **9.8** | **2.6** | **8.5** | **-2.4** | **2.6** |

Source: Company data, Credit Suisse.

### Asset quality broadly stable

NPL ratio was flat QoQ at 0.90%, special mention and restructured loan ratio improved modestly by 8 bp and 16 bp, respectively.

**Figure 2: BTPN - asset quality snapshot (% of loans)**

| (%) | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|
| Micro | 3.1 | 3.2 | 3.0 | 2.9 | 3.2 | 3.2 | 3.0 | -0.2 | 0.0 |
| SME | 0.9 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 1.0 | -0.1 | 0.0 |
| Syariah | 1.2 | 1.4 | 1.5 | 1.7 | 1.7 | 1.7 | 1.7 | 0.0 | 0.2 |
| Pension | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.1 | 0.2 |
| **Total NPL ratio** | **0.74** | **0.78** | **0.79** | **0.79** | **0.89** | **0.90** | **0.90** | **0.00** | **0.11** |
| SML ratio | 2.00 | 1.99 | 1.81 | 2.02 | 2.16 | 3.05 | 2.97 | -0.08 | 1.16 |
| Restructured loans | 2.31 | 2.24 | 2.06 | 1.90 | 1.79 | 1.74 | 1.58 | -0.16 | -0.49 |
| Write-offs * | 0.38 | 0.24 | 0.29 | 0.31 | 0.48 | 0.22 | 0.47 | 0.25 | 0.18 |

*Write-off not annualised. Source: Company data, Credit Suisse.

### Margins were slightly down QoQ

**Figure 3: BTPN—asset yield, deposit cost and net interest margins**

| (%) | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | 2Q17 | 3Q17 | 4Q17 | QoQ | YoY |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset yields* | 18.9 | 18.8 | 18.5 | 18.3 | 17.7 | 17.4 | 17.5 | 16.9 | -0.6 | -1.4 |
| Cost of funding | 8.0 | 7.0 | 6.7 | 6.5 | 6.2 | 6.0 | 6.0 | 5.7 | -0.3 | -0.8 |
| **Net int. margin** | **11.4** | **12.2** | **12.2** | **12.3** | **12.0** | **11.8** | **11.6** | **11.5** | **-0.1** | **-0.7** |

*CS calculated. Source: Company data, Credit Suisse.

### Profit dragged by a one-off restructuring cost

PPOP was down 68% QoQ (69% YoY) as opex was up 35% QoQ (33% YoY) due to a one-off restructuring cost of Rp669 bn. PPOP would have been up 16% QoQ (11% YoY) excluding the one-off cost.

**Figure 4: BTPN—quarterly result snapshot**

| (Rp bn, %) | 4Q16 | 3Q17 | 4Q17 | QoQ | YoY | 2016 | 2017 | YoY |
|---|---|---|---|---|---|---|---|---|
| Net interest inc | 2338 | 2,353 | 2,406 | 2.3 | 2.9 | 8,854 | 9,522 | 7.5 |
| Non-interest inc | 196 | 123 | 115 | -6.6 | -41.5 | 625 | 564 | -9.8 |
| Total revenue | 2,534 | 2,475 | 2,521 | 1.8 | -0.5 | 9,479 | 10,086 | 6.4 |
| Operating exp. | -1,700 | -1,678 | -2,265 | 35.0 | 33.2 | -6,099 | -7,104 | 16.5 |
| **Pre-prov.op.profit** | **834** | **797** | **256** | **-67.9** | **-69.3** | **3,380** | **2,981** | **-11.8** |
| Gross provisions | -268 | -167 | -336 | 100.8 | 25.3 | -893 | -1,084 | 21.4 |
| Recoveries | 40 | 29 | 27 | -5.1 | -33.1 | 122 | 89 | -27.1 |
| Net provisions | -228 | -139 | -309 | 122.5 | 35.6 | -771 | -995 | 29.0 |
| Operating profit | 606 | 658 | -53 | -108.0 | -108.7 | 2,609 | 1,986 | -23.9 |
| Tax | -209 | -170 | 15 | -108.5 | -106.9 | -729 | -515 | -29.3 |
| **Attr.net profit** | **353** | **432** | **-146** | **-133.8** | **-141.3** | **1,752** | **1,221** | **-30.3** |
| ROA (annualized) | 1.59 | 1.81 | -0.62 | -2.4 | -2.2 | 2.03 | 1.31 | -0.7 |
| ROE (annualized) | 9.0 | 10.5 | -3.5 | -14.0 | -12.5 | 11.9 | 7.5 | -4.4 |
| Net interest margin | 12.3 | 11.7 | 11.5 | -0.1 | -0.7 | 12.0 | 11.6 | -0.4 |
| Non int inc to rev | 7.7 | 5.0 | 4.6 | -0.4 | -3.2 | 6.6 | 5.6 | -1.0 |
| Cost income ratio | 67.1 | 67.8 | 89.9 | 22.1 | 22.8 | 64.3 | 70.4 | 6.1 |
| Gross credit cost* | 171 | 101 | 205 | 104 | 34 | 147 | 169 | 22.0 |
| Recoveries* | -26 | -17 | -17 | 1 | 9 | -20 | -14 | 6.2 |
| **Net credit cost*** | **145** | **84** | **188** | **104** | **44** | **127** | **155** | **28.2** |
| NPL ratio | 0.8 | 0.9 | 0.9 | 0.0 | 0.1 | 0.8 | 0.9 | 0.1 |
| NPL coverage | 137 | 129 | 135 | 6.0 | -2.0 | 137 | 135 | -2.0 |
| LLR to loans | 1.1 | 1.2 | 1.2 | 0.1 | 0.1 | 1.1 | 1.2 | 0.1 |
| Core CAR | 24.1 | 23.9 | 24.7 | 0.8 | 0.6 | 24.1 | 24.7 | 0.6 |

*bp of loans annualised. Source: Company data, Credit Suisse estimates

**Malaysia**

# BAT Malaysia ---------------------------------------------------------------- Maintain OUTPERFORM

## FY17: Trough earnings

**EPS: ▼ TP: ▼**

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- BATM's 2017 core profit -23% YoY, missing expectations at 92% of street and 88% of CS. Market share in 2017 declined 3.2 pp to 53.9%, with domestic cigarette volumes falling 14.5% YoY.
- Encouragingly, market share has steadily inched up throughout 2017 to end the year at 54.6%. New Rothmans brand is gaining good traction, commanding 3% of the VFM market.
- We cut FY18-19E EPS by 18-23%. Key assumptions: 3-4% volume growth and market share of 55-58% over FY18-20. The investments into Rothman will have some near-term impact on margins, but could be partially mitigated by a persistently strong MYR. Our target price reduces from RM47.50 to RM36.95.
- Why still an OUTPERFORM? (1) We believe earnings have troughed in 2017; our forecasts culminate at 11% three-year earnings CAGR, (2) sustainable dividends; yields 5-7%, (3) potential privatisation candidate given severe underperformance and relatively attractive valuations versus history.

| | |
|---|---|
| **Bbg/RIC** | **ROTH MK / BATO.KL** |
| **Rating (prev. rating)** | **O (O)** |
| 52-wk range (RM) | 50.6 - 31.8 |
| Mkt cap (RM/US$ mn) | 9,388.2/ 2,384.6 |
| ADTO-6M (US$ mn) | 2.5 |
| Free float (%) | 50.0 |
| Major shareholders | BAT PLC (50%) |

| | | | |
|---|---|---|---|
| **Price (13 Feb 18 , RM)** | | | **32.88** |
| **TP (prev. TP RM)** | | | **36.95 (47.50)** |
| Est. pot. % chg. to TP | | | 12 |
| Blue sky scenario (RM) | | | 40.20 |
| Grey sky scenario (RM) | | | 29.00 |
| **Performance** | **1M** | **3M** | **12M** |
| Absolute (%) | (3.3) | (16.8) | (30.8) |
| Relative (%) | (3.7) | (23.4) | (38.1) |

| Year | 12/16A | 12/17A | 12/18E | 12/19E | 12/20E |
|---|---|---|---|---|---|
| Revenue (RM mn) | 3,756 | 3,002 | 3,405 | 3,533 | 3,626 |
| EBITDA (RM mn) | 927.4 | 595.2 | 739.9 | 793.2 | 906.6 |
| Net profit (RM mn) | 675.1 | 501.9 | 564.4 | 606.8 | 694.2 |
| EPS (CS adj. RM) | 2.36 | 1.76 | 1.98 | 2.13 | 2.43 |
| - Change from prev. EPS (%) | n.a. | n.a. | (18.4) | (22.7) | |
| - Consensus EPS (RM) | n.a. | n.a. | 2.14 | 2.21 | |
| EPS growth (%) | (25.8) | (25.7) | 12.5 | 7.5 | 14.4 |
| P/E (x) | 13.9 | 18.7 | 16.6 | 15.5 | 13.5 |
| Dividend yield (%) | 8.5 | 5.0 | 5.7 | 6.1 | 7.0 |
| EV/EBITDA (x) | 10.2 | 16.4 | 13.1 | 12.2 | 10.7 |
| P/B (x) | 15.3 | 24.6 | 20.4 | 19.1 | 17.9 |
| ROE (%) | 116.4 | 100.8 | 134.0 | 127.6 | 136.6 |
| Net debt(cash)/equity (%) | 15.8 | 95.9 | 72.1 | 65.5 | 59.3 |

*Note 1: British American Tobacco (Malaysia) Berhad is the largest tobacco company in the country. It is involved in the manufacturing, marketing and distribution of cigarettes under various brands, i.e., Dunhill, Peter Stuyvesant and Pall Mall, among others.*

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### 2017 core profit down 23% YoY

BAT Malaysia (BATM)'s 2017 core profit, upon stripping out for one-off restructuring expenses and some provisions made for the impairment of excise duties, came in at RM522 mn, down 23% YoY. Full-year numbers missed expectations at 92% of street's and 88% of CS.

**Figure 1: BATM's results summary**

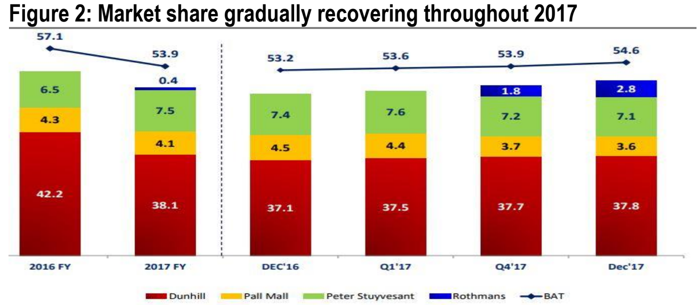
| Period | 12M17 | 12M16 | YoY | 4Q17 | 4Q16 | YoY | 3Q17 | q-q | % CS | % Cons |
|---|---|---|---|---|---|---|---|---|---|---|
| Turnover | 3,002 | 3,756 | -20% | 700 | 841 | -17% | 757 | -8% | 87% | 93% |
| EBIT | 649 | 917 | -29% | 105 | 316 | -67% | 189 | -45% | 83% | 86% |
| PBT margin | 21% | 24% | -12% | 15% | 38% | -61% | 25% | -41% | | |
| Net profit | 493 | 721 | -32% | 81 | 289 | -72% | 145 | -44% | 83% | 87% |
| Core profit | 522 | 678 | -23% | 103 | 157 | -35% | 148 | -30% | 88% | 92% |

Source: Company data, Credit Suisse estimates.

### What does the result mean?

For full-year 2017, BATM lost 3.2 pp market share to 53.9%. But encouragingly, market share has steadily inched up throughout 2017. "Dunhill" appears to be gradually recovering, while the newly introduced value-for-money (VFM) brand "Rothmans" now has approximately 3% share (estimated total share of VFM brands is 10%).

**Figure 2: Market share gradually recovering throughout 2017**




Source: Company data.

Cigarette volumes declined 14.5% YoY in 2017. In 4Q17, the sequential decline was 1.5% QoQ, beckoning that current volume levels are probably at the trough already. Meanwhile, illicit market share inched up to 59% in 4Q18 (from 57% in 3Q).

### Out of turbulence?

As we update for full-year and roll forward numbers, our FY18-19E EPS is cut by 18-23%. Key assumptions include: +3%/+4%/+4% cigarette volume growth and overall market share of 55.5%/56.6%/58.1% for FY18/19/20. We have also factored in higher advertising and marketing expenses particularly in FY18 and 19 as BATM continues to invest in growing the new "Rothmans" brand. There will be some short-term impact on margins with these lower-priced products, but could potentially be offset by the currency tailwinds (stronger MYR).

Our earnings forecast culminate at three-year earnings CAGR of 11%. This will be driven by volume rebound off a depressed base, cost savings from a much leaner operations since the switch to a fully import model, and a gradually rising market share as consumer sentiment improves.

### Rock-bottom expectations; stay OUTPERFORM

BATM declared a fourth interim dividend of 43sen, bringing total FY17 dividends to RM1.69 (98% payout). Even on our much lower earnings expectations, the stock yields an attractive 5.7% in FY18, assuming a 95% payout ratio.

Share price has underperformed significantly, and understandably so, given the structural concerns plaguing the industry and company. However, these levels do look like a compelling entry point: (1) trough earnings (2) sustainable dividends (3) potential privatisation candidate.

We reduce our DCF-based target price from RM47.50 to RM36.95. Stay OUTPERFORM.

## Carlsberg Brewery Malaysia Bhd---------------------------------------- Maintain OUTPERFORM

**Strong 2017 numbers, upped dividends** **EPS: ▲ TP: ▲**

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- CAB reported 2017 core profit of RM246 mn, up 20% YoY. The numbers came in at 105% of street's expectations (CS: 103%).The strong results were driven by a stronger top line on higher ASP as well as volume growth, good cost control and a recovery seen in associate Lion Brewery.
- Based on CAB's guidance, the volume growth across all three markets were quite commendable. The 'Carlsberg' brand grew 7% YoY while premium brands ('Somersby', 'Kronenbourg', 'Connor's', 'Asahi') grew 24% YoY.
- CAB declared a final DPS of 66 sen and a special dividend of 11 sen, bringing the total dividend in 2017 to 87 sen. Management announced a formal dividend policy, whereby it will pay at least 100% of its net profit.
- We lift FY18-19E EPS marginally by 3% each and raise target price to RM19.00 (from RM17.80). Maintain OUTPERFORM.

| Bbg/RIC | CAB MK / CBMS.KL | Price (14 Feb 18 , RM) | | | 16.66 |
|---|---|---|---|---|---|
| Rating (prev. rating) | O (O) | TP (prev. TP RM) | | | 19.00 (17.80) |
| 52-wk range (RM) | 16.7 - 14.0 | Est. pot. % chg. to TP | | | 14 |
| Mkt cap (RM/US$ mn) | 5,093.8/ 1,298.4 | Blue sky scenario (RM) | | | 19.85 |
| ADTO-6M (US$ mn) | 0.4 | Grey sky scenario (RM) | | | 16.10 |
| Free float (%) | 45.9 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Carlsberg Breweries A/S (51%) | Absolute (%) | 5.0 | 11.1 | 19.0 |
| | | Relative (%) | 4.6 | 4.3 | 11.6 |

| Year | 12/16A | 12/17A | 12/18E | 12/19E | 12/20E |
|---|---|---|---|---|---|
| Revenue (RM mn) | 1,679 | 1,768 | 2,011 | 2,211 | 2,351 |
| EBITDA (RM mn) | 327.8 | 331.9 | 394.0 | 429.0 | 458.6 |
| Net profit (RM mn) | 205.0 | 246.2 | 268.5 | 296.2 | 319.3 |
| EPS (CS adj. RM) | 0.67 | 0.81 | 0.88 | 0.97 | 1.04 |
| - Change from prev. EPS (%) | n.a. | n.a. | 2.8 | 3.3 | |
| - Consensus EPS (RM) | n.a. | n.a. | 0.83 | 0.88 | |
| EPS growth (%) | (5.1) | 20.1 | 9.1 | 10.3 | 7.8 |
| P/E (x) | 24.9 | 20.7 | 19.0 | 17.2 | 16.0 |
| Dividend yield (%) | 4.3 | 5.2 | 5.3 | 5.8 | 6.3 |
| EV/EBITDA (x) | 15.5 | 15.2 | 12.9 | 11.9 | 11.1 |
| P/B (x) | 15.8 | 17.0 | 17.0 | 17.0 | 17.0 |
| ROE (%) | 62.4 | 79.3 | 89.8 | 99.1 | 106.8 |
| Net debt(cash)/equity (%) | (0.9) | (18.6) | 1.5 | 4.8 | 4.8 |

*Note 1: Carlsberg Brewery Malaysia Bhd along with its subsidiaries is engaged in the production of beer, stout, shandy and non-alcoholic beverages for distribution in the home market and for export.*

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### 2017 results beat expectations

Carlsberg Malaysia (CAB) reported a core profit of RM246 mn in 2017, +20% YoY. We have adjusted for provisions made for trade offers in Singapore.

The results came in at 105% of street estimate (CSe: 103%). The 5% in revenue growth was driven by higher sales, continued premiumisation in Malaysia, a much better cost-control, as well as a recovery in associate Lion Brewery's operations.

CAB's volume growth in all three markets: Carlsberg grew 7% YoY; while premium brands (Somersby, Kronenbourg, Connor's, Asahi) saw volume growing by 24% YoY.

Region-wise market performance:

**Malaysia**

Revenue grew 6.6% with higher ASP and volume growth from portfolio premiumisation. Operating profit grew 10.9% with better cost-control.

**Singapore**

Revenue grew 2.4% while operating profit declined 16.1%. This was mainly due to the trade offer adjustments.

**Sri Lanka**

Associate Lion Brewery managed to narrow its losses to RM0.2 mn in 2017 (from RM5 mn in 2016) with the recovery of business from the flood disruption last year.

### Upped dividends; stay OUTPERFORM

CAB declared a final dividend per share of 66 sen and a special dividend of 11 sen, bringing the total dividend in 2017 to 87 sen (115% payout). The group announced a formal dividend policy whereby it will pay out at least 100% of its net profit going forward.

Upon updating for full-year and rolling forward our numbers, we raise FY18E and FY19E EPS by 3% each. Our DCF-based target price increases to RM19.00 (from RM17.80). We maintain our OUTPERFORM rating on CAB. Dividend yields are attractive at >5% and we think there is still scope for earnings growth as CAB continues to grow its premium portfolio and deliver cost optimisation.

**Figure 1: CAB's results review**

| Period | 12M | 12M | | 3M | 3M | | 3M | | CS | Street | CS | Street |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RM mn | 2017 | 2016 | Δ | 4Q17 | 4Q16 | Δ | 3Q17 | Δ | FY17 | FY17 | % | % |
| Revenue | 1,768 | 1,679 | 5% | 430 | 435 | -1% | 424 | 2% | 1,806 | 1,816 | 98% | 97% |
| Operating Profit | 299 | 294 | 2% | 66 | 86 | -23% | 56 | 18% | 318 | 315 | 94% | 95% |
| Operating Profit Margin | 17% | 18% | | 15% | 20% | | 13% | | 18% | 17% | | |
| Profit Before Tax | 295 | 284 | 4% | 68 | 81 | -16% | 55 | 23% | 321 | 313 | 92% | 94% |
| Net Profit | 221 | 205 | 8% | 50 | 47 | 6% | 43 | 17% | 238 | 235 | 93% | 94% |
| Core Profit | 246 | 205 | 20% | 64 | 47 | 36% | 61 | 5% | 238 | 235 | 103% | 105% |

Source: Company data, IBES, Credit Suisse estimates.

## Heineken Malaysia Bhd ----------------------------------------------------------Maintain NEUTRAL

**2017 numbers broadly in-line** **EPS: ▲ TP: ▲**

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- HEIN 2017 net profit at RM270 mn, -1% YoY vs same period 2016 (change in FYE from June to December). The results made up 98% of Street expectations (CS: 96%). Top-line growth of 3% driven by higher volume with favourable sales mix. Their cost optimisation efforts also yielded positively, albeit negated by much higher taxes.
- HEIN declared a final dividend of 49sen, bringing total dividends to 90sen (106% payout). We raise FY18-19E EPS marginally by 1-4% and target price to RM19.00 (from RM18.70).
- Maintain NEUTRAL. The stock offers yields of between 4.9-5.7% on a 100% payout assumption.
- We prefer Carlsberg Malaysia within breweries: (1) Share price underperformed relative to HEIN, (2) Stronger earnings, (3) Diversification from Singapore and a turnaround in associate, (4) Relatively cheaper (lower P/E multiples at 19x FY18 P/E vs HEIN's 20x), and (5) More attractive dividend yields (5.3% in FY18 vs HEIN's 4.9%).

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **HEIM MK / HEIN.KL** | **Price (14 Feb 18 , RM)** | | | **20.42** |
| **Rating (prev. rating)** | **N (N)** | **TP (prev. TP RM)** | | | **19.00 (18.70)** |
| 52-wk range (RM) | 20.4 - 15.9 | Est. pot. % chg. to TP | | | (7) |
| Mkt cap (RM/US$ mn) | 6,168.8/ 1,572.5 | Blue sky scenario (RM) | | | 23.70 |
| ADTO-6M (US$ mn) | 0.5 | Grey sky scenario (RM) | | | 13.90 |
| Free float (%) | 45.6 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | GAPL Pte Ltd (51%) | Absolute (%) | 6.4 | 12.8 | 28.4 |
| | | Relative (%) | 5.9 | 6.0 | 21.1 |

| **Year** | **12/16A** | **12/17A** | **12/18E** | **12/19E** | **12/20E** |
|---|---|---|---|---|---|
| Revenue (RM mn) | 2,810 | 1,930 | 2,130 | 2,258 | 2,409 |
| EBITDA (RM mn) | 712.6 | 470.0 | 492.6 | 461.9 | 496.1 |
| Net profit (RM mn) | 427.3 | 270.1 | 302.9 | 334.0 | 349.9 |
| EPS (CS adj. RM) | 1.41 | 0.89 | 1.00 | 1.11 | 1.16 |
| - Change from prev. EPS (%) | n.a. | n.a. | 1.7 | 3.9 | |
| - Consensus EPS (RM) | n.a. | n.a. | 0.97 | 1.02 | |
| EPS growth (%) | 99.5 | (36.8) | 12.1 | 10.3 | 4.8 |
| P/E (x) | 14.4 | 22.8 | 20.4 | 18.5 | 17.6 |
| Dividend yield (%) | 7.1 | 4.4 | 4.9 | 5.5 | 5.7 |
| EV/EBITDA (x) | 8.8 | 13.3 | 12.5 | 13.4 | 12.6 |
| P/B (x) | 15.7 | 17.1 | 17.2 | 17.3 | 17.4 |
| ROE (%) | 111.2 | 71.7 | 84.2 | 93.5 | 98.6 |
| Net debt(cash)/equity (%) | 17.8 | 24.9 | (0.7) | 12.3 | 23.6 |

*Note 1: Heineken Malaysia Bhd is engaged in the production, packaging, marketing and distribution of malt beverages.*

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### 2017 earnings broadly in-line

Heineken Malaysia (HEIN) reported FY17 net profit of RM270 mn. The results made up 98% of Street's full-year expectations (CS: 96%). It is not comparable YoY due to the change in financial year-end from June to December in 2016.

However, comparing HEIN's Jan-Dec 2017 results with same period last year shows that net profit declined marginally by 1%. Top-line grew 3% driven by volume growth with favourable sales mix while there were positive savings from cost optimisation. But, there were some tax distortions as the effective tax rate was higher due to prior year's deferred taxation.

On a QoQ basis, the 4Q numbers came in strongly with top-line growing by 20% and bottom-line at +42%. We believe this was boosted by seasonal upswing in preparation for CNY. HEIN's locally brewed cider brand—"Apple Fox" introduced in August 2017 continued to do well, albeit still a very small base at this juncture. In addition, there was also a difference in timing for commercial spend thus boosting profit numbers.

### Dividends

HEIN declared a final dividend of 49sen per share, bringing total dividends for 2017 to 90sen (106% payout). We have based our forecast on a 100% payout assumption going forward. At these levels, HEIN offers yields of between 4.9-5.7%.

### Maintain NEUTRAL; prefer Carlsberg Malaysia

We raise FY18-19E EPS marginally by 1-4% and target price to RM19.00 (from RM18.70). We maintain our NEUTRAL rating on the stock.

Within the breweries space, we still prefer Carlsberg Malaysia as

1) Share price has underperformed relative to HEIN,

(2) Earnings delivery has been stronger,

(3) Diversification from its stronghold Singapore and a turnaround in associate Lion Brewery,

(4) Relatively cheaper (lower P/E multiples at 19x FY18 P/E vs HEIN's 20x), and

(5) More attractive dividend yields (5.3% in FY18 vs HEIN's 4.9%).

**Figure 1: HEIN's results review**

| **Period** | **Jan-Dec 17** | **Jan-Dec 16** | | **Oct-Dec 17** | **Oct-Dec 16** | | **Jul-Sep 17** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **FYE Dec** | **12M FY17** | **12M FY16** | **YoY** | **4Q FY17** | **6Q FY16** | **YoY** | **3Q FY17** | **QoQ** | **% of CS** | **% of Street** |
| Revenue | 1,930 | 1,881 | 3% | 613 | 578 | 6% | 510 | 20% | 93% | 103% |
| Operating profit | 366 | 349 | 5% | 124 | 123 | 1% | 95 | 30% | 99% | 102% |
| Profit before tax | 363 | 347 | 5% | 123 | 122 | 1% | 95 | 30% | 98% | 101% |
| Net profit | 270 | 273 | -1% | 94 | 105 | -11% | 66 | 42% | 96% | 98% |

Source: Company data, IBES, Credit Suisse estimates.

**Singapore**

# Singapore Property Sector

## Primary sales of 522 units in January (+37% YoY) marks strongest start in four years

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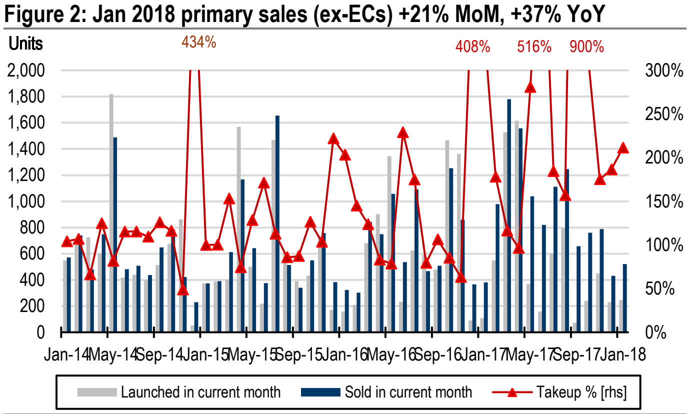
- Private primary sales (ex EC) in January saw the strongest start to the year in four years with 522 units sold (+21% MoM and +37% YoY). This despite there being no new launches in the month. We note CDL's recent launch of *New Futura* sold over 40 units at S$3,200 psf, with CDL's *The Tapestry,* Oxley's *Verandah Residences* are key new launch projects to watch in 1Q18.
- Executive Condo (EC) primary sales were flat MoM but fell 46% YoY to 100 units due to limited supply available. Sales from the top four projects made up 80% of EC primary sales for the month.
- So far in 2018, there's optimism in land tenders from en-bloc sites and government land sales—YTD S$2.2 bn of en bloc sales have been announced (vs S$8.3 bn in 2017), including *Pearl Bank Apartments* acquired by CapitaLand.
- We expect a 5-10% increase in residential prices and 36% increase in overall 2018 volumes. We like CDL and UOL, given both are key beneficiaries of improving sentiment in the Singapore residential market. CDL trades at 1.2x P/B (historical cost) vs historical average of 1.8x, while UOL trades at 0.76x P/B and 39% discount to RNAV.

**Figure 1: January 2018 private primary volumes (ex-ECs)**

| | Units sold | | | % | % composition | |
|---|---|---|---|---|---|---|
| | Jan18 | Dec17 | 2017 | YoY | Jan18* | Dec17* |
| Core Central Region (CCR) | 34 | 40 | 893 | 3 | 7 | 9 |
| Rest of Central Region (RCR) | 215 | 150 | 3,554 | 95 | 41 | 35 |
| Outside Central Region (OCR) | 273 | 241 | 6,234 | 15 | 52 | 56 |
| **Total** | **522** | **431** | **10,681** | **37** | **100** | **100** |

*Sum of percentages may not add to 100% due to rounding. Source: URA

**Figure 2: Jan 2018 primary sales (ex-ECs) +21% MoM, +37% YoY**



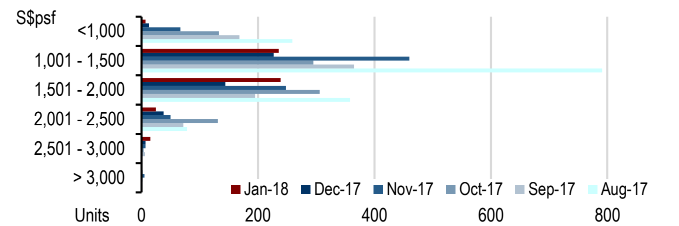

Source: URA, Credit Suisse research

### Broad-based growth continues despite no major new launch projects

Private primary sales (ex EC) in January saw a strong start to the year, with 522 units sold, +21% MoM and +37% YoY, marking the strongest start in four years. Sales were led by similar names such as *Symphony Suites* (65 units sold), *Gem Residences* (44 units sold), and *Parc Botannia* (43 units sold) which launched in November 2017. There were no new launches in January. Take-up for the month was 211%. Most notably, we note a pick-up YoY in sales in the mid-market (Rest of Central Region) during the month.

Meanwhile, Executive Condo (EC) primary sales were flat MoM but fell 46% YoY to 100 units due to limited supply available. Sales were led by FCL's Parc Life (25 units sold), *iNZ Residence* (20 units sold), *The Criterion* (18 units sold), and *Signature at Yishun* (16 units sold), which together made up 80% of EC primary sales for the month.

**Figure 3: Increased transaction in the S$1.5k to S$2k psf bracket**




Source: URA

**Figure 4: Top-selling projects (ex-ECs) in January 2018**

| Project name | Region | Total units | Sold in Jan-18 | Sold to date | % sold total | Med px (S$psf) | Near MRT |
|---|---|---|---|---|---|---|---|
| Symphony Suites | OCR | 660 | 65 | 656 | 99 | 1,085 | N |
| Gem Residences | RCR | 578 | 44 | 521 | 90 | 1,508 | Y |
| Parc Botannia | OCR | 735 | 43 | 302 | 41 | 1,265 | N |
| Highline Residences | RCR | 500 | 42 | 492 | 98 | 1,962 | Y |
| Kingsford Waterbay | OCR | 1,165 | 31 | 1,000 | 86 | 1,424 | N |
| Queens Peak | RCR | 736 | 28 | 601 | 82 | 1,760 | Y |
| Seaside Residences | OCR | 841 | 24 | 588 | 70 | 1,676 | N |
| Grandeur Park Res. | OCR | 720 | 17 | 623 | 87 | 1,492 | Y |
| Artra | RCR | 400 | 15 | 206 | 52 | 1,703 | Y |
| Sims Urban Oasis | RCR | 1,024 | 14 | 975 | 95 | 1,544 | Y |

Source: URA

### Key land tenders and new launch projects to watch

2017 saw optimistic land bids amidst a healthy revival of residential sentiment. So far into 2018, we note healthy optimism in three land tenders from the government land sales (GLS) (note here). Additionally, we note that YTD, S$2.2 bn of en bloc sales have been announced (vs S$8.3 bn over 2017). This includes *Pearl Bank Apartments* which is to be acquired by CapitaLand at S$1,515 psf ppr. Looking ahead, we believe a heavily contested site will be *Sumang Walk EC* which closes on 27th February given the limited available supply and Hoi Hup's *Hundred Palms EC* which fully sold out in seven hours, with their next EC launch, *Rivercove Residences* at Anchorvale expected in March 2018.

Other key upcoming launches to watch include Oxley's '*Verandah Residences'* on Pasir Panjang Road, as well as CDL's '*The Tapestry'* on Tampines Avenue 10. We also note that CDL's recent launch of *New Futura* in January has already sold over 40 of its 124 units at an average of c.S$3,200 psf.

### Expect 5-10% price increase, 36% volume increase in 2018

We expect a 5-10% increase in residential prices and 36% increase in overall volumes in 2018 (link to our report here). With the continued revival of the en-bloc market driving further reductions in net supply, we expect vacancy rates to decline from 7.8% as at 4Q17 to 6.6% in 2018E, a four-year low.

# Singapore Airlines Limited ------------------------------------------------------Maintain NEUTRAL

## 3Q FY18 above expectations on strong cargo profits

**EPS: ▲ TP: ▲**

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- 3Q FY18 underlying PATMI was S$326 mn, up 18% YoY, as operating profit increased 12.5%. 9M FY18 adjusted PATMI of S$607 mn made up 96% of consensus FY18 estimates.
- EBIT improved by S$36.5 mn in 3Q FY18 to S$329.4 mn, largely driven by strength in SIA Cargo (+S$34.6 mn) and Scoot (+S$14.7 mn), partially offset by SilkAir weakness (-S$11 mn). Notably, cargo yields rose 12.1% YoY, with cargo continuing to see strong growth in January 2018 with 5.1% YoY growth in freight carried.
- Parent yields continued to decline in 3Q FY18 by 1%, although the pace of declines has stabilised. While management highlighted continued pressure in yields, there appears to be more rational capacity additions by its key competitors, in line with our team's view that capacity growth will slow in the near term.
- We adjust our FY18-20E EPS by 51-61% on lower opex and higher yield assumptions, and raise TP to S$10.70 from S$10.25 based on 0.9x P/B, given our expectations that FY18E ROE at 6% would remain below cost of equity. Maintain NEUTRAL.

| Bbg/RIC | SIA SP / SIAL.SI | Price (14 Feb 18 , S$) | | | 11.15 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (N) | TP (prev. TP S$) | | | 10.70 (10.25) |
| 52-wk range (S$) | 11.5 - 9.8 | Est. pot. % chg. to TP | | | (4) |
| Mkt cap (S$/US$ bn) | 13.4/ 10.1 | Blue sky scenario (S$) | | | 13.50 |
| ADTO-6M (US$ mn) | 10.5 | Grey sky scenario (S$) | | | 8.90 |
| Free float (%) | 44.2 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Temasek - 55.8% | Absolute (%) | 0.7 | 5.6 | 13.3 |
| | | Relative (%) | 4.5 | 3.7 | 2.6 |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (S$ mn) | 15,239 | 14,869 | 15,996 | 16,377 | 16,856 |
| EBITDAR | 3,181.6 | 3,110.6 | 3,532.2 | 3,656.6 | 3,893.8 |
| Net profit (S$ mn) | 804.4 | 360.4 | 791.1 | 831.6 | 834.1 |
| EPS (CS adj. S$) | 0.69 | 0.30 | 0.67 | 0.70 | 0.71 |
| - Change from prev. EPS (%) | n.a. | n.a. | 52.4 | 61.1 | 51.4 |
| - Consensus EPS (S$) | n.a. | n.a. | 0.53 | 0.46 | 0.46 |
| EPS growth (%) | 120.2 | (55.9) | 121.2 | 4.7 | 0.5 |
| P/E (x) | 16.2 | 36.8 | 16.6 | 15.9 | 15.8 |
| Dividend yield (%) | 4.0 | 1.8 | 3.3 | 3.4 | 3.4 |
| EV/EBITDAR (x) | 5.4 | 5.9 | 5.5 | 6.0 | 6.2 |
| P/B (x) | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 |
| ROE (%) | 6.4 | 2.8 | 6.0 | 6.1 | 6.0 |
| Net debt(cash)/equity (%) | (23.0) | (13.6) | (1.7) | 14.3 | 29.6 |

*Note 1: ORD/ADR=2.00. Note 2: SIA, together with subsidiaries, provides passenger and cargo air transportation services globally in East Asia, Europe, South West Pacific, the Americas, West Asia, and Africa.*

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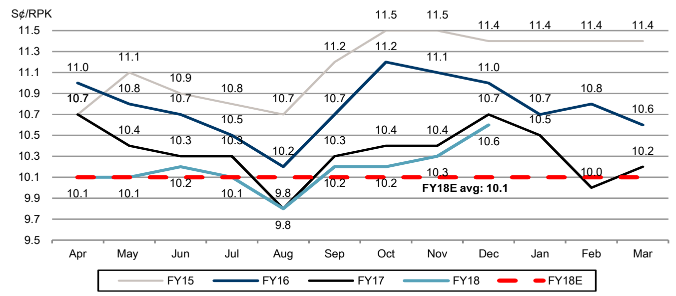
### 3Q FY18 results above expectations

Headline 3QFY18 PATMI of S$286.1 mn was up 61.5% YoY, with the increase attributable to a higher operating profit (S$37 mn), further lifted by the absence of write-down of the Tigerair brand and trademark made last year (S$79 mn).

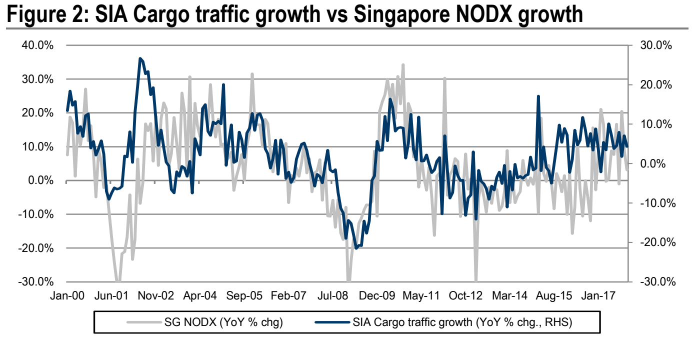
**Figure 1: Parent Airline monthly passenger yields (cents/RPK)**




Source: Company data

The decline in parent airline yields has moderated to 1% YoY in 3Q FY18, where management noted that there was relative strength in first class and suite products, with declines still seen across the other segments. Thus far, this has been supported by the new revenue management system, which has enhanced SIA's ability to better price its products. Parent passenger load factor of 81.6% has also exceeded breakeven load factor of 80.8% in 3Q. While there appears to be slowing capacity growth by the gulf-carriers and Turkish airlines regionally, domestically SIA could see heightened competition from the return of Qantas to Singapore as its transit hub from 25 March 2018. In addition, while no decision has been made by Changi Airport on potential increases in passenger charges of $10-15 to fund Terminal 5; this could be a near-term risk to yields particularly at Scoot. Despite higher fuel prices YTD, SIA is well positioned with Brent hedges with maturities up to FY23, covering up to 47% of fuel consumption at average prices of US$53-59 per barrel.

**Figure 2: SIA Cargo traffic growth vs Singapore NODX growth**




Source: Company data, Bloomberg

We note that Singapore non-oil domestic exports exhibited strong growth of 10.4% in 4Q17, with IE Singapore projecting firm trade growth in 2018; although this is expected to moderate to 1-3%. Consequently, we believe the cargo division should continue benefiting from operating leverage and show gradual improvements.

**Figure 3: 3Q FY18 financial summary**

| | 3Q FY18 | 3Q FY17 | YoY % chg | 9M FY18 | 9M FY17 | YoY % chg. | % of FY18E | FY18E | % of consensus | Consensus |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue (mn) | 4,077 | 3,844 | 6.1% | 11,789 | 11,211 | 5.2% | 77% | 15,249 | 77% | 15,359 |
| EBITDAR (mn) | 952 | 909 | 4.7% | 2,715 | 2,303 | 17.9% | 86% | 3,168 | NA | NA |
| EBIT (mn) | 329 | 293 | 12.5% | 843 | 430 | 96.2% | 126% | 669 | 104% | 810 |
| Adj. PATMI (mn) | 326 | 276 | 18.0% | 607 | 396 | 53.3% | 117% | 519 | 96% | 633 |

Source: Company data, Credit Suisse estimates, IBES, the BLOOMBERG PROFESSIONAL™ service

## StarHub Ltd ------------------------------------------------------------- Maintain UNDERPERFORM

### 4Q17 review: Weak end to 2017; bleak 2018 guidance

EPS: ▼ TP: ▼

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- StarHub had a disappointing 4Q17 with underlying EBITDA and net profit declining by ~10% YoY and ~44% YoY, respectively. EBITDA was impacted by higher subsidies, lower government grants and increasing contribution from low margin enterprise services.
- StarHub's 4Q17 service revenue increased by 0.8% YoY to S$572 mn as the service revenue weakness in mobile, pay TV and fixed broadband was offset by the strong growth in enterprise fixed service which benefited from the consolidation of Accel.
- Management provided bleak 2018 guidance with 1%-3% decline in total service revenue and EBITDA margins of 24-26% (vs. margin of ~28% in 2017). However, management affirmed the quarterly dividend payout of ¢4.0 per share for 2018.
- Given the updated guidance, we reduce our earnings estimates for 2018-2020 by 1-5%. As a result, our target price reduces by 2.3% to S$2.15. We maintain our UNDERPERFORM rating as we believe the current stock price is not fully baking in the prospects of rising mobile competition.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **STH SP / STAR.SI** | **Price (14 Feb 18 , S$)** | | | **2.86** |
| **Rating (prev. rating)** | **U (U)** | **TP (prev. TP S$)** | | | **2.15 (2.20)** |
| 52-wk range (S$) | 2.99 - 2.56 | Est. pot. % chg. to TP | | | (25) |
| Mkt cap (S$/US$ mn) | 4,952.5/ 3,755.9 | Blue sky scenario (S$) | | | 2.60 |
| ADTO-6M (US$ mn) | 5.8 | Grey sky scenario (S$) | | | 1.60 |
| Free float (%) | 33.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Asia Mobile Hldgs | Absolute (%) | (2.1) | 2.9 | 2.5 |
| | (49.16%) | Relative (%) | 1.7 | 1.0 | (8.2) |

| Year | 12/16A | 12/17A | 12/18E | 12/19E | 12/20E |
|---|---|---|---|---|---|
| Revenue (S$ mn) | 2,429 | 2,405 | 2,371 | 2,322 | 2,311 |
| EBITDA (S$ mn) | 690.1 | 613.9 | 591.2 | 576.6 | 570.3 |
| Net profit (S$ mn) | 341.4 | 248.5 | 228.6 | 200.5 | 185.5 |
| EPS (CS adj. S$) | 0.20 | 0.14 | 0.13 | 0.12 | 0.11 |
| - Change from prev. EPS (%) | n.a. | n.a. | (4.9) | (1.3) | (1.2) |
| - Consensus EPS (S$) | n.a. | n.a. | 0.15 | 0.14 | 0.13 |
| EPS growth (%) | (8.4) | (27.5) | (7.6) | (12.3) | (7.5) |
| P/E (x) | 14.5 | 20.0 | 21.6 | 24.7 | 26.7 |
| Dividend yield (%) | 7.0 | 5.6 | 5.6 | 5.6 | 5.6 |
| EV/EBITDA (x) | 8.2 | 9.3 | 9.7 | 10.5 | 10.7 |
| P/B (x) | 25.4 | 29.4 | 41.2 | 113.0 | (104.5) |
| ROE (%) | 178.5 | 137.0 | 158.9 | 245.1 | (10401.1) |
| Net debt(cash)/equity (%) | 360.3 | 464.4 | 668.0 | 2,526.0 | (2419.1) |

*Note 1: ORD/ADR=10.00. Note 2: StarHub Ltd (StarHub) is a Singapore-based company. The Company is engaged in the operation and provision of telecommunications services and other businesses relating to the info-communications industry.*

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### Consol service rev. up ~1% YoY; Mobile decline continues

StarHub's 4Q17 service revenue increased by 0.8% YoY to S$572 mn, 1.0% higher than our estimates, due to 20.9% YoY growth in the enterprise segment. Service revenue weakness in mobile, pay TV and fixed broadband was offset by the growth in enterprise business which in turn benefited from the consolidation of Accel. Mobile service revenue has declined by 3.5% YoY to S$301 mn led by decline in voice/IDD revenue and slowdown in excess data charges, reflecting rising competitive dynamics. Though M1 reported ~4% YoY growth in 4Q17 mobile service revenue, StarHub's and SingTel's mobile performance highlight that sector headwinds continue to persist. We believe the pricing outlook on mobile service remains bleak with the imminent launch of TPG and coming of more MVNOs. We expect StarHub's total service revenue to decline at a three-year CAGR (2017-20E) of 3.6%.

Pay TV revenue declined by 7.4% YoY to S$87 mn due to structural headwinds in the business, stemming from piracy and increasing popularity of OTT. Fixed broadband revenue remained flat YoY with stable sub base under improving fibre migration. Management expects enterprise to be a revenue driver in the near term.

### EBITDA/net profit declined by ~29%/ ~74% YoY

StarHub's 4Q17 EBITDA performance was disappointing with reported EBITDA declining by -28.7% YoY to S$97 mn due to higher subsidies, lower government grants and increasing contribution from low margin enterprise services. The company also made some one-off provision on staff benefits and operating lease. Excluding the provision effect, underlying EBITDA declined by 10.0% YoY to S$108 mn, 20.6% below our estimates. Underlying 4Q17 net profit at S$23 mn (-43.9% YoY) was 51.1% below our estimates mainly due to its weak operating performance. StarHub declared a final dividend of ¢4.0 per share, in line with guidance.

### Bleak 2018 guidance; service revenue weakness persists

StarHub has guided for 1%-3% decline in 2018 total service revenue and 2%-4% decline excluding D'Crypt consolidation. EBITDA margin is expected at 24-26% of service revenue. The company's 2017 underlying EBITDA margin was 27.9%. Lower expectation for 2018 EBITDA margin is due to revenue mix shifting to lower margin enterprise business and continued pressure on the mobile business. We are building in EBITDA margin of ~27% for 2018E. Management affirmed the quarterly dividend payout of ¢4 cents/share for 2018.

**Figure 1: StarHub 4Q17 financial summary**

| (S$ mn, Y/E Dec) | 4Q16 | 3Q17 | 4Q17 | QoQ% | YoY% | 4Q17E | Diff% |
|---|---|---|---|---|---|---|---|
| Mobile services | 312 | 297 | 301 | 1.3% | -3.5% | 313 | -3.8% |
| Pay TV | 94 | 86 | 87 | 1.4% | -7.4% | 84 | 3.5% |
| Broadband | 54 | 53 | 54 | 1.9% | 0.0% | 53 | 3.0% |
| Enterprise fixed | 107 | 110 | 130 | 18.4% | 20.9% | 116 | 11.3% |
| **Total service revenue** | **567** | **545** | **572** | **4.8%** | **0.8%** | **566** | **1.0%** |
| Handset sales | 68 | 35 | 77 | 120.9% | 14.1% | 78 | -0.7% |
| **Total revenue** | **635** | **580** | **649** | **11.8%** | **2.2%** | **644** | **0.8%** |
| **EBITDA** | **136** | **176** | **97** | **-45.0%** | **-28.7%** | **136** | **-28.8%** |
| **Underlying EBITDA*** | **120** | **n.a.** | **108** | **n.a.** | **-10.0%** | **136** | **-20.6%** |
| **Net Profit** | **54** | **77** | **14** | **-81.2%** | **-73.5%** | **47** | **-69.3%** |
| **Underlying Net Profit*** | **41** | **n.a.** | **23** | **n.a.** | **-43.9%** | **47** | **-51.1%** |

Source: Company data, Credit Suisse estimates. *excluding one-off provision effect

### Reiterate UNDERPERFORM with a TP of S$2.15

Given the bleak 2018 guidance, we reduce our earnings estimates for 2018-2020 by 1-5%. As a result, our target price reduces by 2.3% to S$2.15. We note that our current estimates exclude the impact of SFRS15 adoption as we await more clarity from management. That said, SFRS15 adoption is unlikely to impact valuation given the immaterial impact on cash flows. We maintain our UNDERPERFORM rating as we believe StarHub remains vulnerable to the rising mobile business competition. We believe the current stock price is not fully baking in the prospects of rising mobile competition. Further, we see downside to consensus estimates especially post weak 4Q17 results and tepid 2018 guidance.

## United Overseas Bank Ltd ---------------------------------------------- Maintain OUTPERFORM

**New report: Room for further positive dividend surprises** **EPS: ▲ TP: ▲**

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- UOB reported 4Q17 core net profit of S$855 mn (-3.2% QoQ, 15.7% YoY); FY17 S$3,369 mn makes up 100.9% of street's and 100.6% of our full-year 2017 estimates (CS/consensus S$3,369 mn/S$3,361mn). Core dividends will be increased to 80c per annum going forward.
- Takeaways: (1) Bulk of vulnerable accounts have been classified as non-performing, (2) FY18 loan growth to be in high single digit, (3) further scope for NIM improvement, (4) Credit costs for FY18 likely to be lower than 32bp, (5) scope to further enhance fully loaded CET 1 ratio of 14.7% through optimisation efforts and asset sale, and (6) potential room for higher core dividends.
- We raise 2018/19 EPS estimates slightly by 2.2%/0.5%, with higher fee income and lower provisions offset by lower trading income. 2018-19 ROE estimates now at 11.6% (vs 11.8-11.9% previously) given the accumulation in capital.
- We raise our target price to S$31.70/sh (from S$29.30). We stay OUTPERFORM on UOB as outlook for earnings looks promising and we believe that there is scope for higher dividend payout.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **UOB SP / UOBH.SI** | **Price (14 Feb 18 , S$)** | | | **26.24** |
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP S$)** | | | **31.70 (29.30)** |
| 52-wk range (S$) | 28.4 - 20.7 | Est. pot. % chg. to TP | | | 21 |
| Mkt cap (S$/US$ bn) | 43.9/ 33.3 | Blue sky scenario (S$) | | | 32.00 |
| ADTO-6M (US$ mn) | 39.1 | Grey sky scenario (S$) | | | 18.00 |
| Free float (%) | 77.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Wee's 16.99%, | Absolute (%) | (6.6) | 6.2 | 26.5 |
| | Chow's 5.40% | Relative (%) | (2.8) | 4.4 | 15.8 |

| **Year** | **12/16A** | **12/17A** | **12/18E** | **12/19E** | **12/20E** |
|---|---|---|---|---|---|
| Pre-prov Op profit (S$ mn) | 4,265.0 | 4,695.0 | 5,275.9 | 5,710.3 | 6,115.3 |
| Net profit (S$ mn) | 3,098 | 3,388 | 4,089 | 4,338 | 4,628 |
| EPS (CS adj. S$) | 1.91 | 2.07 | 2.50 | 2.65 | 2.83 |
| - Change from prev. EPS (%) | n.a. | n.a. | 2 | 1 | |
| - Consensus EPS (S$) | n.a. | n.a. | 2.30 | 2.51 | 2.70 |
| EPS growth (%) | (1.5) | 8.2 | 20.7 | 6.1 | 6.7 |
| P/E (x) | 13.7 | 12.7 | 10.5 | 9.9 | 9.3 |
| Dividend yield (%) | 2.7 | 3.8 | 3.8 | 4.2 | 4.6 |
| BVPS (CS adj. S$) | 18.8 | 21.2 | 22.0 | 23.6 | 25.2 |
| P/B (x) | 1.39 | 1.23 | 1.19 | 1.11 | 1.04 |
| ROE (%) | 10.4 | 10.3 | 11.6 | 11.6 | 11.6 |
| ROA (%) | 0.9 | 1.0 | 1.1 | 1.1 | 1.2 |
| Tier 1 ratio (%) | 13.1 | 16.2 | 16.3 | 16.8 | 17.2 |

*Note 1: ORD/ADR=2.00. Note 2: United Overseas Bank Limited is engaged in the business of banking. The Company provides a range of financial services.*

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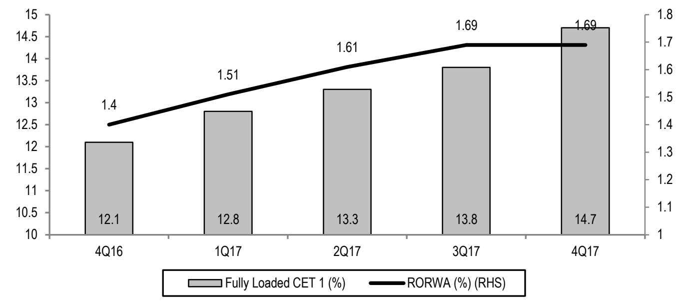
### Core dividends increased to 80c, but potential for more?

Final dividend of 45c (vs 2016 of 35c) and special of 20c was declared – which together represent a 49% payout ratio (vs FY16 payout of 37%). Core dividends will be increased to 80c per annum going forward. According to management, ability to pay dividends is essentially a function of the sustainability of return on RWA (RORWA), and it will look to revisit its dividend policy given that RORWA has been trending upwards. Management will look to incorporate its special dividend into core dividend (i.e., S$1/sh) should they feel that the group has more than sufficient capital. Major RWA optimisations are done, with RWA down 9% despite loans growing 4.6%; management explained that part of it was due to relief from MAS on structured FX. There is still some scope for RWA optimisation but not as significant as the improvements in 2017.

Unlike its peers, management indicated that it does not expect much dilutive impact from Basel 4, and hence we do not expect any CET 1 dilution from the new Basel rules. Given that management is comfortable with 12.5-13% of fully loaded CET1, we estimate that it has ~S$4.4 bn of surplus capital (~S$2.6/share).

**Figure 1: Capital position has been improving…**

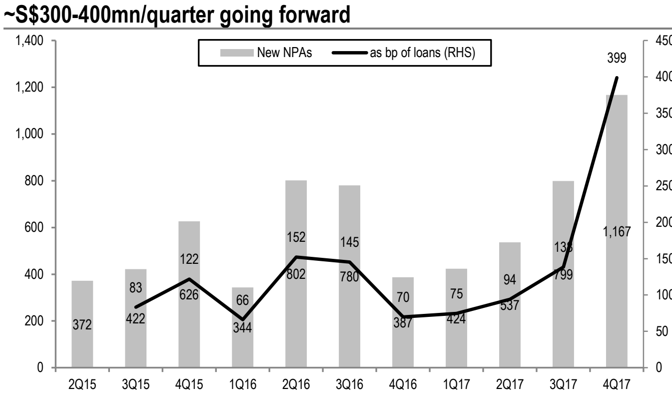



Source: Company data, Credit Suisse estimates

### Worst appears over for asset quality with new NPA formation peaking in 4Q17

New NPA increased QoQ at S$1,167 mn (S$799 mn in 3Q17), and 2% of avg loans vs 1.38% in 3Q17 due to the one-off accelerated recognition of NPA on oil and gas and shipping exposures. Management explained that of the S$3.8bn exposure to upstream O&G companies, one-third is to the national oil companies while the remaining (S$2.5 bn) had two other segregations: big companies and small. Rest of the portfolio NPL remained stable at slightly above 1%.

**Figure 2: Management expects new NPA formation to normalise to ~S$300-400mn/quarter going forward**




Source: Company data, Credit Suisse estimates

### Maintain OUTPERFORM

We have kept 2018 net profit forecast unchanged but trim 2019 net profit estimate by 1% to tone down our NIM forecast. 2018-2019 ROE estimates are now at 11.6% (vs 11.8-11.9% previously) given the accumulation in capital. We roll forward our target price (based on Gordon Growth model) to S$31.70/sh (from S$29.30).

## Thailand

# Airports of Thailand ----------Maintain NEUTRAL

**1Q18 results, strong as expected** **EPS: ◄► TP: ◄►**

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- AOT reported core profit of Bt6.24 bn for 1Q18, representing a 26% YoY increase. This accounted for 24.3% of our full-year estimate, which was in line with our expectation and also with historical 1Q contribution to the full-year profit number.
- Total revenue rose 16% YoY driven by a 20% YoY increase in international passenger volume growth. With high operating leverage, EBITDA and EBIT margin expanded 1% and 3% over 1Q17, respectively. Total operating expenses (excluding depreciation) rose at a slower rate (than revenue) at 13% YoY.
- While the result met our expectation and should satisfy the market, we expect profit growth to slow to 13-14% YoY during the remaining part of FY18; international volume growth should remain strong at 11% YoY, but this would be far lower than 1Q18.
- We maintain our NEUTRAL rating on AOT. Any share price strength should present a good opportunity to trim some positions. We continue to like ERW and CENTEL as alternatives to play Thailand tourism.

| Bbg/RIC | AOT TB / AOT.BK | Price (13 Feb 18, Bt) | | | 68.75 |
|---|---|---|---|---|---|
| Rating (prev. rating) | N (N) | TP (prev. TP Bt) | | | 70.00 (70.00) |
| 52-wk range (Bt) | 74.3 - 38.3 | Est. pot. % chg. to TP | | | 2 |
| Mkt cap (Bt/US$ bn) | 982.1/ 31.3 | Blue sky scenario (Bt) | | | 80.00 |
| ADTO-6M (US$ mn) | 82.2 | Grey sky scenario (Bt) | | | 54.00 |
| Free float (%) | 30.0 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Ministry of Finance (70%) | Absolute (%) | (3.5) | 20.1 | 74.1 |
| | | Relative (%) | (2.2) | 13.7 | 59.6 |

| Year | 09/16A | 09/17A | 09/18E | 09/19E | 09/20E |
|---|---|---|---|---|---|
| Revenue (Bt mn) | 50,962 | 54,901 | 62,142 | 68,200 | 72,798 |
| EBITDA (Bt mn) | 30,506 | 32,898 | 37,414 | 41,732 | 44,294 |
| Net profit (Bt mn) | 19,212 | 21,660 | 25,710 | 29,153 | 30,763 |
| EPS (CS adj. Bt) | 1.34 | 1.52 | 1.80 | 2.04 | 2.15 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Bt) | n.a. | n.a. | 1.78 | 1.95 | 2.11 |
| EPS growth (%) | 21.8 | 12.7 | 18.7 | 13.4 | 5.5 |
| P/E (x) | 51.1 | 45.3 | 38.2 | 33.7 | 31.9 |
| Dividend yield (%) | 1.0 | 1.1 | 1.3 | 1.5 | 1.6 |
| EV/EBITDA (x) | 31.3 | 28.5 | 25.1 | 22.7 | 21.9 |
| P/B (x) | 8.2 | 7.5 | 6.7 | 6.0 | 5.5 |
| ROE (%) | 16.8 | 17.2 | 18.5 | 18.9 | 18.0 |
| Net debt (cash)/equity (%) | (23.6) | (33.2) | (29.5) | (20.3) | (6.2) |

*Note 1: ORD/ADR=10.00. Note 2: Airports of Thailand Public Company Limited is a Thailand-based company engaged in the operation of airports across Thailand. Its airports include Thailand's main airport of Suvarnabhumi, the former main airport of Don Mueang, Chiang Mai, Hat Yai, Phuket.*

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### Results met expectation

AOT reported core profit growth of 26% YoY to reach Bt6.24 bn in 1Q18. This represented 24% of our full-year estimate, which was in line with our expectation and also the historical pattern—in a normal year, 1Q profit always contributed around 24% of AOT's full-year profit.

### Revenue growth driven by strong international passenger volume

AOT achieved 16% YoY revenue growth driven largely by 20% growth in its international passenger volume growth. Passenger service charge revenue and revenue from concession rose 19% and 20% YoY, respectively. Landing and parking charge rose 8% YoY, while other revenue items (i.e. service revenue, office property rent, etc.) grew 9% YoY.

### Margin expansion continued on high operating leverage

AOT achieved EBITDA margin expansion of 1% to 62% in 1Q18, while its EBIT margin increased 3% to 52.5%. AOT has a high operating leverage, with operating expenses (excluding depreciation expenses) rising at a slower rate (than revenue) at 13% YoY. Depreciation expenses fell slightly by 4% YoY as some assets had been fully depreciated.

### Profit growth should slow during remaining part of FY18

While 1Q18 profit growth was strong, it was still in line with our expectation. For the rest of FY18, we believe profit growth would slow to 13-14% YoY. January international passenger volume growth has already normalised to 10.3% YoY, compared with 20% achieved during October-December 2017 (1Q18).

**Figure 1: AOT quarterly result summary**

| (Bt mn) | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | %YoY | % of FY18E |
|---|---|---|---|---|---|---|---|
| **Aeronautical revenue** | **7,086** | **8,365** | **7,568** | **7,807** | **8,247** | **16.4** | **23.7** |
| Passenger service charges | 5,225 | 6,420 | 5,721 | 5,919 | 6,253 | 19.7 | 23.8 |
| Landing & parking charges | 1,667 | 1,739 | 1,644 | 1,682 | 1,795 | 7.7 | 23.7 |
| Aircraft service charges | 194 | 207 | 203 | 205 | 199 | 2.3 | 21.7 |
| **Non aeronautical revenue** | **5,527** | **6,300** | **5,936** | **6,313** | **6,365** | **15.2** | **23.3** |
| Office and property rent | 541 | 545 | 554 | 624 | 559 | 3.2 | 24.4 |
| Service revenue | 1,683 | 1,864 | 1,724 | 1,788 | 1,876 | 11.5 | 23.7 |
| Concession revenue | 3,303 | 3,891 | 3,657 | 3,901 | 3,931 | 19.0 | 22.9 |
| **Total revenue** | **12,613** | **14,665** | **13,503** | **14,120** | **14,612** | **15.9** | **23.5** |
| Personnel expenses | 1,415 | 1,474 | 1,498 | 2,111 | 1,538 | 8.7 | 21.9 |
| Operating expenses | 2,504 | 2,514 | 2,550 | 2,668 | 2,552 | 1.9 | 23.5 |
| Repair and maintenance | 479 | 523 | 715 | 828 | 525 | 9.6 | 18.2 |
| State property rental exp. | 543 | 717 | 681 | 780 | 944 | 74.0 | 23.7 |
| Depr. and amortisation | 1,429 | 1,384 | 1,388 | 1,443 | 1,376 | (3.7) | 24.1 |
| **Total opex** | **6,371** | **6,613** | **6,832** | **7,830** | **6,936** | **8.9** | **22.8** |
| **Total opex ex depre.** | **4,942** | **5,230** | **5,443** | **6,387** | **5,559** | **12.5** | **22.5** |
| **EBITDA** | **7,671** | **9,435** | **8,060** | **7,733** | **9,053** | **18.0** | **24.2** |
| **EBIT** | **6,242** | **8,052** | **6,672** | **6,290** | **7,677** | **23.0** | **24.2** |
| Interest income | 266 | 251 | 256 | 263 | 273 | 2.5 | 28.0 |
| Interest expense | (319) | (300) | (292) | (284) | (271) | (15.2) | 27.9 |
| Other income | 61 | 57 | 113 | 133 | 123 | 102.3 | 37.4 |
| Gain or loss on disposals | (79) | (21) | (24) | 70 | (52) | (33.4) | nm |
| FX gain (loss) | 246 | 60 | 22 | 115 | 36 | (85.3) | 533,585 |
| **Profit before taxation** | **6,417** | **8,098** | **6,747** | **6,587** | **7,786** | **21.3** | **24.3** |
| Taxation | (1,319) | (1,609) | (1,342) | (1,175) | (1,549) | 17.4 | 24.7 |
| Minority interests | (14) | (18) | (7) | (16) | (18) | 28.2 | 32.6 |
| **Net profit bef. extra items** | **5,084** | **6,470** | **5,398** | **5,396** | **6,220** | **22.3** | **24.2** |
| Extraordinary items | | | | (1,665) | | nm | nm |
| **Net profit** | **5,084** | **6,470** | **5,398** | **3,731** | **6,220** | **22.3** | **24.2** |
| **Core profit** | **4,966** | **6,444** | **5,404** | **5,233** | **6,243** | **25.7** | **24.3** |

Source: Company data, Credit Suisse estimates

## BTS Rail Mass Transit Growth Infrastructure Fund ----------------------Maintain NEUTRAL

**3Q FY18 results in-line** — **EPS: ▲ TP: ◄►**

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- BTSGIF came with a net profit of Bt 1,179 mn, up 8% YoY and flat QoQ. The results were within the range of our and the street's expectation with 9M FY18 profit accounting for 78% and 76% of our pre-revised and the market's full year estimates, respectively.
- The farebox revenue was softer than expected but the operating expense was quite well controlled and helped offset the softness. The farebox revenue growth looked soft at 5% YoY due to (1) several additional holidays over the quarter (e.g., King Bhumibhol Memorial Day, the royal cremation day, etc.), and (2) a half-day free-ride during the royal cremation day, which negatively affected the traffic growth.
- While 9M FY18 capex spending accounts for only 37% of our FY18, we expect the spending to accelerate in the Jan-Mar quarter following the new rolling stock delivery expected in mid-1H18.
- We fine tune our earnings slightly in light of the results and maintain our TP at Bt12.30. We keep our NEUTRAL rating unchanged as the yield seems to already be in line with its peers' around 6-7%.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **BTSGIF TB / BTSGIFu.BK** | **Price (14 Feb 18 , Bt)** | | | **11.90** |
| **Rating (prev. rating)** | **N (N)** | **TP (prev. TP Bt)** | | | **12.30 (12.30)** |
| 52-wk range (Bt) | 12.1 - 11.0 | Est. pot. % chg. to TP | | | 3 |
| Mkt cap (Bt/US$ mn) | 68,877.2/ 2,195.6 | Blue sky scenario (Bt) | | | 13.90 |
| ADTO-6M (US$ mn) | 1.6 | Grey sky scenario (Bt) | | | 10.80 |
| Free float (%) | 66.5 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | BTS Group Holdings Public Company Limited | Absolute (%) | (0.8) | — | 3.5 |
| | | Relative (%) | 0.8 | (6.0) | (10.5) |

| Year | 03/16A | 03/17A | 03/18E | 03/19E | 03/20E |
|---|---|---|---|---|---|
| Revenue (Bt mn) | 4,475 | 4,576 | 4,569 | 4,991 | 5,910 |
| EBITDAR | 4,369.5 | 4,481.3 | 4,473.9 | 4,901.1 | 5,825.7 |
| Net profit (Bt mn) | 4,020 | 4,483 | 4,492 | 4,920 | 5,845 |
| EPS (CS adj. Bt) | 0.69 | 0.77 | 0.78 | 0.85 | 1.01 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0.5 | (0.7) | (1.2) |
| - Consensus EPS (Bt) | n.a. | n.a. | 0.80 | 0.87 | 0.99 |
| EPS growth (%) | 14.2 | 11.5 | 0.2 | 9.5 | 18.8 |
| P/E (x) | 17.1 | 15.4 | 15.3 | 14.0 | 11.8 |
| Dividend yield (%) | 6.4 | 6.5 | 6.5 | 7.1 | 8.5 |
| EV/EBITDAR (x) | 15.7 | 15.4 | 15.4 | 14.0 | 11.8 |
| P/B (x) | 1.0 | 1.0 | 1.1 | 1.2 | 1.2 |
| ROE (%) | 6.1 | 6.7 | 6.9 | 8.0 | 10.2 |
| Net debt(cash)/equity (%) | (0.1) | (0.1) | (0.1) | (0.1) | (0.2) |

*Note 1: BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF) is Thailand's first infrastructure fund with invested initial assets as net fare box revenues from mass transit system situated in Bangkok. The claims to this fare box revenue will expire in 2029.*

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### 3Q FY18 results — slightly better than expected

BTSGIF came with a net profit of Bt 1,179 mn, up 8% YoY and flat QoQ. The results were within the range of our and the street's expectation with 9M FY18 profit accounting for 78% and 76% of our pre-revised and the market's full year estimates, respectively. The farebox revenue was softer than expected but the operating expense was quite well controlled and helped offset the softness, bringing the bottom line to meet our expectations.

### Soft mass transit operations

Compared to our pre-revised FY18 forecast of 7-8%, the 3Q FY18 farebox revenue growth looked soft at 5% YoY. This was due to (1) several additional holidays over the quarter (e.g., King Bhumibhol Memorial Day, the royal cremation day, etc.), and (2) a half-day free-ride on the royal cremation day, which negatively affected the traffic growth. The average fare per trip rose to Bt28.7/trip after the fare adjustment since 1 October 2017 but would have been Bt28.9/trip if there were no half-day free rides.

### Capex spending to accelerate

While 9M FY18 capex spending accounts for only 37% of our FY18E, we expect the spending to accelerate in the Jan-Mar quarter following the new rolling stock delivery expected in mid-1H18. As the timing of capex on the new rolling stock may vary depending on the cash payment timing between BTS and the train manufacturers, the delay could affect our profit forecast in FY18 and FY19.

**Figure 1: 3Q FY18 results summary**

| Bt mn | 3Q17 | 2Q18 | 3Q18 | YoY | QoQ | FY18E | % FY18E |
|---|---|---|---|---|---|---|---|
| **Train operations** | | | | | | | |
| Ridership (mn trips) | 59.8 | 62.2 | 60.8 | 2% | -2% | 243.4 | 74% |
| Avg. fare per trip | 27.8 | 27.8 | 28.7 | 3% | 3% | 28.5 | |
| Farebox revenue | 1,660 | 1,726 | 1,742 | 5% | 1% | 6,934 | 73% |
| Operarting expenses | (469) | (412) | (453) | -3% | 10% | (1,788) | 75% |
| CAPEX | (92) | (116) | (90) | -2% | -23% | (577) | 37% |
| **Fund operations** | | | | | | | |
| Income from investment in NRTA | 1,099 | 1,198 | 1,199 | 9% | 0% | 4,569 | 77% |
| Operating expenses | (12) | (25) | (24) | 105% | -6% | (95) | 86% |
| Operating profit | 1,087 | 1,172 | 1,175 | 8% | 0% | 4,474 | 77% |
| Net profit | 1,092 | 1,176 | 1,179 | 8% | 0% | 4,492 | 77% |
| EBITDA | 1,087 | 1,172 | 1,175 | 8% | 0% | 4,474 | 77% |
| Gross margin | 100.0% | 100.0% | 100.0% | | | 100.0% | |
| Operating margin | 98.9% | 97.9% | 98.0% | | | 97.9% | |
| Net profit margin | 99.3% | 98.2% | 98.3% | | | 98.3% | |
| EBITDA margin | 98.9% | 97.9% | 98.0% | | | 97.9% | |
| SG&A to sales | 1.1% | 2.1% | 2.0% | | | 2.1% | |

Source: Company data, Credit Suisse estimates.

### Maintain NEUTRAL rating

We fine tune our earnings slightly in light of the results and maintain our TP at Bt12.30. We revise down our farebox revenue growth assumption to around 4-5% to factor in the softness in the ridership growth in Oct-Dec 2017 and the better-than-expected train operating expense. We keep our NEUTRAL rating unchanged as the yield seems to already be in line with its peers' at around 6-7%.

## L.P.N. Development ---------------------------------------------------- Maintain UNDERPERFORM

**FY17 earnings: Big miss from margins, more risk ahead** **EPS: ◄► TP: ◄►**

Atul Sethi / Research Analyst / 66 2 614 6211 / atul.sethi.2@credit-suisse.com

- LPN today (14 Feb) announced 4Q17 and FY17 earnings, and held an analyst meeting to discuss the results and FY18 targets. 4Q17 earnings were well below expectations, with net profit of Bt1.1 bn coming in ~20% below both ours and consensus' forecasts. The main driver of this was weaker-than-expected margins, which were dragged down through high levels of inventory sales.
- Although the proportion of inventory sales to total revenue should moderate in 2018, we believe that there is a considerable downside to our earnings estimate, which is 7% below current street numbers.
- LPN is targeting Bt20 bn of pre-sales in 2018—implying 12% YoY growth—which we see risk in achieving, in particular, given that more than half of LPN's launch pipeline is comprised of 'potential projects', which could be delayed. LPN is also planning to launch a project this year, which includes an office component in addition to a residential block, which we view with scepticism.
- We have an UNDERPERFORM rating on LPN.

| Bbg/RIC | LPN TB / LPN.BK | Price (13 Feb 18 , Bt) | | | 11.40 |
|---|---|---|---|---|---|
| Rating (prev. rating) | U (U) | TP (prev. TP Bt) | | | 11.50 (11.50) |
| 52-wk range (Bt) | 13.7 - 10.5 | Est. pot. % chg. to TP | | | 1 |
| Mkt cap (Bt/US$ mn) | 16,823.0/ 534.6 | Blue sky scenario (Bt) | | | 13.00 |
| ADTO-6M (US$ mn) | 3.2 | Grey sky scenario (Bt) | | | 6.00 |
| Free float (%) | 76.1 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Thai NVDR (12%) | Absolute (%) | (10.9) | (10.9) | (6.6) |
| | | Relative (%) | (9.7) | (17.4) | (21.0) |

| Year | 12/15A | 12/16A | 12/17E | 12/18E | 12/19E |
|---|---|---|---|---|---|
| EBITDA (Bt mn) | 3,371 | 2,865 | 1,745 | 2,141 | 2,543 |
| Net profit (Bt mn) | 2,413 | 2,175 | 1,333 | 1,656 | 1,958 |
| EPS (CS adj. Bt) | 1.63 | 1.47 | 0.90 | 1.12 | 1.33 |
| - Change from prev. EPS (%) | n.a. | n.a. | 0 | 0 | 0 |
| - Consensus EPS (Bt) | n.a. | n.a. | 0.85 | 1.21 | 1.34 |
| EPS growth (%) | 19.4 | (9.9) | (38.7) | 24.2 | 18.3 |
| P/E (x) | 7.0 | 7.7 | 12.6 | 10.2 | 8.6 |
| Dividend yield (%) | 7.9 | 7.9 | 5.3 | 6.1 | 6.6 |
| EV/EBITDA (x) | 6.3 | 7.2 | 10.6 | 9.2 | 8.4 |
| ROE (%) | 22.0 | 18.2 | 10.8 | 13.0 | 14.4 |
| Net debt(cash)/equity (%) | 37.9 | 29.7 | 13.3 | 22.1 | 32.2 |
| NAV per share (Bt) | — | — | — | — | — |
| Disc./(prem.) to NAV (%) | — | — | — | — | — |

*Note 1: L.P.N. Development Public Company Limited is a Thailand-based company engaged in the real estate development business. It offers offices and residential condominiums located in the central business district of Bangkok and neighbouring provinces.*

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### FY2017 results: down 50% YoY

LPN today (14 Feb) reported 4Q17 and FY17 results of Bt376 mn and Bt1.1 bn, respectively. 4Q17 earnings grew 85% on a QoQ basis and 34% on a YoY basis. For the full-year 2017, earnings fell 50%.

### Well below expectations

LPN's results are well below ours and the market's expectations, which we expect will result in a negative share price reaction. Net profit of Bt1.1 bn for the year is almost 20% lower than both ours and consensus estimates. Driving the miss was both lower-than-expected transfers and margins, with the latter particularly disappointing. Revenues of Bt10.3 bn came 8% short of our estimate, with the large driver of the miss coming at the margin level. Gross margins in 4Q17 improved from 3Q17 levels, but were still below expectations. Full-year margins of 28.9% came in 110 bp short of our estimates. The weakness in margins was due to lower margins from inventory sales, which accounted for more than 50% of LPN's revenue in 2017. Completed inventory reduced from Bt9 bn in 4Q16 to Bt5.5 bn at 4Q17. Higher-than-expected SG&A expenses also resulted in lower-than-expected operating margins.

**Figure 1: LPN's financial summary**

| (Bt mn) | 4Q17 | 3Q17 | QoQ | 4Q16 | YoY | FY17A | YoY |
|---|---|---|---|---|---|---|---|
| Sales | 2,755 | 2,346 | 17.4% | 2,550 | 8.1% | 9,613 | -34.2% |
| COGs | (1,963) | (1,745) | | (1,766) | | (6,835) | |
| **Gross profit** | **793** | **601** | **31.8%** | **784** | **1.1%** | **2,777** | **-39.1%** |
| SG&A | (364) | (346) | | (362) | | (1,377) | |
| **Operating profit** | **429** | **255** | **68.2%** | **422** | **1.7%** | **1,400** | **-49.5%** |
| Other income | 20 | 8 | | (70) | | (45) | |
| Associates | 0 | (0) | | 0 | | (0) | |
| Net interest exp. | 4 | (0) | | 1 | | 5 | |
| **Pretax profit** | **454** | **263** | **72.5%** | **353** | **28.5%** | **1,359** | **-50.3%** |
| Income tax | (79) | (61) | | (71) | | (300) | |
| Minority interest | 1 | 1 | | (1) | | (0) | |
| **Net profit** | **376** | **203** | **85.5%** | **281** | **33.6%** | **1,059** | **-51.3%** |
| **Margin analysis** | | | | | | | |
| Gross margin | 28.8% | 25.6% | | 30.8% | | 28.9% | |
| Operating margin | 15.6% | 10.9% | | 16.5% | | 14.6% | |
| Net margin | 13.6% | 8.6% | | 11.0% | | 11.0% | |

Source: Company data

### Potential risk to Bt20 bn pre-sales target, office project

We see risk to LPN's Bt20 bn 2018E pre-sales target—implying 12% growth YoY—for several reasons. Of the total Bt15 bn of planned condo launches, ~Bt7 bn is labelled as 'additional projects' currently—as we know from prior years, these do not always materialise as actual launches. Amongst the projects we do know about, LPN plans to launch one that has both an office and a residential component, which we view as potentially risky. This is the Lumpini Vibhavadi project, with a total value of Bt4.5 bn, of which Bt2.5 bn is designated for office, with a total area of 30,000 sq m of NLA. LPN has not yet decided how much of this space will be leased out by the company—potentially generating rental income—and how much space will be sold to the third parties. We find the lack of clarity on this front disconcerting, and imagine that many market observers will have similar sentiments.

### More pain ahead, downside to estimates

We foresee a considerable downside to our FY18E earnings estimates, which are already 7% below the street's. LPN is targeting Bt12 bn in revenue for 2018, of which only ~Bt6 bn is secured by backlog on-hand, or around 50% of this total. The remainder of the Bt12 bn is expected to be realised via sale of existing inventory and/or project completions in 2018E, for which we believe Bt6 bn is a tall order. Additionally, we see risk to our 30.3% gross margin assumption in 2018E—although, the proportion of inventory sales should be lower vs 2017, we see a downside risk to our blended margin assumption. LPN is currently trading at a 12-month forward P/E multiple of 9.7x, 6% above its long-term average multiple.

## Thai Beverage ---------------------------------------------------------------- Maintain OUTPERFORM

**1Q FY18 below expectations; alcohol volumes hurt by destocking** **EPS: ▼ TP: ▼**

Nicholas Teh / Research Analyst / 65 6212 3026 / nicholas.teh@credit-suisse.com

- Thai Bev's 1Q FY18 core net profit of Bt5.37 bn was below expectations, accounting for 18% of our full-year forecasts. Thai spirits and beer volumes were down YoY as destocking post excise tax hike in September more than offset the low base from the mourning period in 1Q FY17.
- Some details on Grand Royal and KFC were given. For Grand Royal, margins were higher than expected at 25% though this was a seasonally high quarter. Also, we note that although KFC posted a loss, it was mainly due to a one-off acquisition cost of Bt54.3 mn.
- Management shared limited details on Sabeco but mentioned that there would be further information provided in the future. Funding for the acquisition is currently on floating debt and will gradually be fixed, while refinancing using other forms of debt will happen over the next two years
- OUTPERFORM. We lower our FY18E/19E EPS by 9.2%/0.9%, as we factor in lower volumes and the one-off acquisitions expense. New TP is S$1.04 (from S$1.08). The stock currently trades at a CY18E P/E of 20.0x vs global spirits peers at 23.2x.

| | | | | | |
|---|---|---|---|---|---|
| **Bbg/RIC** | **THBEV SP / TBEV.SI** | **Price (14 Feb 18 , S$)** | | | **0.91** |
| **Rating (prev. rating)** | **O (O)** | **TP (prev. TP S$)** | | | **1.04 (1.08)** |
| 52-wk range (S$) | 0.98 - 0.84 | Est. pot. % chg. to TP | | | 14 |
| Mkt cap (S$/US$ bn) | 22.9/ 17.3 | Blue sky scenario (S$) | | | 1.22 |
| ADTO-6M (US$ mn) | 12.3 | Grey sky scenario (S$) | | | 0.68 |
| Free float (%) | 19.4 | **Performance** | **1M** | **3M** | **12M** |
| Major shareholders | Siriwana Co. (45%) | Absolute (%) | (2.7) | (3.2) | 3.4 |
| | | Relative (%) | 1.1 | (5.0) | (7.3) |

| Year | 09/16A | 09/17A | 09/18E | 09/19E | 09/20E |
|---|---|---|---|---|---|
| Revenue (Bt mn) | 190,113 | 189,997 | 237,514 | 259,889 | 270,085 |
| EBITDA (Bt mn) | 30,588 | 31,832 | 42,519 | 52,857 | 53,901 |
| Net profit (Bt mn) | 25,274 | 26,013 | 27,109 | 32,345 | 34,631 |
| EPS (CS adj. Bt) | 1.01 | 1.04 | 1.08 | 1.29 | 1.38 |
| - Change from prev. EPS (%) | n.a. | n.a. | (9.2) | (0.9) | 2.7 |
| - Consensus EPS (Bt) | n.a. | n.a. | 1.15 | 1.21 | 1.29 |
| EPS growth (%) | 11.8 | 2.9 | 4.2 | 19.3 | 7.1 |
| P/E (x) | 21.5 | 20.9 | 20.1 | 16.8 | 15.7 |
| Dividend yield (%) | 2.8 | 3.1 | 3.1 | 3.1 | 3.1 |
| EV/EBITDA (x) | 19.1 | 18.1 | 17.6 | 13.8 | 13.1 |
| P/B (x) | 4.5 | 4.2 | 3.9 | 3.5 | 3.2 |
| ROE (%) | 21.4 | 20.9 | 20.2 | 22.1 | 21.3 |
| Net debt(cash)/equity (%) | 33.4 | 23.5 | 139.7 | 112.1 | 86.6 |

*Note 1: ORD/ADR=100.00. Note 2: Thai Beverage is Thailand's largest and one of Southeast Asia's largest beverage companies. The company manufactures and distributes several brands in the spirits, beer, and non-alcoholic beverage segments.*

Click here for detailed financials

**Figure 1: 1Q FY18 results review**

| (Bt mn) | 1Q FY18 | 1Q FY17 | YoY | CS estimates | % of CS |
|---|---|---|---|---|---|
| Revenue | 45604 | 46829 | -2.6% | 204,113 | 22.3% |
| Adj. EBITDA* | 7149 | 8721 | -18.0% | 36,935 | 19.4% |
| Net Profit | 2912 | 7715 | -62.3% | 29,856 | 9.8% |
| Adj. Net Profit* | 5370 | 7715 | -30.4% | 29,856 | 18.0% |

Source: Company data, Credit Suisse estimates

Thai Bev's 1QFY18 core net profit of Bt5.37 bn was below expectations, accounting for 18% of our full year forecasts. 1Q FY18 revenue was down 2.6% YoY as Thai spirits and beer volumes were down due to the fact that destocking post excise tax hike in September more than offset the low base from the mourning period in 1QFY17. Meanwhile, EBITDA (excluding assoc and one-off expenses from acquisitions of Bt2.5 bn) was down 18% YoY, driven by higher SG&A (+21% YoY).

### SG&A was exceptionally low during the quarter last year

We note that SG&A of Bt6.85 bn during the 1Q FY17 was exceptionally low given the start of the mourning period as Thaibev delayed its marketing activities to the following quarters. The normal marketing seasonality which Thaibev has returned to usually has the highest A&P spend in 1Q and 3Q of the financial year. As such, EBITDA margins should improve YoY in 2Q.

### Thai spirits and beer volumes weaker YoY

Thai spirits and beer volumes were weaker YoY with beer declining 6.2% YoY. Although reported spirits volumes were up 0.6%, we note that this is due to the inclusion of volumes from Grand Royal in Myanmar; we note that spirits revenue excluding Grand Royal's contribution was down ~12% YoY.

Destocking has completed during the quarter while we note that the World Cup in June-July 2018 should benefit volumes.

### Strong margins for Grand Royal but net loss for KFC

While limited information was given for the recent acquisitions, we highlight that the disclosed revenue and net profit contribution from Grand Royal, the number 1 whiskey in Myanmar with over 60% market share, implies a high 25% net margin for the business. While management mentioned that 1Q FY17 is the seasonally high quarter, it mentioned that net margins even in the low season should be >20%.

QSR of Asia, the subsidiary which owns the 252 KFC stores, disclosed a loss of Bt28.5 mn (for about 1 month contribution) but this was partly due to the Bt54.3 mn of one-off acquisition expenses.

### Limited details on Sabeco for now

Management shared limited details on Sabeco but mentioned that there would be further information provided in the future. Funding for the acquisition (borrowed at Thaibev level and lent to the associate in Vietnam) is currently on floating debt and will gradually be fixed while refinancing using other forms of debt will happen over the next two years.

### Non-alcohol losses continue to narrow

Non-alcohol losses continued to narrow with 1Q FY18 net loss of Bt 227 mn, down 5.0% YoY. Meanwhile, EBITDA was up 42.9% YoY. Total volumes for the non-alcohol division also grew 5.9% YoY, driven by carbonated soft drinks +9.5% YoY and water at +8.7%.

### Maintain OUTPERFORM

We lower our FY18/19 net profit estimates by 9.2%/0.9%; the sharp decline in FY18 is mainly due to incorporating the non-recurring acquisition expenses into our forecast for the year. Our new target price is S$1.04. ThaiBev currently trades at a CY18E P/E of 20.0x compared to global spirits peers at 23x.

## Recently Published Research

| Date | Title | Author(s) | Tel. | E-mail |
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## Companies mentioned

**Airports of Thailand** (AOT.BK, Bt68.75, NEUTRAL, TP Bt70.0)
**BAIC Motor Corporation Limited** (1958.HK, HK$11.1, OUTPERFORM, TP HK$14.0)
**BAT Malaysia** (BATO.KL, RM32.88, OUTPERFORM, TP RM36.95)
**Bharti Airtel Ltd** (BRTI.BO, Rs434.2)
**Bharti Infratel Ltd** (BHRI.BO, Rs327.0, OUTPERFORM, TP Rs430.0)
**BHP Billiton** (BHP.AX, A$29.9)
**BTS Rail Mass Transit Growth Infrastructure Fund** (BTSGIFu.BK, Bt11.9, NEUTRAL, TP Bt12.3)
**CapitaLand** (CATL.SI, S$3.53, NEUTRAL, TP S$3.9)
**Carlsberg Brewery Malaysia Bhd** (CBMS.KL, RM16.66, OUTPERFORM, TP RM19.0)
**Champion REIT** (2778.HK, HK$5.21, NEUTRAL, TP HK$5.6)
**China Mengniu Dairy** (2319.HK, HK$24.6)
**China Resources Beer** (Holdings) Company Limited (0291.HK, HK$29.2)
**City Developments** (CTDM.SI, S$12.36, OUTPERFORM, TP S$16.3)
**Daimler** (DAIGn.DE, €70.62)
**Dali Foods Group** (3799.HK, HK$7.39)
**DBS Group Holdings Ltd** (DBSM.SI, S$28.03)
**Dialog Group Bhd** (DIAL.KL, RM2.66, OUTPERFORM, TP RM3.1)
**Dilip Buildcon Ltd** (DIBL.BO, Rs984.3, NEUTRAL, TP Rs910.0)
**ExxonMobil Corporation** (XOM.N, $76.3)
**Frasers Property** (FRCT.SI, S$2.11)
**Heineken Malaysia Bhd** (HEIN.KL, RM20.42, NEUTRAL, TP RM19.0)
**Hengan International** (1044.HK, HK$73.25, OUTPERFORM, TP HK$108.0)
**Hindustan Zinc Limited** (HZNC.BO, Rs308.55, NEUTRAL, TP Rs325.0)
**Hyundai Mobis** (012330.KS, W224,500)
**Hyundai Motor Company** (005380.KS, W152,500)
**Indian Overseas Bank** (IOBK.BO, Rs21.85, UNDERPERFORM, TP Rs15.0)
**Insurance Australia Group** (IAG.AX, A$7.5, NEUTRAL, TP A$7.5)
**Jollibee Foods Corporation** (JFC.PS, P277.0, OUTPERFORM, TP P288.0)
**L.P.N. Development** (LPN.BK, Bt11.4, UNDERPERFORM, TP Bt11.5)
**M1 Limited** (MONE.SI, S$1.78)
**Motherson Sumi Systems Limited** (MOSS.BO, Rs356.25, OUTPERFORM, TP Rs440.0)
**Nestle India** (NEST.BO, Rs7260.1, OUTPERFORM, TP Rs9000.0)
**Oversea-Chinese Banking Corp Ltd** (OCBC.SI, S$12.26, OUTPERFORM, TP S$14.7)
**Oxley Holdings** (OXHL.SI, S$0.635)
**PKC Group** (PKC1V.HE^J17)
**PT Bank Tabungan Pensiunan Nasional Tbk** (BTPN.JK, Rp3,200, NEUTRAL, TP Rp3,000)
**Qantas** (QAN.AX, A$5.03)
**Sing Holdings** (SHDS.SI, S$0.42)
**Singapore Airlines Limited** (SIAL.SI, S$11.15, NEUTRAL, TP S$10.7)
**Singapore Telecom** (STEL.SI, S$3.35)
**StarHub Ltd** (STAR.SI, S$2.86, UNDERPERFORM, TP S$2.15)
**Sun Pharmaceuticals Industries Limited** (SUN.BO, Rs574.45, OUTPERFORM, TP Rs640.0)
**Taro Pharmaceutical Industries Ltd** (TARO.N, $95.91)
**Thai Beverage** (TBEV.SI, S$0.91, OUTPERFORM, TP S$1.04)
**Tingyi** (0322.HK, HK$15.2)
**United Overseas Bank Ltd** (UOBH.SI, S$26.24, OUTPERFORM, TP S$31.7)
**UOL Group** (UTOS.SI, S$8.21, OUTPERFORM, TP S$10.8)
**Vedanta Ltd** (VDAN.BO, Rs315.55)
**Vodafone Group** (VOD.L, 200.6p)
**Want Want China Holdings Ltd.** (0151.HK, HK$6.17)
**Woodside Petroleum** (WPL.AX, A$31.08, UNDERPERFORM, TP A$27.2)

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