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### GREATER CHINA

#### Results

**Beijing New Building Materials** Page 2

(000786 CH/BUY/Rmb46.25/Target: Rmb60.00)

2020: Solid results in line; margin expansion in 1H21.

**China Feihe (6186 HK/BUY/HK\$21.55/Target: HK\$26.00)** Page 5

2020: Reiterating ambitions of 23% sales CAGR for the next three years.

**Li Ning (2331 HK/BUY/HK\$47.45/Target: HK\$55.00)** Page 8

2020: Resuming pre-COVID-19 growth trajectory.

**Sany Heavy Equipment Int'l (631 HK/BUY/HK\$8.01/Target: HK\$9.90)** Page 11

2020: Solid results, in line with expectations; higher R&D to support further growth.

**Zhongsheng Group Holdings (881 HK/BUY/HK\$55.90/Target: HK\$67.00)** Page 14

2H20: Net profit up 33% yoy, beating estimates; upgrade to BUY.

**Zijin Mining (2899 HK/BUY/HK\$10.70/Target: HK\$12.10)** Page 17

2020: Remarkable results amid bullish gold market and copper production expansion.

### INDONESIA

#### Update

**Tunas Baru Lampung (TBLA IJ/BUY/Rp955 /Target: Rp1,235)** Page 20

Earnings are expected to remain stable in 2021, backed by healthy basic staple demand and higher selling prices. However, this would be partially offset by lower margins.

### MALAYSIA

#### Update

**AirAsia (AAGB MK/SELL/RM1.19/Target: RM\$0.68)** Page 23

Capital raising is positive, but issuance of free shares is not.

#### ASEAN E-Conference Takeaways

**My EG Services (MYEG MK/BUY/RM2.02/Target: RM2.65)** Page 26

Proposes one-to-one bonus issue; Zhifei's COVID-19 vaccine receives China's EUA. Maintain BUY with target price of RM2.65.

### SINGAPORE

#### Sector

**REITs** Page 29

S-REITs Bi-Weekly Updates (1-15 Mar 21).

#### ASEAN E-Conference Takeaways

**iFAST Corp (IFAST SP/BUY/S\$5.83/Target: S\$7.96)** Page 31

Gaining traction with the rise in AUA. Upgrade to BUY.

### THAILAND

#### Update

**PTT Global Chemical (PTTGC TB/BUY/Bt66.25/Target: Bt75.00)** Page 34

The right price at the right time; announces tender offer, and to delist VNT from the SET.

#### ASEAN E-Conference Takeaways

**Krungthai Card (KTC TB/SELL/Bt73.00/Target: Bt40.00)** Page 37

Better earnings outlook but valuation remains expensive; maintain SELL.

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	32628.0	(0.7)	(0.5)	3.5	6.6
S&P 500	3913.1	(0.1)	(0.8)	0.9	4.2
FTSE 100	6708.7	(1.0)	(0.8)	1.5	3.8
AS30	6959.6	(0.6)	(0.8)	(1.4)	1.6
CSI 300	5007.1	(2.6)	(2.7)	(10.5)	(3.9)
FSSTI	3134.5	(0.1)	1.3	8.8	10.2
HSCEI	11283.9	(1.6)	1.0	(5.1)	5.1
HSI	28990.9	(1.4)	0.9	(4.4)	6.5
JCI	6356.2	0.1	(0.0)	1.6	6.3
KLCI	1626.2	(0.1)	0.6	3.5	(0.1)
KOSPI	3039.5	(0.9)	(0.5)	(1.3)	5.8
Nikkei 225	29792.1	(1.4)	0.2	(1.2)	8.6
SET	1564.0	(0.3)	(0.3)	5.8	7.9
TWSE	16070.2	(1.3)	(1.1)	(2.1)	9.1
BDI	2281	3.0	15.0	33.5	67.0
CPO (RM/mt)	4125	(1.8)	0.5	5.2	8.9
Brent Crude (US\$/bbl)	64	(0.5)	(6.8)	(1.6)	24.0

Source: Bloomberg

### TOP PICKS

	Ticker	CP (1cy)	TP (1cy)	Pot. +/- (%)
BUY				
Ever Sunshine Lifestyle	1995 HK	18.42	26.48	43.8
Topsports Intl	6110 HK	13.34	15.00	12.4
Bank Negara Indonesia	BBNI IJ	6,150.00	7,200.00	17.1
Bumi Serpong	BSDE IJ	1,225.00	1,600.00	30.6
Mitra Adiperkasa	MAPI IJ	800.00	1,000.00	25.0
United Tractors	UNTR IJ	21,875.00	29,500.00	34.9
CIMB	CIMB MK	4.58	5.10	11.4
OCBC	OCBC SP	11.62	14.68	26.3
Bangkok Bank	BBL TB	126.50	149.00	17.8
Indorama	IVL TB	45.50	60.00	31.9

### KEY ASSUMPTIONS

GDP (% yoy)	2019	2020F	2021F
US	2.2	(3.8)	2.8
Euro Zone	1.3	(8.0)	5.2
Japan	0.7	(5.5)	2.8
Singapore	0.7	(6.0)	5.0
Malaysia	4.3	(5.5)	6.0
Thailand	2.4	(6.5)	6.0
Indonesia	5.0	(1.5)	4.3
Hong Kong	(1.2)	(7.0)	4.2
China	6.1	1.2	6.6
	2020	2021F	2022F
CPO (RM/mt)	2,685	3,000	2,600
Brent (Average) (US\$/bbl)	43.21	53.23	50.87

Source: Bloomberg, UOB ETR, UOB Kay Hian

### CORPORATE EVENTS

	Venue	Begin	Close
Web Conference on India Palm Oil Market Outlook	Singapore	22 Mar	22 Mar
Post-result Conference Call with China Feihe Ltd (6186 HK)	Hong Kong	26 Mar	26 Mar
Malaysia Corporate Day E-Conference	Malaysia	12 Apr	14 Apr

### COMPANY RESULTS

## Beijing New Building Materials (000786 CH)

2020: Solid Results In Line; Margin Expansion In 1H21

**BNBM reported in-line 2020 core net profit of Rmb2.8b, up 17% yoy, driven by its newly-established waterproofing material business, with revenue contribution rising to 20% from 2% in 2019. We expect BNBM to see robust margin expansion in its gypsum board business in 1H21 from product price hikes. We believe its active M&A efforts in the waterproofing materials segment will bear fruit in the near future. Maintain BUY with target price unchanged at Rmb60.00.**

### 2020 RESULTS

Year to 31 Dec (Rmbm)	2019	2020	yoy % chg	4Q19	3Q20	4Q20	qoq % chg	yoy % chg
Revenue	13,323	16,803	26.1	3,506	5,155	4,726	(8.3)	34.8
Gross profit	4,088	5,476	34.0	990	1,776	1,599	(10.0)	61.6
SG&A	(1,455)	(2,115)	45.3	(434)	(462)	(685)	48.1	57.7
Operating profit	2,633	3,361	27.7	555	1,314	914	(30.4)	64.6
Net finance cost	(26)	(75)	184.9	(3)	(23)	(10)	(57.8)	192.6
PBT	657	3,341	408.9	457	1,309	939	(28.2)	105.4
Tax	(200)	(317)	58.6	0	(149)	(48)	(67.8)	
Net Profit	441	2,860	548.3	452	1,103	854	(22.6)	89.0
Gross margin (%)	30.7	32.6	1.9	28.2	34.5	33.8	(0.6)	5.6
EBIT margin (%)	19.8	20.0	0.2	15.8	25.5	19.3	(6.1)	3.5
Net profit margin (%)	3.3	17.0	13.7	12.9	21.4	18.1	(3.3)	5.2

Source: BNBM, UOB Kay Hian

### RESULTS

- **A strong and in-line 2020, with core net profit up 17% yoy.** Beijing New Building Materials (BNBM) announced 2020 net profit of Rmb2.86b, up 548% yoy, slightly above its previous guided net profit growth range of 458-512% yoy. Stripping off the one-off items, core net profit grew 17% yoy to Rmb2.8b.
- **Revenue grew by 26.1% yoy, mainly driven by waterproofing materials business.** Gypsum board revenue remained largely flat yoy (sales volume grew 2.5% yoy while ASP dropped by 3% yoy). The main growth driver was its newly-established waterproofing materials business, which contributed 20% to 2020's total revenue (vs 2% in 2019) with gross margin steady at 34.1%.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	13,166	16,803	20,832	23,686	27,300
EBITDA	3,157	4,161	5,184	6,067	7,141
Operating profit	2,633	3,545	4,486	5,293	6,272
Net profit (rep./act.)	441	2,860	3,889	4,548	5,389
Net profit (adj.)	441	2,860	3,889	4,548	5,389
EPS (Fen)	26.1	169.3	230.2	269.2	319.0
PE (x)	177.1	27.3	20.1	17.2	14.5
P/B (x)	5.6	4.7	3.6	2.8	2.2
EV/EBITDA (x)	25.8	19.6	15.7	13.4	11.4
Dividend yield (%)	0.2	1.2	2.1	2.4	2.9
Net margin (%)	3.4	17.0	18.7	19.2	19.7
Net debt/(cash) to equity (%)	11.1	6.4	10.4	3.7	0.3
Interest cover (x)	136.7	51.9	48.5	46.3	65.7
ROE (%)	3.1	18.7	20.4	18.5	17.2
Consensus net profit	-	-	3,632	4,335	-
UOBKH/Consensus (x)	-	-	1.07	1.05	-

Source: BNBM, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	Rmb46.25
Target Price	Rmb60.00
Upside	+29.7%

### COMPANY DESCRIPTION

BNBM develops, manufactures and markets advanced building materials, wall materials, chemical construction materials and decoration materials.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	000786 CH
Shares issued (m):	1,689.5
Market cap (Rmbm):	78,139.7
Market cap (US\$m):	12,007.6
3-mth avg daily t'over (US\$m):	106.9

### Price Performance (%)

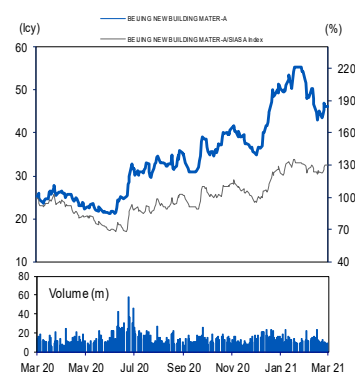
52-week high/low	Rmb55.47/Rmb21.09			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(14.8)	29.4	29.2	91.9	15.5

### Major Shareholders

China National Building Material	37.83
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FY21 NAV/Share (Rmb)	12.72
FY21 Net Debt/Share (Rmb)	1.33

### PRICE CHART



Source: Bloomberg

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- **Steady gypsum board business operation.** By end-20, BNBM's total gypsum board capacity had reached 2.82b sqm vs 2.75b sqm in 2019 with a slightly lower utilisation rate of 71.4% (vs 72.5% in 2019), mainly due to the negative impact from the COVID-19 pandemic. Gross margin expanded by 2.1ppt, thanks to successful labour cost control.
- **Dividend payout improved to 32.5%** (vs 31.4% in 2019). Management declared a final dividend of Rmb0.5/share, indicating a dividend yield of 1% as of 19 Mar 21.

### STOCK IMPACT

- **Maintains dominant position in gypsum board industry...** According to BNBM, its market share in domestic China's gypsum board industry remained steady at 60% in 2020 (2019: 60%). Total domestic industry gypsum board sales volume reached 3.35b sqm in 2020, up 0.9 % from 3.32b.sqm in 2019. We believe BNBM will be able to maintain its dominant position in the industry, particularly with small players exiting the market post pandemic.
- **...with margin expansion expected in 1H21.** We expect the company to see a moderate margin expansion along with strong net profit growth in 1H21, thanks to: a) price hikes of gypsum board products to pass on the raw material price hikes (eg gypsum board paper and coal etc); and b) a low base in 1H20. We had previously observed that with an overwhelming 60% market share, the company was able to pass on raw materials cost hikes to its customers. It has also established close relationships with downstream property developers, leveraging on its nationwide distributor system and superior brand names.
- **Enters waterproofing materials industry.** We are convinced BNBM is on the right track to expand its business in the waterproofing business, as it is carrying out multiple acquisition activities, including: a) Suzhou Waterproof Material Institute for Rmb69m at 1x 2020F P/B from China National Building Material Group (the only national level waterproof materials research centre in domestic China) at end-20, and b) Shanghai Taian (a leading waterproofing materials producer and constructor in Yangtze River Delta area) in mid-Feb 21. We expect the expansion to serve as a key growth driver for BNBM in the future.

### EARNINGS REVISION/RISK

- We revise up our net profit forecasts by 21%/22% for 2021 and 2022 respectively to factor in: a) better margin from gypsum board price hikes; b) faster expansion of its waterproofing materials business after BNBM completes its M&As in the industry.

### EARNINGS FORECAST CHANGES

Rmb m	Old			New			Chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2021F	2022F	2023F
Rev	18,635	21,033	n.a	20,832	23,686	27,300	12%	13%	n.a
NI	3,229	3,733	n.a	3,889	4,548	5,389	21%	22%	n.a
EPS (fen)	191.1	261.8	n.a	230.2	319.0	0.0	21%	22%	n.a

Source: BNBM, UOB Kay Hian

### VALUATION/RECOMMENDATION

- **Maintain BUY** with target price unchanged at Rmb60.00, based on 26x 2021F PE pegged to 1x PEG with 3-year net profit growth of 26%, or 1SD above its historical mean level. Reiterate BUY with 30% upside.

### OPERATIONAL DATA

(Rmbm)	2019	2020	yoy%
Revenue			
Gypsum board	7,297	7,013	(3.9)
Waterproofing Materials	150	2,165	1,339.9
Gross Profit			
Gypsum board	3,709	3,929	5.9
Waterproofing Materials	55	1,122	1,938.7
Gross Margin			
Gypsum board	33.7%	35.9%	2.2%
Waterproofing Materials	26.8%	34.1%	7.3%

Source: BNBM, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	16,802.6	20,832.2	23,686.1	27,300.2
EBITDA	4,161.1	5,184.1	6,067.1	7,141.2
Deprec. & amort.	615.8	698.5	773.7	869.3
EBIT	3,545.4	4,485.6	5,293.3	6,271.9
Total other non-operating income	(123.9)	246.0	246.0	246.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(80.2)	(106.9)	(131.0)	(108.7)
<b>Pre-tax profit</b>	<b>3,341.3</b>	<b>4,624.7</b>	<b>5,408.4</b>	<b>6,409.2</b>
Tax	(317.3)	(508.7)	(594.9)	(705.0)
Minorities	(164.2)	(227.2)	(265.7)	(314.9)
<b>Net profit</b>	<b>2,859.9</b>	<b>3,888.8</b>	<b>4,547.8</b>	<b>5,389.3</b>
Net profit (adj.)	2,859.9	3,888.8	4,547.8	5,389.3

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>1,838.6</b>	<b>1,933.4</b>	<b>4,986.1</b>	<b>5,840.4</b>
Pre-tax profit	2,859.9	4,624.7	5,408.4	6,409.2
Tax	(317.3)	(508.7)	(594.9)	(705.0)
Deprec. & amort.	613.0	698.5	773.7	869.3
Working capital changes	(1,475.3)	(2,725.1)	(451.1)	(583.1)
Other operating cashflows	158.3	(156.0)	(150.0)	(150.0)
<b>Investing</b>	<b>(1,065.5)</b>	<b>(2,185.8)</b>	<b>(2,130.0)</b>	<b>(3,030.0)</b>
Capex (growth)	(2,407.5)	(1,300.0)	(1,300.0)	(2,100.0)
Capex (maintenance)	(81.2)	(579.8)	(730.0)	(830.0)
Investments	293.1	(306.0)	(100.0)	(100.0)
Proceeds from sale of assets	12.6	0.0	0.0	0.0
Others	1,117.6	0.0	0.0	0.0
<b>Financing</b>	<b>(783.7)</b>	<b>441.3</b>	<b>(1,533.3)</b>	<b>(1,810.1)</b>
Dividend payments	(288.7)	(929.2)	(1,633.3)	(1,910.1)
Issue of shares	(0.4)	0.0	0.0	0.0
Proceeds from borrowings	(6.9)	1,370.5	100.0	100.0
Others/interest paid	(487.7)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(10.6)</b>	<b>188.9</b>	<b>1,322.8</b>	<b>1,000.4</b>
Beginning cash & cash equivalent	570.5	566.8	755.7	2,078.5
Changes due to forex impact	6.9	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>566.8</b>	<b>755.7</b>	<b>2,078.5</b>	<b>3,078.8</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	12,833.3	14,190.6	15,606.2	17,826.2
Other LT assets	3,226.8	3,903.1	4,255.8	4,607.4
Cash/ST investment	566.8	755.7	2,078.5	3,078.8
Other current assets	6,289.3	9,724.3	13,673.8	18,395.8
<b>Total assets</b>	<b>22,916.1</b>	<b>28,573.7</b>	<b>35,614.2</b>	<b>43,908.2</b>
ST debt	1,508.9	2,879.4	2,979.4	3,079.4
Other current liabilities	3,376.6	2,527.3	2,857.7	3,245.5
LT debt	120.0	120.0	120.0	120.0
Other LT liabilities	455.1	455.1	455.1	455.1
Shareholders' equity	16,667.2	21,486.8	27,667.9	34,967.3
Minority interest	787.5	1,105.1	1,534.2	2,041.0
<b>Total liabilities &amp; equity</b>	<b>22,915.2</b>	<b>28,573.7</b>	<b>35,614.2</b>	<b>43,908.2</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	24.8	24.9	25.6	26.2
Pre-tax margin	19.9	22.2	22.8	23.5
Net margin	17.0	18.7	19.2	19.7
ROA	12.9	15.1	14.2	13.6
ROE	18.7	20.4	18.5	17.2
<b>Growth</b>				
Turnover	27.6	24.0	13.7	15.3
EBITDA	31.8	24.6	17.0	17.7
Pre-tax profit	408.9	38.4	16.9	18.5
Net profit	548.3	36.0	16.9	18.5
Net profit (adj.)	548.3	36.0	16.9	18.5
EPS	548.3	36.0	16.9	18.5
<b>Leverage</b>				
Debt to total capital	8.5	11.7	9.6	8.0
Debt to equity	9.8	14.0	11.2	9.1
Net debt/(cash) to equity	6.4	10.4	3.7	0.3
Interest cover (x)	51.9	48.5	46.3	65.7

### COMPANY RESULTS

## China Feihe (6186 HK)

2020: Reiterating Ambitions Of 23% Sales CAGR For The Next Three Years

Feihe's results remain impressive, with top-line growing 26% yoy in 2H20. It saw normal channel inventory and improved qoq retail discounts in Jan-Feb 21. Management has reiterated its 23% CAGR guidance for its five-year plan ending 2023, and also introduced its next five-year plan (2024-28) in sustaining 15% CAGR. Its breakdown of its product offerings pipeline and channel strategies gives us confidence that Feihe is highly likely to achieve its targets. Maintain BUY with a higher target price of HK\$26.00.

### 2020 RESULTS

Year to 31 Dec (Rmbm)	2H19	1H20	2H20	yoy chg	2019	2,020	yoy chg
Revenue	7,830	8,707	9,886	26.3%	13,722	18,592	35.5%
Infant milk formula products	7,213	8,315	9,348	29.6%	12,538	17,674	41.0%
Other dairy products	357	205	402	12.5%	605	607	0.3%
Nutritional supplement products	259	186	125	-51.7%	578	312	-46.1%
Gross profit	5,634	6,176	7,304	29.6%	9,610	13,480	40.3%
Other income and gains	(4,220)	763	651	-115.4%	977	1,414	44.8%
Selling and distribution expenses	(2,295)	(2,197)	(3,067)	33.6%	(3,848)	(5,263)	36.8%
Administrative expenses	(624)	(527)	(634)	1.7%	(913)	(1,161)	27.2%
EBIT (reported)	3,268	3,996	4,243	29.8%	5,755	8,239	43.2%
Net Profit - Reported	2,184	2,753	4,684	114.5%	3,935	7,437	89.0%
less: One off gains/(losses)	-	-	1,730	-	-	1,730	-
Net Profit - Recurring	2,184	2,753	2,954	35.3%	3,935	5,707	45.1%
EPS (reported)	-	0.31	-	-	0.48	0.83	72.6%
<b>As % of Sales</b>							
GP margin	72.0%	70.9%	73.9%	2.9ppt	70.0%	72.5%	2.5ppt
SG&A Expense	37.3%	31.3%	37.4%	6.2ppt	34.7%	34.6%	-0.1ppt
S&D	29.3%	25.2%	31.0%	5.8ppt	28.0%	28.3%	0.3ppt
Admin	8.0%	6.1%	6.4%	0.4ppt	6.7%	6.2%	-0.4ppt
EBIT margin	41.7%	45.9%	42.9%	-3.0ppt	41.9%	44.3%	2.4ppt
Net margin - Reported	27.9%	31.6%	47.4%	15.8ppt	28.7%	40.0%	11.3ppt
Net margin - Recurring	27.9%	31.6%	29.9%	-1.7ppt	28.7%	30.7%	2.0ppt

Source: Feihe, UOB Kay Hian

### RESULTS

- **Results in line.** China Feihe's (Feihe) recurring net profit grew 45% yoy to Rmb5.7b, slightly beating our forecast of Rmb5.5b by 4%. Notably, Feihe recorded a substantial one-off gain (Rmb1.7b) after it acquired a 71.26% stake in YST Dairy on 2 Dec 20 at below book value. As per its recurring operations, Feihe delivered slightly stronger gross profit margin expansion via product mix, while keeping its selling & distribution expenses in check.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	13,722	18,592	22,844	27,284	32,605
EBITDA	5,755	8,239	10,044	12,084	14,544
Operating profit	5,755	8,239	10,044	12,084	14,544
Net profit (rep./act.)	3,935	5,725	6,998	8,425	10,148
Net profit (adj.)	3,935	5,725	6,998	8,425	10,148
EPS (Fen)	48.1	62.8	76.8	92.5	111.4
PE (x)	37.5	28.7	23.5	19.5	16.2
P/B (x)	11.3	9.1	7.1	5.7	4.5
EV/EBITDA (x)	25.9	18.1	14.8	12.3	10.2
Dividend yield (%)	1.1	0.7	1.3	1.6	1.9
Net margin (%)	28.7	30.8	30.6	30.9	31.1
Net debt/(cash) to equity (%)	(19.7)	(50.0)	(60.3)	(68.8)	(75.6)
Interest cover (x)	79.2	164.3	200.2	240.9	289.9
ROE (%)	41.8	37.2	34.7	33.0	31.8
Consensus net profit	-	-	5,673	7,301	9,013
UOBKH/Consensus (x)	-	-	1.23	1.15	1.13

Source: Feihe, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	HK\$21.55
Target Price	HK\$26.00
Upside	+20.6%
(Previous TP)	HK\$25.00

### COMPANY DESCRIPTION

Feihe is the largest and most highly recognised Chinese brand infant milk formula company, according to the F&S Report. With longstanding expertise in the infant milk formula business, Feihe has a unique value proposition as "More Suitable for Chinese Babies"

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	6186 HK
Shares issued (m):	8,933.3
Market cap (HK\$m):	192,513.5
Market cap (US\$m):	24,792.5
3-mth avg daily t'over (US\$m):	84.0

### Price Performance (%)

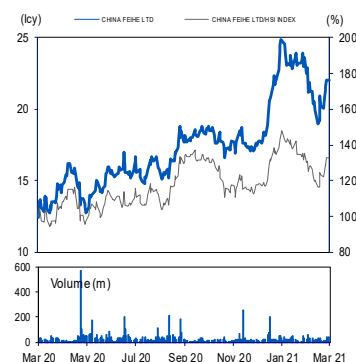
52-week high/low HK\$24.85/HK\$11.00

1mth	3mth	6mth	1yr	YTD
(6.3)	25.7	16.4	87.7	18.7

### Major Shareholders

Major Shareholders	%
Garland Glory	43.32
Morgan Stanley	9.27
Dasheng Ltd	4.45
FY21 NAV/Share (Rmb)	2.53
FY21 Net Cash/Share (Rmb)	1.52

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- **Winning market share from foreign brands.** Feihe's market share gain momentum is accelerating, with its market share gains mainly in upper-tier cities (80-90%) from foreign brands.
- **Expanding into southern and higher-tier cities.** Feihe's revenue gain and market share expansion are generated by more same-store stores, by taking market share from other competitors. In the northern provinces, Feihe has reached c.30% market share and is in a stable growth mode. In the southern provinces, Feihe is seeing fast growth as it only has 15-20% market share. In regions such as Shanghai, Yunnan Guangdong, these areas are underdeveloped and Feihe has less than 15% market share. Feihe believes it should see revenue increase >100% in 2021 in Shanghai and Guangdong.
- **Observations for 2M21.** Feihe believes consumers have an increasing preference for high-quality products with strong brand reputation, and that the premiumisation trend for infant milk formula (IMF) products has seen no signs of slowing. Channel discounting has even improved recently in Jan-Feb 21 vs 4Q20.
- **New pillars of growth in Kids and Adults milk powder products.** Kids and Adults milk powder products will be positioned at the high end of the price spectrum, in line with Feihe's overall market positioning, but those products have structurally lower gross profit margin. To compensate for lower gross profit margins, the marketing expenses would proportionately be lower, so Feihe still expects to make a "good operating profit".
- **Expanding YST Dairy to fuel Feihe's growth plans.** Over 95% of YST's raw milk output is taken up by Feihe at the moment, and Feihe expects to use the remainder production to fulfill its subsequent new product push in Kids and Adult milk powder. YST is expected to build new dairy ranches in the next 2-3 years with a capex budget of Rmb1.5b, while 2021 capex will be proportionate at c.Rmb500m.
- **Maintains 2023 guidance.** For its medium-term growth outlook, Feihe maintains that it is on track to hit its revenue target of Rmb35b by 2023 (or Rmb40b, inclusive of VAT) despite COVID-19 challenges and recent concerns on China's declining birth rate. This growth plan assumes a 27% CAGR from 2018 to 2023. Feihe expects to win market share from leading international brands, while small IMF brands would exit the industry.
- **Introduces guidance for 2024-28.** Management also introduced its next five-year plan (2024-28) – it expects a 15% top-line CAGR, powered by Kids (3yr old+) and Adults milk powder products.

### EARNINGS REVISION

- **Estimates adjusted upwards.** We raise 2021/2021 net profit forecasts by 4%/4% respectively and introduce 2023 estimates. We have raised sales growth by 2%/2% to incorporate Feihe's stronger-than-expected continued market share expansion, higher government grants and higher interest income. Note we have conservatively estimated 2023 revenue to hit Rmb32.6b, which is a 10% shortfall vs Feihe's five-year plan, to err on the side of caution.

### RECOMMENDATION

- **Maintain BUY with a higher target price of HK\$26.00** (from HK\$25.00), based on DCF valuation, implying 27x 2021F PE. Feihe's superior growth prospects as exemplified by its tight execution ability are impressive, and we foresee a strong sustainable revenue trajectory given its growing brand equity and a promising pipeline of new products. Management has not only demonstrated a clear and delineated roadmap in rolling out new product pillars (organic, A2, Kids, Adults), but also reinforced this with precise channel execution (mother & baby stores, mass, e-commerce, mass-market venues). We rest confident that Feihe can deliver its five-year growth plan and enjoy +20% CAGR growth along the way.

### EARNINGS CHANGES

(Rmbm)	2021F	2022F	2023F
<u>Before</u>			
Revenue	22,437	26,736	
EBIT (reported)	9,690	11,637	
Net Profit - Recurring	6,732	8,095	
<u>After</u>			
Revenue	22,844	27,284	32,605
EBIT (reported)	10,044	12,084	14,544
Net Profit - Recurring	6,992	8,420	10,142
<u>Change</u>			
Revenue	1.8%	2.1%	<new>
EBIT (reported)	3.7%	3.8%	<new>
Net Profit - Recurring	3.9%	4.0%	<new>

Source: Feihe, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	18,592.5	22,844.1	27,283.8	32,604.8
EBITDA	8,239.0	10,044.3	12,083.8	14,543.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	8,239.0	10,044.3	12,083.8	14,543.8
Net interest income/(expense)	(50.2)	(50.2)	(50.2)	(50.2)
Pre-tax profit	8,188.9	9,994.2	12,033.6	14,493.6
Tax	(2,463.9)	(2,996.6)	(3,608.4)	(4,346.4)
Minorities	0.2	0.2	0.3	0.3
Net profit	5,725.3	6,997.8	8,425.5	10,147.5
Net profit (adj.)	5,725.3	6,997.8	8,425.5	10,147.5

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	7,563.5	8,080.8	8,575.9	9,050.3
Other LT assets	2,215.0	1,629.5	1,623.9	1,618.3
Cash/ST investment	10,058.8	14,793.6	20,727.4	27,984.5
Other current assets	8,485.6	8,600.6	9,021.7	9,524.3
Total assets	28,322.8	33,104.5	39,948.9	48,177.4
ST debt	448.3	448.3	448.3	448.3
Other current liabilities	6,659.1	6,599.3	7,613.6	8,819.7
LT debt	732.2	732.2	732.2	732.2
Other LT liabilities	1,297.7	1,297.7	1,297.7	1,297.7
Shareholders' equity	17,747.1	22,588.8	28,419.2	35,441.9
Minority interest	1,438.4	1,438.2	1,437.9	1,437.6
Total liabilities & equity	28,322.8	33,104.5	39,948.9	48,177.4

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Operating	7,748.0	6,574.4	9,324.4	11,177.4
Pre-tax profit	9,900.5	9,988.6	12,028.1	14,488.1
Deprec. & amort.	265.7	289.4	311.5	332.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	1,419.3	(174.8)	593.2	703.5
Non-cash items	(3.5)	0.0	0.0	0.0
Other operating cashflows	(3,834.0)	(3,528.8)	(3,608.4)	(4,346.4)
Investing	(3,786.5)	(801.1)	(801.1)	(801.1)
Capex (growth)	(3,480.7)	(806.7)	(806.7)	(806.7)
Investments	136.2	5.6	5.6	5.6
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(442.0)	0.0	0.0	0.0
Financing	2,542.8	(2,150.5)	(2,589.6)	(3,119.2)
Dividend payments	(2,287.3)	(2,150.5)	(2,589.6)	(3,119.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(3,629.8)	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	8,459.9	0.0	0.0	0.0
Net cash inflow (outflow)	6,504.3	3,622.8	5,933.7	7,257.1
Beginning cash & cash equivalent	3,554.5	11,170.9	14,793.6	20,727.4
Changes due to forex impact	n.a.	0.0	0.0	0.0
Ending cash & cash equivalent	10,058.8	14,793.6	20,727.4	27,984.5

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	44.3	44.0	44.3	44.6
Pre-tax margin	44.0	43.7	44.1	44.5
Net margin	30.8	30.6	30.9	31.1
ROA	22.3	22.8	23.1	23.0
ROE	37.2	34.7	33.0	31.8
Growth				
Turnover	35.5	22.9	19.4	19.5
EBITDA	43.2	21.9	20.3	20.4
Pre-tax profit	44.1	22.0	20.4	20.4
Net profit	45.5	22.2	20.4	20.4
Net profit (adj.)	45.5	22.2	20.4	20.4
EPS	30.6	22.2	20.4	20.4
Leverage				
Debt to total capital	5.8	4.7	3.8	3.1
Debt to equity	6.7	5.2	4.2	3.3
Net debt/(cash) to equity	(50.0)	(60.3)	(68.8)	(75.6)
Interest cover (x)	164.3	200.2	240.9	289.9

### COMPANY RESULTS

#### Li Ning (2331 HK)

2020: Resuming Pre-COVID-19 Growth Trajectory

2020 revenue growth was in line with guidance, but surprised on the upside with lower A&P, R&D and staff costs in 2H20, which led to net profit exceeding expectations. Li Ning sees a rosy outlook for 2021, with a possible return to 25% sales growth on continued margin expansion. Both channel inventory months and percentage of new products have returned to pre-COVID-19 levels, signalling a clean base for growth in 2021. Upgrade to BUY with a higher target price of HK\$55.00 (from HK\$53.00).

#### 2020 RESULTS

Year to 31 Dec (Rmbm)	2H19	1H20	2H20	yoy % chg	2019	2020	yoy % chg
Revenue	7,615	6,181	8,276	8.7	13,870	14,457	4.2
Gross profit	3,698	3,057	4,038	9.2	6,805	7,094	4.2
Selling and distribution expenses	(2,422)	(1,949)	(2,476)	2.2	(4,445)	(4,425)	-0.5
Administrative expense	(517)	(346)	(459)	-11.3	(968)	(805)	-16.9
SG&A	(2,939)	(2,295)	(2,935)	-0.1	(5,413)	(5,230)	-3.4
EBIT (Reported)	865	898	1,298	50.0	1,543	2,196	42.3
Net finance income/(expense)	10	17	17	80.9	25	35	40.4
Net profit (reported)	704	683	1,015	44.2	1,499	1,698	13.3
Net profit (core)	704	683	1,015	44.2	1,266	1,698	34.2
Core EPS (Fen)	19.4	28.0	41.2	112.4	52.3	69.2	32.4
Ratios (%)	2H19	1H20	2H20	yoy ppt chg	2019	2020	yoy ppt chg
Gross margin	48.6	49.5	48.8	0.2	49.1	49.1	0.0
Selling expense as % of sales	31.8	31.5	29.9	-1.9	32.0	30.6	-1.4
Admin expense as % of sales	6.8	5.6	5.5	-1.3	7.0	5.6	-1.4
EBIT margin (Reported)	11.4	14.5	15.7	4.3	11.1	15.2	4.1
Net margin (reported)	9.2	11.1	12.3	3.0	10.8	11.7	0.9
Net margin (core)	9.2	11.1	12.3	3.0	9.1	11.7	2.6

Source: Li Ning, UOB Kay Hian

#### RESULTS

- **Beat on cost savings.** Li Ning's 2020 net profit grew 34% yoy to Rmb1.7b, beating our estimates by 4%. We note that 2020's net profit margin (11.7%) also beat the margin guidance (10.5%) provided back in its 1H20 briefing, thanks to a sharp drop in A&P and R&D expenses in 2H20.

Core net profit margin expanded by 2.6 ppt to 11.7% despite a flattish gross margin, driven by a 2.8ppt drop in expense ratio. Inventory level remained the same at 4.2 months with improved balance in ageing structure as old inventories (more than 6 months) dropped from 24% to 22% in 2020. Overall same-store sales growth returned to positive levels in 2H20, with low single-digits and low teens rate seen in 3Q20 and 4Q20 respectively. Points of sale (POS) for Li Ning brand declined by 8.17% to 6,933 stores, contributed by the closure of 537 Li Ning core brand stores and 80 Li Ning Young stores. Overall sell-through growth was up 1% yoy while offline sell-through growth dropped 5%.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	13,869.6	14,457.0	17,995.3	22,201.2	27,084.6
EBITDA	1,986.3	2,666.3	3,487.3	4,461.2	5,647.8
Operating profit	1,543.2	2,196.0	2,989.7	3,936.5	5,095.8
Net profit (rep./act.)	1,499.1	1,698.5	2,329.4	3,047.9	3,925.0
Net profit (adj.)	1,265.6	1,698.5	2,329.4	3,047.9	3,925.0
EPS (Fen)	52.3	69.2	94.9	124.2	159.9
PE (x)	76.0	57.4	41.9	32.0	24.9
P/B (x)	13.5	11.2	9.5	7.8	6.4
EV/EBITDA (x)	45.9	34.2	26.1	20.4	16.1
Dividend yield (%)	0.4	0.5	0.7	0.9	1.2
Net margin (%)	10.8	11.7	12.9	13.7	14.5
Net debt/(cash) to equity (%)	(68.1)	(67.7)	(76.0)	(83.8)	(90.5)
ROE (%)	23.2	21.5	24.5	26.8	28.4
Consensus net profit	-	-	2,197	2,846	4,368
UOBKH/Consensus (x)	-	-	1.06	1.07	0.90

Source: Li Ning, Bloomberg, UOB Kay Hian

### BUY (Upgraded)

Share Price	HK\$47.45
Target Price	HK\$55.00
Upside	+15.9%
(Previous TP)	HK\$53.00

#### COMPANY DESCRIPTION

Li Ning is a sportswear brand owner that designs, manufactures and distributes sporting goods. It relies on OEM for product manufacturing and retails via both its self-owned stores and franchisee partners.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2331 HK
Shares issued (m):	2,489.1
Market cap (HK\$m):	118,109.7
Market cap (US\$m):	15,207.2
3-mth avg daily t'over (US\$m):	78.0

#### Price Performance (%)

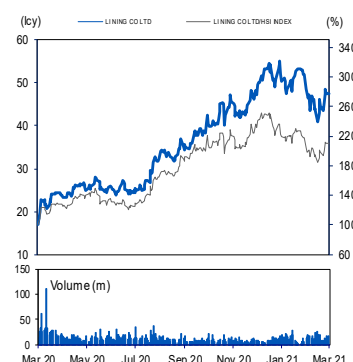
52-week high/low HK\$55.00/HK\$16.94

1mth	3mth	6mth	1yr	YTD
(8.8)	2.5	28.1	179.4	(11.0)

#### Major Shareholders

	%
Viva China	7.77
Citigroup	5.17
BlackRock	4.96
FY21 NAV/Share (Rmb)	4.20
FY21 Net Cash/Share (Rmb)	3.20

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Strong run rate from Jan 21 to date.** Li Ning has seen offline retail sell-through growth of +30% yoy from Jan 21 to date vs the same period in 2019, which in our view, paints a strong recovery picture for both Li Ning and the sportswear industry.
- **Strategy of fewer stores, more e-commerce.** Li Ning's brand network declined 8.2% yoy to 6,933 POS (from 7,550) as the company closed down more less profitable stores, and delayed the opening of new stores. It continues to focus on building bigger stores with more gross floor area, leading to greater store profitability. Li Ning stated that its sales per sqft increased by high single-digit levels. Notably, e-commerce grew 30% yoy (thanks to the COVID-19 impact) whereby e-commerce's percentage of sales increased 5ppt to 29% of overall revenue.
- **China Li Ning (中國李寧) fashion label continues to grow.** The fashion label accounted for "high single-digits" in terms of retail sell-through dollars, or "low single-digits" in terms of reported revenue since Li Ning sells some of these as wholesale revenue to distributors. The company expects to add another 100 stores in 2021, and China Li Ning in 2021 would represent high-SD to low-teens in sell-through dollars, or mid single-digits in reported revenue.
- **Strong top-line guidance.** In the near term, Li Ning expects a 25% yoy increase in revenue for 2021, which it deems as not aggressive since 2020 had three months of near-zero offline sales growth. Margin wise, it expects 1.0ppt expansion in 2021. We recall that Li Ning has historically guided for a 1.5ppt increase per year, so we reckon that Li Ning's latest guidance is considered conservative. Management alludes that any improvement in the retail situation (eg tightening of retail discounts) would give more upside to this base-case margin expansion.
- **Longer-term guidance unchanged.** Management expects net profit margin to eventually hit c.15% while operating profit margins would be c.20%. Given revenue growth is estimated to grow 15-20% yoy, ceteris paribus Li Ning expects economies of scale to deliver 0.6-0.7ppt/year expansion to operating profit margins. Meanwhile, should retail discounts return to normal, given that Li Ning is now operating on a hybrid retail/wholesale model, management expects another 2.0-3.0ppt expansion in gross profit margin.

### EARNINGS REVISION/RISK

- **Estimates tweaked.** We keep 2021 net profit unchanged, increase 2022 net profit by 2% and introduce 2023 estimates. Li Ning has historically guided for a 1.5ppt operating margin expansion per year, so the latest guidance does not deviate from our earlier assumptions.

### VALUATION/RECOMMENDATION

- **Upgrade to BUY from HOLD.** We raise our target price to HK\$55.00 (from HK\$53.00) based on DCF valuation, implying 43x 2021F PE. As share prices across the market have fallen, we see value re-emerging on the name. We assume Li Ning can deliver at least 0.8ppt of margin expansion per year until 2023, while top-line can grow 23% CAGR (2020-23), which will lead to net profit CAGR of 32%. Valuation is arguably expensive, even though Li Ning's virtually domestic-only business exposure renders it the sportswear name with the highest earnings visibility.

### EARNINGS CHANGES

(Rmbm)	2021F	2022F	2023F
<u>Before</u>			
Revenue	18,122	21,672	-
EBIT	2,974	3,825	-
Net profit	2,307	2,953	-
<u>After</u>			
Revenue	17,995	22,201	27,085
EBIT	2,990	3,936	5,096
Net profit	2,329	3,048	3,925
<u>Change</u>			
Revenue	(0.7)	2.4	<new>
EBIT	0.5	2.9	<new>
Net profit	1.0	3.2	<new>

Source: Li Ning, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	14,457.0	17,995.3	22,201.2	27,084.6
EBITDA	2,666.3	3,487.3	4,461.2	5,647.8
Deprec. & amort.	470.3	497.6	524.8	552.0
EBIT	2,196.0	2,989.7	3,936.5	5,095.8
Total other non-operating income	34.7	35.7	36.7	36.7
Associate contributions	83.5	91.8	101.0	111.1
Net interest income/(expense)	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>2,247.9</b>	<b>3,105.9</b>	<b>4,063.9</b>	<b>5,233.3</b>
Tax	(549.4)	(776.5)	(1,016.0)	(1,308.3)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>1,698.5</b>	<b>2,329.4</b>	<b>3,047.9</b>	<b>3,925.0</b>
Net profit (adj.)	1,698.5	2,329.4	3,047.9	3,925.0

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>2,538.6</b>	<b>3,421.4</b>	<b>4,288.7</b>	<b>5,332.9</b>
Pre-tax profit	2,247.9	3,105.9	4,063.9	5,233.3
Tax	(488.2)	(531.8)	(758.0)	(993.4)
Deprec. & amort.	470.3	497.6	524.8	552.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	277.0	374.2	484.4	567.3
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	31.6	(24.4)	(26.4)	(26.4)
<b>Investing</b>	<b>(575.9)</b>	<b>(519.9)</b>	<b>(517.9)</b>	<b>(517.9)</b>
Capex (growth)	(544.3)	(544.3)	(544.3)	(544.3)
Investments	(31.6)	24.4	26.4	26.4
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>(704.4)</b>	<b>(698.8)</b>	<b>(914.4)</b>	<b>(1,177.5)</b>
Dividend payments	(509.5)	(698.8)	(914.4)	(1,177.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(194.9)	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>1,258.3</b>	<b>2,202.7</b>	<b>2,856.4</b>	<b>3,637.5</b>
Beginning cash & cash equivalent	5,961.4	7,187.0	9,389.7	12,246.2
Changes due to forex impact	(32.7)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>7,187.0</b>	<b>9,389.7</b>	<b>12,246.2</b>	<b>15,883.6</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	1,065.1	1,122.5	1,155.0	1,162.4
Other LT assets	3,752.3	3,741.5	3,728.6	3,713.5
Cash/ST investment	7,187.0	9,389.7	12,246.2	15,883.6
Other current assets	2,589.5	2,829.3	3,070.9	3,273.8
<b>Total assets</b>	<b>14,593.9</b>	<b>17,083.1</b>	<b>20,200.7</b>	<b>24,033.4</b>
ST debt	591.9	836.5	1,094.5	1,409.5
Other current liabilities	4,423.2	5,037.2	5,763.2	6,533.4
LT debt	712.0	712.0	712.0	712.0
Other LT liabilities	177.4	177.4	177.4	177.4
Shareholders' equity	8,686.9	10,317.5	12,451.0	15,198.5
Minority interest	2.6	2.6	2.6	2.6
<b>Total liabilities &amp; equity</b>	<b>14,593.9</b>	<b>17,083.1</b>	<b>20,200.7</b>	<b>24,033.4</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	18.4	19.4	20.1	20.9
Pre-tax margin	15.5	17.3	18.3	19.3
Net margin	11.7	12.9	13.7	14.5
ROA	12.5	14.7	16.3	17.7
ROE	21.5	24.5	26.8	28.4
<b>Growth</b>				
Turnover	4.2	24.5	23.4	22.0
EBITDA	34.2	30.8	27.9	26.6
Pre-tax profit	21.1	38.2	30.8	28.8
Net profit	13.3	37.1	30.8	28.8
Net profit (adj.)	34.2	37.1	30.8	28.8
EPS	32.4	37.1	30.8	28.8
<b>Leverage</b>				
Debt to total capital	13.0	13.0	12.7	12.2
Debt to equity	15.0	15.0	14.5	14.0
Net debt/(cash) to equity	(67.7)	(76.0)	(83.8)	(90.5)

### COMPANY RESULTS

#### Sany Heavy Equipment Int'l (631 HK)

2020: Solid Results In Line; Higher R&D To Support Further Growth

**Sany posted solid 2020 results, in line with expectations. Revenue rose 30.2% yoy on the upgrade in its mining/logistics equipment segments and ramp-up of new products. The company will invest more in R&D, which will support further earnings growth. Management has guided for higher yoy growth in 2021, supported by ample orders backlogs, rapid ramp-up of new products and steady expansion in the market share of its core products. Maintain BUY. Target price: HK\$9.90.**

#### 2020 RESULTS

Year to 31 Dec (Rmbm)	2019	2020	yoy % chg	2H19	2H20	yoy % chg
Revenue	5,656	7,364	30.2	2,612	3,549	35.8
Gross profit	1,669	1,961	17.5	725	931	28.4
SG&A	(1,030)	(1,137)	10.4	(514)	(647)	25.8
Operating profit	639	824	29.0	211	284	34.5
Net finance cost	(85)	(132)	54.8	(51)	(57)	11.7
PBT	1,070	1,190	11.3	429	436	1.6
Tax	(148)	(139)	(6.2)	(60)	(23)	(61.2)
Net Profit	920	1,045	13.6	368	405	10.2
Gross margin (%)	29.5	26.6	(2.9)	27.8	26.2	(1.5)
EBIT margin (%)	11.3	11.2	(0.1)	8.1	8.0	(0.1)
Net profit margin (%)	16.3	14.2	(2.1)	14.1	11.4	(2.7)

Source: Sany Heavy Equipment Int'l, UOB Kay Hian

#### RESULTS

• **Solid 2020 results, in line.** Sany Heavy Equipment International (Sany) announced 2020 net profit of Rmb1.05b, up 13.6% yoy, in line with our estimates. Revenue rose 30.2% yoy to Rmb7.36b, mainly driven by: a) continued upgrade in the mining equipment sector towards intelligence and electrification; b) wide-body vehicles gaining share in the domestic and overseas markets, and c) strong sales from Sany's logistics equipment sector, with frontloaders and stacking machines remaining in the lead position, and electric and unmanned new products also recording remarkable growth.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	5,656	7,364	8,714	10,276	11,831
EBITDA	862	1,113	1,694	2,101	2,363
Operating profit	639	823	1,385	1,822	2,076
Net profit (rep./act.)	920	1,045	1,505	1,864	2,066
Net profit (adj.)	920	1,045	1,505	1,864	2,066
EPS (Fen)	30.0	33.8	48.4	59.9	66.4
PE (x)	23.0	20.4	14.3	11.5	10.4
P/B (x)	3.0	2.7	2.4	2.1	1.9
EV/EBITDA (x)	26.5	20.5	13.5	10.9	9.7
Dividend yield (%)	1.8	2.1	2.8	3.5	3.9
Net margin (%)	16.3	14.2	17.3	18.1	17.5
Net debt/(cash) to equity (%)	19.8	21.7	14.3	1.8	(7.5)
Interest cover (x)	10.1	8.4	16.5	18.6	19.0
ROE (%)	13.6	14.0	18.0	19.5	19.0
Consensus net profit	-	-	1,452	1,870	-
UOBKH/Consensus (x)	-	-	1.04	1.00	-

Source: Sany Heavy Equipment Int'l, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	HK\$8.01
Target Price	HK\$9.90
Upside	+23.6%
(Previous TP)	HK\$5.50

#### COMPANY DESCRIPTION

Sany Heavy Equipment Int'l is a Chinese leading industrial machinery producer in mining equipment and logistics machinery.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	631 HK
Shares issued (m):	3,127.3
Market cap (HK\$m):	25,769.0
Market cap (US\$m):	3,318.6
3-mth avg daily t'over (US\$m):	7.9

#### Price Performance (%)

52-week high/low HK\$9.88/HK\$3.52

1mth	3mth	6mth	1yr	YTD
(9.0)	56.1	79.5	115.1	42.1

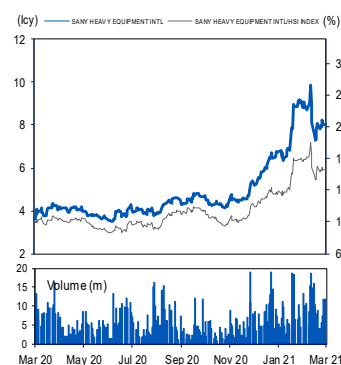
#### Major Shareholders

Sany HK	67.72%
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FY21 NAV/Share (Rmb) 2.86

FY21 Net Debt/Share (Rmb) 0.41

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- Gross margins dipped 2.9ppt on product mix changes.** In 2020, sales of wide-bodied vehicles saw significant increases in the domestic and international markets, which resulted in a decline in the mining equipment segment's operating margin. Management has guided for wide-bodied vehicles' margin to improve to c.30% by 2022 (vs <20% currently). Besides, lesser port machinery exports as a result of the Covid-19 pandemic, coupled with the introduction of more new lower-margin products also temporarily dragged down the logistics equipment sector's operating margin by 2.8 ppt to 14.9%.
- Higher R&D to support further growth.** R&D expense soared by 16.3% yoy to Rmb447.6m, representing 6% of total sales. Sany has committed to investing in new businesses, including robots, electro-hydraulic control, unmanned driving, automated integrated mining and smart mines. We note that the new robotic business, supported by Sany Group's intelligent upgrading strategy, has started to contribute revenue in 2020 (Rmb400m). We expect the ramp-up of its new products with the continuous high level of R&D investment to serve as a new growth engine for the company going forward.
- Strong cash flows.** As at end-20, operating cash flow had soared 33.6% yoy to Rmb1.07b, thanks to the strong increase in sales and acceleration in operating cash collection. Accounts receivable turnover days declined by 24.9 days to 206.6 days, while inventory turnover days was reduced by 36.1 days to 117.5 days.

### STOCK IMPACT

- Earnings growth prospects remain intact.** Management is confident in achieving a higher yoy growth in both revenue and net profit in 2021, given the mining/port market recovery post pandemic, particularly in the overseas market. Management believes the earnings growth could be fuelled by: a) ample orders backlogs in the combined coal mining units (CCMU), large-size port machinery and the pure water hydraulic supports; b) rapid ramp-up of new products. It expects to see strong sales volume increase from mining trucks with fine margins this year; c) steady market expansion of its core products, eg road-headers, front loaders, etc.

### EARNINGS REVISION/RISK

- We revise up our net profit forecasts by 4% and 27% for 2021 and 2022 respectively, to factor in: a) strong yoy growth in 2M21 sales due to the recovery from pandemic; b) higher export sales volumes in mining equipment and small-size port machinery; but c) higher sales volumes in mining trucks and other new products.

### EARNINGS FORECAST CHANGES

(Rmbm)	Old			New			Change%		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Revenue	7,737	8,720	na	8,714	10,276	11,831	13%	18%	na
Net Income	1,446	1,472	na	1,505	1,874	2,099	4%	27%	na
EPS (fen)	46.56	47.41	na	48.37	60.24	67.46	4%	27%	na

Source: Sany Heavy Equipment Int'l, UOB Kay Hian

### VALUATION/RECOMMENDATION

- Maintain BUY, with a higher target price of HK\$9.90** based on DCF valuation. We assume WACC at 10.7%, cost of equity of 11.68%, post-tax debt cost of 1.7% and terminal growth rate at 3.5%. Our target price implies 18x 2021F PE and 3x2021F P/B, and ROE estimated at 19% for 2021. The new target price implies 24% upside against current share price; thus, we maintain BUY.

### OPERATIONAL DATA

By segment			yoy
Year to 31 Dec	2019	2020	% chg
<b>Revenue</b>			
Mining equipment	3,722	5,154	38.5
Logistics machinery	2,369	2,639	11.4
<b>Operating Margin</b>			
Mining equipment	18.2%	17.3%	(0.9)
Logistics machinery	17.6%	14.9%	(2.8)
<b>Blended Gross Margin</b>	<b>29.5%</b>	<b>26.6%</b>	<b>(2.9)</b>

Source: Sany Heavy Equipment Int'l, UOB Kay Hian

### ONE-YEAR FORWARD P/B AND ROE BAND



Source: Bloomberg, UoB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Net turnover	7,363.9	8,713.8	10,275.8	11,831.1
EBITDA	1,113.0	1,693.9	2,100.8	2,362.7
Deprec. & amort.	289.6	308.8	278.9	286.4
EBIT	823.4	1,385.1	1,821.9	2,076.3
Total other non-operating income	499.2	499.2	499.2	499.2
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(132.3)	(102.7)	(113.0)	(124.3)
<b>Pre-tax profit</b>	<b>1,190.3</b>	<b>1,781.5</b>	<b>2,208.0</b>	<b>2,451.2</b>
Tax	(138.7)	(267.2)	(332.8)	(372.7)
Minorities	(6.4)	(9.2)	(11.5)	(12.9)
<b>Net profit</b>	<b>1,045.1</b>	<b>1,505.1</b>	<b>1,863.8</b>	<b>2,065.6</b>
Net profit (adj.)	1,045.1	1,505.1	1,863.8	2,065.6

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>1,070.4</b>	<b>168.2</b>	<b>1,915.3</b>	<b>1,916.2</b>
Pre-tax profit	1,190.3	1,781.5	2,218.5	2,484.5
Tax	(138.7)	(267.2)	(332.8)	(372.7)
Deprec. & amort.	289.6	308.8	278.9	286.4
Working capital changes	(88.0)	(1,627.9)	(219.6)	(449.3)
Other operating cashflows	(182.8)	(27.1)	(29.8)	(32.8)
<b>Investing</b>	<b>(647.4)</b>	<b>728.0</b>	<b>(200.0)</b>	<b>(100.0)</b>
Capex (growth)	(320.0)	(320.0)	(200.0)	(100.0)
Capex (maintenance)	(1,026.6)	1,026.7	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	699.2	21.3	0.0	0.0
<b>Financing</b>	<b>(601.7)</b>	<b>(747.1)</b>	<b>(389.0)</b>	<b>(515.9)</b>
Dividend payments	(390.3)	(443.5)	(602.0)	(749.7)
Issue of shares	2.2	0.0	0.0	0.0
Proceeds from borrowings	132.4	(285.1)	236.0	259.6
Others/interest paid	(346.1)	(18.4)	(23.0)	(25.7)
<b>Net cash inflow (outflow)</b>	<b>(178.7)</b>	<b>149.1</b>	<b>1,326.2</b>	<b>1,300.3</b>
Beginning cash & cash equivalent	1,103.2	941.5	1,090.5	2,416.8
Changes due to forex impact	17.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>941.5</b>	<b>1,090.5</b>	<b>2,416.8</b>	<b>3,717.1</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
Fixed assets	2,591.5	2,653.9	2,626.4	2,491.3
Other LT assets	2,856.8	2,647.0	2,625.4	2,606.8
Cash/ST investment	941.5	1,090.5	2,416.8	3,717.1
Other current assets	11,074.5	12,387.4	13,967.8	15,456.5
<b>Total assets</b>	<b>17,464.2</b>	<b>18,778.9</b>	<b>21,636.4</b>	<b>24,271.7</b>
ST debt	2,644.8	2,359.6	2,595.6	2,855.1
Other current liabilities	5,293.7	5,863.3	7,245.8	8,306.5
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	1,666.8	1,644.7	1,623.0	1,601.8
Shareholders' equity	7,838.7	8,900.3	10,172.5	11,521.8
Minority interest	20.2	10.9	(0.5)	(13.4)
<b>Total liabilities &amp; equity</b>	<b>17,464.2</b>	<b>18,778.9</b>	<b>21,636.4</b>	<b>24,271.7</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	15.1	19.4	20.4	20.0
Pre-tax margin	16.2	20.4	21.5	20.7
Net margin	14.2	17.3	18.1	17.5
ROA	6.3	8.3	9.2	9.0
ROE	14.0	18.0	19.5	19.0
<b>Growth</b>				
Turnover	30.2	18.3	17.9	15.1
EBITDA	29.1	52.2	24.0	12.5
Pre-tax profit	11.3	49.7	23.9	11.0
Net profit	13.6	44.0	23.8	10.8
Net profit (adj.)	13.6	44.0	23.8	10.8
EPS	12.3	43.3	23.8	10.8
<b>Leverage</b>				
Debt to total capital	25.2	20.9	20.3	19.9
Debt to equity	33.7	26.5	25.5	24.8
Net debt/(cash) to equity	21.7	14.3	1.8	(7.5)
Interest cover (x)	8.4	16.5	18.6	19.0

### COMPANY RESULTS

## Zhongsheng Group Holdings (881 HK)

2H20: Net Profit Up 33% yoy, Beating Estimates; Upgrade To BUY

**Zhongsheng's net profit grew 33% yoy and 38% hoh to Rmb3,213m in 2H20, beating our and consensus estimates. The earnings beat lies in stronger-than-expected new-car sales growth. Meanwhile, inventory days dropped to a record low of 21 days as of end-20. Based on stronger sales growth and lower inventory days, we raise 2021-22 EPS by 7% and 14% respectively, and raise target price from HK\$44.00 to HK\$67.00. Upgrade from SELL to BUY.**

### 2H20 RESULTS

Year to 31 Dec (Rmbm)	2H20	% chg yoy	% chg hoh	2020	% chg yoy	Comments
Revenue	90,145	35.3	54.9	148,348	19.6	Sales volume grew 25.4% yoy and 53.9% hoh in 2H20.
Gross profit	8,072	28.3	49.2	13,482	17.4	New-car sales gross margin dipped 0.2ppt hoh to 2.8% in 2H20.
EBIT	5,062	21.9	34.3	8,842	15.0	
Net profit	3,213	32.8	38.1	5,540	23.1	Net profit beat both our estimate and consensus estimates.

Source: Zhongsheng

### RESULTS

- 2H20 results beat our and consensus estimates.** Zhongsheng Group Holdings' (Zhongsheng) 2H20 net profit came in at Rmb3,213m, up 33% yoy and 38% hoh, 16% higher than our estimate of Rmb2,758m and 7% above consensus estimate of Rmb3,013m. 2020 net profit grew 23% yoy to Rmb5,540m, vs our estimate of Rmb5,085m and consensus estimate of Rmb5,340m. The earnings beat lies in stronger-than-expected new-car sales.
- Upbeat new-car sales with slow store additions and inventory drawdown.** New-car sales volume grew 25% yoy and 54% hoh to 303,421 units in 2H20, vs our estimate of 285,873 units (+18% yoy/+45% hoh), mainly driven by same-store sales growth (SSSG) rather than an increase in dealership store numbers, which only increased by 13, or 4% yoy to 373 at end-20 vs our estimate of 380. In 2020, Zhongsheng added 21 new dealership stores (including 10 Mercedes-Benz stores, six BMW stores, four Toyota stores and one Lexus stores) and closed eight Mercedes-Benz commercial vehicle stores. ASP hiked 10% yoy in 2H20 and 2020, as luxury car sales in sales mix soared by 5ppt yoy to 55% in 2020. New-car sales gross margin rose 0.06ppt yoy but dipped 0.17ppt hoh to 2.83% in 2H20 and rallied 0.18ppt yoy to 2.9% in 2020. Accompanying the strong new-car sales growth and resilient new-car sales margin was the drawdown of inventories. Inventory days declined to a record low of 21 days as of 31 Dec 20 from 29 days as of 30 Jun 20 and 35 days as of 31 Dec 19.

### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020F	2021F	2022F
Net turnover	124,043	148,348	186,313	226,786	270,189
EBITDA	9,430	10,446	13,091	15,453	18,101
Operating profit	7,691	8,506	11,059	13,367	15,961
Net profit (rep./act.)	4,502	5,540	6,793	8,432	10,312
Net profit (adj.)	4,535	5,192	6,793	8,432	10,312
EPS – fully diluted (fen)	185.4	228.2	279.8	347.3	424.7
PE (x)	26.2	20.9	16.6	13.4	11.0
P/B (x)	5.2	4.3	3.5	2.9	2.4
EV/EBITDA (x)	11.3	10.2	8.1	6.9	5.9
Dividend yield (%)	0.8	1.0	1.3	1.6	1.9
Net margin (%)	3.7	3.5	3.6	3.7	3.8
Net debt/(cash) to equity (%)	80.9	54.2	41.7	19.4	8.6
Interest cover (x)	5.8	7.2	11.6	16.2	25.7
ROE (%)	22.5	23.0	23.2	23.6	23.7
Consensus net profit (Rmb m)	-	-	6,690	8,035	n.a.
UOBKH/Consensus (x)	-	-	1.02	1.05	n.a.

Source: Zhongsheng, Bloomberg, UOB Kay Hian

### BUY

(Upgraded)

Share Price	HK\$55.90
Target Price	HK\$67.00
Downside	+19.9%
(Previous)	HK\$44.00

### COMPANY DESCRIPTION

Zhongsheng Group Holdings imports and retails primarily luxury and mid- to high-end automobile brands.

### STOCK DATA

GICS sector	Automobile
Bloomberg ticker:	881 HK
Shares issued (m):	2,272
Market cap (HK\$m):	126,988
Market cap (US\$m):	16,281
3-mth avg daily t'over (US\$m):	42.7

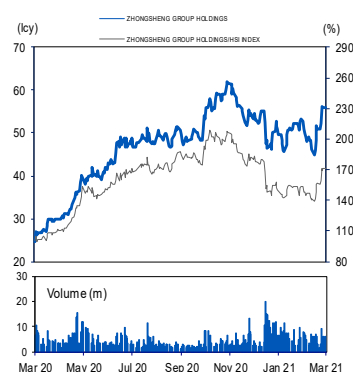
### Price Performance (%)

52-week high/low	HK\$62.9/HK\$22.4			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
5.1	2.5	8.4	140.9	1.2

### Major Shareholders

Mr. Huang Yi & Mr. Li Guoqiang	57.76
FY21 NAV/Share (HK\$)	10.4
FY21 Net Debt/Share (HK\$)	7.1

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **After-sales service business recovered strongly in 2H20.** Revenue of this segment grew 19% yoy and 41% hoh in 2H20 and grew 13.5% yoy in 2020, slightly below our estimate, due to the resurgence of COVID-19 infections in the northeast region of China at end-20. Segment gross margin also recovered from 46.5% in 1H20 to 49.5% in 2H20 and remained flat at 48% in 2020, as the service volume for accidental cars recovered along with traffic flows in 2H20.
- **Commission income pressured by reform on China's insurance industry in 4Q20, but used-car sales accelerated.** Commission income grew 10% yoy and 41.1% hoh in 2H20 and by 9.2% yoy in 2020, slower than new-car sales growth, as commission income from insurance agency business (which accounted for 36% of total commission income) dropped in 4Q20 due to the reform in China insurance policies. However, pre-owned car sales volume spiked by 62% yoy and 63% hoh in 2H20 and by 50% yoy in 2020, as the VAT rate for used-car sales in China was cut from 2% to 0.5%. Commission from pre-owned car sales contributed 12% to 2013's total commission income, and there will be colossal room for further growth.
- **Debt drawdown and finance cost declined.** Due to faster inventory turnover, operating cash flow grew 20% yoy in 2020, roughly in tandem with earnings growth. Net debt dropped from Rmb17.6b (1.9x EBITDA) at end-19 to Rmb14.3b (1.4x EBITDA) at end-20. Meanwhile, average finance cost dropped from 5% in 2019 to 3.95% in 2020. Going forward, management guided for even lower finance cost starting from 2021. Moody's and Fitch Ratings have respectively assigned Baa3 and BBB- ratings to Zhongsheng's senior unsecured notes, so the company could issue 5-year USD bonds at an interest rate as low as 3.00% in Jan 21. The low finance cost will give Zhongsheng unrivalled advantage in M&As. Given its strong financial positions and cash flows, the company will probably raise dividend payout ratio from ~20% in the past few years. For 2020, Zhongsheng has proposed a final dividend of HK\$0.58/share, implying a dividend payout ratio of 21% for 2020 vs 20% for 2019.

### STOCK IMPACT

- **Management has expressed optimism in the company's business outlook,** based on the sustained strong growth in luxury car sales, acceleration in used-car sales after the VAT cut, ongoing industry consolidation, the company's unrivalled advantage in financing, and continuous improvement in operational efficiency. Management has guided for at least 20% growth in new-car sales volume and 40% growth in used-car sales volume in 2021, and steady gross margin. Meanwhile, management expects after-sales service revenue to accelerate, as the strong new-car sales in 2020 has boosted customer base for its after-sales service business. In addition to the conventional car dealership business, Zhongsheng is also actively seeking opportunities in the electric vehicle (EV) dealership business.
- **We raise our assumptions on new-car sales volume for 2021 and 2022 by 9% and 16% to 605,753 units (+21% yoy) and 715,081 units (+18% yoy) respectively,** based on strong sales in 2020 and optimistic management guidance.

### EARNINGS REVISION/RISK

- **Raise 2021-22 net profit forecasts by 8% and 14% to Rmb6,793m and Rmb8,432m respectively, and introduce our 2023 net profit forecast of Rmb10,312m,** based on higher new-car sales volume. Our 2021 net profit forecast is in line with consensus, while our 2022 earnings estimate is 5% above consensus based on higher sales volume growth.

### VALUATION/RECOMMENDATION

- **Upgrade from SELL to BUY and raise target price from HK\$44.00 to HK\$67.00** based on the higher 2021 target PE of 20x (2SD above historical mean 1-year forward PE) and higher 2021F EPS. We revise up our target 2021F PE multiple from 15x to 20x based on Zhongsheng's stronger earnings growth and higher investment return from faster inventory turnover, lower finance cost and accelerating used-car sales growth.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Net turnover	148,348	186,313	226,786	270,189
EBITDA	10,446	13,091	15,453	18,101
Depreciation & amortization	(1,940)	(2,033)	(2,086)	(2,140)
EBIT	8,506	11,059	13,367	15,961
Total other non-operating income	348	-	-	-
Associate contributions	4	6	6	6
Net interest income/(expense)	(1,179)	(956)	(826)	(622)
Pre-tax profit	7,679	10,109	12,548	15,345
Tax	(2,098)	(3,033)	(3,764)	(4,604)
Minorities	(41)	(283)	(351)	(430)
Net profit	5,540	6,793	8,432	10,312
Net profit (recurrent)	5,192	6,793	8,432	10,312

### CASH FLOW

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Operating	9,324	4,500	9,530	7,403
Pre-tax profit	7,679	10,109	12,548	15,345
Depreciation/amortization	1,940	2,033	2,086	2,140
Working capital changes	1,296	(5,559)	(2,159)	(6,095)
Non-cash items	(1,590)	(2,083)	(2,945)	(3,988)
Others	-	-	-	-
Investing	(3,234)	(1,148)	(1,143)	(1,139)
Capex (growth)	(780)	(1,200)	(1,200)	(1,200)
Investments	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(2,454)	52	57	61
Financing	(3,964)	(2,400)	(7,594)	(5,800)
Dividend payments	(901)	(1,109)	(1,360)	(1,687)
Issue of shares	-	-	-	-
Chg in borrowings	98,317	100,000	95,000	97,000
Others/interest paid	(101,380)	(101,291)	(101,234)	(101,113)
Net cash inflow (outflow)	2,127	952	794	464
Beginning cash & cash equivalent	6,101	8,210	9,163	9,956
Chg in forex	(18)	-	-	-
Ending cash & cash equivalent	8,210	9,163	9,956	10,420

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2019	2020F	2021F	2022F
Fixed assets	18,787	18,546	18,331	18,141
Other LT assets	15,863	15,278	14,612	13,868
Cash/ST investment	8,210	9,163	9,956	10,420
Other current assets	25,640	45,331	40,569	61,293
<b>Total assets</b>	<b>68,501</b>	<b>88,317</b>	<b>83,469</b>	<b>103,722</b>
ST debt	16,980	16,980	11,980	8,980
Other current liabilities	11,494	25,626	18,705	33,334
LT debt	2,351	2,351	2,351	2,351
Other LT liabilities	10,794	10,794	10,794	10,794
Shareholders' equity	26,463	32,147	39,219	47,844
Minority interest	419	419	419	419
<b>Total liabilities &amp; equity</b>	<b>68,501</b>	<b>88,317</b>	<b>83,469</b>	<b>103,722</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	7.0	7.0	6.8	6.7
Pretax margin	5.2	5.4	5.5	5.7
Net margin	3.5	3.6	3.7	3.8
ROA	8.4	8.7	9.8	11.0
ROE	23.0	23.2	23.6	23.7
<b>Growth</b>				
Turnover	19.6	25.6	21.7	19.1
EBITDA	10.8	25.3	18.0	17.1
Pre-tax profit	21.4	31.6	24.1	22.3
Net profit	23.1	22.6	24.1	22.3
Net profit (adj.)	14.5	30.8	24.1	22.3
EPS (fully-diluted)	23.1	22.6	24.1	22.3
<b>Leverage</b>				
Debt to total capital	28.2	21.9	17.2	10.9
Debt to equity	73.1	60.1	36.5	23.7
Net debt to equity	54.2	41.7	19.4	8.6
Interest cover (x)	7.2	11.6	16.2	25.7

### COMPANY RESULTS

#### Zijin Mining (2899 HK)

2020: Remarkable Results Amid Bullish Gold Market And Copper Production Expansion

Zijin's 2020 net profit soared 52% yoy to Rmb6.5b, in line. Revenue hiked 26% yoy, driven by a strong gold price and ramp-up in copper production. Core gross margins of gold/copper improved to 51.4%/46.6% respectively. Looking ahead, Zijin targets to double the production volume of its mine-produced gold/copper by 2025, supported by technological upgrade in old mines and new mines put into operation. We maintain our positive view on metals performance in 2021. Maintain BUY. Target: at HK\$12.10.

#### 2020 RESULTS

	2019	2020	yoy %chg	1H20	2H20	hoh %chg
Revenue	136,098	171,501	26.0	83,142	88,359	6.3
Cost of sales	(120,583)	(151,071)	25.3	(74,016)	(77,055)	4.1
Gross profit	15,515	20,430	31.7	9,126	11,304	23.9
SG&A	(4,740)	(4,856)	2.4	(2,407)	(2,449)	1.8
Operating profit	10,775	15,575	44.5	6,719	8,855	31.8
PBT	6,974	10,846	55.5	4,095	6,752	64.9
Tax	(1,913)	(2,388)	24.8	(1,004)	(1,384)	38.0
Minority interest	(777)	(1,949)	150.9	(670)	(1,280)	91.1
Net Profit	4,284	6,509	51.9	2,421	4,087	68.8
Gross margin (%)	11.4	11.9	0.51	11.0	12.8	1.82
EBIT margin (%)	7.9	9.1	1.16	8.1	10.0	1.94
Net profit margin (%)	3.1	3.8	0.65	2.9	4.6	1.71

Source: Zijin, UOB Kay Hian

#### RESULTS

- **Remarkable results in line.** Zijin Mining (Zijin) announced a 2020 net profit of Rmb6.51b, which soared 51.9% yoy, and was in line with the company's previous profit alert (recurring net profit was expected to grow by 56.37-63.87% yoy). This strongest-ever results are largely in line with our estimates and Bloomberg consensus.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2019	2020	2021F	2022F	2023F
Net turnover	136,098	171,501	206,061	235,407	241,667
EBITDA	14,641	20,445	29,045	39,140	41,119
Operating profit	8,901	13,075	20,480	29,984	31,472
Net profit (rep./act.)	4,284	6,508	10,286	16,071	16,833
Net profit (adj.)	4,284	6,508	10,286	16,071	16,833
EPS (Fen)	18.4	25.6	40.5	63.3	66.3
PE	48.7	35.0	22.1	14.2	13.5
P/B (x)	4.1	4.0	3.5	3.0	2.7
EV/EBITDA (x)	22.5	16.1	11.3	8.4	8.0
Dividend yield (%)	1.2	1.3	2.1	3.3	3.5
Net margin (%)	3.1	3.8	5.0	6.8	7.0
Net debt/(cash) to equity (%)	66.7	95.7	67.5	30.6	5.2
Interest cover (x)	10.0	11.5	12.8	15.7	15.2
ROE (%)	9.3	12.1	17.0	23.0	21.0
Consensus net profit	-	-	11,491	15,047	-
UOBKH/Consensus (x)	-	-	0.90	1.07	-

Source: Zijin, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	HK\$10.70
Target Price	HK\$12.10
Upside	+13.1%
(Previous TP)	HK\$12.00

#### COMPANY DESCRIPTION

Zijin Mining Group Co., Ltd., through its subsidiaries, explores, mines, produces, refines, and sells gold, copper, zinc and other mineral resources in China.

#### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	2899 HK
Shares issued (m):	5,736.9
Market cap (HK\$m):	316,488.8
Market cap (US\$m):	40,749.5
3-mth avg daily t'over (US\$m):	121.5

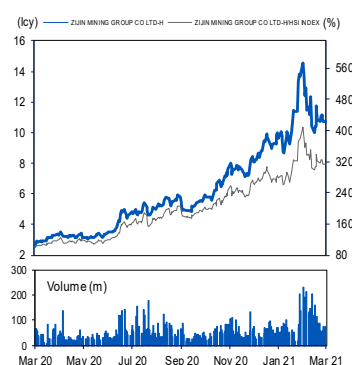
#### Price Performance (%)

52-week high/low	HK\$14.58/HK\$2.55			
1mth	3mth	6mth	1yr	YTD
(23.6)	30.5	81.0	353.4	21.9

#### Major Shareholders

Minxi Xinghang State-owned Assets Investment Co. Ltd	29.0
FY21 NAV/Share (Rmb)	2.53
FY21 Net Debt/Share (Rmb)	1.71

#### PRICE CHART



Source: Bloomberg

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- Revenue boosted by record-high gold price and ramp-up in copper production.** Revenue grew 26% yoy, supported by: a) strong gold performance in 2020. Zijin's mined gold ASP soared by 23% yoy, while copper price also recovered by 3% yoy; b) strong ramp-up in copper production (+23% yoy), while mined gold/zinc production dipped by 1% and 9% respectively.
- Improvement in gross margins of gold and copper.** Zijin fully benefitted from the bullish gold market in 2020, with its mined-gold segment's gross margin hiking by 10ppt to 51.4%. The copper segment's gross margin also improved by 1ppt to 46.6% despite a 4ppt increase in its unit cost. However, low zinc price dragged its gross margin by 6ppt. Overall gross margin (including the refinery business) edged up to 11.9% in 2020 (vs 11.4% in 2019).
- Dividend payout is maintained** at a high 46.97%, with a final dividend payment of Rmb0.12 per share.

### STOCK IMPACT

- Rapid production expansion continues.** In Feb 21, Zijin announced its production plan for 2021-25, targeting to double the production volume of its mine-produced gold/copper by 2025. The surge in growth would be supported by: a) technological upgrade of old mines; b) a number of new world-class mines being put into operation; and c) keeping track of M&A opportunities for middle- and large-sized gold and copper mines worldwide. Given Zijin's good track record over the past few decades, we believe the aggressive target is likely to be achievable. For 2021, management has guided for production of gold/copper/zinc to reach 53-56 tonnes/540k-580k tonnes/450k-480k tonnes respectively. Zijin's long-term strategy is clear, which is to grow into one the top 3-5 mining groups in the global market by 2030.
- Stronger earnings outlook supported by favourable metal price performance.** We maintain our positive view on copper in 2021 on demand recovery post pandemic worldwide while supply remains tight. Copper price performance (+17% ytd, +91.7% yoy as of 18 Mar 21) is stronger than our expectations. Zijin expects to benefit the most among Chinese metal miners amid copper price's up-cycle. For gold, we share management's view that gold price will remain resilient in 2021 (above US\$1,500 per ounce). Zinc prices to continue to recover in 2021 on demand recovery

### EARNINGS REVISION/RISK

- We have fine-tuned our net profit forecasts for 2021-23 by 3.3%/5.9%/7% respectively, mainly to factor in the actual 2020 results and ytd metals price performance. We have incorporated Zijin's revised production guidance in Feb 21, and for now we maintain full-year average gold/copper and zinc prices forecasts unchanged.

### EARNINGS FORECAST CHANGES

	Old			New			Chg%		
	2021F	2022F	2023F	2021F	2022F	2023F	2020F	2021F	2022F
Rev	196,906	224,547	230,192	206,061	235,407	241,667	4.6%	4.8%	5.0%
NI	9,952	15,174	15,734	10,286	16,072	16,833	3.3%	5.9%	7.0%
EPS	0.39	0.60	0.62	0.41	0.63	0.66	3.3%	5.9%	7.0%

Source: Zijin Mining, UOB Kay Hian

### VALUATION/RECOMMENDATION

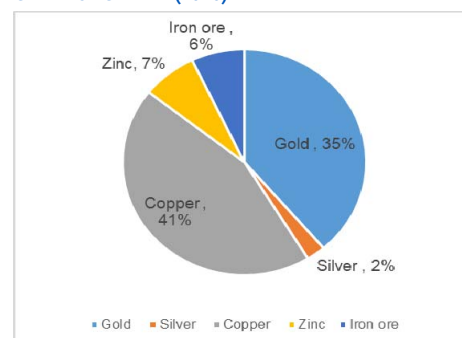
- Maintain BUY, raise target price to HK\$12.10 (from HK\$12.00)**, based on 25x 2021F PE (unchanged). We stress our long-term positive view on Zijin, given its promising operational expansion globally in copper and gold mines for the next 3-5 years. Zijin is well on track to becoming the top copper and gold miner globally in 5-10 years. Our new target price implies 13% upside from current share price. Thus, we maintain BUY.

### OPERATIONAL DATA

Year to 31 Dec	2019	2020	yoy
<b>Production (tonne)</b>			
Gold	260.5	274.6	5%
Mined Gold	40.8	40.5	-1%
Copper	501,397	575,643	15%
Mined Copper	369,857	453,447	23%
Zinc	228,506	218,834	-4%
Mined Zinc	374,068	342,131	-9%
<b>ASP</b>			
Mined Gold (Rmb/g)	296.8	365.0	23%
Mined Copper (Rmb/t)	39,925	40,984	3%
Mined Zinc (Rmb/t)	10,447	9,621	-8%
<b>Unit Cost</b>			
Mined Gold (Rmb/g)	172.7	177.4	3%
Mined Copper (Rmb/t)	18,333	19,077	4%
Mined Zinc (Rmb/t)	6,478	6,570	1%
<b>Gross Margin</b>			
Mined Gold (%)	41.8	51.4	10
Mined Copper (%)	45.5	46.6	1
Mined Zinc (%)	38.0	31.7	-6

Source: Zijin Mining, UOB Kay Hian

### GP BY SEGMENT (2020)



Source: Zijin Mining, UOB Kay Hian

### PRODUCTION PLAN

		2021	2022	2025
Mine gold	tonnes	53-56	67-72	89-90
Mine- copper	mn tonnes	0.54-0.58	0.80-0.85	1.00-1.10
Mine- zinc (lead)	000 tonnes	450-480	470-500	-
Iron ore	mn tonnes	3.50-3.80	2.90-3.30	-
Mine- silver	tonnes	240-300	270-310	-

Source: Zijin Mining, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Net turnover</b>	171,501.3	206,060.7	235,407.0	241,666.9
EBITDA	20,445.0	29,044.5	39,140.5	41,118.5
Deprec. & amort.	7,369.6	8,564.0	9,156.0	9,646.7
EBIT	13,075.5	20,480.5	29,984.5	31,471.8
Total other non-operating income	(654.9)	(600.0)	(600.0)	(600.0)
Associate contributions	209.7	217.7	225.9	234.5
Net interest income/(expense)	(1,784.2)	(2,276.2)	(2,486.5)	(2,696.7)
<b>Pre-tax profit</b>	<b>10,846.0</b>	<b>17,821.9</b>	<b>27,123.9</b>	<b>28,409.6</b>
Tax	(2,388.0)	(4,455.5)	(6,238.5)	(6,534.2)
Minorities	(1,949.5)	(3,080.8)	(4,813.9)	(5,042.0)
<b>Net profit</b>	<b>6,508.5</b>	<b>10,285.5</b>	<b>16,071.5</b>	<b>16,833.3</b>
Net profit (adj.)	6,508.5	10,285.5	16,071.5	16,833.3

### CASH FLOW

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>14,268.4</b>	<b>21,863.4</b>	<b>30,054.7</b>	<b>31,267.5</b>
Pre-tax profit	10,846.0	17,821.9	27,123.9	28,409.6
Tax	(1,492.9)	(2,827.5)	(4,834.6)	(6,301.4)
Deprec. & amort.	7,376.0	8,570.5	9,162.5	9,653.2
Associates	(209.7)	(217.7)	(225.9)	(234.5)
Working capital changes	(16.8)	(1,483.9)	(1,171.3)	(259.4)
Non-cash items	(2,234.2)	0.0	0.0	0.0
Other operating cashflows	0.0	0.0	0.0	0.0
<b>Investing</b>	<b>(29,174.4)</b>	<b>(8,000.0)</b>	<b>(5,000.0)</b>	<b>(4,999.0)</b>
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(13,886.4)	(8,000.0)	(5,000.0)	(4,999.0)
Investments	(1,287.8)	0.0	0.0	0.0
Proceeds from sale of assets	(11,969.2)	0.0	0.0	0.0
Others	(2,031.0)	0.0	0.0	0.0
<b>Financing</b>	<b>20,928.2</b>	<b>1,943.2</b>	<b>169.3</b>	<b>(2,547.1)</b>
Dividend payments	(2,537.7)	(3,056.8)	(4,830.7)	(7,548.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	44,174.8	0.0	0.0	0.0
Loan repayment	(30,637.1)	0.0	0.0	0.0
Others/interest paid	9,928.2	5,000.0	5,000.0	5,001.0
<b>Net cash inflow (outflow)</b>	<b>6,022.2</b>	<b>15,806.6</b>	<b>25,224.0</b>	<b>23,721.4</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>6,085.6</b>	<b>11,786.7</b>	<b>27,593.3</b>	<b>52,817.2</b>
Changes due to forex impact	(321.1)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>11,786.7</b>	<b>27,593.3</b>	<b>52,817.2</b>	<b>76,538.6</b>

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2020	2021F	2022F	2023F
<b>Fixed assets</b>	<b>63,905.8</b>	<b>65,145.0</b>	<b>63,023.1</b>	<b>60,339.9</b>
Other LT assets	79,145.1	77,226.9	75,412.3	73,675.7
Cash/ST investment	11,786.7	27,593.3	52,817.2	76,538.6
Other current assets	27,475.7	32,115.0	35,039.5	35,704.7
<b>Total assets</b>	<b>182,313.3</b>	<b>202,080.2</b>	<b>226,292.1</b>	<b>246,258.9</b>
ST debt	20,719.1	25,719.1	30,719.1	35,720.1
Other current liabilities	26,316.6	30,354.9	33,512.1	34,150.6
LT debt	45,192.6	45,192.6	45,192.6	45,192.6
Other LT liabilities	15,031.8	15,031.8	15,031.8	15,031.8
Shareholders' equity	56,538.6	64,186.4	75,427.2	84,712.5
Minority interest	18,057.9	21,138.7	25,952.6	30,994.6
<b>Total liabilities &amp; equity</b>	<b>182,313.3</b>	<b>202,080.2</b>	<b>226,292.1</b>	<b>246,258.9</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	11.9	14.1	16.6	17.0
Pre-tax margin	6.3	8.6	11.5	11.8
Net margin	3.8	5.0	6.8	7.0
ROA	4.3	5.4	7.5	7.1
ROE	12.1	17.0	23.0	21.0
<b>Growth</b>				
Turnover	26.0	20.2	14.2	2.7
EBITDA	39.6	42.1	34.8	5.1
Pre-tax profit	55.5	64.3	52.2	4.7
Net profit	51.9	58.0	56.3	4.7
Net profit (adj.)	51.9	58.0	56.3	4.7
EPS	39.4	58.0	56.3	4.7
<b>Leverage</b>				
Debt to total capital	46.9	45.4	42.8	41.2
Debt to equity	116.6	110.5	100.6	95.5
Net debt/(cash) to equity	95.7	67.5	30.6	5.2
Interest cover (x)	11.5	12.8	15.7	15.2

### COMPANY UPDATE

## Tunas Baru Lampung (TBLA IJ)

Benefits As A Net Sugar Importer For Indonesia

We expect TBLA's net profit to grow about 20% yoy in 2021 on the back of healthy basic staples demand and higher selling prices. Having said that, we expect slightly lower margins for the cooking oil and sugar segments as the hike in raw material cost will not be fully transferred to end-users. TBLA is also expanding its sugar planting to 15,000ha, which would reduce its reliance on the government sugar import quota allocation. Maintain BUY with a target price of Rp1,235.

### WHAT'S NEW

• **Outlook for 2021.** We expect Tunas Baru Lampung's (TBLA) earnings to remain stable in 2021 with ~20% yoy growth in net profit. This will come on the back of:

- Higher sugar sales volume.** TBLA's sugar sales volume increased by 28.7% yoy in 2020, driven partly by the social programmes run by the government and non-governmental organisations (NGO). This sales volume is expected to remain steady in 2021. In addition, additional sales volume could also be boosted by its high carry-forward inventory of about 100,000 tonnes. Recall that in Dec 20, TBLA was given a raw sugar import quota of 98,000 tonnes, for which TBLA has completed the imports and is ready for sale in 1H21. However, profit margins from the sugar division may see a slight decline in 2021 as compared to 2020 since sugar margins for 1H20 were driven up by panic buying and a supply shortage.
- Steady cooking oil segment.** TBLA targets to achieve a similar cooking oil sales volume in 2021 as compared with 2020. This is on the back of the ongoing government and social programme along with the resilient basic staple demand. We expect the ASP of cooking oil to continue increasing on the back of higher CPO prices. Having said that, operating margin might come under pressure as the skyrocketing commodity prices cannot be fully passed on to basic staple products end-users.
- Stable biodiesel margin with an allocation of 342,311kl for 2021.** The Indonesia government had allocated 342,311kl (298,810 tonnes) of biodiesel production to TBLA for 2021, slightly higher than last year's allocation of 341,890kl. With the impact of COVID-19 and the deferral of the B40 biodiesel programme in Indonesia, the building of its second biodiesel plant (capacity of ~450k/p.a) has been delayed and is expected to complete by 1Q22. Once completed, TBLA's annual production capacity will rise to 750,000 tonnes. The profit from biodiesel is relatively stable as cost of production and transportation are covered under the biodiesel conversion price (which is cost plus formula: CPO price + US\$85/tonne + transportation cost).

### KEY FINANCIALS

Year to 31 Dec (Rp)	2019	2020	2021F	2022F	2023F
Net turnover	8,533	10,863	11,657	11,151	11,347
EBITDA	1,909	2,489	2,617	2,613	2,622
Operating profit	1,425	1,825	1,969	1,999	2,038
Net profit (rep./act.)	663	728	843	885	892
Net profit (adj.)	663	728	843	885	892
EPS (Rp)	124.1	114.8	133.0	139.6	140.7
PE (x)	7.7	8.3	7.2	6.8	6.8
P/B (x)	9.5	11.4	7.5	7.7	9.3
EV/EBITDA (x)	6.3	4.8	4.6	4.6	4.6
Dividend yield (%)	0.0	0.0	3.5	3.7	18.4
Net margin (%)	7.8	6.7	7.2	7.9	7.9
Net debt/(cash) to equity (%)	135.1	173.2	86.1	84.4	117.5
Interest cover (x)	2.8	3.0	3.3	3.6	3.4
ROE (%)	13.1	13.6	12.6	11.1	12.5
Consensus net profit	-	-	805	846	-
UOBKH/Consensus (x)	-	-	1.05	1.05	-

Source: TBLA, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Rp955
Target Price	Rp1,235
Upside	+29.3%

### COMPANY DESCRIPTION

Full integrated palm oil producer and sugar producer

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	TBLA IJ
Shares issued (m):	5,342.1
Market cap (Rp):	5,101.7
Market cap (US\$m):	354.1
3-mth avg daily t'over (US\$m):	0.9

### Price Performance (%)

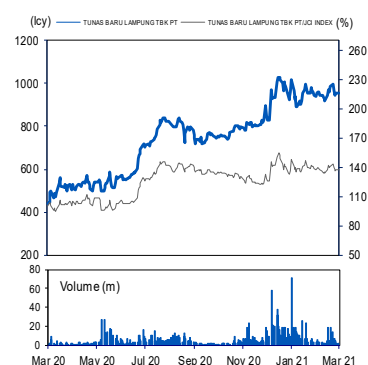
52-week high/low	Rp1,030/Rp438			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.1	15.1	20.1	126.3	2.1

### Major Shareholders

PT Sungari Budi	28.1
PT Budi Delta Swakarya	27.2

FY21 NAV/Share (Rp)	127
FY21 Net Debt/Share (Rp)	1,096

### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Expanding own sugar cane plantation would enhance its sugar margins.** TBLA targets to add 1,000 ha of new sugar cane planting in Lampung for 2021 to increase its sugar cane planted areas to 15,000 ha from the current 14,000 ha. The addition in planting areas will increase its internal sugar production contribution to its total sugar production from 25% to 30% of total sugar sales volume. With more sugar production coming from its own sugar cane plantation, TBLA's profit margins will improve. Indonesia as a net sugar importer will continue to issue raw sugar import quota to sugar refiners like TBLA.
- **Strong 4Q20 earnings with >100% qoq and yoy growths** on the back of higher selling prices and healthy sales volume (mainly from palm kernel oil and sugar segments). With CPO prices continuing on an uptrend, TBLA was able to transfer the high raw material cost to its customers via a 3% qoq and 22% yoy increase in its cooking oil selling price. Sugar pricing had dropped by 2% qoq as demand was subdued because there was sufficient supply from the domestic harvest and imports.

### 4Q20 FINANCIAL SUMMARY

Year to 31 Dec (Rp)	4Q20	qoq % chg	yoy % chg	2020	yoy % chg	Remarks
Revenue	2,798	17.6	27.8	10,863	27.3	
Gross Profit	821	49.9	93.3	2,624	25.3	
Operating Income	550	48.8	>100	1,825	28.1	Within expectations.
Net Profit	274	>100	>100	679	27.1	
Core Net Profit	251	>100	n.m	728	54.3	Slightly below our expectations due to slightly higher-than-expected interest expense.
<b>Margins (%)</b>						
Gross Margin	29.33	6.3	9.9	24.2	(0.4)	
Operating Margin	19.67	4.1	11.1	16.8	0.1	
Net Margin	9.78	6.3	8.3	6.2	(0.0)	

Source: TBLA, UOB Kay Hian

- **2021 capex guidance.** TBLA has guided for a capex of Rp1.1t for 2021, with about Rp750b to be used for new planting and maintenance purposes. The group targets to plant about 3,000 ha of palm oil trees in 2021.
- **TBLA is a net CPO buyer** as its own CPO production (~300,000 tonnes p.a.) is not sufficient for its production of cooking oil and biodiesel. As a net CPO buyer, a higher CPO price may not be positive for TBLA, but this will be partially offset by secured margins for biodiesel (covered under the biodiesel conversion formula) and possibility of passing on the cost by increasing cooking oil prices.

### EARNINGS REVISION/RISK

- **Adjusted earnings forecast.** We have adjusted our net profit forecasts upwards by 5-8% for 2021-23 to Rp843b, Rp885b and Rp892b respectively. The adjustment factors in: a) a higher sugar planting area, b) higher sugar selling prices, and c) lower margin for cooking oil and sugar due to high raw material cost.

### VALUATION/RECOMMENDATION

- **Maintain BUY with target price of Rp1,235.** Our SOTP-based target price pegs the plantation segment to 9x 2021F PE and sugar segment at 5x 2021F PE based on its 5-year mean.

### SHARE PRICE CATALYST

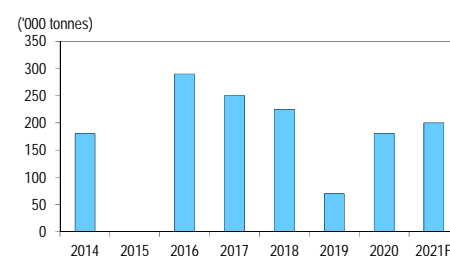
- Higher-than-expected selling prices.
- Better-than-expected CPO and sugar production.

### OPERATIONAL HIGHLIGHTS

Production (tonne)	4Q20	qoq % chg	yoy % chg	2020	yoy % chg
Nucleus FFB	191,410		180.0	479,509	(19.2)
Plasma FFB	77,730		319.8	156,995	(20.4)
Third party FFB	128,520		69.7	381,901	(53.9)
CPO	93,769		197.7	222,040	(33.7)
PK	8,238		179.5	23,739	(53.2)
<b>Sales volume (tonne)</b>					
PKO	9,000		44.0	30,350	(31.2)
Cooking Oil	65,506		(2.4)	281,467	34.3
Biodiesel	64,317		(9.9)	308,008	6.5
Sugar	83,417		24.3	290,727	8.8

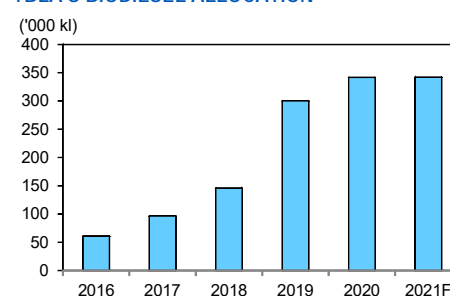
Source: TBLA, UOB Kay Hian

### SUGAR IMPORT QUOTA



\*2021F: UOB Kay Hian forecast  
Source: TBLA

### TBLA'S BIODIESEL ALLOCATION



Source: TBLA, BPDP

### PROFIT & LOSS

Year to 31 Dec (Rpb)	2020	2021F	2022F	2023F
Net turnover	10,863	11,657	11,151	11,347
EBITDA	2,489	2,617	2,613	2,622
Deprec. & amort.	664	648	614	584
EBIT	1,825	1,969	1,999	2,038
Total other non-operating income	(82)	(50)	(80)	(80)
Net interest income/(expense)	(817)	(792)	(736)	(766)
<b>Pre-tax profit</b>	<b>901</b>	<b>1,127</b>	<b>1,183</b>	<b>1,192</b>
Tax	(221)	(282)	(296)	(298)
Minorities	(2)	(2)	(2)	(2)
<b>Net profit</b>	<b>728</b>	<b>843</b>	<b>885</b>	<b>892</b>
Net profit (adj.)	728	843	885	892

### CASH FLOW

Year to 31 Dec (Rpb)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>38</b>	<b>424</b>	<b>2,058</b>	<b>1,561</b>
Pre-tax profit	901	1,127	1,183	1,192
Tax	(221)	(282)	(296)	(298)
Deprec. & amort.	664	648	614	584
Working capital changes	(1,505)	(1,304)	364	(141)
Other operating cashflows	198	235	193	225
<b>Investing</b>	<b>(1,372)</b>	<b>(1,090)</b>	<b>(1,240)</b>	<b>(1,240)</b>
Capex (growth)	(557)	(600)	(600)	(600)
Capex (maintenance)	(825)	(500)	(650)	(650)
Others	10	10	10	10
<b>Financing</b>	<b>1,412</b>	<b>1,344</b>	<b>32</b>	<b>(863)</b>
Dividend payments	(132)	(253)	(266)	(1,160)
Issue of shares	0	0	0	0
Proceeds from borrowings	2,461	5,800	1,500	1,500
Loan repayment	(715)	(4,000)	(1,000)	(1,000)
Others/interest paid	(203)	(203)	(203)	(203)
<b>Net cash inflow (outflow)</b>	<b>78</b>	<b>679</b>	<b>850</b>	<b>(541)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>401</b>	<b>480</b>	<b>1,158</b>	<b>2,008</b>
Changes due to forex impact	1	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>480</b>	<b>1,158</b>	<b>2,008</b>	<b>1,467</b>

### BALANCE SHEET

Year to 31 Dec (Rpb)	2020	2021F	2022F	2023F
Fixed assets	11,196	10,848	10,534	10,250
Other LT assets	209	214	220	227
Cash/ST investment	480	1,158	2,008	1,467
Other current assets	7,548	8,040	7,874	8,134
<b>Total assets</b>	<b>19,431</b>	<b>20,260</b>	<b>20,636</b>	<b>20,077</b>
ST debt	2,651	1,299	1,799	2,299
Other current liabilities	2,734	2,943	3,069	3,330
LT debt	7,037	6,812	6,812	6,812
Other LT liabilities	1,121	1,121	1,121	1,121
Shareholders' equity	5,315	8,074	7,824	6,505
Minority interest	11	11	11	11
<b>Total liabilities &amp; equity</b>	<b>19,431</b>	<b>20,260</b>	<b>20,636</b>	<b>20,077</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	22.9	22.4	23.4	23.1
Pre-tax margin	8.3	9.7	10.6	10.5
Net margin	6.7	7.2	7.9	7.9
ROA	4.0	4.2	4.3	4.4
ROE	13.6	12.6	11.1	12.5
<b>Growth</b>				
Turnover	27.3	7.3	(4.3)	1.8
EBITDA	30.4	5.1	(0.1)	0.3
Pre-tax profit	(0.4)	25.0	5.0	0.8
Net profit	9.8	15.8	5.0	0.8
Net profit (adj.)	9.8	15.8	5.0	0.8
EPS	(7.5)	15.8	5.0	0.8
<b>Leverage</b>				
Debt to total capital	64.5	50.1	52.4	58.3
Debt to equity	182.3	100.5	110.1	140.1
Net debt/(cash) to equity	173.2	86.1	84.4	117.5
Interest cover (x)	3.0	3.3	3.6	3.4

### COMPANY UPDATE

## AirAsia (AAGB MK)

Capital Raising Is Positive, But Issuance Of Free Shares Is Not

Post placement of 20% new shares, AirAsia will likely raise further funds via a rights issue. However investors should note the carrier: a) is proposing to issue almost 10% new shares at no cost, which would dilute minority interests stake, and raise corporate governance issues; and b) has about RM6b in lease and maintenance liabilities over the next three years. We have valued AirAsia on a post placement book value basis, along with discounted 2022-23 earnings, and derived a target price of RM0.68. Maintain SELL.

### WHAT'S NEW

- **Placement of new shares at substantial premium to book value is positive for minority shareholders...** We applaud AirAsia's efforts in raising new capital as unlike other carriers like Singapore Airlines (SIA) and Cathay Pacific, AirAsia has not received state support for recapitalisation. Thus far, AirAsia has placed out 470.3m shares or 70.4% of its targeted placement of new shares at a weighted average price of RM0.715, a substantial premium of estimated pre-placement end-20 book value of RM0.15/share and street's average target price of RM0.46 (fair value estimates range from a low of RM0.08 to a high of RM0.77). Assuming that AirAsia places out a final tranche at RM0.865/share, we estimate total proceeds of RM502.8m and book value per share (BVPS) on a diluted basis would then amount to RM0.25.
- **...but the proposed issuance of up to 10% new shares at no cost is detrimental to minority shareholders.** AirAsia recently proposed a share grant scheme (SGS) to select senior executives of the firm at no cost to SGS grantee. The grants can be in the form of shares or cash settlement at the discretion of a committee. The proposal is valid for a period of six years, and together with an employee share option, AirAsia could issue up to 10% new shares. No details were provided in terms of the number of eligible senior executives.

### KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	10,431	11,965	2,889	3,916	10,560
EBITDA	1,453	968	(3,237)	(1,454)	1,477
Operating profit	869	743	(3,372)	(1,589)	1,342
Net profit (rep./act.)	1,967	(304)	(3,330)	(1,167)	1,082
Net profit (adj.)	1,435	(304)	(3,482)	(1,167)	1,082
EPS (sen)	42.9	(9.1)	(104.2)	(19.5)	18.1
PE (x)	2.7	n.m.	n.m.	n.m.	6.5
P/B (x)	0.5	0.9	7.8	3.9	2.5
EV/EBITDA (x)	6.0	8.9	n.m.	n.m.	5.9
Dividend yield (%)	54.2	76.3	0.0	0.0	0.0
Net margin (%)	18.9	(2.5)	(115.3)	(29.8)	10.2
Net debt/(cash) to equity (%)	(27.5)	178.5	1,891.3	442.3	203.7
Interest cover (x)	3.5	1.3	(6.8)	(4.5)	10.4
ROE (%)	24.8	n.a.	n.a.	n.a.	46.6
Consensus net profit	-	-	(3,068)	(697)	112
UOBKH/Consensus (x)	-	-	1.13	1.67	9.68

Source: AirAsia Group Berhad, Bloomberg, UOB Kay Hian

## SELL (Maintained)

Share Price	RM1.19
Target Price	RM0.68
Upside	-47.2%
(Previous TP)	RM0.53

### COMPANY DESCRIPTION

AirAsia is a regional budget airline serving Malaysia and Southeast Asian destinations. The airline has JVs in Thailand, Indonesia, India and Philippines.

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	AAGB MK
Shares issued (m):	3,812.2
Market cap (RMm):	4,498.4
Market cap (US\$m):	1,094.4
3-mth avg daily t'over (US\$m):	10.7

### Price Performance (%)

52-week high/low RM1.21/RM0.520

1mth	3mth	6mth	1yr	YTD
49.4	33.3	82.9	93.4	33.3

### Major Shareholders

	%
Tune Live & Tune Air Sdn Bhd	26.9
POSITIVE BLOOM LTD	8.7
Amanah Saham Nasional	6.1
FY21 NAV/Share (RM)	0.30
FY21 Net Debt/Share (RM)	1.34

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### 2021 BVPS ESTIMATE, POST ESTIMATED 2-3 RIGHTS ISSUE

		Comments
Proceeds from rights issue at RM1.00 per share	1965.1	Net of 2% fees
Total equity base (m Shares)	6,016	
Total new equity (RMm)	2467.9	
Total Shareholder's equity post rights issue (m)	2972	
Estimated loss for 2021 (RMm)	-1167	
2021'S Shareholder's equity (RMm)	1805	
Total equity base (m Shares)	6016	
2021 BVPS post rights (RM)	0.30	

Source: UOB Kay Hian

- **Further capitalisation via a 1-2 rights issue at RM1.00 appears probable** and this would raise up to RM2.0b in equity, assuming full take-up rate. The rights proceeds along with a 20% placement would raise RM2.5b, within the upper range of AirAsia's guidance of RM2b-2.5b range for new capital. Presently, the top five shareholders prior to the latest placement hold only 45% of the outstanding shares of the firm. We believe that a substantial quantum of the proceeds will be used to repay outstanding leases of about RM1.5b-1.6b incurred in 2020. AirAsia should incur another RM2.1b-2.2b in lease payables for 2021 along with substantial interest costs on the deferred payment. Overall, we expect AirAsia to be about RM1.17b in the red for 2021, and BVPS for 2021 post rights is estimated at RM0.30.

- **Rate of vaccination would determine pace of domestic and international traffic recovery.** AirAsia Malaysia's domestic traffic, which accounted for half of total traffic before the pandemic, could gradually open up by late-2Q21 at best, given the pace of scheduled vaccinations. Malaysia hopes to vaccinate at least 80% of its adult population by Feb 22, and vaccination for non-front line staff below the age of 60 will only commence by May 21. International traffic is only estimated to gradually recover from 3Q21 onwards as it would be dependent on the pace of vaccination in AirAsia's key Southeast Asian markets, along with India and Greater China. For 2021, we have estimated that pax throughput for Malaysia would rise 31% yoy and account for 35% of 2019 levels. AirAsia's Indonesian and Philippines airlines are likely to register slower recovery due to a lower rate of vaccination.

### STOCK IMPACT

- **Investors buying into forward prospects but have to be mindful of forward liabilities and corporate governance issues as well.** We are perplexed by AirAsia's proposal to issue new shares at no cost to key executives and question the rationale of the move at this juncture, when AirAsia is facing substantial forward liabilities, after having disposed of its fleet. In terms of valuation, AirAsia is trading at about 4x post placement 2021 estimated BVPS, but the carrier also has approximately RM6b in lease and maintenance liabilities from 2021-23. Even after factoring in a full recovery by 2023, we do not expect AirAsia to generate the RM6b in operating cash flow by the same period. AirAsia's ability to raise ticket prices could also be challenging given almost RM1b in forward sales liability.

### EARNINGS REVISION/RISK

- We raise our 2021 net loss estimate by 26% but have raised our 2022's earnings estimate by 40% after factoring in higher ASP assumptions. A key risk is a delay in vaccination rate and the potential return of aircraft to lessors.

### VALUATION/RECOMMENDATION

- **Maintain SELL; fair value estimated at RM0.68 (previously RM0.53).** We value AirAsia by discounting 2022-23's EPS at 8% cost of equity. For 2023, we have estimated RM2.2b in net profit. The resultant figure of RM0.43 is added back to post placement BVPS, deriving a fair value of RM0.68.

### 2020 BVPS, POST 20% SHARE ISSUANCE

Air Asia's end-20 equity base (m Shares)	3,342
Proposed issuance of 20% new shares (m)	668.4
369.9m shares issued at RM0.675 (RMm)*	247.2
100.367m shares issued at RM0.865 (RMm)*	85.9
Assuming third tranche of 198.13m shares at RM0.865 (RMm)	169.7
Total placement proceeds (RMm)	502.8
Pre- placement 2020 shareholders equity (RMm)	503.7
2020 BVPS on expanded share capital base of 4010.4m shares (RM)	0.25

Source: UOB Kay Hian, AirAsia

### USE OF INITIAL EQUITY PLACEMENT

Proposed utilisation of proceeds	Indicative Allocation
Fuel hedging settlement	32.26%
Aircraft lease & maintenance payments	20.94%
AirAsia Digital Sdn Bhd	16.93%
General working capital expenses	29.83%
Estimated expenses for the Proposed Private Placement	0.04%
Total	100%

Source: AirAsia

### MALAYSIA'S VACCINATION PHASES

Phases	Period	Population (m)
Phase 1*	Feb - Apr 2021	0.5
Phase 2*	Apr - Aug 2021	9.4
Phase 3*	May 2021 - Feb 2022	<13.7

\*Phase 1 for frontline workers; phase 2 for healthcare workers and elderly aged 60 and older; phase 3 for adults aged 18 and older

### VALUATION

Post Placement BVPS as at end 2020	0.25
Discounted EPS from 2021-2023 (RM)	0.43
Fair Value per share (RM)	0.68

Source: UOB Kay Hian

### ASSUMPTIONS

Year to 31 Dec	2021F	2022F	2023F
Pax Carried Growth (%)	28.1	152.8	16.5
Seat Capacity Growth (%)	30.9	126.0	14.3
ASK Growth (%)	31.0	132.4	14.5
Average Net Fares (RM)	232.5	250.0	262.5
Yoy % chg	7.5	7.5	5.0
Average Gross Pax Fares (RM)	193.3	208.8	219.2
Yoy % chg	8.0	8.0	5.0
Unit Cost Per Seat (RM)	238.5	176.6	175.4
Seat Factor(%)	72.5	81.1	82.8
Break-even Seat Factor (RM)	102.6	70.7	66.8

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	11,964.9	2,888.7	3,916.3	10,559.5
EBITDA	967.9	(3,237.2)	(1,453.6)	1,477.3
Deprec. & amort.	224.9	135.0	135.0	135.0
EBIT	742.9	(3,372.2)	(1,588.6)	1,342.4
Total other non-operating income	(92.7)	(569.3)	0.0	0.0
Associate contributions	(481.6)	(54.0)	(10.8)	32.4
Net interest income/(expense)	(718.5)	(479.5)	(324.4)	(142.5)
<b>Pre-tax profit</b>	<b>(549.8)</b>	<b>(4,322.3)</b>	<b>(1,923.7)</b>	<b>1,232.3</b>
Tax	263.8	237.7	175.1	(141.9)
Minorities	(17.8)	755.0	581.8	(8.9)
<b>Net profit</b>	<b>(303.7)</b>	<b>(3,329.6)</b>	<b>(1,166.9)</b>	<b>1,081.5</b>
Net profit (adj.)	(303.7)	(3,482.2)	(1,166.9)	1,081.5

### CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>3,721.8</b>	<b>(1,155.3)</b>	<b>(626.9)</b>	<b>2,318.2</b>
Pre-tax profit	(549.8)	(4,322.3)	(1,923.7)	1,182.1
Tax	(19.9)	(3.6)	(140.0)	(113.5)
Deprec. & amort.	224.9	135.0	135.0	135.0
Associates	481.6	54.0	10.8	(32.4)
Working capital changes	883.0	347.4	(997.4)	(958.4)
Non-cash items	420.6	0.0	0.0	0.0
Other operating cashflows	2,281.4	2,634.2	2,288.5	2,105.4
<b>Investing</b>	<b>4,108.1</b>	<b>152.8</b>	<b>0.0</b>	<b>0.0</b>
Capex (growth)	(362.8)	0.0	0.0	0.0
Investments	(280.5)	152.8	0.0	0.0
Proceeds from sale of assets	4,407.6	0.0	0.0	0.0
Others	343.8	0.0	0.0	0.0
<b>Financing</b>	<b>(8,269.3)</b>	<b>(1,007.4)</b>	<b>778.2</b>	<b>(2,802.9)</b>
Dividend payments	(3,408.8)	0.0	0.0	0.0
Issue of shares	0.0	0.0	2,467.9	0.0
Proceeds from borrowings	620.7	200.0	400.0	0.0
Loan repayment	(3,343.4)	(413.0)	(100.0)	(100.0)
Others/interest paid	(2,137.8)	(794.4)	(1,989.7)	(2,702.9)
<b>Net cash inflow (outflow)</b>	<b>(439.3)</b>	<b>(2,010.0)</b>	<b>151.2</b>	<b>(484.7)</b>
Beginning cash & cash equivalent	3,327.0	2,588.1	578.2	729.4
Changes due to forex impact	(299.5)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>2,588.1</b>	<b>578.2</b>	<b>729.4</b>	<b>244.7</b>

### BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	1,201.6	1,066.6	931.6	796.7
Other LT assets	19,100.8	16,996.8	15,309.3	13,321.5
Cash/ST investment	2,588.1	578.1	729.4	244.7
Other current assets	2,704.3	1,873.5	1,821.5	1,818.0
<b>Total assets</b>	<b>25,594.7</b>	<b>20,515.0</b>	<b>18,791.8</b>	<b>16,180.8</b>
ST debt	342.2	21.6	82.5	66.5
Other current liabilities	6,793.3	7,210.0	6,975.6	6,531.0
LT debt	10,274.9	10,083.6	8,629.7	5,956.3
Other LT liabilities	5,273.7	5,938.7	5,123.6	4,606.4
Shareholders' equity	4,498.3	503.7	1,804.7	2,836.1
Minority interest	(1,587.6)	(3,242.6)	(3,824.4)	(3,815.5)
<b>Total liabilities &amp; equity</b>	<b>25,594.7</b>	<b>20,515.0</b>	<b>18,791.8</b>	<b>16,180.8</b>

### KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	8.1	(112.1)	(37.1)	14.0
Pre-tax margin	(4.6)	(149.6)	(49.1)	11.7
Net margin	(2.5)	(115.3)	(29.8)	10.2
ROA	n.a.	n.a.	n.a.	6.2
ROE	n.a.	n.a.	n.a.	46.6
<b>Growth</b>				
Turnover	14.7	(75.9)	35.6	169.6
EBITDA	(33.4)	(434.5)	n.a.	n.a.
Pre-tax profit	(141.2)	n.a.	n.a.	n.a.
Net profit	(115.4)	n.a.	n.a.	n.a.
Net profit (adj.)	(121.2)	n.a.	n.a.	n.a.
EPS	(121.2)	n.a.	n.a.	n.a.
<b>Leverage</b>				
Debt to total capital	78.5	137.2	130.2	119.4
Debt to equity	236.0	2,006.1	482.7	212.4
Net debt/(cash) to equity	178.5	1,891.3	442.3	203.7
Interest cover (x)	1.3	(6.8)	(4.5)	10.4

### ASEAN E-CONFERENCE TAKEAWAYS

#### My EG Services (MYEG MK)

Full Speed Ahead With Business Expansion Blitz

Last week, MYEG proposed a one-to-one bonus issue, while Zhifei's vaccine received EUA in China and will be submitted for approval in Malaysia and the Philippines. Moving forward, we envision MYEG's earnings growth to be fuelled by its healthcare segment, several new road transport-related services in the pipeline, as well as foreign worker accommodation. The likely extension of a tax incentive is also a strong re-rating catalyst for MYEG. Maintain BUY and target price of RM2.65.

#### WHAT'S NEW

- Diversification into healthcare segment bearing fruit.** My EG Services' (MYEG) earnings have been boosted by its MySafeTravel related services, including the resilient demand of COVID-19 testing (c.5,000 COVID-19 tests/day currently) and quarantine arrangement for COVID-19 patients (SafeQ). We also understand that MYEG has unveiled its deep throat saliva-based COVID-19 test kit in both the Philippines and Malaysia in 1Q21 and expect positive contributions in the coming quarters.
- Zhifei's vaccine receives EUA in China.** Recently, Anhui Zhifei Longcom Biopharmaceutical's (Zhifei) COVID-19 vaccine (ZF2001) received the green light for Emergency Use Authorisation (EUA) in China, and is the fifth domestic vaccine to be approved. To recall, MYEG had signed a MOU with Zhifei to obtain halal certification and exclusively distribute the vaccine in Malaysia and the Philippines for a three-year period. ZF2001 is a traditional inactivated protein-based vaccine which is generally recognised as the safest, cost competitive to develop, and does not need to be kept at sub-zero temperatures during shipment. Hence, it could be widely dispensed in the Philippines and Malaysia once approved.
- Proposes 1-for-1 bonus issue.** MYEG has proposed a 1-for-1 bonus issue for up to 4.15b new shares. Consequently, MYEG's share base will be enlarged to 8.3b shares, assuming that the bonus issue is pursuant to the 100m private placement shares an exercise of all 377m employees' share option scheme (ESOS).

#### KEY FINANCIALS

Year to 30 Jun (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	596	542	1,692	1,704	741
EBITDA	336	330	514	550	463
Operating profit	302	288	468	500	410
Net profit (rep./act.)	294	276	387	377	308
Net profit (adj.)	286	276	387	377	308
EPS (sen)	7.9	7.6	10.7	10.5	8.5
PE (x)	25.5	26.4	18.8	19.3	23.6
P/B (x)	10.2	8.0	6.2	5.1	4.4
EV/EBITDA (x)	17.7	18.0	11.6	10.8	12.8
Dividend yield (%)	1.2	1.1	1.6	1.6	1.3
Net margin (%)	49.4	50.8	22.9	22.1	41.6
Net debt/(cash) to equity (%)	14.0	(24.3)	(115.3)	(106.3)	(50.9)
Interest cover (x)	38.6	43.4	111.6	145.0	155.5
ROE (%)	45.9	34.0	37.1	28.8	19.9
Consensus net profit (RM m)	-	-	327	366	356
UOBKH/Consensus (x)	-	-	1.18	1.03	0.87

Source: My EG Services Bhd, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	RM2.02
Target Price	RM2.65
Upside	+31.2%

#### COMPANY DESCRIPTION

MY EG Services provides e-services between the Malaysian government and its citizens and businesses. Services include foreign workers' work permit renewal, electronic delivery of driver and vehicle registration, licensing and summons services and utility bill payment.

#### STOCK DATA

GICS sector	Information Technology
Bloomberg ticker:	MYEG MK
Shares issued (m):	3,612.8
Market cap (RMm):	7,297.8
Market cap (US\$m):	1,775.6
3-mth avg daily t'over (US\$m):	10.6

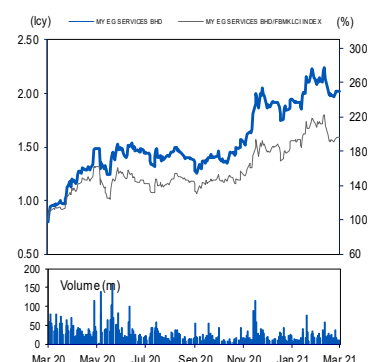
#### Price Performance (%)

52-week high/low	RM2.24/RM0.800			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(5.6)	2.0	45.3	154.1	5.2

#### Major Shareholders

	%
Asia Internet Holdings	20.49
Wong Thean Soon	10.91
Employees Provident Fund Board	7.03
Kumpulan Wang Persaraan Dipperbadankan	6.32
FY21 NAV/Share (RM)	0.33
FY21 Net Cash/Share (RM)	0.38

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Assessing catalysts in the pipeline to sustain post-pandemic earnings.** While we assess that MYEG's revenue from its healthcare segment will taper down in FY23 (MySafeTravel concession ending in Nov 22; the number of COVID-19 infections decline), we expect the shortfall in the healthcare segment's revenue to be partially supported by: a) strong recovery of foreign worker matching services which was disrupted by the pandemic; b) new immigration-related services such as foreign worker amnesty and redeployment programmes; and c) robust growth from motorcycle road tax and competent driver's license (CDL) renewals and other new road transport services rolling out in coming months. We also foresee MYEG playing a significant role in the government's digital health system to facilitate post-pandemic cross-border travels with its current COVID-19 testing data at various immigration points.
- Unveiling COVID-19 saliva test kit in the Philippines and Malaysia.** To enhance early accurate detection of COVID-19 and reduce the burden of frontliners, MYEG has introduced a deep throat saliva-based test kit in the Philippines and Malaysia. The saliva test kit has received approval from the Philippines, Singapore, Malaysia and Indonesia. In the Philippines, MYEG will be partnering with IP Biotech and Family Vaccine & Specialty Clinics, one of the largest chains of vaccination clinics in the nation to exclusively distribute the COVID-19 saliva test kit. Meanwhile in Malaysia, MYEG will be collaborating with BP Healthcare to introduce an at-home screening service with the saliva test kit.
- Expansion of quarantine facilities through SafeQ.** While the spike in COVID-19 cases in Malaysia has put a strain on the availability of quarantine facilities, MYEG has launched an online portal, SafeQ which offers an array of hotel accommodation and amenity options, ranging from three-star to five-star facilities available to low-risk COVID-19 patients. SafeQ is an adaptation that is similar to the Airbnb model, matching COVID-19 patients to the property and providing a system to ensure that the SOPs are complied with. SafeQ covers rooms for both local and foreign COVID-19 patients, and currently has about 1,500 rooms available, including Saujana Hotel and Silka Cheras.
- Rejuvenated prospects for foreign worker accommodation.** Malaysia's third wave of COVID-19 infections, which impacted foreign workers the most, has created awareness of the need for Malaysia employers to provide proper foreign worker accommodation. Malaysia has recently gazetted a law which requires foreign worker accommodation standards to be aligned with that of the International Labour Organization's. This creates an important opportunity for third-party accommodation providers like MYEG. Recall that MYEG, which currently operates two foreign worker accommodation sites, had high ambitions of growing this business, which can eventually deliver annual revenue of RM100m-180m.
- Prospective extension of tax incentive status.** While MYEG's five-year pioneer status is expiring in Apr 21, we are positive that MYEG can again get its tax incentive status extended upon expiry given its plan to develop blockchain technology to benefit the country. While we have conservatively incorporated a higher tax rate in FY21 to factor in the expiry of its pioneer status, a successful extension will provide significant upside to MYEG's bottom-line. Should MYEG's effective tax rate remain at the current c.1.6%, it would lift our 2021 net profit forecast by 17%.

### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM2.65**, pegged at 25x 2021F PE, which incorporates MYEG's investment in S5 Systems. Our valuations have not factored in any of its China investments.

### MYSAFETRAVEL'S EARNINGS SENSITIVITY

Passenger Traffic (recovery) scenarios	*2%	5%	*10%
	85000	212500	425000
Inbound %	35	50	50
SWAB Tests Profit(m)	1.07	3.83	7.65
Take-up rate	60	60	60
Price (RM/test)	300	300	300
Margins	20	20	20
Private Quarantine Profit(m)	0.98	3.51	2.34
Take-up rate	30	30	10
Price	2200	2200	2200
Margins	5	5	5
Meet and Greet Profit(m)	0.12	0.43	0.85
Take-up rate	1	1	1
Price	800	800	800
Margins	50	50	50
Total PBT/month (RMm)	2.17	7.76	10.84
Total PBT/quarter (RMm)	6.52	23.27	32.51

\*2% of passenger traffic recovery is based on August 2020's data, while 10% of passenger traffic recovery is our base case for FY21 forecast. Source: MYEG, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
Net turnover	542	1,692	1,704	741
EBITDA	330	514	550	463
Deprec. & amort.	42	46	49	53
EBIT	288	468	500	410
Associate contributions	n.a.	n.a.	n.a.	n.a.
Net interest income/(expense)	(8)	(5)	(4)	(3)
<b>Pre-tax profit</b>	<b>280</b>	<b>463</b>	<b>496</b>	<b>407</b>
Tax	(4)	(76)	(119)	(98)
Minorities	0	0	0	(1)
<b>Net profit</b>	<b>276</b>	<b>387</b>	<b>377</b>	<b>308</b>
Net profit (adj.)	276	387	377	308

### BALANCE SHEET

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
Fixed assets	381	415	445	473
Other LT assets	245	245	245	245
Cash/ST investment	307	1,431	1,592	888
Other current assets	247	761	767	336
<b>Total assets</b>	<b>1,180</b>	<b>2,852</b>	<b>3,049</b>	<b>1,942</b>
ST debt	17	13	9	5
Other current liabilities	189	1,604	1,550	240
LT debt	70	60	50	40
Other LT liabilities	2	2	2	2
Shareholders' equity	907	1,178	1,442	1,658
Minority interest	(5)	(5)	(4)	(3)
<b>Total liabilities &amp; equity</b>	<b>1,180</b>	<b>2,852</b>	<b>3,049</b>	<b>1,942</b>

### CASH FLOW

Year to 30 Jun (RMm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>351</b>	<b>1,335</b>	<b>368</b>	<b>(517)</b>
Pre-tax profit	280	463	496	407
Tax	(4)	(76)	(119)	(98)
Deprec. & amort.	42	46	49	53
Associates	0	0	0	0
Working capital changes	33	901	(59)	(880)
Other operating cashflows	0	0	0	0
<b>Investing</b>	<b>(114)</b>	<b>(80)</b>	<b>(80)</b>	<b>(80)</b>
Capex (growth)	(120)	(80)	(80)	(80)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	6	0	0	0
<b>Financing</b>	<b>1</b>	<b>(130)</b>	<b>(127)</b>	<b>(107)</b>
Dividend payments	(83)	(116)	(113)	(93)
Issue of shares	0	0	0	0
Proceeds from borrowings	1	1	1	1
Loan repayment	(15)	(15)	(15)	(15)
Others/interest paid	98	0	0	0
<b>Net cash inflow (outflow)</b>	<b>239</b>	<b>1,125</b>	<b>161</b>	<b>(704)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>68</b>	<b>307</b>	<b>1,431</b>	<b>1,592</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>307</b>	<b>1,431</b>	<b>1,592</b>	<b>888</b>

### KEY METRICS

Year to 30 Jun (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	60.9	30.3	32.3	62.5
Pre-tax margin	51.7	27.4	29.1	55.0
Net margin	50.8	22.9	22.1	41.6
ROA	25.0	19.2	12.8	12.4
ROE	34.0	37.1	28.8	19.9
<b>Growth</b>				
Turnover	(9.0)	212.0	0.7	(56.5)
EBITDA	(1.7)	55.5	7.0	(15.8)
Pre-tax profit	(6.6)	65.1	7.2	(17.9)
Net profit	(6.3)	40.4	(2.6)	(18.2)
Net profit (adj.)	(3.5)	40.4	(2.6)	(18.2)
EPS	(3.5)	40.4	(2.6)	(18.2)
<b>Leverage</b>				
Debt to total capital	8.7	5.8	3.9	2.6
Debt to equity	9.5	6.1	4.0	2.7
Net debt/(cash) to equity	(24.3)	(115.3)	(106.3)	(50.9)
Interest cover (x)	43.4	111.6	145.0	155.5

### SECTOR UPDATE

## REITs – Singapore

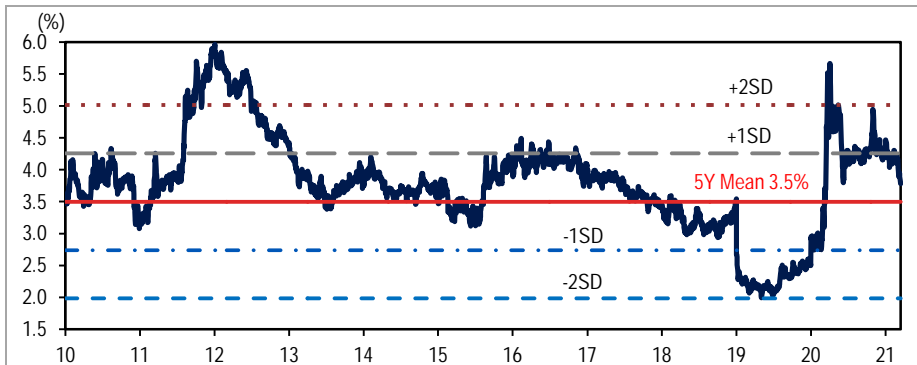
S-REITs Bi-Weekly Updates (1-15 Mar 21)

**S-REITs gained 2.3% during 1-15 March. We expect government bond yields to remain firm with an upward bias. We recommend a balanced mix of blue chip and laggard S-REITs. BUY AREIT (Target: S\$3.82) and FCT (Target: S\$3.18), which provide distribution yields of 5.3% and 5.5% respectively. BUY ALLT (Target: S\$0.89), LREIT (Target: S\$0.97), SUN (Target: S\$1.72) and UHU (Target: US\$0.95), which provide distribution yields of 7%, 6.1%, 5.9% and 9.6%. Maintain OVERWEIGHT.**

### WHAT HAPPENED IN THE LAST TWO WEEKS

- **UOBKH S-REIT Index gained 2.3% in the past two weeks.** Higher government bond yields have created headwinds for S-REITs. Yield for 10-year Singapore Government Bonds rose by 33bp to 1.33% in February and another 27bp to 1.59% in the first two weeks of March. AREIT has acquired 11 data centres located across the UK (four), Netherlands (three), France (three) and Switzerland (one) from vendor Digital Realty Trust for S\$904.6m.
- **Top outperformer:** Hospitality REITs ART, FEHT, FHT and CDREIT gained 10.6%, 6.9%, 5% and 4.1% respectively due to ongoing talks between Singapore and neighbouring Australia and Hong Kong to set up air travel bubbles. Office REITs SUN and KREIT gained 6.1% and 4.4% respectively.
- **Top underperformer:** CERT and UHU lost 5.4% and 3.7% respectively after going ex for dividends of 2.324 € cents and 3.03 US cents. KDCREIT corrected 3.7%.

### S-REIT YIELD SPREAD\*



Source: UOB Kay Hian \*Yield spread above 10-year Singapore government bond yield.

## OVERWEIGHT

(Maintained)

### SEGMENTAL RATING

S-REITs	OVERWEIGHT
Healthcare REITs	OVERWEIGHT
Hospitality REITs	MARKET WEIGHT
Industrial REITs	OVERWEIGHT
Office REITs	OVERWEIGHT
Retail REITs	OVERWEIGHT

Source: UOB Kay Hian

### TOP S-REIT PICKS

Company	Rec	Share Price (\$)	Target Price (\$)
ALLT	BUY	0.72	0.89
AREIT	BUY	2.95	3.82
FCT	BUY	2.50	3.18
LREIT	BUY	0.775	0.97
SUN	BUY	1.56	1.72
UHU (US\$)	BUY	0.645	0.95

Source: UOB Kay Hian

### UOBKH S-REIT INDEX



Source: UOB Kay Hian

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### TOP-20 S-REITs RANKED BY MARKET CAPITALISATION – VITAL STATISTICS

Name	Ticker	Rec	Currency	Price 15 Mar 21	Target Price	Mkt Cap (US\$m)	DPU (¢)		Yield (%)		Yield Spread* (%)		Interest Coverage (x)	Aggregate Leverage (%)	WALE (years)
							Curr	Fwd	Curr	Fwd	Curr	Fwd			
CapitaLand Int Comm Trust	CICT SP	HOLD	S\$	2.13	2.32	10,246	11.3	11.7	5.3	5.5	3.7	3.9	3.8	40.6	3.0
Ascendas REIT	AREIT SP	BUY	S\$	2.95	3.82	8,814	15.6	16.3	5.3	5.5	3.7	4.0	4.3	32.8	3.9
Mapletree Log	MLT SP	HOLD	S\$	1.85	2.08	5,888	8.4	8.4	4.5	4.5	3.0	3.0	5.0	36.8	3.7
Mapletree Comm	MCT SP	BUY	S\$	2.06	2.35	5,076	9.1	9.2	4.4	4.5	2.9	2.9	4.2	34.0	2.5
Mapletree Ind	MINT SP	BUY	S\$	2.64	3.45	4,612	12.6	13.6	4.8	5.2	3.2	3.6	7.2	37.3	4.1
Frasers L&C Trust	FLT SP	NR	S\$	1.40	n.a.	3,567	7.9	8.0	5.6	5.7	4.1	4.2	6.7	37.4	4.9
Suntec REIT	SUN SP	BUY	S\$	1.56	1.72	3,290	9.2	9.4	5.9	6.0	4.3	4.5	2.6	44.3	3.3
Keppel REIT	KREIT SP	BUY	S\$	1.18	1.45	3,212	6.0	6.0	5.1	5.1	3.5	3.5	3.4	37.3	6.7
Keppel DC REIT	KDCREIT SP	NR	S\$	2.61	n.a.	3,168	10.0	10.5	3.8	4.0	2.3	2.5	13.3	36.2	6.8
Frasers CT	FCT SP	BUY	S\$	2.50	3.18	3,155	13.7	13.8	5.5	5.5	3.9	4.0	4.7	37.7	1.5
Ascott Trust	ART SP	HOLD	S\$	1.10	0.91	2,546	2.7	4.2	2.5	3.8	0.9	2.2	2.2	36.3	n.a.
Mapletree NAC Trust	MAGIC SP	NR	S\$	0.995	n.a.	2,539	6.2	7.0	6.2	7.0	4.7	5.5	3.4	41.3	2.4
PLife REIT	PREIT SP	BUY	S\$	4.11	4.38	1,848	13.7	15.1	3.3	3.7	1.8	2.1	18.1	38.5	6.5
SPH REIT	SPHREIT SP	NR	S\$	0.85	n.a.	1,755	5.2	5.2	6.1	6.1	4.6	4.6	4.7	30.5	2.7
CapitaLand Retail China	CLCT SP	NR	S\$	1.37	n.a.	1,549	8.7	9.6	6.4	7.0	4.8	5.4	3.7	31.8	2.4
QUE Comm REIT	QUECT SP	NR	S\$	0.38	n.a.	1,533	2.8	2.7	7.4	7.1	5.8	5.5	2.7	41.2	2.3
Cromwell REIT EUR	CERT SP	NR	€	0.435	n.a.	1,447	4.0	4.1	9.2	9.4	9.5	9.8	6.4	38.1	4.9
CDL HTrust	CDREIT SP	HOLD	S\$	1.27	1.02	1,156	5.6	7.0	4.4	5.5	2.8	4.0	2.2	37.5	n.a.
Manulife REIT USD	MUST SP	BUY	US\$	0.71	0.85	1,122	6.0	6.0	8.5	8.5	6.9	6.9	3.5	41.0	5.3
ESR REIT	EREIT SP	NR	S\$	0.385	n.a.	1,024	3.1	3.2	8.1	8.3	6.5	6.7	3.5	41.6	3.0

\* Yield spread above 10-year government bond yield

Source: Bloomberg, UOB Kay Hian

### PEER COMPARISON

Name	Ticker	Rec	Curr	Price 15 Mar 21	Target Price	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
							Hist	Curr	Fwd	Fwd 2Y			
<b>HEALTHCARE</b>													
First REIT	FIRT SP	NR	S\$	0.23	n.a.	273	18.0	n.a.	n.a.	n.a.	122.1	49.0	0.46
PLife REIT	PREIT SP	BUY	S\$	4.11	4.38	1,848	3.4	3.3	3.7	3.9	67.3	38.5	2.10
<b>HOSPITALITY</b>													
Ascott Trust	ART SP	HOLD	S\$	1.10	0.91	2,546	2.8	2.5	3.8	5.2	69.2	36.3	0.85
CDL HTrust	CDREIT SP	HOLD	S\$	1.27	1.02	1,156	3.9	4.4	5.5	n.a.	63.7	37.5	0.96
Far East HTrust	FEHT SP	BUY	S\$	0.62	0.72	905	3.9	4.1	6.1	6.3	63.6	40.9	0.78
Frasers HTrust	FHT SP	BUY	S\$	0.525	0.55	751	2.7	3.3	6.7	6.7	70.7	37.8	0.81
<b>INDUSTRIAL</b>													
Ascendas REIT	AREIT SP	BUY	S\$	2.95	3.82	8,814	5.0	5.3	5.5	5.6	53.8	32.8	1.33
ARA LOGOS Log Trust	ALLT SP	BUY	S\$	0.72	0.89	684	7.3	7.0	7.2	7.3	76.9	39.0	1.26
ESR REIT	EREIT SP	NR	S\$	0.39	n.a.	1,024	7.3	8.1	8.3	6.8	82.0	41.6	0.95
Keppel DC REIT	KDCREIT SP	NR	S\$	2.61	n.a.	3,168	3.5	3.8	4.0	4.1	59.9	37.8	2.19
Mapletree Ind Trust	MINT SP	BUY	S\$	2.64	3.45	4,612	4.6	4.8	5.2	5.5	62.7	37.3	1.56
Mapletree Log Trust	MLT SP	HOLD	S\$	1.85	2.08	5,888	4.4	4.5	4.5	4.6	69.1	36.8	1.44
<b>OFFICE</b>													
Keppel REIT	KREIT SP	BUY	S\$	1.18	1.45	3,212	4.9	5.1	5.1	5.1	69.6	37.3	0.89
<b>RETAIL</b>													
CapitaLand Retail China	CRCT SP	NR	S\$	1.37	n.a.	1,549	4.6	6.4	7.0	7.2	60.6	31.8	0.92
Frasers CT	FCT SP	BUY	S\$	2.50	3.18	3,155	3.6	5.5	5.5	5.5	87.7	37.7	1.10
Lendlease REIT	LREIT SP	BUY	S\$	0.775	0.97	680	5.3	6.1	6.2	6.4	56.2	35.5	0.92
Mapletree NAC Trust	MAGIC SP	NR	S\$	0.995	n.a.	2,539	7.2	6.2	7.0	7.3	77.5	41.3	0.76
Sasseur REIT	SASSR SP	BUY	S\$	0.845	1.05	758	7.7	7.6	7.9	8.3	46.9	27.9	0.92
SPH REIT	SPHREIT SP	NR	S\$	0.85	n.a.	1,755	3.2	6.1	6.1	6.1	51.9	30.6	0.94
Starhill Global	SGREIT SP	NR	S\$	0.535	n.a.	876	5.5	7.5	7.7	7.9	61.5	35.7	0.65
<b>DIVERSIFIED</b>													
CapLand Int Comm Trust	CICT SP	HOLD	S\$	2.13	2.32	10,246	4.1	5.3	5.5	5.6	67.0	40.6	1.06
Frasers L&C Trust	FLT SP	NR	S\$	1.40	n.a.	3,567	5.1	5.6	5.7	5.9	110.4	37.4	1.27
Mapletree Comm Trust	MCT SP	BUY	S\$	2.06	2.35	5,076	3.9	4.4	4.5	4.7	53.0	34.0	1.21
OUE Comm REIT	OUECT SP	NR	S\$	0.38	n.a.	1,533	6.4	7.4	7.1	7.1	83.8	41.2	0.65
Suntec REIT	SUN SP	BUY	S\$	1.56	1.72	3,290	4.7	5.9	6.0	6.0	83.3	44.3	0.76
<b>INTERNATIONAL REITS</b>													
Cromwell REIT EUR	CERT SP	NR	€	0.435	n.a.	1,447	8.0	9.2	9.4	n.a.	65.8	38.1	0.85
Elite Comm REIT GBP	ELITE SP	BUY	£	0.67	0.95	437	7.3	7.8	8.1	8.7	47.5	31.0	1.03
IREIT Global	IREIT SP	NR	S\$	0.64	n.a.	447	8.1	7.5	7.8	n.a.	60.6	34.8	0.85
Keppel DC REIT	KORE SP	NR	US\$	0.69	n.a.	652	9.0	8.7	8.8	9.3	65.5	37.0	0.84
Manulife REIT USD	MUST SP	BUY	US\$	0.705	0.85	1,122	8.0	8.5	8.5	8.5	74.0	41.0	0.97
Prime US REIT USD	PRIME SP	NR	US\$	0.795	n.a.	843	8.7	8.9	8.9	8.9	53.4	33.5	0.93
Utd Hampshire REIT USD	UHU SP	BUY	US\$	0.645	0.95	321	9.2	9.6	9.6	9.7	57.8	36.2	0.85

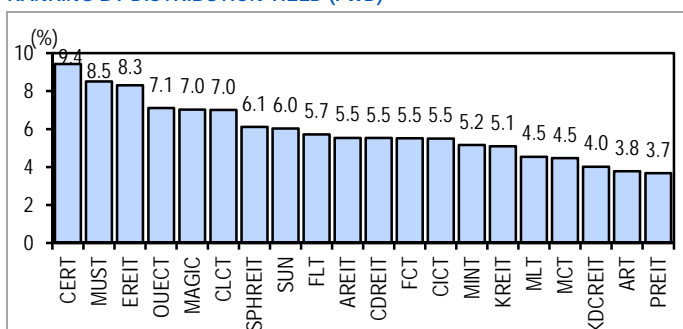
Source: Bloomberg, UOB Kay Hian

### TOP-10 OUTPERFORMERS AND TOP-10 UNDERPERFORMERS RANKED BY WEEKLY SHARE PRICE PERFORMANCE

TOP OUTPERFORMERS (%)							TOP UNDERPERFORMERS (%)						
NAME	2WK	1MTH	3MTH	6MTH	1Y	YTD	NAME	2WK	1MTH	3MTH	6MTH	1Y	YTD
Ascott Trust	10.6	8.9	1.9	17.0	15.8	1.9	Cromwell REIT EUR	-5.4	-11.2	-7.4	-6.5	0.0	-9.4
First REIT	9.5	9.5	-41.4	-46.4	-68.1	6.0	Utd Hampshire REIT USD	-3.7	3.2	13.2	16.2	4.0	-2.3
Manulife REIT USD	9.3	-2.1	-6.0	-9.0	-20.8	-5.4	Keppel DC REIT	-3.7	-11.2	-3.3	-13.6	22.5	-7.1
Far East HTrust	6.9	5.1	0.0	13.8	17.0	0.0	IREIT Global	-3.0	1.6	0.0	-0.4	6.3	-1.5
Suntec REIT	6.1	4.7	2.6	6.8	2.6	4.7	Sasseur REIT	-1.7	2.4	3.7	9.0	27.1	3.0
Frasers HTrust	5.0	2.9	-5.4	23.5	2.9	0.0	Elite Comm REIT GBP	-1.5	1.5	0.8	3.9	1.5	1.5
Keppel REIT	4.4	1.7	10.3	7.3	7.3	5.4	PLife REIT	-1.2	-0.7	7.0	-1.7	28.4	6.2
OUE Comm REIT	4.1	4.1	-3.8	2.7	-2.6	-1.3	Ascendas REIT	0.0	-4.5	0.3	-7.8	-2.0	-1.0
CDL HTrust	4.1	5.0	-3.1	18.7	13.4	0.0	Mapletree Log	0.0	-5.1	-3.1	-9.7	7.0	-8.0
Starhill Global	3.9	3.9	4.9	18.9	-7.0	5.9	Frasers CT	0.4	-0.8	2.9	-5.1	-2.1	1.6

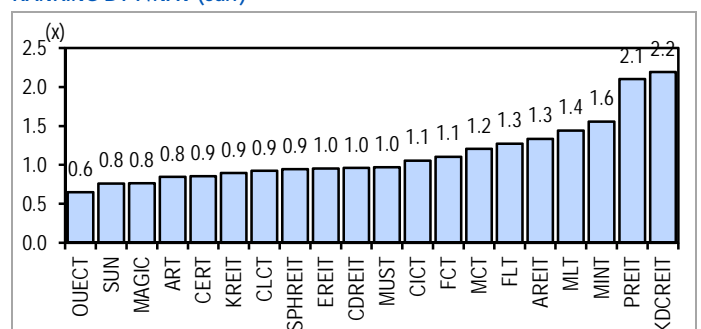
Source: Bloomberg, UOB Kay Hian

### RANKING BY DISTRIBUTION YIELD (FWD)



Source: UOB Kay Hian

### RANKING BY P/NAV (curr)



Source: UOB Kay Hian

### ASEAN E-CONFERENCE TAKEAWAYS

#### iFAST Corp (IFAST SP)

Gaining Traction With The Rise In AUA

**AUA growth was strong in 2020, catalysed by the shift towards digital adoption in the wealth management industry. The anticipated strong AUA growth will be supported by the positive momentum in net inflows of client assets. There are several new growth avenues that iFAST has laid out the operational roadmap for, with its main goal being to provide a holistic financial solutions product. Upgrade to BUY after changing our valuation methodology. Target price: S\$7.96.**

#### WHAT'S NEW

- **AUA growing well.** Assets under administration (AUA) have been growing well in the last few quarters for iFAST Corp (iFAST), both in its business-to-business (B2B) and business-to-consumer (B2C) segments. This was helped by the shift towards digitalisation in the wealth management industry, which was hastened by the COVID-19 pandemic. As at end-20, iFAST's AUA grew to S\$14.45b, a 44.5% jump yoy and 14.8% qoq, which was the main driver for positive operating leverage.
- **Increased adoption of digitalisation.** iFAST has benefitted from the shift towards digitalisation in the wealth management industry. As a result of many years of investment to improve iFAST's fintech platform and the addition of new products and services, iFAST has been gaining traction in expanding its market share.
- **Several new growth avenues.** In Sep 20, iFAST obtained the private fund manager licence in China, as well as the securities dealing licence in Malaysia. These licences allow the group to expand its suite of services, such as discretionary portfolio management and equity dealing services in the two countries, with the objective of providing a more holistic financial solutions product to customers.
- **Awaiting eMPF platform contract details.** Additionally, iFAST is part of the consortium led by PCCW Ltd that was awarded the eMPF platform contract by Hong Kong's Mandatory Provident Fund Schemes Authority in Jan 21. As a sub-contractor, iFAST will provide pension administration services for the eMPF platform, similar to that of their current scope for Singapore's Central Provident Fund Board. While contract details have not been finalised and financial details are not penned in at this stage, we believe post implementation of the platform, iFAST will benefit from greater visibility and outreach in the competitive Hong Kong market.

#### KEY FINANCIALS

Year to 31 Dec (\$m)	2019	2020	2021F	2022F	2023F
Net turnover	125.4	169.9	251.7	303.7	338.7
EBITDA	22.3	36.4	54.3	64.3	68.3
Operating profit	9.1	20.6	40.8	48.0	48.6
Net profit (rep./act.)	9.5	21.2	36.8	44.6	46.0
Net profit (adj.)	9.5	21.2	36.8	44.6	46.0
EPS (S\$ cents)	3.5	7.5	13.0	15.7	16.2
PE (x)	168.4	78.1	44.9	37.1	35.9
P/B (x)	17.4	15.3	12.1	9.5	8.0
EV/EBITDA (x)	70.8	43.4	29.1	24.6	23.1
Dividend yield (%)	0.5	0.6	0.6	0.6	0.9
Net margin (%)	7.6	12.4	14.6	14.7	13.6
Net debt/(cash) to equity (%)	(23.3)	(35.0)	(21.4)	(29.7)	(34.2)
Interest cover (x)	349.1	n.a.	n.a.	n.a.	n.a.
ROE (%)	10.8	21.8	31.2	29.9	25.2
Consensus net profit	-	-	33.5	42.4	45.5
UOBKH/Consensus (x)	-	-	1.10	1.05	1.01

Source: iFAST Corp. Ltd, Bloomberg, UOB Kay Hian

#### BUY (Upgraded)

Share Price	S\$5.83
Target Price	S\$7.96
Upside	+36.5%
(Previous TP)	S\$ 5.12)

#### COMPANY DESCRIPTION

iFAST is a wealth management fintech platform headquartered in Singapore. It provides a comprehensive range of investment products and services to financial advisory firms, financial institutions, banks, Internet companies, multinational companies, as well as retail and high net worth investors in Asia.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	IFAST SP
Shares issued (m):	276.1
Market cap (S\$ m):	1,609.5
Market cap (US\$m):	1,199.0
3-mth avg daily t'over (US\$m):	7.0

#### Price Performance (%)

52-week high/low S\$ 6.78/S\$ 0.735

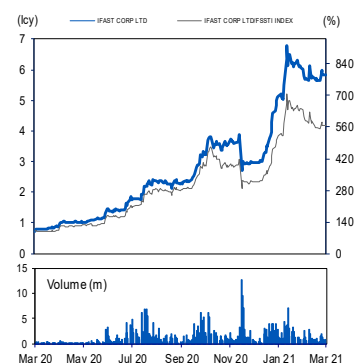
1mth	3mth	6mth	1yr	YTD
(4.0)	93.0	151.3	642.7	94.3

#### Major Shareholders

	%
Lim Chung Chun (CEO)	20.2
Singapore Press Holdings	14.9
Lim Wee Kian	7.3

FY21 NAV/Share (S\$)	0.48
FY21 Net Cash/Share (S\$)	0.10

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### STOCK IMPACT

- **Continued top-line expansion from growing AUA.** iFAST has consistently captured the demand for wealth management as the percentage of managed wealth in Asia grows. The COVID-19 pandemic may have played a role in hastening the shift towards digitalisation in the wealth management industry. The trend has been set in motion and we believe it will continue as Asian economies recover towards growth territory.
- **Gross and operating margins to improve.** As iFAST continues to achieve higher AUA, we believe it will be able to gain further operating scalability, inching gross and EBIT margin upwards. Furthermore, initial ramp-up and development costs have been incurred in its key markets and management has guided that growth in operating expense would be lowered to high single-digits from the double-digit range in the last few years.

### EARNINGS REVISION/RISK

- No changes to our estimates.

### VALUATION/RECOMMENDATION

- **Upgrade to BUY with target price of S\$7.96.** We have changed our valuation methodology from forward PE to DCF, thereby raising our target price from S\$5.12 to S\$7.96. As iFAST's business model has a high percentage of sales that are recurring in nature, we are of the view that future free cash flows are relatively sticky. In addition, forward earnings are currently in a high growth phase due to the scaling up of AUA and positive operating leverage, and hence, current forward PE valuation may appear elevated. At fair value of S\$7.96, iFAST would be trading at an implied 49.2x 2022F PE.

### SHARE PRICE CATALYST

- Stronger-than-expected AUA growth.

### DCF VALUATION

(Figures in S\$m)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenue	251.7	303.7	338.7	395.4	462.1	546.2	654.6	797.9	992.6	1,264.1	1,652.3
growth	48.1%	20.6%	11.5%	16.7%	16.9%	18.2%	19.8%	21.9%	24.4%	27.4%	30.7%
EBIT	42.9	50.6	51.5	66.9	77.2	90.5	108.1	132.2	165.9	214.4	285.7
growth	66.6%	17.8%	1.7%	29.9%	15.4%	17.2%	19.5%	22.3%	25.5%	29.2%	33.2%
margin	17.1%	16.7%	15.2%	16.9%	16.7%	16.6%	16.5%	16.6%	16.7%	17.0%	17.3%
Add: depre & amortisation	13.5	16.3	19.7	23.9	28.8	34.8	42.0	50.7	61.6	75.2	92.9
Less: tax paid & associates	(8.1)	(9.7)	(10.0)	(12.9)	(14.8)	(17.3)	(20.7)	(25.1)	(31.4)	(40.4)	(53.5)
Less: addition to working capital	(23.8)	(3.0)	(4.8)	(7.8)	(9.2)	(11.6)	(15.0)	(19.8)	(26.9)	(37.5)	(53.6)
Less: capex	(19.9)	(24.0)	(26.8)	(31.2)	(36.5)	(43.2)	(51.7)	(63.0)	(78.4)	(99.9)	(130.5)
Free cash flow (FCF)	4.7	30.2	29.6	38.8	45.5	53.2	62.8	75.0	90.8	111.9	140.9
Terminal value											3,628.3
PV	4.4	26.3	24.1	29.6	32.4	35.4	39.1	43.6	49.4	56.9	1,790.7
Total discounted FCF	2,132.1										
Less: net debt	(36.4)										
Number of shares	272.4										
Fair value per share (S\$)	7.96										

Source: UOB Kay Hian

#### Assumptions

WACC	7.00%
Terminal Growth Rate	3.00%

### PROFIT & LOSS

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
Net turnover	169.9	251.7	303.7	338.7
EBITDA	36.4	54.3	64.3	68.3
Deprec. & amort.	15.8	13.5	16.3	19.7
EBIT	20.6	40.8	48.0	48.6
Total other non-operating income	1.4	2.1	2.5	2.7
Associate contributions	(0.4)	(0.4)	(0.4)	(0.4)
Net interest income/(expense)	0.0	1.6	3.3	4.2
<b>Pre-tax profit</b>	<b>25.4</b>	<b>44.2</b>	<b>53.5</b>	<b>55.2</b>
Tax	(4.4)	(7.7)	(9.3)	(9.6)
Minorities	0.2	0.3	0.4	0.4
<b>Net profit</b>	<b>21.2</b>	<b>36.8</b>	<b>44.6</b>	<b>46.0</b>
Net profit (adj.)	21.2	36.8	44.6	46.0

### CASH FLOW

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>41.6</b>	<b>28.0</b>	<b>58.8</b>	<b>61.6</b>
Pre-tax profit	25.4	44.2	53.5	55.2
Tax	(2.3)	(7.7)	(9.3)	(9.6)
Deprec. & amort.	15.8	13.5	16.3	19.7
Associates	0.4	0.4	0.4	0.4
Working capital changes	0.1	(23.8)	(3.0)	(4.8)
Non-cash items	3.3	3.3	3.3	3.3
Other operating cashflows	(1.1)	(1.9)	(2.3)	(2.6)
<b>Investing</b>	<b>(10.5)</b>	<b>(19.8)</b>	<b>(24.0)</b>	<b>(26.7)</b>
Capex (growth)	(12.2)	(19.9)	(24.0)	(26.8)
Investments	1.7	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>(19.2)</b>	<b>(16.4)</b>	<b>(13.6)</b>	<b>(16.3)</b>
Dividend payments	(8.7)	(9.2)	(9.9)	(13.8)
Issue of shares	0.3	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(3.8)	0.0	0.0	0.0
Others/interest paid	(7.0)	(7.2)	(3.6)	(2.5)
<b>Net cash inflow (outflow)</b>	<b>11.9</b>	<b>(8.2)</b>	<b>21.3</b>	<b>18.6</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>24.8</b>	<b>36.4</b>	<b>28.2</b>	<b>49.4</b>
Changes due to forex impact	(0.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>36.4</b>	<b>28.2</b>	<b>49.5</b>	<b>68.0</b>

### BALANCE SHEET

Year to 31 Dec (\$Sm)	2020	2021F	2022F	2023F
Fixed assets	22.8	11.3	12.0	12.8
Other LT assets	36.9	43.2	50.4	56.6
Cash/ST investment	36.4	28.2	49.4	68.0
Other current assets	158.2	238.7	276.9	305.4
<b>Total assets</b>	<b>254.3</b>	<b>321.4</b>	<b>388.6</b>	<b>442.8</b>
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	136.3	179.3	214.5	238.2
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	14.6	11.0	8.5	6.7
Shareholders' equity	104.1	131.7	166.3	198.6
Minority interest	(0.7)	(0.7)	(0.7)	(0.7)
<b>Total liabilities &amp; equity</b>	<b>254.3</b>	<b>321.4</b>	<b>388.6</b>	<b>442.8</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	21.4	21.6	21.2	20.2
Pre-tax margin	14.9	17.6	17.6	16.3
Net margin	12.4	14.6	14.7	13.6
ROA	10.3	12.8	12.6	11.1
ROE	21.8	31.2	29.9	25.2
<b>Growth</b>				
Turnover	35.5	48.1	20.6	11.5
EBITDA	63.0	49.2	18.4	6.3
Pre-tax profit	129.4	74.0	21.1	3.2
Net profit	122.3	74.0	21.1	3.2
Net profit (adj.)	122.3	74.0	21.1	3.2
EPS	115.5	74.0	21.1	3.2
<b>Leverage</b>				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(35.0)	(21.4)	(29.7)	(34.2)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

### COMPANY UPDATE

## PTT Global Chemical (PTTGC TB)

The Right Price At The Right Time; Announces Tender Offer And To Delist VNT From SET

**PTTGC has announced a tender offer and will delist VNT from the SET. We expect this deal to be positive to PTTGC because: a) the tender offer price implies only 13.5x 2021F PE compared with global PVC peers' 23.5x PE 2021F, b) with an additional holding of 16.24% in VNT, our 2022 earnings forecasts for PTTGC's will be raised by 3.3%; and c) PTTGC can secure its ethylene product by having more PVC (ethylene derivatives) in the portfolio. Maintain BUY. Target price: Bt75.00.**

### WHAT'S NEW

- **Announces tender offer and to delist VNT from SET.** PTT Global Chemical's (PTTGC) board of directors on 18 Mar 21 approved the delisting plan of Vinythai (VNT TB, BUY, Target: Bt37.00), from the Stock Exchange of Thailand (SET). PTTGC will make a tender offer for all ordinary shares in VNT (excluding the ordinary shares in VNT currently held by PTTGC of 24.98% and AGC Inc of 58.78%) at a tender offer price of Bt39.00/share. PTTGC may adjust the tender offer price if: a) VNT pays dividends to its shareholders, b) VNT changes the par value resulting in an increase or decrease of the amount of shares or, c) VNT grants subscription rights for capital increase shares or transferable subscription rights for capital increase shares to existing shareholders in proportion to their shareholding pursuant.
- **AGC Inc. has expressed its intention not to sell its 58.78% share in VNT** with regard to the VNT delisting tender offer made by PTTGC. Hence, the ordinary shares in VNT to be purchased by PTTGC should be equivalent to 16.24% of VNT's total paid-up shares.
- **The tender offer material conditions include:** a) The shareholder meeting of VNT passes a resolution approving the delisting of securities of VNT from the SET with no less than 75% majority vote of the total paid-up shares in VNT, and no objection to the delisting by shareholders holding in aggregate more than 10% of the total paid-up shares in VNT; b) the delisting of securities of VNT must be or is deemed to be approved by the trade competition regulatory agencies of relevant jurisdictions, including Thailand, Vietnam, Taiwan and South Korea, which is expected to get approval in Sep 21; and c) the delisting of securities of VNT must be granted the consent, approval or waiver of the relevant authorities including the SET and other parties under the relevant agreements, if so required. If VNT's shareholders approve the delisting, we expect VNT to complete the privatisation within 4Q21.

### KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net turnover	412,810	329,291	372,431	365,974	366,106
EBITDA	27,270	19,891	37,424	38,500	38,637
Operating profit	8,072	(401)	16,494	18,595	19,599
Net profit (rep./act.)	11,682	200	16,647	18,815	19,992
Net profit (adj.)	8,953	7,719	16,647	18,815	19,992
EPS (Bt)	2.0	1.7	3.7	4.2	4.4
PE (x)	33.4	38.7	17.9	15.9	14.9
P/B (x)	1.0	1.0	1.0	1.2	1.1
EV/EBITDA (x)	15.3	21.0	11.2	10.9	10.8
Dividend yield (%)	3.0	1.8	3.9	4.4	4.7
Net margin (%)	2.8	0.1	4.5	5.1	5.5
Net debt/(cash) to equity (%)	25.0	38.3	41.2	78.6	69.1
Interest cover (x)	8.7	5.7	10.1	10.4	10.4
ROE (%)	3.9	0.1	5.7	7.0	7.9
Consensus net profit	-	-	15,258	18,595	21,252
UOBKH/Consensus (x)	-	-	1.09	1.01	0.94

Source: PTT Global Chemical, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt66.25
Target Price	Bt75.00
Upside	+13.2%

### COMPANY DESCRIPTION

PTT Global Chemical is a fully integrated petrochemical and chemical company. The company's products - ethylene and propylene - are derived from its main product, olefins.

### STOCK DATA

GICS sector	Materials
Bloomberg ticker:	PTTGC TB
Shares issued (m):	4,486.5
Market cap (Btm):	297,233.9
Market cap (US\$m):	9,644.8
3-mth avg daily t'over (US\$m):	42.3

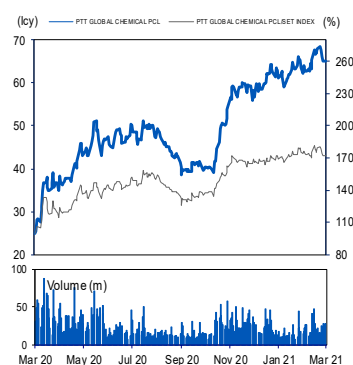
### Price Performance (%)

52-week high/low	Bt68.50/Bt24.20				
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>	
1.1	11.8	54.1	172.6	13.2	

### Major Shareholders

PTT	48.9
NDVR	6.1
FY21 NAV/Share (Bt)	65.20
FY21 Net Debt/Share (Bt)	26.90

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- Positive to PTTGC.** We expect this deal to be positive to PTTGC (if shareholders approve the delisting) as: a) the tender offer price of Bt39.00 implies only 13.5x 2021F PE compared with global PVC peers' 23.5x PE 2021F, and is also cheaper than PTTGC's current 18x PE 2021F, and b) PTTGC can secure its ethylene product by having more Polyvinyl Chloride or PVC (ethylene derivatives) in the portfolio. With an additional holding of 16.24% in VNT, our earnings forecasts for PTTGC will be raised by Bt628m or 3.3% in 2022; and c) VNT is a net cash company with Bt14b cash on hand as of end-Dec 20. VNT is also self-funding its new expansion project called the "Sakura". PTTGC will use internal cash flow for this deal, which is expected to be around Bt7.5b (PTTGC has Bt61b cash on hand with a low net debt to equity of only 0.33x as of end-Dec 20).
- VNT is a fully-integrated PVC producer in Southeast Asia.** We are still positive on the PVC industry outlook for both the short and long term given the high growth market in Asia. PVC spot price has recently risen to an all-time high of US\$1,380/tonne (US\$1,111/tonne in 4Q20), due to: a) an uptick in PVC demand after the easing of lockdowns in many countries, b) Formosa Plastics USA declaring a force majeure on chlor-alkali products due to the polar vortex event. VNT's management expects PVC prices to remain at US\$1,200-1,300/tonne in 1H21 before softening in 2H21 due to an increase in PVC supplies following the restarting of plants from unplanned shutdowns.
- VNT expansion project is still ongoing.** PTTGC mentioned that it supports VNT's expansion project called the "Sakura", which has a budget of Bt20b. The plan comprises adding additional capacity of 560,000 tpa of PVC, 430,000 tpa of Vinyl Chloride Monomer (VCM), and 220,000 tpa of caustic soda. VNT plans to make its Final Investment Decision (FID) in 2H21. This project will be implemented in two phases (first phase COD: 2024, second phase COD: 2025-26). VNT plans to complete the PVC/VCM expansion in the first phase and will complete the caustic soda and ECH plants in the second phase. After completing the expansion project, VNT's PVC capacity will almost triple to 860,000 tonnes/year from the current 300,000 tonnes/year capacity and bring the AGC group's PVC capacity to 1.6m tonnes/year, giving it a global ranking of 8th from 12th previously. Funding will come from its huge cash on hand (Bt12.1b as of end-4Q20), internal cash flow and loans (funding from loans will not exceed Bt2b).
- Next step.** After the delisting process, VNT is expected to merge with AGC (Thailand) and AGC (Vietnam) with the aim of strengthening its PVC portfolio in CLMV area. This will raise the PVC capacity by 50% to 450,000 tpa. The amalgamation process is targeted to be completed in Jun 22 and the new merged company will be established in Jul 22.

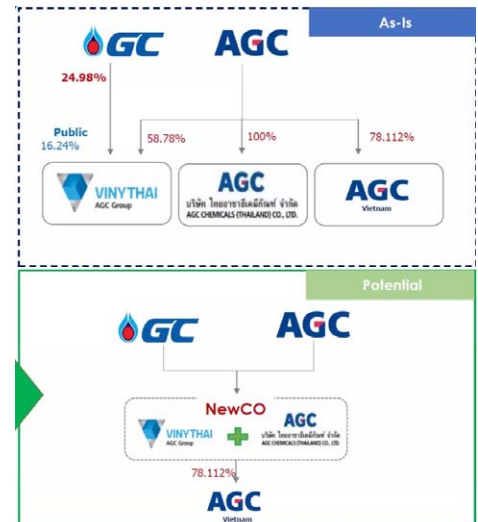
### EARNINGS REVISION/RISK

- None.

### VALUATION/RECOMMENDATION

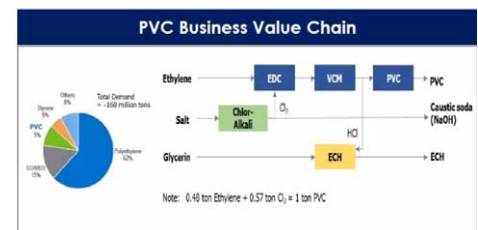
- Maintain BUY with a target price of Bt75.00,** based on +1SD of its 5-year forward P/B mean of 1.2x. The stock is trading at only 1.0x 2021F P/B. We expect PTTGC's earnings momentum to improve especially in 1H21, driven by the continued rebound in PE prices to above a 2-year high currently. In the O&G segment, our top picks are PTTGC and Indorama Ventures (IVL TB/Target: Bt60.0) on good earnings momentum for their petrochemical business outlook.
- HDPE price sensitivity.** Our sensitivity analysis indicates that every US\$100/tonne increase in our HDPE price assumption will raise our 2021 core profit forecast by 15%, or Bt2.5b. Our current HDPE price assumption for 2021 is US\$950/tonne vs US\$1,060 currently.

### TRANSACTION STRUCTURE



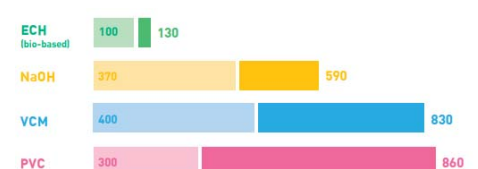
Source: PTTGC

### PVC VALUE CHAIN



Source: PTTGC

### VNT'S EXPANSION PROJECT CAPACITY ADDITIONS



Source: VNT

### PVC SPREAD



Source: Bloomberg

### PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Net turnover	329,291	372,431	365,974	366,106
EBITDA	19,891	37,424	38,500	38,637
Deprec. & amort.	20,292	20,930	19,905	19,038
EBIT	(401)	16,494	18,595	19,599
Associate contributions	3,323	5,425	5,696	5,981
Net interest income/(expense)	(3,511)	(3,700)	(3,700)	(3,700)
<b>Pre-tax profit</b>	<b>(939)</b>	<b>18,219</b>	<b>20,591</b>	<b>21,880</b>
Tax	109	(1,822)	(2,059)	(2,188)
Minorities	(452)	250	283	300
<b>Net profit</b>	<b>200</b>	<b>16,647</b>	<b>18,815</b>	<b>19,992</b>
Net profit (adj.)	7,719	16,647	18,815	19,992

### CASH FLOW

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
<b>Operating</b>	<b>22,146</b>	<b>23,929</b>	<b>33,170</b>	<b>28,185</b>
Pre-tax profit	(939)	18,219	20,591	21,880
Tax	109	(1,822)	(2,059)	(2,188)
Deprec. & amort.	20,292	20,930	19,905	19,038
Associates	3,323	5,425	5,696	5,981
Working capital changes	1,910	(8,223)	146	(4,865)
Non-cash items	0	0	0	0
Other operating cashflows	(2,548)	(10,600)	(11,110)	(11,662)
<b>Investing</b>	<b>(28,274)</b>	<b>(34,808)</b>	<b>(34,392)</b>	<b>(34,472)</b>
Capex (growth)	(28,274)	(34,808)	(34,392)	(34,472)
<b>Financing</b>	<b>31,601</b>	<b>(6,653)</b>	<b>1,830</b>	<b>1,005</b>
Dividend payments	(5,024)	(11,653)	(13,170)	(13,995)
Loan repayment	36,818	5,000	15,000	15,000
Others/interest paid	(192)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>25,473</b>	<b>(17,532)</b>	<b>607</b>	<b>(5,281)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>18,840</b>	<b>44,313</b>	<b>26,781</b>	<b>27,389</b>
Changes due to forex impact	n.a.	n.a.	n.a.	n.a.
<b>Ending cash &amp; cash equivalent</b>	<b>44,313</b>	<b>26,781</b>	<b>27,389</b>	<b>22,107</b>

### BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Fixed assets	64,410	69,835	69,835	69,835
Other LT assets	295,062	308,940	323,427	341,469
Cash/ST investment	44,313	26,781	27,389	22,107
Other current assets	85,598	87,807	88,588	92,613
<b>Total assets</b>	<b>489,383</b>	<b>493,362</b>	<b>509,238</b>	<b>526,024</b>
ST debt	23,092	23,092	23,092	23,092
Other current liabilities	35,949	41,964	41,036	41,876
LT debt	131,991	124,956	194,220	184,051
Other LT liabilities	9,356	9,356	9,356	9,356
Shareholders' equity	288,994	293,995	241,535	267,649
Minority interest	n.a.	n.a.	n.a.	n.a.
<b>Total liabilities &amp; equity</b>	<b>489,383</b>	<b>493,362</b>	<b>509,238</b>	<b>526,024</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Profitability</b>				
EBITDA margin	6.0	10.0	10.5	10.6
Pre-tax margin	(0.3)	4.9	5.6	6.0
Net margin	0.1	4.5	5.1	5.5
ROA	0.0	3.4	3.8	3.9
ROE	0.1	5.7	7.0	7.9
<b>Growth</b>				
Turnover	(20.2)	13.1	(1.7)	0.0
EBITDA	(27.1)	88.1	2.9	0.4
Pre-tax profit	(107.2)	n.a.	13.0	6.3
Net profit	(98.3)	8,239.9	13.0	6.3
Net profit (adj.)	(13.8)	115.7	13.0	6.3
EPS	(13.8)	115.7	13.0	6.3
<b>Leverage</b>				
Debt to total capital	34.9	33.5	47.4	43.6
Debt to equity	53.7	50.4	90.0	77.4
Net debt/(cash) to equity	38.3	41.2	78.6	69.1
Interest cover (x)	5.7	10.1	10.4	10.4

### ASEAN E-CONFERENCE TAKEAWAYS

#### Krungthai Card (KTC TB)

Better Earnings Outlook But Valuation Remains Expensive; Maintain SELL

We upgrade our 2022-23 earnings forecasts by 8.3% and 13.7% respectively to account for KTBL's contributions and a better credit cost outlook. However, KTC's valuation is very demanding given that the stock price is trading at 31.8x 2021F PE, which is +3SD to its 5-year mean. Maintain SELL. Target price: Bt40.00.

#### WHAT'S NEW

- KTC to purchase a 75% stake in KTBL.** Krungthai Card's (KTC) board of directors have approved the purchase of 75m shares in Krungthai Leasing (KTBL) from Krungthai Bank (KTB), a parent company of KTC. The initial agreed price was Bt7.92/share. However, the final purchasing price might be lower or higher from the initial agreed price, depending on KTBL's competitiveness and its reserve on the purchasing day (3Q21). Nevertheless, the purchasing price is capped at Bt13.15/share. For the post-transaction holding structure, KTC will own 75.05% while the rest will be owned by KTB.
- KTBL will provide more diversity and earnings growth to KTC.** By owning 75.05% of KTBL, KTC can offer hire-purchase (HP) products, which would result in KTC's portfolio becoming more diversified. Also, this would enable KTC to cross-sell its products between its business units. However, there are some concerns on KTBL's asset quality as 42% of KTBL's outstanding loans are troubled debts restructuring (TDR) loans. Hence, KTC's top priority after the acquisition is to reassess KTBL's existing portfolio before recommending its HP business in 2022.
- Targeting moderate loan growth.** As a result of BOT's ceiling rate cut, the risk/reward from unsecured loans (credit card loan and personal loans) is now less attractive. Management guided that they will be more conservative with unsecured loan lending and be more focused on secured loan lending in 2021. Management also guided that they expect KTC's customer credit card spending to grow 8% yoy and total loans to grow 10% yoy in 2021.
- Lower credit cost in 2021.** Given KTC's robust loan-loss coverage (LLC) ratio of 460% in 2020 and its migration towards secured loan lending, we expect KTC's credit cost to improve from 751bp in 2020 to 680bp in 2021.

#### KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net interest income	7,902	8,821	9,258	10,352	11,724
Non-interest income	13,157	11,700	12,189	13,380	14,568
Net profit (rep./act.)	5,524	5,331	6,007	6,619	7,375
Net profit (adj.)	5,524	5,331	6,007	6,619	7,375
EPS (Bt)	2.1	2.1	2.3	2.6	2.9
PE (x)	34.1	35.3	31.3	28.4	25.5
P/B (x)	9.6	8.3	7.1	6.2	5.5
Dividend yield (%)	1.1	1.2	1.3	1.5	1.8
Net int margin (%)	14.7	14.4	13.2	13.3	n.a.
Cost/income (%)	36.7	35.4	35.5	35.4	35.4
Loan loss cover (%)	620.1	460.3	380.0	360.0	340.0
Consensus net profit	-	-	6,146	6,923	7,434
UOBKH/Consensus (x)	-	-	0.98	0.96	0.99

Source: Krungthai Card Plc, Bloomberg, UOB Kay Hian

#### SELL

(Maintained)

Share Price	Bt73.00
Target Price	Bt40.00
Upside	-45.2%
(Previous TP)	Bt37.00)

#### COMPANY DESCRIPTION

The company provides unsecured financial products, credit card products and services, and personal loans to consumers in Thailand.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	KTC TB
Shares issued (m):	2,578.3
Market cap (Btm):	190,152.1
Market cap (US\$m):	6,170.2
3-mth avg daily t'over (US\$m):	41.1

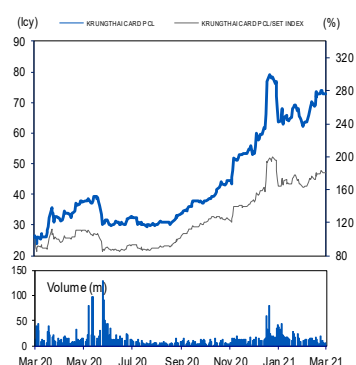
#### Price Performance (%)

52-week high/low	Bt79.00/Bt23.80			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
13.0	32.3	121.8	170.6	23.9

#### Major Shareholders

	%
Krungthai Bank Pcl	49.29
Mongkol Prakitchaiwattana	10.25
Thai NVDR	7.78
FY21 NAV/Share (Bt)	10.26

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### 1Q21 RESULTS PREVIEW

Year to 31 Dec (Btm)	1Q21F	4Q20	1Q20	qoq chg (%)	yoy chg (%)
Total gross loan	84,126	90,150	82,102	(6.7)	2.5
Net interest income	2,991	3,047	3,221	(1.8)	(7.1)
Non-interest income	2,108	2,143	2,054	(1.6)	2.7
Loan loss provision	1,531	1,511	1,308	1.3	17.0
SG&A	1,795	2,037	1,929	(11.9)	(6.9)
Net income	1,437	1,322	1,641	8.7	(12.4)
EPS (Bt)	0.56	0.51	0.64	8.7	(12.4)
<b>Ratio (%)</b>					
Net interest margin (NIM %)*	13.7	14.0	15.3		
Credit cost (bp)*	703	693	623		
Cost to income (%)*	35.2	39.3	36.6		

Source: Krungthai Card Plc, UOB Kay Hian \* Note: The ratios are annualized.

### STOCK IMPACT

- **Expect mixed results in 1Q21.** We expect KTC to post a net profit of Bt1.4b, down 12% yoy but up 9% qoq. The yoy drop is due to a narrowed NIM outlook brought about by the BOT's ceiling rate cut. Meanwhile, KTC's net profit is expected to grow 9% qoq thanks to better control over operational expenses.

### EARNINGS REVISION/RISK

(Btm)	2021F	2022F	2023F
Old	6,007	6,113	6,487
New	6,007	6,619	7,375
% chg	-	+8.3	+13.7

Source: Krungthai Card Plc, UOB Kay Hian

- We upgrade our 2022-23 earnings forecasts by 8.3% and 13.7% respectively to account for KTBL's contributions and a better credit cost outlook.

### VALUATION/RECOMMENDATION

- **Maintain SELL.** KTC's valuation is very demanding given that the stock price is trading at 31.8x 2021F PE, which is +3SD to its 5-year mean. We maintain our SELL recommendation with a higher target price of Bt40.00 using GGM (cost of equity: 10%, long-term growth rate: 3.0%).

### SHARE PRICE CATALYST

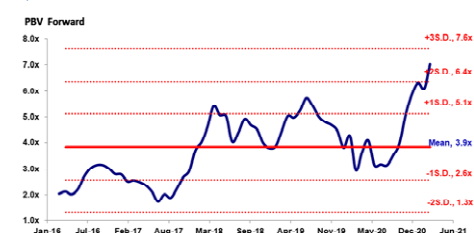
- No short-term price catalyst.

### PE BAND



Source: Krungthai Card Plc, UOB Kay Hian

### P/B BAND



Source: Krungthai Card Plc, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Interest income	10,355	10,823	12,019	13,596
Interest expense	(1,534)	(1,565)	(1,666)	(1,872)
Net interest income	8,821	9,258	10,352	11,724
Fees & commissions	8,290	8,529	9,584	10,698
Other income	3,411	3,660	3,796	3,870
Non-interest income	11,700	12,189	13,380	14,568
<b>Total income</b>	<b>20,521</b>	<b>21,447</b>	<b>23,733</b>	<b>26,292</b>
Staff costs	(7,050)	(7,408)	(8,172)	(9,054)
Other operating expense	(210)	(214)	(237)	(263)
Pre-provision profit	13,261	13,824	15,323	16,975
Loan loss provision	(6,605)	(6,411)	(7,049)	(7,757)
Pre-tax profit	6,656	7,414	8,274	9,219
Tax	(1,325)	(1,407)	(1,655)	(1,844)
<b>Net profit</b>	<b>5,331</b>	<b>6,007</b>	<b>6,619</b>	<b>7,375</b>
Net profit (adj.)	5,331	6,007	6,619	7,375

### OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Capital Adequacy</b>				
Total assets/equity (x)	3.9	3.6	3.6	3.6
Tangible assets/tangible common equity (x)	3.9	3.7	3.6	3.7
<b>Asset Quality</b>				
NPL ratio	1.8	1.9	1.7	1.6
Loan loss coverage	460.3	380.0	360.0	340.0
Loan loss reserve/gross loans	8.2	7.1	6.2	5.5
Increase in NPLs	75.4	15.5	2.8	5.4
Credit cost (bp)	750.7	679.8	676.3	661.3
<b>Liquidity</b>				
Loan/deposit ratio	155.7	164.2	163.6	161.8
Liquid assets/short-term liabilities	13.3	10.1	9.9	8.6
Liquid assets/total assets	2.2	0.9	0.9	0.8

### BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Cash with central bank	1,914	884	934	993
Govt treasury bills & securities	5	5	5	5
Customer loans	82,794	91,429	103,181	117,785
Investment securities	0	0	0	0
Fixed assets (incl. prop.)	481	463	481	519
Other assets	3,209	3,460	3,811	4,253
<b>Total assets</b>	<b>88,403</b>	<b>96,242</b>	<b>108,413</b>	<b>123,555</b>
Customer deposits	13,959	8,413	9,080	11,075
Debt equivalents	43,480	51,130	57,705	65,418
Other liabilities	8,114	10,255	11,444	12,957
<b>Total liabilities</b>	<b>65,553</b>	<b>69,798</b>	<b>78,229</b>	<b>89,451</b>
Shareholders' funds	22,799	26,393	30,132	34,053
Minority interest - accumulated	51	51	51	51
<b>Total equity &amp; liabilities</b>	<b>88,403</b>	<b>96,242</b>	<b>108,413</b>	<b>123,555</b>

### KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
<b>Growth</b>				
Net interest income, yoy chg	11.6	5.0	11.8	13.3
Fees & commissions, yoy chg	(9.6)	2.9	12.4	11.6
Pre-provision profit, yoy chg	(0.6)	4.2	10.8	10.8
Net profit, yoy chg	(3.5)	12.7	10.2	11.4
Net profit (adj.), yoy chg	(3.5)	12.7	10.2	11.4
Customer loans, yoy chg	3.3	10.4	12.9	14.2
Customer deposits, yoy chg	22.7	(39.7)	7.9	22.0
<b>Profitability</b>				
Net interest margin	14.4	13.2	13.3	n.a.
Cost/income ratio	35.4	35.5	35.4	35.4
Adjusted ROA	6.1	6.5	6.5	6.4
Reported ROE	25.1	24.4	23.4	23.0
Adjusted ROE	25.1	24.4	23.4	23.0
<b>Valuation</b>				
P/BV (x)	8.3	7.1	6.2	5.5
P/NTA (x)	8.4	7.3	6.3	5.6
Adjusted P/E (x)	35.3	31.3	28.4	25.5
Dividend Yield	1.2	1.3	1.5	1.8
Payout ratio	42.6	40.2	43.5	46.8

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