

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

### KEY STORY

#### THAILAND

##### Initiate Coverage

**Muangthai Capital (MTC TB/BUY/Bt36.75/Target: Bt50.25)**

Page 22

Leading non-bank play with impressive growth outlook.

#### CHINA

##### Economics

##### The Big Picture

Page 2

Mixed Apr 18 data; stress is re-emerging.

##### Update

**Anta Sports (2020 HK/BUY/ HK\$45.35/Target: HK\$50.00)**

Page 4

Takeaways from Anta meeting.

#### INDONESIA

##### Strategy

**Potential 25% Return Leading Up To 2019 Election**

Page 7

JCI has the potential to deliver more than 25% return leading towards the 2019 presidential election. Picks: GGRM, LPPF, ASII, BMRI and BBNI.

#### MALAYSIA

##### Strategy

##### The Pain Of Suspense

Page 9

Surprise announcement to scrap the MRT3 project and suspense in the government's decision on tolled expressways precipitated another broad market meltdown.

##### Results

**CIMB Group (CIMB MK/BUY/RM5.90/Target: RM7.40)**

Page 10

1Q18: Below expectations due to higher marked-to-market trading losses. Maintain BUY given attractive valuations and expectations of a stronger 2H18.

**Hong Leong Bank (HLBK MK/HOLD/RM18.60/Target: RM19.90)**

Page 13

3QFY18: Ahead of expectation. Lower-than-expected credit cost and strong marked-to-market trading gains drive earnings. Maintain HOLD with a higher target price of RM19.90

**Malaysian Resources Corporation (MRC MK/BUY/RM0.57/Target: RM1.01)**

Page 16

1Q18: Expect substantially stronger quarters ahead on deleveraging. Upgrade to BUY.

#### SINGAPORE

##### Results

**SATS (SATS SP/BUY/S\$5.28/Target: S\$5.70)**

Page 19

4QFY18: Below expectation due to one-off treatment in associates. SATS remains bullish on gateway services.

#### THAILAND

##### Initiate Coverage

**Muangthai Capital (MTC TB/BUY/Bt36.75/Target: Bt50.25)**

Page 22

Leading non-bank play with impressive growth outlook.

##### Results

**BTS Group Holdings (BTS TB/BUY/Bt9.55/Target: Bt10.50)**

Page 25

4QFY18: Fairly good growth rate in 4Q, preparing for strong growth in FY19.

### KEY INDICES

	Prev Close	1D %	1W %	1M %	YTD %
DJIA	24667.8	1.3	(0.7)	2.1	(0.2)
S&P 500	2724.0	1.3	(0.0)	2.9	1.9
FTSE 100	7689.6	0.7	(2.4)	2.4	0.0
AS30	6093.8	(0.5)	(0.8)	0.4	(1.2)
CSI 300	3723.4	(2.1)	(3.4)	(0.9)	(7.6)
FSSTI	3444.0	(2.1)	(2.8)	(4.7)	1.2
HSCEI	11769.2	(1.6)	(2.7)	(4.6)	0.5
HSI	30056.8	(1.4)	(2.0)	(2.4)	0.5
JCI	6011.1	(0.9)	4.5	0.3	(5.4)
KLCI	1719.3	(3.2)	(6.8)	(7.7)	(4.3)
KOSPI	2409.0	(2.0)	(2.5)	(4.2)	(2.4)
Nikkei 225	22018.5	(1.5)	(3.0)	(2.0)	(3.3)
SET	1725.1	(0.5)	(2.0)	(3.1)	(1.6)
TWSE	10821.2	(1.3)	(0.6)	1.5	1.7
BDI	1057	(1.9)	(11.8)	(21.2)	(22.6)
CPO (RM/mt)	2372	(1.9)	(2.1)	(0.3)	(0.8)
Brent Crude (US\$/bbl)	78	2.8	(2.9)	3.1	15.9

Source: Bloomberg

### TOP PICKS

	Ticker	CP (lcy)	TP (lcy)	Pot. +/- (%)
<b>BUY</b>				
Baoshan Iron & Steel	600019 CH	8.25	11.25	36.4
Beijing Cap Intl Airport	694 HK	11.00	14.10	28.2
Gudang Garam	GGRM IJ	68,375.00	83,000.00	21.4
PP Persero	PTPP IJ	2,600.00	3,700.00	42.3
V.S. Industry	VSI MK	1.83	2.90	58.5
OCBC	OCBC SP	12.60	16.02	27.1
SingTel	ST SP	3.28	4.22	28.7
Siam Cement	SCC TB	452.00	610.00	35.0

### SELL

Great Wall Motor	2333 HK	7.65	6.50	(15.0)
Hartalega	HART MK	6.08	4.02	(33.9)

### KEY ASSUMPTIONS

GDP (% yoy)	2017	2018F	2019F
US	2.3	2.5	2.3
Euro Zone	2.3	2.3	1.9
Japan	1.7	1.8	1.9
Singapore	3.6	2.8	3.1
Malaysia	5.9	5.0	5.2
Thailand	3.9	4.0	4.2
Indonesia	5.1	5.3	5.4
Hong Kong	3.8	3.4	3.3
China	6.9	6.4	6.2

CPO (RM/mt)	2,783	2,400	2,500
Brent (Average) (US\$/bbl)	55.00	67.00	66.50

Source: Bloomberg, UOB ETR, UOB Kay Hian

### CORPORATE EVENTS

	Venue	Begin	Close
Analyst Presentation on Greater China Automobiles Sector	Bangkok	30 May	31 May
SGX-UOBKH Luncheon Seminar	Taipei	30 May	31 May
Analyst Presentation on Thailand Telecommunications Sector			
Roadshow with Colour Life Services Group (1778 HK)	Kuala Lumpur	4 Jun	5 Jun
Roadshow with Colour Life Services Group (1778 HK)	Singapore	6 Jun	7 Jun
Analyst Presentation on 2H18 Singapore Outlook and Strategy	Kuala Lumpur	7 Jun	8 Jun
Analyst Presentation on SG/HK Property & REITs	Bangkok	18 Jun	19 Jun
Corporate Roadshow with Xiabuxiabu Catering Management (0520.HK)	Toronto	28 Jun	28 Jun
	Montreal	29 Jun	29 Jun

### ECONOMICS – CHINA

## The Big Picture

Mixed Apr 18 Data; Stress Is Re-emerging

China's macro data for Apr 18 was mixed, with industrial production and industrial profits for larger firms notably stronger, while others were lacklustre. Overall, we opine that although the data still reflects the impact of ongoing deleveraging efforts, we also see early signs of stress re-emerging in the corporate sector. But monetary growth seems to have stabilised, and with recent moves to cut RRR, funding cost has fallen. As such, the authorities might still hold back on further easing for now.

### KEY ECONOMIC INDICATORS FOR APRIL

(yoy% chg)	Consensus	Actual	Prior
Retail Sales	10.0	9.4	10.1
Fixed Asset Investment	7.4	7.0	7.5
Industrial Production	6.4	7.0	6.0
PMI (index)	51.3	51.4	51.5
Export	8.0	12.9	-2.7
Import	16.0	21.5	14.4
Trade Balance (US\$b)	27.8	28.8	-5.0
CPI	1.9	1.8	2.1
PPI	3.4	3.4	3.1
Industrial Profits	-	21.9	3.1
M0	5.8	4.5	6.0
M1	7.0	7.2	7.1
M2	8.5	8.3	8.2
New Renminbi Loans (Rmbt)	1.1	1.2	1.1
New Total Social Financing (Rmbt)	1.4	1.6	1.3

Source: Wind, Bloomberg, UOB Kay Hian

### ESSENTIALS

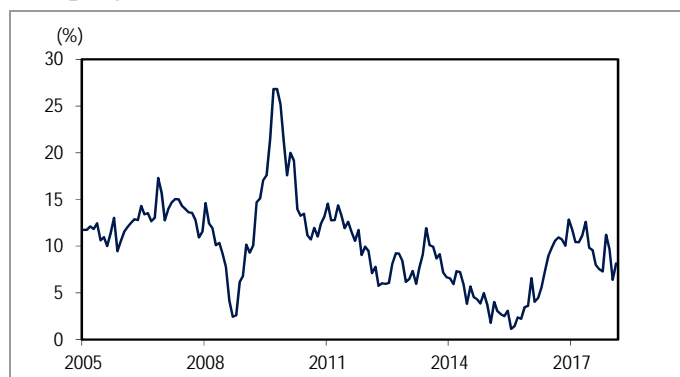
- **Big is beautiful...** Chinese industrials performed better than expected in Apr 18, as industrial production growth came in above expectations at 7.0% yoy while industrial profit growth among larger firms surged significantly to a 6-month high of 21.9% yoy from 3.1% yoy a month ago. The acceleration in growth of industrial profits in Apr 18 was due to higher factory margins and output, as well as the low-base effect from a year ago. Sectors that saw particularly stronger growth were chemicals, steel processing and oil and gas exploration, with respective growths of 23.0% yoy, 95.4% yoy and 207.7% yoy in Apr 18.
- The April data also reflects the impact of supply-side reform which had led to industrial consolidation, benefitting sector leaders. However, there are signs of stress re-emerging in the rest of the corporate sector. In 1Q18, we have started to see mixed NPL data in the banking sector; 1Q18 NPL ratio of 1.75% was up 1bp from the previous quarter, driven by higher NPL ratio among city and rural banks, ending the declining trend seen in 2017. Corporate bond defaults have also picked up of late, with 11 defaults in Mar 18, 15 defaults in Apr 18 and 20 defaults in May 18.
- On industrial production growth, the rebound was supported by better activities out of the utilities sector. Power demand by industries grew at a faster clip in April after falling for the past two months. Over this period, freighting saw a 7.4% yoy jump as well. The April data could well be the inflection point for industrial production growth, but the weakness in the rest of the economy makes this a low probability event for now.
- **...but deceleration seen elsewhere.** Both retail sales and FAI growth slowed and came in below expectations at 9.4% yoy and 7.0% yoy respectively in Apr 18. Consumer inflation continued to ease to 1.8% yoy while PPI inflation edged up slightly to 3.4% yoy.
- **Funding cost has fallen.** New bank loans and TSF expanded above expectations in Apr 18 to Rmb1.2t and Rmb1.6t respectively; overall credit and money supply growth is only starting to stabilise as outstanding balance growth of loans and TSF remained largely flat at 12.7% yoy and 10.5% yoy respectively. M2 growth edged up slightly to 8.3% yoy in Apr 18, but was still lower than consensus estimates. However, funding cost has fallen, with the 3MSHIBOR hitting 4.0% at end-Apr 18, down from 4.9% in end-Dec 17. AAA corporate bond yields have fallen 37bp ytd while 10-year treasuries fell by 28bp over the same period.

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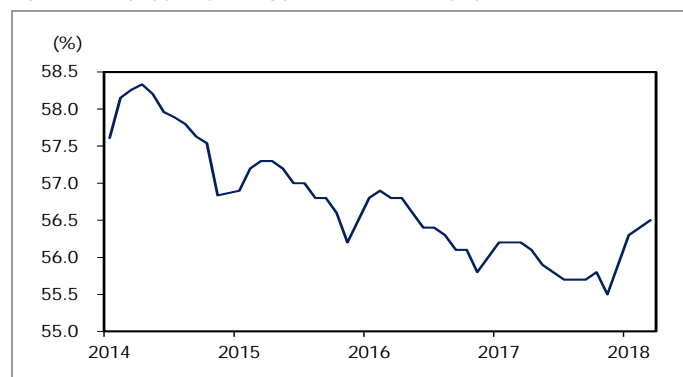
- External demand is a potential risk factor.** Although growth of exports and imports accelerated above expectations in Apr 18, outlook for trade growth remains clouded as ongoing trade frictions with the US remain a concern and the PMI new export order index points to weaker growth ahead. China's manufacturing PMI for new export orders fell to 50.7% in Apr 18, while the new export orders PMI for non-manufacturing fell to 50.0% – both are on the verge of contraction (a reading below 50).
- Better to keep the powder dry.** In spite of the better industrial data in Apr 18, we opine that the underlying trend still points to slowing economic growth in the coming months. While market talks suggest that another RRR cut may be in the offing, given the decline in funding costs of late, we expect the authorities to stand pat for now.

### LI KE QIANG INDEX



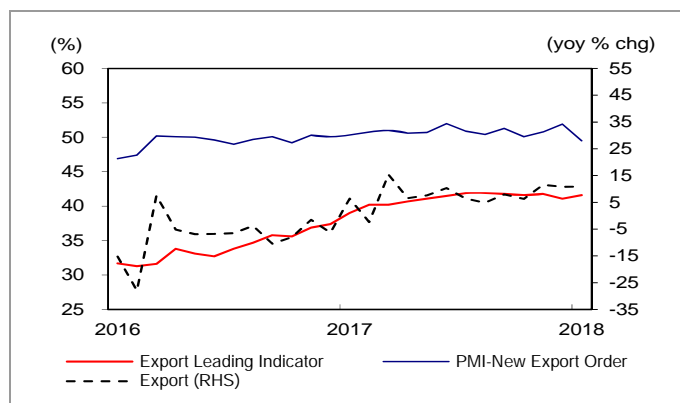
Source: Wind, Bloomberg, UOB Kay Hian

### TOTAL DEBT/ASSET OF INDUSTRIAL ENTERPRISES



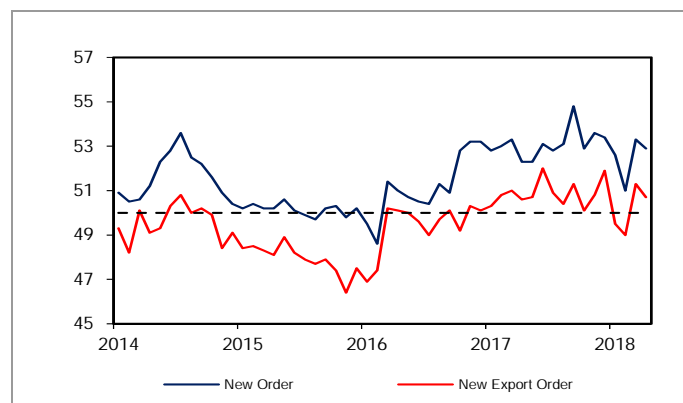
Source: Wind, Bloomberg, UOB Kay Hian

### LEADING EXPORT INDICATORS



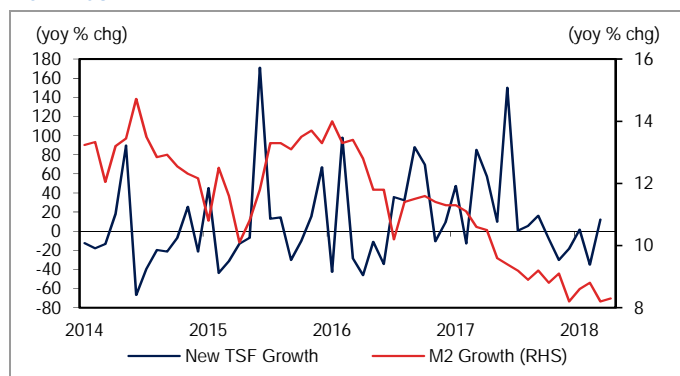
Source: Wind, Bloomberg, UOB Kay Hian

### PMI OF NEW ORDERS



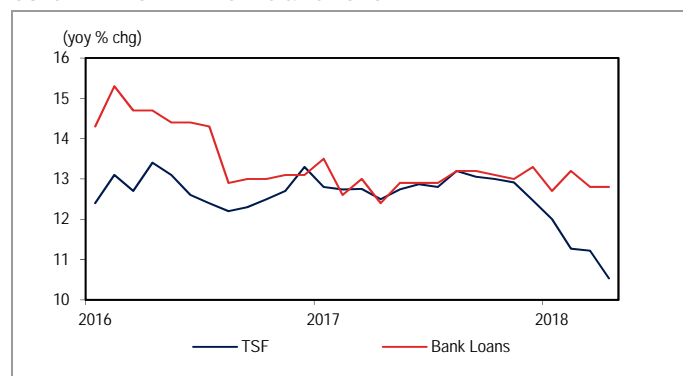
Source: Wind, Bloomberg, UOB Kay Hian

### MONEY SUPPLY



Source: Wind, Bloomberg, UOB Kay Hian

### OUTSTANDING BANK LOANS & TSF GROWTH



Source: Wind, Bloomberg, UOB Kay Hian

## COMPANY UPDATE

### Anta Sports (2020 HK)

#### Takeaways From Anta Meeting

**Anta Sports' IR Director Suki Wong shared the group's outlook and strategies for the next few years. Overall, guidance remains unchanged. Anta maintains its long-term target of 15-20% retail sales growth, driven by Fila, e-commerce and Descente. Kingkow and Kolon Sports remain in the restructuring phase this year. Maintain BUY. Target price: HK\$50.00.**

#### WHAT'S NEW

- **Despite strong 1Q18 performance, guidance unchanged.** Group sales are expected to increase 15-20% yoy - "mid-teens" growth at core brands and 30% yoy growth at Fila. April sales looked "quite solid" with retail discount rate unchanged yoy. IR Director Suki Wong explained that the second quarter would normally not be a discount season since the inventories are still in demand in the third quarter. Going forward, Anta would put margins as priority and would strive to boost sales while keeping margins up at the same time.
- **Growth in e-commerce generally boosts margins.** About 60% of its e-commerce sales are sold via Anta's retail online store (Anta.com) with a higher "retail" e-commerce gross margin of 50%. However, to support its O2O brand platform, 40% of e-commerce sales are done via Anta's distribution partners (such as Anta Shanghai) which make the same margins as if they are sold at wholesale to their offline distributors. Thus, the "wholesale" e-commerce gross margin is slightly lower at about 40%.
- **The hot weather has little impact on business,** although traffic has heavily shifted to its shops in shopping malls. On a product level, the hot weather should have no impact on shoe sales. Generally speaking, a sudden cold spell would be positive to sales as customers buy more to keep warm; however, rainstorm, snowstorm and smog are negative to sales as customers do not come out to shop.

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018F	2019F	2020F
Net turnover	13,346	16,692	22,014	26,669	32,177
EBITDA	3,170	3,781	5,005	6,148	7,692
Operating profit	2,944	3,531	4,755	5,898	7,442
Net profit (rep./act.)	2,386	3,087	3,887	4,739	5,893
Net profit (adj.)	2,386	3,087	3,887	4,739	5,893
EPS (Rmb cent)	95	117	145	176	219
PE (x)	35.3	28.8	23.2	19.1	15.3
P/B (x)	8.8	6.5	6.1	5.5	5.0
EV/EBITDA (x)	28.0	23.0	17.3	14.0	11.1
Dividend yield (%)	1.9	2.4	2.9	3.6	4.4
Net margin (%)	17.9	18.5	17.7	17.8	18.3
Net debt/(cash) to equity (%)	(50.8)	(49.8)	(48.6)	(48.9)	(49.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	26.3	26.6	27.2	30.4	34.3
Consensus net profit	-	-	3,706	4,495	5,435
UOBKH/Consensus (x)	-	-	1.05	1.05	1.08

Source: Anta, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$43.35
Target Price	HK\$50.00
Upside	+15.2%

#### COMPANY DESCRIPTION

Anta is the leading domestic sportswear brand with store network of over 7000 stores in China. Based in Fujian, the company manufactures using a mix of OEM and self-owned factories, but relies on franchise distributors to sell at the retail level.

#### STOCK DATA

GICS sector	Consumer Discretionary
Bloomberg ticker:	2020 HK
Shares issued (m):	2,685
Market cap (HK\$m):	116,385
Market cap (US\$m):	14,832
3-mth avg daily t'over (US\$m):	25.6

#### Price Performance (%)

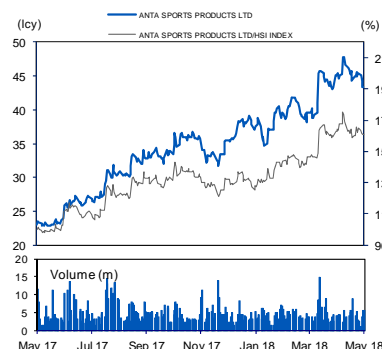
52-week high/low HK\$47.80/HK\$22.20

1mth	3mth	6mth	1yr	YTD
4.7	13.4	27.3	103.6	28.4

#### Major Shareholders

	%
Anta Intl Group	51.2
Anda Holdings	6.0
Anda Investments	4.3
FY18 NAV/Share (Rmb)	5.54
FY18 Net Cash/Share (Rmb)	2.69

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Products sold online comprise three categories:** a) 60-70% are online exclusive products that are more casual-focused, b) identical products with the same prices as with offline products, and c) out-of-season inventories. Going forward, Anta expects online sales to keep growing with the following target proportions: a) wholesale e-commerce accounts for 30% of total wholesale business, and b) retail e-commerce accounts for 20% of total retail business.
- **Replenishment rate at over 10% in 1Q18 vs 5% in 1Q17.** Replenishment orders generally have lower margins because they cost more and Anta does not pass the higher costs through to their distributors. However, having said that, the pressure on gross margins will be lower than that of last year as Anta has run the replenishment process smoother, resulting in better efficiency.
- **The ratio of self-manufactured goods declined** 5.1ppt to 37.8% and 1.2ppt to 15.5% for footwear and apparel respectively because Anta has stopped expanding its manufacturing capacity. Management claimed this is a better use of capital and management bandwidth to focus on brand building. Thus, it expects this ratio to further decline going forward as Anta will need to satisfy product demand via procuring finished goods from OEM partners. Also, Anta is cutting out the smallest suppliers from its supply chain, so supplier concentration is trending higher – this helps the group save costs via scaling up with the bigger OEMs. The benefit of higher concentration of suppliers can mitigate the extra costs associated with outsourcing to OEMs.
- **Advertising and promotions (A&P) will be higher this year** at 11-12% of sales for the group in 2018 (2017: 10.6%). As Anta's sponsorship of the China Olympic Committee (COC) was only renewed in end-Sep 17 (meaning no allocated cost for 1H17), its 1H18 A&P expenses will be higher yoy. For the full year, A&P costs for its core brands should easily rise by over 30% yoy since it also has sponsorships for the Winter Olympics in PyeongChang, 2018 Asian Games in Jakarta, Klay Thompson's China Tour as well as for the brand endorser, Filipino boxing champion, Manny Pacquiao. Other initiatives are crossover limited-edition campaigns including Fila x Super Mario and Fila x Bathing Ape, as well as sponsored sports events such as Colour Run and the Spartan race in China.
- **Open to acquisitions and JV negotiations.** For acquisition targets and/or JV negotiations, Anta is looking for the following elements: a) international appeal; b) higher-end in terms of product positioning; and c) strong exposure to the Chinese market.
- **The World Cup is not a big driver of revenue** as football remains a small part of Anta's business. It started selling football products in 2014 and has been pushing the development of China's youth football by cooperating with Guangzhou's Evergrande Football School (恒大足球學校). It also launched World Cup Memorial-style of soccer shoes that are sold at only Rmb199 per pair. Anta will spend more on A&P here as it takes the opportunity to build its branding off the event.

### EARNINGS REVISION/RISK

- **Maintain 2018-20 sales assumptions.** Our 2018-20 revenue assumptions of Rmb22.0b, Rmb26.7b and Rmb32.2b represent yoy growths of 32%, 21% and 21% respectively.
- **We maintain our 2018-20 net profit forecasts** at Rmb3,887m, Rmb4,739m and Rmb5,893m, which imply yoy core net profit growths of 26%, 22% and 24% respectively. Our net profit forecasts are 4.9-5.4% above consensus estimates.

### VALUATION/RECOMMENDATION

- **Maintain BUY** as we believe Anta is on a growth trajectory based on the development of its non-core brand business. We think management is opting to be conservative as it has not upgraded nor provided any 2018 guidance despite a stellar 1Q18 performance, although we note the company tends to "under-promise and over-deliver". Given the prospective higher-than-peers' average earnings growth in 2018-20, we believe Anta deserves an above-peer average PE multiple. Our target price is kept at HK\$50.00, based on 28x 2018F PE, or over 2SD above the stock's historical mean.

### PROFIT & LOSS

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
<b>Net turnover</b>	<b>16,692</b>	<b>22,014</b>	<b>26,669</b>	<b>32,177</b>
EBITDA	3,781	5,005	6,148	7,692
Deprec. & amort.	250	250	250	250
EBIT	3,531	4,755	5,898	7,442
Total other non-operating income	458	439	439	439
Net interest income/(expense)	321	155	163	178
<b>Pre-tax profit</b>	<b>4,310</b>	<b>5,349</b>	<b>6,500</b>	<b>8,060</b>
Tax	(1,152)	(1,391)	(1,690)	(2,096)
Minorities	(71)	(71)	(71)	(71)
<b>Net profit</b>	<b>3,087</b>	<b>3,887</b>	<b>4,739</b>	<b>5,893</b>
Net profit (adj.)	3,087	3,887	4,739	5,893

### BALANCE SHEET

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
Fixed assets	1,909	2,111	2,313	2,515
Other LT assets	1,724	1,692	1,661	1,630
Cash/ST investment	6,968	7,372	8,119	9,132
Other current assets	8,474	10,432	12,135	14,123
<b>Total assets</b>	<b>19,074</b>	<b>21,607</b>	<b>24,227</b>	<b>27,400</b>
ST debt	148	148	148	148
Other current liabilities	4,350	5,646	6,773	8,107
LT debt	0	0	0	0
Other LT liabilities	215	215	215	215
Shareholders' equity	13,706	14,873	16,294	18,062
Minority interest	654	725	796	867
<b>Total liabilities &amp; equity</b>	<b>19,074</b>	<b>21,607</b>	<b>24,227</b>	<b>27,400</b>

### CASH FLOW

Year to 31 Dec (Rmbm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>3,181</b>	<b>3,492</b>	<b>4,421</b>	<b>5,482</b>
Pre-tax profit	4,311	5,349	6,500	8,060
Tax	(1,013)	(1,327)	(1,600)	(1,974)
Deprec. & amort.	250	250	250	250
Working capital changes	(227)	(625)	(566)	(676)
Non-cash items	34	0	0	0
Other operating cashflows	(173)	(155)	(163)	(178)
<b>Investing</b>	<b>(1,579)</b>	<b>(366)</b>	<b>(358)</b>	<b>(343)</b>
Capex (growth)	(534)	(415)	(415)	(415)
Investments	(1,002)	55	63	78
Proceeds from sale of assets	0	0	0	0
Others	(42)	(6)	(6)	(6)
<b>Financing</b>	<b>(2)</b>	<b>(2,721)</b>	<b>(3,318)</b>	<b>(4,125)</b>
Dividend payments	(1,937)	(2,721)	(3,318)	(4,125)
Issue of shares	2,835	0	0	0
Proceeds from borrowings	148	0	0	0
Loan repayment	(1,010)	0	0	0
Others/interest paid	(39)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>1,601</b>	<b>405</b>	<b>746</b>	<b>1,014</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>5,830</b>	<b>6,968</b>	<b>7,372</b>	<b>8,119</b>
Changes due to forex impact	(463)	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>6,968</b>	<b>7,372</b>	<b>8,119</b>	<b>9,132</b>

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	22.7	22.7	23.1	23.9
Pre-tax margin	25.8	24.3	24.4	25.0
Net margin	18.5	17.7	17.8	18.3
ROA	18.5	19.1	20.7	22.8
ROE	26.6	27.2	30.4	34.3
<b>Growth</b>				
Turnover	25.1	31.9	21.1	20.7
EBITDA	19.3	32.4	22.8	25.1
Pre-tax profit	30.2	24.1	21.5	24.0
Net profit	29.4	25.9	21.9	24.3
Net profit (adj.)	29.4	25.9	21.9	24.3
EPS	22.8	23.8	21.9	24.3
<b>Leverage</b>				
Debt to total capital	1.0	0.9	0.9	0.8
Debt to equity	1.1	1.0	0.9	0.8
Net debt/(cash) to equity	(49.8)	(48.6)	(48.9)	(49.7)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.



## STRATEGY – INDONESIA

### Potential 25% Return Leading Up To 2019 Election

Historical returns analysis indicates that the JCI delivered an average 27% return in the nine months leading up to the last four rounds of Indonesia's presidential election. Post elections, the JCI also delivered an average return of 19%. JAKCONS was one of the biggest winners in the past before elections, while JAKFIN was the biggest winner post elections. Picks: GGRM, ASII, LPPF, BMRI and BBNI.

#### STRONG RETURN BEFORE ELECTION OBSERVED

- **Performance of stock market index pre and post elections.** In this study, we went back to past elections of 1999, 2004 (2<sup>nd</sup> round), 2009 and 2014 and calculated the market return 1 month, 3 months, 6 months, 9 months and 1 year before and after the Indonesian presidential election. As the next presidential election will take place on 17 Apr 19, this study will indicate the potential performance of the JCI leading up towards the political year and how it has historically performed post elections.
- **27% return observed in the nine months leading up to the elections.** Historical average of the four rounds indicated that there is a potential 27% average return for investors in the nine months leading up to the presidential election date. Positive return over 10% has been observed in all four rounds with 45%, 21.2%, 28.6% and 13.4% return in 1999, 2004 (2<sup>nd</sup> round), 2009 and 2014 election periods respectively.
- **19% return observed post elections.** Analysis of data post elections indicates that the market historically has delivered an average of 18.8% return in the nine months post election. The -12.1%, 40.9%, 36.9% and 9.5% returns post elections in 1999, 2004 (second round), 2009 and 2014 election periods are not as consistent as the pre election returns.
- **JAKCONS the big winner leading up to past elections.** In making our sector recommendation, we consider the current conditions of purchasing power recovery, relative defensive position, low valuation and historical performance in the period leading up to past elections. We will highlight JAKCONS (Pick: GGRM) which has delivered an average of 40.4% return in the nine months leading up to the presidential elections. Another winner is JAKMIND (Pick: ASII),
- **JAKFIN the consistent winner post elections.** Post elections, JAKFIN index delivered an average 9-month post elections return of 21.5%. The return is consistent with 43.5%, 42.2% and 22.2% return in 2004 (2<sup>nd</sup> round), 2009 and 2014 election periods. Our picks in this sector are BMRI and BBNI.
- **Repositioning for 2019 election should be at end-Jun 18.** Since the period of our analysis is for nine months, we view Jun 18 as the period for repositioning in 2019.

#### TOP BUYS

Ticker	Rec	Price 30 May 18 (Rp)	Target Price (Rp)	Potential Upside (%)
ASII	BUY	7,000	9,200	31.43
BBNI	BUY	8,650	10,800	24.86
BMRI	BUY	7,250	8,850	22.07
GGRM	BUY	68,375	83,000	21.39
LPPF	BUY	9,150	13,400	46.45

Source: Bloomberg, UOB Kay Hian

#### SECTOR RATING

Sector	UOBKH Rating
Automobile	OVERWEIGHT
Cement	MARKET WEIGHT
Construction	OVERWEIGHT
Consumer	OVER WEIGHT
Finance & Banking	MARKET WEIGHT
Oil & Gas	MARKET WEIGHT
Plantation	MARKET WEIGHT
Telco	OVERWEIGHT
Property	MARKETWEIGHT
Retail	OVERWEIGHT

Source: UOB Kay Hian

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#### SELECTED COMPANIES – VALUATION

Ticker	Rec	Price 30 May 18 (Rp)	Target Price (Rp)	Potential Upside (%)	Market Cap (US\$m)	3M Avg Turnover (US\$m)	--- PE --- 2018F (x)	2019F (x)	--- PEG -- 2019 (x)	--- P/B --- 2018F (x)	2019F (x)	ROE 2018F (%)	2019F (%)	Div. Yield 2018F (%)	Net Gearing (%)
ASII	BUY	7,000	9,200	31.43	20,290	16.6	13.4	11.7	0.8	2.1	1.9	16.5	17.4	3.2	27.6
BBNI	BUY	8,650	10,800	24.86	11,549	12.4	10.4	8.9	0.5	1.5	1.3	12.0	12.6	3.0	(31.8)
BMRI	BUY	7,250	8,850	22.07	24,224	23.3	15.0	12.7	0.7	1.9	1.7	13.1	14.2	2.9	(58.2)
GGRM	BUY	68,375	83,000	21.39	9,419	4.4	14.6	12.5	0.7	2.9	2.6	20.3	21.8	3.4	43.3
LPPF	BUY	9,150	13,400	46.45	1,912	3.5	12.0	11.1	1.4	5.6	5.8	77.7	61.0	5.7	(68.0)

Source: UOB Kay Hian

### AVERAGE RETURN PRE ELECTION

	Average Return Pre Election Date						
	1D	1W	1M	3M	6M	9M	1Y
JCI INDEX	2.2%	2.5%	4.3%	12.3%	24.3%	27.0%	29.3%
MXID INDEX	2.5%	3.5%	5.2%	12.1%	25.5%	28.5%	38.3%
LQ45 INDEX	2.3%	2.9%	4.3%	11.6%	21.2%	25.1%	29.3%
	1D	1W	1M	3M	6M	9M	1Y
JAKAGRI INDEX	1.9%	1.9%	1.1%	13.0%	16.9%	23.3%	14.5%
JAKBIND INDEX	2.1%	1.9%	5.0%	13.2%	12.1%	23.0%	14.1%
JAKPROP INDEX	3.9%	5.0%	8.6%	17.8%	60.6%	38.4%	26.7%
JAKCONS INDEX	1.4%	1.7%	5.9%	12.7%	29.8%	40.4%	59.8%
JAKFIN INDEX	3.2%	2.6%	6.2%	8.7%	22.1%	18.5%	24.2%
JAKINFR INDEX	1.7%	3.8%	4.1%	8.8%	15.9%	17.4%	30.8%
JAKMANU INDEX	1.8%	1.9%	5.3%	12.9%	25.4%	32.8%	34.5%
JAKMINE INDEX	2.1%	2.1%	0.9%	26.4%	27.1%	23.6%	34.4%
JAKMIND INDEX	2.1%	2.5%	7.5%	14.8%	36.5%	32.8%	26.5%
JAKTRAD INDEX	2.4%	2.3%	5.5%	9.2%	36.3%	37.4%	46.9%

Source: Bloomberg, UOB Kay Hian

### JAKCONS TOP 5 NAMES

JAKCONS INDEX	Market Cap (US\$ Mn)
HMSP	31,801.8
UNVR	25,420.6
GGRM	9,415.9
ICBP	7,094.6
MYOR	4,752.7

Source: Bloomberg, UOB Kay Hian

### NAMES THAT TRADE BELOW -2SD PE

Ticker	Price					PE (x)									
		2018PE	2019PE	Mid 2019 PE		-2SD	-1SD	Mean	+1SD	+2SD	-2SD	-1SD	Average	+1SD	+2SD
KLBF	1,405	23.3	20.3	21.8	24.4	26.9	29.3	31.7	34.2		YES	YES	YES	NO	NO
ISAT	3,310	13.0	11.4	12.2	12.9	17.0	21.2	25.3	29.4		YES	YES	YES	NO	NO
LPFF	9,900	13.0	12.0	12.5	13.9	17.7	21.4	25.2	28.9		YES	YES	YES	NO	NO
AKRA	4,670	16.7	15.1	15.9	17.2	18.7	20.2	21.7	23.2		YES	YES	YES	NO	NO
PTPP	2,670	7.1	5.7	6.4	7.8	12.2	16.6	21.0	25.4		YES	YES	YES	NO	NO
MIKA	1,655	10.1	7.0	8.6	10.6	14.6	18.5	22.5	26.4		YES	YES	YES	NO	NO
LINK	4,660	11.8	10.2	11.0	11.2	13.8	16.5	19.1	21.8		YES	YES	YES	NO	NO
LPKR	390	10.7	9.6	10.1	10.3	12.8	15.4	18.0	20.5		YES	YES	YES	NO	NO
ADHI	1,945	7.2	4.8	6.0	6.9	9.2	11.6	13.9	16.2		YES	YES	YES	NO	NO
AISA	486	4.3	4.0	4.1	6.6	9.3	12.0	14.7	17.4		YES	YES	YES	NO	NO
TBLA	1,090	5.8	5.3	5.6	5.7	6.3	7.0	7.7	8.4		YES	YES	YES	NO	NO

Source: Bloomberg, UOB Kay Hian

### SELECTED FINANCIAL CURRENT VALUATION

							Mid					PBk (x)					Below	Below	Below	Above	Above
Ticker	Price	BPS 2018	BPS 2019	2018PBk	2019 PBk	2019 PBk	-2SD	-1SD	Mean	+1SD	+2SD	-2SD	-1SD	Average	+1SD	+2SD	-2SD	-1SD	Average	+1SD	+2SD
BBCA	22,850	6,306	6,908	3.6	3.3	3.5	2.7	3.0	3.3	3.7	4.0	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
BDMN	5,950	4,363	4,708	1.4	1.3	1.3	0.6	0.9	1.1	1.4	1.6	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
BUBR	2,100	1,111	1,196	1.9	1.8	1.8	0.4	0.9	1.4	1.9	2.3	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
BBRI	3,250	1,506	1,713	2.2	1.9	2.0	1.6	1.9	2.1	2.4	2.7	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
BMRI	7,375	3,822	4,281	1.9	1.7	1.8	1.3	1.6	1.9	2.2	2.5	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
BBNI	8,575	5,895	6,416	1.5	1.3	1.4	0.9	1.2	1.4	1.7	1.9	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
BNGA	1,055	1,633	1,794	0.6	0.6	0.6	0.3	0.5	0.7	0.9	1.1	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
BTPN	3,600	3,335	3,719	1.1	1.0	1.0	0.2	0.8	1.4	2.0	2.6	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO

Source: Bloomberg, UOB Kay Hian

### AVERAGE RETURN POST ELECTION

	Average Return Post Election Date						
	1D	1W	1M	3M	6M	9M	1Y
JCI INDEX	2.1%	0.5%	6.7%	12.3%	14.3%	18.8%	9.4%
MXID INDEX	2.8%	0.6%	6.5%	12.7%	14.4%	18.3%	7.4%
LQ45 INDEX	2.3%	0.4%	5.6%	11.4%	12.6%	17.6%	7.2%
	1D	1W	1M	3M	6M	9M	1Y
JAKAGRI INDEX	1.4%	-0.7%	1.8%	0.1%	14.2%	10.8%	5.3%
JAKBIND INDEX	1.8%	1.9%	6.1%	14.0%	25.3%	22.7%	9.8%
JAKPROP INDEX	2.9%	2.1%	6.9%	8.1%	15.4%	15.9%	-1.0%
JAKCONS INDEX	1.6%	-0.3%	5.6%	6.8%	12.5%	19.3%	21.1%
JAKFIN INDEX	3.4%	2.5%	6.8%	14.9%	19.9%	21.5%	12.6%
JAKINFR INDEX	1.9%	0.6%	3.8%	16.9%	9.3%	11.4%	2.3%
JAKMANU INDEX	2.2%	0.6%	7.4%	11.1%	17.1%	23.3%	17.4%
JAKMINE INDEX	0.7%	-1.5%	9.9%	11.0%	13.2%	19.1%	7.4%
JAKMIND INDEX	4.0%	1.7%	13.1%	17.8%	20.9%	34.0%	23.7%
JAKTRAD INDEX	1.6%	0.9%	10.5%	17.2%	19.8%	27.8%	14.9%

Source: Bloomberg, UOB Kay Hian

### JAKFIN TOP 5 NAMES

JAKFIN INDEX	Market Cap (US\$ Mn)
BBCA	40,056.4
BBRI	27,720.1
BMRI	24,215.1
BBNI	11,545.3
SMMA	4,466.3

Source: Bloomberg, UOB Kay Hian

### NAMES THAT TRADE BELOW -1SD PE

Ticker	Price					PE (x)									
		2018PE	2019PE	Mid 2019 PE		-2SD	-1SD	Mean	+1SD	+2SD	-2SD	-1SD	Average	+1SD	+2SD
HMSP	3,850	32.2	30.1	31.2	28.9	31.9	34.8	37.8	40.8		NO	YES	YES	NO	NO
ASII	7,175	13.8	11.9	12.8	11.1	12.9	14.6	16.3	18.0		NO	YES	YES	NO	NO
GGRM	69,475	14.9	12.7	13.8	13.7	15.3	17.0	18.7	20.3		NO	YES	YES	NO	NO
ADRO	1,820	7.8	7.8	7.8	6.3	8.5	10.7	12.9	15.1		NO	YES	YES	NO	NO
SCMA	2,380	20.2	18.3	19.2	17.2	20.4	23.6	26.7	29.9		NO	YES	YES	NO	NO
TOWR	2,680	9.7	9.3	9.5	8.3	15.5	22.7	30.0	37.2		NO	YES	YES	NO	NO
WSKT	2,340	11.1	8.6	9.8	6.3	11.8	17.2	22.7	28.2		NO	YES	YES	NO	NO
MIKA	1,900	40.5	36.6	38.6	32.9	40.5	48.0	55.5	63.0		NO	YES	YES	NO	NO
TBIG	5,025	18.4	15.7	17.0	16.7	18.6	20.6	22.6	24.5		NO	YES	YES	NO	NO
SILO	7,175	80.8	60.9	70.8	58.5	87.0	115.5	144.1	172.6		NO	YES	YES	NO	NO
WSBP	404	8.3	7.2	7.7	3.5	8.3	13.2	18.0	22.9		NO	YES	YES	NO	NO
ROTI	1,075	20.6	15.9	18.3	16.9	20.7	24.6	28.4	32.3		NO	YES	YES	NO	NO

Source: Bloomberg, UOB Kay Hian

### JCI FORWARD PE



Source: Bloomberg, UOB Kay Hian



STRATEGY – MALAYSIA

# The Pain Of Suspense

Yesterday, the prime minister made a surprise announcement to scrap the MRT3 project (against consensus expectation of a project deferral), which precipitated another broad market meltdown. Foreign investors continue to flee the Malaysian bourse following the general election. Nevertheless, while investors are still held in suspense over the government's decision on tolled expressways, the sell-down is overdone, judging by our trough valuation analysis. Compelling trades include CIMB and TM. Significantly downtrodden mid caps include CMS, MYEG and MRCB.

## WHAT'S NEW

- **Painful reaction to scrapping MRT3.** A man in a hurry, prime minister Tun Mahathir announced more measures following the second cabinet meeting of the newly-formed Pakatan Harapan (PH) government (see RHS table). A surprise was the scrapping of MRT3, given that the MRT project is seen as an essential public good, and there has been wide public approval of MRT1. Fears continue to play on the government's high indebtedness, with the government potentially invoking expropriation clause on tolled road concessionaires, and potential economic ramifications of sharp pullbacks from mega projects. The market plunged 3.2% for the day, after falling 1.3% in the prior trading day.
- **Awaiting the government's high stake decision on tolled expressways.** Investors continue to be held in suspense on the government's impending decision on tolled expressways. Recall that PH's election manifesto called for the cessation of tolling, and that the cabinet had targeted to make a decision this week (on whether to cease tolling, and if so, how to compensate the concessionaires).
- **Maintaining sanctity of contracts should trigger a relief rally.** Judging by the steep selloffs of major construction companies with tolled expressways (IJM and Gamuda), to below our assessed trough valuations, the market appears to have over-bearishly priced in a good probability that the government would invoke expropriation clauses in the concession agreements and significantly undercompensate the concessionaires. Nevertheless, we expect the government to undertake a more pragmatic solution which would be acceptable to the capital market, being fully aware that shortchanging the toll concessionaires would broaden investor concerns well beyond the construction sector.

## ACTION

- **Looking to revise down year-end FBMKLCI target amid a sombre 1Q18 reporting season.** There is downside to our 2018 target of 1,830 (based on 15.7x 2019F PE) given that the 1Q18 reporting season has disappointed, particularly in the telco industry. We will officially introduce our new FBMKLCI target after the reporting season ends today.
- **Favourite downtrodden stocks to accumulate** include large-caps CIMB and TM, and mid-caps CMS, MYEG and MRCB.

## STOCK PICKS

Company	Ticker	Rec	Price 30 May 18 (RM)	Target Price (RM)	Market Cap (US\$m)	PE			P/B			Div Yield 2018F (%)
						2017 (x)	2018F (x)	2019F (x)	2017 (x)	2018F (x)	2019F (x)	
<b>Large Cap</b>												
Astro	ASTRO MK	BUY	1.36	2.21	1,778	10.4	10.5	10.1	10.8	9.8	9.0	8.6
CIMB	CIMB MK	BUY	5.90	7.40	13,852	11.6	10.3	9.7	1.1	1.1	1.0	4.8
Telekom Malaysia	T MK	BUY	3.63	5.30	3,420	15.0	23.6	13.5	1.7	1.7	1.6	4.0
<b>Mid Cap</b>												
CMS	CMS MK	BUY	2.30	4.00	619	9.4	7.9	7.8	1.1	1.0	0.9	5.1
MyEG	MYEG MK	BUY	0.765	1.06	684	12.9	11.3	9.2	5.0	3.8	2.9	2.7
MRCB	MRC MK	BUY	0.57	1.01	627	10.0	17.0	13.7	0.5	0.5	0.5	3.5

Source: UOB Kay Hian

CURRENT FBMKLCI: 1,719

TARGET END-18 FBMKLCI: 1,830

## KEY ANNOUNCEMENTS BY PRIME MINISTER

- HSR and MRT3 are scrapped
- No decision yet on ECRL
- Sales & Services Tax (SST) to take effect from 1 Sep 18
- Prices of RON 97 will be floated based on market prices while prices of diesel and RON95 are fixed
- To set up a special fund called Tabung Harapan Malaysia whereby the rakyat can donate to MoF to aid the government coffers
- Civil servants under Grade 41 and below will receive RM400 bonus while retirees will be given RM200

Source: Various media

## ANALYST(S)

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## COMPANY RESULTS

### CIMB Group (CIMB MK)

1Q18: Opportunity To Accumulate On Sentiment-driven Selldown

**CIMB reported 1Q18 results that were below expectations due to higher marked-to-market trading losses. Management has retained its guidance for a sequentially stronger 2H18 as loans growth gains momentum. However, we trim our earnings forecasts to factor in a more conservative fee income and NIM outlook. This prompts us to trim our target price to RM7.40 (1.33x 2018F P/B, 10.2% ROE). Maintain BUY as sentiment-driven selldown has the stock trading at an attractive -1SD P/B and PE.**

#### RESULTS

- **Marginally below.** The group's 1Q18 core earnings, excluding a RM153.2m one-off gain from the stake disposal of CIMB Securities International of RM1,190.2m (+0.8% yoy and +12.2% qoq), were marginally below - representing 23% of our full-year estimate. This was attributed to lower trading income (-25.2% yoy) on the back of marked-to-market losses and forex translation impact on net interest income from its overseas operations.
- **Cost-to-income ratio improved on the back of deconsolidation of CIMB Securities.** Cost-to-income ratio improved 110bp yoy to 51.6% post deconsolidation of CIMB Securities International which led to a corresponding 6.7% yoy decline in opex.
- **Non-interest income impacted by higher unrealised trading losses.** Encouragingly, despite the deconsolidation of CIMB Securities brokerage revenue, overall fee income expanded 4.2% yoy on the back of strong commission income growth of 36.1% yoy. However, due to the weak trading income (-25.4% yoy) on higher marked-to-market losses on derivative instruments, overall non-interest income decline 7.9% yoy.
- **NIM improved qoq on OPR hike but down yoy due to pressure from Niaga.** NIM increased 4bp qoq, supported largely by the recent 25bp OPR hike. However, the 60bp contraction in CIMB Niaga's NIM resulted in a 15bp yoy compression in group NIM. 2H18 compression should moderate downwards due to the base effect. As such, we are forecasting a lower full-year NIM compression of 6bp vs 1Q18's -15bp.
- **Taking a more conservative stance on fee income and NIM forecasts.** The heightened capital market volatility and risk aversion post GE14 coupled with external developments could partially impact the execution of its investment banking pipeline, prompting us to tone down our fee income growth forecast for 2018/19 to 6%/7% respectively (previously: 9%/10% respectively (2017: +11%). In terms of NIM forecast, we have reduced our assumption by 2bp to factor in the potential headwinds from Bank Indonesia's recent rate hike which could persist in the near to medium term as it seeks to stabilise the rupiah. Excess domestic liquidity in Indonesia coupled with competition for higher quality loans could place some pressure on NIMs with the transmission mechanism possibly favouring a faster upward re-pricing of deposits vs loans.
- **Improving asset quality trend.** Gross impaired loans (GIL) balance improved 4.4% qoq with the improvement coming from Indonesia (-14.4% qoq) while asset quality in Malaysia was broadly stable. Consequently, GIL ratio improved 20bp qoq to 3.2% in 1Q18. Credit cost declined to 49bp in 1Q18 from 71bp in 4Q17 on the back of improving asset quality trends in Indonesia. We are retaining our full-year forecast of 56bp vs management's guidance of 50bp to 60bp.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net interest income	9,826	10,459	10,794	11,409	12,077
Non-interest income	4,386	4,997	5,308	5,666	6,065
Net profit (rep./act.)	3,564	4,475	5,217	5,736	6,254
Net profit (adj.)	3,564	4,475	5,217	5,736	6,254
EPS (sen)	41.8	50.7	57.2	60.8	64.3
PE (x)	14.1	11.6	10.3	9.7	9.2
P/B (x)	1.1	1.1	1.1	1.0	1.0
Dividend yield (%)	3.4	4.2	4.8	5.2	5.4
Net int margin (%)	2.7	2.8	2.7	2.7	2.6
Cost/income (%)	54.4	51.9	51.2	50.6	50.0
Loan loss cover (%)	79.8	70.5	68.2	65.7	63.7
Consensus net profit	-	-	5,280	5,831	6,176
UOBKH/Consensus (x)	-	-	0.98	0.98	1.01

Source: CIMB Group, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM5.90
Target Price	RM7.40
Upside	+25.4%
(Previous TP)	RM7.80)

#### COMPANY DESCRIPTION

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups

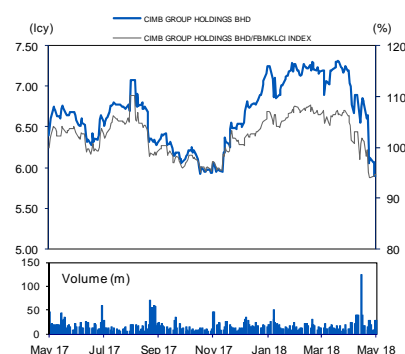
#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	CIMB MK
Shares issued (m):	9,365.8
Market cap (RMm):	55,258.2
Market cap (US\$m):	13,852.6
3-mth avg daily t'over (US\$m):	31.6

#### Price Performance (%)

52-week high/low				RM7.31/RM5.90
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(18.1)	(17.9)	(2.5)	(5.8)	(9.8)
<b>Major Shareholders</b>				<b>%</b>
Khazanah Nasional Berhad				28.6
Employees Provident Fund Board				12.9
FY18 NAV/Share (RM)				5.59
FY18 CAR Tier-1 (%)				14.40

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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• **Impact of MFRS9.** Day 1 adoption of MFRS9 resulted in a 28% yoy increase in provisions taken through the balance sheet via retained earnings which consequently led to a 70bp qoq decline in fully-loaded CET1 to 11.7% as its regulatory reserves were not sufficient to fully meet the higher provisions and BNM's minimum impairment + provisions buffer equivalent to 1.0% of Stage 1 and Stage 2 loan exposure at default. Post adoption of MFRS9, the group's loans loss coverage ratio has increased to 90.2% (105.3% inclusive of regulatory reserves) vs 70.5% and 84.1% in 4Q17. As expected, credit cost declined yoy despite the adoption of MFRS9 as CIMB Niaga's provision continues to trend downwards from a high base.

• **CET1 on schedule.** Despite the 70bp negative impact on CET1 from MFRS9, the group is on schedule to meet its 12% CET1 target by end-18 given the CET1 level of 11.7% in 1Q18. Recall that the group's initial target was to reach 11.5% by end-17, before the inclusion of the impact from MFRS9.

#### EARNINGS REVISION/RISK

• We have lowered our 2018/19/20 earnings forecasts by 4%/5%/5% respectively, factoring in more conservative fee income growth assumptions due to heightened capital market risk aversion and lower NIMs as Bank Indonesia's recent rate hike stance to help stabilise the rupiah could place some pressure on CIMB Niaga's NIMs.

#### VALUATIONS AND RECOMMENDATIONS

• **Maintain BUY with lower Gordon Growth-derived target price of RM7.40 (1.33x 2018F P/B, 10.2% ROE)** post earnings forecast revisions. Despite our earnings revision to price in a more conservative earnings outlook given the latest developments of a more volatile capital market environment and potentially weaker-than-expected NIM from CIMB Niaga, we believe that the selldown has been excessive with current valuations trading at -1SD on a P/BV and PE basis. The stock continues to trade at an attractive 10.3x 2018F PE (5-year historical mean of 13.3x) and 1.06x 2018F P/B vs historical mean of 1.20x.

#### 1Q18 RESULTS

Profit & Loss (RMm)	1Q18	1Q17	yoy % chg	4Q17	qoq % chg	Remarks
Net Interest Income	2,419.8	2,645.5	(8.5)	2,526.4	(4.2)	NIM compression of 15bp from lower NIM in Niaga and weak loans growth of 0.5% yoy.
Islamic Banking	590.9	51	24.7	614.0	(3.8)	
Fees & Commissions	732.9	698.7	4.9	818.6	(10.5)	Strong commission, service charges partly offset by lower brokerage revenue from the deconsolidation of CIMB Securities International's brokerage revenue
Net Trading Income	(224.1)	213.2	(205.1)	91.7	(344.5)	Higher marked to market derivative financial instruments losses
Other Operating Income	630.5	326.5	93.1	429.2	46.9	Higher forex income
Total Income	4,150.0	4,357.8	(4.8)	4,479.8	(7.4)	
Operating Expenses	(2,141.1)	(2,295.7)	(6.7)	(2,307.8)	(7.2)	Aided by deconsolidation of CIMB securities opex and lower group wide G&A expense.
PPOP	2,008.9	2,062.1	(2.6)	2,172.0	(7.5)	
Allowance for impairment on loans	(401.3)	(424.5)	(5.5)	(578.1)	(30.6)	Credit cost declined marginally to 71bp in 4Q17 vs 73bp in 3Q17 bringing FY17 net credit cost to 69bp
Impairment on securities	(23.8)	(30.9)	(23.1)	(97.7)	(75.6)	
PBT	1,588.7	1,613.6	(1.5)	1,535.4	13.5	
Net Profit	1,190.2	1,180.3	0.8	1,060.2	23.2	Marginally below
EPS (sen)	14.4	13.0	10.6	11.7	23.2	
DPS (sen)	0.0	0.0	n.a.	12.0	n.a.	
BVPS (RM)	5.21	5.19	0.4	5.35	(2.7)	
Financial Ratios (%)	1Q18	1Q17	yoy % chg	4Q17	qoq % chg	
NIM	2.55	2.73	(0.18)	2.68	(0.13)	NIM compression of 60bp at CIMB Niaga
Loan Growth, yoy	0.5	0.2	0.32	(0.5)	1.03	Overall loans growth of 5.3% driven mainly by Malaysia which expanded 7.9% yoy. Thailand and Indonesia grew at 4.0% and 1.8% yoy respectively.
Deposit Growth, yoy	1.5	4.6	(3.05)	0.6	0.95	
Loan/Deposit Ratio	89.5	90.0	(0.51)	90.8	(1.35)	Deposits grew at a faster 7.0% pace vs loans growth with Malaysia and Indonesia underpinning the growth at 8.9% and 8.8% respectively
Cost/Income Ratio	51.6	52.7	(1.09)	51.5	0.08	
ROE	10.0	10.2	0.72	8.8	2.16	10.0% core 1Q18 ROE broadly in line with our 10.2% full year forecast
NPL Ratio	3.2	3.2	0.05	3.4	(0.17)	Stable
Credit Costs (bp)	49.2	52.3	(3.08)	71.3	(22.07)	Lower from improved asset quality at CIMB Niaga
Loan Loss Coverage	90.2	79.6	10.60	70.5	19.71	
CET-1 CAR	11.7	11.3	0.39	11.9	(0.18)	Fully loaded at a comfortable 11.7%

Source: CIMB Group, UOB Kay Hian

#### TARGETS FOR 2018 & 2017 ACHIEVEMENT

(%)	2018 Target	2017 Target	2017
ROE	10.5	9.5	9.6
Dividend Payout	40-60	40-60	51
Total Loan Growth *	6.0	7.0	0.2
Loan Loss charge (bps)	55-60	60-65	69
Cost to Income Ratio	50	< 53	<51.8
CET1	12.0	>11.5	12.2

\* Excluding bad bank

Source: CIMB Group

#### KEY ASSUMPTIONS

(%)	2018F	2019F	2020F
Loan Growth	6.0	6.5	7.2
NIM	2.70	2.66	2.62
Credit Cost (bp)	56.0	52.0	50.0
ROE	10.2	10.6	10.9

Source: UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Interest income	19,509	20,875	22,406	24,041
Interest expense	(9,050)	(10,081)	(10,997)	(11,964)
Net interest income	10,459	10,794	11,409	12,077
Fees & commissions	3,000	3,180	3,435	3,744
Other income	1,997	2,128	2,232	2,321
Non-interest income	4,997	5,308	5,666	6,065
Income from Islamic banking	2,132	2,302	2,487	2,685
<b>Total income</b>	<b>17,588</b>	<b>18,405</b>	<b>19,561</b>	<b>20,827</b>
Staff costs	(5,255)	(5,423)	(5,683)	(6,001)
Other operating expense	(3,879)	(3,998)	(4,215)	(4,416)
Pre-provision profit	8,455	8,984	9,664	10,410
Loan loss provision	(2,231)	(1,925)	(1,904)	(1,950)
Other provisions	(165)	0	1	2
Associated companies	13	0	0	0
Other non-operating income	38	0	0	0
Pre-tax profit	6,110	7,059	7,761	8,462
Tax	(1,502)	(1,735)	(1,908)	(2,080)
Minorities	(133)	(106)	(117)	(128)
<b>Net profit</b>	<b>4,475</b>	<b>5,217</b>	<b>5,736</b>	<b>6,254</b>
Net profit (adj.)	4,475	5,217	5,736	6,254

**BALANCE SHEET**

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Cash with central bank	8,630	12,032	12,814	13,647
Govt treasury bills & securities	14,131	14,414	14,702	14,996
Interbank loans	4,055	4,424	4,827	5,266
Customer loans	316,557	335,038	356,336	378,958
Investment securities	76,851	86,837	97,990	110,447
Derivative receivables	8,448	9,462	10,597	11,869
Associates & JVs	260	273	287	301
Fixed assets (incl. prop.)	1,992	1,867	1,739	1,610
Other assets	75,575	84,420	94,263	105,222
<b>Total assets</b>	<b>506,500</b>	<b>548,766</b>	<b>593,555</b>	<b>642,317</b>
Interbank deposits	19,752	20,373	21,019	21,690
Customer deposits	348,518	369,429	392,334	417,836
Derivative payables	14,874	15,556	16,270	17,018
Debt equivalents	27,429	27,429	27,429	27,429
Other liabilities	46,121	63,460	80,914	99,312
<b>Total liabilities</b>	<b>456,693</b>	<b>496,247</b>	<b>537,965</b>	<b>583,284</b>
Shareholders' funds	48,445	51,052	54,006	57,320
Minority interest - accumulated	1,361	1,467	1,584	1,712
<b>Total equity &amp; liabilities</b>	<b>506,500</b>	<b>548,766</b>	<b>593,555</b>	<b>642,317</b>

**OPERATING RATIOS**

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Capital Adequacy</b>				
Tier-1 CAR	13.9	14.4	14.3	14.2
Total CAR	19.8	20.5	20.1	19.7
Total assets/equity (x)	10.5	10.7	11.0	11.2
Tangible assets/tangible common equity (x)	12.9	13.1	13.3	13.4
<b>Asset Quality</b>				
NPL ratio	3.4	3.7	4.1	4.4
Loan loss coverage	70.5	68.2	65.7	63.7
Loan loss reserve/gross loans	2.4	2.5	2.7	2.8
Increase in NPLs	3.3	16.3	16.4	15.6
Credit cost (bp)	75.7	56.0	52.0	50.0
<b>Liquidity</b>				
Loan/deposit ratio	90.8	90.7	90.8	90.7
Liquid assets/short-term liabilities	7.2	7.9	7.8	7.7
Liquid assets/total assets	5.3	5.6	5.4	5.3

**KEY METRICS**

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Growth</b>				
Net interest income, yoy chg	6.4	3.2	5.7	5.9
Fees & commissions, yoy chg	10.9	6.0	8.0	9.0
Pre-provision profit, yoy chg	16.4	6.3	7.6	7.7
Net profit, yoy chg	25.6	16.6	9.9	9.0
Net profit (adj.), yoy chg	25.6	16.6	9.9	9.0
Customer loans, yoy chg	0.4	5.8	6.4	6.3
Customer deposits, yoy chg	5.1	6.0	6.2	6.5
<b>Profitability</b>				
Net interest margin	2.8	2.7	2.7	2.6
Cost/income ratio	51.9	51.2	50.6	50.0
Adjusted ROA	0.9	1.0	1.0	1.0
Reported ROE	9.5	10.5	10.9	11.2
Adjusted ROE	9.5	10.5	10.9	11.2
<b>Valuation</b>				
P/BV (x)	1.1	1.1	1.0	1.0
P/NTA (x)	1.4	1.3	1.3	1.2
Adjusted P/E (x)	11.6	10.3	9.7	9.2
Dividend Yield	4.2	4.8	5.2	5.4
Payout ratio	49.3	50.0	50.0	50.0

## COMPANY RESULTS

### Hong Leong Bank (HLBK MK)

3QFY18: Lower Credit Cost And Lumpy Trading Gains

HLBK's 3QFY18 performance was ahead of expectation. Lower-than-expected credit cost and lumpy trading gains were the key upside surprises. Maintain HOLD with a higher target price of RM19.90 (1.63x FY19F P/B, 10.5% ROE) post earnings forecast revision. Despite a relatively solid earnings performance, we believe current valuations at 14.4x FY19F PE and 1.52x FY19F P/B fully reflect the scarcity premium associated with the stock's solid asset quality franchise. Entry level: RM18.00.

#### RESULTS

- Above – Boosted by lower provisions and lumpy trading gains.** 3QFY18 earnings of RM690.1m (+21.2% yoy and +1.1% qoq) were 8% and 12% above consensus and our estimates respectively. Key areas of positive earnings surprises were: a) lower than expected net credit cost of at 4bp vs our estimate of 9bp; and b) a lumpy net trading gain of RM121.8m from financial derivative instruments vs RM14.2m in 3QFY17. However, net interest income and fee income trends were weak with net interest income contracting 1.8% yoy on the back of a 3bp compression in NIM despite the recent 25bp OPR hike due to higher-than-expected funding cost from aggressive fixed deposit build-up. Fee income expanded a modest 1.1% yoy with lower credit card fee income (-6.5% yoy) being a key drag. As such, we note that 3QFY18's PPOP growth of 17.1% yoy may not be sustainable given that it was driven largely by volatile trading income.
- Loans growth below targets.** 9MFY18 annualised loans growth was relatively sluggish, expanding 0.3% yoy and flattish qoq in the period. The drag came from working capital loans (-6.8% yoy), auto loans (-4.5% yoy). Mortgage was the only key loans growth driver (+7.8% yoy). However this comes at the expense of structurally lower yields and hence NIM. Management is now targeting slower loans growth of 3% (vs initial 4% to 5%) due to potentially weaker-than-expected corporate loans pipeline.
- Asset quality remains intact.** The group reported a 13.1% qoq decline in gross impaired loans (GIL) balance resulting in GIL ratio declining to 0.84% in 3QFY18 vs 0.97% in 2QFY18. The stable asset quality trend coupled with lumpy recoveries in 3QFY18 resulted in significantly lower net credit cost of 4bp in 3QFY18 and 7.0p for 9MFY18 (the group's LLC inclusive of regulatory reserve remained stable at 151% in 3QFY18 which does indicate that there should be minimal capital impact on the group upon the adoption of MFRS9 (-20bp). The group will be adopting MFRS9 in FY19.
- Bank of Chengdu earnings growth trend plateauing but remains commendable.** Bank of Chengdu registered a 16.5% yoy earnings growth on the back of lower provisions as its GIL ratio declined 39bp to 1.69%. That said, we note that yoy growth from Bank of Chengdu has moderated to 16.5% in 3QFY18 vs 9MFY18's 67% yoy growth on the back of a higher base effect. Moving into FY19, we are forecasting a much milder 11% yoy growth in Bank of Chengdu's contribution to HLBK vs 52% yoy growth for FY18 as provision trends normalises while loans growth remains tepid at 4.0% yoy.

#### KEY FINANCIALS

Year to 30 Jun (RMm)	2016	2017	2018F	2019F	2020F
Net interest income	2,655	2,854	2,916	2,977	3,029
Non-interest income	1,055	1,146	1,315	1,331	1,379
Net profit (rep./act.)	1,903	2,145	2,544	2,670	2,806
Net profit (adj.)	1,903	2,248	2,544	2,670	2,806
EPS (sen)	91.6	108.2	122.4	128.5	135.0
PE (x)	20.3	17.2	15.2	14.5	13.8
P/B (x)	1.8	1.7	1.6	1.5	1.4
Dividend yield (%)	2.2	2.4	3.0	3.1	3.3
Net int margin (%)	1.8	1.9	1.9	1.9	1.9
Cost/income (%)	49.9	44.1	42.6	42.2	42.0
Loan loss cover (%)	119.8	96.0	92.1	103.1	108.5
Consensus net profit	-	-	2,546	2,715	2,943
UOBKH/Consensus (x)	-	-	1.00	0.98	0.95

Source: Hong Leong Bank, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	RM18.60
Target Price	RM19.90
Upside	+7.0%
(Previous TP)	RM19.40)

#### COMPANY DESCRIPTION

This is fourth largest bank in term of asset size focusing on retail banking with presence in China through 20%-owned Bank of Chengdu.

#### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	HLBK MK
Shares issued (m):	2,045.6
Market cap (RMm):	38,048.2
Market cap (US\$m):	9,538.3
3-mth avg daily t'over (US\$m):	4.4

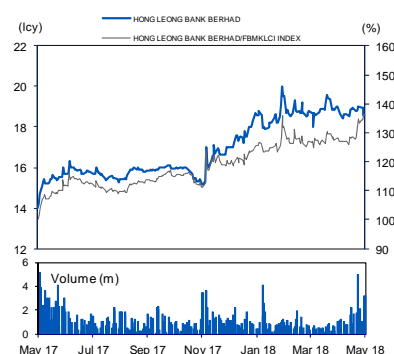
#### Price Performance (%)

52-week high/low		RM20.02/RM14.02		
1mth	3mth	6mth	1yr	YTD
(2.1)	(7.1)	22.9	33.2	94

#### Major Shareholders

	%
Hong Leong Financial Group Berhad	63.5
Employees Provident Fund Board	12.8
FY18 NAV/Share (RM)	11.55
FY18 CAR Tier-1 (%)	14.01

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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### EARNINGS REVISION/RISK

- Factoring in 3QFY18's lumpy trading gains and lower credit cost given the stronger-than-expected asset quality trends, we raise our FY18/19/20 earnings forecasts by 5.8%/4.2%/4.5% respectively.

### VALUATION

- Maintain HOLD with higher target price of RM19.90 (1.63x FY19F P/B, 10.5% ROE)** post earnings revision. Despite a relatively solid earnings performance, we believe current valuations at 14.4x FY19F PE and 1.52x FY19F P/B have fully reflected the scarcity premium associated to the stock's solid asset quality and liquidity franchise. Note that the sector average P/B is at a lower 1.40x P/B despite generating similar ROE levels as HLBank.

### KEY ASSUMPTIONS

(%)	2018F	2019F	2020F
Gross Loan Growth	4.0	5.5	6.0
ROE	10.6	10.5	10.5
Credit Cost (bp)	7.0	9.0	11.0

Source: UOB Kayhian

### 3QFY18 RESULTS

Profit & Loss (RMm)	3QFY18	3QFY17	yoy % chg	9MFY18	yoy % chg	Remarks
Net Interest Income	713.5	726.4	(1.8)	2,202.7	3.6	Impacted by 3bp NIM compression from higher funding cost
Islamic Banking	166.7	139.3	19.7	483.3	18.7	
Fees & Commissions	147.6	146.0	1.1	438.2	(4.4)	Lower credit card and loans disbursement fee income
Trading income	188.4	71.4	163.9	453.3	85.9	Higher marked to market derivative financial instrument gains
Other income	39.8	40.7	(2.2)	85.8	(47.6)	Lower forex income
	1,256.1	1,123.7	11.8	3,663.3	7.8	
Total Income						
Operating Expenses	(526.6)	(500.9)	5.1	-1,549.6	3.8	Manageable cost increase as staff cost remained relatively flat (+1.0% yoy) which helped to partially offset a 17% rise in establishment cost driven by higher depreciation and IT cost.
PPOP	729.4	622.9	17.1	2,113.6	10.9	
Credit Costs	(11.0)	(43.5)	(74.7)	-64.3	(33.4)	Net credit cost remains low at 4bp in 3QFY18 due to lumpy recoveries
Associate	136.7	117.6	16.2	419.3	62.2	Strong growth from Bank of Chengdu
PBT	855.1	697.0	22.7	2,468.6	19.4	
Net profit	690.0	569.5	21.2	2,012.1	21.1	Above due to lower than expected net credit cost and lumpy marked to market trading gains
EPS (sen)	31.8	26.3	21.2	92.8	21.1	
DPS (sen)	16.0	15.0	6.7	16.0	6.7	
BVPS (RM)	10.77	10.19	5.7	10.77	5.7	
Financial Ratios (%)	3QFY18	2QFY18	qoq chg (ppt)	3QFY17	yoy chg (ppt)	Remarks
NIM	1.90	1.96	(0.06)	1.93	(0.04)	
Loan Growth, yoy	(0.1)	0.6	(0.65)	0.1	(0.18)	Impacted by weak working capital loans growth.
Deposit Growth, yoy	(0.7)	1.7	(2.46)	1.1	(1.79)	
Loan/Deposit Ratio	80.7	80.1	0.60	80.3	0.33	
Cost/Income Ratio	41.9	42.0	(0.06)	44.6	(2.64)	
ROE	11.9	11.7	0.11	10.4	1.49	
NPL Ratio	0.8	1.0	(0.12)	0.9	(0.04)	
Credit Costs (bp)	4.0	13.4	3.18	14.9	1.61	Lower due to lumpy recoveries in 3QFY18
Loan Loss Coverage	96.0	96.0	0.03	105.6	(9.53)	Inclusive of regulatory reserve LLC stood at 162%
CET-1 CAR	12.0	13.1	(1.08)	12.7	(0.67)	Fully loaded CET1 for the group at 12.0%

Source: HL Bank, UOB Kay Hian



### PROFIT & LOSS

Year to 30 Jun (RMm)	2017	2018F	2019F	2020F
Interest income	6,163	6,396	6,667	6,916
Interest expense	(3,309)	(3,480)	(3,691)	(3,886)
Net interest income	2,854	2,916	2,977	3,029
Fees & commissions	609	597	621	646
Other income	537	718	710	733
Non-interest income	1,146	1,315	1,331	1,379
Income from Islamic banking	550	644	747	859
<b>Total income</b>	<b>4,551</b>	<b>4,874</b>	<b>5,055</b>	<b>5,267</b>
Staff costs	(1,112)	(1,168)	(1,203)	(1,263)
Other operating expense	(895)	(911)	(930)	(950)
Pre-provision profit	2,543	2,795	2,922	3,054
Loan loss provision	(161)	(93)	(127)	(165)
Other provisions	2	0	1	1
Associated companies	364	553	620	700
Pre-tax profit	2,748	3,256	3,415	3,590
Tax	(603)	(715)	(750)	(788)
Minorities	0	3	4	4
<b>Net profit</b>	<b>2,145</b>	<b>2,544</b>	<b>2,670</b>	<b>2,806</b>
Net profit (adj.)	2,248	2,544	2,670	2,806

### BALANCE SHEET

Year to 30 Jun (RMm)	2017	2018F	2019F	2020F
Cash with central bank	3,738	4,012	4,273	4,538
Govt treasury bills & securities	33,342	34,676	36,063	37,506
Interbank loans	827	868	911	957
Customer loans	123,991	131,521	140,012	148,653
Investment securities	13,061	13,648	14,263	14,904
Derivative receivables	953	953	953	953
Associates & JVs	3,636	3,636	3,636	3,636
Fixed assets (incl. prop.)	1,423	1,480	1,539	1,601
Other assets	14,581	14,780	15,303	15,853
<b>Total assets</b>	<b>195,553</b>	<b>205,574</b>	<b>216,954</b>	<b>228,601</b>
Interbank deposits	5,487	5,788	6,136	6,504
Customer deposits	155,233	162,995	171,145	178,846
Derivative payables	1,406	1,518	1,640	1,771
Debt equivalents	2,918	2,916	2,915	2,915
Other liabilities	7,824	8,362	9,751	11,756
<b>Total liabilities</b>	<b>172,867</b>	<b>181,579</b>	<b>191,586</b>	<b>201,791</b>
Shareholders' funds	22,685	23,994	25,365	26,806
Minority interest - accumulated	0	2	3	3
<b>Total equity &amp; liabilities</b>	<b>195,553</b>	<b>205,574</b>	<b>216,954</b>	<b>228,601</b>

### OPERATING RATIOS

Year to 30 Jun (%)	2017	2018F	2019F	2020F
<b>Capital Adequacy</b>				
Tier-1 CAR	12.7	14.0	14.2	14.5
Total CAR	14.7	14.4	14.6	14.9
Total assets/equity (x)	8.6	8.6	8.6	8.5
Tangible assets/tangible common equity (x)	9.4	9.3	9.2	9.1
<b>Asset Quality</b>				
NPL ratio	1.0	0.9	0.9	0.9
Loan loss coverage	96.0	92.1	103.1	108.5
Loan loss reserve/gross loans	0.9	0.9	0.9	0.9
Increase in NPLs	25.8	2.4	(0.3)	3.9
Credit cost (bp)	12.9	7.0	9.0	11.0
<b>Liquidity</b>				
Loan/deposit ratio	79.9	80.7	81.8	83.1
Liquid assets/short-term liabilities	23.5	23.4	23.2	23.1
Liquid assets/total assets	19.4	19.2	19.0	18.8

### KEY METRICS

Year to 30 Jun (%)	2017	2018F	2019F	2020F
<b>Growth</b>				
Net interest income, yoy chg	7.5	2.2	2.1	1.8
Fees & commissions, yoy chg	(1.2)	(2.0)	4.0	4.0
Pre-provision profit, yoy chg	21.6	9.9	4.5	4.5
Net profit, yoy chg	12.7	18.6	4.9	5.1
Net profit (adj.), yoy chg	18.1	13.2	4.9	5.1
Customer loans, yoy chg	3.8	6.1	6.5	6.2
Customer deposits, yoy chg	4.5	5.0	5.0	4.5
<b>Profitability</b>				
Net interest margin	1.9	1.9	1.9	1.9
Cost/income ratio	44.1	42.6	42.2	42.0
Adjusted ROA	1.2	1.3	1.3	1.3
Reported ROE	9.8	10.9	10.8	10.8
Adjusted ROE	10.3	10.9	10.8	10.8
<b>Valuation</b>				
P/BV (x)	1.7	1.6	1.5	1.4
P/NTA (x)	1.9	1.8	1.7	1.6
Adjusted P/E (x)	17.2	15.2	14.5	13.8
Dividend Yield	2.4	3.0	3.1	3.3
Payout ratio	43.6	45.0	45.0	45.0

## COMPANY RESULTS

### Malaysian Resources Corporation (MRC MK)

1Q18: Benefits From Deleveraging; Upgrade To BUY.

1Q18 results are considered in line to meet full-year expectations as we expect substantially stronger quarters ahead. The huge sell-off (-43% since GE14, -51% ytd) reflects over-bearish sentiment on the impact of the new government's belt tightening on mega projects, and ignores the deep value from the company's strengthened balance sheet and ability to substantially enhance value in its partnership with substantial shareholder EPF. Upgrade to BUY but with a lower target price of RM1.01.

#### 1Q18 RESULTS

Year to 31 Dec (RMm)	1Q18	4Q17	qoq % chg	yoy % chg
Revenue	427.6	408.2	4.8	(17.7)
Construction	191.1	159.5	19.8	(17.4)
Property Development	220.4	198.0	11.3	(7.2)
Infrastructure	0.7	28.9	(97.5)	(97.5)
Others	15.4	21.8	(29.7)	(31.9)
EBIT	27.4	122.6	(77.6)	(58.3)
Construction	16.0	46.1	(65.3)	1,176.2
Property Development	24.1	63.5	(61.9)	(49.5)
Infrastructure	(1.3)	13.5	(109.7)	(107.5)
Others	(11.4)	(0.5)	2,229.6	1,339.5
Net Finance Cost	4.0	7.7	(48.2)	(114.2)
Associates & JV	10.7	10.8	(1.2)	(1,036.9)
PBT	30.6	131.6	(76.8)	13.3
PATMI	21.5	102.4	(79.0)	149.7
Core PATMI	21.5	41.6	(48.3)	149.7
EBIT Margin	%	%	ppt chg	ppt chg
Construction	8.4	28.9	(20.6)	7.8
Property	11.0	32.1	(21.1)	(9.2)
Core PATMI Margin	5.0	10.2	(5.2)	3.4

Source: MRCB, UOB Kay Hian

#### RESULTS

- **Within expectations.** While Malaysian Resources Corporation's (MRCB) core net profit of RM22m (-48% qoq, +150% yoy) represents only 14.6% of our full-year forecast, we expect stronger earnings in the quarters ahead. The significant yoy profit improvement reflects lower finance costs (after rights issue) and the absence of EDL highway's losses following the government direct non-tolling of EDL highway.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2016	2017	2018F	2019F	2020F
Net turnover	2,408	2,824	1,956	2,555	3,010
EBITDA	536	401	308	357	387
Operating profit	513	369	271	320	351
Net profit (rep./act.)	244	250	147	182	206
Net profit (adj.)	64	250	147	182	206
EPS (sen)	3.9	5.7	3.4	4.2	4.7
PE (x)	14.7	10.0	17.0	13.7	12.2
P/B (x)	0.3	0.5	0.5	0.5	0.5
EV/EBITDA (x)	10.5	14.0	18.3	15.7	14.5
Dividend yield (%)	3.5	3.5	3.5	3.5	3.5
Net margin (%)	10.1	8.8	7.5	7.1	6.8
Net debt/(cash) to equity (%)	76.3	62.4	61.1	57.4	55.6
Interest cover (x)	3.5	4.4	7.1	8.2	9.2
ROE (%)	9.4	6.4	3.0	3.7	4.0
Consensus net profit	-	-	168	216	273
UOBKH/Consensus (x)	-	-	0.87	0.84	0.75

Source: MRCB, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	RM0.57
Target Price	RM1.01
Upside	+77.2%
(Previous TP)	RM1.10)

#### COMPANY DESCRIPTION

Property and construction company known for developing KL Sentral, an integrated development within a world class transportation hub.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	MRC MK
Shares issued (m):	4,390.8
Market cap (RMm):	2,502.7
Market cap (US\$m):	627.4
3-mth avg daily t'over (US\$m):	3.7

#### Price Performance (%)

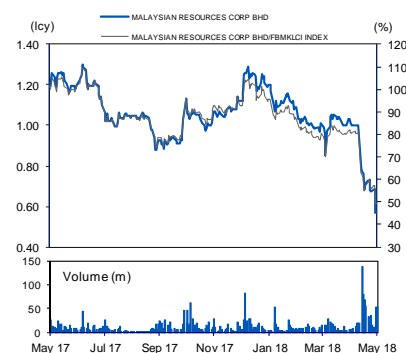
52-week high/low		RM1.30/RM0.570		
1mth	3mth	6mth	1yr	YTD
(44.7)	(47.2)	(46.7)	(53.3)	(49.1)

#### Major Shareholders

	%
Employees Provident Fund	38.4
Gapurna Sdn Bhd	16.7
Lembaga Tabung Haji	10.1

FY18 NAV/Share (RM)	1.12
FY18 Net Debt/Share (RM)	0.68

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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- **Property development: Earnings within expectations.** In 1Q18, the segment recorded revenue of RM220m (+11% qoq, -7% yoy) and EBIT of RM24m (-62% qoq, -50% yoy). Key earnings contributors to the segment were its Australian project and its ongoing high-rise developments - 9 Seputeh and Sentral Residences.
- **Construction: Margins to stabilise.** The segment recorded revenue of RM191m (+5% qoq, -18% yoy) and EBIT of RM16m (-65% qoq, +>100% yoy). We expect EBIT margins to stabilise at the current 8.4% level.

### STOCK IMPACT

- **Ability to complete disposal of EDL swiftly a key catalyst...** Having followed the previous government's instructions to stop tolling since the 2018 Budget was announced (in Oct 17), EDL's balance sheet has further shrunk to have only sufficient cash to make one more interest payment of about RM40m to bondholders due in June. Hence, it is hoped that the new government would expedite the acquisition of EDL before the next bi-yearly interest payment.
- **...even if government compensation implies modest ROE.** Our SOTP valuation incorporates only an effective RM300m equity value for EDL, which is about the equity portion of the project's start-up capital (the equity portion was funded mostly via shareholders' advances). This valuation methodology is considered highly conservative as it assumes zero equity return, which is even more conservative than in a government expropriation scenario which entails compensating: a) bondholders the full principal plus coupon payments, and b) equity owners' equity clawback plus returns.
- **Modest-to-moderate reliance on mega projects.** Despite investors' misgivings, MRCB's valuation is not overly dependent on federal government projects, and in fact, the federal government accounts for 11% of the group's construction orderbook post completion (expected mid-18) of the Bukit Jalil property development sale to EPF. Moreover, the company does not expect any changes to federal government projects that have already commenced, including the LRT3 extension (currently 10% completed) which the MRCB-George Kent consortium is the appointed project manager (PDP).
- **Construction orderbook to swell from RM6b as of 1Q18, or 3.4x 2017 construction revenue.** To-date, the group has RM6.2m worth of gross orderbook on hand, which will swell to RM17.2b after it completes the sale of the Bukit Jalil property development project to EPF. Long-dated projects like Kwasa Land and Bukit Jalil (20 years) ensure continuity of healthy contract flows even after the federal government turns off the tap on new mega projects.
- **Strengthening balance sheet.** MRCB's gearing is expected to drop significantly from the current 58% to as low as 10% should its asset monetisation programme be fully carried out (see RHS table).

### EARNINGS REVISION/RISK

- None.
- Key risks include: a) the derailment of the planned sale of EDL to the federal government, and b) changes to its PDP role for LRT3.

### VALUATION/RECOMMENDATION

- **Upgrade to BUY with a lower target price of RM1.01** (from RM1.10) after we cut our SOTP valuation to RM5.5b as our previous assumption of its EDL highway had been overly bullish. Our target price is based on a 20% discount to our SOTP valuation of RM1.26/share, implying 24.3x 2019F PE.

### SHARE PRICE CATALYST

- a) Sale of EDL, b) sale completion of Bukit Jalil Project, and c) various asset monetization programmes.

### 1Q18 KEY STATS

	(RMm)
Property sales	101
Property unbilled sales	1,600
Construction unbilled orderbook	4,900
External construction orderbook	6,200

Source: MRCB

### RELIANCE ON FEDERAL GOVERNMENT RELATED PROJECTS

	(%)
% of construction existing orderbook	30
% of construction orderbook after completion	11
Bukit Jalil project stake sale to EPF	
% of SOTP valuation	23
% of group 2019 earnings	24

Source: UOB Kay Hian

### IMPROVING BALANCE SHEET

	Net Debt (RMm)	Gearing (%)
1Q18	2,879	58
Bukit Jalil Project Sale to EPF	1,741	11
EDL Disposal	682	14
Ascott Tower Sale	552	11
Celcom Tower Sale	488	10

Note: illustration conservatively assumes zero equity value for EDL

Source: MRCB

### SOTP

	(RMm)
Property	2,601.8
Construction	1,855.6
LRT3 PDP Fees	215.6
Investment Properties	7,67.6
Concession	300
Net Debt	-682.0
OCT 33% stake	486.4
<b>Total RNAV</b>	<b>5,545.0</b>
Share base (m)	4,385.2
SOTP/share (RM)	1.26
Discount (%)	20
<b>Target Price (RM)</b>	<b>1.01</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Net turnover	2,824	1,956	2,555	3,010
EBITDA	401	308	357	387
Deprec. & amort.	32	37	37	37
EBIT	369	271	320	351
Total other non-operating income	(32)	(37)	(37)	(37)
Associate contributions	25	26	26	26
Net interest income/(expense)	(91)	(43)	(43)	(42)
<b>Pre-tax profit</b>	<b>333</b>	<b>216</b>	<b>266</b>	<b>297</b>
Tax	(66)	(52)	(67)	(74)
Minorities	(17)	(17)	(17)	(17)
<b>Net profit</b>	<b>250</b>	<b>147</b>	<b>182</b>	<b>206</b>
Net profit (adj.)	250	147	182	206

### BALANCE SHEET

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
Fixed assets	614	614	614	614
Other LT assets	3,724	3,802	3,884	3,970
Cash/ST investment	724	735	849	861
Other current assets	5,238	4,744	5,044	5,086
<b>Total assets</b>	<b>10,301</b>	<b>9,896</b>	<b>10,391</b>	<b>10,531</b>
ST debt	2,491	2,491	2,491	2,491
Other current liabilities	1,497	1,123	1,490	1,477
LT debt	1,242	1,242	1,242	1,242
Other LT liabilities	142	11	5	0
Shareholders' equity	4,824	4,906	5,024	5,164
Minority interest	104	122	139	157
<b>Total liabilities &amp; equity</b>	<b>10,301</b>	<b>9,896</b>	<b>10,391</b>	<b>10,531</b>

### CASH FLOW

Year to 31 Dec (RMm)	2017	2018F	2019F	2020F
<b>Operating</b>	<b>(889)</b>	<b>385</b>	<b>229</b>	<b>127</b>
Pre-tax profit	333	216	266	297
Tax	(67)	(52)	(67)	(74)
Deprec. & amort.	(32)	(37)	(37)	(37)
Associates	(976)	0	0	0
Working capital changes	(1,921)	308	117	(8)
Other operating cashflows	1,774	(51)	(51)	(51)
<b>Investing</b>	<b>(1,057)</b>	<b>(50)</b>	<b>(50)</b>	<b>(50)</b>
Capex (growth)	0	(50)	(50)	(50)
Investments	(976)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(81)	0	0	0
<b>Financing</b>	<b>1,817</b>	<b>(65)</b>	<b>(65)</b>	<b>(65)</b>
Dividend payments	(70)	(65)	(65)	(65)
Issue of shares	1,798	0	0	0
Proceeds from borrowings	469	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	(380)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>(129)</b>	<b>270</b>	<b>114</b>	<b>12</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>593</b>	<b>464</b>	<b>735</b>	<b>849</b>
Changes due to forex impact	260	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>724</b>	<b>735</b>	<b>849</b>	<b>861</b>

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Profitability</b>				
EBITDA margin	14.2	15.7	14.0	12.9
Pre-tax margin	11.8	11.1	10.4	9.9
Net margin	8.8	7.5	7.1	6.8
ROA	2.8	1.5	1.8	2.0
ROE	6.4	3.0	3.7	4.0
<b>Growth</b>				
Turnover	17.3	(30.7)	30.6	17.8
EBITDA	(25.3)	(23.2)	16.1	8.4
Pre-tax profit	(10.1)	(34.9)	23.0	11.7
Net profit	2.4	(41.1)	23.9	12.8
Net profit (adj.)	290.8	(41.1)	23.9	12.8
EPS	47.2	(41.1)	23.9	12.8
<b>Leverage</b>				
Debt to total capital	43.1	42.6	42.0	41.2
Debt to equity	77.4	76.1	74.3	72.3
Net debt/(cash) to equity	62.4	61.1	57.4	55.6
Interest cover (x)	4.4	7.1	8.2	9.2

## COMPANY RESULTS

### SATS (SATS SP)

4QFY18: Below Expectation Due To One-off Treatment In Associates. SATS Remains Bullish On Gateway Services.

4QFY18 results are below expectation mainly due to lower associate & JV profits. SATS however indicated that this was due to a one-off accounting treatment. We are also pleased with the fact that SATS' gateway services revenue, ex-deconsolidation of SHK, rose 8% in 4QFY18, while ROE for the division at 19.6% was the highest in six years. Going forward, SATS expects continued pax and cargo traffic growth, which should underpin gateway services growth. Maintain BUY. Target price: S\$5.70.

#### 4QFY18 RESULTS

Year to 31 Mar (\$m)	4QFY18	yoy % chg	Remarks (4Q)
Revenue	423.5	(0.5)	Ex- deconsolidation of SATS HK, rev +S\$9.3m or 2.2%
Gateway services	194.7	1.7	Ex-deconsolidation of SATS HK, rev +S\$14.9m or 8.3%
Food Solutions	228.3	(2.4)	Local Inflight catering declined 7% yoy
Op Expenditure	377.4	(0.7)	
Op Profit	46.1	0.7	
Non-operating income	33.6	9.8	Primarily due to S\$8.2m increase in non-operating income, offset by lower associate & JV income
PBT	79.7	4.4	
Net Profit	65.4	(1.7)	
Underlying Net Profit	51.5	(0.1)	Excluding EI gains - \$11.6m surplus from valuation & S\$2.3m gain on disposal of assets held for sale

Source: SATS, UOB Kay Hian

## RESULTS

- **Core net profit flat yoy, below our expectations.** Excluding one-offs, 4QFY18 net profit would have been flat yoy, and was 1.9% and 22% below street and our estimates respectively. JV & sssociates income fell 16.7% yoy, solely due to amortisation of intangibles and a S\$4m reduction in surplus on Purchasing Price Allocation (PPA) at associate Evergreen Sky Catering. SATs declared a final dividend of 12 S cents, bringing total dividend to 18 S cents, up 1 S cent from FY17. Headline ROE was flat at 16.2%, but underlying ROE declined 0.4 ppt to 14.8%, due mainly to lower ROE from the food solution segment.

## KEY FINANCIALS

Year to 31 Mar (\$m)	2017	2018	2019F	2020F	2021F
Net turnover	1,729	1,725	1,747	1,782	1,821
EBITDA	324	304	307	327	348
Operating profit	231	226	238	256	275
Net profit (rep./act.)	258	266	261	278	299
Net profit (adj.)	234	251	259	278	299
EPS (S\$ cents)	21.1	22.5	23.2	24.9	26.9
PE (x)	25.0	23.5	22.8	21.2	19.6
P/B (x)	3.7	3.6	3.5	3.3	3.1
EV/EBITDA (x)	17.8	19.0	18.8	17.6	16.5
Dividend yield (%)	3.2	3.4	3.4	3.5	3.6
Net margin (%)	14.9	15.4	14.9	15.6	16.4
Net debt/(cash) to equity (%)	(24.9)	(16.3)	(15.7)	(15.4)	(19.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	16.7	16.5	15.6	15.9	16.3
Consensus net profit	-	-	268	292	319
UOBKH/Consensus (x)	-	-	0.97	0.95	0.94

Source: SATS, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$5.28
Target Price	S\$5.70
Upside	+8.0%
(Previous TP)	S\$5.80)

## COMPANY DESCRIPTION

Airline gateway services and food solutions provider. SATS also has a 59.4% stake in Japan's TFK Corp, an inflight meal caterer based in Narita and Haneda.

## STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	SATS SP
Shares issued (m):	1,116.1
Market cap (S\$ m):	5,893.0
Market cap (US\$m):	4,394.2
3-mth avg daily t'over (US\$m):	6.0

## Price Performance (%)

52-week high/low S\$ 5.85/S\$ 4.57

1mth	3mth	6mth	1yr	YTD
(4.7)	1.5	(0.2)	3.7	1.5

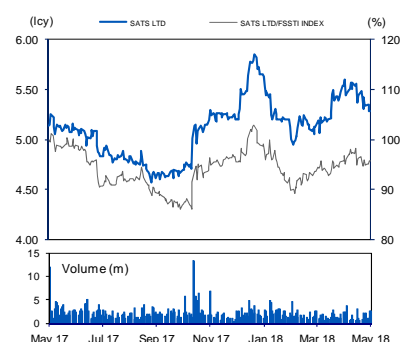
## Major Shareholders

	%
Temasek Hldgs	41.0

FY19 NAV/Share (S\$) 1.53

FY19 Net Cash/Share (S\$) 0.24

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

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- **Operating profit was flat yoy but SATS still demonstrated operating leverage in 4QFY18, excluding deconsolidation of SATS HK (SHK).** Excluding deconsolidation impact, 4Q's and FY18's revenue rose 2.2% and 1.5% respectively, mainly due to strong gateway services revenue (+8.3% in 4QFY18) out of Singapore. Licence fees rose by S\$4.5m in 4QFY18 due to cessation of rebates at Changi. Excluding this, operating profit would have risen by 10.4% yoy in 4Q18. Meanwhile, gateway services revenue rose 8.3% yoy in 4QFY18, resulting in annual ROE for the division rising to 19.6%, (+3.9ppt) and was the highest in six years. We reckon both volume and ASP would have increased for the gateway services division in FY18. SATS also highlighted that excluding the deconsolidation impact, staff costs would have been flat yoy.
- **JV & associate income** rose 9% for FY18 but dividends are below expectation, amounting to 35% vs last year's 63%. SATS indicated that this was mainly a timing issue. Key contributors were PT JAS, AISATS and Oman SATS.

### STOCK IMPACT

- **SATS is optimistic of pax and cargo business, though it expects pressure on local inflight catering to continue.** We had initially expected pricing pressure to abate somewhat as pax yields rise, but SATS does not expect that. Still, SATS could still wring out operating leverage from incremental gateway services. SATS also guided for S\$20m-40m in capex for Turkish Airways kitchen.
- **Key challenge is to improve returns on JVs and associates, especially since SATS will be investing a substantial amount in these ventures.** In FY18, food solutions and gateway services associates generated ROE of 9.7% (-2.3ppt) and 9.2% (-0.8ppt) respectively. We are also not confident that SATS' gateway services JV with AirAsia will boost ROE, given that operating margins for Malaysian ground services handlers amounted to just 4.6% in 2016. In comparison, SATS generated an operating margin of 10.1% in FY18 for the gateway services division.

### EARNINGS REVISION/RISK

- **We raise our FY19 net profit estimates by 2.9%.** This is mainly because SATS indicated that it would not recognise any losses, post investment in Beijing Ground Services.

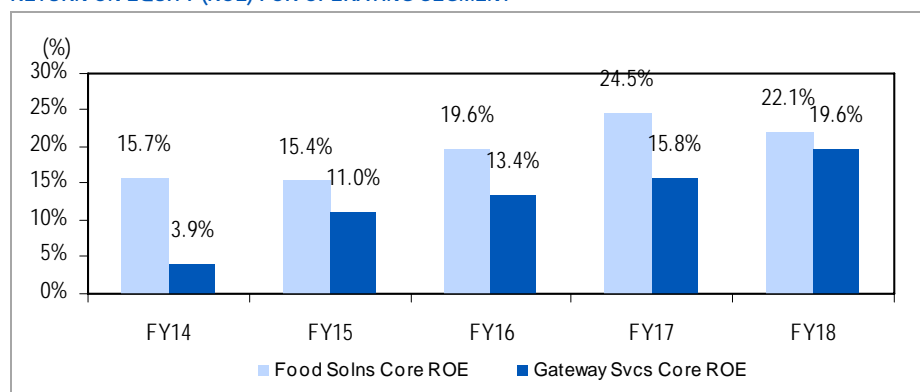
### VALUATION/RECOMMENDATION

- **Maintain BUY, with a target price of S\$5.70 (S\$5.80 previously).** We continue to value the company with WACC of 6.3%, long-term ROIC of 15.4% (previously 15.7%) and growth rate at 3%. At our fair value, the stock will trade at 24.3x FY19F PE and an ex-cash PE of 23x. Including the dividend of 18 S cents, total expected return is 11%.

### SHARE PRICE CATALYST

- None in the near term.

### RETURN ON EQUITY (ROE) FOR OPERATING SEGMENT



Source: SATS, UOB Kay Hian

### SEGMENTAL REVENUE

Year to 31 Mar	4QFY18	yoy % chg	FY18	yoy % chg
<b>By Business</b>				
Gateway Services	194.7	1.7	776.5	2.9
Food Solutions	228.3	-2.4	946.6	-2.7
Others	0.5	25.0	1.5	0.0
<b>Total</b>	<b>423.5</b>	<b>-0.5</b>	<b>1724.6</b>	<b>-0.3</b>
<b>By Industry</b>				
Aviation	361.6	-1.6	1490.1	-0.7
Non-Aviation	61.4	5.9	234.5	2.9
<b>Total</b>	<b>423.5</b>	<b>-0.5</b>	<b>1724.6</b>	<b>-0.3</b>
<b>By Geographical Location</b>				
Singapore	353.7	2.4	1423.0	3.0
Japan	58.3	-2.0	239.4	-7.7
Others	11.5	-44.7	62.2	-29.6
<b>Total</b>	<b>423.5</b>	<b>-0.5</b>	<b>1724.6</b>	<b>-0.3</b>

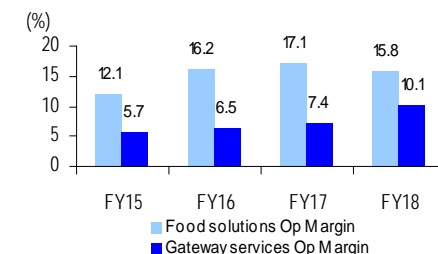
Source: SATS

### VALUATION

Long-term ROIC	15.0%
WACC	6.2%
Growth Rate based on Reinvestment rate	3.0%
Derived EV (\$m)	6,325
Equity value (\$m)	6,188
Add: Net cash less MI & final dividend (\$m)	133
<b>Fair value per share (\$)</b>	<b>5.70</b>

Source: UOB Kay Hian

### OPERATING MARGINS



Source: SATS, UOB Kay Hian

### ASSOCIATES/JVS INCOME

\$M	4Q18	% chg yoy	FY18	% chg yoy
Food solutions	13.9	19.4	25.5	-0.8
Gateway services	10.1	9.4	45.7	15.7
<b>Total</b>	<b>24</b>	<b>28.8</b>	<b>71.2</b>	<b>9.2</b>
Dividends received	1.9	2.2	25.2	-39.4

Source: SATS



**PROFIT & LOSS**

Year to 31 Mar (\$m)	2018	2019F	2020F	2021F
<b>Net turnover</b>	<b>1,724.6</b>	<b>1,746.8</b>	<b>1,781.6</b>	<b>1,820.6</b>
EBITDA	303.6	306.6	326.6	348.3
Deprec. & amort.	77.2	68.2	70.4	73.5
EBIT	226.4	238.4	256.2	274.8
Total other non-operating income	20.7	2.1	0.0	0.0
Associate contributions	71.2	76.3	81.6	88.7
Net interest income/(expense)	3.3	2.2	2.2	2.3
<b>Pre-tax profit</b>	<b>321.6</b>	<b>319.1</b>	<b>339.9</b>	<b>365.8</b>
Tax	(51.3)	(54.2)	(57.8)	(62.2)
Minorities	(4.0)	(4.2)	(4.4)	(4.6)
<b>Net profit</b>	<b>266.3</b>	<b>260.6</b>	<b>277.7</b>	<b>299.0</b>
Net profit (adj.)	250.8	258.5	277.7	299.0

**CASH FLOW**

Year to 31 Mar (\$m)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>245.5</b>	<b>267.6</b>	<b>289.7</b>	<b>315.0</b>
Pre-tax profit	321.6	319.1	339.9	365.8
Tax	(38.5)	(35.3)	(35.9)	(41.3)
Deprec. & amort.	77.2	68.2	70.4	73.5
Associates	(47.2)	(48.1)	(48.0)	(65.2)
Working capital changes	35.0	21.3	16.5	38.2
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(102.6)	(57.5)	(53.3)	(55.9)
<b>Investing</b>	<b>(182.2)</b>	<b>(61.1)</b>	<b>(76.2)</b>	<b>(22.4)</b>
Capex (maintenance)	(99.2)	(111.8)	(111.8)	(65.0)
Investments	(151.1)	(26.0)	(26.0)	(25.0)
Proceeds from sale of assets	35.7	22.0	0.0	0.0
Others	32.4	54.7	61.6	67.6
<b>Financing</b>	<b>(196.8)</b>	<b>(209.2)</b>	<b>(206.6)</b>	<b>(212.4)</b>
Dividend payments	(191.6)	(200.7)	(200.4)	(205.8)
Issue of shares	(13.4)	(6.8)	(4.5)	(5.0)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(0.6)	(1.6)	(1.6)	(1.6)
Others/interest paid	8.8	0.0	0.0	0.0
<b>Net cash inflow (outflow)</b>	<b>(133.5)</b>	<b>(2.6)</b>	<b>6.9</b>	<b>80.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>508.4</b>	<b>373.3</b>	<b>370.7</b>	<b>377.7</b>
Changes due to forex impact	(1.6)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>373.3</b>	<b>370.7</b>	<b>377.7</b>	<b>457.9</b>

**BALANCE SHEET**

Year to 31 Mar (\$m)	2018	2019F	2020F	2021F
Fixed assets	560.1	599.1	633.6	618.8
Other LT assets	1,053.2	1,100.5	1,141.5	1,183.4
Cash/ST investment	373.3	370.7	377.7	457.9
Other current assets	361.7	335.8	340.2	343.6
<b>Total assets</b>	<b>2,348.3</b>	<b>2,406.1</b>	<b>2,492.9</b>	<b>2,603.7</b>
ST debt	10.1	9.1	8.1	7.1
Other current liabilities	392.5	381.4	384.0	393.9
LT debt	96.3	95.3	94.3	93.3
Other LT liabilities	82.8	82.8	82.8	82.8
Shareholders' equity	1,634.1	1,700.8	1,782.6	1,880.8
Minority interest	132.5	136.7	141.1	145.7
<b>Total liabilities &amp; equity</b>	<b>2,348.3</b>	<b>2,406.1</b>	<b>2,492.9</b>	<b>2,603.7</b>

**KEY METRICS**

Year to 31 Mar (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	17.6	17.6	18.3	19.1
Pre-tax margin	18.6	18.3	19.1	20.1
Net margin	15.4	14.9	15.6	16.4
ROA	11.5	11.0	11.3	11.7
ROE	16.5	15.6	15.9	16.3
<b>Growth</b>				
Turnover	(0.3)	1.3	2.0	2.2
EBITDA	(6.2)	1.0	6.5	6.7
Pre-tax profit	4.0	(0.8)	6.5	7.6
Net profit	3.3	(2.1)	6.6	7.6
Net profit (adj.)	7.0	3.1	7.4	7.6
EPS	6.5	3.1	7.6	7.8
<b>Leverage</b>				
Debt to total capital	5.7	5.4	5.1	4.7
Debt to equity	6.5	6.1	5.7	5.3
Net debt/(cash) to equity	(16.3)	(15.7)	(15.4)	(19.0)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

### INITIATE COVERAGE

## Muangthai Capital (MTC TB)

Leading Non-bank Play With Impressive Growth Outlook

We initiate coverage on MTC with a BUY recommendation and target price of Bt50.25. We expect 2018 earnings to grow 53% yoy, supported by robust loan growth, resilient NIM and improving operating leverage. MTC's asset quality is well managed as reflected by its low 1.3% NPL ratio and high coverage ratio of 261%.

### WHAT'S NEW

- Leading player in the Blue Ocean industry.** Muangthai Capital (MTC) is a non-bank company with the largest nationwide branch network in Thailand, providing microfinance to mid-tier to low-end consumers. This segment has no access to bank loans and is being served by loan sharks. As a market leader in this segment where loan demand remains largely untapped, MTC's earnings growth potential is significant. MTC's earnings CAGR in the last three years was as high as 67% and we expect MTC to enjoy high earnings growth for the next few years.
- Rosy loan growth outlook.** Loan growth prospects are robust and we forecast a loan CAGR of 34% for 2018-20, underpinned by: a) continued migration from loan sharks to authorised operators like MTC, b) a more favourable economic outlook, c) further branch network expansion to 4,200 branches by 2020 (currently 2,811 branches).
- Impressive asset quality.** Asset quality is one of MTC's key strengths. NPLs have been well under control, standing at 1.2% of total loans with a coverage ratio of 265%. This has been achieved via an efficient in-house collection team. Moreover, due to the nature of its business and conservative loan-to-value (LTV) policy (50%), loan size is low at about Bt20,000 per head, which makes monthly instalments more affordable for borrowers.

### STOCK IMPACT

- Expect 2018 earnings to grow 53%.** We forecast 2018 earnings to grow strongly by 53% yoy, supported by robust loan growth, strong NIM and well-contained opex. Effectively, ROE is forecasted to expand further to 36.4% (2017: 32.0%).

### ESSENTIALS

- Little to no impact from new regulations.** The Ministry of Finance is about to issue new regulations to control non-financial institutions that operate personal lending businesses. The new regulation is expected to take effect in Jul 18; all non-financial entities operating personal loans and hire purchase (HP) businesses are likely to be regulated by Pico Finance (whose personal loan rate ceiling is 36%).

MTC, however, is charging an interest rate of below 28% on its secured personal loans, vs Pico Finance's secured personal loan rate ceiling of 36%. We thus expect the new regulation to have no impact on MTC.

Click [here](#) for Blue Top dated 30 May 2018

### KEY FINANCIALS

Year to 31 Dec (Btm)	2016	2017	2018F	2019F	2020F
Net interest income	3,691	6,122	8,706	11,497	15,167
Non-interest income	453	676	976	1,303	1,718
Net profit (rep./act.)	1,464	2,501	3,837	5,265	7,050
Net profit (adj.)	1,464	2,501	3,837	5,265	7,050
EPS (Bt)	0.7	1.2	1.8	2.5	3.3
PE (x)	53.2	31.2	20.3	14.8	11.1
P/B (x)	11.6	8.7	6.4	4.8	3.7
Dividend yield (%)	0.5	0.3	0.8	1.7	2.7
Cost/income (%)	48.3	44.3	42.3	41.8	41.3
Loan loss cover (%)	257.3	265.4	270.0	270.0	270.0
Consensus net profit	-	-	3,494	4,599	5,745
UOBKH/Consensus (x)	-	-	1.10	1.14	1.23

Source: Muangthai Capital, Bloomberg, UOB Kay Hian

### BUY

Share Price	Bt36.75
Target Price	Bt50.25
Upside	+36.7%

### COMPANY DESCRIPTION

The company provides title deeds, personal loans and nano loans for motorcycles, commercial/passenger cars and agricultural vehicles to individuals.

### STOCK DATA

GICS sector	Financials
Bloomberg ticker:	MTC TB
Shares issued (m):	2,120.0
Market cap (Btm):	77,910.0
Market cap (US\$m):	2,426.5
3-mth avg daily t'over (US\$m):	12.9

### Price Performance (%)

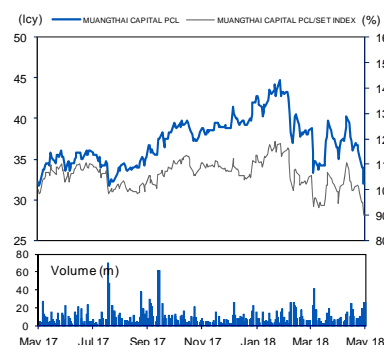
52-week high/low			Bt44.75/Bt31.75	
1mth	3mth	6mth	1yr	YTD
(5.2)	(16.5)	(1.3)	11.4	(5.2)

### Major Shareholders

	%
Petchampai family	67.9
NVDR	4.1
South East Asia UK (Type C)	2.4

FY18 NAV/Share (Bt)	5.74
FY18 Solvency Ratio (%)	

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **Conservative provisioning will not see a significant impact from IFRS9.** The company recently hired one of the Big Four accounting firms to set up a new risk management system which complies with the new provisioning standard under IFRS9 requirements. Based on the simulation run under this new system, MTC's existing loan-loss reserve position (260% coverage ratio) should be able to cope with the higher IFRS9 provisioning requirements. Thus, the impact from IFRS9, if any, should be insignificant.

### EARNINGS REVISION/RISK

- No earnings revision.

### VALUATION/RECOMMENDATION

- **Initiate coverage with BUY.** We initiate coverage on MTC with a BUY recommendation and a target price of Bt50.25. Our target price is based on the DDM method, assuming a required rate of return of 12.0%, terminal ROE of 32% and growth of 3%. We discount the dividend with cost of equity ( $R_e$ ) of 12.0% and baseline terminal P/TBV of 5.20x. This implies a target PE of 27.8x. Currently, MTC is trading at 18.8x which is at the low end of the trading range since its listing.

### RISKS

- **Volatility in interest rate.** MTC's lending rates are fixed while funding costs via bond issuance are normally subject to changes in the interest rate environment. However, to avoid a significant mismatch between lending rates and funding costs, MTC normally tries to match the maturities of its assets and liabilities to mitigate interest rate risks.
- **Potential increase in competition.** This market has low barriers to entry and very high business yields. Hence, MTC is vulnerable to growing competition. However, one of MTC's strengths is its extensive branch network which is essential for customer accessibility. MTC has 2,811 branches across the country with a plan to further increase its network to 4,200 branches by 2020.
- **Credit risk.** NPL risk is part and parcel of the lending business. However, MTC has proven its efficient NPL risk management capabilities, with consistently low NPLs throughout the latest economic downcycle. As at end-17, NPL stood at 1.3% of total loans, which is the lowest among peers, while NPL coverage ratio was robust at 261.0%.

### PROFIT & LOSS

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Interest income	6,795	9,720	12,978	17,112
Interest expense	(673)	(1,015)	(1,481)	(1,945)
Net interest income	6,122	8,706	11,497	15,167
Fees & commissions	642	923	1,233	1,626
Other income	34	52	70	92
Non-interest income	676	976	1,303	1,718
<b>Total income</b>	<b>6,798</b>	<b>9,681</b>	<b>12,799</b>	<b>16,884</b>
Staff costs	(2,989)	(4,066)	(5,312)	(6,923)
Other operating expense	(24)	(28)	(38)	(50)
Pre-provision profit	3,785	5,587	7,449	9,911
Loan loss provision	(679)	(790)	(868)	(1,098)
Pre-tax profit	3,106	4,797	6,581	8,813
Tax	(605)	(959)	(1,316)	(1,763)
<b>Net profit</b>	<b>2,501</b>	<b>3,837</b>	<b>5,265</b>	<b>7,050</b>
Net profit (adj.)	2,501	3,837	5,265	7,050

### BALANCE SHEET

Year to 31 Dec (Btm)	2017	2018F	2019F	2020F
Cash with central bank	1,154	904	1,323	1,398
Govt treasury bills & securities	0	1	1	1
Customer loans	34,452	46,989	62,459	81,769
Investment securities	0	0	0	0
Fixed assets (incl. prop.)	1,022	1,395	1,753	2,155
Other assets	326	433	560	717
<b>Total assets</b>	<b>36,953</b>	<b>49,723</b>	<b>66,096</b>	<b>86,041</b>
Customer deposits	27,058	36,252	48,246	62,718
Debt equivalents	n.a.	n.a.	n.a.	n.a.
Other liabilities	952	1,304	1,734	2,272
<b>Total liabilities</b>	<b>28,010</b>	<b>37,556</b>	<b>49,980</b>	<b>64,990</b>
Shareholders' funds	8,943	12,167	16,115	21,051
<b>Total equity &amp; liabilities</b>	<b>36,953</b>	<b>49,723</b>	<b>66,095</b>	<b>86,040</b>

### OPERATING RATIOS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Capital Adequacy</b>				
Total assets/equity (x)	4.1	4.1	4.1	4.1
Tangible assets/tangible common equity (x)	4.1	4.1	4.1	4.1
<b>Asset Quality</b>				
NPL ratio	1.2	1.4	1.4	1.4
Loan loss coverage	265.4	270.0	270.0	270.0
Loan loss reserve/gross loans	3.3	3.7	3.8	3.8
Increase in NPLs	55.5	51.5	35.9	32.9
Credit cost (bp)	3.3	3.7	3.8	3.8
<b>Liquidity</b>				
Loan/deposit ratio	1.3	1.3	1.3	1.3
Liquid assets/short-term liabilities	4.3	2.5	2.7	2.2
Liquid assets/total assets	3.1	1.8	2.0	1.6

### KEY METRICS

Year to 31 Dec (%)	2017	2018F	2019F	2020F
<b>Growth</b>				
Net interest income, yoy chg	65.8	42.2	32.1	31.9
Fees & commissions, yoy chg	47.2	43.8	33.5	31.9
Pre-provision profit, yoy chg	76.5	47.6	33.3	33.0
Net profit, yoy chg	70.8	53.5	37.2	33.9
Net profit (adj.), yoy chg	70.8	53.5	37.2	33.9
Customer loans, yoy chg	50.5	36.4	32.9	30.9
Customer deposits, yoy chg	57.2	34.0	33.1	30.0
<b>Profitability</b>				
Cost/income ratio	44.3	42.3	41.8	41.3
Adjusted ROA	8.1	8.9	9.1	9.3
Reported ROE	32.0	36.4	37.2	37.9
Adjusted ROE	32.0	36.4	37.2	37.9
<b>Valuation</b>				
P/BV (x)	8.7	6.4	4.8	3.7
P/NTA (x)	8.7	6.4	4.8	3.7
Adjusted P/E (x)	31.2	20.3	14.8	11.1
Dividend Yield	0.3	0.8	1.7	2.7
Payout ratio	8.5	16.0	25.0	30.0

## COMPANY RESULTS

### BTS Group Holdings (BTS TB)

4QFY18: Fairly Good Growth Rate In 4Q, Preparing For Strong Growth In FY19

**BTS reported core profit of Bt250m, up 7% yoy. The results are below our estimate due to some provisions and poor results from its property arm associate. However, we foresee 69% earnings growth in FY19 owing to the opening of the Green Line extension, media business expansion and the low base in FY18. BTS still has several near-term catalysts. Maintain BUY. Target price: Bt10.50.**

#### 4QFY18 RESULTS

Year to 31 Mar	4Q18	4Q17	3Q18	yoy % chg	qoq % chg
Sales (Btm)	2,692	3,220	4,532	-16	-41
Gross Profit (Btm)	1,020	1,173	1,190	-13	-14
EBITDA (Btm)	424	655	874	-35	-51
Pre-tax Profit (Btm)	2,590	697	1,191	272	117
Net Profit (Btm)	2,459	414	889	494	177
Core Profit (Btm)	250	234	709	7	-65
EPS (Bt)	0.208	0.035	0.075	493	177
Gross Margin (%)	37.9	36.4	26.2		
EBITDA Margin (%)	15.8	20.3	19.3		
Net Margin (%)	91.4	12.9	19.6		

Source: BTS Group Holdings Public Company Limited, UOB Kay Hian

#### RESULTS

- **Stripping out one-time items, core profit grew only 7% yoy.** If we strip out one-time gains from several items totalling Bt2.28b, core profit would have come in at Bt250m, up by 7% yoy. Core profit, unlike reporting profit, came in below our estimate due to the provision of Bt246m from its investment and also poor performance of U city (U).
- **4QFY18 reporting net profit grew five-fold due to one-time items.** BTS announced 4QFY18 reporting profit of Bt2.46b, up 494% yoy, compared with Bt414m in the previous year. The reported net profit was in line with our estimate, largely due to the Bt1.88b one-time gain from the Unicorn Enterprise business transfer transaction. Moreover, its media business (via VGI, a media subsidiary) also performed well in 4QFY18. Regarding VGI's financial statement, VGI saw 30% and 49% revenue and net profit growth in 4QFY18.

#### KEY FINANCIALS

Year to 31 Mar (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	7,585	12,171	14,548	14,363	12,040
EBITDA	1,922	2,690	3,343	4,213	4,987
Operating profit	1,345	1,932	2,572	3,441	4,208
Net profit (rep./act.)	2,003	4,168	2,965	3,936	4,932
Net profit (adj.)	1,385	1,750	2,965	3,936	4,932
EPS (Bt)	0.1	0.1	0.3	0.3	0.4
PE (x)	80.4	63.6	37.6	28.3	22.6
P/B (x)	2.6	2.7	2.1	1.8	1.7
EV/EBITDA (x)	76.4	54.6	43.9	34.9	29.5
Dividend yield (%)	5.4	3.6	0.0	0.0	0.0
Net margin (%)	26.4	34.2	20.4	27.4	41.0
Net debt/(cash) to equity (%)	40.0	73.4	93.1	123.6	129.5
Interest cover (x)	3.0	2.2	2.3	1.5	1.6
ROE (%)	4.6	10.1	6.4	7.0	7.9
Consensus net profit	-	-	2,717	3,522	4,547
UOBKH/Consensus (x)	-	-	1.09	1.12	1.08

Source: BTS Group Holdings Public Company Limited, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	Bt9.55
Target Price	Bt10.50
Upside	+9.9%

#### COMPANY DESCRIPTION

BTS Group Holdings is a leading conglomerate in Thailand. It focuses on rail mass transit and other mass transit-related businesses such as advertising, property and digital services.

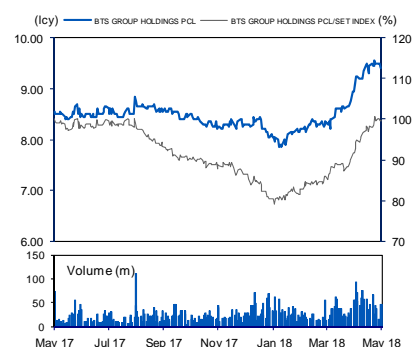
#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	BTS TB
Shares issued (m):	11,844.5
Market cap (Btm):	113,115.3
Market cap (US\$m):	3,531.4
3-mth avg daily t'over (US\$m):	8.6

#### Price Performance (%)

52-week high/low				Bt9.55/Bt7.85	
1mth	3mth	6mth	1yr	YTD	
10.4	17.2	15.8	14.4	15.1	
<b>Major Shareholders</b>					<b>%</b>
MR. KEEREE KANJANAPAS'S GROUP					40.9
THAI NVDR COMPANY LIMITED					7.4
BANGKOK BANK PUBLIC COMPANY LIMITED					4.6
FY19 NAV/Share (Bt)					4.85
FY19 Net Debt/Share (Bt)					3.79

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Promising earnings growth in FY19.** We still view FY19 as a promising year for BTS. We expect BTS to report core profit of Bt2.96b in FY19, up by 69% yoy. There are several growth drivers in FY19. First, we expect the Southern Green Line extension to begin operations in late-18. The commercial operation of the extension will directly benefit BTS in terms of operating fee (O&M) and ridership revenue (via BTSGIF, BTS Rail Mass Transit Growth Infrastructure Fund). Second, BTS' media business is now actively expanding to be an offline-to-online (O2O) solution provider. We expect this business direction to provide BTS a better profitability. Last, BTS' core earnings in FY18 is a low base due to both an impairment of U's asset and a provision of BTS' investment.

### EARNINGS REVISION/RISK

- None.

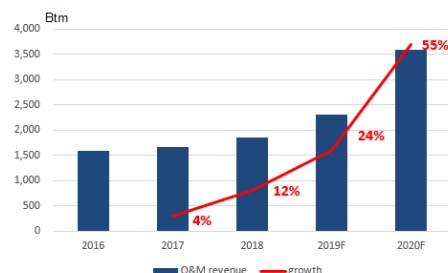
### VALUATION/RECOMMENDATION

- **Maintain BUY with target price of Bt10.50.** Although BTS' current share price is now trading just 10% below our target price, we still recommend a BUY on BTS. We see some near-term catalysts from the handover of land for Pink and Yellow Line construction, which expected to take place in Jun 18. Also, the upcoming bidding of the high-speed train linking three airports will also provide good sentiment for BTS. As a result, we still have a BUY call for BTS with a SOTP-based target price of Bt10.50.

### SHARE PRICE CATALYST

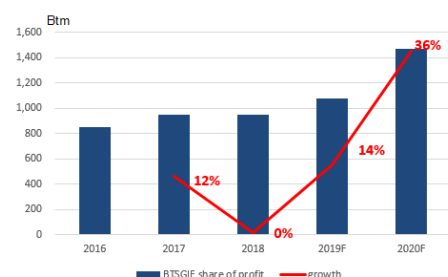
- Land handover for the construction of Pink and Yellow Line from MRTA.
- The upcoming bidding of high-speed train linking three airports.

### O&M REVENUE FORECAST



Source: UOB Kay Hian

### BTSGIF PROFIT FORECAST



Source: UOB Kay Hian



### PROFIT & LOSS

Year to 31 Mar (Btm)	2018	2019F	2020F	2021F
Net turnover	12,171	14,548	14,363	12,040
EBITDA	2,690	3,343	4,213	4,987
Deprec. & amort.	758	770	772	779
EBIT	1,932	2,572	3,441	4,208
Total other non-operating income	1,580	1,929	3,197	3,632
Associate contributions	180	850	1,319	1,739
Net interest income/(expense)	(1,236)	(1,446)	(2,820)	(3,163)
<b>Pre-tax profit</b>	<b>2,455</b>	<b>3,905</b>	<b>5,137</b>	<b>6,416</b>
Tax	(776)	(611)	(764)	(935)
Minorities	(374)	(329)	(437)	(548)
<b>Net profit</b>	<b>4,168</b>	<b>2,965</b>	<b>3,936</b>	<b>4,932</b>
Net profit (adj.)	1,750	2,965	3,936	4,932

### CASH FLOW

Year to 31 Mar (Btm)	2018	2019F	2020F	2021F
<b>Operating</b>	<b>(9,929)</b>	<b>3,154</b>	<b>6,449</b>	<b>7,812</b>
Pre-tax profit	5,318	3,905	5,137	6,416
Tax	(776)	(611)	(764)	(935)
Deprec. & amort.	758	770	772	779
Associates	180	850	1,319	1,739
Working capital changes	2,107	(1,419)	(15)	(186)
Non-cash items	1,149	(341)	0.0	0.0
Other operating cashflows	(18,666)	0.0	0.0	0.0
<b>Investing</b>	<b>(1,221)</b>	<b>(31,745)</b>	<b>(36,564)</b>	<b>(15,957)</b>
Capex (growth)	622	(20,466)	(18,925)	(10,070)
Investments	(3,812)	8,678	0.0	0.0
Others	1,969	(19,957)	(17,640)	(5,887)
<b>Financing</b>	<b>7,033</b>	<b>13,927</b>	<b>34,540</b>	<b>1,683</b>
Dividend payments	(4,014)	(2,075)	(2,755)	(3,453)
Issue of shares	22	0.0	0.0	0.0
Proceeds from borrowings	8,859	4,442	29,942	2,898
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	2,167	11,561	7,353	2,238
<b>Net cash inflow (outflow)</b>	<b>(4,117)</b>	<b>(14,664)</b>	<b>4,424</b>	<b>(6,462)</b>
Beginning cash & cash equivalent	21,470	17,354	2,690	7,114
Ending cash & cash equivalent	17,354	2,690	7,114	652

### BALANCE SHEET

Year to 31 Mar (Btm)	2018	2019F	2020F	2021F
Fixed assets	7,904	27,600	45,753	55,044
Other LT assets	76,843	90,534	108,063	112,556
Cash/ST investment	17,354	2,690	7,114	652
Other current assets	3,957	6,483	6,409	5,480
<b>Total assets</b>	<b>106,058</b>	<b>127,306</b>	<b>167,339</b>	<b>173,731</b>
ST debt	16,706	12,595	33,635	34,328
Other current liabilities	6,217	6,983	6,894	5,779
LT debt	30,463	39,015	47,918	50,123
Other LT liabilities	6,316	8,729	8,618	7,224
Shareholders' equity	40,605	52,558	60,242	64,705
Minority interest	5,750	7,426	10,031	11,574
<b>Total liabilities &amp; equity</b>	<b>106,058</b>	<b>127,306</b>	<b>167,339</b>	<b>173,731</b>

### KEY METRICS

Year to 31 Mar (%)	2018	2019F	2020F	2021F
<b>Profitability</b>				
EBITDA margin	22.1	23.0	29.3	41.4
Pre-tax margin	20.2	26.8	35.8	53.3
Net margin	34.2	20.4	27.4	41.0
ROA	4.2	2.5	2.7	2.9
ROE	10.1	6.4	7.0	7.9
<b>Growth</b>				
Turnover	60.4	19.5	(1.3)	(16.2)
EBITDA	40.0	24.3	26.0	18.4
Pre-tax profit	15.8	59.0	31.5	24.9
Net profit	108.0	(28.9)	32.8	25.3
Net profit (adj.)	26.3	69.4	32.8	25.3
EPS	26.3	69.4	32.8	25.3
<b>Leverage</b>				
Debt to total capital	50.4	46.2	53.7	52.5
Debt to equity	116.2	98.2	135.4	130.5
Net debt/(cash) to equity	73.4	93.1	123.6	129.5
Interest cover (x)	2.2	2.3	1.5	1.6

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