Asean strategy

Market outlook

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9 September 2020

South East Asia
Market Strategy

Winners

Ayala Corp	AC PM
Market cap	US$8.9bn
Target	P906.00
TSR	33.7%
BPI	BPI PM
Market cap	US$6bn
Target	P88.50
TSR	41.8%
Central Pattana	CPN TB
Market cap	US$6.6bn
Target	Bt62.50
TSR	41.7%
Hartalega	HART MK
Market cap	US$11.6bn
Target	RM25.00
TSR	82.3%
Keppel DC	KDCREIT SP
Market cap	US$3.5bn
Target	S$2.75
TSR	-5.8%
PLDT	TEL PM
Market cap	US$6.4bn
Target	P1,698.00
TSR	23.0%
Sea Limited	SE US
Market cap	US$70.3bn
Target	US$178.00
TSR	23.5%
Telkom	TLKM IJ
Market cap	US$19.5bn
Target	Rp3,800
TSR	31.0%

Losers

Carlsberg Malaysia	CAB MK
Market cap	US$1.5bn
Target	RM17.10
TSR	-14.2%
Genting Singapore	GENS SP
Market cap	US$6.1bn
Target	S$0.67
TSR	-3.6%
Jollibee	JFC PM
Market cap	US$3.1bn
Target	P143.00
TSR	3.5%
Semen Indonesia	SMGR IJ
Market cap	US$4.2bn
Target	Rp11,900
TSR	12.5%

While a Covid winner and loser respectively, Keppel DC is an U-PF and Semen Indo a BUY

Living with Covid
Consumers on the march

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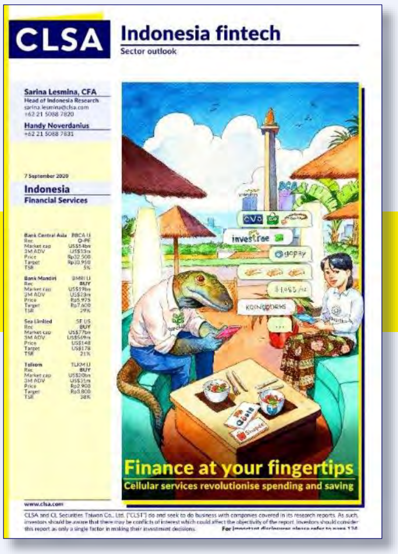
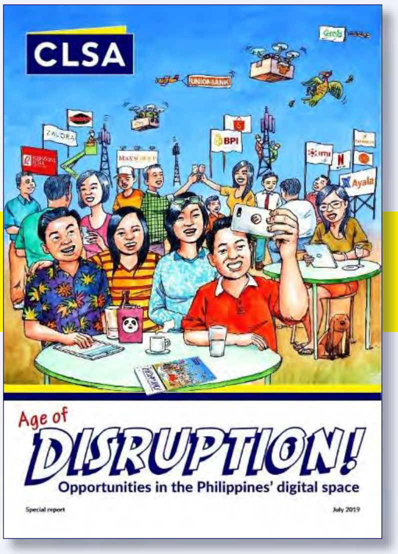
All prices quoted herein are as at close of business 7 September 2020, unless otherwise stated

Take an armchair tour of the region





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Living with Covid

Covid may be part of our lives for a while

Covid has hit Asean economies hard and the road to recovery is a daunting one. In this report we assess the outlook for economies, sectors and businesses in the region as they adjust to living with the coronavirus. While each country differs in how the pandemic has impacted them and their response to it, we have identified clear commonalities and draw from them a list of potential winners and losers. We expect consumer staples and telcos to recover first with fintech following close behind; while tourism, gaming and construction will continue to struggle. Our top picks for this theme are Singapore's ecommerce proxy Sea Ltd and Malaysia's Hartalega which will reap the rewards of a surge in demand for gloves.

Macro outlook remains cautious

For the most part, Asean countries have dealt with Covid relatively well with many now coming out of strict lockdowns. The damage has been done though and we forecast significant GDP contractions for all five markets we cover. Any further opening up is likely to be cautious with the Philippines already serving up a warning, being the first country in the region to have to re-impose lockdowns.

Consumer sector likely to recover first, followed by telcos and fintech

However, consumers are on the march. Many are heading back to malls and an ever-increasing number are buying online. As such, we expect this sector to recover first but some subsectors (including discretionary) may take longer than others. As ecommerce grows it opens the door for fintech to expand as traditional banks and new players race to offer platforms for online banking, ewallets and epayments. Providing the backbone to all this are the telcos which we expect to continue to see huge surges in usage and demand for data.

Tourism and construction will continue to struggle

On the flipside, international tourism remains almost non-existent and without a vaccine it is likely to remain subdued for some time. Casinos will be hit hard. Domestic tourism is being actively encouraged but in most cases, especially for Malaysia and Thailand, it is unlikely to offset what has been lost. The construction sector may also lag as it struggles to adapt its labour-intensive modus operandi.

Sea Ltd and Hartalega are Asean winners

We have identified eight winners for our theme, with our top picks being BUY-rated **Sea Ltd** and **Hartalega**. Sea Ltd's two main businesses dominate the Asean internet space and continue to grow. Hartalega has outperformed on the back of a surge in demand for gloves, but we see further upside. Bottom of the list of our four losers are SELL-rated **Genting Singapore** and **Carlsberg (Malaysia)**. Genting Singapore is being hit hard by the lack of foreign visitors and Carlsberg's focus on premium brands may hold it back from a swift recovery.

Living with Covid: Asean winners and losers

Country	Company	Code	Mkt cap (US$bn)	3M ADTO (US$m)	Rating	Target price (lcc)	Current price (lcc)	Upside (%)	TSR (%)	Comment
Winners										
Indonesia	Telkom	TLKM IJ	19.5	30.1	BUY	3,800	2,900	31.0	37.7	Indonesia's largest operator, sturdy balance sheet
Malaysia	Hartalega	HART MK	11.5	46.0	BUY	25.0	14.0	78.6	81.6	Leader in efficiency and automation, room to increase ASPs
Philippines	BPI	BPI PM	6.1	3.7	BUY	88.5	65.8	34.5	37.2	Proxy to fintech in the Philippines with first mover advantage
Philippines	Ayala Corp	AC PM	8.9	4.4	BUY	906.0	702.0	29.1	30.0	A diverse conglomerate and proxy to the Philippines
Philippines	PLDT	TEL PM	6.4	5.0	BUY	1,698	1,440	17.9	23.0	Covid accelerating demand for this data and ewallet giant
Singapore	Keppel DC[2]	KDCREIT SP	3.5	10.7	U-PF	2.8	2.9	(5.8)	(2.5)	Enjoying structural ecommerce growth
Singapore	Sea Limited	SE US	70.3	586.3	BUY	178.0	144.2	23.5	23.5	Main businesses dominating the Asean internet
Thailand	Central Pattana[1]	CPN TB	6.6	11.2	BUY	62.5	46.5	34.4	36.4	Thailand's recovery play on mall visitations
Losers										
Indonesia	Semen Indonesia[2]	SMGR IJ	4.2	3.4	BUY	11,900	10,575	12.5	14.2	Hit hard by Covid/natural disasters
Malaysia	Carlsberg (Malaysia)	CAB MK	1.5	1.5	SELL	17.1	19.9	(14.2)	(10.7)	Focus on premium brands is a headwind
Philippines	Jollibee	JFC PM	3.1	3.3	U-PF	143.0	138.1	3.5	4.7	Impacted by the shift to at-home dining
Singapore	Genting Singapore	GENS SP	6.1	15.2	SELL	0.7	0.7	(3.6)	2.2	Prolonged recovery with reliance on mass market tourism

[1] Closing price as of 4 September 2020 owing to public holidays in Thailand; [2] While a Covid winner and loser respectively, on a fundamental basis our analysts rate Keppel DC an U-PF and Semen Indonesia a BUY. Source: CLSA

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A change of perspective

From life after Covid to life with Covid

We planned this report a few months ago - back then we thought we would be talking about life *after* Covid. It seems the virus may be here for a while though and we are now talking about life *with* Covid. New norms are being put in place as economies open up and face the prospect of further waves of the virus. Fortunately, so far the Asean countries have managed to contain the pandemic reasonably well. We begin this report with a look at the evolving macro trends in Asean as we shift into recovery mode from next year. We then examine how Covid has changed the way businesses operate and which sectors could recover first, which may take the longest to return to strength and which may get seriously left behind. We then highlight our winners and losers - those companies we expect to thrive, or otherwise, as they get used to operating alongside Covid.

Asean economies impacted: no one spared

When the virus first hit, our view was that Malaysia and Thailand, as export-driven economies, would be more vulnerable than the rest of Asean and we expected GDP contractions in 20CL. We thought that domestic-demand driven economies (Indonesia and the Philippines) would be more resilient, with GDP growth slowing sharply but remaining positive in 20CL. However, the prolonged outbreak and extended lockdowns, which are still going on, have led our economists to expect GDP contractions for Asean countries in 2020 to range from 3.1% to 9.8%. The road to recovery is daunting. That said, countries should see a GDP rebound in 21CL, with Malaysia and the Philippines staging a stronger bounce in percentage terms (from a low base).

Fiscal stimulus will leave an overhang in 2021

The biggest constraint on policy will come from huge fiscal overhangs that have resulted from this year's unprecedented fiscal relief packages. This leaves monetary policy as a dependable ally to kick-start investments and we see room for deeper cuts, mostly in Indonesia. We do not expect rate hikes any time soon for countries across Asean. Bold policies are needed but policymakers need to resist being inward-looking and must be open-market oriented. Ultimately, infrastructure holds the key for rebounds in Malaysia, the Philippines and Thailand, while a recovery in Indonesia will have to be holistically reinforced by labour market reforms and deregulation. In Singapore, a significant fiscal cushion extended to businesses into 2021 should facilitate the recovery.

Real GDP growth

(% YoY)	2019	2020E	2021F
Indonesia	5.0	(3.1)	5.7
Malaysia	4.3	(6.5)	10.8
Philippines	6.0	(9.8)	10.8
Singapore	0.7	(5.1)	6.1
Thailand	2.4	(6.4)	6.6

Source: CLSA

Policy rate (period-end)

(%)	2019	Current	2020F	2021F
Indonesia	5.00	4.00	3.50	3.25
Malaysia	3.00	1.75	1.50	1.50
Philippines	4.00	2.25	2.00	2.00
Singapore	1.77	0.44	0.45	0.90
Thailand	1.25	0.50	0.25	0.25

Note: Singapore rate represents 3 month SIBOR.
Source: CLSA

Slowly but surely

Easy does it

With lockdowns imposed across Asean countries since March now slowly being lifted, 2Q20 is widely being seen as the low point for business conditions across the region. While Thailand, Malaysia and Indonesia were the first to emerge from lockdowns in early May, we expect only a gradual rather than V-shaped recovery, thanks to lower purchasing power and business confidence.

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Still vulnerable

Today there are 150 vaccines being developed across the world. However, until there is a good, widely available one, economies will remain susceptible to recurrent waves - as seen in the Philippines which was the first Asean country to institute a nationwide lockdown but has had to reinstate lockdown measures in several regions since August.

Glovemakers emerge as champions

Covid is being felt to different degrees across the region. For example in the Philippines in 20CL we expect to see a 38% earnings plunge, while in Singapore we expect only 20%. Some bright spots remain in Indonesia where we still expect aggregate earnings growth in the traditional defensive sectors of consumer and telcos. The telecoms sector is also defensive in Singapore. Meanwhile, glovemakers are the star performers in Malaysia, bucking the earnings trend amid a surge in global demand.

Asean: Timeline for recovery

Sectors	2020 (by year end)					2021					2022					>2022				
	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH
Automotive							X				X				X	X				
Aviation																X	X	X	X	X
Banks/Financials											X	X	X	X	X					
Consumer						X	X	X	X	X										
Construction/Infra							X			X	X							X		
Energy/Power					X		X				X							X		
Healthcare	X	X							X											X
Oil & gas/Chemicals										X		X				X				
Plantations							X									X				
Property[1]						X	X				X		X	X	X	X				
REITs							X		X	X										
Tech							X							X						
Telcos	X			X			X	X		X										
Tourism						X														
- Hotels												X						X	X	X
- Gaming							X												X	
Transport						X						X		X						X

[1] see further breakdown in property for Indonesia in Figure 28. Note: not all boxes are ticked across all countries as there might not be direct proxies for each e.g. plantations is only relevant in Indonesia and Malaysia. Source: CLSA

Recovery will be more apparent in Indonesia and Malaysia

As economies reopen, we are seeing improved footfall rates in malls across Asean countries - a tell-tale sign that a consumer recovery is underway (and offering a play on Singapore and Malaysia Reits). We expect the number of sectors that are likely to be back to 2019 levels by the end of next year will be highest in Indonesia and Malaysia, while we expect further lockdowns to hamper the road to recovery in the Philippines.

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Surviving Covid

Similarities in sector recoveries across the region

While the recovery may be uneven across Asean, similarities can be seen if we look at the sequence by sector. We think the first to come back will be Asean consumer plays, although discretionary names will lag. Telcos have been defensive and demand for data and broadband services has surged since the pandemic took hold. Our expectations for banks to chart a recovery by 2022 applies to the whole region. On the flipside, we expect aviation plays to be the last to take flight, while hotels and gaming will also be slow to recover as international borders remain restricted. We don't expect a recovery for them until beyond 2022.

Enduring trend: Going online

We see the growing demand for online shopping as being here to stay. Good proxies for this would be convenience store (CVS) plays in Malaysia (MyNews) and Thailand (CPALL). Growth in online shopping is also evident in the Philippines (Robinsons Retail) and Indonesia. Sea Ltd, one of our top winners, is a Singapore/Asean proxy.

Some business models are less adept at change

Unsurprisingly, Covid has fast-forwarded the urgency for businesses to adopt new technology and investment opportunities can be found along the value chain. The reverse also rings true for some traditional economy businesses that may find themselves left behind as the scope to reinvent business models is limited. Most of our team have labelled the construction sector in their countries a key victim of the virus and the least adept in making operational changes. That said, when the emerging Asean economies recover, we think infrastructure projects are likely to follow suit, particularly in Malaysia, the Philippines and Thailand.

Winners and losers

Sea Ltd and Hartalega are top picks

In canvassing the best ideas from our analysts across Asean countries, we see that several of their choices are anchored in more defensive segments with clearer paths to earnings recoverability. Examples are telcos such as PLDT (Philippines) and Telkom (Indonesia). Glovemakers in Malaysia have also emerged as winners amid the pandemic and our preference is for Hartalega. With its strong digital focus, we maintain our BUY recommendation for Sea Ltd. If we had to pick only two winners, they would be Sea Ltd and Hartalega.

Shifting consumer behaviour warrants a cautious approach

Conversely, the long road to recovery for tourism and gaming sees us putting Genting Singapore down as a loser. Carlsberg (Malaysia), with its focus on the mass-market will see its premiumisation efforts challenged - staying away would be a sober choice.

Living with Covid: Asean winners and losers

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Singapore	Keppel DC[2]	KDCREIT SP	3.5	10.7	U-PF	2.8	2.9	(5.8)	(2.5)	Enjoying structural ecommerce growth
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Singapore	Genting Singapore	GENS SP	6.1	15.2	SELL	0.7	0.7	(3.6)	2.2	Prolonged recovery with reliance on mass market tourism

[1] Closing price as of 4 September 2020 owing to public holidays in Thailand; [2] While a Covid winner and loser respectively, on a fundamental basis our analysts rate Keppel DC an U-PF and Semen Indonesia a BUY. Source: CLSA

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Economics view - Daunting recovery path

The severity of the economic impact of Covid has been continuously upgraded as the viral outbreak has progressed. This has been true of emerging Asean with governments needing to proceed cautiously with economic re-opening.

GDP contractions across the board

At the outset of Covid, our view was that Malaysia and Thailand, as export driven economies, would be more vulnerable with GDP contractions expected in 2020. The domestic demand driven economies (Indonesia and the Philippines) would be more resilient with GDP growth slowing sharply but remaining positive in 2020. However, the prolonged outbreak and extended lockdowns going into 3Q20 have deepened the economic downturn in these economies.

GDP contractions forecast in emerging Asean

We forecast GDP contractions in all five countries (Figure 1) reinforced by the steep contractions reported in 2Q20. The 2Q contraction was especially severe in the Philippines with Covid persistence into 3Q20 pushing out recovery prospects. Thailand had its two key growth drivers, exports and tourism, knocked out by Covid. The collapse in exports, both manufactured goods and tourism services, has reinforced the domestic demand slump for the 6.4% contraction that we forecast in 2020. The loss of two key growth drivers, exports and tourism, is also true for Malaysia, reinforced by the terms of trade loss from the oil and commodity price decline, underlining our -6.5% GDP forecast for 2020.

The largest GDP contraction is predicted in the Philippines

Figure 1

Real GDP growth

(% YoY)	2019	2020E	2021F
Indonesia	5.0	(3.1)	5.7
Malaysia	4.3	(6.5)	10.8
Philippines	6.0	(9.8)	10.8
Singapore	0.7	(5.1)	6.1
Thailand	2.4	(6.4)	6.6

Source: CLSA

Figure 2

Average CPI inflation

(% YoY)	2019	2020E	2021F
Indonesia	2.8	2.2	2.5
Malaysia	0.7	(1.0)	2.3
Philippines	2.5	2.2	2.4
Singapore	0.6	(0.6)	0.3
Thailand	0.7	(0.8)	1.8

Source: CLSA

The smallest contraction is forecast for Indonesia

The struggle to contain the outbreak in the Philippines has lowered our GDP forecast to a 9.8% contraction in 2020. Along with the decline in overseas remittances, business process outsourcing and tourism revenues, Covid has disrupted Philippines Offshore Gaming Operations (POGOs) which has been a significant source of investment in recent years. Indonesia's economy has been dragged down by a commodity cyclical downturn. While the 3.1% GDP contraction is the smallest we forecast among these economies, failure to contain the epidemic in the coming weeks will increase downside risk and exchange rate vulnerability.

GDP rebounds in 2021 are off the low 2020 base

The large GDP rebounds predicted in 2021 are off the low 2020 base. Policy options for driving genuine recovery will be influenced by a number of factors, key among them being inflation, the current account and fiscal account.

Current account deficits in 2021

Inflation will present the least challenge

Inflation will present the least challenge. Suppressed domestic demand and global deflation, keeping down oil and commodity prices, is reflected in our low average inflation forecasts for 2020 (negative for Malaysia and Thailand, Figure 2).

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Import compression improves the current account

Import compression from falling domestic demand will be the dominant factor for a narrowing current account deficit to 1.4% of GDP in Indonesia in 2020 (Figure 3). This will be reinforced by the oil price decline for a current account swing to surplus in the Philippines and an offset to declining tourism revenues in Thailand.

Malaysia's current account will swing into deficit in 2021

Malaysia is the exception with the oil and commodity price decline narrowing its current account surplus to 1.0% of GDP in 2020 and pushing it into deficit in 2021. Once domestic demand rebounds, the Philippines will return to deficit underlining renewed exchange rate risk. Thailand will be alone among the emerging Asean economies in maintaining a current account surplus in 2021.

Four out of the five will have a current account deficit in 2021

Figure 3

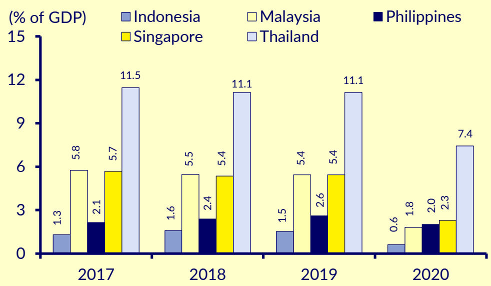
Current account balance

(% of GDP)	2019	2020E	2021F
Indonesia	(2.7)	(1.4)	(1.9)
Malaysia	3.4	1.0	(0.4)
Philippines	(0.1)	1.2	(0.4)
Singapore	17.0	16.7	20.2
Thailand	7.1	3.0	4.2

Note: Fiscal years for India starting April of the captioned year. Source: CLSA

Figure 4

Tourism revenue inflows



Note: 2020 estimates for Philippines and Thailand are for 1Q, others are 1H. Source: CLSA, CEIC

Thailand was most exposed to the collapse in tourism

Exposure to the collapse in tourism is led by Thailand (Figure 4) whose tourism revenue inflows plunged from 11.1% of GDP in 2019 to 7.4% of GDP in 1Q20 and have been shut off in 2Q20 with zero tourist arrivals. Malaysia's exposure is also high, but less than half that of Thailand, with tourism revenues at 5.4% of GDP in 2019 falling to 1.8% of GDP in 1H20. Philippines tourism inflows had trended up to 2.6% of GDP in 2019 so this year's tourism fall will be strongly felt. Tourism exposure is lower in Indonesia with revenues falling from 1.5% of GDP in 2019 to 0.6% of GDP in 1H20.

Huge fiscal overhang in 2021

The largest constraint on policy . . .

The largest constraint on policy will come from the huge fiscal overhangs (Figure 5) resulting from this year's unprecedented fiscal relief packages.

. . . will come from the huge fiscal overhangs

Figure 5

Public sector balance and debt

(% of GDP)	Fiscal balance			Public debt
	2019	2020F	2021F	2020F
Indonesia	(2.3)	(6.9)	(5.5)	40.6
Malaysia	(3.4)	(7.0)	(5.6)	101.6
Philippines	(3.4)	(9.5)	(8.5)	59.0
Singapore[1]	(0.3)	(15.4)	(5.9)	na
Thailand[2]	(2.3)	(6.9)	(5.8)	53.1

[1] Singapore has no public debt; [2] Thailand ending Sep. Source: CLSA

Output gaps argue for stimulus but deficits will need to be reined in

Persistent output gaps will keep unemployment high and industry operating at low capacity arguing for sustained fiscal stimulus. However, as the market becomes less tolerant of deteriorating fiscal positions, the deficits will need to be reined in which will be countercyclical, hampering recovery efforts.

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More monetary stimulus

More rate cuts predicted in 2H20

This implies a continued reliance on monetary stimulus (Figure 6). There is scope for another 25bp cut in Malaysia to 1.5%, a 25bp cut to 2% in the Philippines, where BSP has already cut aggressively, and a 25bp cut to 0.25% in Thailand, where rates are already low. Given the global output gap we anticipate MAS will only revert to a gradual appreciation of the NEER from October 2021 though this will be outweighed by the softness that we anticipate in the currencies of Singapore's NEER constituents.

There will be no rate increases in 2021

Figure 6

Policy rates (period-end)

(%)	2019	Current	2020F	2021F
Indonesia	5.00	4.00	3.50	3.25
Malaysia	3.00	1.75	1.50	1.50
Philippines	4.00	2.25	2.00	2.00
Singapore	1.77	0.44	0.45	0.90
Thailand	1.25	0.50	0.25	0.25

Note: Singapore rate represents 3 month SIBOR.
Source: CLSA

Figure 7

Exchange rate % appreciation/depreciation

(%)	2019	2020F	2021F
Indonesia	4.0	(6.5)	(7.6)
Malaysia	1.1	(4.1)	(3.1)
Philippines	3.8	5.0	(5.8)
Singapore	0.7	0.0	(4.4)
Thailand	7.6	(2.6)	(3.2)

Source: CLSA

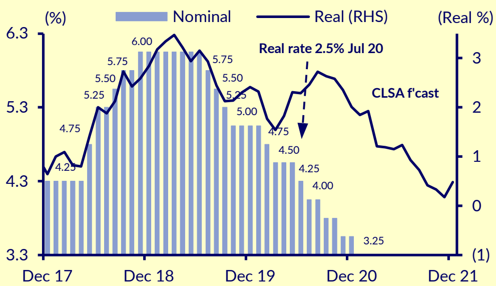
Biggest rate cuts are still to come in Indonesia

The biggest rate cuts are still to come in Indonesia, 50bp to 3.5%. Interest rates need to be much lower in real terms to facilitate a new investment cycle in Indonesia (Figure 8).

Interest rates in these two economies need to be low/negative

Figure 8

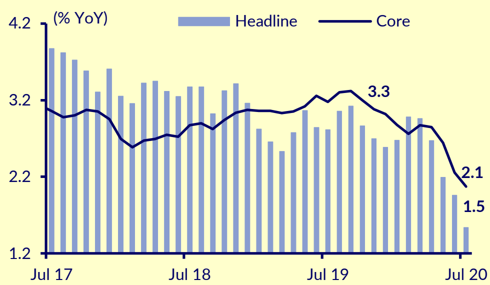
Indonesia policy rate: nominal and real



Source: CLSA, CEIC

Figure 9

Indonesia inflation trends



Note: Deflated by core inflation. Source: CLSA, CEIC

Indonesia resorts to unconventional monetary policy

Covid intractability has led to increasing demands on fiscal expenditure but there is limited government funding capacity. Indonesia will resort to unconventional monetary policy; Indonesia has already initiated quantitative easing.

Twin deficits and QE are risks for renewed exchange rate pressure

Twin deficits (current account and fiscal) and policy moves to monetise the deficit will heighten exchange rate risk. Improving market sentiment and a weakening USD will provide currency respite in 2H20. However, we anticipate renewed exchange rate pressure in 2021, with the largest depreciation predicted for IDR (Figure 7).

Recovery prospects poor, bold policy required

Higher FDI needed at a time when global outbound FDI is falling

The post-Covid bounce in 2H20 and 2021 GDP growth will be insufficient to lift global activity to pre-Covid levels. The output gap will be diminished but not closed (see 3Q20 *Eye on Asian Economies*, **The necessary V (is it sufficient?)**. Persistent unemployment will curtail discretionary spending, low capacity utilisation will suppress investment. There is an urgency to raise competitiveness in order to attract higher FDI at a time when global outbound FDI will be falling. The inclusion of Vietnam in the regional FDI comparison (Figure 10) highlights the low FDI inflows in the other Asean economies.

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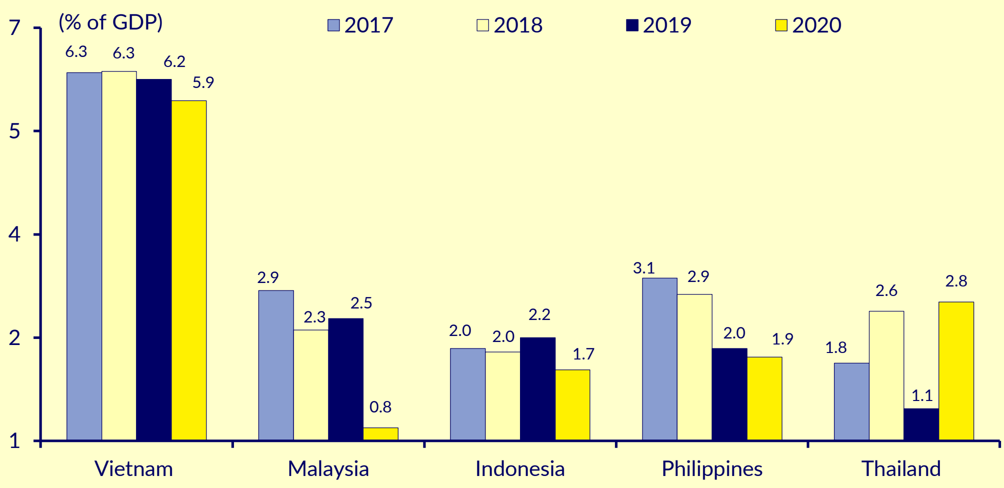
Vietnam highlights the low FDI inflows in Emerging Asean

Figure 10

FDI inflows % of GDP: Emerging Asean



Note: 2020 estimates are for 1Q; India estimates are fiscal year starting April. Source: CLSA, CEIC

Insular policy and protectionism will undermine competitiveness

Policy direction post-Covid will be key. Turning inward with a tilt to protectionism will undermine competitiveness and diminish FDI prospects. Instead, these countries should follow Vietnam's example by opening their economies to trade and foreign investment.

Struggling to get a credit and investment cycle underway

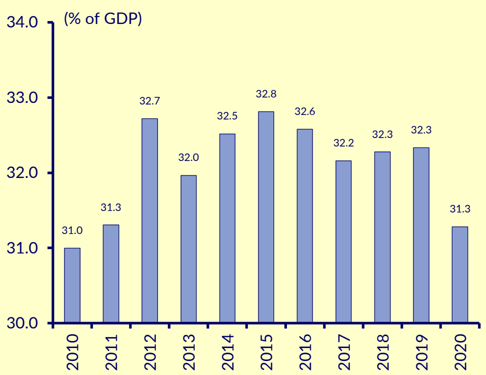
Indonesia recovery prospects

Indonesia was struggling, even before Covid, to get a credit and investment cycle underway (Figure 11). With the onset of the epidemic, investment collapsed with persistent weakness in 3Q20 signalled by the downtrend in capital goods imports (Figure 12). The government had embarked on economic restructuring through the omnibus bills but this was interrupted by Covid.

Steepening investment contraction signalled for 2Q20

Figure 11

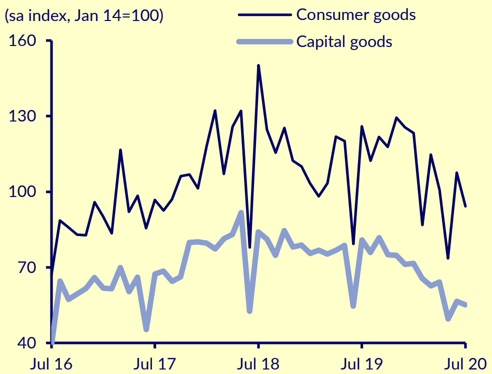
Indonesia: Investment to GDP ratio



Note: 2020 estimate is for 1H. Source: CLSA, CEIC

Figure 12

Capital goods and consumer goods imports



Source: CLSA, CEIC

Investment revival requires restructuring initiatives

An investment revival will require that restructuring initiatives get back on track, in particular labour market deregulation and opening more broadly to foreign investment. Aside from the commodity down-cycle headwind, recovery efforts will be impeded by exchange rate vulnerability with perceived difficulty in exiting from unconventional monetary policy. The narrowing current account deficit in 1H20 has relieved BoP pressure providing BI flexibility for continued gradual rate cuts.

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Multi-year investment downtrend accelerated by Covid

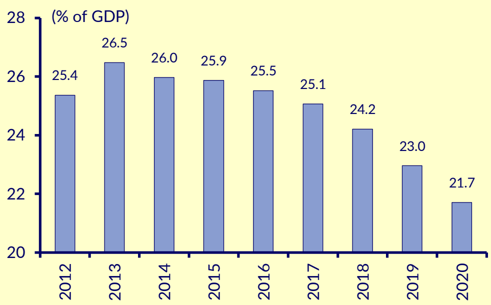
Investment has trended down with the slump in the export sector

Malaysia recovery prospects

Covid accelerated a multi-year investment downtrend in Malaysia (Figure 13). Exports have suffered a double hit during the epidemic through manufactured goods and commodities (Figure 14). This was reinforced by the tourism collapse.

Figure 13

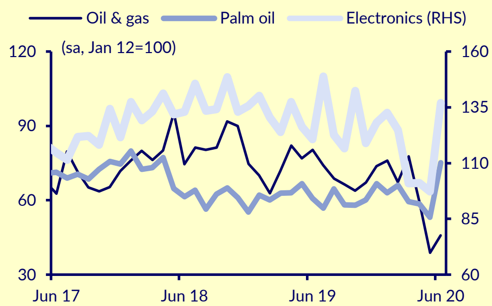
Malaysia: Investment to GDP ratio



Note: 2020 estimate is for 1H. Source: CLSA, CEIC

Figure 14

Exports: Oil & gas, electronics and palm oil



Source: CLSA, CEIC

Exchange rate risk will be heightened by the current account swing

Recovery prospects are clouded by the adverse global outlook. Prolonged weak global trade flows will drag oil and commodity prices down again in 2021 while the rebound in tourism will be patchy. Exchange rate risk will be heightened by the current account swing to deficit that we predict in 2021 and reinforced by rising political uncertainty in Malaysia.

The seven year investment upswing went into reverse

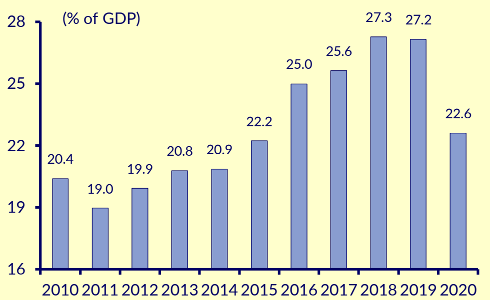
The Philippines recovery prospects

The seven year investment upswing paused with the delayed budget passage in 2019 and went into reverse with Covid (Figure 15). The Philippines has less exposure to a prolonged global demand downturn through export manufacturing but will be vulnerable through reduced overseas remittances and falling BPO and tourism revenues, along with disruption to the POGOs.

Investment upswing will be renewed by infrastructure spending

Figure 15

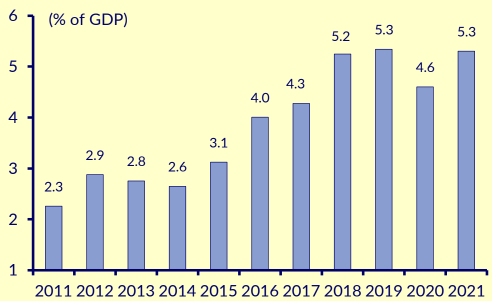
Philippines: Investment to GDP ratio



Note: 2020 estimate is for 1H. Source: CLSA, CEIC

Figure 16

Public infrastructure spending



Note: Infrastructure estimate includes capital transfer to LGUs; 2020-21 are government targets. Source: CLSA, Finance Ministry, CEIC

But increasing risk if there is continued delay from Covid

The protracted outbreak has deepened the economic downturn but recovery prospects remain strong. Recovery will be driven by renewed infrastructure investment. The official projections shown in Figure 16 were reasonable judging by the pre-Covid infrastructure spending trend. However, given continued delay from Covid, infrastructure spending will fall short of target. After an estimated 9.8% GDP contraction in 2020, our 10.8% GDP rebound forecast for 2021 will be led by infrastructure spending.

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Seven year investment downtrend prolonged by Covid

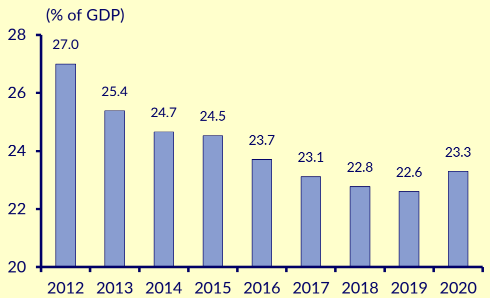
Thailand recovery prospects

The seven year investment downtrend in Thailand is in sharp contrast with the Philippines (Figure 17). This was exacerbated by the loss of the economy's key growth drivers, exports and tourism. The weak global demand outlook and recurrent Covid waves lower prospects of a convincing rebound in 2021.

Confidence levels were rock-bottom even before Covid

Figure 17

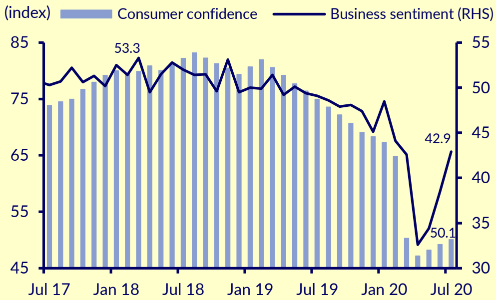
Thailand: Investment to GDP ratio



Note: 2020 estimate is for 1H. Source: CLSA, CEIC

Figure 18

Consumer and business confidence



Source: CLSA, CEIC

Political risk could escalate

Post-Covid recovery cannot rely on monetary stimulus with interest rates already low. Fiscal options will be constrained by the fiscal deficit overhang. Efforts are underway to lift investment growth through infrastructure projects linked to the Eastern Economic Corridor. However, we have yet to see the bold policy initiatives needed to lure foreign investment into the high technology industries envisaged in the EEC special economic zone. Confidence levels were rock-bottom even before Covid; if government economic management falls short, political risk will escalate.

Planning for a cautious "unlocking"

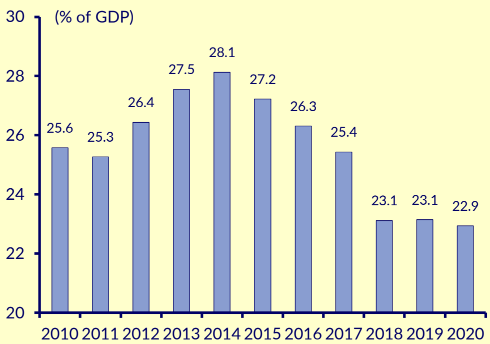
Singapore recovery prospects

Investment in Singapore slipped to 22.9% of GDP in 1H20 (Figure 19). Real GDP contracted by 42.9%% QoQ saar (1Q -3.1% QoQ saar). The government revised down its GDP estimate for 2020 to -7% to -5% (from -7% to -4% previously), notwithstanding the anticipated rebound in 2H20. This reflects the prolonged uncertainty about both the external and domestic demand outlook. In 2Q20, private consumption contracted by 28.2% YoY (1Q: -2.4%) and by 70.4% saar. Investment (GFCF) contracted by 27.2% YoY (1Q: +3.9%) and by 75.0% saar. Government consumption provided a partial offset rising by 22.1% YoY and by 68.4% saar. The 2Q contraction in exports by 14% YoY was less than in imports by 16% for an additional modest offset from net exports.

3Q is likely to show a substantial rebound

Figure 19

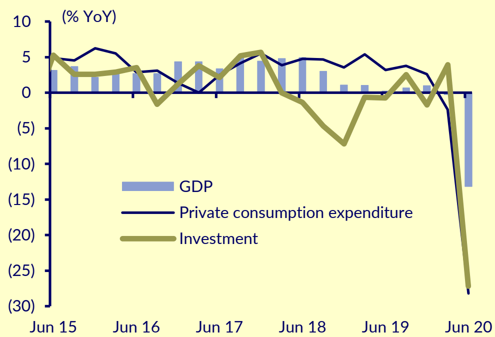
Singapore: Investment to GDP ratio



Note: 2020 estimate is for 1H. Source: CLSA, CEIC

Figure 20

Singapore GDP, PCE and investment



Source: CLSA, CEIC

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Fiscal transfers will prep the ground for a good 2021 rebound

Singapore has recognised that the gradual acceleration of its “circuit breaker” will result in domestic activity making a slow return to normalcy. This is reinforced by the expected weak external demand as countries battle second and third waves of Covid by reinstating localised lockdowns or social distancing. We assume Singapore’s new government will start to pull back on the extreme fiscal stimulus put in place this year. Singapore’s reserves mean that its 2020 deficit carries no long-term fiscal implications. Even so, we expect the deficit to shrink rapidly next year. This will represent a drag on growth and for Singapore, as elsewhere, the terms on which the economy reopens are as important as the lockdown. The Fortitude budget extended the fiscal cushion extended to businesses into 2021 and should facilitate a stronger rebound than enjoyed by countries whose budgets are more constrained. What about monetary policy? Nominal GDP contracted by 18.1% YoY in 2Q20 (1Q20: -2.3%) a reflection of the negative GDP deflator at -5.3% YoY. This reinforces the message from the CPI inflation data that MAS need not even consider tightening at its October meeting, opting instead to maintain the SGD NEER at the centre of the band.

Daunting task ahead

Recovery will be a daunting task

Recovery in emerging Asean will be a daunting task. The economies face adverse global conditions. Exchange rate vulnerability will remain high due to twin deficits exposure with a huge fiscal overhang in all these economies and a current account deficit, in all except Thailand, in 2021. The optimal policy, given the increased need for foreign capital, will be to open their economies to trade and foreign investment. Insular and protectionist policies will be counter-productive. Infrastructure spending will be best option to drive investment which, with limited alternatives, will mean an increased reliance on China for project financing.

Recovery prospects, sensible policy will be vital

Recovery in Malaysia and Thailand will be hampered by persistent weak global demand. Malaysia will also have to struggle against a renewed oil price decline. Indonesia has large untapped potential but will need to push ahead with economic restructuring for this potential to be realised. GDP recovery will fall short of 6% in 2021. The Philippines economy remains under pressure from the prolonged Covid outbreak. However, having demonstrated efficient infrastructure implementation before the pandemic, the Philippines has reasonably bright recovery prospects.

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Recovery mode - Slowly but surely

All five Asean countries in our discussion went through a period of lockdowns from March 2020, with their economies then reopening in stages (Figure 21). The initial stages of the pandemic were painful as most economies ground to a halt but they have gradually opened up since May and June. We think the second quarter of 2020 will probably be the worst for most companies as this is when they felt the full impact from lockdowns. The pace and extent of recovery for each country will depend on the current and future outlook for Covid, but a common feature across the five markets is that shopping malls are re-opening. This was top of the list for most countries as lockdowns eased. Crowds are clearly back, but spending may not be up to full speed.

Figure 21

Asean: lockdown phases

	Indonesia	Malaysia	Philippines	Singapore	Thailand
Lockdown start date	31 Mar 20	18 Mar 20	17 Mar 20	7 Apr 20	26 Mar 20
Recovery lockdown phases		Movement Control Order (MCO) Phase 1: 18-31 Mar Phase 2: 1-14 Apr Phase 3: 14-28 Apr Phase 4: 29 Apr - 12 May - Conditional MCO Phase 5: 13 May - 10 Jun Phase 6: 11 Jun - 31 Aug - Recovery MCO		Circuit Breaker Phase 1: 2-18 Jun Phase 2: 19 Jun onwards	
Lockdown relaxation date (earliest date for easing)	7 May 20	4 May 20	1 Jun 20	1 Jun 20	3 May 20
Lockdown resumed	No	No	4 Aug 20 Metro Manila, Laguna, Cavite, Rizal, and Bulacan under the stricter modified enhanced community quarantine (MECQ) from August 4 to 18	No	No

Source: CLSA, various government official portals

Biggest catalyst for recovery would be a vaccine

The Covid pandemic continues to wreak havoc on some countries. The Philippines was the first country in Asean to impose a nationwide lockdown and it is now also the first to re-impose lockdowns in selected areas. In the absence of a vaccine, it will be crucial for new daily cases to remain under control in order to have a sustainable economic recovery. At present, it has been reported that researchers around the world are working on more than 150 vaccines to combat the virus. Based on the latest news flow, key front-runners are potential vaccines from the United Kingdom, the United States, China, and Germany. Russia has already registered its first Covid vaccine.

While every country is faced with different challenges for a recovery, we think that the consumer sector will be the first to recover in most Asean countries, with retail Reits joining them (particularly in Singapore). Our team in Indonesia expect the country's transportation sector to recover first as the consumer sector is deemed defensive - not surprising as Indonesia has the strongest domestic consumption in the region. Meanwhile, we think tourism with its aviation/airlines and hotels will likely take the longest to recover as international borders remain hard to pass and domestic travel may also continue to be restricted.

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Figure 22

Asean: Expected recovery time by sector

Sectors	2020 (by year end)					2021					2022					>2022				
	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH	ID	MY	PH	SG	TH
Automotive							X				X				X	X				
Aviation																X	X	X	X	X
Banks/Financials											X	X	X	X	X					
Consumer						X	X	X	X	X										
Construction/Infra							X			X	X							X		
Energy/Power					X		X				X							X		
Healthcare	X	X							X											X
Oil & gas/Chemicals										X		X				X				
Plantations							X									X				
Property[1]						X	X				X		X	X	X	X				
REITs							X		X	X										
Tech							X							X						
Telcos	X			X			X	X		X										
Tourism						X														
- Hotels												X						X	X	X
- Gaming							X												X	
Transport						X						X		X						X

[1] see further breakdown in property for Indonesia in Figure 28. Note: not all boxes are ticked across all countries as there might not be direct proxies for each e.g. plantations is only relevant in Indonesia and Malaysia. Source: CLSA

Key trends to note:

Consumer staples most defensive

- It is not surprising that consumer staples would be defensive and the first to recover across the countries, but if we were to split this into retail and discretionary, we think the recovery would be extended to 2021/22 with discretionary spending being the last to recover.

Telcos next to recover

- Apart from Indonesia and Singapore who have labelled telcos as the most defensive across the Asean countries, other countries see telcos as a recovery play in 21CL.

Banks will have to wait

- We expect banks/financials to recover only in 22CL as most countries have loan moratorium arrangements until at least end-20CL.

Healthcare a darling in Malaysia but last to recover in Thailand

- Healthcare stands out in Indonesia and even more so in Malaysia due to their glove manufacturers, but the opposite is true for Thailand which is a centre of medical tourism, making it one of the last sectors there to recover.

Tourism and aviation will be the last to recovery

- We expect tourism to be the last to recover across the countries, which is unsurprising given that borders are mostly closed and domestic tourism only restarted in May (mostly relevant to Indonesia, Malaysia and Thailand). We have a similar view of a late recovery for aviation and airports.

- By country, it appears that Indonesia and Malaysia would see most of their sectors recover in 21CL and 22CL. The Philippines was likely on the verge of a recovery earlier this year but with lockdowns recently resumed the recovery could be delayed.

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Indonesia: A long tail recovery

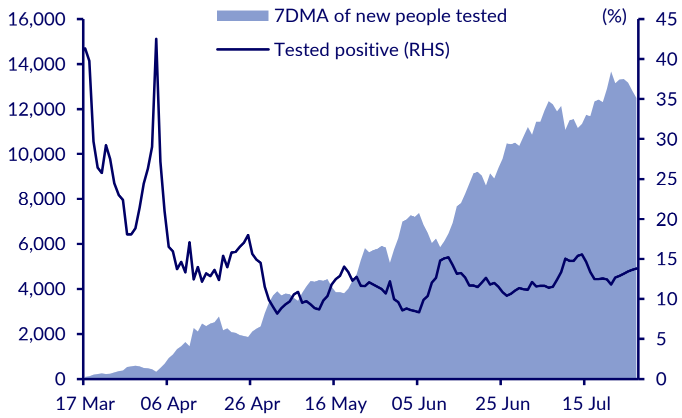
The Indonesian government has recently reopened the economy although some movement restrictions are still in place. On the ground, we are seeing malls reopening but with strict health protocols and controls on the number of visitors. Auto dealerships and auction houses also still have strict social distancing.

Base case: gradual economic recovery

At the time of writing, Covid cases are still rising in Indonesia, even though the infection rate is moderate compared to the global rate. While another national scale lockdown is unlikely, localised lockdowns (at the regional or city level) could still be re-imposed. Hence, we believe the path of recovery for the economy will be gradual, rather than V-shaped for Indonesia.

Figure 23

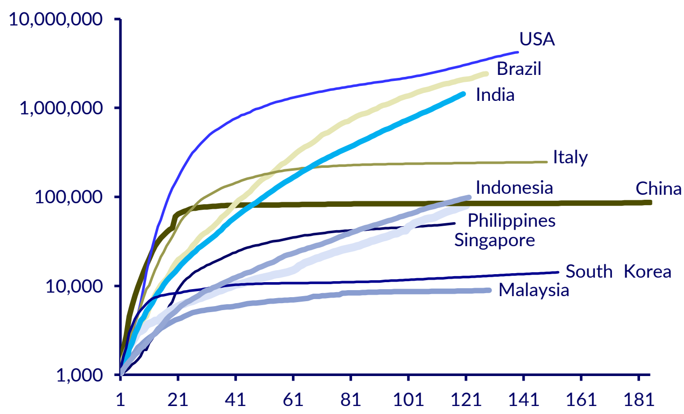
Indonesia: 7DMA of people tested



Source: Indonesian Ministry of Health

Figure 24

Indonesia: Cumulative cases trajectories since 1k cases



Source: Governments

Lockdown phases differ across regions

Figure 25

Indonesia: lockdown phases

Lockdown start date	31 Mar 20	Government issues large-scale social restriction (PSBB) regulation. PSBB was implemented in 28 regencies/cities and 4 provinces.
	7 Apr 20	Jakarta was the first to implement PSBB.
	21 Apr 20	Government bans mudik (Moslem holiday exodus).
Recovery lockdown phases		Differing regions have differing lockdown easing dates and phases.
		For Jakarta PSBB transition: ❑ Phase I: reopening of places of worship, workplaces, social & cultural and transportation with 50% capacity restrictions. ❑ Phase II: reopening of education, entertainments, and others.
Lockdown relaxation date	7 May 20	Resumption of domestic flights for people who meet specific criteria.
	17 May 20	Gowa was the first region to lift PSBB measures.
	5 Jun 20	Jakarta PSBB transition phase I started on 5 June 2020.
	7 Jun 20	Ban on mudik (Moslem holiday exodus) is lifted.
	8 Jun 20	All offices and industries are reopened with 50% capacity.
	15 Jun 20	Malls and market are reopened with 50% capacity.
Lockdown resumed (if applicable)		Jakarta PSBB transition phase I which should have been completed in 30 Jun 2020, is extended to 30 Jul 2020.

Source: CLSA, Government of Indonesia

Staples, telco, and healthcare are the defensives

Consumer staples, telcos (and tower companies), and healthcare are the defensives. This year, aggregate sales for staple companies could still grow, albeit slowly. However, we forecast aggregate earnings to rise 7% in 20CL versus 10% in 2019, given low commodity prices and operational efficiency (for example advertising spending cuts). For telcos, we expect core profit (given some one-offs in 2019) for Telkom to grow by 8% this year.

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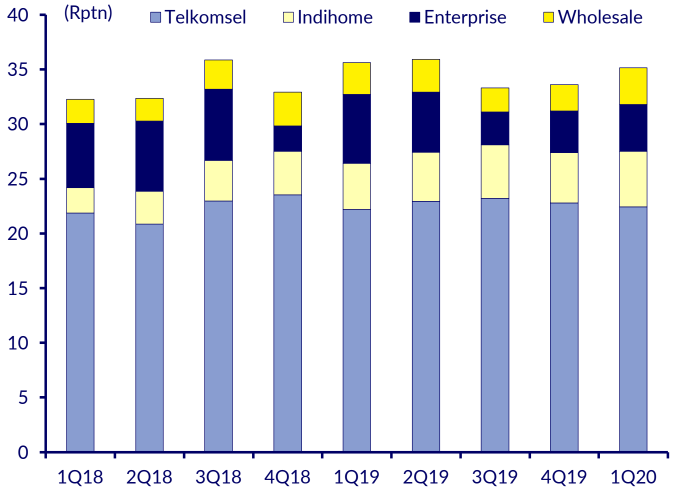
Figure 26

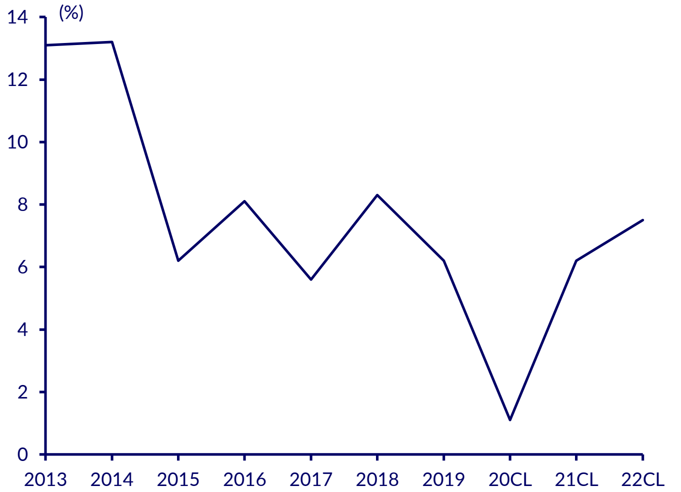
Indonesia: Telkom revenue trend



Source: CLSA, Company

Figure 27

Indonesia: Staple companies sales growth trend



Source: Companies

Transportation among the few sectors to recover first

We expect transportation (including toll road operators), tourism, and consumer discretionary (mid-high end) to be the first to see recoveries in 21CL given the reopening of the economy. However we do not expect a sharp overall recovery given business confidence is yet to rise and purchasing power has been impacted, especially for the low end. Due to this, we forecast that bank earnings will only get back to 2019 levels in 22CL given margin compression (due to loan restructuring) and elevated provision charges.

Mid-high segment to do better than low-end

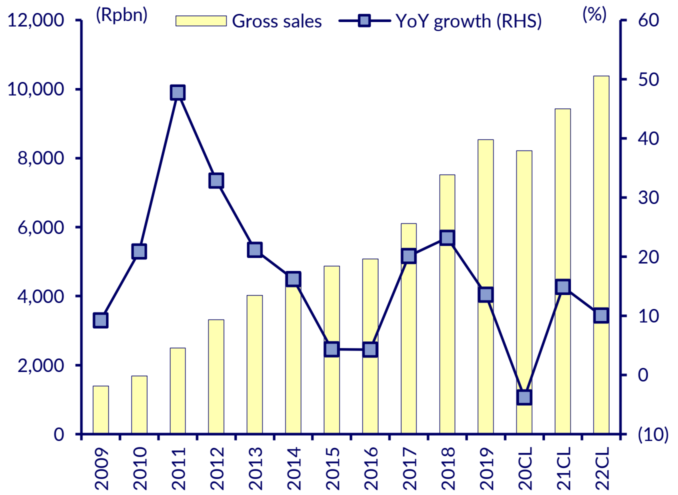
In general, we expect low-end consumption to continue to be tough next year unless the government maintains stimulus measures or the economy recovers sharply. By way of an example at the high-end, we expect mid-high retailer Ace Hardware to see its sales rebound in 2021.

Expansion of fiscal deficit until 2022

On a positive note, the government has been allowed (by parliament) to expand its fiscal deficit beyond the 3% regulatory threshold until 2022.

Figure 28

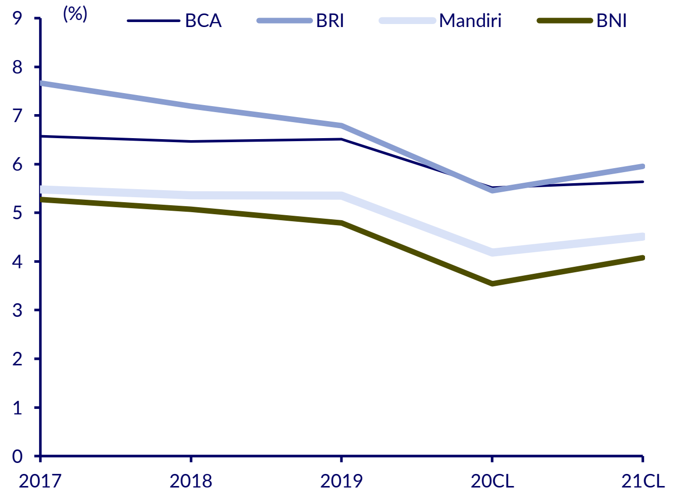
Indonesia: Ace Hardware gross sales trend



Source: Company

Figure 29

Indonesia: NIM trend of banks



Source: Companies

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Expect no tailwind from commodities in the medium term

We expect commodity prices to remain soft, one of the reasons for the low-end spending recovery being slow. In our view, low-end retailers, oil & gas, and commodity plays will be the slowest sectors to recover. An obvious risk to our call is if global trade recovers more sharply than expected next year, which will be a strong tailwind for Indonesia.

Policy reforms will send a strong signal to market

We think the last sector to recover will be industrial property developers that rely on domestic and foreign direct investment. This sector needs policy reforms (we are anticipating labour law reforms that were put on hold due to the pandemic) to attract investment, as well as a boost in domestic utilisation and confidence. If the government can execute reforms earlier than expected it will send a strong signal to the market.

Recovery looks to be at the longer tail-end

Figure 30

Indonesia: sector recovery timeline

Sectors	2020	2021	2022	>2022
Automotive				
❑ Passengers			X	
❑ Commercial				X
Banks/financials			X	
Consumer				
❑ Discretionary/retail		X		
❑ Staples	Defensive			
❑ Discretionary			X (selective mid-high)	X (low end)
Construction/infra (include cement)			X	
Energy/power			X	
Healthcare	Defensive			
Oil & gas/chemicals				X
Plantations				X
Property				
❑ Residential			X	
❑ Industrials				X
❑ Mall operators		X		
Telco (and towers)	Defensive			
Transportation (incl toll road)		X		
Tourism		X		
Others				
❑ Mining				X
❑ Media			X	

Source: CLSA

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Malaysia: towards a gradual recovery

The Malaysian government imposed a Movement Control Order (MCO) on 18 March 2020 and since May it has gradually reopened the economy. At the time of writing, we are at the 'Recovery MCO' (RMCO) stage where close to 90% of economic activity has resumed.

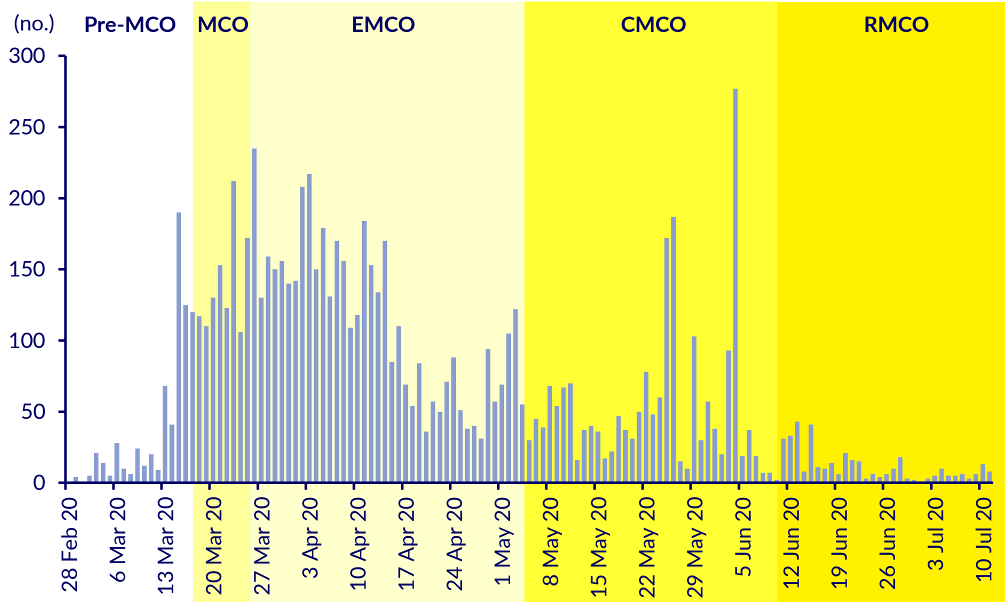
Several stimulus packages

The government has put in place several stimulus packages adding up to RM295bn, but only RM35bn of it has been direct fiscal injection. The rest has been funded largely via liquidity releases from the system (including a lower Employees Provident Fund contribution estimated at RM40bn, a loan moratorium by Bank Negara estimated at RM100bn, guarantees (Danajamin at RM50bn), the reallocation of government budgets (RM2bn-3bn), and external borrowing). The country's fiscal deficit is expected by the Ministry of Finance to climb to 5.8-6.0% for 2020. The government's aim is to support employment and ensure small businesses survive.

The largest stimulus package was announced after the first MCO

Figure 31

Malaysia: Stimulus packages announced along the phases of the MCO



	First Stimulus **RM20bn** ❑ Tax breaks ❑ Lowered EPF contribution ❑ 15% electricity discounts ❑ BNM special relief facility	**Prihatin** **RM250bn** ❑ Loan moratorium ❑ Danajamin financing guarantee ❑ Wage subsidy programme ❑ One-off cash assistance ❑ BNM special relief facility top up **Prihatin SME** **RM10bn** ❑ RM2.1bn grant for 700,000 SMEs	**Penjana** **RM35bn** ❑ Stamp duty exemption ❑ RPGT exemption ❑ Car sales tax waiver ❑ Wage subsidy extension ❑ Incentives for hiring unemployed ❑ Tourism financing

Source: CLSA, Ministry of Health & Ministry of Finance Malaysia

Essential services were allowed to operate

Essential businesses were allowed to continue operations even with the MCO. Banks, convenience stores, oil & gas companies, planters, ports, power companies and telcos were allowed to operate but with limited capacity. Airports, healthcare services (hospitals, companies manufacturing healthcare equipment including glove manufacturers) were allowed full operations.

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Other businesses began to resume operations from May

The Malaysian economy gradually reopened from May (under a Conditional MCO). Business restrictions have been eased and social distancing measures have been reduced but mass gatherings are still prohibited. The decision to gradually restart the economy came about after the prime minister gave a speech on 1 May stating that the economy would see losses of RM2.4bn per day for every day the MCO was extended (up to now that makes RM63bn, or 4% of 2019 GDP. If the MCO is extended by another month, it will result in another RM35bn in losses for an accumulated loss of up to RM98bn. Tech companies, which saw disruptions to their supply chains resumed business after 1 May while contractors were allowed to resume operations after obtaining necessary approvals. At this point, grocery stores were doing roaring businesses but other retail outlets were suffering.

Tourism hardest hit

Tourism has been hardest hit with hotels and airlines badly affected. Malaysia is heavily reliant on tourism for GDP growth and we have seen hotels suffering and at least a couple forced to close down. Taking their cue from Reits that have hotels in their asset portfolios, occupancy has fallen below breakeven levels for some. Airlines saw a complete halt in services in the early phases of the MCO with domestic flights resuming from 1 July. Local tourist destinations saw a significant pick up once they were allowed to resume operations as there was a lot of pent-up demand. Resorts World Genting saw its casino filled with customers from the day it reopened. That said, without international tourists we see no clear recovery for hotels and airlines in the near term.

Property sector is challenging

The construction and property sectors saw a resumption of work from early May. However, strict new standard operation procedures mean that operations are not at full capacity. Recovery of the sector will require the government to move ahead to a pump priming stage, which we hope to see in 2021. The property sector seems more challenging. While some developers were able to book online sales during the MCO, conversion to actual sales has yet to be seen. Concerns about job losses in the immediate term could put a cap on a revival of the property sector, despite government initiatives (home ownership campaigns, lifting of loan-to-value limits for mortgages and waiving property gains tax up to mid-2021).

Shoppers were out in force once malls fully re-opened

Shopping malls started to see footfall pick up when they were allowed to fully re-open in early May but consumer trends have changed. Having relied on online shopping throughout the MCO, and many consumer still cautious with crowds, shopper traffic is still 40-50% below pre-MCO levels. F&B outlets have also seen lower capacity as social distancing remains strictly enforced.

Consumer staples were defensive

We think the consumer sector will be the quickest to recover. While staples stayed defensive throughout the MCO and are expected to remain so, discretionary expenditure is likely to be harder hit as consumers tighten their belts. Consumer-related companies were quick to adapt to changes to protect business amid the pandemic. Ecommerce sites saw sales boom, while the central bank's ambitions toward a cashless society made progress.

Loan moratorium extended to individuals and smaller businesses

Individuals and small-to-medium sized enterprises were offered an automatic loan moratorium by banks (non-bank financial institutions also offered some form of moratorium but not as extensive as the banks) from April 2020 to September 2020. This in some way has protected the banks from seeing non-performing loan spikes but credit costs have found their way through the banking system on a proactive basis. While a blanket automatic loan moratorium is unlikely to be further extended, banks have said that they would continue to support customers who may still require financial assistance.

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Most sectors should be back at 2019 levels by 21CL

Figure 32

Malaysia: timeline for recovery

	2020	2021	2022	>2022
Automotive		X		
Aviation				X
Banks/Financials			X	
Consumer		X		
Retail		X		
Staples	X			
Discretionary			X	
Construction/Infra		X		
Energy/Power		X		
Healthcare	X			
Oil & gas			X	
Plantations		X		
Property			X	
REITs		X		
Tech		X		
Telco		X		
Tourism			X	
Hotels			X	
Gaming		X		

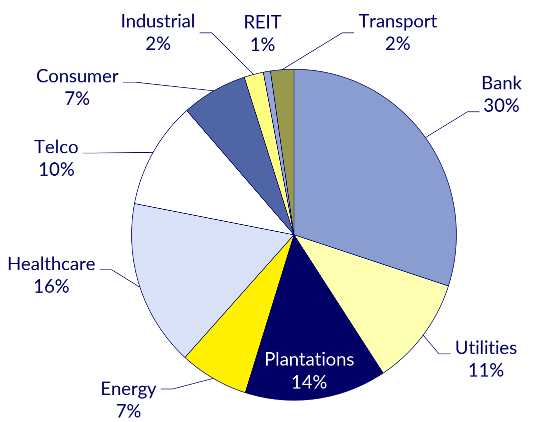
Note: Healthcare sector includes the glovemakers which are beneficiaries of the pandemic. Source: CLSA

Glovemakers are the ultimate winners

Glove companies stood out as the darlings of the country. Not only were they able to fully operate during the MCO, demand for gloves globally ramped up and we expect the companies to record their strongest ever revenues and profits from 2Q20. As long as we have to live with Covid, demand for gloves will remain strong. The listed glove companies have evolved to become the top five largest market capitalisation companies on the local bourse and have gained in importance as benchmark component stocks (Figure 33).

Figure 33

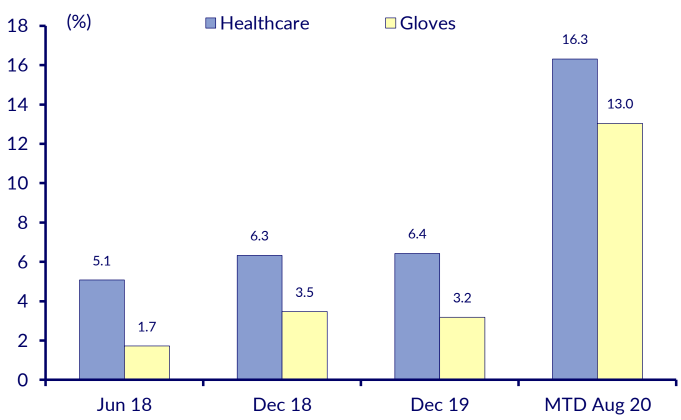
Malaysia: glovemakers emerge as high weights in the FBMKLCI



Source: CLSA, Bloomberg

Figure 34

Malaysia: glovemakers (healthcare) were the best performer YTD



Source: CLSA, Bloomberg

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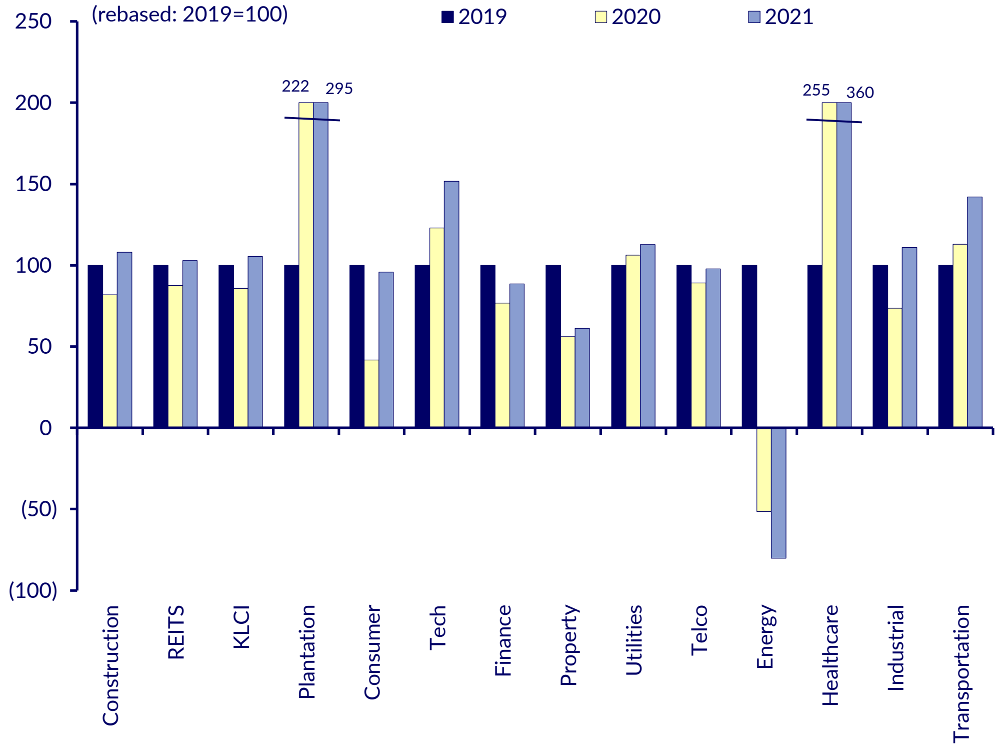
Healthcare and plantations power ahead

With most companies severely affected by the MCO coupled with a slow but gradual recovery expected in 2H20CL, it will not be surprising to see a massive earnings contraction for 2020. The exceptions will be glove manufacturers and the plantations sector; gloves due to increasing global demand and plantations due to rising crude palm oil (CPO) prices.

Most sectors will see earnings back on track in 2021

Figure 35

Malaysia: earnings growth to mostly recover in 2021



Source: CLSA, Bloomberg

We expect the consumer sector to see a strong rebound into 2021. Looking across its subsectors however, we may see breweries and tobacco taking a longer time to recover. We also expect the construction space to pick up speed. As the government loosens up its fiscal position, more infrastructure projects should get underway. We think banks should see earnings recover in 2021 after a slew of interest rate cuts in 2020. With the automatic loan moratorium over by end-September with a targeted loan moratorium at least for another three to six months, this should keep delinquencies at bay.

The gloves are off

Malaysian gloves the driving force of earnings growth

While bumper profits for glove manufacturers in CY20CL are now a given, the biggest concerns that investors have raised with us are about a potential normalising in 2H21, which could lead to earnings peaking then. Such concerns are exacerbated by increasing concerns about the aggressive expansion plans of leading Chinese glove manufacturers Blue Sail and Intco Medical, which on paper suggest a collective addition of 74bn nitrile capacity by 2022 (see our July report *Malaysia Gloves: Rational Exuberance*). However, our assumption of global demand growth of 25%/15%/10% for 20/21/22 against the effective capacity of the seven major players still suggests a global glove shortage of 30bn/34bn/13bn for the respective years.

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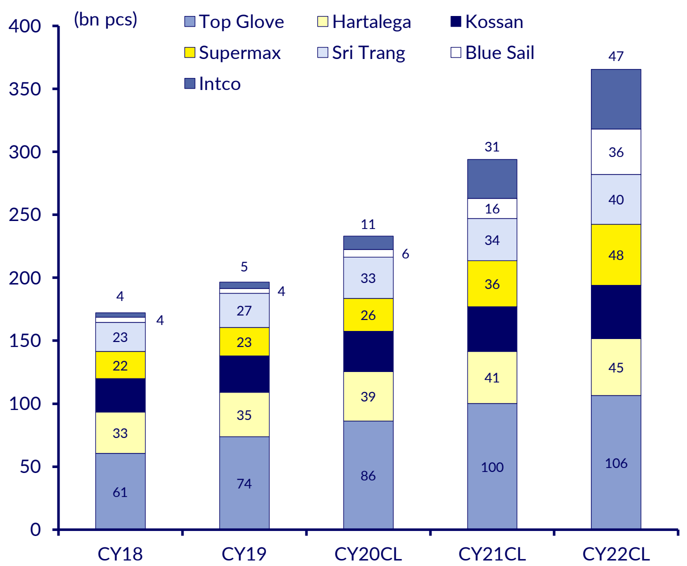
Figure 36

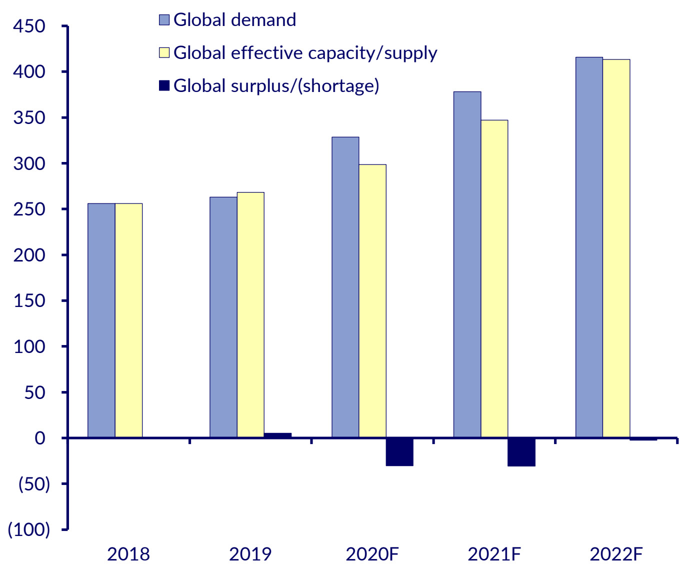
Malaysia gloves: Top 7 players installed capacity comprises 67-75% of market share



Source: CLSA. Companies

Figure 37

Malaysia gloves: Forecasted demand-supply dynamics suggests a 30/34/13bn pcs of gloves shortage in 2020/21/22, respectively



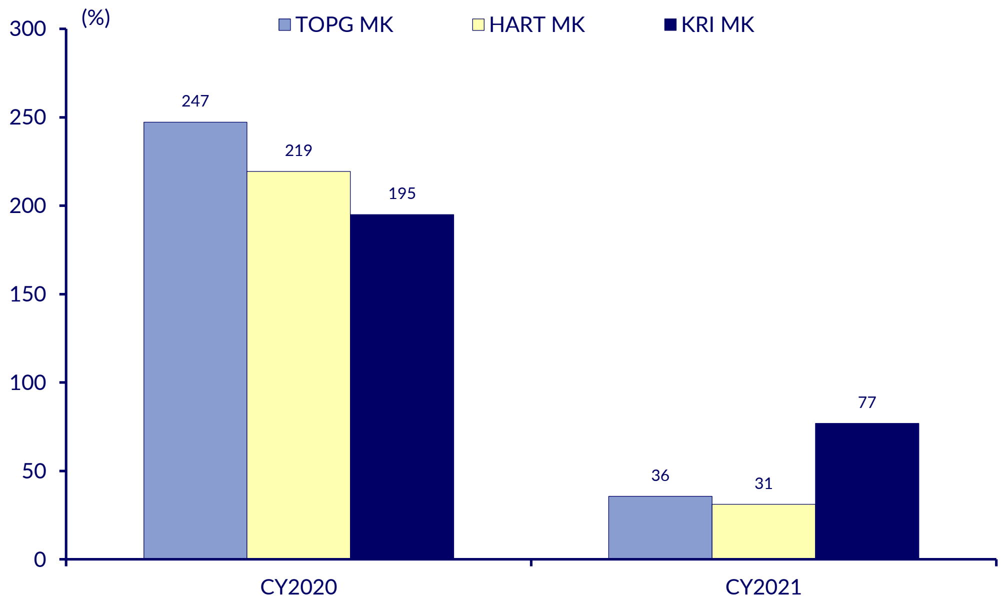
Source: CLSA, Companies

Recent concerns have also emerged about the various vaccines in development. News of Russia approving the world's first Covid-19 vaccine without concrete trial data has brought widespread criticism globally. We believe that even when a successful vaccine is made it will take time for commercial production to ramp up significantly to meet global demand and achieve herd immunity. By extension, this will mean stringent standard operating procedures will be in place for the foreseeable future and glove usage will remain strong. We think spot ASPs will normalise as acute shortages stabilise, although base ASPs will remain elevated, helped by recurring orders through 2021.

Top Glove is forecasted to show the strongest earnings growth of 247% in CY20CL

Figure 38

Net profit growth forecasts for Malaysian glove makers in CY20 and CY21



Source: CLSA

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The Philippines: U-shaped recovery in the works

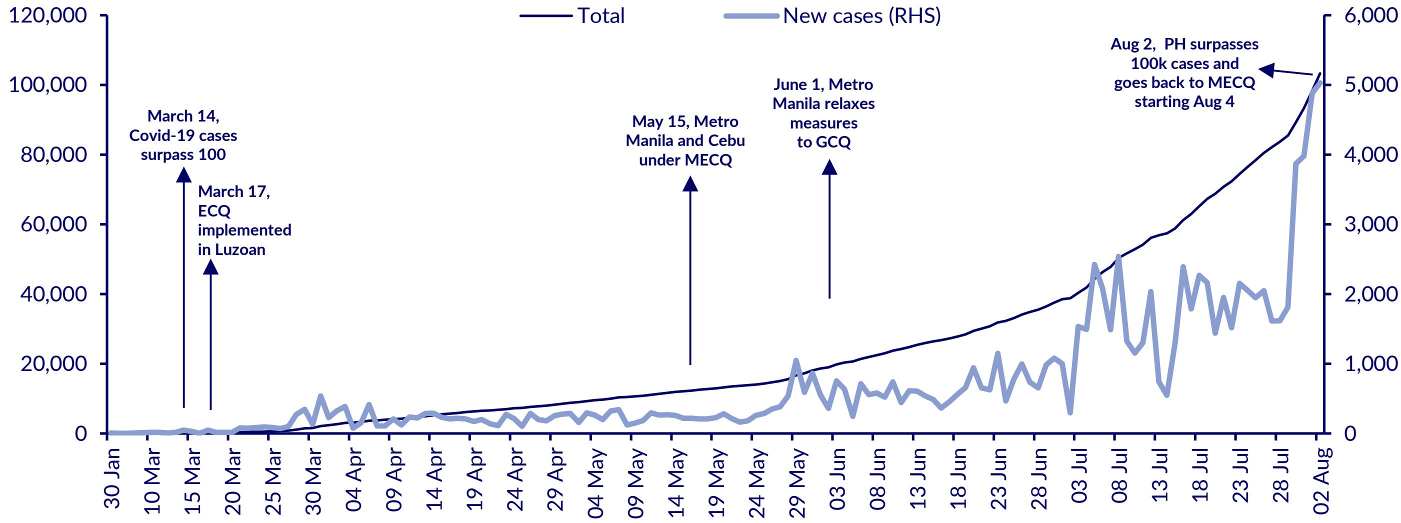
In March, President Rodrigo Duterte imposed one of the strictest and longest lockdowns in the region to curb the spread of Covid. A subsequent reduction in new cases gradually allowed the government to open up the economy. This boosted the confidence of people to go out and spurred domestic spending and consumption. However, since the further loosening of lockdown conditions in early June, more people have been going out, thereby increasing their chances of catching the virus. Population congestion and a lack of discipline in terms of social distancing and the wearing of protective masks have contributed to a growing number of new cases.

First to re-impose lockdowns as new cases return

As new cases started to rise, president Duterte re-imposed strict lockdown measures in Metro Manila and other nearby provinces. Since August 19, Metro Manila has now reverted to the less restrictive general community quarantine (GCQ). Aside from Metro Manila, the provinces of Laguna, Cavite, Rizal, and Bulacan have also been placed under GCQ, along with Nueva Ecija, Batangas, Quezon in Luzon; Iloilo City, Cebu City, Lapu City, Mandaue City, Talisay City, and the municipalities of Minglanilla and Consolacion in Cebu province in the Visayas. Meanwhile, the rest of the Philippines has now been placed under the more lenient modified general community quarantine, or MGCQ.

Figure 39

Philippines: Covid-19 new cases and measures imposed



Source: CLSA, Department of Health Philippines

Negative effects of Covid to hit earnings in 20CL

After a stellar 2019 where we saw Philippine market earnings expand by 17.4%, we expect market earnings to contract by 37.6% in 20CL. This is due to the negative effects of the pandemic which should cause a contraction in the top line. The negative effects include various quarantine/lockdown measures throughout the archipelago; anticipated declines in overseas Filipino worker remittance, business process outsourcing revenues, and foreign tourist receipts; and weak consumer demand outside of non-discretionary items. Aside from weak top lines we think we will also see rising provisioning - especially in the banking sector - for possible non-performing loans ahead.

Hotel and leisure will take the biggest hit in 20CL

Figure 40

Philippines: market aggregate EPS growth

(%)	2019	2020	2021	2022
Universe	**17.3**	**(38.9)**	**45.4**	**21.0**
Conglomerates	24.4	(43.8)	59.7	28.2
Consumer	(3.6)	(72.0)	286.8	21.9
Financial Services	21.6	(36.0)	30.6	22.6
Hotels & Leisure	38.7	(181.0)	nm	nm
Infrastructure	68.9	(53.3)	2.5	13.3
Power	(2.8)	(7.2)	14.6	4.9
Property	14.3	(33.2)	36.9	19.2
Telecoms	13.1	(1.2)	15.6	1.3

Source: CLSA

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Earnings should recover starting 21CL

Moving ahead, we expect a strong recovery in aggregate earnings in 21CL to 42.1% and in 22CL to 21.4% on the back of a broad economic recovery. We also expect a resumption in growth from government infrastructure spending and foreign direct investment. We expect market aggregate earnings to return to 2019 levels in 22CL. Specifically, we expect 22CL aggregate earnings to be up 7.7% versus 2019 earnings.

Most sectors should be back at 2019 levels by 22CL

Figure 41

Philippines: rate of recovery of earnings back to the 2019 level

	2020	2021	2022	>2022
Universe			X	
Conglomerates			X	
Consumer		X		
Financials (Banks)			X	
Hotel and Leisure				X
Infrastructure				X
Power		X		
Property			X	
Telco		X		

Source: CLSA

Telcos, consumer and power to recover first

In terms of specific sectors, we think telcos, consumer, and power sectors will recover the fastest. This is due to defensive nature of these industries. In fact, we expect aggregate earnings for each of these sectors to exceed 2019 levels in 21CL. They will be followed by conglomerates, property, and banks whose aggregate earnings should exceed 2019 levels in 22CL. At the tail-end will be hotels, leisure and infrastructure. For hotels and leisure, we expect aggregate earnings to exceed 2019 levels in 23CL. We expect infrastructure aggregate earnings to exceed 2019 levels in 25CL.

Aggregate earnings should be back at 2019 levels by 22CL

Figure 42

Philippines: earnings growth

(%)	20CL vs 19	21CL vs 19	22CL vs 19
Universe	(38.9)	(11.2)	7.5
Conglomerates	(43.8)	(10.3)	15.1
Consumer	(72.0)	8.3	32.0
Banks	(36.0)	(16.4)	2.5
Hotel and Leisure	na	na	(24.3)
Infrastructure	(53.3)	(52.1)	(45.8)
Power	(7.2)	6.4	11.6
Property	(33.2)	(8.6)	9.0
Telco	(1.2)	14.2	15.7

Source: CLSA

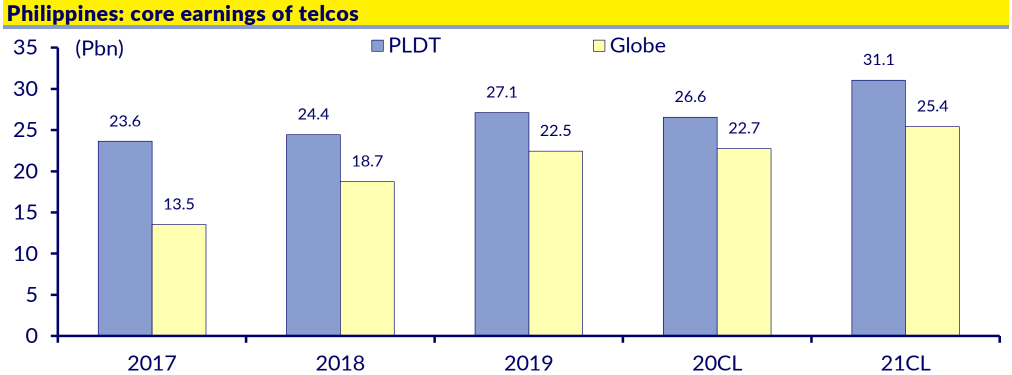
Telcos is a resilient sector

Leading the earnings recovery is the telco sector as we see aggregate earnings expanding by 15.6% in 21CL after mildly contracting by 1.2% in 20CL due to weak mobile top ups from prepaid users and minimal expansion to fixed broad band. We see consumers becoming more attached to data services which will translate to more subscribers and better margins in 21CL-22CL. Further, incumbent telcos PLDT and Globe should benefit from the delayed third-player roll-out.

Telcos should lead the earnings recovery

Figure 43

Philippines: core earnings of telcos



Source: CLSA

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Happy days are here again for the consumer sector

We expect the consumer sector to see aggregate earnings growth hit 166.3% in 21CL after contracting by 60.2% in 20CL. The dramatic turnaround in earnings in 21CL will be led by food manufacturers as their 20CL earnings should exceed their 2019 earnings. Retailers should exceed their 2019 earnings in 21CL whereas liquor manufacturers, full-service restaurants and fast food establishments should exceed their 2019 earnings by 22CL.

Power demand should rebound

We think the power sector should also see a nice recovery in earnings in 21CL, to 14.7% after contracting by 9.4% in 20CL, mainly on the back of increased power demand from commercial and industrial users. We expect 22CL net income growth to be pedestrian at 4.7% increase as the start of commercial operations of Aboitiz Power's GN power Dinginin plant will be offset by the full-year impact of Meralco's lower distribution tariff and declining coal prices.

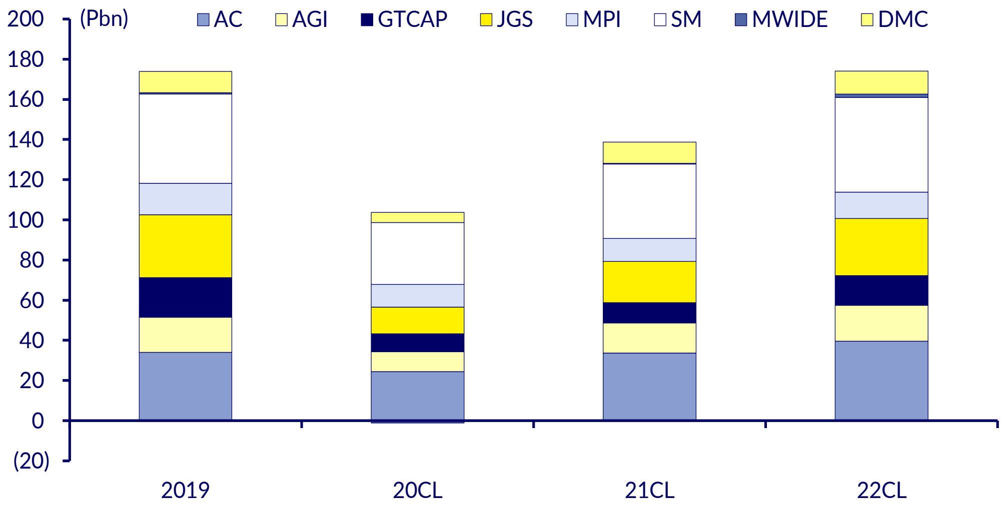
Conglomerates, banks, and property all in the same boat

We think the conglomerates, banking, and property sectors should mirror the earnings trajectory of the market in 2019 to 22CL. This should not come as a surprise as collectively these sectors account for more than 50% of the Philippine composite index (PCOMP). Also, we note that a lot of conglomerates have significant property and banking assets in their portfolio. In these sectors, we expect companies that will recover the fastest (basically by 21CL), will be Ayala Corporation and DMCI Holdings given their investments in defensive sectors such as telcos and power.

Profitability of holding companies will revert back to 2019 levels only by 22CL

Figure 44

Philippines: conglomerates earnings



Source: CLSA

Last to recover

The last two sectors to recover will be gaming in 23CL and infrastructure in 25CL. Bloomberry is the only listed gaming play and Metro Pacific is the only pure infrastructure play in the market. For gaming, the anticipated reopening of the integrated resorts in 3Q20 coupled with gradual resumption in tourist activities should lead to a recovery in earnings starting 21CL. For infrastructure, recovery in earnings will be gradual, only starting in 21CL due to the negative effects of rate-rebasing on power distribution businesses which should lead to lower power distribution rates, and additional financing charges in relation to the ongoing expansion of toll road businesses.

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Singapore: also expecting a U-shaped recovery

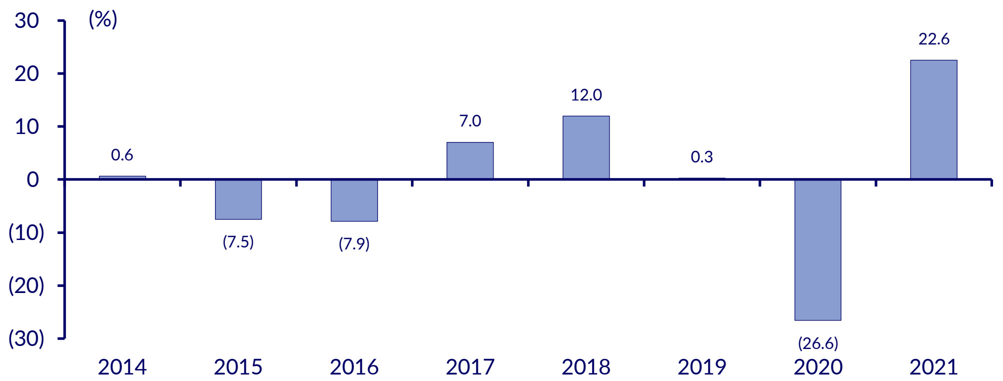
While Singapore has eased its lockdown and entered Phase 2 of its "circuit breaker" where most businesses are allowed to resume operations, the impact from Covid will still weigh heavily on market core EPS growth where we expect earnings to decline by 21% YoY in 20CL. That said, the massive S$100bn government stimulus at 20% of GDP will avoid a prolonged earnings contraction and hence we expect core EPS growth to rebound by 17% in 21CL from a low base. However, even after factoring in this rebound, core earnings would still be 13% lower than pre-Covid levels. With the emergence of second waves hitting cities globally, we believe there is further downside risks to our earnings forecasts, as well as those of consensus. Hence, the recovery is likely to be U-shaped unless a vaccine is found.

On 17 August the government extended the jobs support scheme by up to seven months until March 2021 with 50% wage support for the hardest hit sectors: aerospace, aviation and tourism. The government also extended 30% wage support for the arts, food services, transport, marine and retail industries and 10% for all other sectors. Other support packages include a S$187m aviation support package to subsidise rental and landing charges and a S$150m top up to support startups.

Earnings showing a rebound in 2021

Figure 45

Singapore: core EPS growth trend



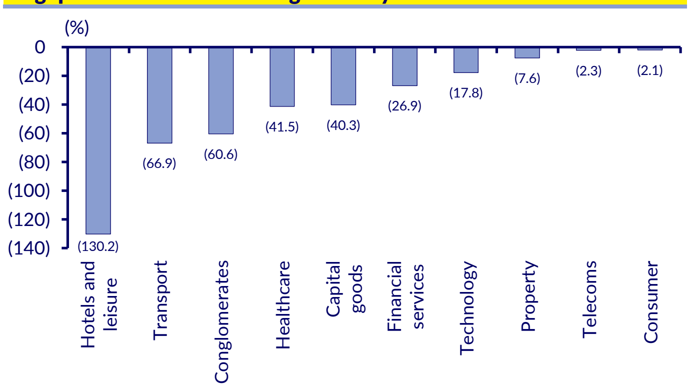
Source: CLSA

No sectors are spared

No sectors are spared from the impact of Covid. But among our coverage universe, telcos, consumer, technology and property are relatively more resilient than other sectors where core EPS growth are estimated to fall less than 10% YoY. Conversely, tourism related sectors, transport, aviation and capital goods will experience sharper declines in earnings growth.

Figure 46

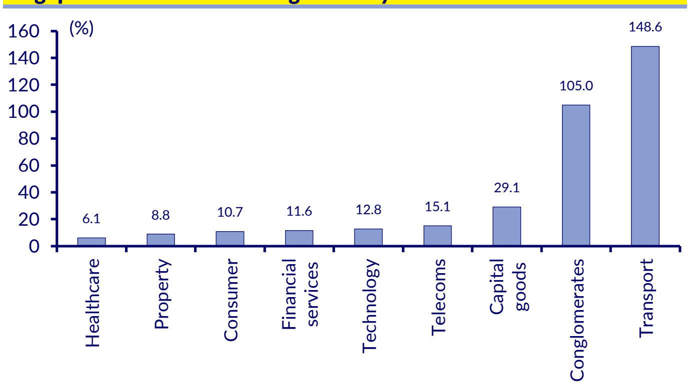
Singapore: market core EPS growth by sectors in 20CL



Source: CLSA

Figure 47

Singapore: market core EPS growth by sectors in 21CL



Source: CLSA

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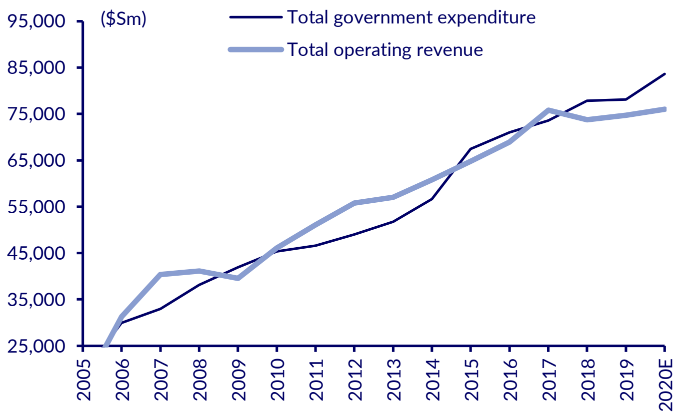
Given the massive government stimulus and the low base effect of a washout year in 2020, we expect core earnings growth will rebound sharply for the same sectors that are most negatively impacted in 2020. In particular, we expect the hotel and leisure sector to see 376% in earnings growth driven by the slow resumption of tourist arrivals and travel demand.

Massive government stimulus

After four rounds of government stimulus estimated at close to S$100bn, the government budget is expected to see a deficit much larger than the 2009 global financial crisis. Given the scale of the stimulus, this should provide a lifeline to businesses in the near term, in our view.

Figure 48

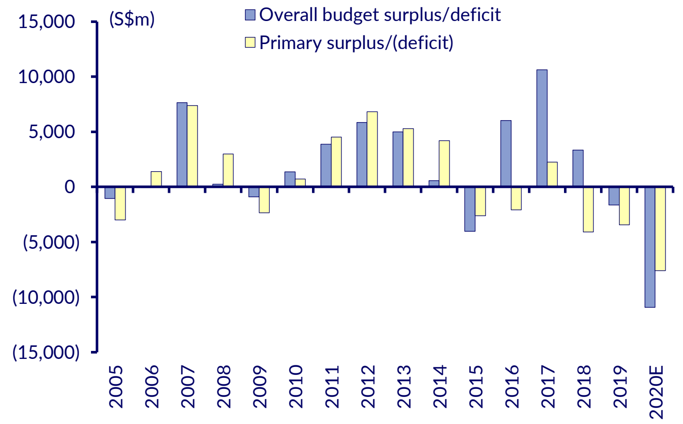
Singapore: Government Expenditure vs Revenue



Note: Singapore Budget 2020 as of 25 March 2020. Forecasted FY20 budget revised to S$44.3bn deficit post the announcement of the Solidarity Package which will cost S$5.1bn. Source: CLSA, CEIC, Ministry of Finance

Figure 49

Singapore: Deficit vs Surplus



Note: Singapore Budget 2020 as of 25 March 2020. Forecasted FY20 budget revised to S$44.3bn deficit post the announcement of the Solidarity Package which will cost S$5.1bn. Source: CLSA, CEIC, Ministry of Finance

Telco, consumer, healthcare and Reits to recover first

In terms of earnings recovery, we expect telcos to see minimal impact from Covid relative to other sectors. This is followed by the consumer, healthcare and Reits sectors where earnings would have recovered back to 2019 levels by 2021, in our view. While most sectors will recover in 2022, we expect the capital goods and hotel sectors to be the last to recover given the nature of their business.

Figure 50

Singapore: Sector recovery timeline

	2020	2021	2022	>2022
Capital Goods				X
Conglomerates			X	
Consumer		X		
Financial Services			X	
Healthcare		X		
Hotels and Leisure				X
Property			X	
Reits		X		
Technology			X	
Telecoms	X			
Transport			X	

Source: CLSA

Singapore entered the circuit breaker phase on 7 April

As the number of Covid cases escalated rapidly in March, Singapore entered a "circuit-breaker" status on 7 April, equivalent to the lockdowns seen in other countries. Under circuit-breaker conditions, Singaporeans are advised to stay home as much as possible, limit gatherings, and can only leave home to work for essential

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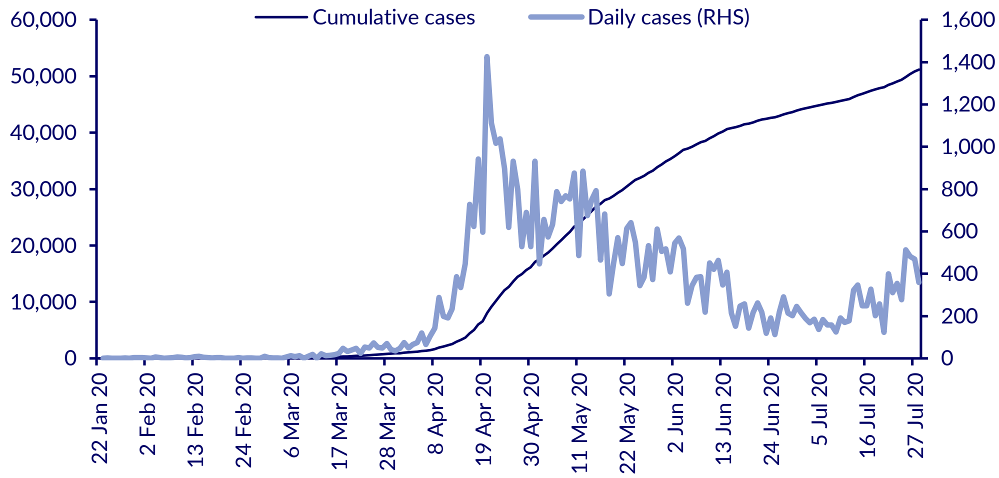
service providers, to seek medical help or buy essential goods. Phase-1 was implemented from 2 June, consisting of a gradual reopening of some activities such as businesses with lower transmission risks (most manufacturing and production facilities, and businesses that do not require interaction between large groups of people). Pre-schools will reopen gradually by level, and primary/secondary schools will rotate weekly and alternate between home-based-learning and returning to schools.

Phase 1 of reopening implemented from 2 June

Figure 51

Singapore: Covid cases



Source: CLSA, Ministry of Health

Phase 2 reopening implemented from 19 June

Phase 2 was more significant, and commenced on 19 June. During Phase-2, we have seen retail outlets reopen with safe-distancing measures. Dining in restaurants is also allowed, but subject to a limit of five diners per table and liquor sales and consumption must cease by 10:30pm. Other activities allowed to resume are private tuition, private enrichment lessons, healthcare services for the elderly, sports and public facilities, personal health and wellness and pet care. Schools are also gradually reopening. Masks will remain compulsory outside of homes, and the safe-distancing rule of at least one metre is to be maintained.

Figure 52

Singapore: Timeline of Covid measures

Timeline on Singapore Covid measures	Date	Description
Tighter measures	20 Jan 20	Temperature screening for travellers from China.
	7 Feb 20	Risk assessment raised to DORSCON Orange.
	17 Feb 20	Mandatory 14-day stay home notice for work pass holders from China.
	4 Mar 20	Passport holders from S. Korea, Italy, Iran require approval to enter Singapore.
	13 Mar 20	Events with 250 people or more to be cancelled/deferred.
	24 Mar 20	Limit gatherings outside work and school to 10; Close bars and entertainment venues. Closed borders.
	7 Apr 20	Circuit Breaker announced.
	21 Apr 20	Tightened circuit breaker (extended to 1 June).
Looser measures	12 May 20	Basic haircuts, laundry and takeaway food allowed.
	2 Jun 20	Phase 1 - Motor, aircon and pet services to reopen.
	19 Jun 20	Phase 2 - Most activities to resume. Retail, F&B and sports outlets to reopen; measured social interactions allowed.
	28 Jun 20	Tourism attractions allowed to resume.
	13 Jul 20	Cinemas allowed to reopen.
	14 Jul 20	Essential travel to China allowed; In discussions with Malaysia for Green Lane arrangements.
	30 Jul 20	Marriage solemnisations and wedding reception allowed up to 50 attendees, subject to venue capacity limit.
	17 Aug 20	Green lane arrangements for essential travel to Malaysia to commence.

Source: CLSA, Various news

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Thailand: Perception divergence

The gradual unwinding of lockdowns since 3 May has allowed almost all domestic activity to get back to a so-called "new normal". Social distancing and hygiene measures are still being widely applied. This has generated upbeat sentiment and an across-the-board rerating in the equity market amid consensus earnings downgrades. The V-shaped rebound seen in FY21 earnings consensus remains in doubt, in our view.

Local developments

Figure 53

Thailand: Summary of key Covid-19 related events and government measures

Timeline	Events
A. Initial Covid-19 outbreak	
13 Jan 20	First confirmed case in Thailand (Foreigner).
15 Jan 20	First confirmed case in Thailand (Thai).
1 Mar 20	First death from Covid-19 in Thailand.
B. Peak Covid 19 outbreak	
12 Mar 20	First 'Super spreader' case in Thailand (boxing stadium).
C. Full government intervention	
22 Mar 20	Temporary closure shopping malls, Only take-away and food delivery allowed.
26 Mar 20	Declared State of Emergency decree nationwide.
2 Apr 20	Curfew (10 pm - 4 am).
7 Apr 20	International travel ban (until 30 June 20).
9 Apr 20	Ban on alcoholic beverage sales.
D. Relaxation of Covid 19 measures	
1 May 20	Resumption of domestic flights.
3 May 20	Relaxation phase 1: Re-opening of local markets, dining-in restaurants (outside malls), hair salons, etc.
17 May 20	Relaxation phase 2: Curfew (11pm-4am). Re-opening of Shopping malls, restaurants (inside malls), etc.
1 Jun 20	Relaxation phase 3: Curfew (11pm-3am), re-opening of Movie theatres, spa, fitness, etc.
15 Jun 20	Relaxation phase 4: Curfew removal, re-opening of international schools, allowing alcoholic beverage consumption in restaurants, amusement/water parks, concerts/events (limited participants) etc.
1 Jul 20	Relaxation phase 5: Re-opening of pubs/bars, game/internet shops, massage parlours and schools/universities.

Source: CLSA; Royal Thai Government, Centre of Covid-19 Situation Administration

Covid-led lockdown sent economy into recession

Thailand entered 2020 with exports declining and growth slowing. The pandemic triggered a nationwide lockdown and aggravated the situation, suppressing tourism to almost zero since April and grinding domestic services (outside groceries) to a standstill for a month in late March. While the lockdown has been gradually unwound from 3 May, the negative impact of it and of the international travel ban on the service sector remains significant, both for business and job losses.

Fiscal stimulus packages

The government has become more fiscally aggressive with a Bt1tn borrowing campaign to stimulate the economy. This is about 6.2% of GDP and will be for spent over eighteen months until end-September 2021. While the campaign is sizeable, it will not save Thailand from a recession this year as tourism, about 11% of Thailand's GDP last year, has collapsed to zero since April and the international travel ban remains in place with no clear timeline on relaxation. The Bt1tn campaign consists of Bt45bn healthcare spending to fight the virus, Bt555bn to help affected individuals and farmers, and Bt400bn to help unemployment in the service sector through various rural job creation programmes.

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Expansionary policies argue for a domestic demand revival

The fiscal stimulus, together with accommodative monetary policy, should revive domestic demand, especially for staples. This will be more so in rural areas where the fiscal spending is targetted and where jobs are being created to absorb the unemployed who fled back to their rural hometowns from service sector roles in major tourist cities. The government will resume infrastructure bidding and spending to drive public investment as the next growth engine. Therefore, we expect domestic demand to recover first and tourism recover last, depending on the progress of a vaccine and global infection rates.

Food and utility sectors offer the most resilient earnings

Our baseline assessment for an earnings recovery towards levels seen in 2019 calls for earnings in the food and power sector to stay resilient this year with no major new lockdowns. We think the retail and telco sectors should be next to see their earnings rebound next year.

Earnings recovery is expected to be gradual

Figure 54

Thailand: Recovery of earnings back to 2019 levels

	2020	2021	2022	>2022
Financial			X	
Retailer		X		
Petro/chem		X		
Power	X			
Hotel & Leisure				X
Food	X			
Media				X
Property			X	
Healthcare				X
Telecom		X		
Transportation				X
Material		X		

Source: CLSA

We expect international tourist arrivals to fully recover by 2023

Together with stabilising oil prices following the OPEC+ agreement to curb supply, we expect the energy and material sector to see their earnings recover to 2019 levels in 21CL. Financials should see their credit costs peak this year and next, and their earnings to recover meaningfully in 22CL. We think contractors will see a similar recovery as they roll out newly bid infrastructure projects next year. Property should see demand returning thanks to the low interest rate environment and solid sentiment for a recovery by 2022. We expect entertainment and media to recover fully by 23CL as they are of a discretionary nature and sensitive to infection rates, news flow and employment rates. Tourism, healthcare, hotel and air transport, will gradually recover over time and we expect them to fully recover by 23CL. However, are expectations could change if infection rates rise.

Consensus expecting a V-shaped earnings rebound next year

Our earnings recovery expectations are far more conservative than the year-to-date consensus earnings forecasts. So we expect continued consensus earnings downgrades following 2Q20 results, except for the food and power sectors. Interestingly, the sharp contrast between our earnings assessment and the market is a V-shaped rebound in tourism-related sectors like air transport and hotel. Besides, the market is far too pessimistic in telco's earnings outlook going into next year as well.

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Food and utility sectors should see little impact on earnings

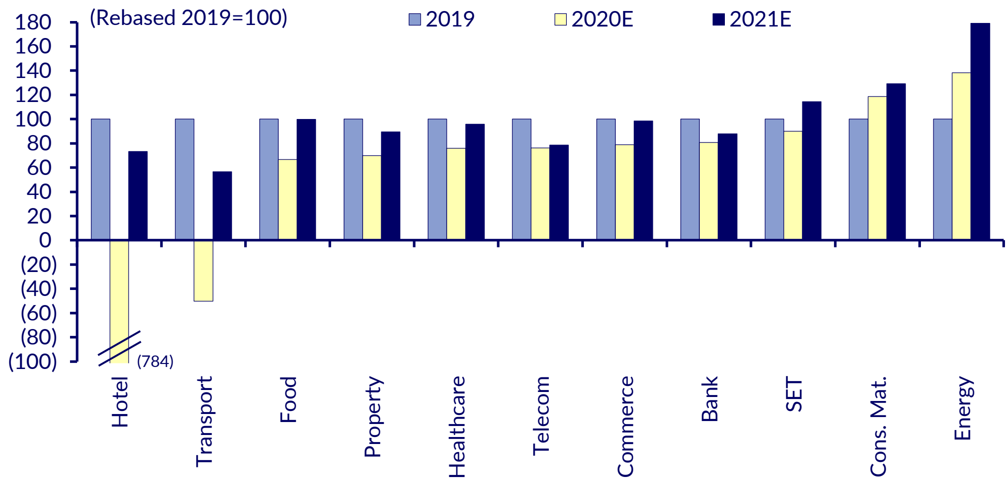
We think the food and power sectors are the most resilient to lockdowns. Food gains from panic buying and restaurant closures, so we do see upside risk to consensus in the food sector. Power names will be least impacted by the pandemic as most still add capacity organically and through M&A, offsetting the impact of lower electricity.

We expect O&G, petrochemicals and retail to recover to normal next year

We share the consensus view that O&G, petrochemicals and materials will likely see their earnings return to 2019 levels next year as the oil price recovers. Retailers (commerce) and commercial properties should see traffic returning to normal in 2H20CL and a full recovery next year, partly thanks to the fiscal stimulus. Still, we expect rural spending momentum to outperform Bangkok and major tourist provinces in the coming quarters. We think telcos will enjoy strong data demand growth, offsetting tourist-related prepaid revenue declines.

Figure 55

Thailand: 2020 and 2021 EPS consensus estimates[1] by sector - rebased to 2019



[1] as of 12 July 2020. Source: CLSA, Bloomberg

Banks and property should see earnings gradually recover

Consensus expectations of earnings for the bank and property sectors to gradually recover from the bottom this year are in line with our forecasts. High credit costs and narrowing net interest margins will hurt banks this year and next. However, as the economy gradually recovers and consumer sentiment normalises next year, we expect the low interest rate environment to support demand for residential properties (with landed properties to outperform as year-to-date demand has been resilient). However, the condo inventory overhang is a drag on the industry.

Tourism-related earnings are hard to call

Tourism-related sectors - transport (mainly Airports of Thailand), hotel and healthcare (dragged down by the drop in medical tourism) - may take longer to recover than consensus estimates as there is still no clear timeline for the removal of the international travel ban. The so-called “travel bubble” model has been discussed but no details have been forthcoming. This presents downside risks to consensus earnings in these sectors, in our view.

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Surviving Covid

Evergreen sectors, sectors that need a revamp and surging new sectors

As economies gradually reopen, businesses will head into recovery mode and we have already seen business models changing as they adapt to life with Covid. Businesses that are agile and nimble are likely be able to survive post-pandemic. In this section of the report we analyse which sectors will be evergreen and survive this cycle, and which may struggle or take longer to recover.

Our Asean research team has reached a consensus that:

Consumer - earliest to recover

A. The consumer sector will be the earliest to recover, buoyed by heavier ecommerce traffic that also benefits telcos (n terms of data usage). Aside from staples which we deem as defensive, we breakdown the sector to retail (including Reits), discretionary and breweries.

Tourism - likely to be the last to recover

B. Tourism will be the last to recover with effects seen in airlines, hotels and gaming. Long lasting effects from international border closures will keep tourism plays muted until 22CL.

Fintech - seen as enablers during the pandemic

C. As the pandemic has moved consumers online there has been less of a reliance on cash, pushing forward central bank agendas of a cashless society. Fintechs, while touted in the past as major disruptors have emerged as complementary friends for banks.

Some sectors will still stick to their modus operandi

D. There will however be sectors that may not be able to change their modus operandi, usually “old economy” sectors. We highlight construction as a sector that will still require manual labour despite efforts to automate as much of the process as possible.

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A: Consumer: Back to basics - with a twist

The consumer staples subsector stayed defensive throughout the pandemic as basic needs need to be met regardless of circumstances. A common trend noted by our team across Asean was the surge in ecommerce during lockdown periods. Restricted movement had inadvertently pushed this and most companies have aggressively added online offerings to their bricks-and-mortar models.

Ecommerce/online transactions, the way to go

We believe the ecommerce/online purchase trend will continue even after Covid dissipates. Proxies for these would be CVS plays in Malaysia (MyNews) and Thailand (CPALL) but most of the plays are unlisted (for example Grab and Lazada). Online trends are apparent in the Philippines (Robinsons Retail) and Indonesia (Tokopedia, Bukalapak, Lazada, and Shopee are among the key platforms). Whilst Sea Ltd emerges as a Singapore/Asean proxy.

Crowds returning to malls

While we have seen crowds going back to shopping malls across the region as operations resume, our conversations with shopping mall-related Reits suggest that shopper traffic is still only estimated at 50% versus pre-Covid levels. A lot of precautionary measures are being taken by retail mall operators - queuing, temperature scanning, recording details of customers. We also note pent-up demand for luxury items but we think this is a relatively small segment of customers. Proxies here would be the Singapore Reits. Discretionary spending is expected to stay a laggard given weak consumer sentiment and concerns about job losses.

It’s the market for the masses now

We think that while the upper income consumer segment may move towards premiumisation, it will remain very selective. In Indonesia, we note that this segment tends to premiumise consumption on vitamins and healthcare products but in Malaysia, the trend is more apparent in breweries (non-premium brands) and tobacco (towards value for money brands).

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Telcos benefit from rising data use

We include discussions on telcos in this section as there was a pick up seen in data usage across the countries, supported mainly by the surge in online/ecommerce transactions. Telcos are deemed a resilient sector in Indonesia. We don't expect to see major revenue increases for telcos in Malaysia due to promotions for free data during the lockdowns and promotional campaigns launched the year before. In Thailand, as a result of the work-from-home phenomenon and rising online shopping, our analysts expect data usage demand to be explosive. In Indonesia, telco companies saw double digit QoQ data traffic in 2Q20. For its largest operator Telkom, we expect 12-15% YoY growth in data revenue in 20CL-21CL. Philippine telcos saw a shift from mobile to broadband and there is pent-up demand in data which has been disrupted due to delays in tower construction. Meanwhile in Singapore, telcos are affected by lower roaming revenues, tourism and fewer foreign workers.

On the whole, with stimulus packages extended by all governments, we expect consumption to be well supported.

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Indonesia: Covid's impact on consumption

The consumer staples sector tends to be more defensive than other sectors during lockdown periods. As for the traditional retail segment, we believe a return to pre-Covid traffic numbers might take longer-than-expected given rising cases of Covid in the country.

Our latest survey of middle-class malls and our conversations with mall operators suggest mall traffic in the first few weeks of re-opening is still low (weekend traffic is about 40% less than normal).

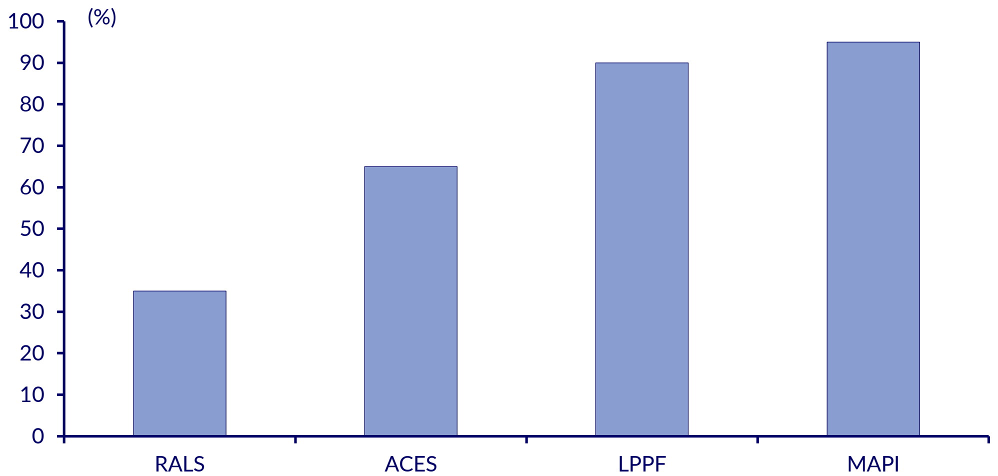
Retailers in mid-upper segment to be more defensive

Companies in the mid-upper segment offer better earnings visibility given pent-up demand, the bargaining power of mall operators for rental fee discounts, and some pricing power. For instance, Mitra Adiperkasa has 95% store exposure in shopping malls, which gave them more bargaining power to negotiate rental relief with landlords during store closures in April and May. But on the flip side, a slow recovery in mall traffic may offset some of this benefit.

MAPI has the highest stores exposure in shopping malls

Figure 56

Indonesia: Store percentage in shopping malls



Source: CLSA, Companies

We expect consumer confidence to recover, but it may take a while.

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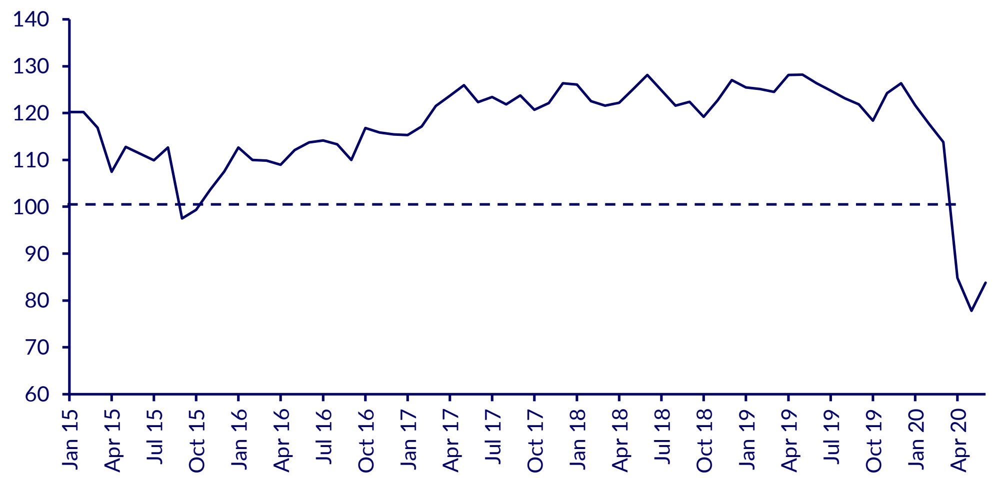
Consumer confidence improving but still low

Figure 57

Indonesia: consumer confidence index



Source: Bank Indonesia

We expect the following key trends to continue in the "new normal" environment:

Large scale retailer format will benefit

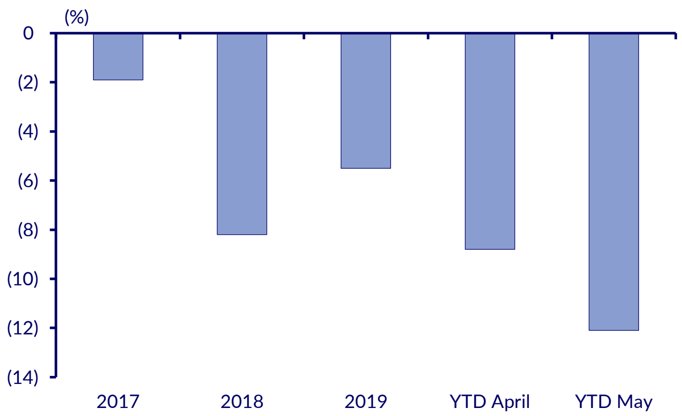
- Customers will prefer large scale retailer formats. Nielsen note that as consumers reduce their visits to individual shops, the large-scale retail format (for example hypermarkets) draws more traffic than small shops. We believe this will remain the trend for some time.

Some FMCG doing better than others

- We have also noticed certain FMCG categories (food, dairy, health, and hygiene) doing better than others during the pandemic. On the other end of the spectrum are cigarettes and coffee that have been declining as they are not being consumed as much in restaurants and other premises. We expect this to continue.

Figure 58

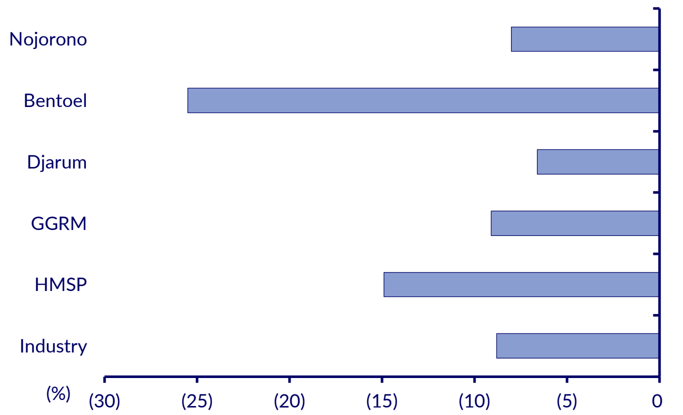
Indonesia: Cigarettes volume trend



Source: CLSA, Nielsen

Figure 59

Indonesia: Cigarettes volume trend (top-manufacturers)



Source: CLSA, Nielsen

Upper-segment premiumisation

- The upper-segment of consumers tend to premiumise their consumption on vitamin and healthcare-related products.

Ecommerce: more for the mid-high class

- Strong growth in ecommerce, but only in the mid-high segment. Based on a Nielsen survey, only 25% of the mid-low segment bought FMCGs online.

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Focusing on cost-efficiency; staples and telcos most resilient

- The silver lining of this pandemic is that companies were forced to be cost efficient and to adopt more automation. Sadly there were also layoffs across the board. Based on a survey we conducted in mid-June, consumer discretionary, transportation, and real estate sectors are among the sectors most impacted by the pandemic, while staples and telcos are most resilient.

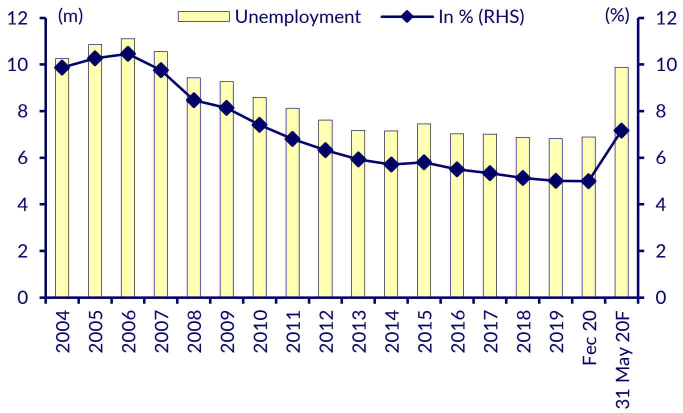
Job losses may not quickly reverse

The reopening of the economy will help but may not quickly reverse all the job losses, unless there is significant stimulus. The government reported 3million workers impacted by Covid as of 5M20. However, the chamber of commerce estimated 6.4million workers impacted.

We estimate the unemployment rate will rise to about 10% in 2020 (the same level as 2007) from the current 5%. Moreover, the economy is still largely driven by the informal sector (57%), although this has fallen from roughly 70% 10 years ago. The informal sector is at a higher risk from the pandemic. Wage increases in the formal sector may also be muted next year.

Figure 60

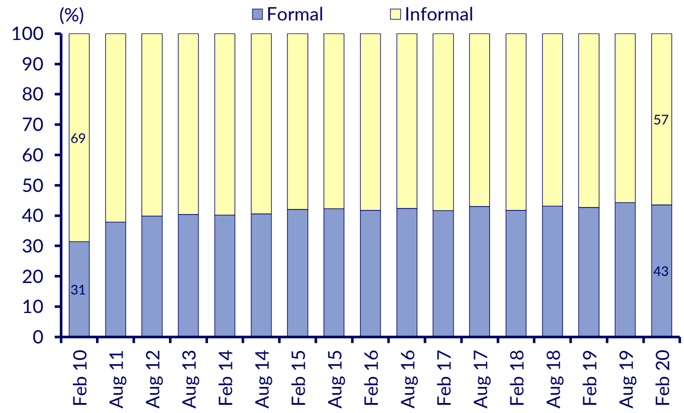
Indonesia: unemployment trend



Source: Government, CLSA

Figure 61

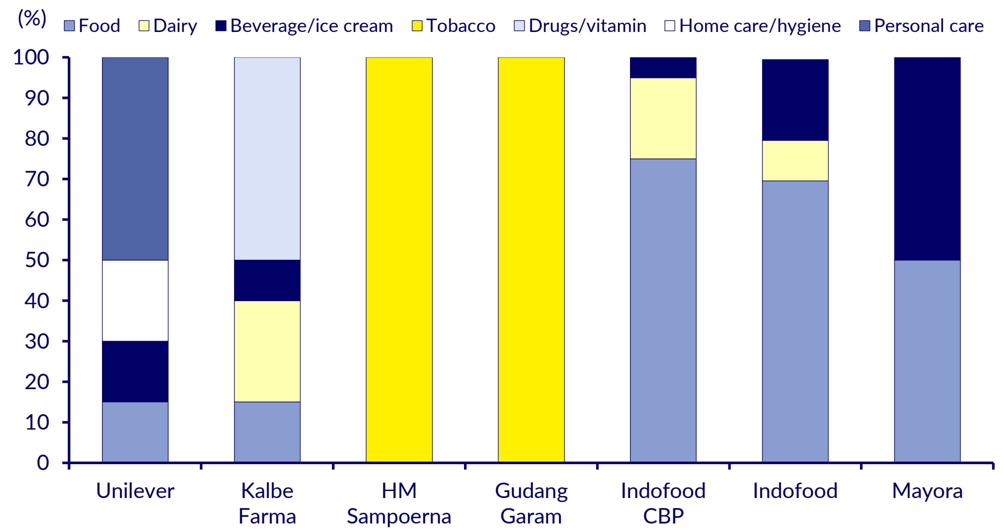
Unemployment: Formal vs informal workers



Source: Government, CLSA

Figure 62

Indonesia: Staple company estimated sales exposure in key categories



Source: CLSA, Companies

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Malaysia: consumers in tomorrowland

As Covid hit the pause button on many aspects of our lives, it also brought many changes in lifestyle that will change the way industries work. A few consumer trends that took place in Malaysia since the Movement Control Order (MCO) started on the 18 March 2020 include:

- Toilet roll hoarding
- Dalgona coffee
- Working out at home
- Home cooking
- The Tiktok phenomenon
- Home improvements

Which trends are likely to stay? We break this down to sub-sectors:

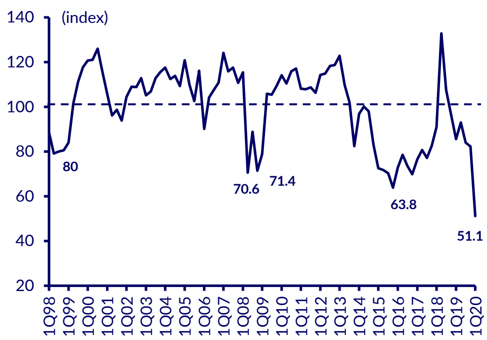
Retail: defensive staples, discretionary hit harder

Malaysia's CSI and unemployment rate is worse now than it was in previous crises. This will inevitably impact consumer purchasing power. Discretionary spending may be hit than harder staples.

Unemployment rate spiked at 5%, higher than previous crises

Figure 63

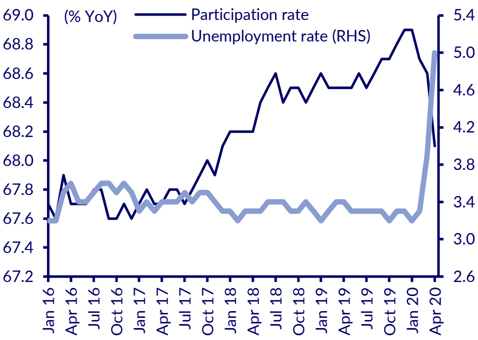
Malaysia: consumer sentiment index



Source: CLSA

Figure 64

Malaysia: Unemployment & job participation



Source: CLSA, CEIC

The hoarding of groceries has tapered off, although lines to enter stores at peak hours are still long given capacity limitations.

Shopping mall footfalls have been recovering

Shopping mall footfalls have been recovering. This does not come as a surprise with 50% of survey respondents to our 28 April report *Malaysia Street scenes (While we stayed home...)* open to going to a mall within three months from the time of the survey.

Ecommerce: friend or foe?

Discretionary expenditure will be harder hit compared to staples as consumers tighten their belts. Retail closures and a decrease in consumer discretionary spend all plays into the challenges faced by retailers. While brick-and-mortar retailers were already suffering pre-Covid due to the acceleration of online shopping, the pandemic has sped up the process. Across the globe big brands such as Esprit, Zara and H&M have been consolidating brick-and-mortar stores. Using China as an example, our China Reality Research Consumer monthly from 15 July shows that consumers there are still cautious about going outside to shop.

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Figure 65

Malaysia: Zara store consolidation


Around 1,200 high-street Zara fashion stores will be closed worldwide - a decision by the owner, Inditex, to boost online sales during the Covid-19 pandemic. - NSTP File pc

LONDON: Around 1,200 high-street Zara fashion stores will be closed worldwide - a decision by the owner, Inditex, to boost online sales during the Covid-19 pandemic.

According to The Guardian, Inditex, a Spanish company said it planned to close between 1,000 to 1,200 smaller branches with losses focused on brands other than Zara.

Inditex also owns clothing brands such as Bershka, Pull & Bear and Massimo Dutti.

Source: CLSA, New Straits Times Malaysia

Figure 66

Malaysia: Esprit store consolidation


Esprit has decided to close all 56 retail stores in Asia aside from China, including those in Singapore, Malaysia, Taiwan, Hong Kong and Macau by the end of June. — Reuters pic

TAIPEI, April 29 — Esprit Holdings Ltd, a Hong Kong-listed fashion retailer, is set to close all its stores in Asia outside China by the end of June as it grapples with slumping sales in the region and the Covid-19, Taiwan's Central News Agency reported.

Esprit's Taiwan branch announced Tuesday that the apparel group has decided to close all 56 retail stores in Asia aside from China, including those in Singapore, Malaysia, Taiwan, Hong Kong and Macau by the end of June.

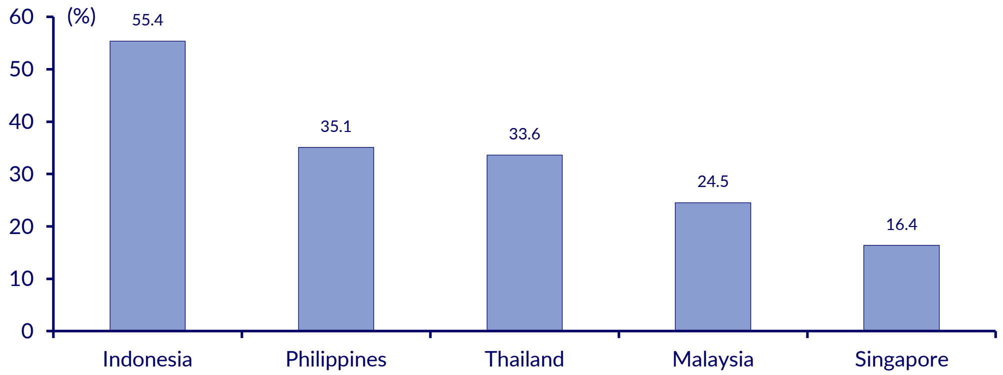
Source: CLSA, The Malay Mail

ecommerce has been one of the major beneficiaries of the pandemic and lockdowns. While still a far cry from China and the United States, Asean has been picking up with double digit Cagr for the ecommerce channel.

Double digit ecommerce Cagr in Asean

Figure 67

Asean: E-commerce channel 5-yr Cagr



Source: CLSA, Euromonitor

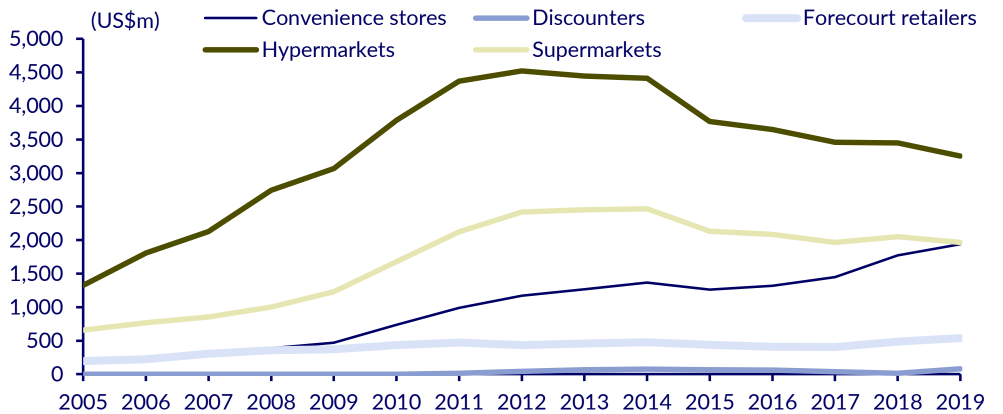
Convenience stores benefit

In Malaysia, convenience stores have been increasingly preferred by consumers than larger store formats such as supermarkets and hypermarkets. This trend was happening even before Covid as more Malaysians moved to urban areas.

Convenience stores seeing steady growth since 2016

Figure 68

Malaysia: grocery retailers retail value RSP



Source: CLSA, Euromonitor

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Both 7-Eleven and MyNews Malaysia recorded an increase in tobacco sales during the first two weeks of the Movement Control Order (MCO). Due to restrictions put in place during MCO, consumers opted to buy bigger ticket items from convenience stores located in their neighbourhoods, such as take home beverages (Figure 69).

As consumers adapt to the new normal they may be willing to buy more expensive items from convenience stores. This will further drive them away from hypermarkets and into smaller convenience stores.

Increase in cigarettes and tobacco sales seen in both 7-Eleven and MyNews

Figure 69

7-Eleven Malaysia 1QFY20 performing categories

Source: CLSA, Company

Consumers expect more from convenience stores, from hot food offerings to coffee on the go. These stores have also been increasing channel sales to online platforms with promotions to attract users and further boost the convenience factor. MyNews introduced MyNews Dash for online deliveries last year, while 7-Eleven and Family Mart are both available on third party platforms.

Breweries: increasing importance in expanding off-trade distribution

Malaysia's beer channel on-to-off trade channel split as of 2019 was 67:33

Malaysia's beer on-to-off trade channel split as of 2019 was 67:33, which has largely been the same for the past five years, according to data from Euromonitor. We think that regardless if consumers return to pre-MCO behaviour and consume on-trade, the growing importance of the off-trade channel is undeniable as consumers adapt to ordering beverages online and increase in-home consumption.

Premium beers may take a back seat

We think the pandemic will bring about radical changes in consumption patterns, from the shifting of channels from offline to online, to consumers tightening their belts. This will bring about a trading down of beer consumption towards mass and local category beers. We think that mass will regain centre stage as premium beers take a backseat.

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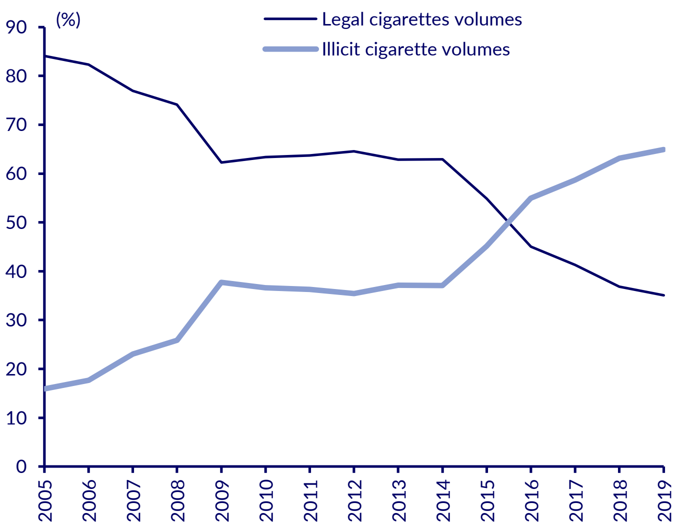
Continued threat by illicits

Tobacco: continuously challenged

Since the increase in excise taxes in 2015, the Malaysian tobacco market has been facing rising illicits; topping the chart in the world's highest percentage of illicit incidences. In the short-term, tobacco consumption in Malaysia will still be focused on the ability to contain illicit volumes from rising further.

Figure 70

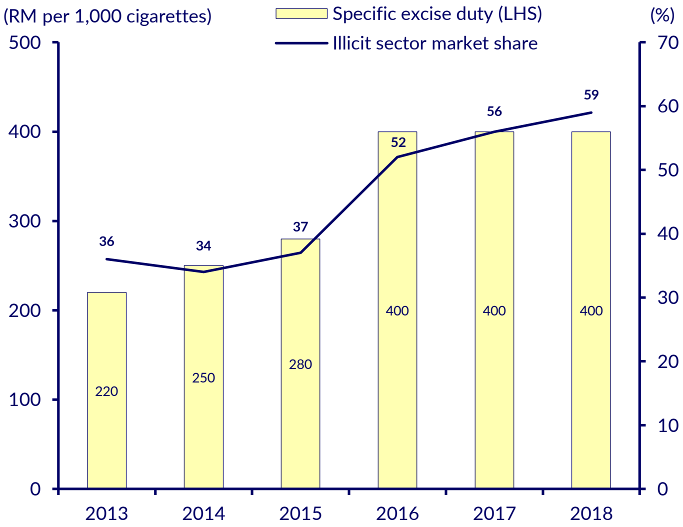
Malaysia: cigarette volumes split



Source: CLSA, Euromonitor

Figure 71

Malaysia: Excise duties and evolution of the illicit trade 2013-2018

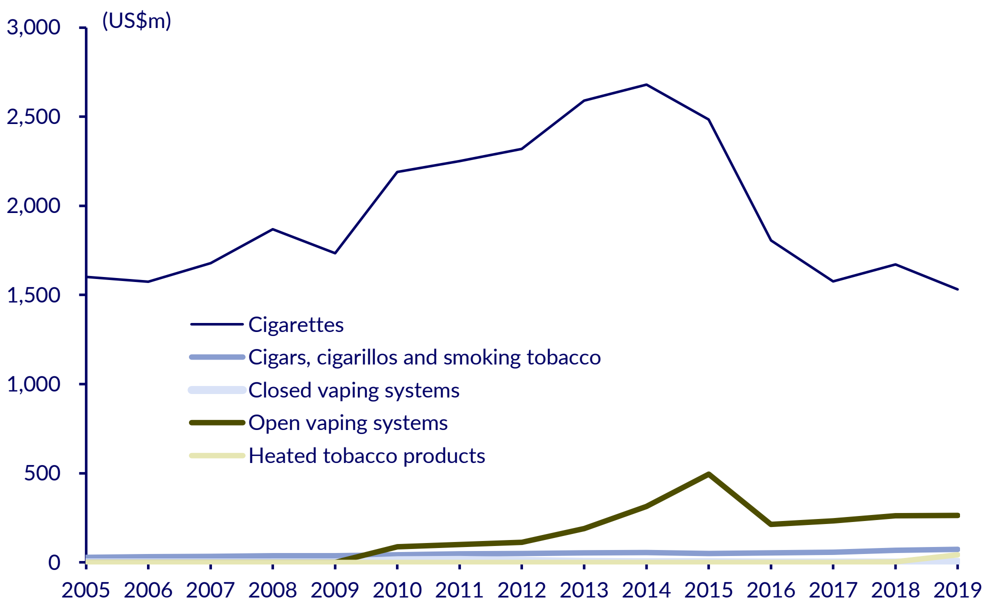


Source: CLSA, Nielson, Oxford economics

Cigarettes have been on the decline since 2014

Figure 72

Malaysia: tobacco categories retail selling prices



Source: CLSA, Euromonitor

Malaysian consumers who are facing rising unemployment and all time low CSI may migrate to cheaper alternatives such as illegal vaping. Consumers may also become more health conscious, altering their behaviour towards the sector entirely.

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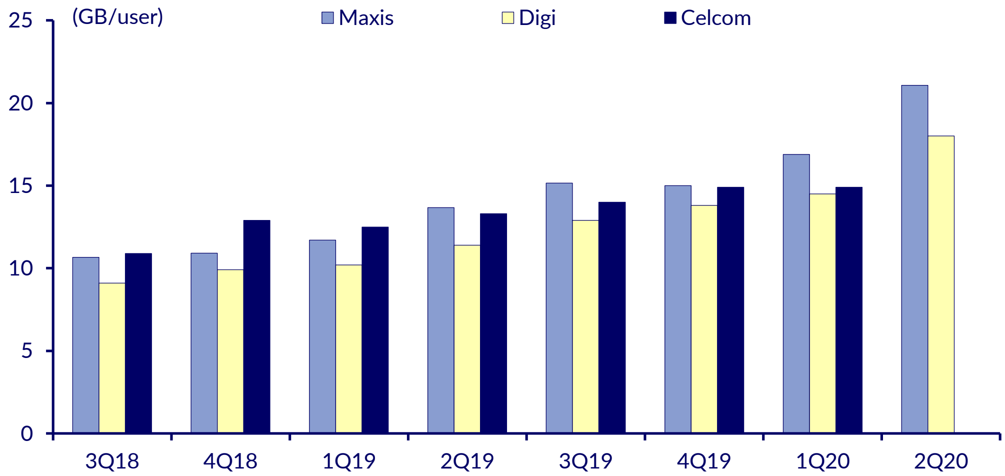
Malaysian telcos: unable to capitalise

Data usage has spiked since the MCO began. Despite this, we view incremental service revenue as unlikely due to ongoing data freebies provided by mobile operators as part of CSR initiatives. Although it can be argued that demand is sustainable from increased work-from-home activity, this has also been greeted by expanded data quotas and the introduction of unlimited plans, as competition intensifies. Revised guidance by Digi points to a low-single digit decline in service revenue for 2020.

Lockdown forcing people online

Figure 73

Malaysia: Spike in data usage since MCO

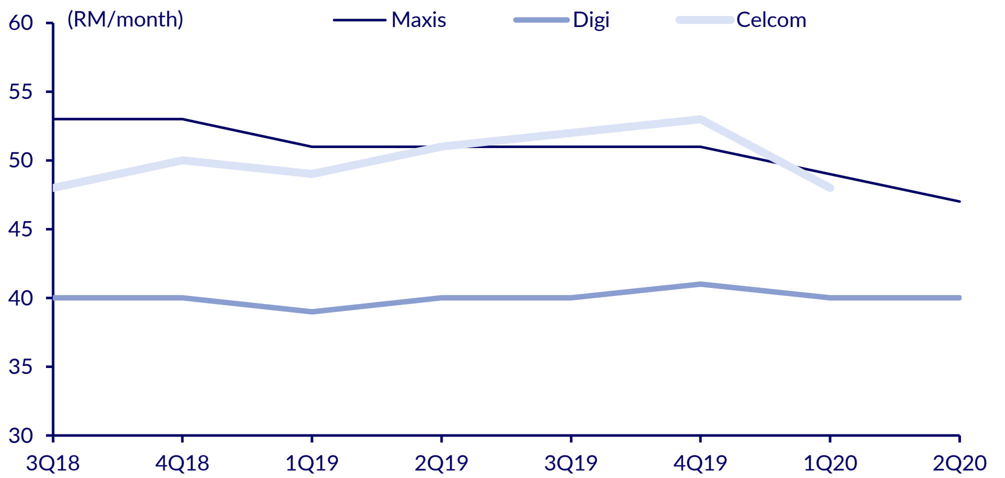


Source: CLSA, Maxis, Digi, Celcom

No increase in Arpu

Figure 74

Malaysia: Increased usage has not translated into higher ARPU



Source: CLSA, Maxis, Digi, Celcom

Intensifying competition and concerns over consumer spending

Although the worst should be over as we head into the 2H20, challenges to a recovery include rising competition, lingering uncertainties on the impact to consumer spending when the loan moratorium expires and already expensive valuations for Malaysia telecoms. Our preference within the sector is fixed line operator, Telekom Malaysia, given the still growing fibre broadband penetration and value creation opportunities from cost cutting measures.

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The Philippines: consumers go contactless

While ecommerce is already present in the Philippines and slowly eating into brick & mortar sales of some categories, we believe that the Covid experience will help accelerate changes in consumer behaviour and sectors.

Until, and maybe even after a vaccine is found, many consumer industries, independent and chained retailers and foodservice alike, will continue to develop their delivery businesses in an effort to expand geographical scope and bring convenient options to customers.

Foodservice: deliveries are the way to go

Calling in the food

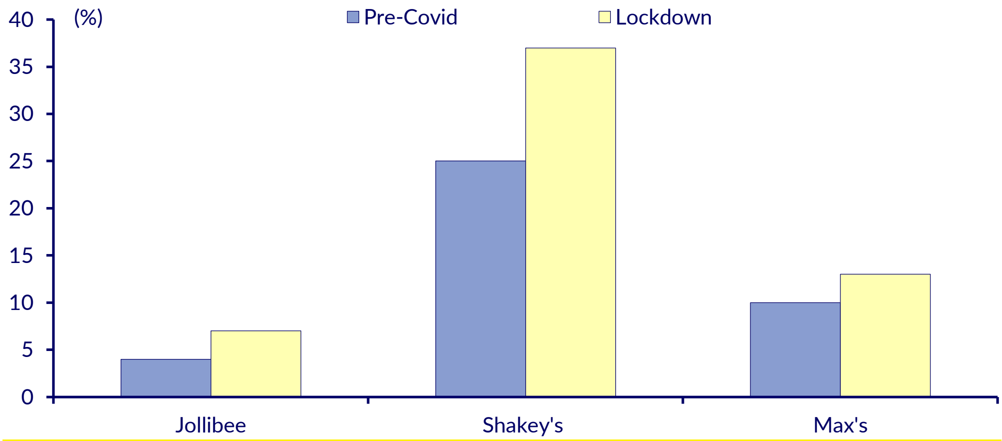
From the perspective of consumers, online ordering from restaurants is easy and offers transparency of information and transactions. This, combined with the health and safety aspects, makes deliveries more desirable.

From the perspective of restaurant players, strengthening delivery capabilities, either via their own platform or aggregators, provides much greater reach than they can achieve without them. Furthermore, by digitising the food delivery process, players get to collect data and information, which they can analyse and ultimately use to support every segment of their value chain.

The pandemic highlighted the importance of deliveries in reaching more customers

Figure 75

Philippines: Share of deliveries to sales



Source: Company information

The importance of having a delivery platform hit home when the Covid crisis began. Those with limited delivery capabilities saw their average daily sales drop by more than 50% due to the loss of dine-in sales. This experience should be a strong enough push for them to boost deliveries, including through online platforms.

Digital marketing and advertising

Digital marketing and advertising on the rise

With the growth in ecommerce comes the rise of digital marketing and advertising. Given the huge number of eyeballs that can be reached, foodservice players and retailers are trying to expand their presence on social media, particularly Facebook, where many of their targeted audience spend their time when online.

For these consumer players, successful digital engagement helps strengthen or reinforce their brand’s position by generating conversations and cravings for their food. In addition, digital marketing can be a more targeted approach to announcing or launching new products.

Prepared for - W: matthew_goh@summarecon.com

Successful digital engagement helps reinforce brands

Figure 76

Philippines: Shakey's Facebook post on ways to order

Source: Company

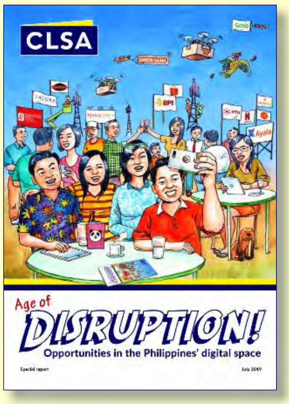
Figure 77

Philippines: Shakey's Facebook post on its latest meal deal

Source: Company

Aggregators on the rise

Another platform that can take advantage of this theme are aggregators. In a webinar we hosted on 30 April, Grab Philippines Country Head Brian Cu said that pre-Covid, restaurants who placed digital advertisements on their platforms were able to get 4x return on investments. For its part, Grab shared that while it shoulders the cost of discounts once in a while during big events, on a more tactical basis it is the merchants that are shouldering free deliveries, buy-1-get-1 promotions and so on.



Logistics and warehousing

With the emergence of ecommerce, discussions about the limitations of logistics and distribution capabilities usually follow.

- **Supply-chain side logistics**
  As discussed in our report *Digitisation in the Philippines (Age of disruption!: Opportunities in the Philippines' digital space)* (10 Jul 2019), rising consumer spending drives warehouse expansions. So even the property sector has exposure to the e-commerce growth story as developers venture into both logistics and warehousing through providing land and/or leasing warehousing facilities.

Growth in ecommerce and delivery services may boost the gig economy

- **Store-to-customer logistics**
  We believe that the repatriation of overseas Filipino workers (OFWs) and the potential higher unemployment rate due to the Covid crisis could encourage more people to try the gig economy. This should be positive for on-demand delivery service players such as aggregators, and at the same time support foodservice and retail delivery businesses.

In our view, the competition to boost driver count will be less intense because of this, and should result in cost savings for these players. As there is no government regulation covering delivery fleets, players are free to expand operations and rider fleets to markets where they see potential.

Covid has created new consumer behaviours

Consumer Retail - fast-tracking online alternatives

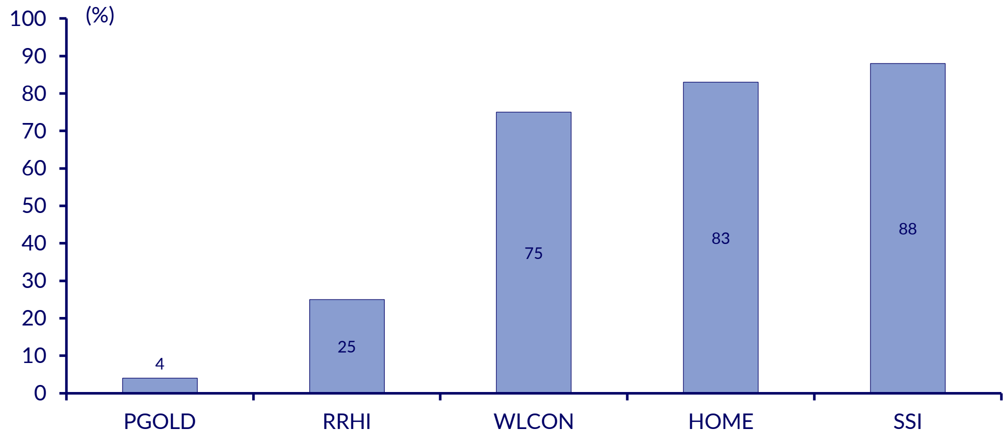
The pandemic has brought to light new consumer behaviour since the lockdown. Until a vaccine is discovered and distributed, consumers will remain hesitant about going out and doing their routine shopping - whether for staples or discretionaries. We believe consumers will be cognisant of the risks of going out and we expect them to look for alternative channels for their retail spending.

Prepared for - W: matthew_goh@summarecon.com

Store closures largely affected non-essential

Figure 78

Philippines: Store closures during lockdown



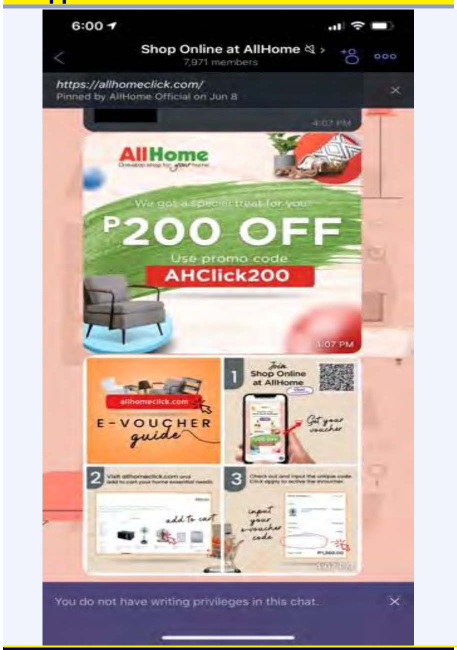
Source: CLSA

Viber communities flourished during the lockdown

We believe consumers will turn to online shopping in order to avoid the risk of catching the virus in places of where people congregate such as shopping malls. Retailers have accelerated the development of their respective e-commerce platforms. A common trend we have noticed is the proliferation of Viber communities where consumers can browse through items and send orders. However, consumers will most likely have to book a third party logistics provider to get their products home.

Figure 79

Philippines: Viber



Source: CLSA

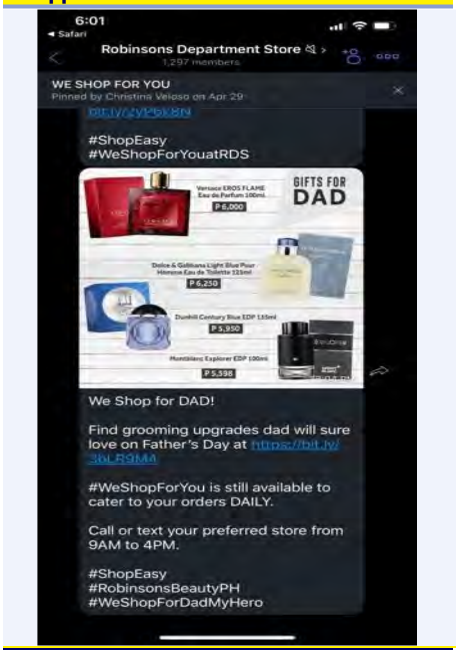
Figure 80

Philippines: Viber

Source: CLSA

Figure 81

Philippines: Viber



Source: CLSA

Retailers' SKUs are also available through third-party app platforms

Selling through Viber has been a bridge for many retailers as they develop their own full e-commerce platforms. A common missing factor across the retail ecommerce platforms is last-mile delivery, so an alternative for them is to sell their merchandise through third party ecommerce platforms such as MetroMart, Lazada, and Shopee.

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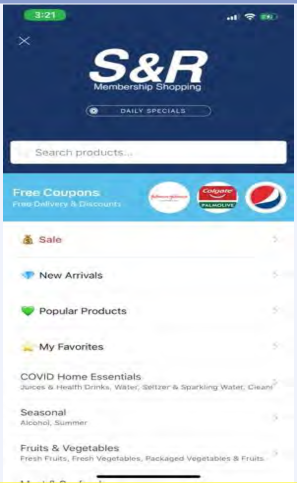
Figure 82

Philippines: MetroMart



Source: CLSA

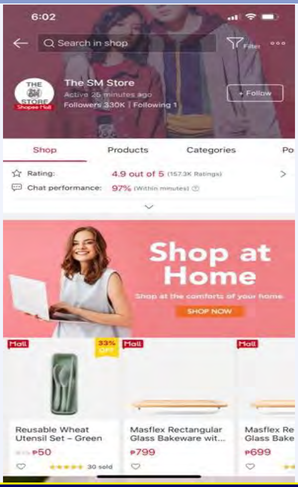
Figure 83

Philippines: Lazada

Source: CLSA

Figure 84

Philippines: Shopee



Source: CLSA

Retailers have been fast-tracking the development of ecommerce platforms

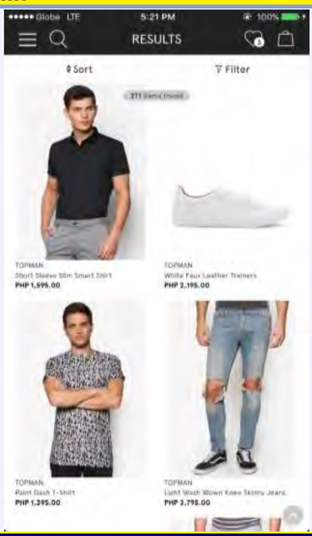
Retailers have been fast tracking ecommerce development, developing ecommerce platforms that include their own and sister company retail formats on one platform. Robinsons Retail is in the process of conceptualising a platform that would include all their retail formats (supermarkets, department stores, drug stores, DIY, and specialty formats). AllHome is developing a platform that would enable consumers to browse through items from AllHome and AllDay supermarkets.

SSI has the most advanced online platform among listed retailers

Among listed retailers, SSI has the most advanced ecommerce business. They have three different platforms for their luxury-focused business. First, they sell through third party ecommerce platforms such Lazada and Shopee. Second, they introduce individual websites for big brands such as Zara and Lacoste. Third, they have also introduce an online marketplace, SSILife, that caters to the brands that they carry.

Figure 85

Philippines: SSI in third party E-commerce platforms



Source: CLSA

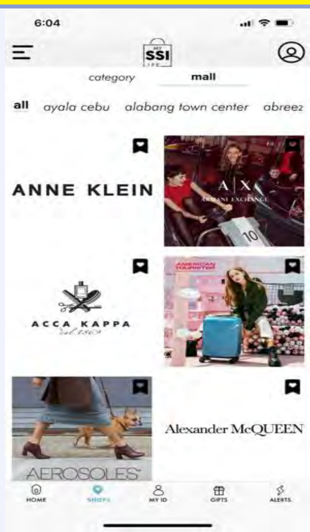
Figure 86

Philippines: Zara website

Source: CLSA

Figure 87

Philippines: SSILife



Source: CLSA

Although not a direct consumer sub-segment, we include telco trends here as the rise in ecommerce has brought with it a corresponding trend in data usage.

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Philippine telcos: surge in usage

The sector is expected to come out stronger as the lockdown increases data use across both mobile and enterprise clients. We see this slightly offsetting the impact of lower top-ups from prepaid users and the minimal expansion to fixed home broadband. As the pandemic reshapes consumer behaviour, we see this translating to improvements in margins in 2021.

Data traffic disbursed outside of Metro Manila when the lockdown started

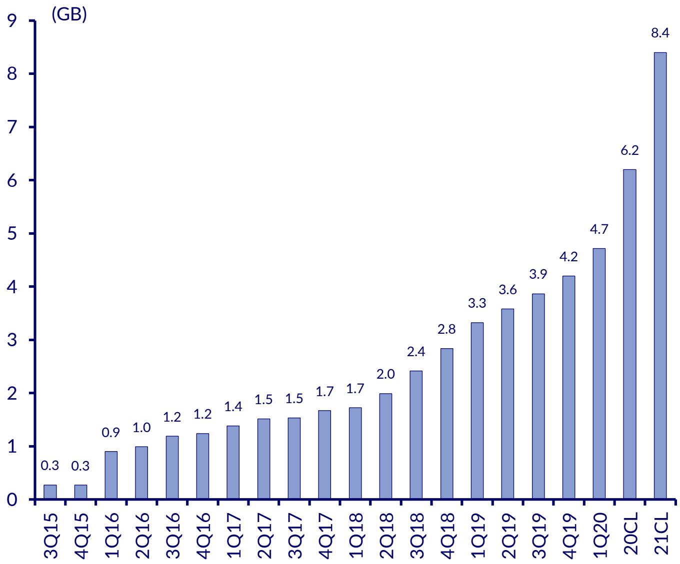
During the first few weeks of the lockdown, data traffic went outside of Metro Manila and into the countryside as most people were forced to stay at home. Operators saw a spike in mobile and broadband traffic (post-lockdown). One week after, they saw traffic spillover to extending cities outside of Luzon. Metro Manila traffic reverted back to levels of the first week of the enhanced community quarantine (which was still higher than pre-lockdown).

This limited congestion in the capital

It helps that data traffic has been redistributed outside of Metro Manila. This was beneficial for the sector because the CBD's experienced congestion which was eased and helped improve flow to other areas into other areas.

Figure 88

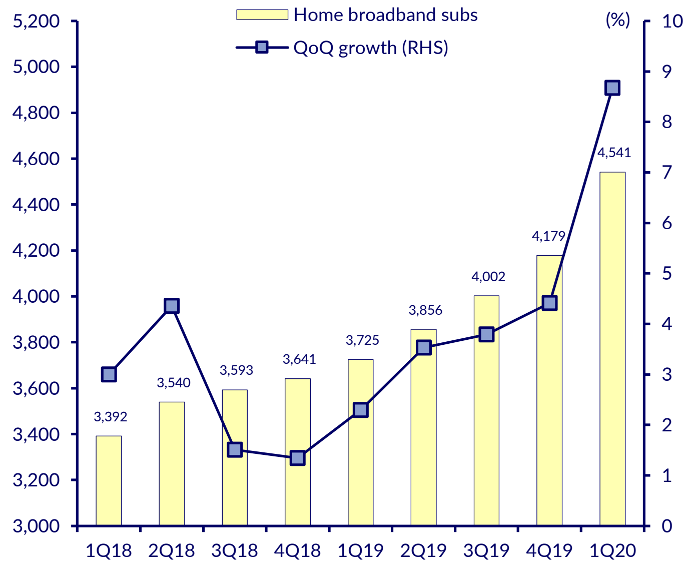
Philippines: Mobile data usage



Source: CLSA, PLDT and Globe

Figure 89

Philippines: Broadband subscribers



Source: CLSA, PLDT and Globe

Broadband sales continue to remain strong

There has been a continuing shift from mobile data to broadband as people stay home. Home prepaid wifi product remain strong and slightly offset lower mobile load top-ups. This is despite telco companies increasing data allocation during the start of the enhanced community quarantine period. Indications for 2Q20 are that broadband sales have continued to pick-up YoY to pre-enhanced community quarantine levels (both prepaid and postpaid broadband).

Sales forces have gone back to work in places where the lockdown has eased, so we expect to see a pick- up in fixed broadband. Mobile traffic also started to increase when Metro Manila moved from enhanced community quarantine to general community quarantine. This could potentially be the start of a rebound in mobile data.

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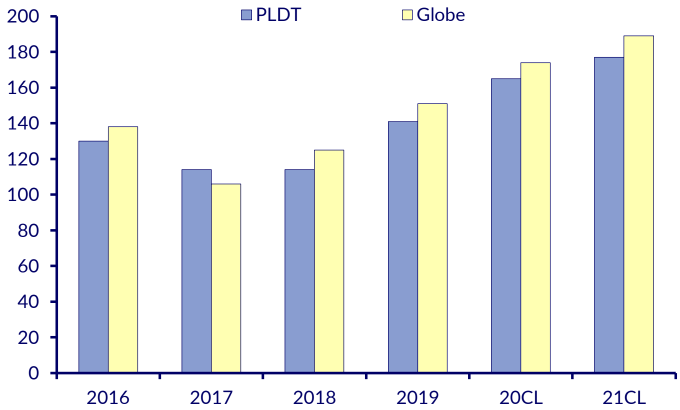
Figure 90

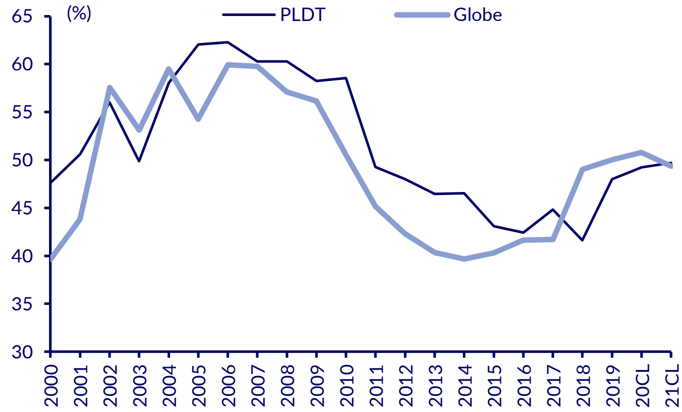
Philippines: Mobile data ARPU



Source: CLSA, PLDT and Globe

Figure 91

Philippines: Ebitda margins



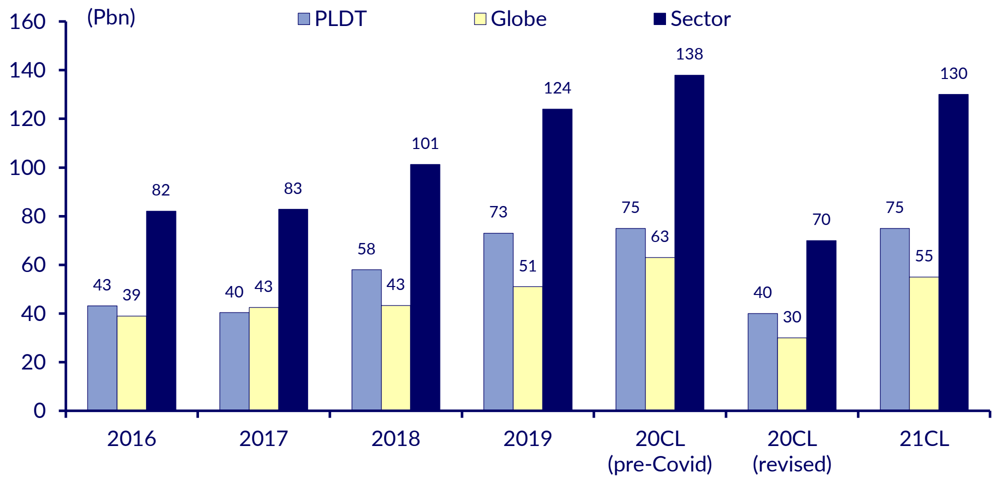
Source: CLSA, PLDT and Globe

On the margin side, we think the sector will see a slight dip in 2020 from softening mobile load top-ups from prepaid users. This comes from the mass income segment having minimal cashflow for the period of the lockdown. Nonetheless, this should be held back by the likely increase in higher-end subscribers for both mobile and wireless broadband.

Operators will likely see a spending dip YoY

Figure 92

Philippines: Capex spend for the telcos sector



Source: CLSA, PLDT and Globe

Imports of materials was an issue at the start of the lockdown

2020 was slated to be an all-time high in capex spend for the sector with pre-Covid guidance at P138bn (vs P124bn in 2019). This was more than double the average spend of P65bn during the previous administration's period from 2010-2016. We now factor in a total sector capex spend of P70bn for 20CL and a jump to P130bn in 21CL.

Telcos need to keep up with the pent-up demand for data

A few challenges occurred in the early weeks of the lockdown where imports decelerated and construction capacity was lower. We think the main challenge for the sector will if it can ramp up in 2H20 (as the lockdown eases). Incumbents need to ramp-up in order to keep up with the increasing demand for data on both mobile and broadband.

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Singapore: Covid accelerating e-adoption

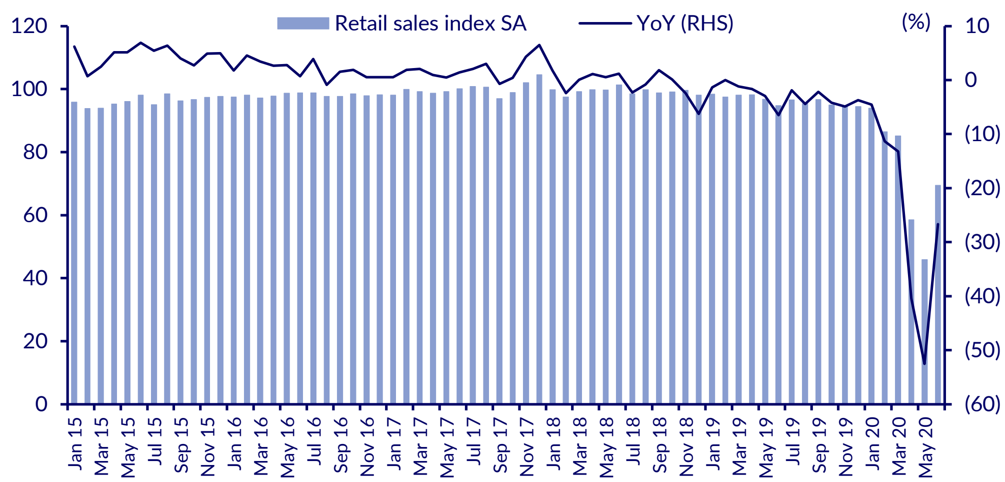
Although the rise of ecommerce throughout the world has already seen an impact on traditional retail formats, we believe the pandemic will push more retailers to increasingly adopt omnichannel platforms to drive sales. The three areas where retailers are using technology to complement their business models include the use of online platforms, e-stores, and the adoption of augmented reality to drive the user experience for fashion and goods retailers in particular. As for Food and Beverage, we expect the increased use of food delivery services will drive sales.

Since the start of the circuit breaker, retail sales have taken a significant hit as retail malls were ordered to close. In May 2020, retail sales in Singapore fell 52.1% YoY, marking the sharpest decline since 1986 while retail sales fell 27% YoY.

Retail sales have fallen off a cliff

Figure 93

Singapore: retail sales seasonally adjusted

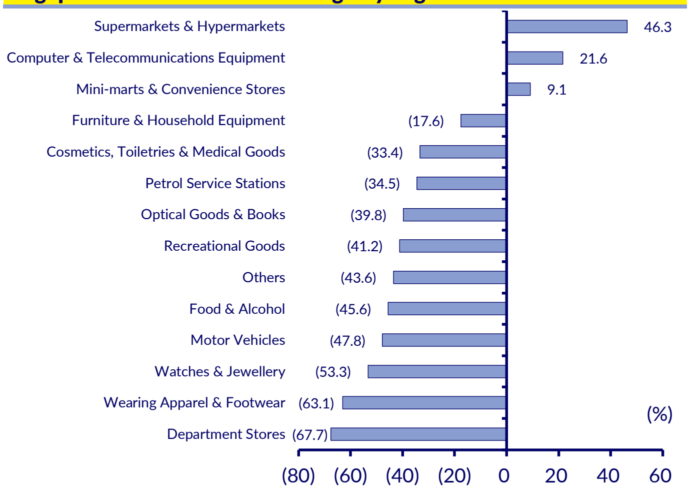


Source: Singstats

A closer look at the different sub sectors shows that supermarkets and minimarts and convenience stores which were allowed to operate during the circuit breaker were the only segments that saw positive YoY growth while discretionary consumer sectors saw almost 100% YoY declines.

Figure 94

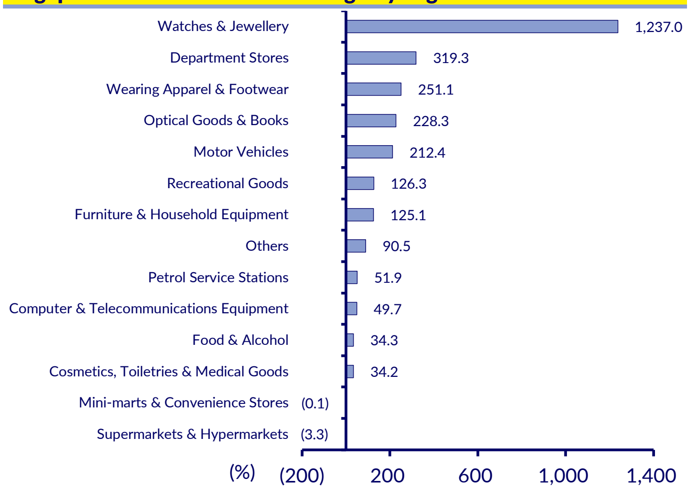
Singapore: Retail sales YoY change by segment



Source: Singstats

Figure 95

Singapore: Retail sales MoM change by segment



Source: Singstats

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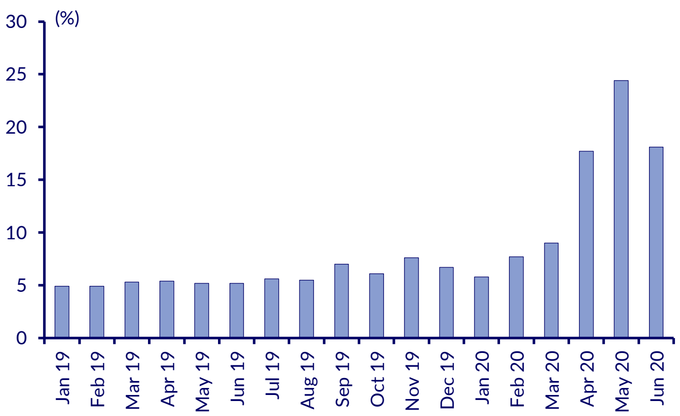
Sharp rise in computer and telecommunication equipment sales

Online shopping here to stay

During the lockdown, shoppers increasingly warmed up to online retail sales as their main shopping channel. In particular, computer and telecommunication equipment sales soared to more than 90% of total sales in the segment during the circuit breaker, likely on the back of rising number of people working from home. In the whole of 2019, online sales in computer and telecommunication equipment accounted for 26% on average of total sales. Similarly, furniture and household equipment rose to more than 70% in May 2020 compared to only 11% on average in the whole of 2019. One segment that saw minimal change was supermarkets and hypermarkets. In the whole of 2019, their online sales accounted for an average of 8.1% of total sales, with the figure being maintained at 8-9% year to date. This is likely due to the maturity of this segment with shoppers already buying online and it being harder to purchase fresh food online. We expect this trend of growing online sales to continue.

Figure 96

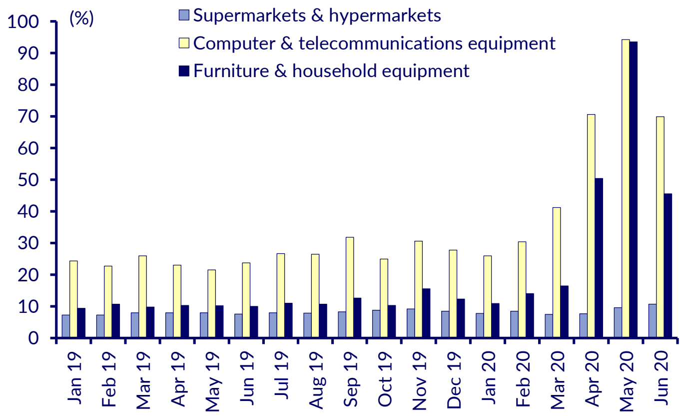
Singapore: Online sales as percentage of total sales in Singapore



Source: Singstats

Figure 97

Singapore: Online sales as % of total sales by segment

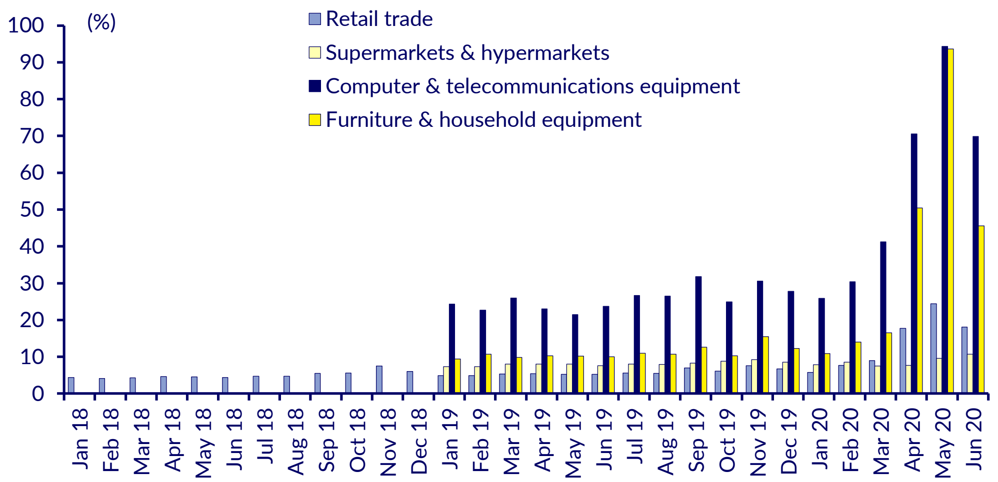


Source: Singstats

Online sales gaining traction as percentage of total retail sales

Figure 98

Singapore: Online retail sales proportion



Source: Singstats

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Landlords helping tenants

Some landlords are also helping tenants to reduce cost by setting up online retail platforms for them to market their goods. This is particularly helpful for smaller retail tenants that would otherwise face financial constraints. For example, CapitaLand launched an online shopping and food ordering platform in June 2020 for all its tenants. This is available through its own retail app as well as on the website of CapitaLand Malls.

CapitaLand offering online platforms for its food and beverage tenants

Figure 99

CapitaLand online platform for food and beverage ordering and delivery

Source: CapitaLand

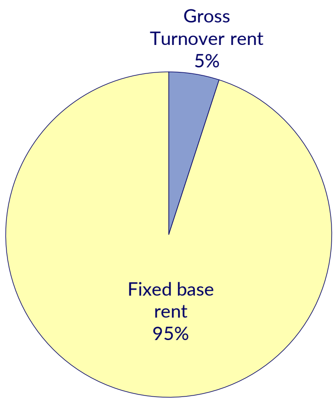
Covid brings changes for retail landlords

Weaker demand from F&B tenants could weigh on rentals

As the business model for food and beverage evolves, we think two trends for retail landlords could emerge over the next few years. Firstly, retail space demand could be sluggish and result in an overall softer retail rent market. Over the years, food and beverage has grown in importance for retail malls and now accounts for almost a third of total gross rental income for mall landlords. At CapitaLand Mall Trust (CMT) for example, F&B accounted for 15.6% of total gross rental income in 2005 and this doubled to 31.1% of total gross rental income by 2019 and now contributes the largest component of their portfolio. As F&B tenants increasingly move towards online food delivery, the footprint from F&B tenants could shrink.

Figure 100

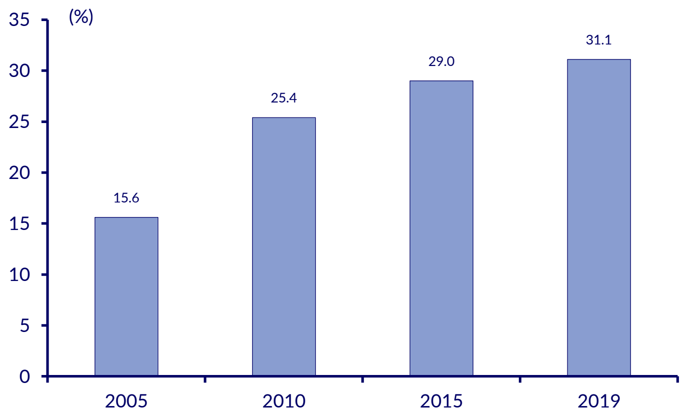
CapitaLand Mall trust: gross rental income breakdown by rent type



Source: CapitaLand Mall trust

Figure 101

Food and Beverage tenants as percentage of CapitaLand Mall Trust's gross rental income



Source: CapitaLand Mall trust

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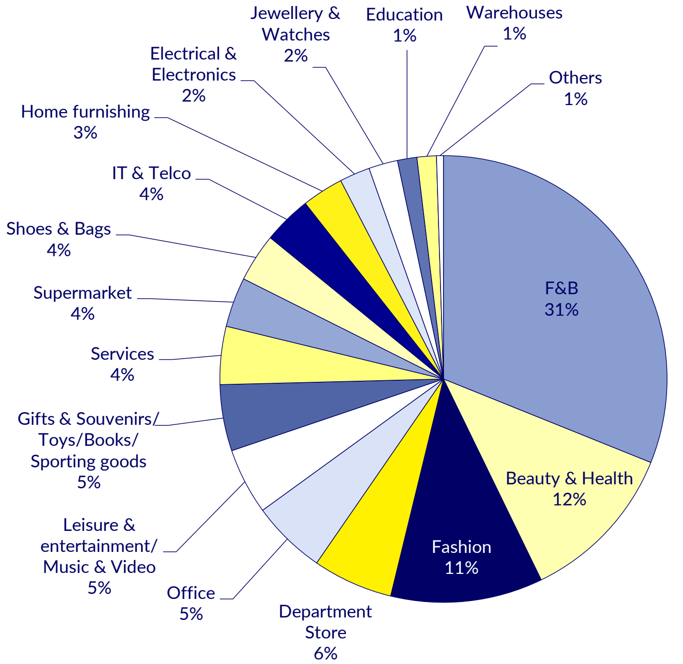
Secondly, the rental structure for retail tenants could also change from a higher fixed based component to that of a more variable model. Currently, gross turnover rent or rent pegged to tenant sales accounts for about 5% of total rental income for CMT. Given the uncertainty, tenants could ask for higher a variable component upon lease renewals which could result in downward pressure on rents for retail mall landlords.

Figure 102

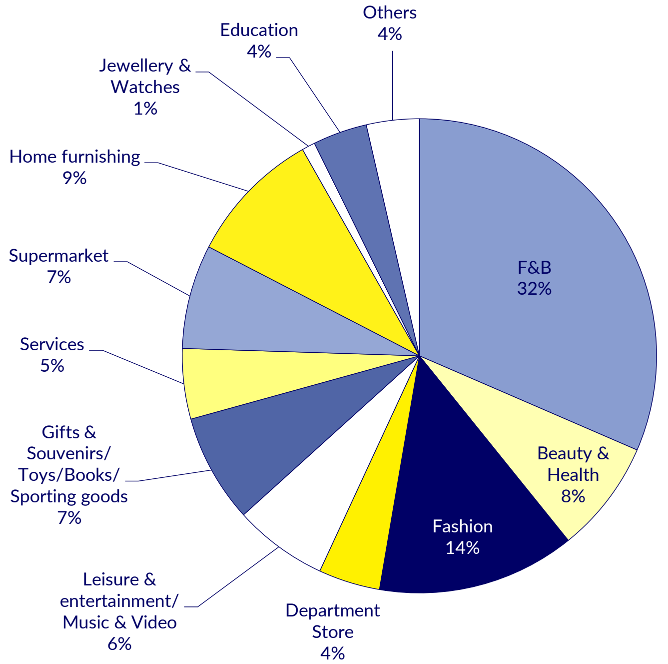
CapitaLand Mall trust: gross rental income by trade sector



Source: CapitaLand Mall trust

Figure 103

Fraser Centrepoint trust: gross rental income by trade sector



Source: CapitaLand Mall trust

We forecast retail rents to contract by 5-8% in 2020 and 1-3% in 2021

We believe retail will be negatively impacted by Covid and expect a slow recovery for the sector. While the supply outlook remains benign, we expect a softer demand for retail space will more than offset the limited supply coming on stream. Hence, we forecast retail rents to contract 5-8% in 20Cl and 1-3% in 21CL.

Figure 104

Singapore: Retail rental forecasts

	2011	2012	2013	2014	2015	2016	2017	2018	2019	20CL	21CL
Rentals (S$/sf/mth)											
Prime rentals	32.45	32.45	34.20	34.55	33.05	32.16	31.30	31.70	31.71	29.18	28.30
Suburban rentals	29.75	29.75	30.30	30.30	29.90	29.36	28.80	29.15	29.15	27.69	27.42
Growth (YoY %)											
Prime rentals	4.5	0.0	5.4	1.0	(4.3)	(2.7)	(2.7)	1.3	0.0	(8.0)	(3.0)
Suburban rentals	2.2	0.0	1.8	0.0	(1.3)	(1.8)	(1.9)	1.2	0.0	(5.0)	(1.0)

Source: CLSA, CBRE

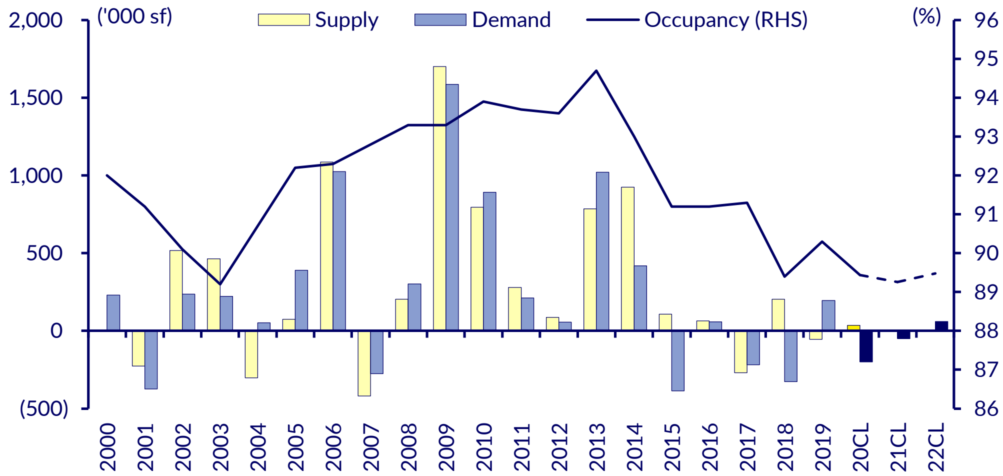
Prepared for - W: matthew_goh@summarecon.com

There is only 36ksf of net retail supply in 2020 according to JLL

However, we forecast net demand to contract by 200ksf in 2020

Figure 105

Singapore: retail supply and demand



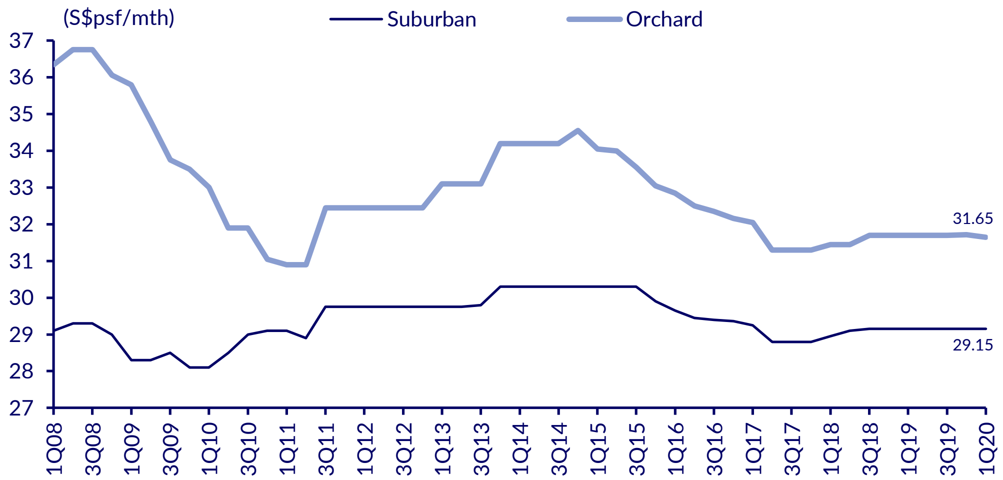
Source: CLSA, URA

1Q20 suburban rents S$29.15psf/mth flat QoQ and YoY

Prime retail rents S$31.65 psf/mth -0.2% QoQ -0.2% YoY

Figure 106

Singapore: Retail spot rents



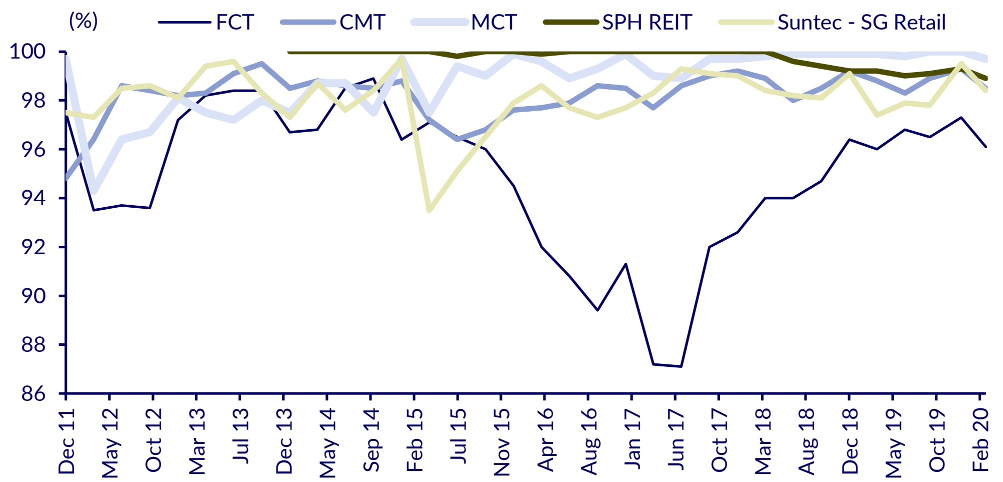
Source: CLSA, CBRE

1Q20 occupancy rates for most retail Reits remained high at >98%

Suntec retail occupancy fell 130bps QoQ to 98.4% due to weaker Suntec Mall

Figure 107

Singapore: Retail Reits occupancies



Source: CLSA, Companies

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Singapore telcos: negatives outweigh positives

The telco business is traditionally a more defensive sector and while this remains the case, there will be negative knock-on impacts on the operations of Singtel and StarHub. Roaming revenues, pre-paid revenues and handset sales are notable areas that will come under pressure from Covid restrictions. But there are positives on the impact from enterprise, as well as cost savings from the Singapore government's aggressive budget measures. The negatives do however outweigh the positives, in our view.

Roaming hit by travel restrictions

Less travel in the region will translate into lower roaming revenues

Roaming revenues will be particularly hit, as border restrictions around the world have all but halted travel. This will be a slightly bigger hit to Singtel than StarHub, as its bigger enterprise exposure typically translates to larger roaming revenues; a big chunk of roaming originates from business travel.

Though neither operators explicitly report roaming revenues, we estimate it to be 20% of service revenues for Singtel's Singapore operations and 10% of StarHub's service revenues. For Optus, Singtel's Australia operations, roaming is a far smaller contributor to service revenues, at low-to-mid single-digits, given less travel generally in the country versus Singapore and lower enterprise exposure.

Pre-paid impacted from less tourism and fewer foreign workers

Pre-paid will weigh but it is a small part of revenues

Pre-paid is another area that will likely see some pressure, with foreign workers and tourists big contributors to this segment. Both segments are under strain from the travel restrictions into Singapore. However, pre-paid is a small contributor to overall revenues for both Singtel and StarHub, representing 5-6% of total revenues. Assuming a 50% contraction in these revenues, the impact for the year is likely to be low single-digit.

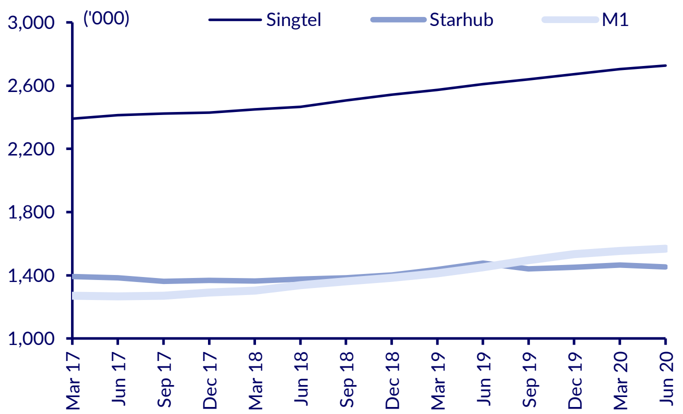
Handset sales impacted by social distancing and circuit breakers

Low handset sales will impact topline but it is a thin margin business

With social distancing measures keeping the general population largely indoors, coupled with the closure of non-essential businesses, handset sales are set to see a material contraction as a result of Covid. While this is a material contributor to total mobile revenues of around 40%, the impact on Ebitda is pretty minimal, as it is a thin-margin business.

Figure 108

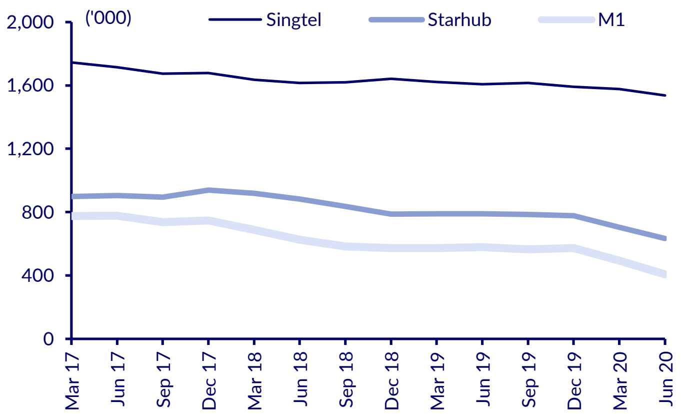
Singapore: Mobile subs (postpaid)



Source: CLSA, company

Figure 109

Singapore: Mobile subs (prepaid)

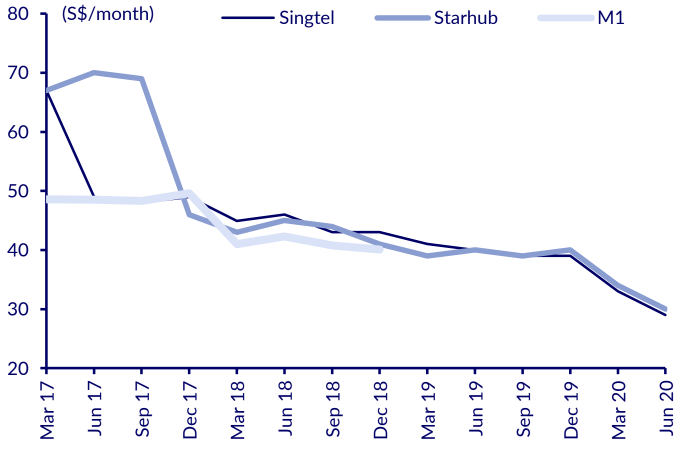


Source: CLSA, company

Prepared for - W: matthew_goh@summarecon.com

Figure 110

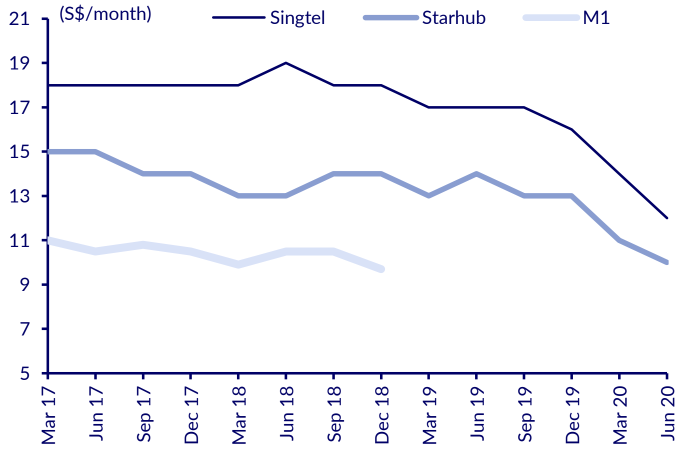
Singapore: Quarterly Mobile ARPU (postpaid)



Source: CLSA, company

Figure 111

Singapore: Quarterly Mobile ARPU (prepaid)



Source: CLSA, company

Social distancing unlikely to boost broadband and PayTV revenues

Broadband and PayTV impact low

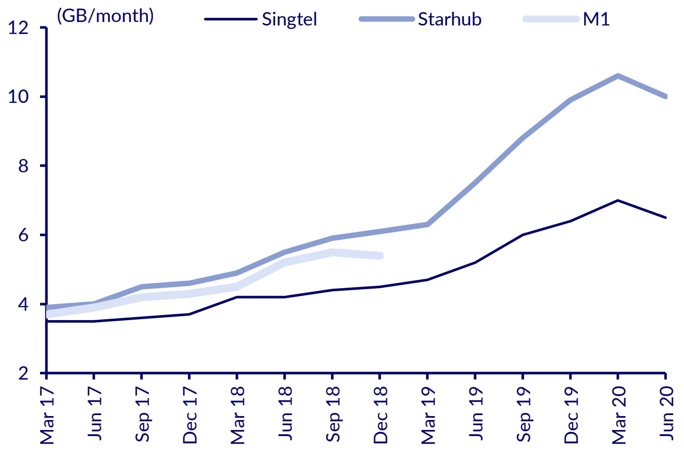
With large proportions of the population being trapped indoors a common assumption is that many will consume data and watch PayTV.

Unfortunately, we do not envisage a material boost to telco revenues here. Broadband penetration is virtually 100% in Singapore so being confined to homes is almost certainly going to lead to higher wi-fi usage and lower mobile data usage. This will mean lower revenues from data cap breaches on mobile plans.

On PayTV, we feel that the structural shift from cable TV to OTT alternatives will override any near-term benefit from more time spent on living room sofas. Additionally, the suspension of sports globally removes one of the key draws for PayTV subscription: live sports. Hence, we see broadband and PayTV revenues to be relatively lightly impacted by Covid.

Figure 112

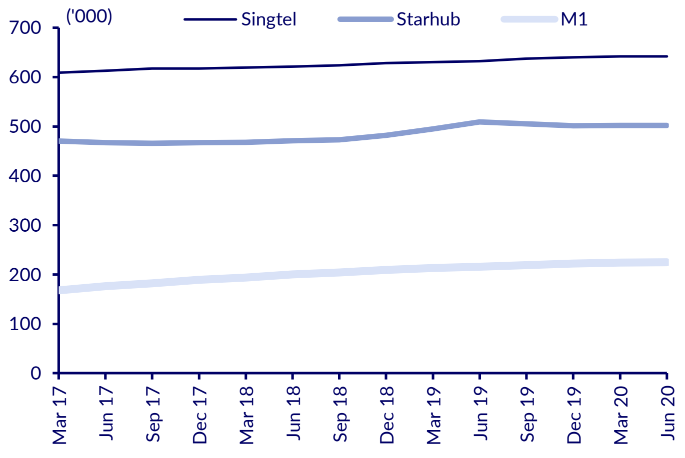
Singapore: Quarterly data consumption per user (postpaid)



Source: CLSA, company

Figure 113

Singapore: Broadband subs



Source: CLSA, company

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Positives in enterprise

Enterprise will see a short-term boost

As the world works from home, demand has increased for remote telecommunication and conferencing services. Zoom has been popular but question marks remain over security. Many enterprises are still using the telcos to address communication needs. But the uptick here is unlikely to offset declines in roaming and pre-paid.

Looking through the crisis, however, assuming that the economy takes time to get back on its feet, the medium-term implications from the virus are more negative. Enterprise can be a very cyclical sector, with project plans linked to the state of the economy, particularly in the private sector. As belts are tightened in the aftermath of Covid, enterprise spend on telco services will likely be impacted, as projects are delayed.

Budget boost

Support measures should save some costs

The Singapore government has brought in supportive measures to assist the economy through these tough times. These will benefit the telcos through primarily the Jobs Support Scheme and to a lesser extent property tax rebates and the SME Go Digital Programme.

In the Jobs Support Scheme, wage offsets are given for all employees at 75% of monthly wages, capped at S$4,600 per month. This is for the duration of the circuit breaker. Thereafter, the wage offset for Singtel and StarHub would be 25% until December 2020.

We estimate 10% in staff cost savings for Singtel's SG operations and StarHub

For Singtel, staff cost represent about 48% of operating expenses in Singapore (including consumer, enterprise and Group Digital Life (GDL)). We have to make assumptions for what the blended offset is per employee, as not all will earn over the S$4.6k/month threshold and not all are Central Provident Fund (CPF) contributors, but assuming there is no extension to the circuit breaker and the 75% wage offset beyond 1 June, we estimate staff savings will amount to 10% in FY21. That should translate into savings of 2% off total group operating costs. For StarHub, staff costs represent about 33% of operating expense. Making the same assumptions as for Singtel, we estimate staff savings will also amount to 10% in 2020. That should translate into savings of 3.5% off total operating cost.

The Go Digital Programme should accelerate digital adoption

Property tax rebates are tough to quantify but are likely small. And while the Go Digital Programme doesn't directly benefit the telcos, subsidies provided to SMEs encouraging them to go digital should translate into revenue opportunities down the line for the telcos.

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Thailand: emerging post-Covid trends

The Covid-led lockdown from late March to mid-May triggered rising demand for digital transactions ranging from work-from-home, online shopping and digital media consumption. This will likely continue as a trend post-Covid. Together with social distancing and hygiene measures, we expect the migration from crowded wet markets to modern grocery stores and malls will accelerate after the lockdown. Both trends will favour industry leaders in the telco and commerce sectors which should see good growth in coming years.

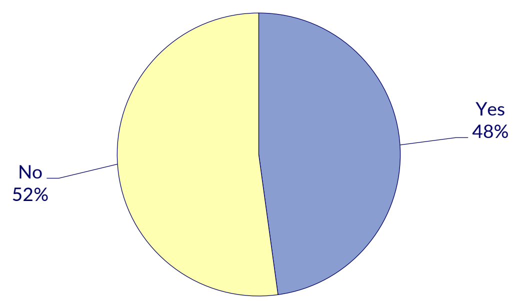
Rising digital transactions

The pandemic-led lockdown left only groceries and pharmacies open. As a result, shoppers shifted to e-commerce for home improvements, fashion and cosmetics. Officer workers were encouraged to work from home, driving more broadband internet, mobile and data usage. We think the trend towards digital media will also grow.

According to our Mr & Mrs Thailand report published in May, only 48% of Thais have ever shopped online. Online shopping is popular among younger generations but rare among people over 40. In addition, popular ecommerce platforms in Thailand are all operated by international companies. Interestingly, various listed physical store operators that were closed during lockdown saw their online sales jumping two to six fold during the period. We expect online shopping will become part of routine shopping activities and grow faster in the future.

Figure 114

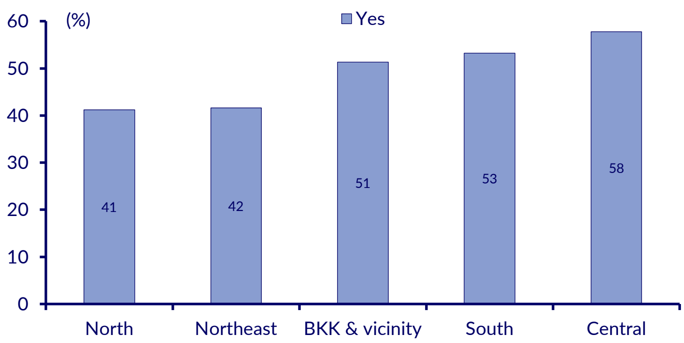
Mr. & Mrs. Thailand survey - Have you ever shopped online?



Source: CLSA

Figure 115

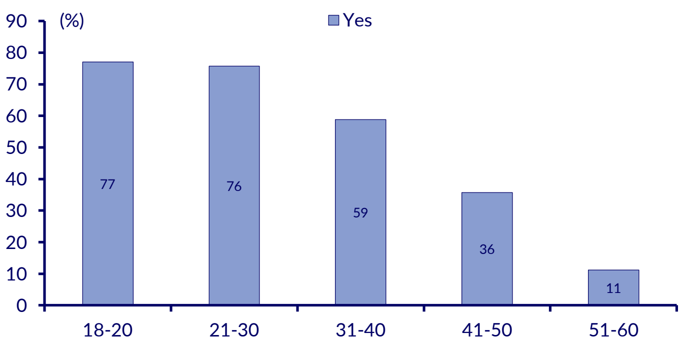
Respondents who have shopped online breakdown by region



Source: CLSA

Figure 116

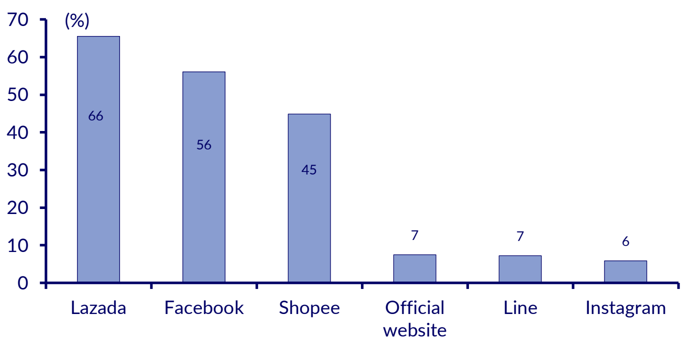
Respondents who have shopped online breakdown by age group



Source: CLSA

Figure 117

If yes, what channel did you shop from?



Source: CLSA

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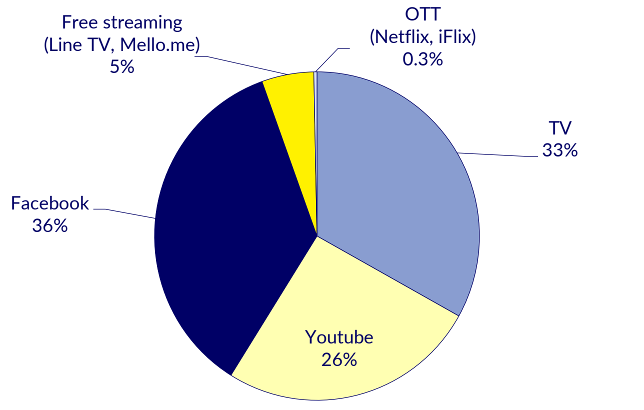
For digital media consumption, traditional free TV has lost share to fast-growing digital media platforms such as facebook and YouTube that are popular among people aged below 40. We think this trend will likely continue and accelerate.

Figure 118

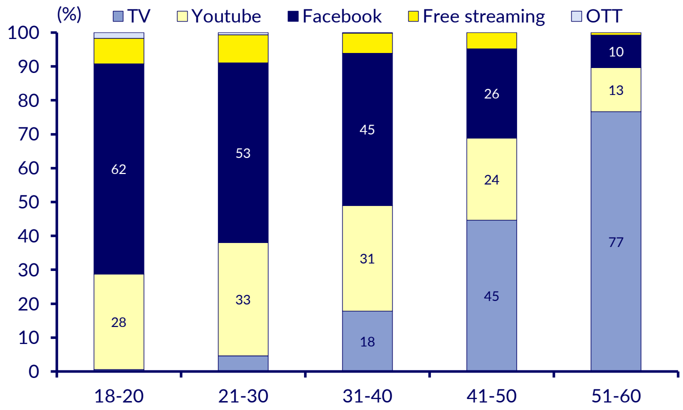
Mr. & Mrs. Thailand survey - What is your main channel of media content consumption?



Source: CLSA

Figure 119

Main median channel consumption by age group



Source: CLSA

Fiscal handout has been electronic

The government has urged individuals affected by the lockdown to file online for a one-off cash handout under the "Leaving no one behind" campaign that will distribute Bt5k/month for three months via electronic fund transfer to bank accounts and e-wallets to 16 million affected individuals. The campaign has drawn widespread public awareness and a total of 28.8 million online filings, of which 22.5% were false filings due to computer illiteracy and deficient equipment. The scheme is the first large scale e-payment ever done by the government at such short notice. We expect such online/mobile filing and electronic disbursement to become standard for fiscal handouts in the future as it is far more efficient and effective than conventional document filing.

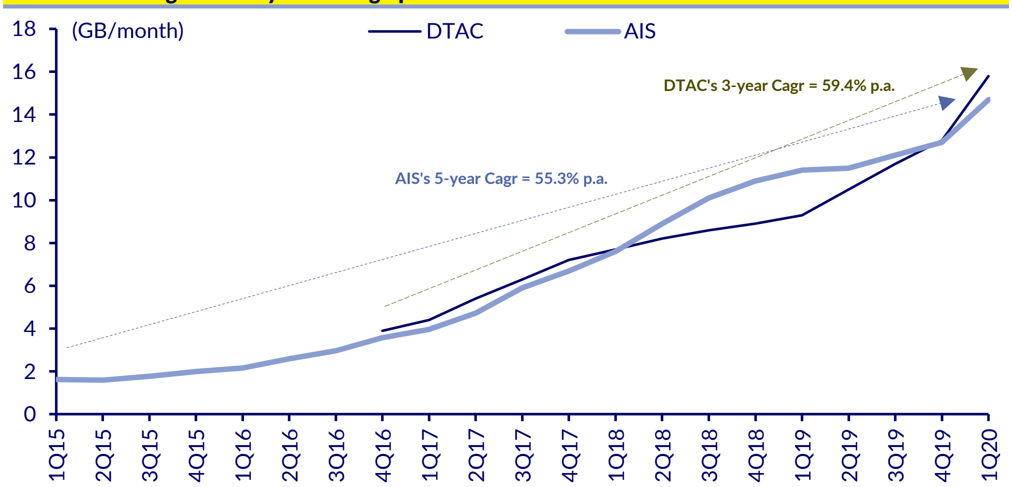
Working from home becomes normal

Together with working from home, we expect digital transactions and data usage demand to explode. This is favourable for the telco industry that will enjoy rising domestic data consumption that could offset tourism-led prepaid revenue declines.

Steep rise in data consumption will continue

Figure 120

Thailand: Average monthly data usage per subscriber of DTAC and ADVANC



Source: CLSA

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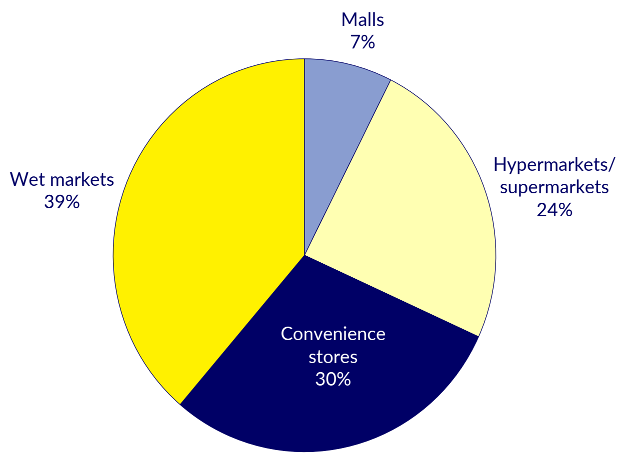
Migration from wet markets will continue

Accelerating migration to modern grocery stores and malls

While they were affected by the 2Q20 lockdown, modern chain grocery stores and shopping malls saw a fast recovery in traffic after the store re-openings in mid-May. Social distancing and hygiene measures will drive traffic away from crowded and infection-prone wet markets, where 39% of Thais still do their grocery shopping, (especially people aged above 40 according to our survey), and into modern groceries and shopping malls that are popular among urban, younger and higher-income shoppers.

Figure 121

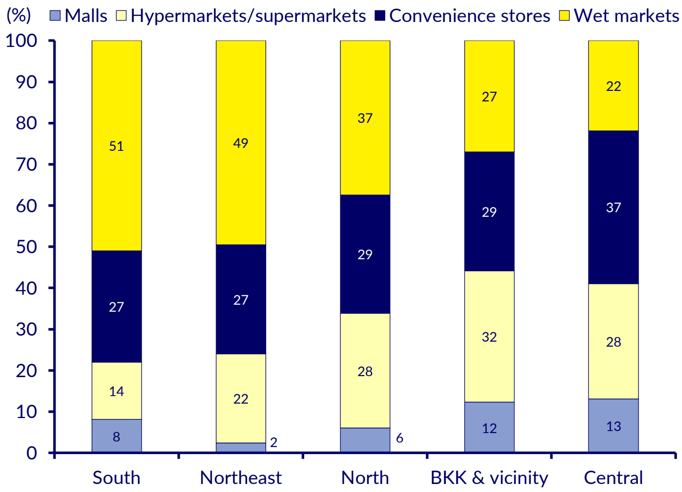
Mr. & Mrs. Thailand survey - Where do you shop most?



Source: CLSA

Figure 122

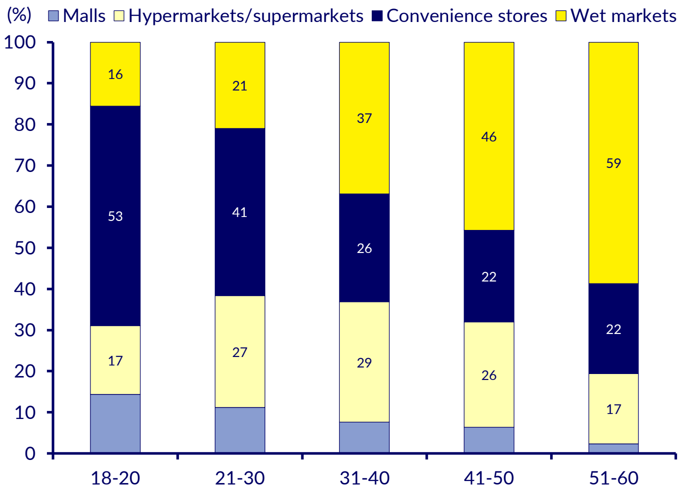
Main grocery shopping place breakdown by region



Source: CLSA

Figure 123

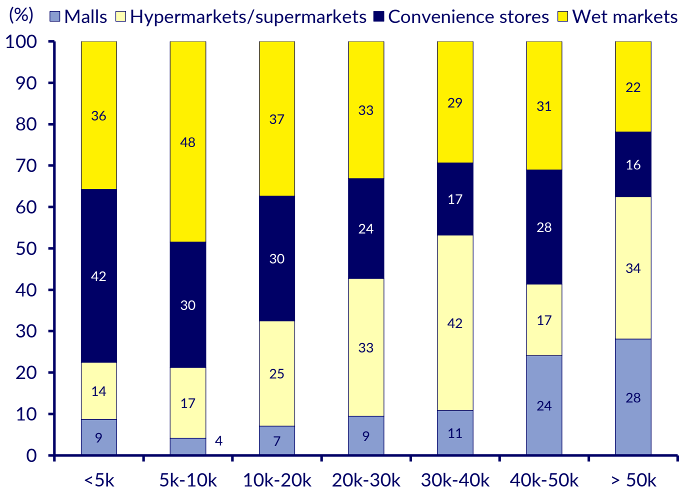
Main grocery shopping place breakdown by age group



Source: CLSA

Figure 124

Main grocery shopping place breakdown by monthly income



Source: CLSA

Modern chain grocery stores and malls to benefit

This trend is not new and is consistent with the urbanisation trend. According to Euromonitor, traditional grocery retailers have lost seven percentage points of sales contribution in the past decade with the sales mix falling from 61% in 2009 to 54% last year. The gaining segments are CVS and supermarkets, standalone and in shopping malls. The different spending patterns across age groups (young generations preferring CVS and shopping malls, and older age groups still shopping at wet markets) also points to the long-term growth of modern grocery stores and shopping malls.

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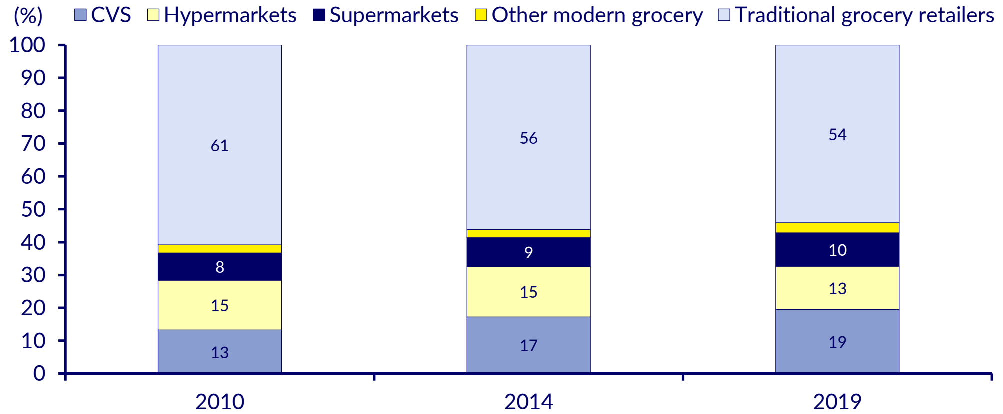
Traditional grocery shrunk in the past decade to 54% last year

Figure 125

Euromonitor's grocery retailing sales mix by format



Source: CLSA, Euromonitor

Compliance lends comfort to shoppers

We think strict compliance of social distancing and hygiene measures practiced by modern grocers and malls will attract more traffic to stores.

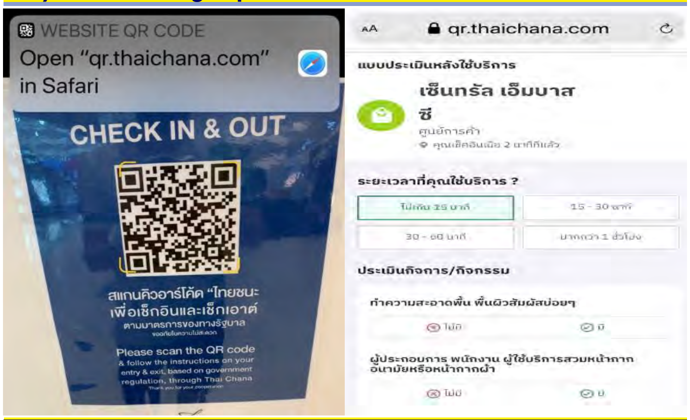
Figure 126

Temperature check as one of the hygiene measure at 7-Eleven

Source: CLSA

Figure 127

Thai Win application by the government for traffic control and risky cluster tracing required check-in and -out for mall visitors



Source: CLSA

Strict social distancing and hygiene protocols at malls after reopening

Figure 128

Visitor limit measures reduce in-store density

Source: CLSA

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B: Tourism - a huge slump

Covid has sent tourism growth ambitions across the region tumbling.

Tourism is a relatively large contributor to GDP in Thailand and Malaysia (pre-Covid at 11% and 5% respectively, which our economists expect to decline to 7% and 3%). But Covid has crippled the tourism industry globally with airlines and hotels grinding to a halt and movement across the world almost at a standstill. Airport operators are still functioning but many see no travellers. Casinos (Philippines, Malaysia, Singapore) were also closed and they were the last to resume operations amid the lockdowns.

Gradual resumption of activities

The Malaysia-Singapore air route, touted as the world's busiest, came to a standstill when both countries stopped border crossings. Both governments recently established a Reciprocal Green Lane to facilitate cross-border travel for essential and office purposes but strict measures must be adhered to. Tourism Malaysia estimated that the tourism industry will stand to lose RM19.2bn in tourist receipts over the three months period from March to May 2020.

Travel bubbles under consideration

As the economies started to reopen, a few countries tested the ground with travel bubbles. Aside from Singapore, Malaysia is in talks with six other countries including Australia, New Zealand, Korea and Brunei to kick start safe travel bubbles. Collectively these countries make up 17% of Malaysia's international travel (according to KLIA airports, 2019). We expect travel could re-start first between "green" Asean and certain pockets of opportunity would be in medical tourism which will benefit Thailand (Bumrungrad), and Malaysia (IHH).

Airports have not stopped operating but passenger capacity is affected

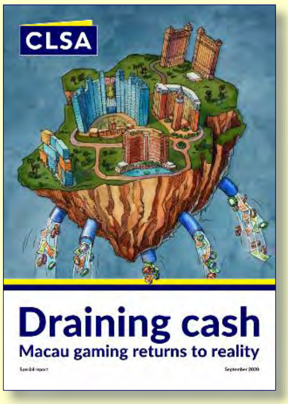
Airport plays are available in Malaysia (MAHB), Singapore (SATS) and Thailand (AOT) as well as indirectly in the Philippines (Megawide). Interestingly, the proposed privatisation Ninoy Aquino International Airport (NAIA) in Manila was first mooted in 2016 but has yet to come to fruition. Megawide also operates the Mactan-Cebu International Airport (MCIA) in partnership with the Bengaluru-based GMR Group. We would avoid AOT with the key concern being on business continuity as Thai Airways is AOT's largest airline, as well as a potentially a loss-making year as passenger/flight traffic is unlikely to recover quickly.

Hotels are badly hit

Hotels are also reeling from Covid. Clearly, with no international tourist arrivals hotels will be severely affected. Singapore's hotel plays are via Reits and we think the impact from Covid would likely be worse than that observed during the Sars epidemic. Meanwhile, in the Philippines some hotel operators have benefited from the in-housing of business process outsourcing (BPO) and returning overseas Filipino workers (OFWs) but this may not be sustainable.

Gaming plays appear to be more positive in Malaysia

Casinos were closed during the respective country lockdowns in Malaysia (GENM), Philippines (Bloomberry) and Singapore (GENS). But we believe once opened the recovery could be swift. This was seen in Malaysia as there was a lot of pent-up demand. Resorts World Genting saw its casino fill up from the day it reopened. However, the view is different in Singapore as casino operations along with entertainment venues are likely to be the last to resume operations in our view, given that the casino-goers are typically tourists.



Our analysts in the Philippines have also said that gaming would likely be the last to recover. Gross gaming revenues will decline by 50% YoY in 20CL. The re-opening should lead to a recovery of 92% YoY in 21CL, but will still be 4% below 2019 gross gaming revenue levels. However, we believe that VIP will likely recover more quickly than mass play, as the VIP segment typically depends more on lower volumes of casino players compared to mass. Moreover, premium mass gaming will also recover faster compared to mass, given the lower volumes of players needed.

Apart from being an ecommerce play, Sea Ltd would be a beneficiary of online gaming. Sea Ltd's self-developed mobile game, Free Fire has been gaining popularity and continues to see rising downloads as global lockdowns persist across cities and gamers spend more time in front of screens.

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Indonesia tourism: strong growth potential

With more than 13,000 islands, Indonesia is one of the most scenic spots in the world. Unfortunately, only in the past few years has the government begun to push tourism as a source of state income. Hence, tourism as percentage of GDP was 1.5% in 2019, one of the lowest in Asia, although it has grown from 1.2% in 2016. In 2020, however, this is likely to be lower given impact from Covid.

More infra put in place

The tourism push has coincided with infrastructure reforms in past five years where the government has pushed for more roads, airports and seaports to be built. This is primarily to enable industrialisation but tourism can also tap into it.

Figure 129

Indonesia: Bunaken island in Manado

Source: Ministry of Tourism

Figure 130

Indonesia: Sumba island, East Nusa Tenggara

Source: Ministry of Tourism

Much more than just Bali

10 new Balis

Under President Jokowi, the government has initiated a “10 new Bali” programme. It outlines 10 places in Indonesia that the government will focus on to develop as international tourist destinations. These places include Lake Toba in Sumatera, Borobudur temple, Labuan Bajo, and Mandalika (Lombok).

Figure 131

Indonesia: The 10 new Balis

Location	Access
Lake Toba	Kualanamu airport and Silangit airport
Tanjung Kelayang	Hanadandjoeddin airport Manggar port
Tanjung Lesung	Soetta and Merak port
Thousand Islands	Soetta and Ancol port
Borobudur	Achmad Yani, Adisutjipto, NYIA
Bromo-Tengger-Semeru	Juanda and Abdul Rahman Saleh airports
Mandalika	Lombok intl aiport and lembar port
Labuan Bajo	El tari and komodo airport, Bajo port
Wakatobi	Woltemonginsidi airport
Morotai	Ternate, Sam ratulangi, ahmad yani airports, imam lastori port

Source: Ministry of Tourism

MotoGP 2021 in Mandalika, Lombok

We hosted an event last year with the ITDC (Indonesia Tourism Development Corporation) which is in charge of developing Mandalika. Mandalika will be the host of the prestigious MotoGP event in 2021. Despite the pandemic, construction of the track still continues and the circuit is expected to be completed by December this year at the latest. The main contractors are France-based Vinci Construction along with SOE contractors. The project is costing US$1.3bn.

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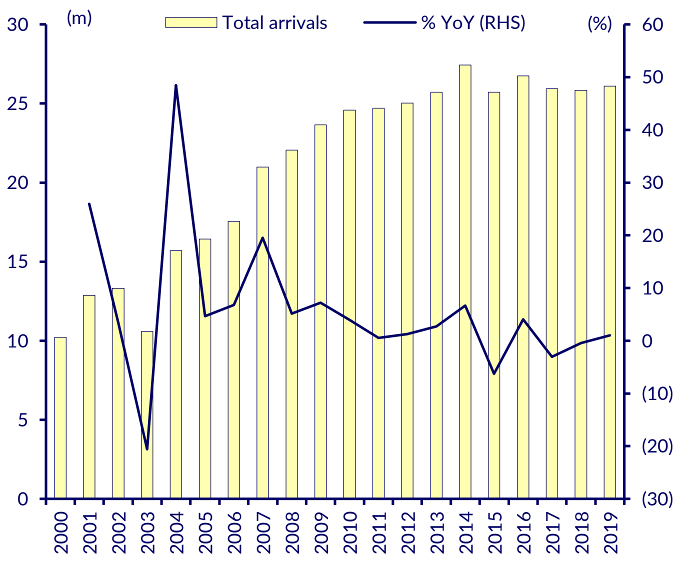
Malaysia: Covid-19 apocalyptic for the tourism sector

The Covid pandemic hit just as Malaysia was celebrating its Visit Malaysia 2020 (VM2020) campaign, with initial targeted tourist arrivals of 30 million and RM100bn tourist receipts. The VM2020 campaign has since been cancelled following the first Movement Control Order (MCO) imposition on 18 March when travel restrictions were imposed both domestically and internationally. Latest data (as at ytd-March) shows a 37% YoY decline in tourist arrivals. The impact is expected to be worse now as the suspension of international flights has been extended to 31 August, subject to the discretion of the Malaysian government.

Figure 132

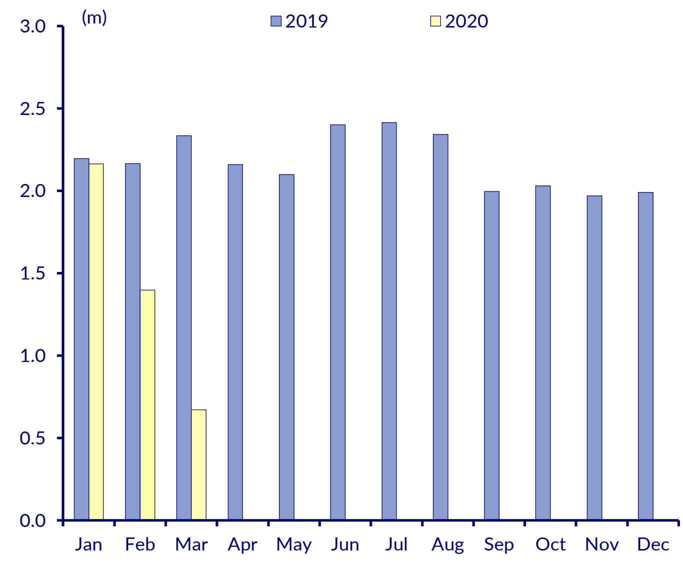
Tourists arrivals in Malaysia for 2000-2019



Source: CLSA, Tourism Malaysia

Figure 133

Tourists arrivals declined 37% Mar-YTD (Jan: -1%, Feb: -35%, Mar: -71% YoY)



Source: CLSA, Tourism Malaysia

Reciprocal Green Lane with Singapore for essential business travel

Testing the borders with neighbouring countries

The Singapore and Malaysian governments have established a Reciprocal Green Lane to facilitate cross-border travel for essential business and official purposes between both countries. The Periodic Commuting Arrangement will allow Singapore and Malaysia residents who hold long-term immigration passes for business and work purposes in the other country to return home for leave after spending at least three consecutive months in their country of work, and they will be allowed to re-enter their country of work after their home leave.

Travel bubbles uncertain

Prior to the Reciprocal Green Lane being established, there had been talks of the Malaysian government establishing a “travel bubble” between neighbouring countries such as Singapore, Brunei, Australia, New Zealand, Japan and South Korea to allow for less restrictive travel among its citizens. These countries make up the large proportion of Malaysia’s tourists arrivals by nationality in 2019 (Figure 134), and it is crucial for the revival of the Malaysian tourism sector. However, we caution that careful consideration and measures must be taken should the borders be reopened, as an emergence of second Covid wave in Malaysia will reverse all the effort and progress that has been made since March.

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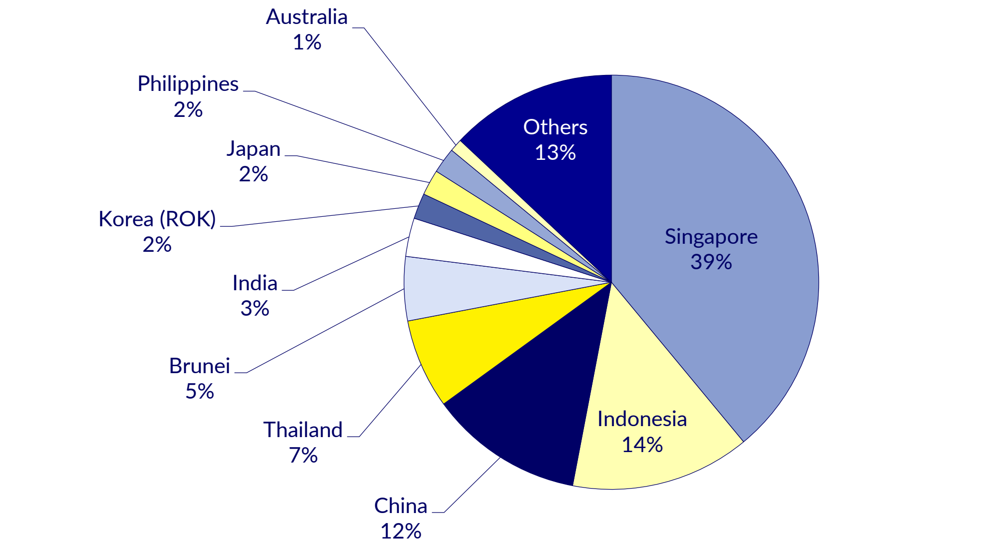
Figure 134

Nationality of key tourists' arrivals to Malaysia



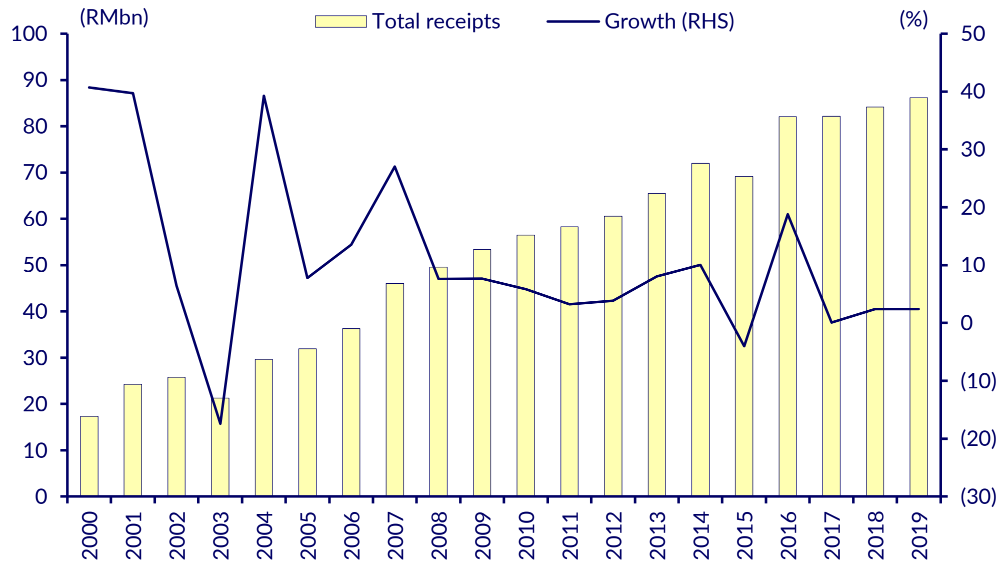
Source: CLSA, Tourism Malaysia

Tourism sector contributes 5% to Malaysian GDP

The tourism sector contributes about 5% to Malaysian GDP, the third largest contributor after manufacturing and commodities. Total tourist receipts contribution recorded a positive 2.4% growth in 2019 to RM86.14bn despite a smaller growth of 1% in tourist arrivals. The Asean region remained the biggest contributor at 51% of overall tourist expenditure in 2019.

Figure 135

Tourist receipts in Malaysia for 2000-2019



Source: CLSA, Tourism Malaysia

Tourism industry forecasted to lose RM19.2bn in tourist receipts

Tourism Malaysia had earlier estimated that the tourism industry would stand to lose RM19.2bn in tourist receipts over the three month period from March to May 2020. This amount will likely balloon given the several rounds of extensions on travel restrictions since then, with the Malaysian Association of Hotels (MAH) estimating that the country will see up to 30% of hotels closing down either temporarily or permanently during the year.

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Reopening of the tourism sector with domestic tourism beginning 10 June

All in, the Malaysian government has announced a total RM295bn worth of economic stimulus with a portion of it directed to assist the tourism-dependent sectors. Among other measures which have been introduced are the deferment of tax instalment payments, wage subsidies for employees in the tourism sector who are on unpaid leave, tourist tax exemptions and electricity bill discounts.

While international travel bans are still in place, domestic tourism has been reinstated in Malaysia since 10 June. The Malaysian government has attempted to spur domestic tourism with several initiatives (Figure 136).

Figure 136

Several relief measures provided to spur domestic tourism sector

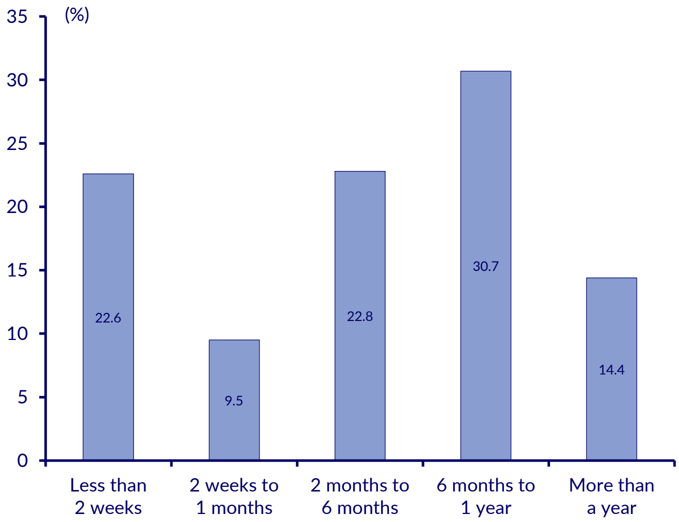
- Personal income tax relief of up to RM1,000 on expenditure related to domestic tourism.
- Digital vouchers for domestic tourism of up to RM100 per person for domestic flights rails and hotel accommodations for all Malaysians.
- Additional RM500m is provided for vouchers and tourism promotion.
- Relaxation of existing guidelines limiting use of hotels by Government agencies as part of mitigating the reduced demand.

Source: CLSA, Ministry of Finance Malaysia

While we believe it will take time for the sector to return to normalcy following tightening of standard operating procedures post-reopening, there are reasons to be upbeat on a faster-than-expected recovery. A survey of 13,797 respondents predominantly across Selangor, Kuala Lumpur and Sabah states conducted by Tourism Malaysia indicated that 55% of the respondents intended to travel within six months post-MCO. Most believe that Covid has greatly affected their perception towards leisure travel, although 50.9% still feel that travelling within Malaysia is safe. 71.3% of the respondents also preferred to travel domestically rather than overseas.

Figure 137

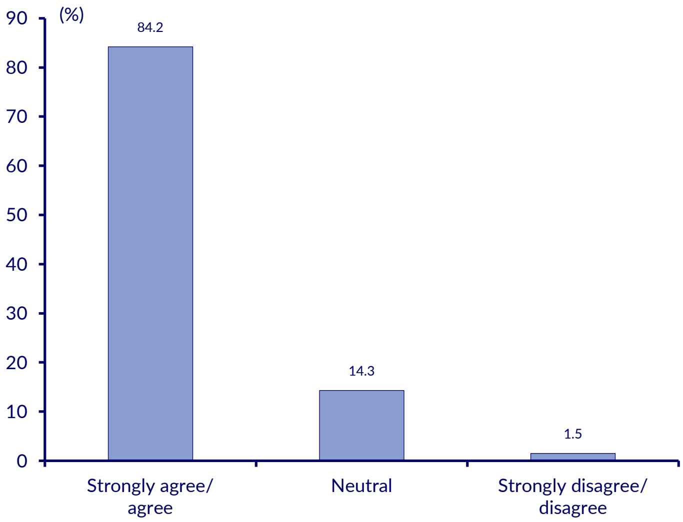
Malaysia: After MCO, I intend to travel within . . .



Source: CLSA, Tourism Malaysia

Figure 138

Malaysia: Covid has greatly affected my attitude towards leisure travelling



Source: CLSA, Tourism Malaysia

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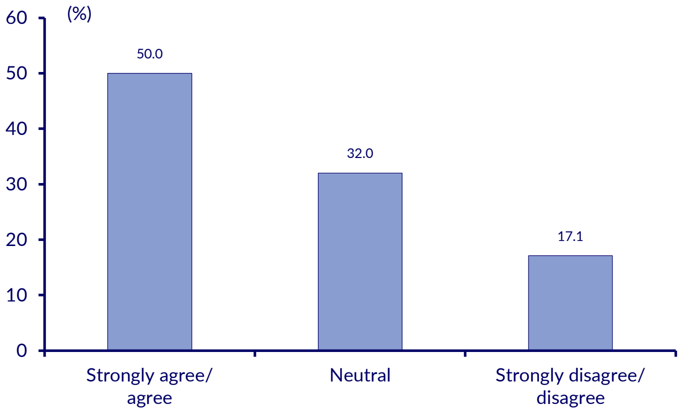
Figure 139

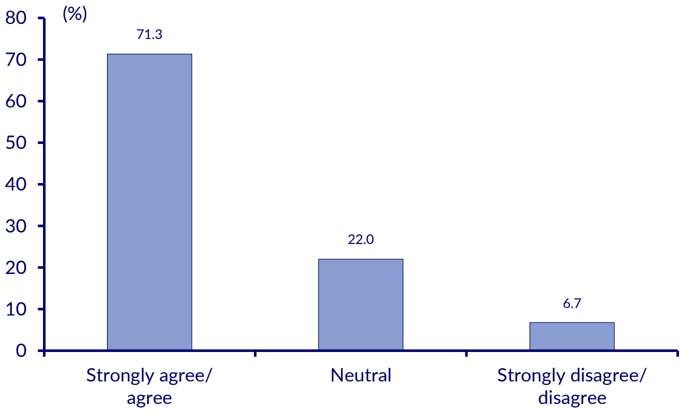
After MCO, I believe travelling within Malaysia is safe



Source: CLSA, Tourism Malaysia

Figure 140

After MCO, I prefer travelling domestically than overseas



Source: CLSA, Tourism Malaysia

AirAsia: Weighed down on multiple fronts

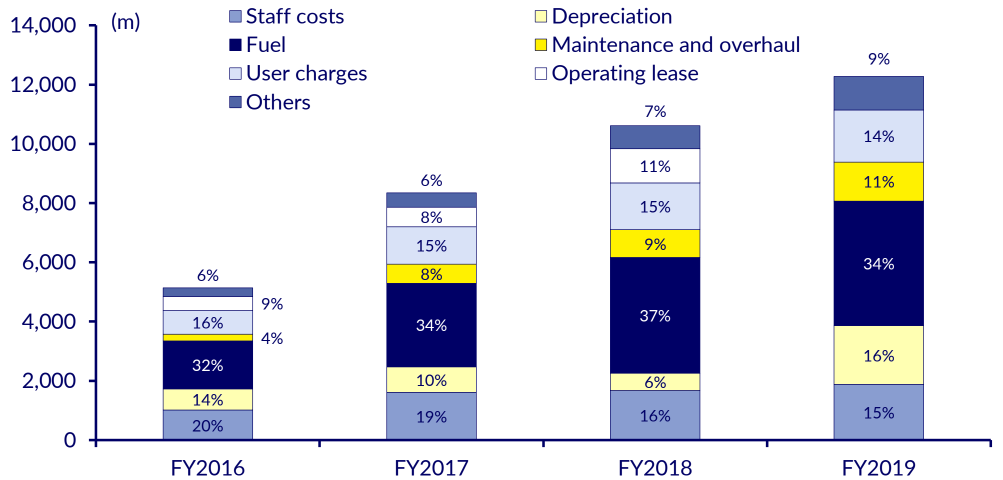
AirAsia has taken the brunt of the hit from the Covid pandemic with losses for the year a forgone conclusion. We are pricing in RM1.4bn losses in 20CL before reporting profitability in 21CL. On a positive note, the group is operating at full seat capacity although with much more stringent procedures in place including frequent sanitisation.

Solvency risks remain a key concern for investors, while the group has guided that fund raising plans are in motion. AirAsia's cash balance has been substantially reduced from RM2.6bn as at December 2019 to RM1.6bn as at March 2020. We had previously estimated the group's monthly cash burn to be at c.RM618m, but we have now cut this by about 60% to c.RM250m since cost cutting initiatives were introduced. Management guided that it will likely undertake debt or equity raising in the coming months and does not rule out a rights issue or further placement to strategic stakeholders. Recent news reports have said that the group has received support from certain financial institutions for its funding request of more than RM1bn. A certain portion would be eligible for the government guarantee loan scheme under the Danajamin Prihatin Guarantee Scheme in Malaysia.

Monthly cash burn forecasted to have been reduced to c.RM250m

Figure 141

AirAsia's OPEX breakdown



Source: CLSA, Company

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Silver lining includes airline consolidation and higher airfares post-Covid

A silver lining is that the industry is now operating in a less intense price war and AirAsia has seen its domestic market share rising by 2-4ppts in Indonesia, the Philippines and India. We expect airfares to increase post-Covid given the higher cost of operations.

Malaysian Airports (MAHB): moving ahead on domestic support

Small but crucial steps

As with other countries, Malaysia is in the midst of opening up air-travel green lanes with countries that have been able to contain Covid-19. At present it has finalised this with Singapore, with travel guidelines that came into effect on 10 August. Although this is only for business travel, it is a key milestone given that the Malaysia-Singapore travel route is the busiest route in the world, with about 4 million passenger movements in 2019, and represents just below 10% of international passenger travel for Malaysia's airports.

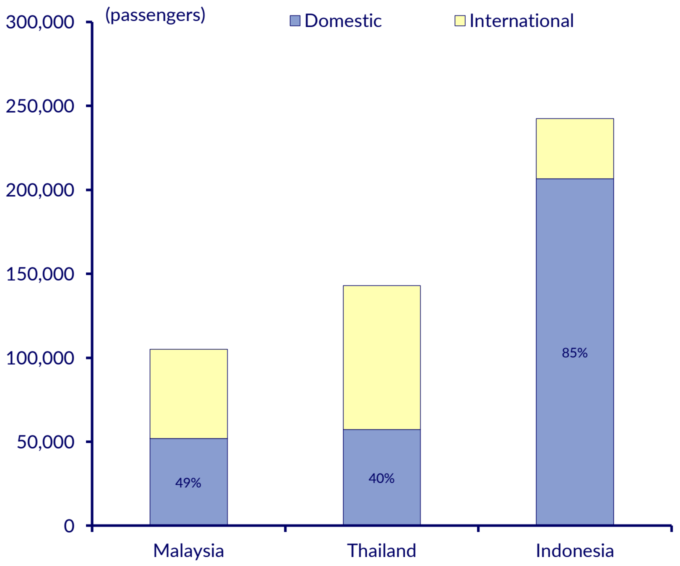
More reopening mulled, but in stages

Aside from Singapore, Malaysia is in talks with six other countries including Australia, New Zealand, Korea and Brunei to kick start safe travel bubbles. These countries collectively make up 17% of Malaysia's international travel (KLIA airports, 2019). We think travel may re-start first among "green" Asean states. Malaysia is also eyeing reopening with places that have low infections (instead of just countries) known as "green zones".

Malaysia has a higher share of domestic passenger travel than other Asean countries, which could provide more resilience to the industry in the near term and underpin the initial recovery.

Figure 142

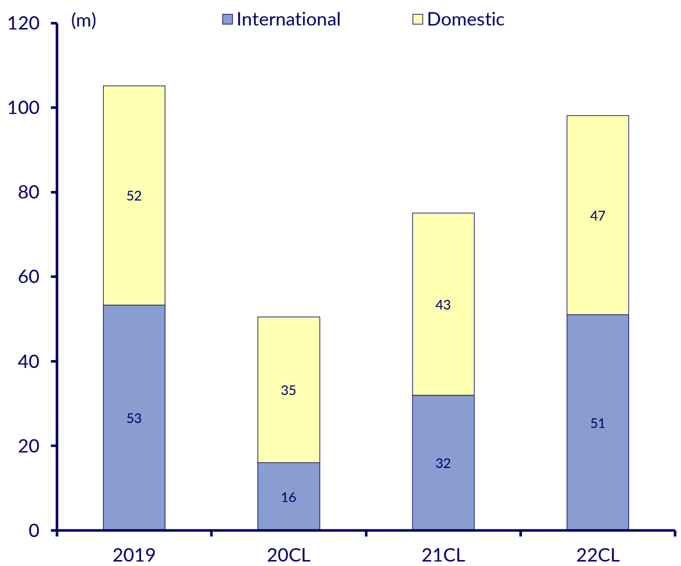
Mix of domestic and international passenger movements by country (2019)



Source: CLSA, Company

Figure 143

Passenger traffic recovery (Malaysia)



Source: CLSA, Company

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The Philippines: an emerging play derailed

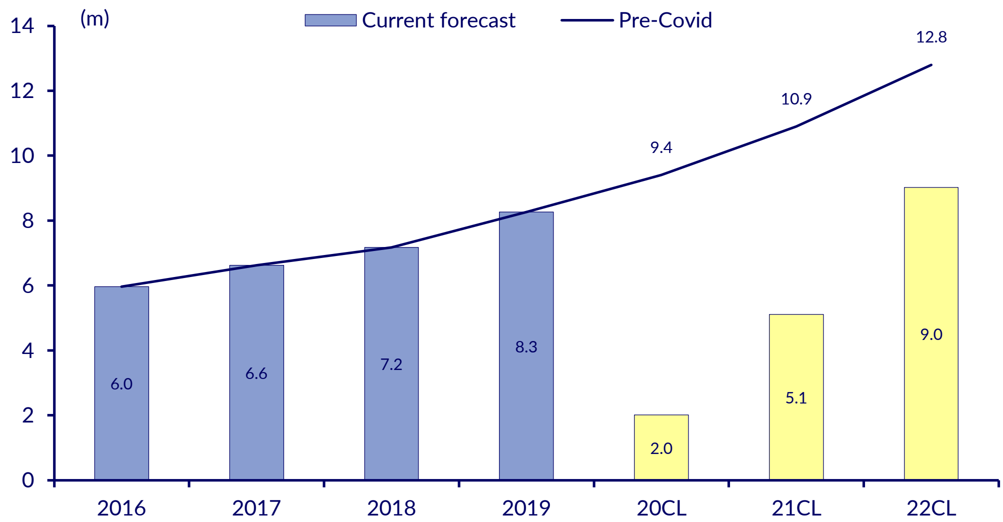
Airports and airlines

Huge drop in tourist arrivals for 2020

Tourism was an emerging driver for the Philippine economy but needless to say, Covid-19 has derailed this growth engine. Our current inbound visitation forecasts for 20CL assume a 52% drop YoY and is well below (at only 43%) our pre-Covid estimate of 9.4 million.

Figure 144

Philippine: international tourist arrivals



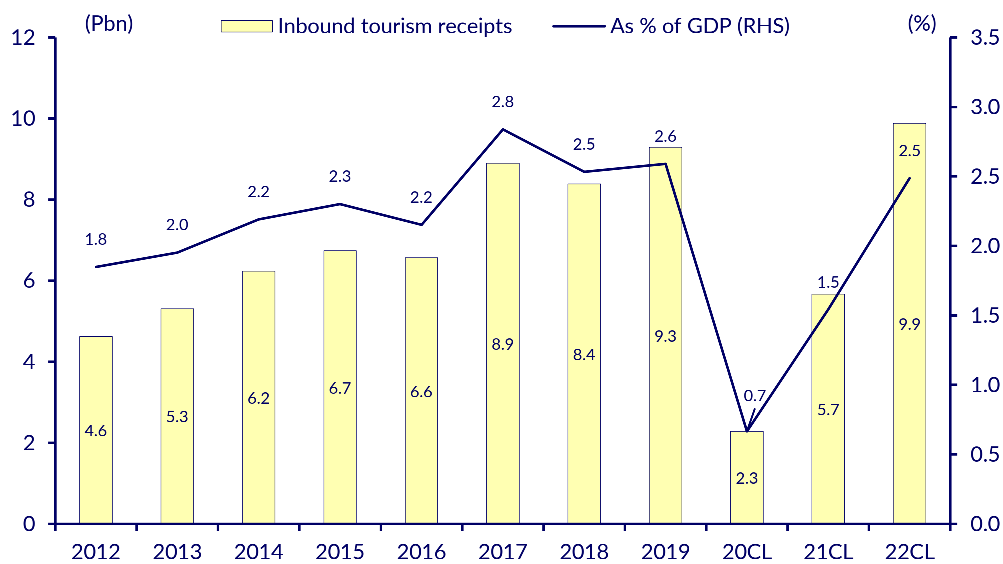
Source: CLSA, Department of Tourism

Tourism sector contribution to the economy to shrink

As a percentage of total GDP, we anticipate inbound tourism receipts to fall from 2.6% in 2019 to only 1.2% in 2020, only returning to 2.6% by 22CL. As in the past, we have pointed out however that historical figures may not be accurate as the data is based on a survey using a small sample size.

Figure 145

Philippines: Inbound tourism receipts as % of GDP



Source: CLSA, Philippine Statistics Authority

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As we expect the recovery to be protracted and there is the potential of a second wave of the pandemic, our 21CL and 22CL foreign tourist arrival forecasts are only at 71% and 80% of pre-Covid assumptions. Moreover, community quarantines led to significant delays in government rollouts of the privatisation of the country's regional airports in the Southern Philippines (including Iloilo, Bacolod, Bohol, Laguindingan and Davao) which is necessary for the decongestion of Ninoy Aquino International Airport (NAIA) in Manila.

Government hoping to address infrastructure bottlenecks

The privatisation of NAIA, which was first floated as a potential public-private partnership project in 2016, has yet to come to fruition as the consortium composed of the Philippines' largest conglomerates (including Alliance Global, Ayala Corp, JG Summit, Alliance Global and Metro Pacific) has yet to secure the required government approvals needed to kick start the Swiss Challenge auction necessary for the awarding of this project. However with the government cognisant of the need for infrastructure spending and upgrades to boost the economy, these type of projects will have to pick up pace.

Figure 146

Philippine inbound visitation breakdown

	Dec 19	Dec 18	% YoY	Jan - Dec 19	Jan - Dec 18	% YoY
Tourist arrivals	**776,798**	**693,137**	**12.1**	**8,260,913**	**7,168,467**	**15.2**
Top markets						
Korea	203,965	174,578	16.8	1,989,322	1,624,215	22.5
China	117,000	97,964	19.4	1,743,309	1,257,990	38.6
USA	109,488	104,597	4.7	1,064,440	1,034,496	2.9
Japan	59,379	53,806	10.4	682,788	631,811	8.1
Others	286,966	262,192	9.4	2,781,054	2,619,956	6.1

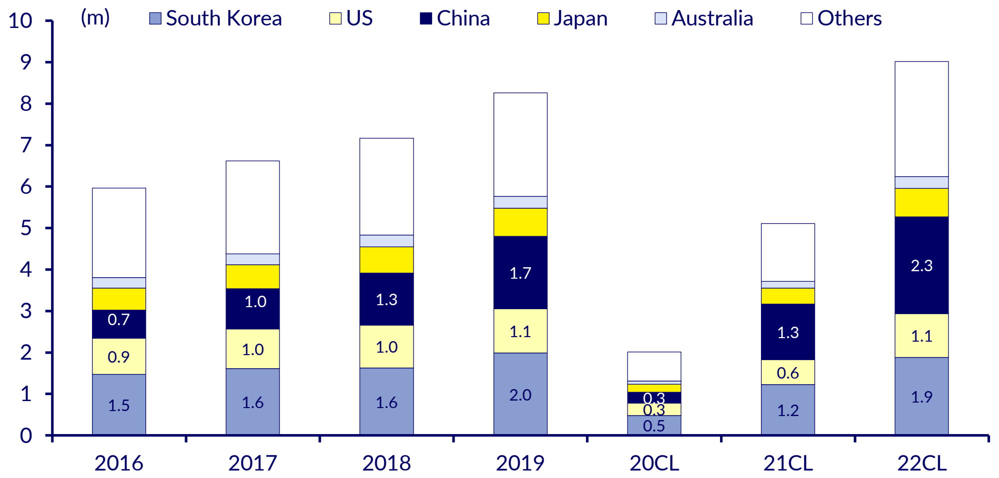
Source: Department of Tourism, CLSA

Philippine tourism sector dependent on China and Korea

In terms of a recovery over the near-term, aside from sorting out the fallout from the pandemic internally, the rebound of inbound tourism to the Philippines hinges on the appetite for travel from Korea and China. These two nations account for 24% and 21% of total foreign tourist arrivals. To highlight their importance, China and Korea combined contributed 78% of incremental inbound visitations in 2019.

Figure 147

Philippines: Tourism per nationality breakdown



Source: CLSA, Department of Tourism

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MWIDE is a play on Philippine tourism growth

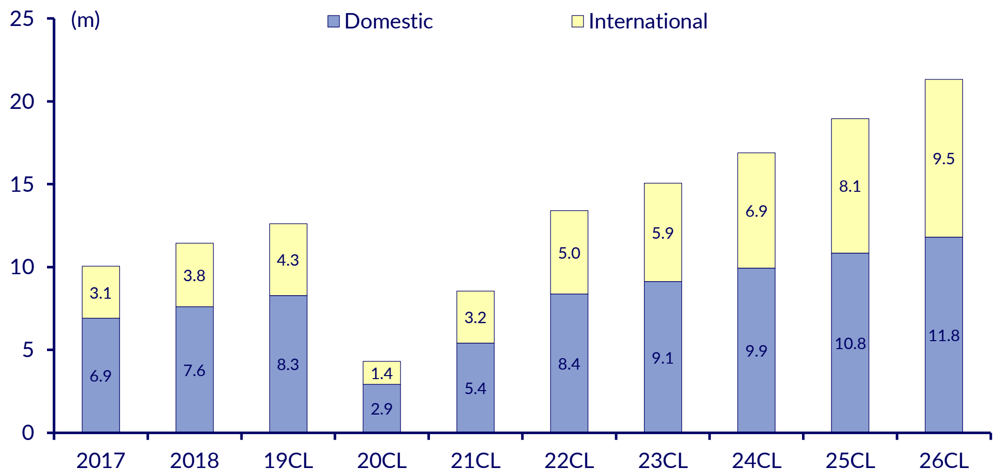
Megawide: tourism play

Megawide is a Philippine tourism play as it operates the Mactan-Cebu International Airport (MCIA) in partnership with the Bengaluru-based GMR Group. Cebu is the most frequented destination in the country for international tourists and is located in the central Philippines, which is also in close proximity to other beach resort islands in the archipelago.

Passenger traffic at Cebu airport only expected to reach 2019 levels by 2022

Figure 148

Philippines: MCIA passenger traffic assumptions



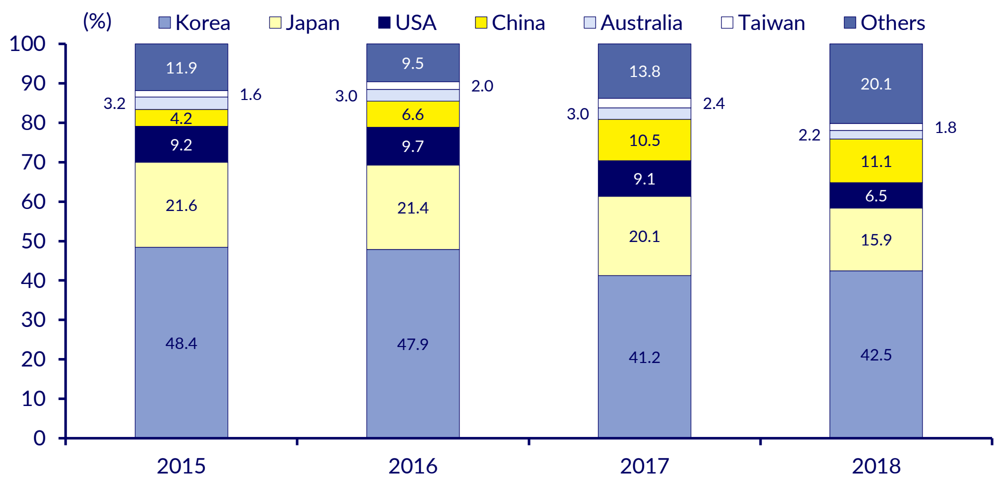
Source: CLSA, company disclosures

For MCIA we are anticipating a huge 66% YoY drop in passenger traffic to only 4.3 million for 2020 given the depressed demand for travel. We anticipate volumes to revert back to 2019 levels only by 2022.

Korea remains Cebu's top tourist market followed by Japan and China

Figure 149

Philippines: Breakdown of foreign tourists visiting Cebu by nationality



Source: Department of Tourism

Return of East Asian tourists critical for Cebu airport's recovery

While China is a growing market in terms of tourist visitations to Cebu, Japan is another key market for this region. Fortunately the East Asian countries have widely been considered as among the best in terms of handling the pandemic. The return of these markets is crucial for the recovery of MCIA, on top of the Philippines containing and resolving Covid internally.

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Health, safety and social distancing measures being implemented in MCIA

Figure 150

Philippines: MCIA terminal procedures

Source: Megawide

Entering into green lane agreements will help ease transit of passengers

While the world awaits a vaccine, the near-term goal of GMR-Megawide Cebu Airport Corp (GMCAC) is for it to be able to enter into green lane agreements with several key countries in the region. Countries establish green-lane arrangements when they believe they can resume essential travel with one another. The critical factor here lies in the trust in each nation's handling of the pandemic.

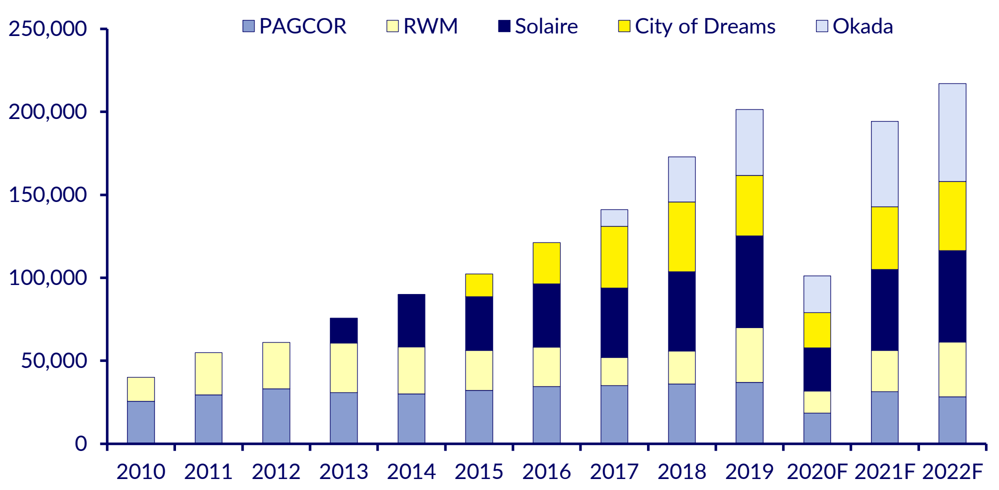
Leisure industries are last to come out of the lockdown

Gaming: sanitation-focused operations

Being part of the leisure category, integrated resorts and gaming operations are among the industries last to come out of the lockdown. Given that gaming and hotel operations are experience-based they will be largely affected by social distancing guidelines. And given the impact of the lockdown and a slower than previously anticipated recovery, we expect gross gaming revenues will decline by 50% YoY in 20CL. The re-opening should lead to a recovery of 92% YoY in 21CL, but will still be 4% below 2019 gross gaming revenue levels.

Figure 151

Philippines: Gross gaming revenues



Source: CLSA, company disclosures, PAGCOR

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Gaming operations will be curbed

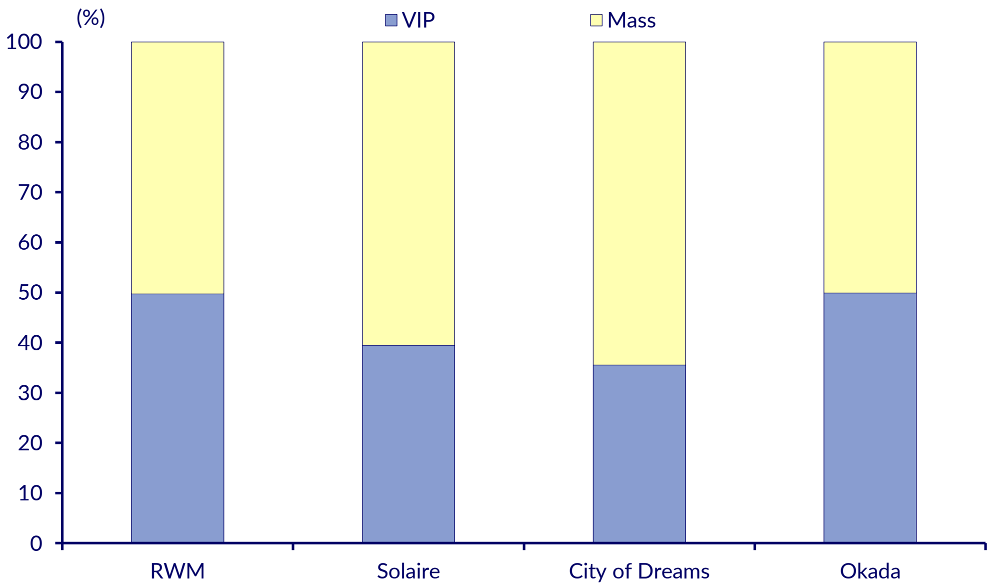
Gaming operations will be curbed given depressed demand amid the absence of a vaccine. Only 20-30% of gaming capacity will be utilised during the first phase of gaming operation resumptions. Only a quarter of tables will be operational, while only three people per table are allowed to play, with no back betting allowed. Slot machines will also be spaced accordingly. Moreover, no large-scale giveaway promotions or tournaments will be held, in order to comply with the social distancing guidelines.

High-end gaming should recover faster given lower

Given the new normal in gaming operations, we believe that VIP will likely recover more quickly than mass play, as the VIP segment typically depends on much lower volumes of casino players compared to mass. Premium mass gaming will also recover faster compared to mass, given lower the volumes of players needed.

Figure 152

Philippines: Mass and VIP contribution per integrated resort



Source: CLSA

Sanitation and deep cleaning needed

Deep cleaning and sanitation will be prioritised in all areas of the integrated resorts. Each gaming table will be sanitised after each day. Every open gaming table will have alcohol sanitising bottles and will be equipped with a UV-C scanner to sterilise both chips and cash. Every hotel room will be sanitised with equipment such as UV-C lamps and highly effective Oxivir chemicals. There will also be random swabbing tests for new room arrivals to ensure proper Relative Light Unit threshold ratings. Retail and food establishments within the integrated resorts are expected to observe proper queuing procedures such as the two meter social distancing requirement. Tables and booths will be spaced to allow two meters between parties. Fresh buffet services will be suspended until sneeze guards are installed. There will also be at least once cleaning and sanitising of public and shared services per hour including elevators, door knobs and handles, escalator handrails, dining surfaces, counters, hand rails, and trash bins.

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Hotels - the last property asset to recover

Hotels - occupancy rates to fully recover by 22CL

We expect the hospitality segment to be the last property asset to recover from this pandemic. For obvious reasons, we believe that only a vaccine will allow developers to operate at maximum capacity. However, some hotel operators have benefited from the housing of business process outsourcing and returning overseas Filipino workers. These were hotels located near central business districts (Manila and Cebu) as the enhanced community quarantine limited mobility for workers living outside of the city. However, we don't think this is sustainable.

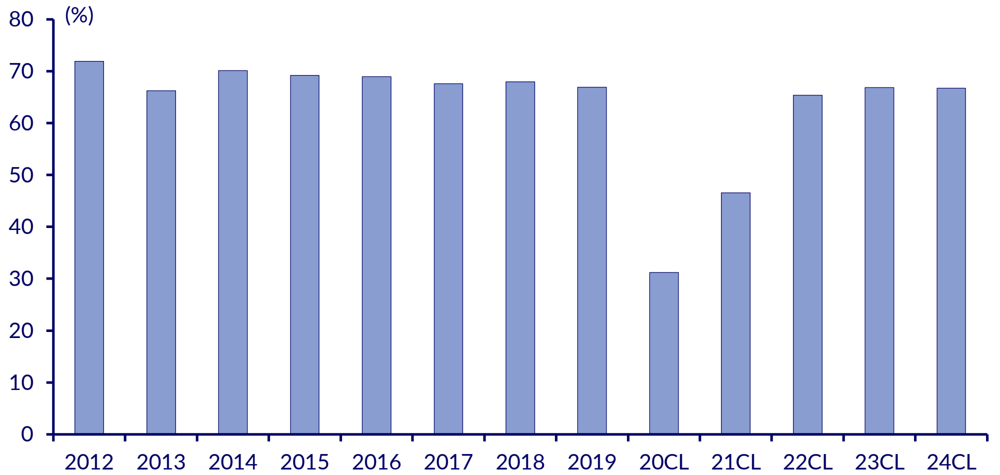
Some developers benefited from housing of BPO and OFW workers

However, the short term outlook remains bleak for the segment

Hotel operators may benefit from local domestic travel

Figure 153

Philippine hotel occupancies - weighted average



Source: CLSA, Listed developers

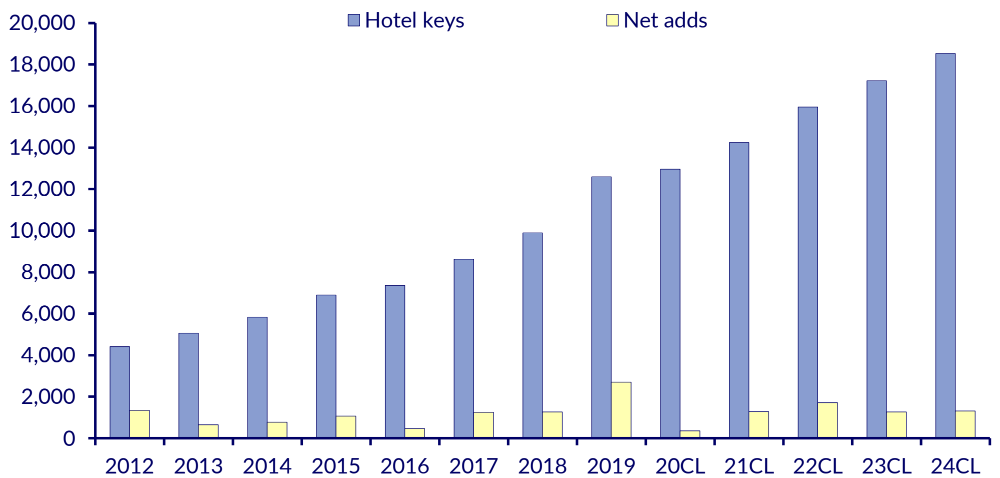
The figures for 1Q20 indicate that occupancies were in the low 50%-range taking into account the two-week impact of the lockdown which began in mid-March. We expect further weakness to persist in 2H20 and a gradual recovery in 2021. The aggressive cut in our occupancy forecasts reflect stringent measures that operators may be applying in a post-lockdown scenario. The upside in the short term is if the Philippines experiences a surge in domestic tourism as international travel is likely to remain subdued in the near term.

Expansion will halt in 2020

Hotels will likely be operating at a limited capacity

Figure 154

Philippines: Hotel room keys



Source: CLSA, Listed developers

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Singapore: tourism in a tough spot

Within the tourism industry, aviation, hospitality and gaming companies are likely to be the worst hit and we expect these sectors to recover last.

Aviation - clipped wings

Aviation is one of the sectors most heavily impacted by Covid. Given its heavy reliance on air travel demand, airlines will need to adapt their business models in a post-Covid world.

Weak air travel demand will put pressure on airline capacity and utilisation rates. While excess space allows for social distancing on flights (such as unsold middle seats and limited seat selection) to be implemented without lost revenue, we think this will ultimately limit airline capacity utilisation and result in higher fares as air travel recovers.

Digital solutions to mitigate increased health costs

Enhanced health measures such as temperature screening, daily deep cleans and social distancing will reduce contagion risks but will result in longer aircraft turnaround times and likely raise costs. However, increased use of digital solutions such as contactless boarding, self-service options and mobile devices to monitor staff systems could keep turnaround times in check and maintain costs.

Ancillary revenue to recoup some losses

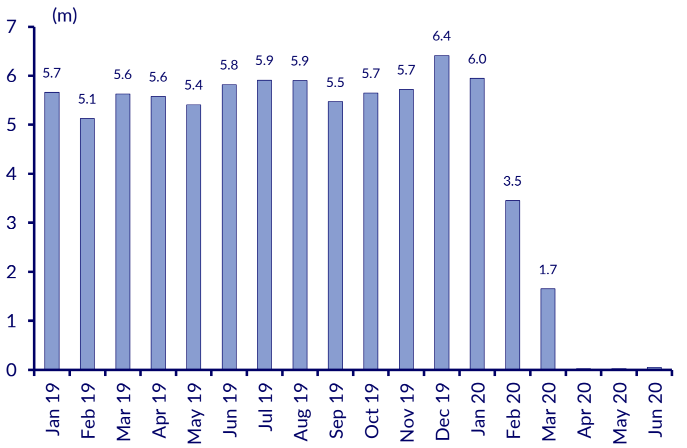
Price recovery will lag travel volume recovery as airlines try to stimulate demand with low prices and enhanced health measures. To offset lower prices, airlines could drive ancillary revenue by charging for empty seats, fast-tracked health screening and raising fees for checked bags and in-flight wifi. Meanwhile, Singapore Airlines have expanded their product suite with its own omni-channel ecommerce platform, KrisShop.

Cargo declined 4-44% YoY in March-June 2020

Unlike most ancillary revenue, cargo demand is not affected by the social distancing measures that affect passenger demand. Changi air freight volumes declined by 36% YoY (vs. -100% for passenger movements in May 2020), with a 17% recovery QoQ in June. Given that cargo demand it is relative stability, higher cargo revenues will offset reduced passenger traffic and allow airlines to keep fares at a reasonable level.

Figure 155

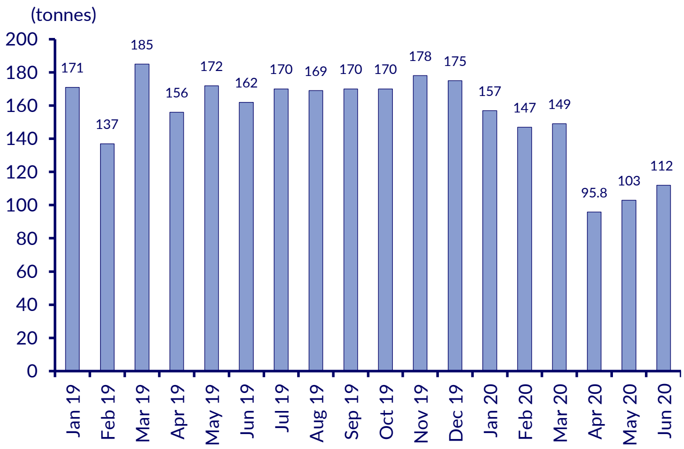
Changi passenger movements trend



Source: CLSA, Changi

Figure 156

Changi air freight movements trend



Source: CLSA, Changi

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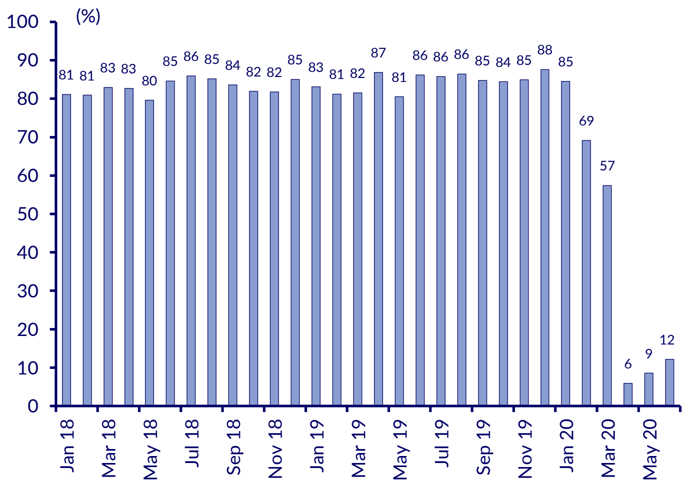
Figure 157

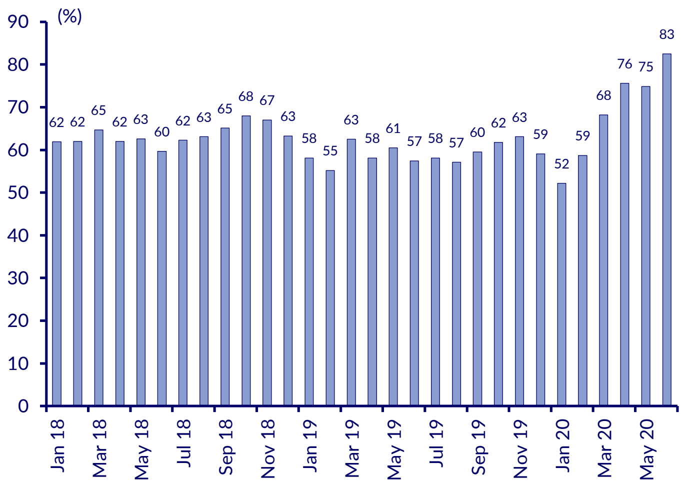
SIA Group passenger load factor trend



Source: CLSA, Singapore Airlines

Figure 158

SIA Group cargo load factor trend



Source: CLSA, Singapore Airlines

Hospitality - empty rooms

We expect 60-80% decline in Revpar in 2020

Hotel operators and Reits are also closely correlated and dependent on the demand for air travel. As such, the impact from a collapse in tourist arrivals has also put revenue per available room (Revpar) under tremendous pressure. While some hotels have been used for quarantine purposes, the numbers are insufficient to offset the overall weakness in the near to mid-term unless the Covid situation improves.

At the beginning of 2020, we were expecting stronger Revpar growth at 2-3% YoY, given lower supply and healthy growth in visitor arrivals. However, we now forecast a 60-80% decline in Revpar in 2020.

Tourist arrivals fell sharply

Tourist arrivals fell from the typical 1.5m-2m/month range to 0.7m in February 2020, to 0.2m in March 2020, and to around 800 in April and May 2020 while recovering slightly to 2,170 visitors in June 2020. Correspondingly, occupancy for hotels in Singapore fell to 40-60% in February-June 2020, propped up mostly by quarantine orders. With lower room rates, Revpar fell 42/62/80/76/80% YoY in February/March/April/May/June.

Impact likely to be greater than Sars

In comparison, Sars created less of an impact than Covid. During the Sars outbreak in 2003, tourist arrivals to Singapore fell 43% YoY between March-July 2003, and only recovered from Mar 2004 onwards. Revpar was down 39% between March and July 2003 as occupancy fell by 30% from 76% to 53% and room rates fell 14% from S$127/night to S$110/night. For full-year 2003, Revpar fell a more modest 19% YoY.

Recovery is likely to be slow, and the last among the sub-segments

With no vaccine in sight, recovery in the hospitality sector is likely to very muted in our view. That said, the government is progressively allowing staycations among locals to offset some of the demand weakness. In tandem, the government has launched a S$45m marketing campaign called "Singapoliday" to encourage locals to take staycations within the country in a bid to help support the battered hospitality industry. More than 100 hotels have applied for the scheme and about 80 have been given the green light to open.

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Jan-June 2020

Tourist arrivals: 2.7m (-71% YoY)

Revpar: S$80 (-56% YoY)

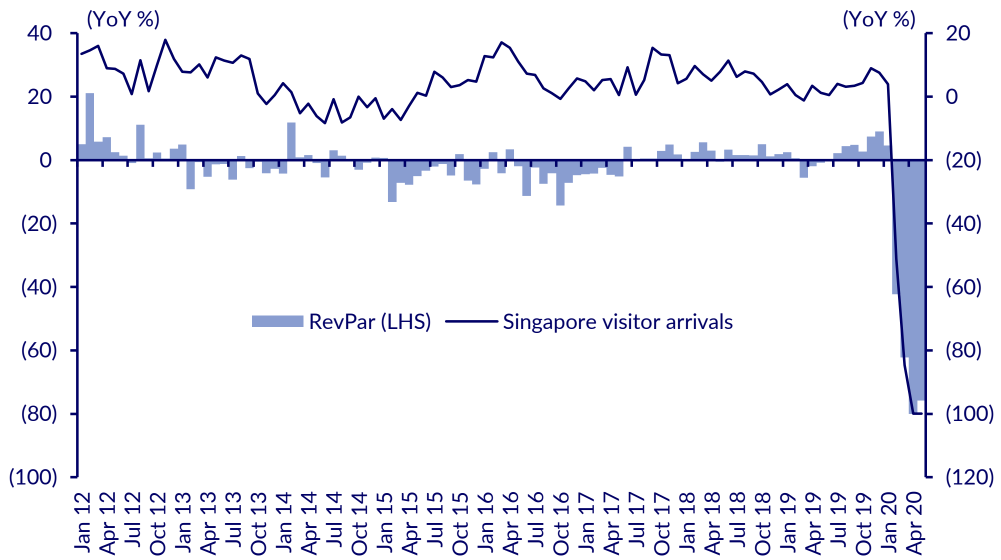
Occupancy: 54.0% (-37% YoY)

Room rates: S$142 (-34% YoY)

We believe this can only partially offset the full impact from the collapse in tourist arrivals and staycation demand will benefit family friendly hotels more than business focused hotels. The International Air Transport Association forecast air travel demand to deliver a soft recovery over two years, but it will take at least five years to regain 2019 levels. While Singapore is in discussions with various countries on opening green lanes for travel, this will be limited to business and essential travel. For 2021, we forecast a 30-40% recovery for Revpar from the 2020 level, but still 45-75% below 2019.

Figure 159

Singapore tourist arrivals vs Revpar YoY



Source: CLSA, STB

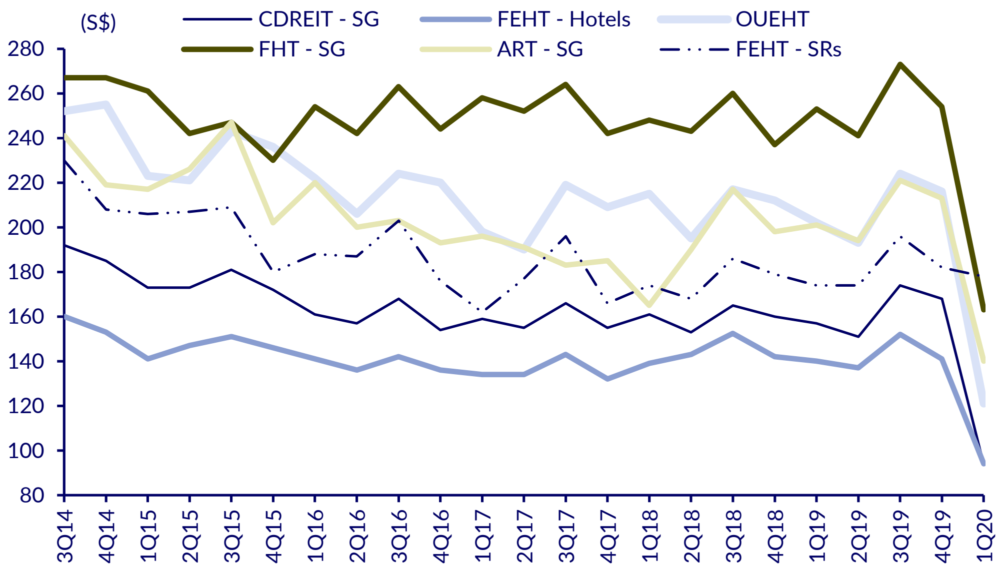
Revpar 2Q20:

Revpars of the hospitality Reits were mostly down 10-60% QoQ in 2Q20

Only ART registered +5.0% QoQ increase in Revpar

Figure 160

Revpar for hospitality Reits



Source: CLSA, Companies

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Revpar YoY 2Q20:

ART: Singapore -24% YoY and Portfolio -52% YoY

CDLHT SG: -48% YoY

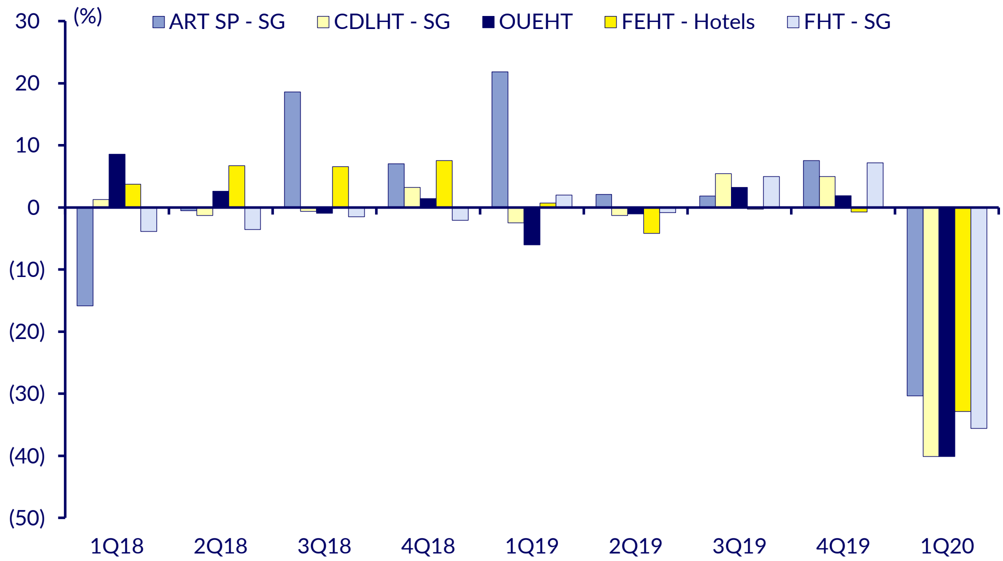
FEHT: -42% YoY for hotels: -4.6% for SRs

FHT SG: -55% YoY

OUEHT: -72% YoY

Figure 161

Revpar YoY for hospitality Reits (Singapore portfolio only)



Source: CLSA, Companies

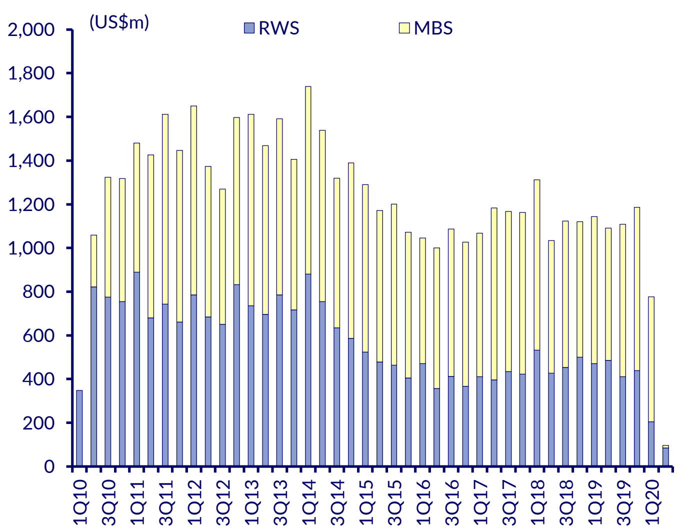
Gaming: don't place your bets yet

We think Casino operations, along with entertainment venues, are likely to be the last to resume. This will impact companies including Genting Singapore which operates Resorts World Sentosa, and Las Vegas Sands which runs Marina Bay Sands.

Looking at the latest results from Las Vegas Sands, 2Q20 volume for both VIP and mass fell by 98-99% YoY resulting in a 97-99% collapsed in gross gaming revenues for these two segments. The recent mass lay off of close to 2,000 workers at Resorts World (close to a third of its 7,000 strong workforce) underscores the challenges faced by gaming operators.

Figure 162

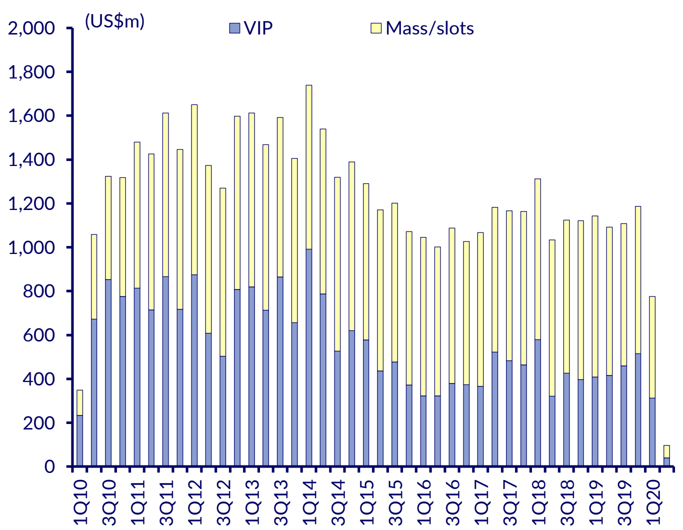
Gross gaming revenue by property



Source: Companies

Figure 163

Gross gaming revenue by product



Source: Companies

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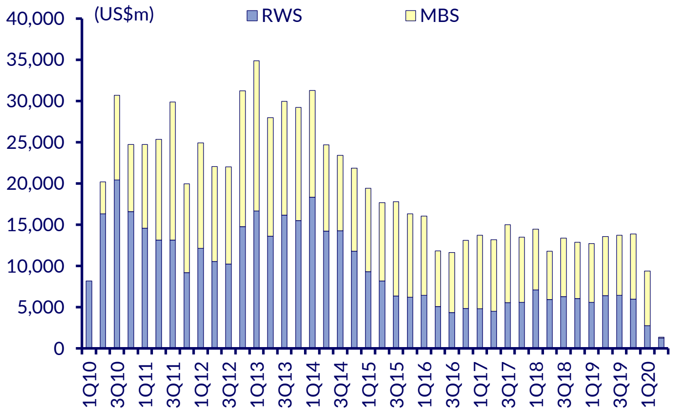
Figure 164

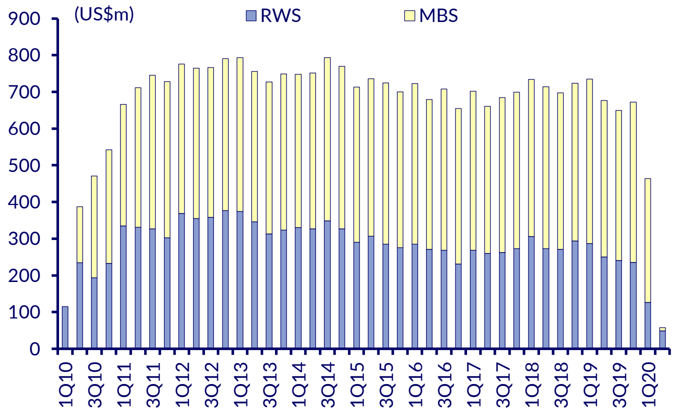
Singapore VIP volumes



Source: Companies

Figure 165

Singapore mass/slot volumes



Source: Companies

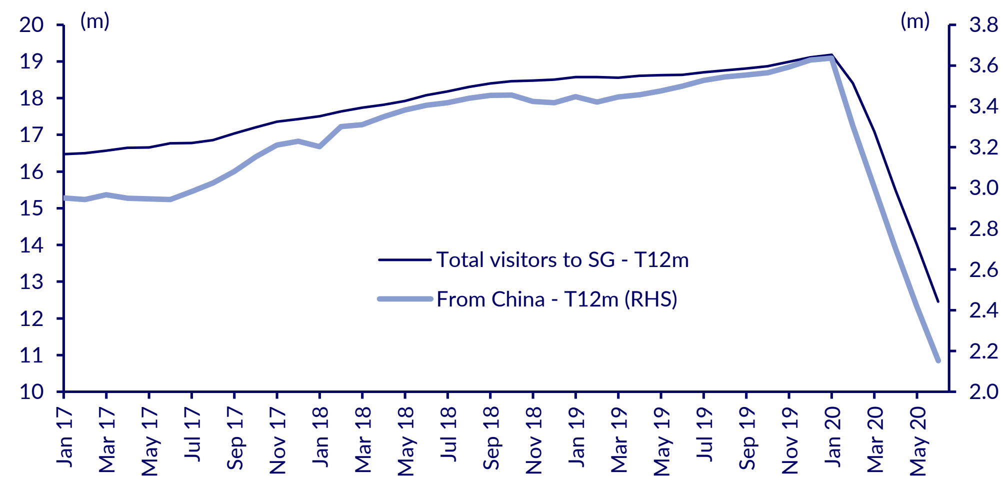
While green lane arrangements with China have been signed and will facilitate travel between Singapore and China, this is still largely restricted to essential business travel. This, coupled with the fact that Chinese gamers are an important revenue contributor to casinos in Singapore, suggests that gross gaming revenues for the two casino operators will continue to be under significant pressure in the near term. Also, as our China Reality Research team suggest, China's population may be in no real hurry to travel internationally post-Covid.

Tourism into Singapore has unsurprisingly fallen off a cliff in 2020

This has had serious ramifications for the integrated resorts

Figure 166

Trailing 12-month tourist arrivals into Singapore



Source: Singapore Tourism Board

Online gaming a beneficiary

Popularity of Free Fire remains high and lockdowns have increased game time

Conversely, online gaming is set to benefit from lockdowns across many countries. In particular, we see Sea Ltd as a beneficiary of this trend. Sea Ltd's self-developed mobile game, Free Fire has been gaining popularity and continues to see rising downloads as global lockdowns persist across cities and as gamers spend more time in front of screens. Since the beginning of this year, downloads rose to almost 29 million in June 2020 and we expect this to potentially translate into higher revenues in the coming quarters. According to AppAnnie, Free Fire's popularity in Google Play stores globally remained high in May and has consistently been a Top 3 game in many emerging markets. Its other game, Call of Duty, has been gaining traction in downloads in recent months and is currently a Top 5 game in Singapore, the Philippines and Malaysia.

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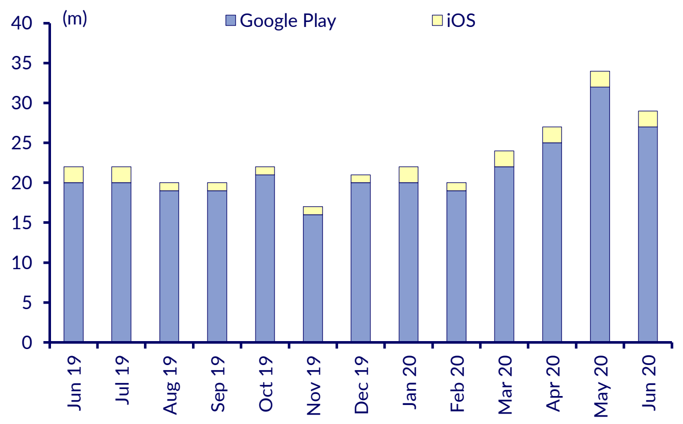
Figure 167

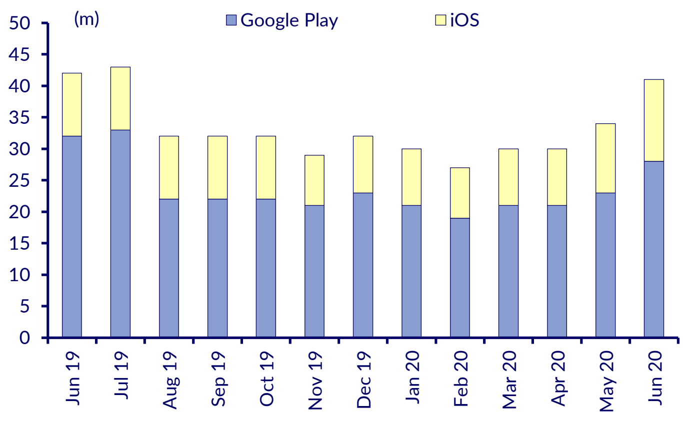
Free Fire downloads



Source: CLSA, Sensor Tower

Figure 168

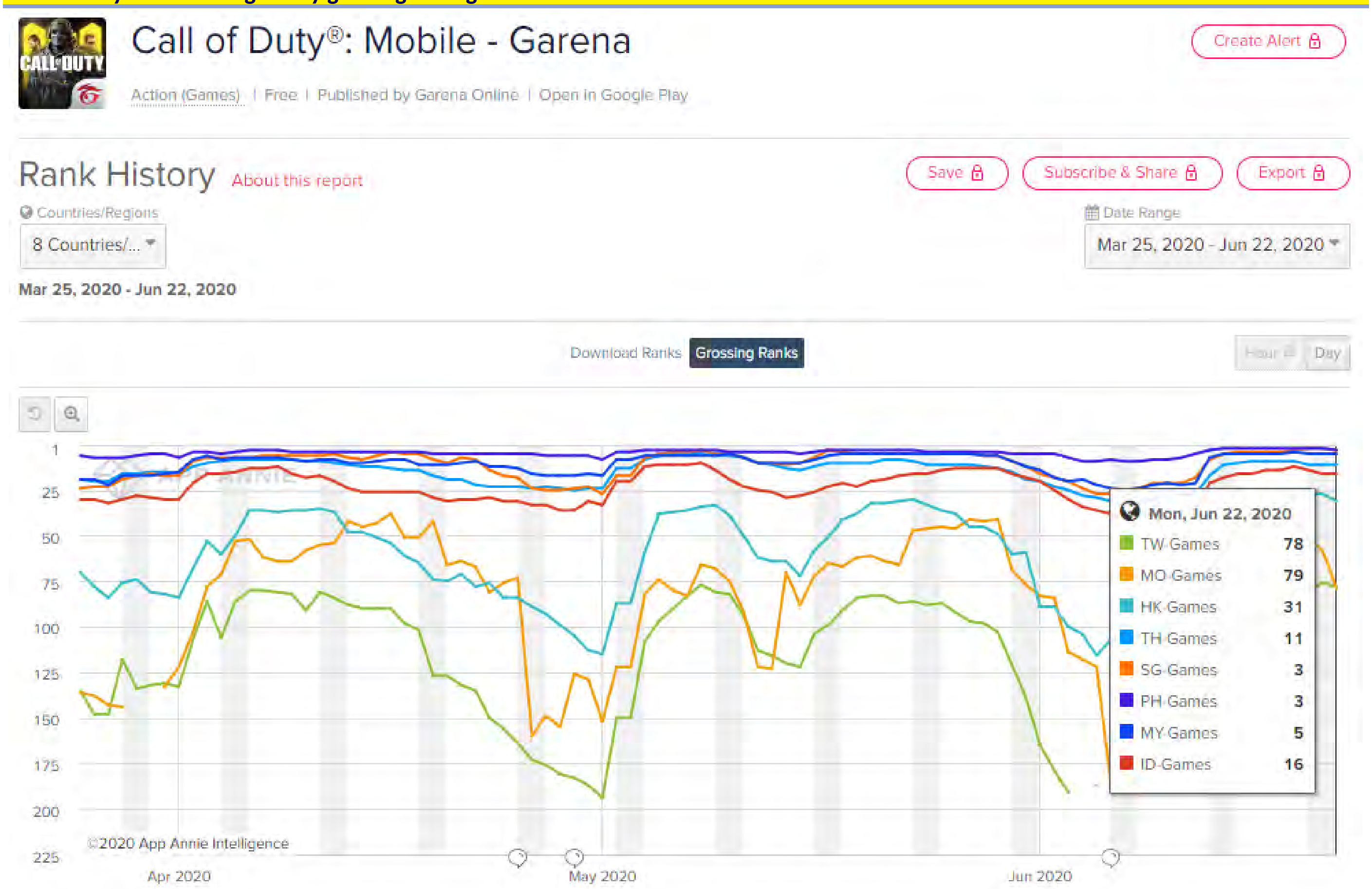
Free Fire monthly revenues



Source: CLSA, Sensor Tower

Figure 169

Call of Duty Mobile Google Play games grossing ranks



Source: AppAnnie

Evidence is mounting that Shopee will be the Asean winner

These trends leave us more and more confident in the longer-term prospects of the platform. There is a long way to go in this still nascent ecommerce space in Asean but all the momentum is with Shopee (Sea Ltd's own ecommerce brand) and we remain convinced that Shopee can win the Asean market, as it has won in Taiwan.

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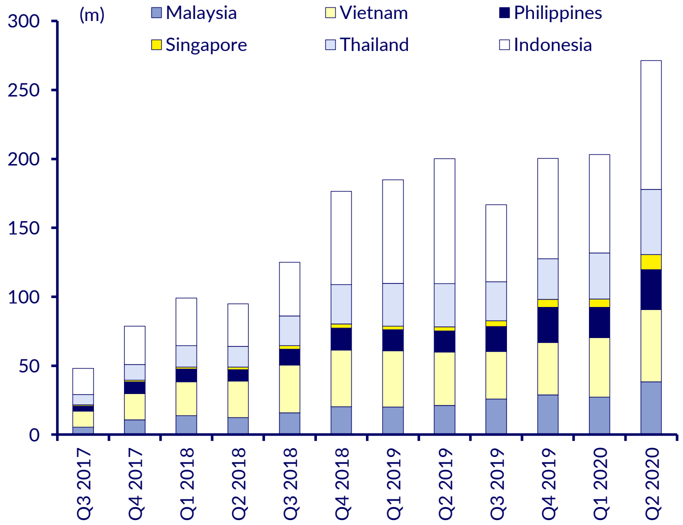
The lead in website visits Shopee has over Lazada is now widening

Ecommerce sales gaining traction in Asean
In addition to online gaming, Sea Ltd also operates an ecommerce platform, Shopee, which has benefitted from the lockdown. Average monthly web visits to Shopee continue to rise above the traditional market leader Lazada.

Figure 170

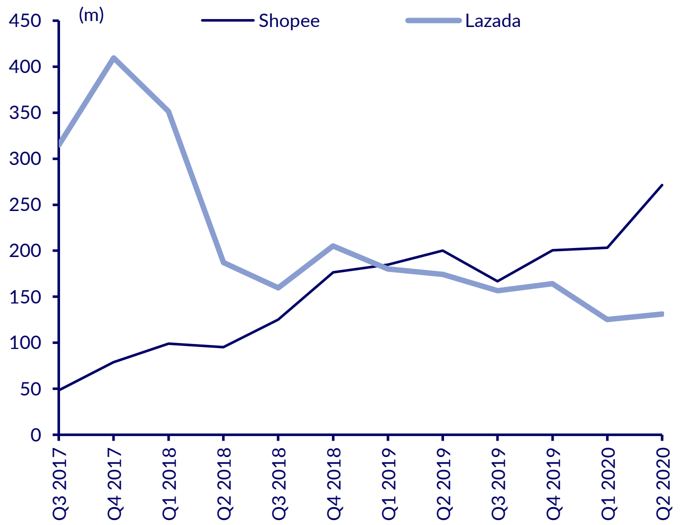
Shopee's average monthly web visits by Asean country



Source: CLSA, iPrice

Figure 171

Asean average monthly web visits for Shopee and Lazada



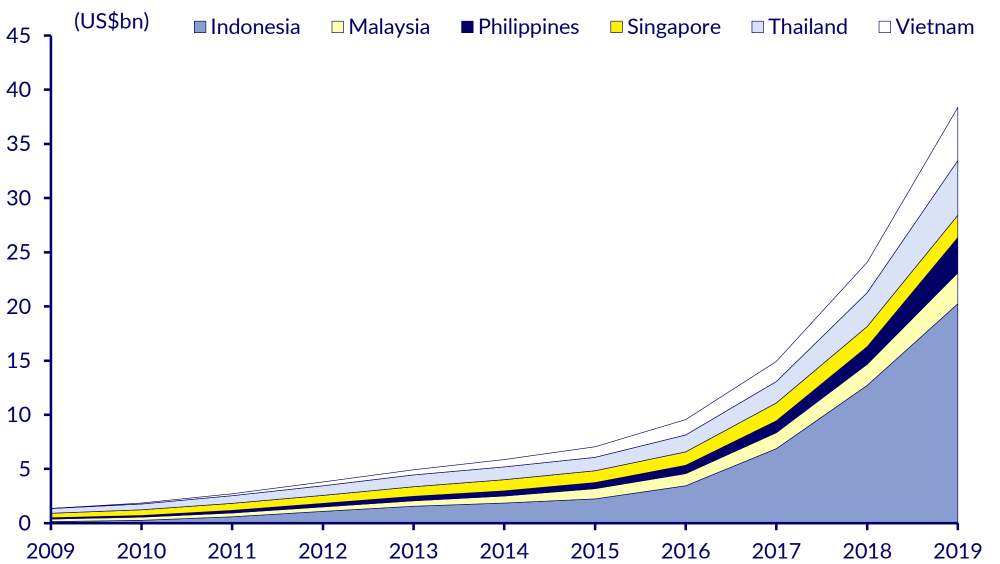
Source: CLSA, iPrice

Ecommerce in Asean has erupted in the last couple of years

With this lead, we expect Sea Ltd to further consolidate its presence in Asean where online sales have grown exponentially. Since 2016, online sales in Asean registered growth of 67% in each of the last two years, hitting US$39bn in 2019. This momentum has continued into 2020 and Shopee mirrored this trend in its latest results where sales grew 74% YoY in 1Q20, spurred in part by Covid-19 and accelerated digital adoption.

Figure 172

Asean online sales by country



Source: CLSA, Google-Temasek, Euromonitor

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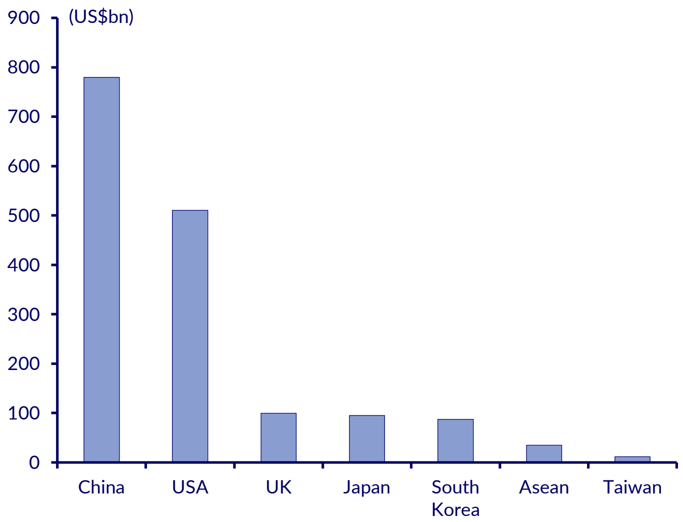
Still very much at the early stages for Asean

That said, we believe Asean is still at the cusp of an explosive growth in ecommerce. Taking a cue from developed global peers, on many metrics Asean still has plenty of room for growth in the ecommerce market with online sales merely a fraction of other developed markets. As household income in Asean rises, we believe the significant population base of almost 600m will be a game changer. Adjusting on a per capita basis, the difference is even starker. The average person in Korea spends 25x more online than in Southeast Asia.

Figure 173

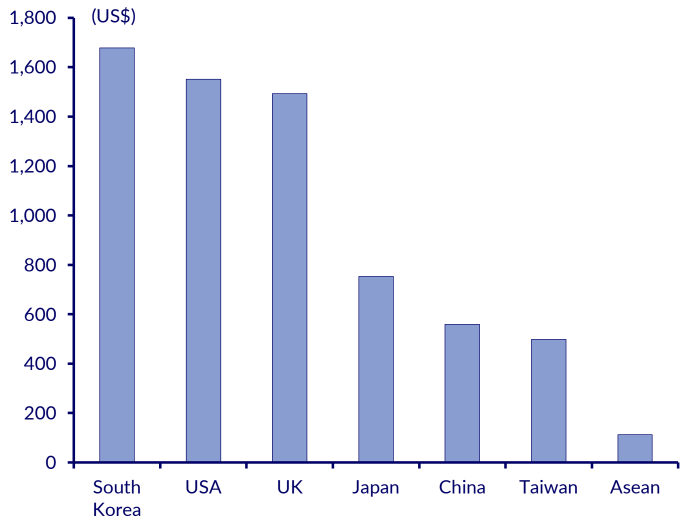
Online sales versus key global peers



Source: CLSA, Euromonitor

Figure 174

Online sales/capita versus key global peers



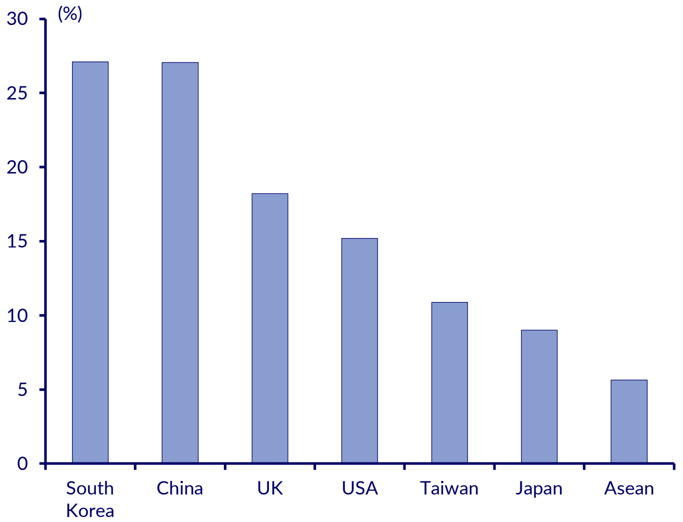
Source: CLSA, Euromonitor

There remains a lot of headroom

Online penetration as a percentage of retail sales and GDP also shows meaningful room for a catch-up to regional and global peers. This leaves us confident that there remains significant upside to online spending as digital adoption accelerates.

Figure 175

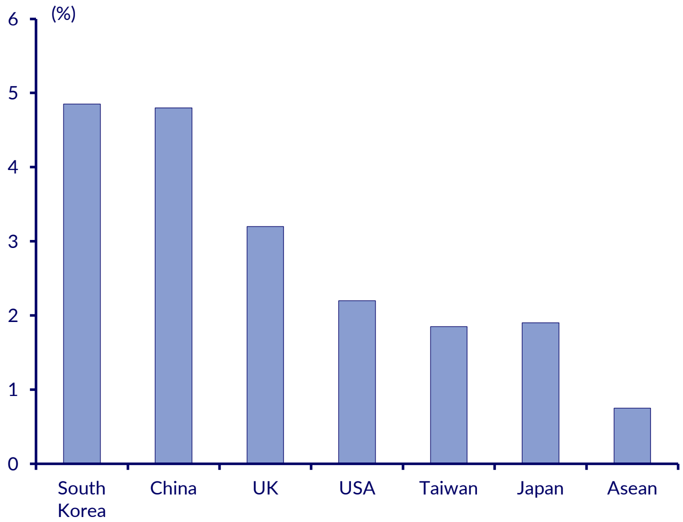
Online sales/total retail sales versus key global peers



Source: CLSA, Euromonitor

Figure 176

Online sales/GDP versus key global peers



Source: CLSA, Euromonitor

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Thailand: gradually recovering

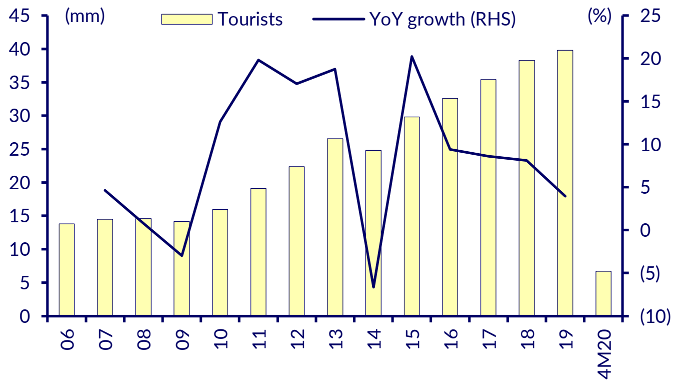
Tourism has been hard hit by the pandemic as the government has closed down international airports since April. While the domestic lockdown has been fully unwound, international travel is still restricted and tourist arrivals have contracted 100% YoY since April.

Business people and medical tourists to enter Thailand first

According to proposals discussed by government officials, it is likely that the government will gradually relax the international tourist ban by first allowing business people and medical tourists to re-enter Thailand on the condition they comply with the new health measures, including health checks and insurance as well as staying in alternative state quarantine (ASQ) for 14 days. This suggests that tourism will at best gradually recover and the return to normal tourism activity will rely on a vaccine.

Figure 177

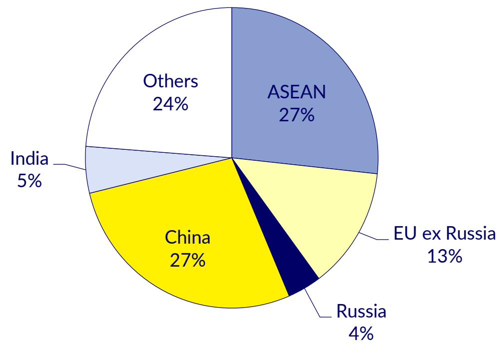
Thailand's total tourist arrivals and YoY growth



Note: based on Bank of Thailand's forecast. Source: CLSA, Ministry of Tourism and Sports

Figure 178

Thailand: Total tourist arrivals breakdown by nationality



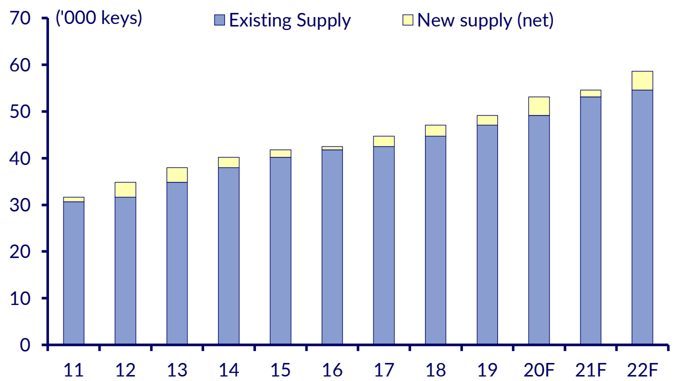
Source: CLSA. Ministry of Tourism and Sports

No mass-tourist boom for years to come

We remain doubtful that the official forecast of 16 million tourist arrivals in FY21 (40% of what Thailand enjoyed in FY19) will be achievable given the current stage of vaccine development. We would expect healthcare, with its exposure to medical tourism, to benefit first from any relaxation of policy (see our 28 July report *Bumrungrad - BUY (Patient push)*. Luxury hotels catering to business people, airports and airlines, and mid-to-low-end hotels will continue to see their business suffering from missing tourists in the coming two years.

Figure 179

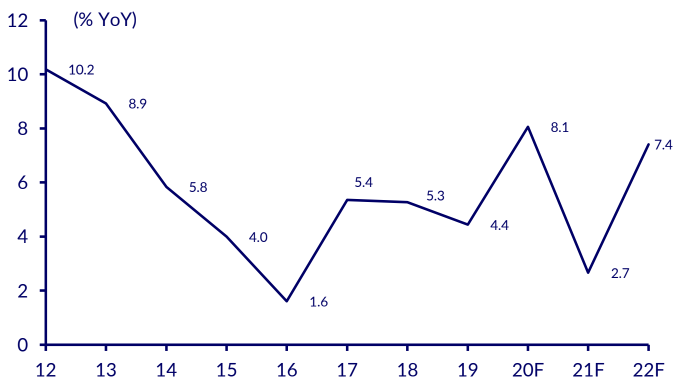
Thailand: Hotel supply in Bangkok



Source: CLSA, CBRE

Figure 180

Thailand: % YoY growth of hotel supply in Bangkok



Source: CLSA, CBRE

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C: Fintech - a force to be reckoned with

With so much daily movement restricted, more transactions have taken place online. Countries that have been aiming to become as cashless as possible have seen some success during the pandemic. Prior to Covid, Indonesia's fintech space had been on a roll, with the Philippines and Thailand tailing close behind. Meanwhile, Singapore and Malaysia have plans to dish out digital banking licences by the end of the year.

Online transactions clearly increased during the lockdown periods

Ewallet usage has grown significantly during Covid, showing a massive catch up with traditional transaction channels. These are new products which will likely replace cash in the future. In Malaysia, while e-wallet transactions picked up in 2019, a significant increase has been seen in 2020 year-to-date and there are now close to 50 non-bank e-wallet issuers in the country.

Philippine and Thailand banks are indirect plays for fintech

An important enabler in the Philippines, the fintech space there serves as an alternative to financial intermediaries, but the key challenge is in onboarding the more than 80% of Filipinos who are currently unbanked. Over time, convenience should prevail over scepticism (which mainly comes from security concerns) as private and public institutions are accelerating efforts to digitise the unbanked economy. During the lockdown, various local government agencies in the Philippines approached G-Cash (Globe) and Paymaya (PLDT) to disburse cash aid.

In Thailand, while PromptPay boosted online transactions when it was launched a few years ago, it also saw a significant increase in activity during the lockdown period. Unlike its Asean peers, Thai banks are developers of fintech companies and the central bank puts up high barriers to entry on non-bank fintech companies.

Most Asean fintech plays are unlisted, for example Gojek in Indonesia. Indirect listed plays would be the banks: Bank Central Asia in Indonesia, Hong Leong Bank in Malaysia, Bank of the Philippine Islands in Philippines and Kasikornbank in Thailand. Singapore's three banks are digitally well equipped but a better proxy would be Sea Ltd. Alternative listed payment gateway plays are available in Malaysia, including GHL.

Fintech growth is inevitable

Regardless of the country, the move towards embracing digitalisation and the growth of fintechs is inevitable. Covid has clearly accelerated this trend. Over time, cost efficiencies and new revenue streams could emerge.

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Indonesia: digitalisation accelerated by Covid

The tech scene in Indonesia was thriving long before Covid. The country has some of the largest ecommerce platforms, including homegrown decacorn (a new company worth US$10billion "Gojek". As in our written our report 18 June report *Guarding the rice bowl*, Covid has put a dampener on a lot of things but has been a boost to the digital world, especially in Indonesia, where tech adoption is on the rise. We are seeing accelerations in education and health tech, agri-tech, virtual product launches and social commerce. Even the government has developed a mobile app for Covid updates. We think tech adoption will continue to surge after Covid.

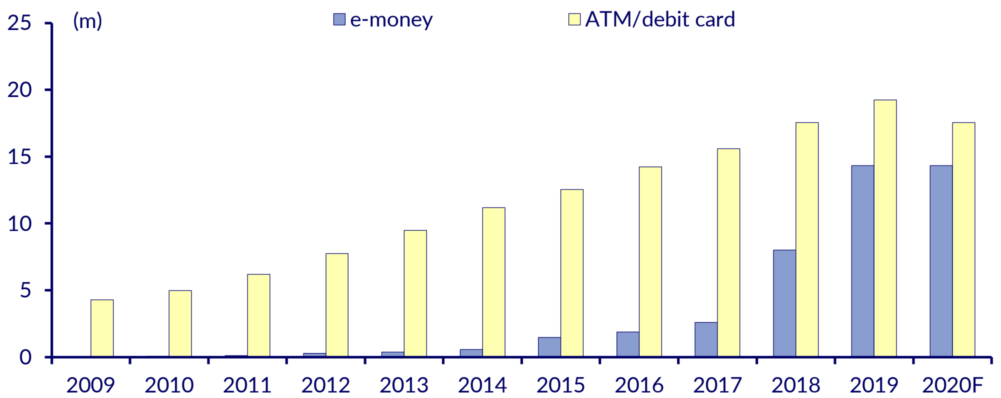
Booming fintech

Fintech here is booming. Electronic cash transactions have increased ten-fold in the past five years to 14 million in 2019 (Figure 181) and are catching up fast with traditional channel transactions (ATM and debit cards). Separately, P2P lending is thriving with accumulated lending rising by 5x in two years.

The market in Indonesia is ideal given its large young population and 91 million people unbanked. Rising smartphone penetration is also a big driver as most online transactions are mobile-based. Moreover, ecommerce penetration, although rising fast, is still only 5% of retail sales. See our 7 September report *Finance at your fingertips* for more details.

Figure 181

Daily e-money transaction volume vs ATM/debit card

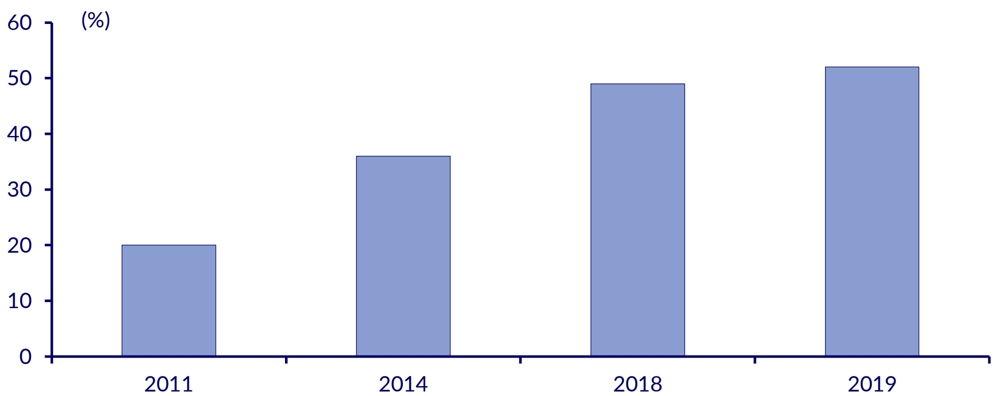


Source: Bank Indonesia

91 million people unbanked

Figure 182

Banking penetration



Source: Government of Indonesia

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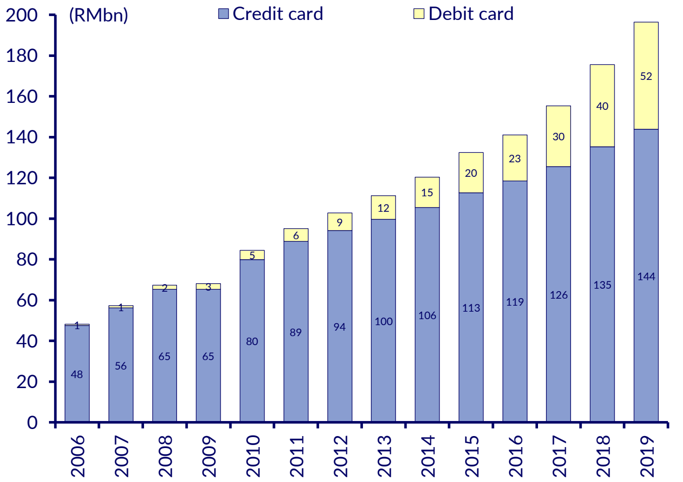
Malaysia: cashless acceleration a given but also a threat

Contained in the government's June Penjana economic stimulus package was RM50 of e-money for each eligible Malaysian, underscoring the regulatory push for e-wallets. This presents an alluring prospect for eMoney and it is no wonder that the pace of e-money transaction growth is exponentially increasing. Since 2019, the advent of the shared payment infrastructure (eMoney issuers being able transfer amounts between wallets) has given another leg up to eMoney usage. According to Bank Negara Malaysia (BNM) about 2 million adults in Malaysia do not have bank accounts.

Figure 183

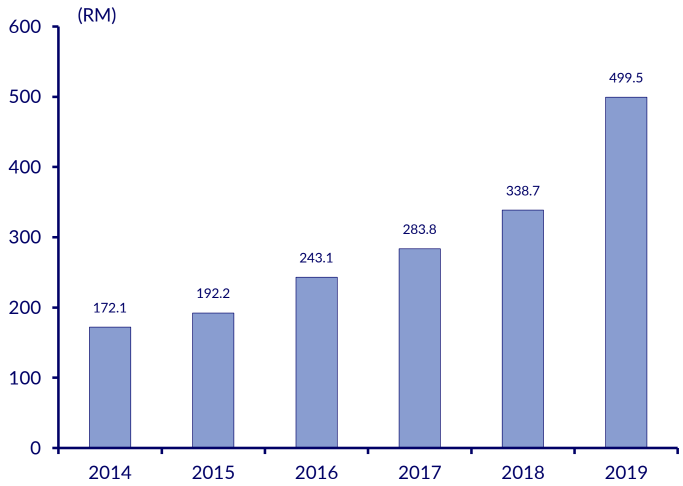
Cash transactions versus debit/credit cards



Source: CLSA, BNM

Figure 184

E-money transaction value per capita



Source: CLSA, BNM

Close to 50 emoney providers

At last count, BNM-registered e-money providers have mushroomed to 47 non-bank e-money issuers. From the banks, Maybank has issued its own version of an e-wallet under its own brand and has introduced the first e-wallet in Malaysia with banking facilities. E-money can also have specific uses, such as Setel from Petronas Dagangan, which is used for settling payments at the pump. Over time, as there would be interoperability within wallets (expected in 2H20) and we see those with fewer value propositions losing market share and possibly exiting the space.

Three large e-wallet players

The approaches by banks have differed, with strategic partnerships being the key method of getting into the emoney space. CIMB owns Touch 'n Go, which in turn owns the Touch 'n Go Digital ewallet (a joint venture with Ant Financial). Maybank, on the other hand, owns 30% of GrabPay Malaysia. These two wallets are among the leading emoney providers in the country, offering the two banks a headstart. Together with Boost Wallet, owned by Axiata Digital, these three are the leading ewallets in Malaysia.

Seen as competition to CASA

These e-money wallets effectively form another layer between the man on the street and the banks when money is eventually stored as deposits. This could be regarded as a risk to current account/savings account (Casa) system deposits (which grew at a rate of 6.7% in FY2019 compared to exponential emoney transaction growth).

Shifting battleground

More room for growth in mobile banking

The penetration of mobile banking remained below 40% in 2019, less than internet banking despite mobile phone penetration being high. Improvements in this space are incremental and have been focussed on user experience and interface, such as incorporating live chatbots. Public Bank was the first to launch QR code-based functionality as a means to make money transfers from savings accounts, whereas Maybank was the quickest to incorporate solutions for merchants to accept credit cards via mobile apps (instead of on a point of sales terminal).

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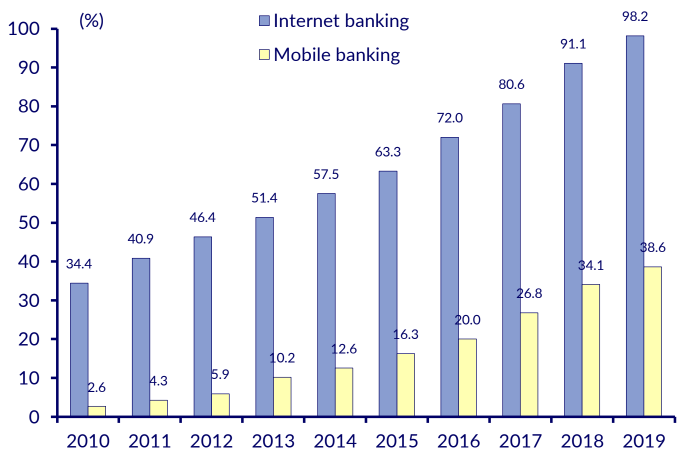
Figure 185

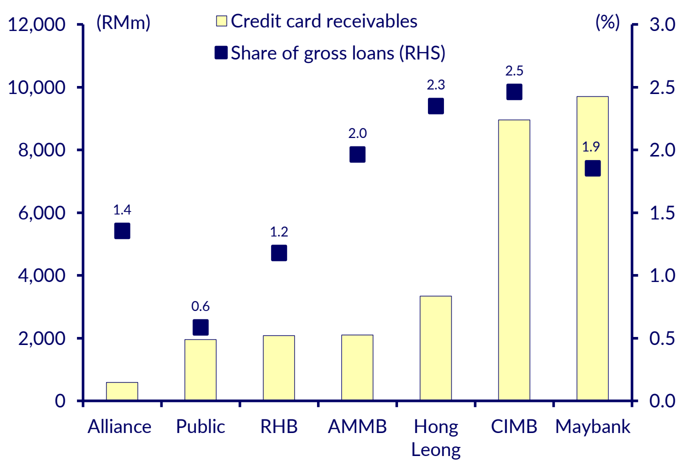
Digital - internet and mobile banking penetration rates



Source: CLSA, BNM

Figure 186

Bank's card issuing business - outstanding credit card loans and expressed as a percentage of total loans (1Q20)



Source: CLSA, BNM

Credit and debit cards replacing cash

The industry is being shaped by BNM, where the regulator has pushed for 200 e-payment transactions per capita (in 2019 it was 149.5). An important aspect of this is the proliferation of electronic fund transfer point of sales terminals. With more than 400,000 point of sale terminals, the proliferation of mobile wallets, helped further by pressure on overall charges for payments (or merchant discount rates) should move towards the regulator's end-2020 goal of 800,000 terminals (in May 2020 there were 695,000).

Collaboration in merchant acquisition

Banks are predominantly involved in the card issuing part of the business. Smaller banks typically lack economies of scale for the merchant acquisition business, which is the business of supplying and maintaining terminals and is volume dependent. Merchant discount rates, (ie the fees paid by the merchant) continue to be under pressure, partly as regulations drive rates lower. As the cost of servicing is high, especially for lower tier smaller customers, we expect more bank partnerships with payment players such as GHL Systems to help extend their reach.

Riding the wave of digitalisation

Changing paradigms as consumer behaviour changes

In July, Public Bank launched a digital application to facilitate loan applications and approvals. This highlights to us that banks that have enjoyed success in the traditional branch model cannot rest on their laurels. In a survey conducted by Alliance Bank, it was noted that 60% of respondents said that they were now less inclined to visit bank branches to perform banking transactions (The Star, 13 July).

Lending activity sees more entrants from non-traditional players

New players with new technology are entering the lending space, albeit with an initial focus on their own ecosystem. For example, XOX Bhd, which holds an e-wallet license is planning to offer RM1 billon of micro financing to its own subscriber base. Meanwhile, payments player GHL has been awarded a money lending license to begin lending to its own merchants.

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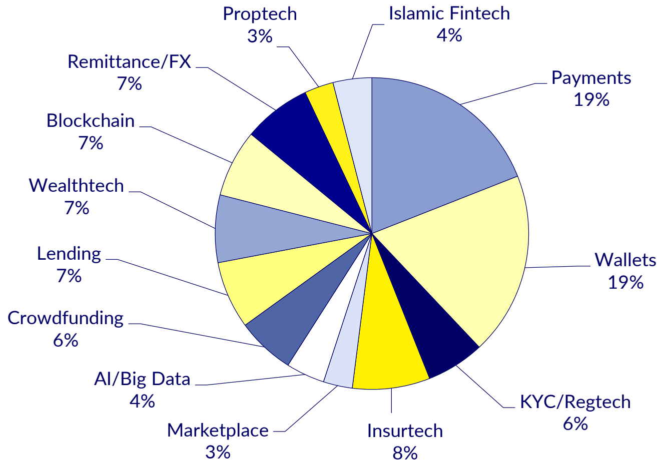
Fintech companies are mostly centered in payments and wallets

Figure 187

Malaysia: Fintech players breakdown (2019)



Note: Touch 'n Go ewallet Malaysia Fintech Report 2019. KYC = know your customer. Source: CLSA

BNM as aggregator test bed

The approach by the regulator to reduce "trial and error" by new technologies has led to a sandbox where ideas are tested in a live environment. Several technologies that are now commonplace owe their genesis to this testbed. CTOS eKYC is an example of an e-Know Your Customer solution that had its user testing and tech validation done in the Bank Negara Sandbox, alongside other examples in the remittance space.

Figure 188

Existing tie-ups by banks with external providers in various verticals

	Payments/Settlements	e-Wallet	Lending	Data Analytics
Maybank	Mobile-based card payments terminal (VISA Malaysia)	30% stake in GrabPay Malaysia		
CIMB		51% stake in Touch 'n Go Digital	CIMB-Axiata Digital for SME financing	
Public		Alipay ewallet tie up		
RHB			P2P lending; mortgage pre-approvals	
Hong Leong		WeChat Pay pioneer (for Ringgit)		Payroll, accounting
AMMB	Union Pay collaboration		AMMB-Maxis for SME	
Alliance			Digital e-KYC	Business, accounting and logistics

Source: CLSA, banks

Incubating fintech

Malaysian banks have also set out to find new ideas that are scalable. Maybank for example created an environment to help fintechs develop their products within Maybank's regional reach, under a collaborative fintech sandbox. Hong Leong has a similar programme named Launchpad to discover new fintech technologies it could launch for clients. Some banks have entered into exclusive partnerships with accelerators, such as RHB that has an exclusive partnership with Startupbootcamp from Europe.

Strategic partnerships

Alliance Bank is also partnering with e-CTOS to provide digital e-KYC solutions. And RHB has also teamed up with regional peer-to-peer lending platform Funding Societies Malaysia to expand into lending for the underserved.

Digital banking licenses in the horizon

Not seen as a disruption to banks for now

Malaysia is planning to award five digital banking licenses. Unlike Hong Kong and Singapore, Malaysia's implementation has caps on asset size in the initial stages, and thus the disruption to banks will not be significant, given that the RM2billion cap per licensee in the initial years (known as the foundation stage) caps the total exposure at RM10bn, which is small compared to total banking system assets.

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Low barriers of entry

We expect more applications for the digital banking license, helped simply by the low barrier to entry of RM100m paid up capital at the initial stage. According to BNM, out of the 24 million adults, 2 million are unbanked and 10 million do not use internet banking. The challenge is that the digital banking licensing requirement necessitates the applicants to have in mind the underserved and unbanked.

Not limited to banks

Green Packet for example makes no secret about its intention to get a digital banking license, with a university student pool. Other corporates that have voiced their intentions for a digital banking license are Grab and Air Asia.

For more details on digital banking license roll-out, see our 30 December 2019 report *Malaysia banks (Virtual realities).*

Figure 189

Digital priorities

Year	Digital priorities/targets	Notable milestones
Maybank	❑ Aspires to be digital bank of choice	❑ First bank to introduce QRpay. Launched online loan application for retail SME customers ❑ Formed strategic partnership with Grab to drive acceptance and usage of cashless payments
CIMB	❑ Seeking opportunities to grow digitally in the Philippines and Vietnam. Touch 'n Go Digital aspires to be the top integrated payments-driven company locally	❑ Digital retail banking business in Philippines (Dec 18) ❑ Touch 'n Go Digital JV, established early 2018
Public	❑ Double fintech spend of RM180m in 2019-2021 from the RM90m spent in 2016-2018. Focus areas include big data analytics, open API, eKYC, AI & Chatbot, collaboration with fintech providers, blockchain for trade finance business	❑ Launched all-in-one digital payment terminal for retail merchants
RHB	❑ 2022 targets include 80% of transactions via digital channels, 50% of new retail and SME business originated digitally	❑ Launched real-time mortgage origination and approval (2018); 10 minutes loan application for SME online financing
Hong Leong	❑ Investing in digital (up to RM130m in FY21). Also rolling out digital initiatives in other subsidiaries, such as Vietnam	❑ Ability to link debit cards to WeChat's e-wallet as the first partnership outside of China and Hong Kong
Alliance	❑ Focus is on quick turnaround time on SME loans, progressively improve digital Casa offerings	❑ Launched Alliance origination system to reduce 60% of normal processing time
AMMB	❑ Establish digital partnerships and new digital channels; 4 pillars for digital strategy including retail, non-retail, partnerships (such as WeChat), and ecosystem (focusing on value chain)	❑ Launched virtual customer service assistant ❑ Providing more digital business solutions as a CASA acquisition strategy

Source: CLSA

Winners in this space

Hong Leong already harvesting improvements

Near-term, we see Hong Leong being one of the beneficiaries. Given that it is a mid-sized bank and having streamlined its large branch network, it now has capacity for investment into digital without further impacting profit and loss. For FY21, management guided that about 60-65% of its RM150m-200m capex will be on additional digital initiatives, partly thanks to these savings.

Creating value longer term

We think Maybank and CIMB, given their stakes of 30% and 50% respectively in the current leading e-wallet players, have more visibility to scale up with these digital wallets as more financial services are being used on these platforms. They may ultimately create valuable business divisions. However, currently still in the investing phase, these are longer-term plays.

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The Philippines: early stages

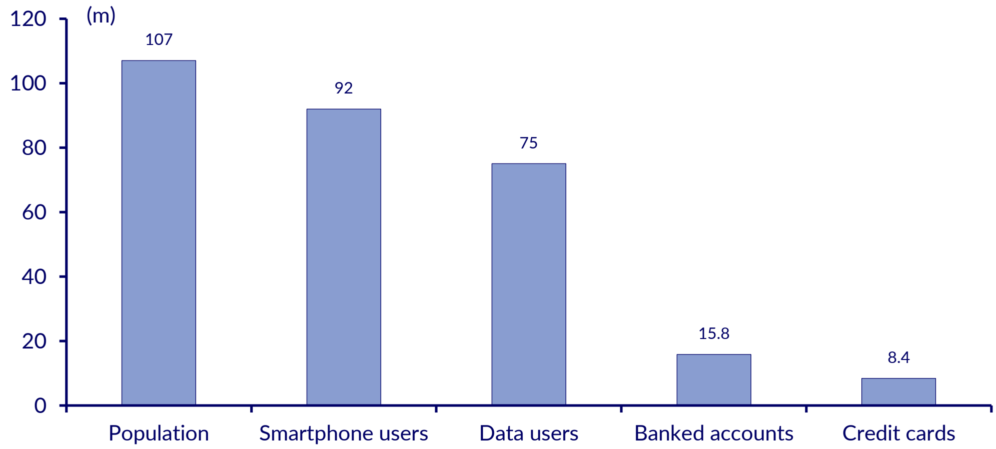
The Philippines' fintech space is still in the early stages of development due to the lack of scale in platform infrastructure and scepticism towards e-payments. In general, banking the unbanked is still a key challenge for firms. Longer term, we believe the country is ripe for disruption as mainstream financial institutions have not provided the large majority of Filipinos with financial services. Government policies in the last three years have been formulated to achieve greater financial inclusion, and players continue to make waves in the sector. We see payments, alternative financing and online remittance as the key drivers in the landscape.

The Philippines has a huge unbanked market to serve

Key building blocks: high smartphone penetration, cheap data

Figure 190

Philippines: Key statistics on fintech opportunities



Source: CLSA, PLDT, Globe, BSP

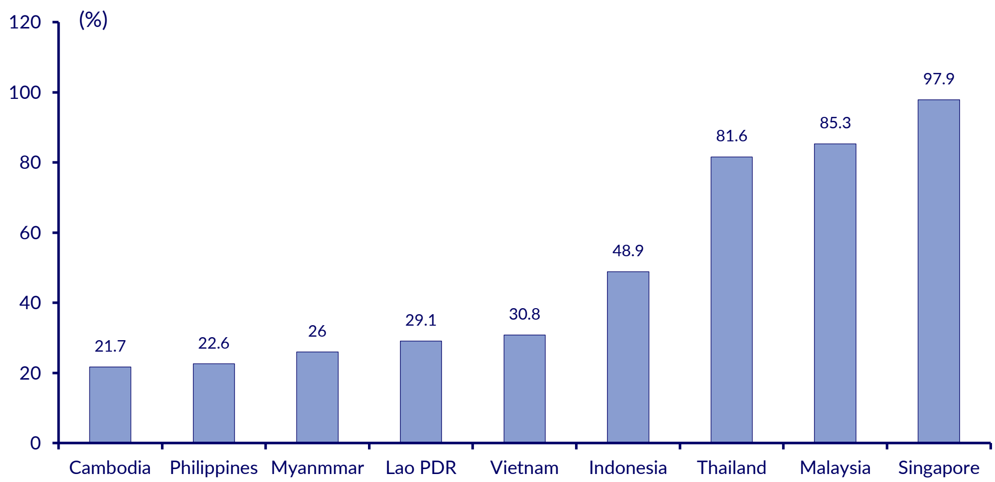
Scepticism towards e-payments should gradually decrease

More than 80% of Filipinos are still unbanked due to a lack of money, documents and ID. Cash is still king when it comes to purchasing goods or paying utility and government bills - even for those with bank accounts. Traditional cash agents are still the dominant platform for overseas foreign workers to send and receive money (lower fees). Microfinancing is an ongoing trend and will likely continue on growing income levels. Awareness of e-payment is rising due to strong data and mobile penetration, but ambivalence remains because of security concerns.

Adults are those aged above 15

Figure 191

Philippines: Adult population with formal bank account



Source: CLSA, BSP

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The country's fragmented fintech landscape has only a few players with the ability to scale. Similar to other emerging markets, among the hundred-plus companies, only a handful of platforms have the balance sheet required to expand nationally. The most visible yet underpenetrated area we can see is e-payments. Alternative financing is the most fragmented but could be the future of microfinancing. Last but definitely not least is online remittance, which has the potential to be the preferred mode of remitting due to lower fees and access to an ecosystem with multiple functionalities.

E-wallet giants are at the forefront of change

E-wallet giants Paymaya (PLDT) and G-Cash (Globe) are at the forefront of financial inclusion in the country. Pre-Covid, their growth trajectories had been significant as Chinese internet giants Tencent and Alibaba came in as strategic partners. The pandemic has eased scepticism and accelerated the need to formalise the unbanked economy. While use cases have widened in this period, payments will remain a key driver in the next five years.

The pandemic has increased partnerships with the government

We believe the pandemic has reduced scepticism towards e-payments and forced private and public institutions to accelerate the need to digitise the unbanked economy. During the lockdown, various local government agencies have approached G-Cash and Paymaya to disburse their cash aid.

Figure 192

Philippines: Government institutions partnering with e-wallet players during the lockdown

Institution	G-Cash	Paymaya	Comment
Social Security System	X	X	Allow payments (pre-Covid) and for disbursements to occur
Various local government units	X	X	Cash disbursement during the lockdown
Department of Transportation	X	X	Allow payments in public utility vehicles (taxi, buses, jeepneys, etc)
Department of Social Welfare and Development	X	X	Cash disbursement during the lockdown

Source: CLSA

Both G-Cash and Paymaya are consistent in having mobile load top-ups, peer-to-peer transfers, and bill payment as key use cases. Today, wallet sizes are increasing, credit traffic flow accelerating and use cases widening. For instance, G-Cash has seen strong volumes into its savings, lending, and a widening of bill payment usage.

Spike in usage and increase in wallet size

Since Covid levels, G-cash has seen active users and daily average transactions increase by 50%. They have also seen an increase in wallet size as users park icredits in G-save (where they gain monthly interest).

Use cases widened

It took 10 months for G-save to reach P1bn (pre-Covid); this figure has doubled in the past three months. However, the bulk of the growth has stemmed from banked users doing cash-in transactions via bank transfers. For the first time, peer-to-peer transfers have outpaced the transaction volume of mobile load top-ups. This indicates that the quality usage in the app has increased immensely (despite high growth in mobile load top-up). For active users, we assume that G-Cash has the larger active user base given its stronger brand awareness and position as the No.1 finance app in the country (based on App Annie data). For end-2020 we estimate G-Cash will end up with 18 million users (vs 5 million in 2019) compared to Paymaya at 15.5 million (vs 3.5 million in 2019).

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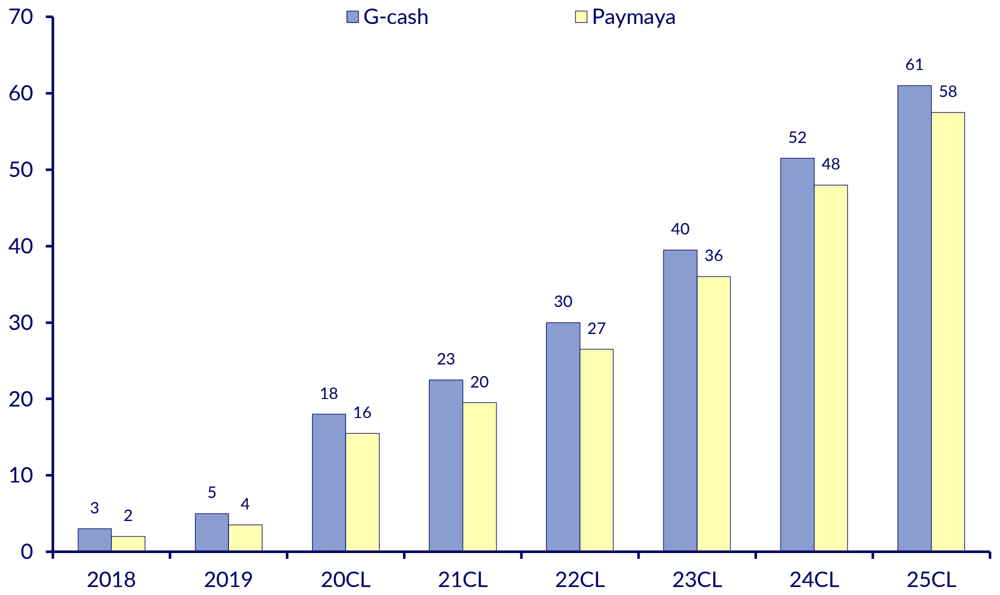
The lockdown has accelerated the active user base of the e-wallet players

Critical mass is when users hit about 30m

Figure 193

Philippines: G-cash and Paymaya active users



Source: CLSA

Online banking penetration is still low

On the Philippine banking space specifically, all seven banks in our coverage have online/mobile banking services and the average penetration rate is 24%. Only three banks use QR codes - BPI, Union Bank of the Philippines (UBP), and Rizal Commercial Banking Corporation (RCBC). All online/mobile banking services allow inter-bank fund transfers (from one account in one bank to another account with another bank) via Instapay and Pesonet services. Instapay uses the Bancnet switch and allows real-time credit but has a limit of P50k per transaction. Pesonet uses the Philippine Clearing House gateway with no amount limit and next day credit. The value of Instapay transactions in March and April reached P96.4bn, up 27.4% or P20.8bn versus the first two months of the year. On the other hand, Pesonet transaction values during the same period was at P324.38bn, up 21.5% YoY or P57.4bn versus the first two months of the year.

A lot of banks still do not have QR codes

Figure 194

Philippines: QR code

	Do you have QR code?
BDO Unibank	No
Metrobank	No
Bank of the Philippine Islands	Yes
Security Bank	No
Philippine National Bank	No
Rizal Commercial Banking Corporation	Yes
Union Bank of the Philippines	Yes

Source: CLSA

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Figure 195

Philippines: Tale of the tape

	Number of depositors	Number of on line/ mobile accounts	% of on-line/mobile accounts to total deposit accounts
BDO Unibank	10,200,000.00	Not disclosed	Not disclosed
Metrobank	Not disclosed	Not disclosed	20
Bank of the Philippine Islands	8,700,000.00	2,100,000.00	24
Security Bank	Not disclosed	Not disclosed	Not disclosed
Philippine National Bank	5,000,000.00	950,000.00	19
Rizal Commercial Banking Corporation	1,920,000.00	585,000.00	30
Union Bank of the Philippines (UBP) (all-in)	5,000,000.00	557,000.00	11
UBP ex SSS and GSIS account holders	2,000,000.00	557,000.00	28

Source: CLSA

Figure 196

Philippines: Number of daily on-line transactions

	Pre-Covid-19 (Feb 2020)	Post-Covid-19 (Mar 2020)	% change
BDO Unibank	na	na	na
Metrobank	na	na	na
Bank of the Philippine Islands	200,000	300,000	50
Security Bank	na	na	na
Philippine National Bank	na	na	na
Rizal Commercial Banking Corporation	3,600	7,200	100
Union Bank of the Philippines	52,000	58,000	12

Source: CLSA

Usage should move up in the coming years

Moving ahead, we believe that the banks will continue to step up digitalisation efforts given what has happened during the pandemic. We also expect average penetration rates of online/mobile banking services and the number of daily transactions to move up in the coming quarters. Banks will slow the expansion of physical branches and continue to augment features in their online/mobile banking services. We expect the following to happen in the coming years: 1) online/mobile banking account opening without having to visit a branch; 2) increased number of online/mobile banking applications having QR codes; 3) increased features in online/mobile banking to include the ability to get loans, foreign exchange, and investment transactions without visiting a branch. Nonetheless, we do not expect bank ROEs to move up. Rather, all of these digitalisation moves should enable banks to provide better services to their clients and prepare them for if another pandemic hits the country in the future.

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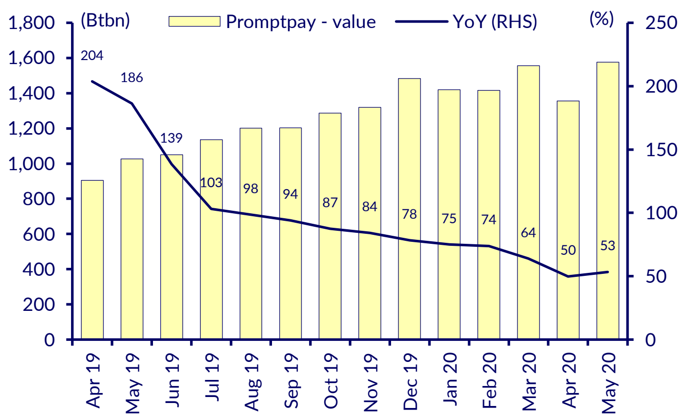
Thailand: Fintech emerging from banks

Thailand is different from other Asean countries in that fintech development here is mainly done by commercial banks. The Bank of Thailand also puts high barriers to entry for non-bank fintechs, which indirectly helps protect banks' market share and customer base. Fintech companies that benefited from the lockdown are ride-hailing and delivery services, online shopping platforms and ecommerce businesses. These fintechs have partnerships with banks to support payment. Some banks have stakes in them, including Kasikornbank and Siam Commercial Bank.

Figure 197

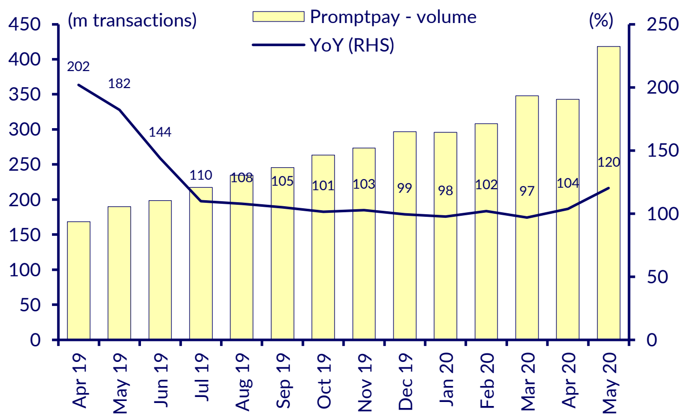
Thailand: Promptpay value of transaction as of May 20



Source: CLSA, Bank of Thailand

Figure 198

Thailand: Promptpay volume of transaction as of May 20



Source: CLSA, Bank of Thailand

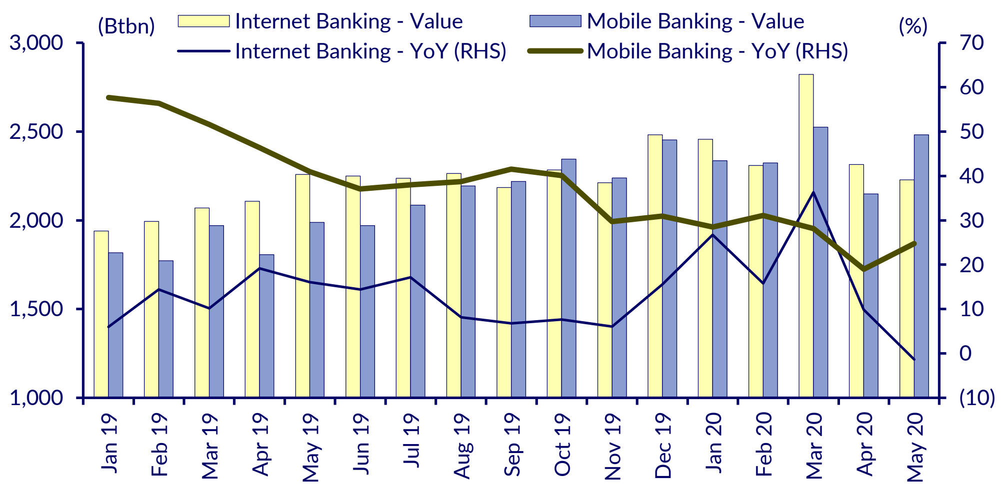
Value and volume of Promptpay fund transfers rose significantly

Promptpay fund transfer is a money transfer services set up by the government and Ministry of Finance to support their mission to change Thailand to a cashless society. The value and volume of Promptpay fund transfers rose significantly in April - May 20 during the full lockdown measures. This was also the case for transactions on internet banking and mobile banking services. Customers used these for money transfers and online shopping and bill payment, as some bank branches and telco shops were closed.

Value of mobile banking transactions was driven by city lockdown

Figure 199

Thailand: Value of internet banking and mobile banking as of May 20



Source: CLSA, Bank of Thailand

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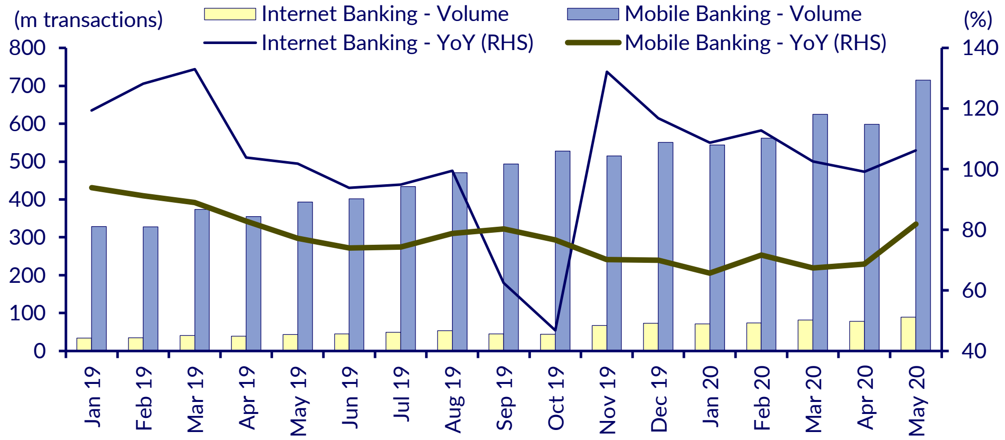
Volume of internet banking transactions much lower than mobile

Figure 200

Thailand: Volume of internet banking and mobile banking as of May 20



Source: CLSA, Bank of Thailand

E-money is used for small topups and low spending

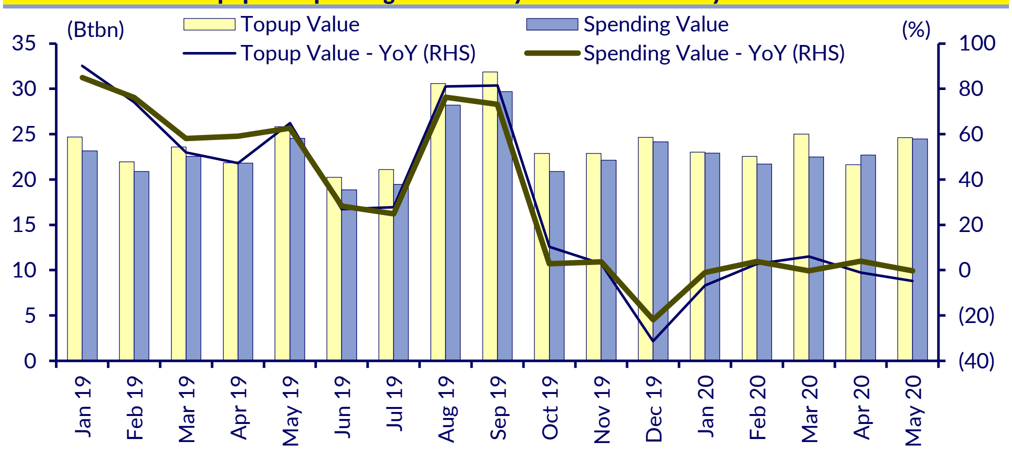
Small boost for e-money services

Electronic money or e-money services are supported by the Bank of Thailand and the government as a tool to move into a cashless society, but are largely used for low value spending. Key players in this field are public transport providers like BTS Group and telco companies including AIS and True Money (operated by CP Group which is a major shareholder of True Corporation), and topup vending machine operators. People in remote areas and upcountry rely on e-money services as some of them do not have access to internet or mobile banking services or do not have bank accounts. We believe that the pandemic slightly drove up the use of e-money services in major cities.

E-money topup and spending increased in May 20

Figure 201

Thailand: Value of topup and spending via e-money channels as of May 20



Source: CLSA, Bank of Thailand

More digital adoption leads to more cost efficient business models

More digital adoption after Covid

We expect more adoption of mobile banking services and online payment activities as a way to contain the virus outbreak. People will rely on online services to keep social distancing whereas physical bank branches and telco shops will be downsized or permanently closed. In the long term, we expect banks and telecom companies to cut more operating expenses related to physical branches and shops due to changes in customer behaviour, leading to more cost efficient business models. As a result, this will translate into lower cost-to-income ratios or falling SG&A to service revenue.

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D: Those left behind . . .

While most sectors and companies have evolved and changed due to the pandemic, there will be some that carry on as usual simply because there is little choice. These are largely in what we could call the "old economy" sectors. For example, construction and building materials require some form of manual labour unless robots can replace the process of building houses and skyscrapers. Similarly, power and utilities can't change too much, aside from the ongoing move to renewable energy.

Here we highlight the construction sector in Indonesia, Malaysia and the Philippines which will likely see their modus operandi being maintained. In Singapore, we expect oil & gas to also change little (likewise in Malaysia).

Unlike the other countries, Thailand might see the commercial property sector being left behind. Despite gaining support from the government for vulnerable sectors, the commercial property sector has not yet benefited from any fiscal or monetary policy support, even though they were badly affected by the lockdown. These companies have been giving rental waivers to tenants (as in other countries), but there is potential for M&A.

Although we deem them as being "left behind" as the economy recovers, we still expect infrastructure projects to accelerate in Malaysia and Indonesia, and possibly in Thailand and the Philippines. Our economist thinks that Malaysia is best positioned for this.

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Indonesia: construction and cement are challenging

The government has postponed various infrastructure projects (especially multiyear projects such as the relocation of the capital) due to budgets being reallocated for Covid-19 stimulus. However, the government remains committed to the resumption of infrastructure development once the pandemic is behind us.

Activities resuming

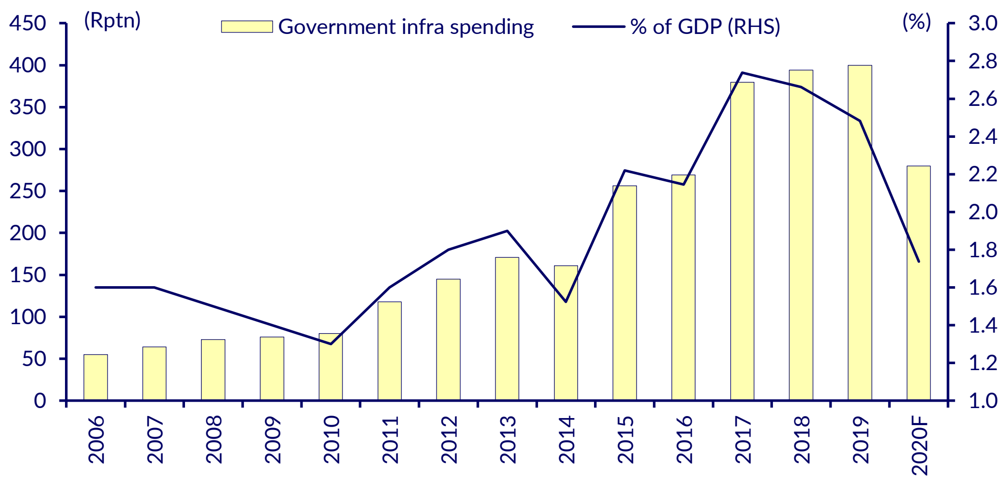
1H20 has been challenging for construction and cement demand given the halt in construction-related activities. 1H20 cement sales declined by ~12% YoY. However, post the relaxation of social distancing regulations since early June, construction activities have resumed. Cement companies that we have talked to indicate that restocking is happening at distributor/retailer levels, and they expect most ongoing projects to resume in 2H20.

Infra spending cut for 2020 due to Covid

Will resume its upward trajectory post Covid

Figure 202

Indonesia: Government infra spending trend



Source: Government

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Tailwind from recovery in property demand

Besides the resumption of projects, a recovery in property demand will also act as boon to cement sales. Note that bulk (~70-75%) of cement sales still comes from bag cement. Moreover, housing penetration is on the rise in Indonesia.

Despite the oversupply conditions, the cement industry is under consolidation. Semen Indonesia acquired close to 98% of Holcim Indonesia back in 1Q19 (US$916m) that increased the capacity of Semen Indonesia from 38m tons to 50m tons pa and solidified its position as the biggest cement player in Indonesia (45% market share in terms of capacity). Indocement is a distant second with 24.9m tons (22% share). Hence, the top two players control close to 70% of the total market. This is where the consolidation process begins, after years of intense competition (2015-2018).

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Malaysia: biding its time

After being gridlocked for nearly two months from March, construction firms are now mostly focused on managing overheads and cashflow, all while executing current contracts in a socially-distanced environment. Given the visibility of contractor order books at two-to-three years of construction revenue, revenue visibility is not a worry at this point. Still, efficiency is likely to be more challenged, which may creep into margins, more so in contractors for building work (due to confined working spaces). Returning to previous efficiency levels will be difficult without a vaccine. To this end, we believe that in pump priming the economy, firms with stronger balance sheets are more resilient and will have an upper hand in vying for projects.

Catalyst would be MRT3

Given the above, we have a preference for SunCon that is near net cash and can rely on internal projects from its parent, seen also as a usual suspect for rail-related projects. Also, we fancy Gamuda as we see the potential for the third instalment of the Mass Rapid Transit or MRT3 to be a key pump prime project that could bring about a high multiplier effect. The potential return of the KL-Singapore high speed rail would be a catalyst but is not in our near-term expectations given the fiscal situation. Government-spearheaded projects would be more constrained if more funds are channelled to tackle Covid in the event of a resurgence; the government seeking to increase Malaysia's federal debt ceiling (from 55% of GDP to 60%) should help alleviate some pressure. Political gridlock/uncertainty is a risk that could hamper the roll-out of projects.

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Philippines: opportunities in the new normal

The Philippine government has allowed private and public construction projects to resume in areas placed under general community quarantine. As expected however, strict guidelines have been put in place in order to ensure the safety of workers.

Social distancing, disinfection and sanitary measures put in place

Part of the guideline states that contractors provide necessary welfare facilities and amenities for staff, such as employees' quarters for board and lodging, and ensure compliance to social distancing and proper hygiene. The sharing of construction and office equipment is discouraged but if necessary it should be disinfected in between transfers amongst personnel.

Figure 203

Social distancing protocols have to be enforced

Source: Megawide

Figure 204

Disinfection and sanitary measures also have to be in place

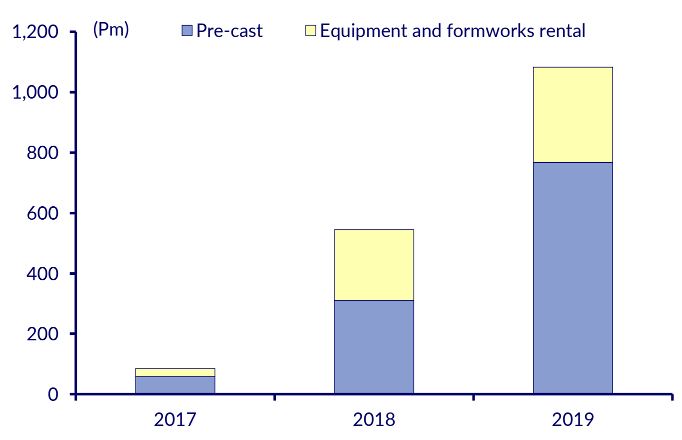
Source: Megawide

Cost of construction will be higher

We anticipate a semblance of these measures to remain in place even after all forms of quarantines are lifted, which could lead to pressure on margins for contractors as well as delays in the completion of their construction projects.

Figure 205

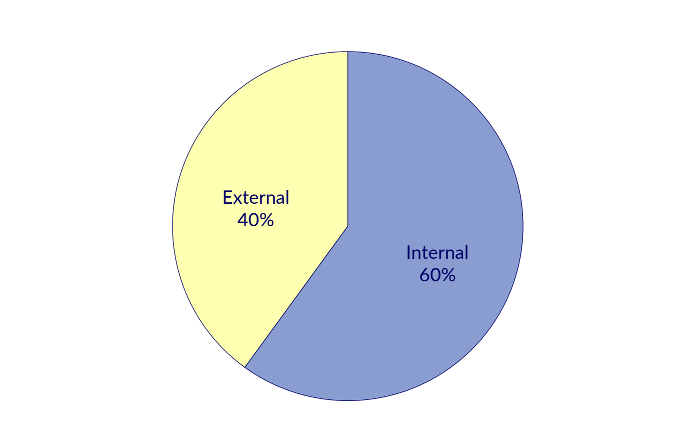
MWIDE construction revenue outside of core EPC business



Source: Megawide

Figure 206

Precast sales breakdown - internal use versus external clients



Source: Megawide

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There is opportunity in precast

As such, we believe there is an opportunity for contractors with precast capabilities, which usually entails only half of the usual manpower that is typically required for more traditional construction work. This plays into the strengths and advantages of Megawide and its management estimates that its facilities account for 80-85% of precast supply capacity in the country.

Aside from its core engineering, procurement and construction business, the company will have an option in selling precast to both its clientele as well as its competitors. Net margins in the sale of precast are about 15%, which is double that of Megawide's construction business.

Megawide's precast unit registered P768m in revenues in 2019, a 147% YoY increase from 2018 levels. Out of these, 60% are used internally while 40% are sold to external parties. While Megawide's order book may be compromised given that the bulk of the backlog lies in residential projects that are dependent on overseas remittance inflows, the sale of precast may end up as a viable solution especially given the pressures from safety and social distancing measures that could affect the construction work of most firms.

Figure 207

Manila-Clark Railway

Source: Department of Transportation, BCDA

Figure 208

Mega Manila Subway

Source: www.build.gov.ph

Construction firms to gravitate towards infra projects

We believe that one more trend that could happen in the construction space is firms positioning themselves to partake more in government infrastructure projects, specifically those that are funded by official development assistance such as the Japan International Cooperation Agency and the Asian Development Bank. Examples of these are the Manila-Clark Railway and the Metro Manila Subway Project.

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Singapore: more challenging for certain industries

While business models for some sectors have been forced to adapt to the new normal, we think certain industries will face more challenges than others. These include companies in the traditional industries where even with significant technology enablers they would still not be able to change their business models. Unsurprisingly, these would be companies in industries such as plantations and oil and gas.

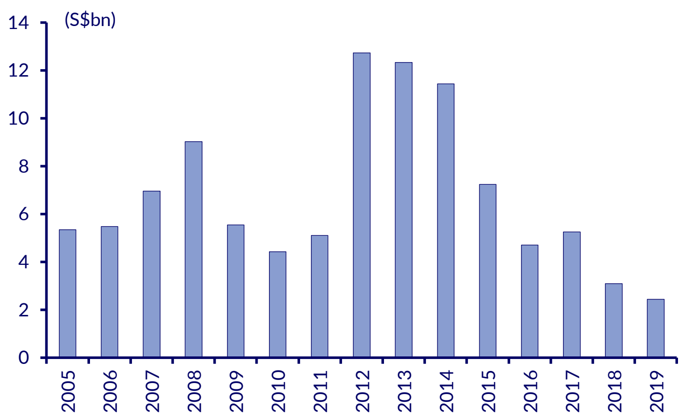
The business model for Singapore industrial names such as Keppel and Sembcorp marine remain heavily dependent on the E&P cycle where growth hinges on big ticket capex items while the competitive landscape has intensified with Korean and Chinese yards. As a result, order wins have consistently been lacklustre. The possibility of the offshore segment being loss making over the next few years should not be ruled out.

Diversification remains slow

While there were plans to diversify into renewable segments such as windfarms, the orderbook remains relatively low and won't have a meaningful impact. To illustrate this, Keppel O&M secured more than S$2bn in new orders in 2019 (+18% YoY increase) of which S$720m (60%) came from offshore wind projects in the German sector of the North Sea and Taiwan. However, further traction into the renewable segment has been slow. This is also due to competitive pressure as these products do not require proprietary design. This contrasts with the jack up market where Keppel has their own proprietary designs.

Figure 209

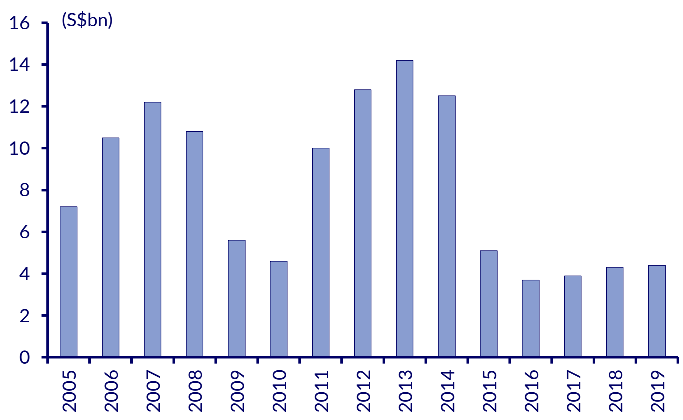
SMM order book



Source: CLSA, Company

Figure 210

Keppel Corp order book



Source: CLSA, Company

Consolidation unlikely

Prospects of a sector consolidation between Keppel O&M and SMM appear unlikely considering Temasek recently pulled out its partial offer for Keppel Corp as the latter was not able to meet the profit targets set by Temasek. A sector consolidation implies the rig building industry in Singapore would be left with just one Temasek linked company. On this assumption, the O&M assets could be consolidated within SMM, therefore allowing Keppel to focus on property, utilities and telecommunication. However, the above scenario is no longer possible (see our 11 August report *Keppel Corp (Staying single)*. Nonetheless, with or without O&M, Keppel's business model is not well positioned to capture market opportunities post Covid-19.

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Thailand: commercial properties left behind

Commercial property developers have yet to benefit

The government has been helpful in offering support measures to those in tourism-related sectors, SME's and consumer borrowers. Foremost has been the one-off Bt392bn handout to 16 million self-employed individuals and 10 million farmers. This is equivalent to 2.3% of GDP. Via the Bank of Thailand, the government has also provided Bt400bn of soft loans to SMEs. Hotels, restaurants and domestic airlines have also enjoyed tourism promotion campaigns worth Bt22.4bn. However, commercial property developers have not yet benefited from any fiscal or monetary policy support, even though they were badly affected by the imposed lockdown. Commercial property developers cut rental revenue during the mall closures and continue to suffer from significant rental discounts needed to support their tenants, and widespread tenant termination.

Earnings impacted, possible M&As on the cards

The government has also imposed additional healthcare and social distancing measures on all mall operators, thereby incurring operating costs and diluting shopper density and potential rental revenue. As a result, we expect lower incomes and earnings for commercial property developers and the industry may consolidate with small operators disappearing and leading players like Central Pattana enjoying more M&A opportunities and growing market share in the coming quarters.

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Winners & losers

Drawing on the views in this report, we have identified a list of actionable ideas. While we expect the consumer sector to be the first to recover, we have also found that subsegments may face longer term challenges, including breweries in Malaysia and F&B in the Philippines. One of our losers is rated positively by the analyst as he believes the negatives are priced in. The clear Asean winners are the Malaysian glove company proxy Hartalega and Singapore's Sea Ltd, an Asean proxy to e-commerce and fintech. And while Keppel is listed as a winner, it has a negative rating because the analyst believes valuations are rich and the positives are priced in. Key losers are Genting Singapore, Carlsberg and Jollibee.

Figure 211

Living with Covid: Asean winners and losers

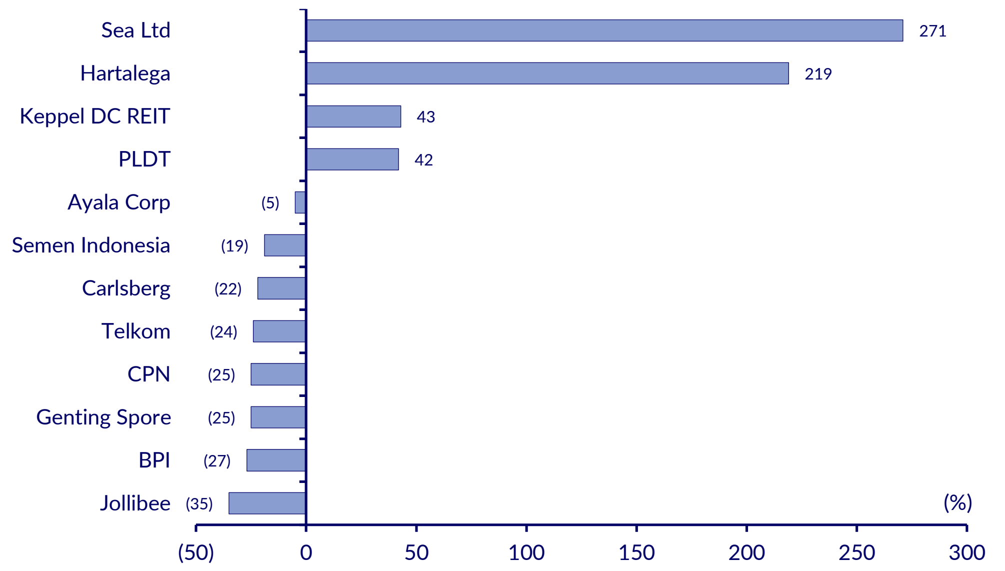
Country	Company	Code	Mkt cap (US$bn)	3M ADTO (US$m)	Rating	Target price (lcc)	Current price (lcc)	Upside (%)	TSR (%)	Comment
Winners										
Indonesia	Telkom	TLKM IJ	19.5	30.1	BUY	3,800	2,900	31.0	37.7	Indonesia's largest operator, sturdy balance sheet
Malaysia	Hartalega	HART MK	11.5	46.0	BUY	25.0	14.0	78.6	81.6	Leader in efficiency and automation, room to increase ASPs
Philippines	BPI	BPI PM	6.1	3.7	BUY	88.5	65.8	34.5	37.2	Proxy to fintech in the Philippines with first mover advantage
Philippines	Ayala Corp	AC PM	8.9	4.4	BUY	906.0	702.0	29.1	30.0	A diverse conglomerate and proxy to the Philippines
Philippines	PLDT	TEL PM	6.4	5.0	BUY	1,698	1,440	17.9	23.0	Covid accelerating demand for this data and ewallet giant
Singapore	Keppel DC[2]	KDCREIT SP	3.5	10.7	U-PF	2.8	2.9	(5.8)	(2.5)	Enjoying structural ecommerce growth
Singapore	Sea Limited	SE US	70.3	586.3	BUY	178.0	144.2	23.5	23.5	Main businesses dominating the Asean internet
Thailand	Central Pattana[1]	CPN TB	6.6	11.2	BUY	62.5	46.5	34.4	36.4	Thailand's recovery play on mall visitations
Losers										
Indonesia	Semen Indonesia[2]	SMGR IJ	4.2	3.4	BUY	11,900	10,575	12.5	14.2	Hit hard by Covid/natural disasters
Malaysia	Carlsberg (Malaysia)	CAB MK	1.5	1.5	SELL	17.1	19.9	(14.2)	(10.7)	Focus on premium brands is a headwind
Philippines	Jollibee	JFC PM	3.1	3.3	U-PF	143.0	138.1	3.5	4.7	Impacted by the shift to at-home dining
Singapore	Genting Singapore	GENS SP	6.1	15.2	SELL	0.7	0.7	(3.6)	2.2	Prolonged recovery with reliance on mass market tourism

[1] Closing price as of 4 September 2020 owing to public holidays in Thailand; [2] While a Covid winner and loser respectively, on a fundamental basis our analysts rate Keppel DC an U-PF and Semen Indonesia a BUY. Source: CLSA

Sea Ltd and Hartalega have been regional champions

Figure 212

Asean: YTD performance of winners & losers



Source: CLSA

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Indonesia: Telkom a winner, Semen Indonesia a loser

Within Indonesia, we chose **Telkom** as a winner due to its dominance in service quality and sturdy balance sheet. Although a defensive sector during Covid we think it is poised for a strong recovery after the pandemic. As a loser, we have chosen **Semen Indonesia**. The cement sector in Indonesia was hit hard not just by Covid but also by natural disasters, especially floods. We have a positive recommendation on Semen Indonesia with the view that the current valuation is still attractive given the potential recovery in the coming quarters. We believe a combination of pent-up demand and new projects would drive up demand next year. Aside from infrastructure projects, private projects should also recover as developers have already started new launches in 3Q20 and should be more aggressive in 2021.

A leading glovemaker with a more favourable position

For Malaysia, a key winner would be none other than the glovemakers, and we choose **Hartalega** as our proxy. While we expect the glovemakers to all show explosive earnings growth due to a surge in global demand, our choice of Hartalega rests on its more favourable position vis-à-vis peers in the longer run given the strength of its relationship with its customers. While Hartalega admittedly lags behind peers in ASP hikes, the group's long-standing commitment to its long-term customers has prevented it from excessively capitalising on the current demand-supply mismatch. In addition, Hartalega has persistently been at the forefront of the industry in terms automation and efficiency with its manufacturing plant NGC 1.0 widely regarded as a revolutionary milestone for the industry.

Breweries in Malaysia in a rut, Carlsberg is a key loser

Carlsberg emerges as a key loser in Malaysia. While breweries have weathered past crises, this time it is different. There has been a shift in sales from direct to indirect distribution channels. This does not bode well for Carlsberg's focus on premium brands, which would have greater negative impact given the importance of on-trade channels for premium brand sales. Separately, structural overhangs for the sector are expected to prevail with tightening regulations.

Of the three winners in the Philippines, our top preference would be PLDT

We have three good winners from the Philippines: a bank, a conglomerate and a telco. But they are all interrelated. Among the three, telco **PLDT** would be our top preference given it is better positioned given the ongoing pandemic. PLDT also benefits due to the digitalisation shift as a result of Covid. PLDT is a key beneficiary of the accelerating use of data (both mobile and fixed). With over 76m data users in the country, we think the group is able to gain operating leverage allowing Ebitda margins to return to the 50's level which we think is sustainable. The long term growth story in the sector is broadband, which PLDT holds over 40% of. We think its large infrastructure will allow it to continue to gain/keep market share in the next 5-10 years. We expect the fixed line business of PLDT to lead growth for the telco.

Ayala Corp is a Philippines proxy

Ayala Corporation is a proxy bet on the Philippines with a solid cash position and a comfortable financial footing that should enable it to weather the storm. **BPI** is an indirect proxy to fintech alternatives in the Philippines. It has embraced digitalisation and its online/mobile banking platform has the highest penetration rate and average daily usage giving it first mover advantage in the new normal. While it has the least risk among its peer group, we remain watchful on NPLs in coming quarters.

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Jollibee a loser

On the other hand, we list fast-food retailer **Jollibee** as a loser in the Philippines. While we have identified the consumer sector as recovering fastest, most people have shifted towards dining at home, negatively impacting restaurants. Also, its target market mostly belongs to the lower income segment, which have been negatively affected the most by the pandemic. Weak performance during the pandemic has led Jollibee to announce global store rationalisation across different brands.

Sea Ltd, a Singapore and Asean proxy

Singapore's top pick would be **Sea Ltd**, which is technically an Asean proxy for ecommerce, gaming and indirectly fintech. All encompassing, Sea's reach spans across Asean with its renowned e-commerce brand Shopee, while its Garena is a proxy for e-gaming. With Covid enforcing lockdowns in the region, the acceleration online has been given a boost, benefitting Sea's businesses.

Keppel DC Reit a winner but valuations are priced in

Singapore's winners would not be complete without a pick for Reits, and we have picked **Keppel DC Reit** as a winner for this theme. As the only pure data centre Reit in Asia it stands to benefit from structural growth in ecommerce and work-from-home trends in a post-Covid world. Its current valuation of 3.5% forward yield and 2.4x PB is rich and the highest within S-Reits, warranting our Underperform rating; however positive catalysts could come from acquisitions which we have yet to factor in given the uncertainty about size, price, timing and funding structure.

Genting Singapore a loser

We choose **Genting Singapore** a loser in this space. We expect it to see a more prolonged recovery that is likely to last for the majority of 21CL with mass-market tourism unlikely to return to normalised levels until late 21CL at the earliest. Until that returns, Genting Singapore will suffer from sustained top-line pressure given that foreigners drive 70% of GGR for Resorts World Singapore. Current promotions to drive domestic visitation will be insufficient to cushion the impact, in our view.

In Thailand, we pick CPN as a recovery play

As a recovery play, **Central Pattana,** Thailand's largest retail and property developer fits the bill. Staying true to its aspiration to become the Center of Life, CPN's malls continue to evolve around ever changing shopper demands as it constantly introduces new tenants and changes the atmosphere in malls. These consistent efforts should help ensure CPN will cope well post-Covid.

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Notes

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Company profiles

Winners

Losers

All prices quoted herein are as at close of business 7 September 2020, unless otherwise stated

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Notes

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Ayala Corp

P702.00 - BUY

HIGH CONVICTION

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9 September 2020

Philippines

Conglomerates

Reuters	AC.PS
Bloomberg	AC PM
Priced on 7 September 2020	
Phils Phisix @ 5,935.9	
12M hi/lo	P909.00/394.00
12M price target	P906.00
±% potential	+29%
Shares in issue	627.1m
Free float (est.)	52.4%
Market cap	US$8.9bn
3M ADV	US$4.4m
Foreign s'holding	26.9%

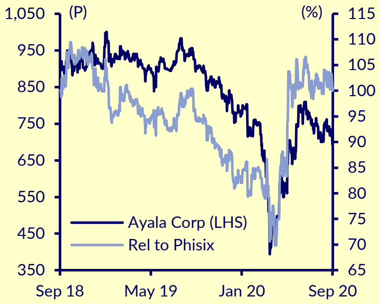
Major shareholders
Mermac Inc 47.0%
Mitsubishi Corp 6.0%

Blended ESG Score (%)*	
Overall	64.8
Country average	52.4
GEM sector average	57.1

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	0.1	(11.5)	(22.0)
Relative	(1.4)	(3.6)	4.2
Abs (US$)	1.0	(9.3)	(16.9)



Source: Bloomberg

Digitally inclined

Among those quickest to bounce back

While not being spared from the early impact of the pandemic, Ayala Corp is realising the benefits of its past digitalisation initiatives as seen in the increased take-up in the online platforms of key affiliates BPI and Globe. Furthermore the defensive nature of its telecom and power generation businesses as well as a likely rebound for Ayala Land and BPI positions the firm among the quickest to recover locally in terms of earnings. We reiterate our High-Conviction BUY call with a P906 target price, derived from a 17% discount to forward net asset value (NAV).

Digital initiatives paying off

Despite the adverse effects from the pandemic, the Ayala group continues to see the benefits of its past digitalisation initiatives, notably in BPI's and Globe's GCash online platforms. According to management, BPI's new online users in the first month of the lockdown alone has exceeded the new additions for the entire 2019 while transactions in Globe's eWallet GCash during the month of May showed a spike of 700% versus the same period last year.

Solid ESG standing out

AC's commendable housekeeping, transparency and its ESG initiatives amidst the pandemic has tremendously boosted investors' appetite for the stock as a country market proxy. Furthermore, President Duterte's apology to the group last May in recognition of its contribution to the overall community has greatly reduced the perceived political risk, which had greatly plagued the stock since late last year.

Amongst the quickest to recover

On top of concrete benefits realised from its digital mind-set plus the defensive nature of some of its key businesses, specifically telecom and energy, we expect AC to be one of the quickest amongst Philippine conglomerates to recover from the pandemic in terms of earnings. Moreover, the company's solid cash position and comfortable financial footing should enable it to weather the storm.

NAV-based TP of P906

Given reduced political and regulatory risk we value the company at a 17% discount to our forward sum-of-the-parts NAV estimate based on our target prices of each of its individual component units. The applied 17% discount is in line with the stock's long-term historical discount to its current NAV (based on existing share prices of its subsidiaries and affiliates at that point in time). We have a target price of P906 for Ayala Corp, and a BUY rating.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Pm)	256,891	264,907	187,086	255,546	285,933
Net profit (Pm)	30,533	34,020	20,165	31,845	38,745
EPS (P)	48.01	53.50	31.71	50.08	60.93
CL/consensus (8) (EPS%)	-	-	97	109	102
EPS growth (% YoY)	3.9	11.4	(40.7)	57.9	21.7
PE (x)	14.6	13.1	22.1	14.0	11.5
Dividend yield (%)	1.0	1.0	1.0	1.0	1.0
FCF yield (%)	(3.8)	(7.9)	(4.5)	(10.4)	(9.3)
PB (x)	1.6	1.5	1.4	1.3	1.2
ROE (%)	11.7	11.7	6.5	9.6	10.8
Net debt/equity (%)	76.6	59.5	63.5	73.5	80.7

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Pm)						
Revenue	**256,891**	**264,907**	**187,086**	*(29.4)*	**255,546**	**285,933**
Cogs (ex-D&A)	(178,092)	(174,225)	(132,318)		(178,075)	(190,440)
Gross Profit (ex-D&A)	**78,800**	**90,682**	**54,768**	*(39.6)*	**77,471**	**95,493**
SG&A and other expenses	(24,010)	(29,230)	(28,437)		(30,882)	(33,058)
Op Ebitda	**54,790**	**61,452**	**26,331**	*(57.2)*	**46,589**	**62,435**
Depreciation/amortisation	(13,562)	(18,641)	(14,717)		(16,094)	(18,431)
Op Ebit	**41,228**	**42,810**	**11,614**	*(72.9)*	**30,495**	**44,004**
Net interest inc/(exp)	(8,036)	(11,166)	(13,614)		(14,925)	(16,235)
Other non-Op items	35,240	24,322	24,506	*0.8*	31,019	35,536
Profit before tax	**68,432**	**55,966**	**22,506**	*(59.8)*	**46,590**	**63,305**
Taxation	(13,367)	(13,984)	(3,401)		(8,492)	(12,626)
Profit after tax	**55,065**	**41,982**	**19,105**	*(54.5)*	**38,098**	**50,679**
Minority interest	(23,247)	(6,703)	2,348		(4,964)	(10,646)
Net profit	**30,533**	**34,020**	**20,165**	*(40.7)*	**31,845**	**38,745**
Adjusted profit	**30,533**	**34,020**	**20,165**	*(40.7)*	**31,845**	**38,745**
Cashflow (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**41,228**	**42,810**	**11,614**	*(72.9)*	**30,495**	**44,004**
Depreciation/amortisation	13,562	18,641	14,717	*(21.1)*	16,094	18,431
Working capital changes	(1,230)	(20,342)	26,283		3,169	3,030
Other items	(19,308)	(25,907)	(21,842)		(28,423)	(33,868)
Net operating cashflow	**34,252**	**15,203**	**30,772**	*102.4*	**21,336**	**31,598**
Capital expenditure	(51,293)	(50,272)	(51,003)		(67,744)	(73,163)
Free cashflow	**(17,042)**	**(35,070)**	**(20,231)**		**(46,408)**	**(41,565)**
M&A/Others	(47,004)	11,140	9,620	*(13.6)*	3,709	8,613
Net investing cashflow	**(98,297)**	**(39,132)**	**(41,383)**		**(64,034)**	**(64,550)**
Increase in loans	51,311	87,005	46,388	*(46.7)*	23,879	23,879
Dividends	(10,770)	(11,920)	(12,555)		(21,180)	(25,627)
Net equity raised/other	19,870	(9,416)	(881)		(14)	(14)
Net financing cashflow	**60,410**	**65,669**	**32,952**	*(49.8)*	**2,686**	**(1,762)**
Incr/(decr) in net cash	(3,635)	41,739	22,342	*(46.5)*	(40,013)	(34,714)
Exch rate movements	0	0	0		0	0
Balance sheet (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	60,624	102,364	124,705	*21.8*	84,693	49,978
Accounts receivable	116,575	89,749	102,705	*14.4*	120,525	127,880
Other current assets	235,560	417,173	333,025	*(20.2)*	367,881	375,131
Fixed assets	104,492	88,782	90,611	*2.1*	106,883	122,804
Investments	467,786	493,464	544,675	*10.4*	607,338	677,505
Intangible assets	16,553	16,626	16,626	*0*	16,626	16,626
Other non-current assets	196,334	137,129	142,645	*4*	150,233	153,364
Total assets	**1,197,926**	**1,345,286**	**1,354,993**	***0.7***	**1,454,178**	**1,523,288**
Short-term debt	88,820	53,681	53,681	*0*	53,681	53,681
Accounts payable	120,312	104,888	62,537	*(40.4)*	120,939	141,132
Other current liabs	120,971	244,088	244,088	*0*	244,088	244,088
Long-term debt/CBs	331,281	351,723	398,097	*13.2*	421,962	445,828
Provisions/other LT liabs	67,433	81,592	81,592	*0*	81,592	81,592
Shareholder funds	279,735	303,524	317,204	*4.5*	343,431	376,558
Minorities/other equity	189,373	205,789	197,794	*(3.9)*	188,485	180,410
Total liabs & equity	**1,197,926**	**1,345,286**	**1,354,993**	***0.7***	**1,454,178**	**1,523,288**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	13.9	3.1	(29.4)		36.6	11.9
Ebitda margin (%)	21.3	23.2	14.1		18.2	21.8
Ebit margin (%)	16.0	16.2	6.2		11.9	15.4
Net profit growth (%)	5.4	11.4	(40.7)		57.9	21.7
Op cashflow growth (% YoY)	98.5	(55.6)	102.4		(30.7)	48.1
Capex/sales (%)	20.0	19.0	27.3		26.5	25.6
Net debt/equity (%)	76.6	59.5	63.5		73.5	80.7
Net debt/Ebitda (x)	6.6	4.9	12.4		8.4	7.2
ROE (%)	11.7	11.7	6.5		9.6	10.8
ROIC (%)	8.8	7.8	2.5		6.4	8.7

Source: www.clsa.com

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Digitally inclined

Digital initiatives paying off

Despite the adverse effects from the pandemic, the Ayala group continues to see the benefits of its past digitalisation initiatives, notably in BPI's and Globe's GCash online platforms.

In terms of online/mobile users as percentage of total BPI is the highest

According to management, BPI's new online users in the first month of the lockdown alone has exceeded the new additions for the entire 2019. Online/mobile app users as a percentage of total depositors is at 40%, making it the highest in the industry.

Digital banking - tale of the tape

	Number of depositors	Number of on line/ mobile accounts	% of on-line/mobile accounts to total deposit accounts
BDO Unibank	10,200,000	Not disclosed	Not disclosed
Metrobank	Not disclosed	Not disclosed	20
Bank of the Philippine Islands	8,700,000	3,500,000	40
Security Bank	Not disclosed	Not disclosed	Not disclosed
Philippine National Bank	5,000,000	950,000	19
Rizal Commercial Banking Corporation	1,920,000	585,000	30
Union Bank of the Philippines (UBP) (all-in)	5,000,000	557,000	11
UBP ex SSS and GSIS account holders	2,000,000	557,000	28

Source: CLSA

Online transactions accounted for 90% of total transactions during the enhanced community quarantine (ECQ) as well as during the modified enhanced community quarantine (MECQ). This is coming from 60% during pre-ECQ and pre-MECQ. In terms of value however online only accounts for 10% of the total but should increase moving forward as clients become more comfortable in doing larger transactions online.

BPI has the highest number of online transactions per day

Online transactions per day

	20 Feb	March 2020 - onward	% change
BDO Unibank	na	na	na
Metrobank	na	na	na
Bank of the Philippine Islands	200,000	300,000	50
Security Bank	na	na	na
Philippine National Bank	na	na	na
Rizal Commercial Banking Corporation	3,600	7,200	100
Union Bank of the Philippines	52,000	58,000	12

Source: CLSA

For Globe's e-wallet GCash, transactions during the month of May showed a spike of 700% versus the same period last year. In a span of a month after the lockdown (April 15 versus March 15), Globe noted that number of installations of the GCash app rose 200% while app registrations jumped 250%, making it one of the five most downloaded apps on Android.

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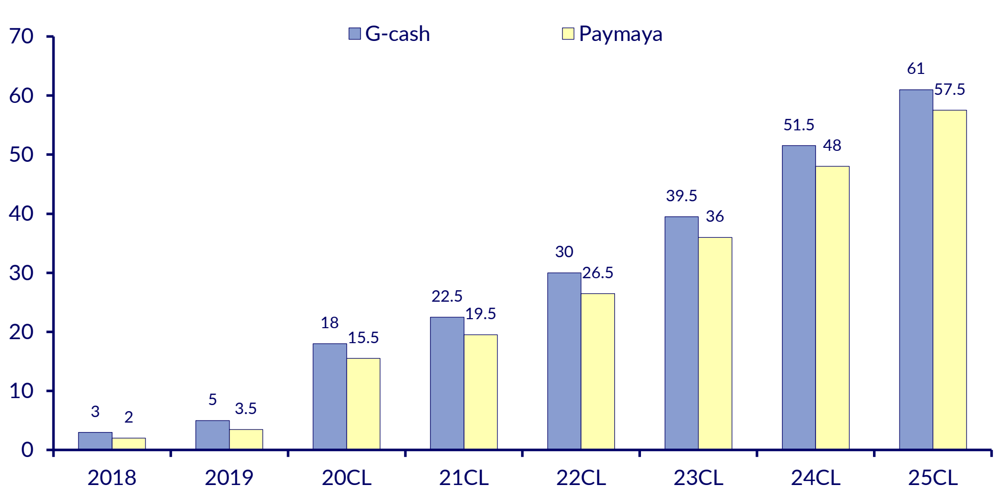
We anticipate strong pick up in active users for e-wallets over the next years

Active users for Philippine e-wallet players (in m)

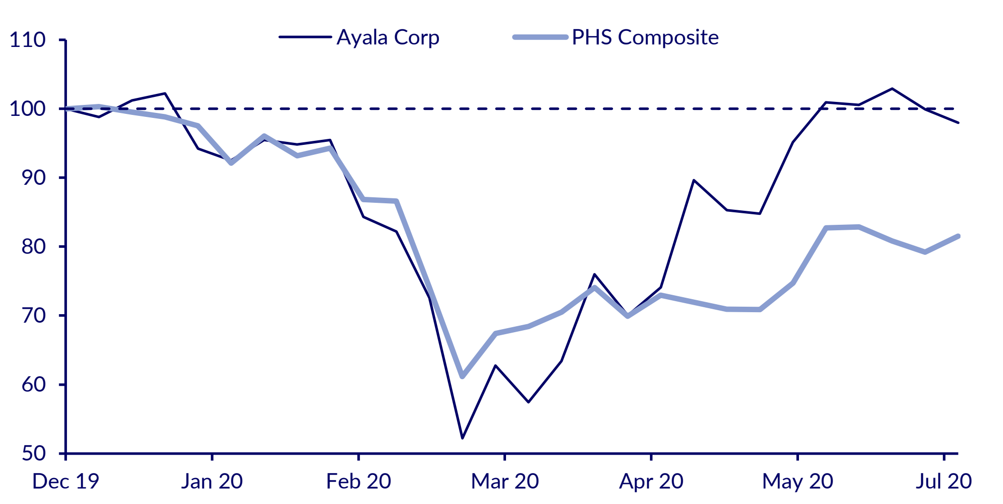


Source: CLSA, PLDT and Globe

Ayala's commendable housekeeping, transparency as well as its ESG initiatives amidst the pandemic has tremendously boosted investors' appetite for the stock as a country market proxy. Furthermore, President Rodrigo Duterte's apology last May in recognition of the group's contribution to the overall community in light of the pandemic has greatly reduced the perceived political risk, which had greatly plagued the stock since late last year, specifically on issues that the President had on Manila Water.

Solid ESG that earned the President's apology led to a sharp rebound in the stock from its lows

AC has bounced back strongly from its lows



Source: CLSA evalu@tor

AC taking a short-term approach to its planning to sort out true impact of the pandemic

On its overall strategy, Ayala Corp has mapped out a much more short-term approach as it faces a post-Covid environment, highlighting three phases:

- **Workforce re-entry.** Involves preparation for the continuation of work once the enhanced community quarantine (ECQ) is lifted.
- **Market re-evaluation.** Covers the months following lifting of restrictions in which Ayala Corp will spend time studying consumer and market behaviour, industry regulatory issues. The group will continue to focus on how it can strengthen its digital infrastructure amidst the renewed role of technology.

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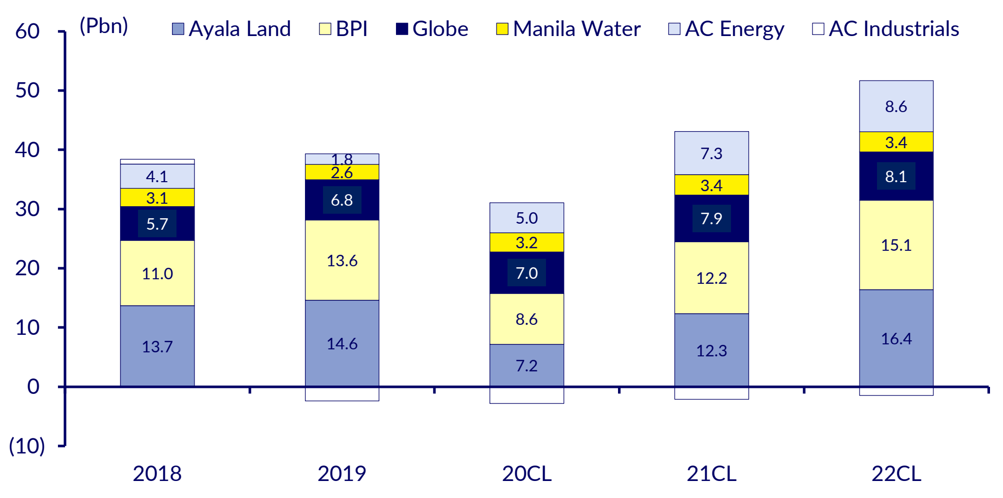
- **Business repositioning.** Will cover the second half of 2020 as Ayala Corp starts planning for the "new normal" with the company aiming to strike a balance between its employees' well-being and productivity, retaining its customers and ensuring its operational and financial sustainability.

Recovery of Ayala Land and BPI as well as defensive nature of Globe and AC Energy should lead to a quick rebound in AC's equity earnings

Ayala Corp equity earnings contribution from subs/affiliates breakdown

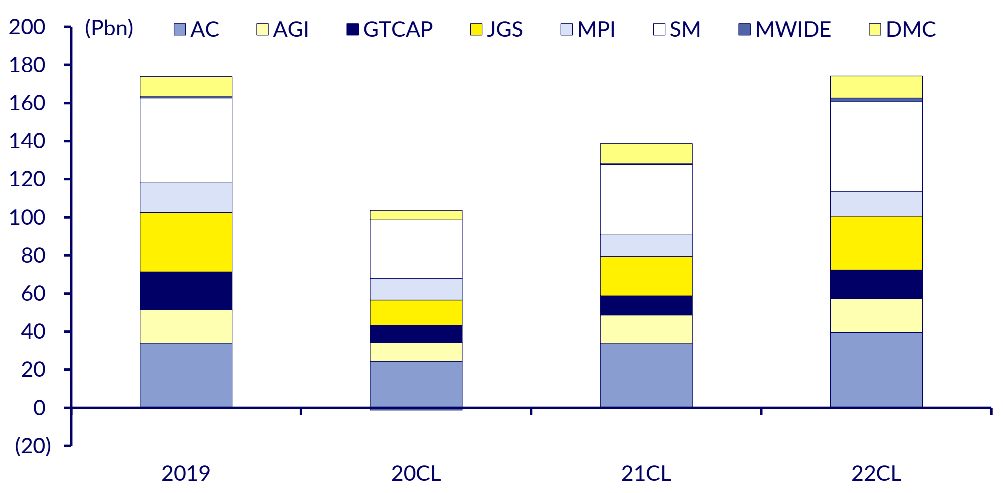


Note: Excluding P22.7bn of capital gains for AC Energy in 2019. Source: CLSA, company disclosures

On top of concrete benefits realised from its digital mind-set plus the defensive nature of some of its key businesses - specifically telecom and energy - we expect AC to be one of the quickest amongst Philippine conglomerates to recover from the pandemic in terms of earnings.

AC among the quickest to recover in terms of earnings amongst Philippine holdcos

Earnings breakdown of Philippine conglomerates



Source: CLSA, company disclosures

Moreover, the company's solid cash position and comfortable financial footing should enable it to weather the storm. AC currently has a comfortable net gearing ratios of 0.7x with its debt having average remaining life of 18 years of which around 78% have fixed interest rates. As of end-June 2020 Ayala Corp had P28.3bn of cash at the parent level which could help service maturing loans as well as interest payments.

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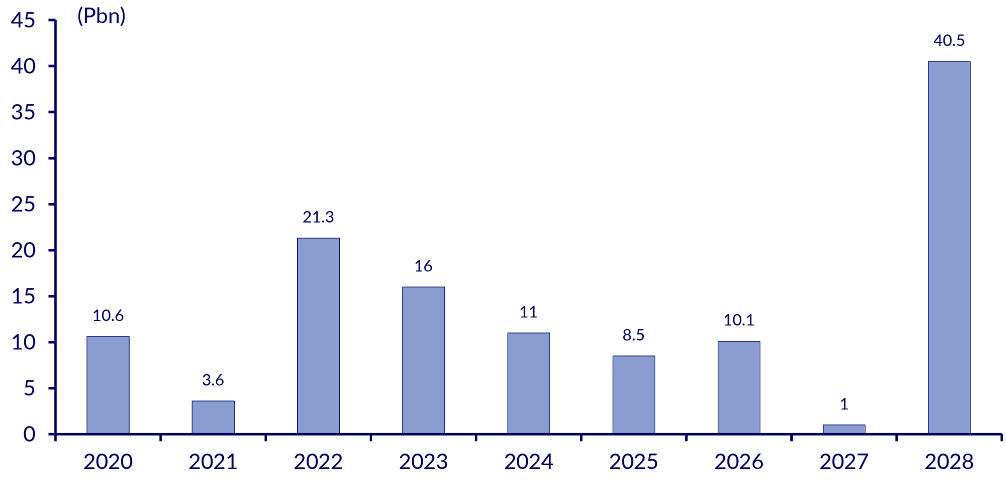
AC has a comfortable financial position

Ayala Corp schedule of debt maturities

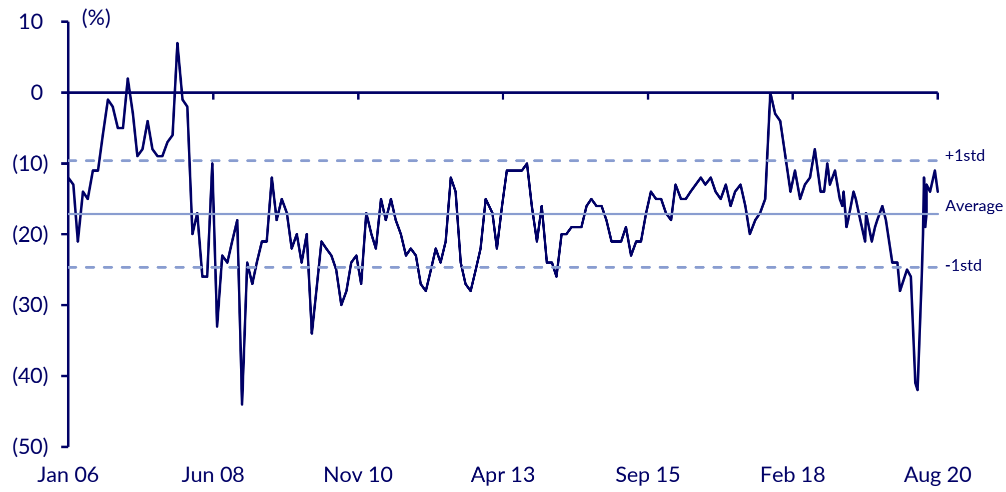


Source: Company disclosures

Given reduced political and regulatory risk we retain our 17% discount to our forward sum-of-the-parts NAV estimate for Ayala Corp, which employs our target prices for each of its component units. The applied 17% discount is in line with the stock's long-term historical average discount to its current NAV, which is based on the existing share prices of its subsidiaries and affiliates at that particular period in time.

Ayala Corp's good housekeeping and ESG as well as perception of reduced political risk has led to a narrowing of its discount to NAV

AC historical discount to NAV



Source: CLSA

P906 target price is based on a 17% discount to forward NAV

Ayala Corp has re-rated strongly from the 25% level during pre-Covid wherein the group was under pressure from the current government as the fallout from issues in Manila Water was spilling over to its other businesses and 40% during start of the lockdown in mid-March when uncertainty over the pandemic was at its peak. Our target price is P906, and we retain our High-Conviction BUY recommendation.

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Ayala Corp NAV estimate

	Valuation method	Valuation (P)	Attributable value (Pm)	Per share (P)	% of NAV
Ayala Land	40% discount to NAV/sh of P72	43	280,895	449	41
BPI	1.35x 21CL PB	88.50	192,274	307	28
Globe	Sum-of-the-parts	2,944	121,029	193	18
Manila Water	DCF	16.65	21,095	34	3
AC Energy	DCF		138,699	222	20
AC Industrials	CLSA TP of P6.80 for IMI		7,845	13	1
Others	Various		34,451	55	5
Subtotal			**796,381**	**1,281**	**117**
Net debt	End-20CL		(113,479)	(181)	(17)
NAV			**682,902**	**1,091**	**100**
Discount	Applied discount of 17%			**(185)**	
Target price				**906**	

Source: CLSA, company disclosures

Valuation details

We value Ayala Corp using a discounted sum-of-the-parts NAV methodology, applying a 17% discount to our forward NAV estimate, which is in line with long-term historical averages. To value the property segment (Ayala Land), we likewise use an NAV approach, although we apply a discount of 40%. On top of our estimated value for its landbank, we calculate the net present value of expected cashflow from its one-year ahead residential inventory, assuming a 22% margin and using a 7.1% WACC. For Ayala Land's leasing business, we estimate one-year forward operating profits and apply cap rates of 8% for its malls and 9% for its offices and hotels. For Bank of the Philippine Islands, we use a 1.35x valuation on its 21CL book value. We value Globe using a sum-of-the-parts approach as we value the: (1) core business operations on a forward EV/Ebitda multiple of 5.5x end-20CL (taking into account the long-term risk of the third player and is priced one standard deviation below its mean); (2) floor price of its cell towers (P27bn for all of its cell towers); and (3) 45% stake in e-wallet player Mynt (we valued at EV/sales of 8.0x, which is at a premium to its last funding round but discount to global payment and card network peers). For Manila Water, we use a target price of P16.65, which is based on a scenario wherein its concession extension up to 2037 will be upheld but with no rate rebasing. For Integrated Microelectronics, we use 11.7x multiple on the average of our 2020 and 2021 earnings forecast. Meanwhile, we value AC Energy using a DCF methodology with a 7.5% WACC, which implies 16x 22CL earnings, the year in which we expect all its new power assets to have ramped up. Other residual businesses are mostly valued at carrying cost.

Investment risks

Ayala Corp is in a growth phase via its investments in emerging businesses - ie, power, industrials, infrastructure, healthcare - which are outside of its traditional segments. Its key downside risk is execution, although management has a solid track record in successfully implementing its expansion plans. Disruptive technologies are a threat to established incumbents, but the group has taken steps to future-proof its existing holdings. We expect the gap between its share price and our NAV estimate to close, although any setbacks in its growth initiatives could cause the discount to widen. Lastly, uncertainties on the true impact brought about by Covid-19 pose further downside risk across the group's businesses.

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Detailed financials

Profit & Loss (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**206,014**	**225,568**	**256,891**	**264,907**	**187,086**	**255,546**	**285,933**
Cogs (ex-D&A)	(138,444)	(157,956)	(178,092)	(174,225)	(132,318)	(178,075)	(190,440)
Gross Profit (ex-D&A)	**67,570**	**67,612**	**78,800**	**90,682**	**54,768**	**77,471**	**95,493**
Research & development costs	(54)	(181)	(14)	(45)	(45)	(45)	(45)
Selling & marketing expenses	(845)	(819)	(893)	(974)	(688)	(939)	(1,051)
Other SG&A	(4,503)	(5,131)	(6,453)	(7,894)	(7,257)	(7,936)	(8,481)
Other Op Expenses ex-D&A	(12,161)	(13,931)	(16,650)	(20,317)	(20,448)	(21,961)	(23,481)
Op Ebitda	**50,007**	**47,550**	**54,790**	**61,452**	**26,331**	**46,589**	**62,435**
Depreciation/amortisation	(11,560)	(12,298)	(13,562)	(18,641)	(14,717)	(16,094)	(18,431)
Op Ebit	**38,446**	**35,253**	**41,228**	**42,810**	**11,614**	**30,495**	**44,004**
Interest income	6,777	6,457	9,336	11,243	11,243	11,243	11,243
Interest expense	(13,665)	(12,694)	(17,372)	(22,410)	(24,857)	(26,168)	(27,479)
Net interest inc/(exp)	(6,888)	(6,237)	(8,036)	(11,166)	(13,614)	(14,925)	(16,235)
Associates/investments	18,154	18,037	19,761	22,344	20,647	27,340	31,857
Forex/other income	2,083	1,373	1,292	24,438	0	0	0
Asset sales/other cash items	3,154	11,240	13,192	(22,988)	3,859	3,679	3,679
Provisions/other non-cash items	(1,009)	780	996	528	0	0	0
Asset revaluation/Exceptional items	0	0	0	0	0	0	0
Profit before tax	**53,940**	**60,446**	**68,432**	**55,966**	**22,506**	**46,590**	**63,305**
Taxation	(10,507)	(10,579)	(13,367)	(13,984)	(3,401)	(8,492)	(12,626)
Profit after tax	**43,433**	**49,867**	**55,065**	**41,982**	**19,105**	**38,098**	**50,679**
Preference dividends	(1,281)	(1,285)	(1,285)	(1,260)	(1,288)	(1,288)	(1,288)
Profit for period	**42,151**	**48,582**	**53,780**	**40,723**	**17,817**	**36,810**	**49,391**
Minority interest	(17,421)	(19,603)	(23,247)	(6,703)	2,348	(4,964)	(10,646)
Net profit	**24,730**	**28,979**	**30,533**	**34,020**	**20,165**	**31,845**	**38,745**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	24,730	28,979	30,533	34,020	20,165	31,845	38,745
Dividends	(4,889)	(5,618)	(5,618)	(5,618)	(5,618)	(5,618)	(5,618)
Retained profit	19,841	23,361	24,914	28,401	14,547	26,227	33,127
Adjusted profit	**24,730**	**28,979**	**30,533**	**34,020**	**20,165**	**31,845**	**38,745**
EPS (P)	39.4	46.2	48.0	53.5	31.7	50.1	60.9
Adj EPS [pre excep] (P)	39.4	46.2	48.0	53.5	31.7	50.1	60.9
Core EPS (P)	39.4	46.2	48.0	53.5	31.7	50.1	60.9
DPS (P)	5.8	6.9	6.9	6.9	6.9	6.9	6.9

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	15.0	9.5	13.9	3.1	(29.4)	36.6	11.9
Ebitda growth (% YoY)	18.0	(4.9)	15.2	12.2	(57.2)	76.9	34.0
Ebit growth (% YoY)	16.8	(8.3)	17.0	3.8	(72.9)	162.6	44.3
Net profit growth (%)	17.8	17.2	5.4	11.4	(40.7)	57.9	21.7
EPS growth (% YoY)	17.8	17.2	3.9	11.4	(40.7)	57.9	21.7
Adj EPS growth (% YoY)	17.8	17.2	3.9	11.4	(40.7)	57.9	21.7
DPS growth (% YoY)	0.0	20.1	0.0	0.0	0.0	0.0	0.0
Core EPS growth (% YoY)	17.8	17.2	3.9	11.4	(40.7)	57.9	21.7
Margins (%)							
Ebitda margin (%)	24.3	21.1	21.3	23.2	14.1	18.2	21.8
Ebit margin (%)	18.7	15.6	16.0	16.2	6.2	11.9	15.4
Net profit margin (%)	12.0	12.8	11.9	12.8	10.8	12.5	13.6
Core profit margin	12.0	12.8	11.9	12.8	10.8	12.5	13.6
Op cashflow margin	13.7	7.6	13.3	5.7	16.4	8.3	11.1
Returns (%)							
ROE (%)	12.0	12.6	11.7	11.7	6.5	9.6	10.8
ROA (%)	3.6	3.0	3.0	2.5	0.7	1.8	2.4
ROIC (%)	12.7	9.8	8.8	7.8	2.5	6.4	8.7
ROCE (%)	6.8	5.3	5.4	5.2	1.4	3.4	4.5
Other key ratios (%)							
Effective tax rate (%)	19.5	17.5	19.5	25.0	15.1	18.2	19.9
Ebitda/net int exp (x)	7.3	7.6	6.8	5.5	1.9	3.1	3.8
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	14.6	15.0	14.4	12.9	21.8	13.8	11.4

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Balance sheet (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	60,223	64,259	60,624	102,364	124,705	84,693	49,978
Accounts receivable	66,944	74,688	116,575	89,749	102,705	120,525	127,880
Inventories	76,753	76,543	120,409	134,596	50,448	85,304	92,554
Other current assets	84,545	100,146	115,151	282,577	282,577	282,577	282,577
Current assets	**288,465**	**315,636**	**412,759**	**609,285**	**560,436**	**573,098**	**552,989**
Fixed assets	64,074	85,431	104,492	88,782	90,611	106,883	122,804
Investments	396,845	434,176	467,786	493,464	544,675	607,338	677,505
Goodwill	5,339	10,696	9,026	9,546	9,546	9,546	9,546
Other intangible assets	4,377	6,009	7,527	7,080	7,080	7,080	7,080
Other non-current assets	152,604	169,598	196,334	137,129	142,645	150,233	153,364
Total assets	**911,705**	**1,021,546**	**1,197,926**	**1,345,286**	**1,354,993**	**1,454,178**	**1,523,288**
Short term loans/OD	51,405	44,441	88,820	53,681	53,681	53,681	53,681
Accounts payable	90,792	90,751	120,312	104,888	62,537	120,939	141,132
Accrued expenses	43,100	44,095	47,654	53,949	53,949	53,949	53,949
Taxes payable	2,270	1,710	3,407	2,397	2,397	2,397	2,397
Other current liabs	48,231	60,790	69,910	187,742	187,742	187,742	187,742
Current liabilities	**235,799**	**241,787**	**330,103**	**402,657**	**360,306**	**418,708**	**438,901**
Long-term debt/leases/other	252,026	314,723	331,281	351,723	398,097	421,962	445,828
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	52,883	53,943	67,433	81,592	81,592	81,592	81,592
Total liabilities	**540,709**	**610,453**	**728,817**	**835,972**	**839,996**	**922,263**	**966,321**
Share capital	74,876	75,249	83,601	85,091	85,091	85,091	85,091
Retained earnings	145,622	170,302	196,915	225,455	240,001	266,228	299,355
Reserves/others	(2,900)	(1,917)	(780)	(7,021)	(7,888)	(7,888)	(7,888)
Shareholder funds	**217,598**	**243,634**	**279,735**	**303,524**	**317,204**	**343,431**	**376,558**
Minorities/other equity	153,398	167,458	189,373	205,789	197,794	188,485	180,410
Total equity	**370,996**	**411,092**	**469,108**	**509,314**	**514,997**	**531,915**	**556,967**
Total liabs & equity	**911,705**	**1,021,546**	**1,197,926**	**1,345,286**	**1,354,993**	**1,454,178**	**1,523,288**
Total debt	303,431	359,164	420,101	405,404	451,778	475,643	499,509
Net debt	243,208	294,905	359,476	303,041	327,073	390,951	449,530
Adjusted EV	404,824	419,078	471,684	434,605	399,430	391,337	371,674
BVPS (P)	347.0	388.5	439.9	477.3	498.8	540.1	592.2

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.2	1.3	1.3	1.5	1.6	1.4	1.3
Growth in total assets (% YoY)	14.8	12.0	17.3	12.3	0.7	7.3	4.8
Growth in capital employed (% YoY)	18.3	14.9	17.3	(1.8)	3.6	9.6	9.0
Net debt to operating cashflow (x)	8.6	17.1	10.5	19.9	10.6	18.3	14.2
Gross debt to operating cashflow (x)	10.8	20.8	12.3	26.7	14.7	22.3	15.8
Gross debt to Ebitda (x)	6.1	7.6	7.7	6.6	17.2	10.2	8.0
Net debt/Ebitda (x)	4.9	6.2	6.6	4.9	12.4	8.4	7.2
Gearing							
Net debt/equity (%)	65.6	71.7	76.6	59.5	63.5	73.5	80.7
Gross debt/equity (%)	81.8	87.4	89.6	79.6	87.7	89.4	89.7
Interest cover (x)	3.3	3.3	2.9	2.4	0.9	1.6	2.0
Debt Cover (x)	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Working capital analysis							
Inventory days	191.4	173.4	198.7	261.7	255.2	139.1	170.4
Debtor days	98.7	114.6	135.9	142.1	187.7	159.4	158.5
Creditor days	231.8	205.3	213.0	231.1	230.9	188.0	251.1
Working capital/Sales (%)	21.3	24.0	43.2	59.6	69.0	48.3	41.2
Capital employed analysis							
Sales/Capital employed (%)	33.4	31.8	30.9	32.5	22.1	27.6	28.3
EV/Capital employed (%)	65.6	59.1	56.7	53.3	47.2	42.2	36.8
Working capital/Capital employed (%)	7.1	7.6	13.3	19.4	15.3	13.3	11.7
Fixed capital/Capital employed (%)	10.4	12.1	12.6	10.9	10.7	11.5	12.2
Other ratios (%)							
EV/OCF (x)	14.4	24.3	13.8	28.6	13.0	18.3	11.8
EV/FCF (x)	(13.6)	(10.1)	(27.7)	(12.4)	(19.7)	(8.4)	(8.9)
EV/Sales (x)	2.0	1.9	1.8	1.6	2.1	1.5	1.3
Capex/depreciation (%)	501.0	476.1	378.2	269.7	346.6	420.9	396.9

Source: www.clsa.com

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Cashflow (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	38,446	35,253	41,228	42,810	11,614	30,495	44,004
Operating adjustments	4,821	16,007	17,850	1,444	3,859	3,679	3,679
Depreciation/amortisation	11,560	12,298	13,562	18,641	14,717	16,094	18,431
Working capital changes	(988)	(14,571)	(1,230)	(20,342)	26,283	3,169	3,030
Interest paid / other financial expenses	(14,029)	(13,374)	(18,646)	(24,764)	(24,857)	(26,168)	(27,479)
Tax paid	(10,172)	(16,627)	(15,650)	(16,428)	(3,401)	(8,492)	(12,626)
Other non-cash operating items	(1,475)	(1,733)	(2,862)	13,842	2,557	2,557	2,557
Net operating cashflow	28,163	17,252	34,252	15,203	30,772	21,336	31,598
Capital expenditure	(57,922)	(58,549)	(51,293)	(50,272)	(51,003)	(67,744)	(73,163)
Free cashflow	(29,759)	(41,297)	(17,042)	(35,070)	(20,231)	(46,408)	(41,565)
Acq/inv/disposals	(26,822)	(12,724)	(64,176)	(8,780)	(9,708)	(15,673)	(11,270)
Int, invt & associate div	15,614	15,736	17,173	19,919	19,329	19,382	19,883
Net investing cashflow	(69,129)	(55,537)	(98,297)	(39,132)	(41,383)	(64,034)	(64,550)
Increase in loans	29,169	53,771	51,311	87,005	46,388	23,879	23,879
Dividends	(10,104)	(10,864)	(10,770)	(11,920)	(12,555)	(21,180)	(25,627)
Net equity raised/others	(30)	(586)	19,870	(9,416)	(881)	(14)	(14)
Net financing cashflow	19,035	42,321	60,410	65,669	32,952	2,686	(1,762)
Incr/(decr) in net cash	(21,931)	4,036	(3,635)	41,739	22,342	(40,013)	(34,714)
Exch rate movements	0	0	0	0	0	0	0
Opening cash	82,155	60,223	64,259	60,624	102,364	124,705	84,693
Closing cash	60,223	64,259	60,624	102,364	124,705	84,693	49,978
OCF PS (P)	44.9	27.5	53.9	23.9	48.4	33.6	49.7
FCF PS (P)	(47.5)	(65.9)	(26.8)	(55.1)	(31.8)	(73.0)	(65.4)

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	151.0	(38.7)	98.5	(55.6)	102.4	(30.7)	48.1
FCF growth (% YoY)	-	-	-	-	-	-	-
Capex growth (%)	13.7	1.1	(12.4)	(2.0)	1.5	32.8	8.0
Other key ratios (%)							
Capex/sales (%)	28.1	26.0	20.0	19.0	27.3	26.5	25.6
Capex/op cashflow (%)	205.7	339.4	149.8	330.7	165.7	317.5	231.5
Operating cashflow payout ratio (%)	12.8	25.2	12.8	28.9	14.3	20.6	13.9
Cashflow payout ratio (%)	17.4	32.6	16.4	37.0	18.3	26.3	17.8
Free cashflow payout ratio (%)	-	-	-	-	-	-	-

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	18.7	15.6	16.0	16.2	6.2	11.9	15.4
Asset turnover (x)	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Interest burden (x)	1.4	1.7	1.7	1.3	1.9	1.5	1.4
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	3.6	3.0	3.0	2.5	0.7	1.8	2.4
Leverage (x)	2.4	2.5	2.5	2.6	2.6	2.7	2.7
ROE (%)	12.4	12.8	12.5	8.6	3.7	7.3	9.3

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	30,957	29,083	33,175	32,114	9,859	24,937	35,228
Average invested capital	243,489	298,003	376,998	414,357	389,735	388,054	403,853
ROIC (%)	12.7	9.8	8.8	7.8	2.5	6.4	8.7
Cost of equity (%)	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Cost of debt (adj for tax)	4.0	4.1	4.0	3.8	4.2	4.1	4.0
Weighted average cost of capital (%)	8.5	8.6	8.5	8.4	8.6	8.5	8.5
EVA/IC (%)	4.2	1.2	0.3	(0.7)	(6.1)	(2.1)	0.2
EVA (Pm)	10,191	3,569	1,025	(2,845)	(23,664)	(8,240)	816

Source: www.clsa.com

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CLSA

BPI

P65.80 - BUY

HIGH CONVICTION

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9 September 2020

Philippines

Financial services

Reuters BPI.PS
Bloomberg BPI PM

Priced on 7 September 2020
Phils Phisix @ 5,935.9

12M hi/lo P100.00/51.40

12M price target P88.50
±% potential +34%

Shares in issue 4,502.4m
Free float (est.) 52.0%

Market cap US$6bn

3M ADV US$3.7m

Foreign s'holding 30.0%

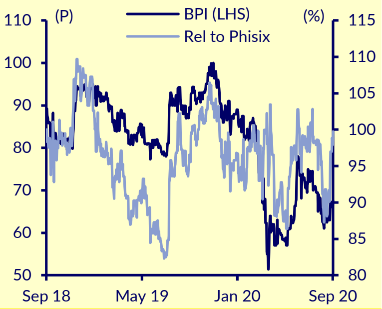
Major shareholders
Ayala Corporation 48.0%

Blended ESG Score (%)*	
Overall	64.1
Country average	52.4
GEM sector average	64.3

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	5.2	(15.6)	(26.1)
Relative	3.6	(8.1)	(1.2)
Abs (US$)	6.1	(13.6)	(21.2)



Source: Bloomberg

Digital and dynamic

Early adopter with strong financials and management team

BPI is positioned to stage a rapid recovery post-Covid-19 as users shift increasingly toward online service formats. Its balance sheet is solid with a common equity tier one (CET-1) ratio of 15%. Its digital platform is arguably the best on-the-ground with the highest number of daily transactions. The firm's management team and corporate governance are excellent. Moving ahead, we expect BPI to leverage its digital platform to capture more clients and lift its ROE. We maintain our BUY call on 37% total return to our P88.50 target price.

Well positioned

BPI may be the best-positioned bank to stage a Covid-19 recovery. First, it has scale, as the country's third-largest bank with a substantial capital buffer (CET-1 ratio of 15%). Second, the bank has reach, with one of the most extensively digitally linked nationwide branch and ATM networks, at 867 and 2,421 respectively. Finally, its positioning should insulate it from Covid-19's impact relative to other lenders, given 76% of its loan book is in low-risk top tier corporates.

Engaging digitalisation

A couple of years back, BPI's management team made digitalisation a key initiative. The bank has since been spending 7% of revenues per annum in augmenting its digital platform. Today, BPI's online/mobile app platform is arguably the best on the ground, with the highest penetration rate at 40%, highest daily usage at 300k transactions per day, and is one of the few equipped with "QR" codes.

A winner in the new normal

In the aftermath of Covid-19, we expect a shift to more online/mobile app banking transactions from traditional physical branch banking transactions. Given the firm's first-mover advantage and huge client base, BPI should come out as one of the biggest winners in this space. At present, the volume of online transactions to total transactions is at 80% whereas the total value of online transactions is just 10% of total transaction value. In the new normal, BPI expects online transaction value as a percentage of total transaction value to start rising.

Valuation and recommendation

We are maintaining our BUY call. We base our 12-month target price of P88.50 on 1.35x 21CL PB, a 17% discount to the stock's -1sd level of 1.63x using a 12-year forward PB average, to reflect its long-term trend of falling ROE and Covid uncertainties. We are significantly more conservative then consensus in 20CL in terms of our assumptions on margins, other income, and expenses.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Operating profit (Pm)	29,999	38,435	22,684	32,393	40,398
Net profit (Pm)	23,078	28,803	17,740	25,188	31,353
EPS (P)	5.47	6.40	3.94	5.59	6.96
CL/consensus (13) (EPS%)	-	-	83	96	98
EPS growth (% YoY)	(3.9)	17.0	(38.4)	42.0	24.5
PE (x)	12.0	10.3	16.7	11.8	9.4
Adjusted EPS (P)	5.47	6.40	3.94	5.59	6.96
Adjusted PE (x)	12.0	10.3	16.7	11.8	9.4
Dividend yield (%)	2.7	2.7	2.7	2.7	2.7
PB (x)	1.2	1.1	1.1	1.0	0.9
ROE (%)	10.8	11.1	6.5	8.8	10.2

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Pm)						
Interest income	80,190	101,583	103,375	*1.8*	112,679	123,463
Interest expense	(24,347)	(35,638)	(37,420)		(40,413)	(43,647)
Net interest income	**55,843**	**65,945**	**65,955**	***0***	**72,265**	**79,817**
Trading income	1,708	3,667	2,567	*(30)*	2,772	3,050
Fee income	8,224	9,062	8,156	*(10)*	8,808	9,689
Other operating income	12,749	15,660	15,587	*(0.5)*	16,834	18,409
Non-interest income	**22,681**	**28,389**	**26,310**	***(7.3)***	**28,415**	**31,147**
Total op income	**78,524**	**94,334**	**92,265**	***(2.2)***	**100,680**	**110,964**
Staff & related costs	(15,315)	(17,487)	(18,361)		(19,830)	(21,813)
Other operating expenses	(28,287)	(32,590)	(34,220)		(36,957)	(40,653)
Total operating expenses	**(43,602)**	**(50,077)**	**(52,581)**		**(56,787)**	**(62,466)**
Preprovision OP	**34,922**	**44,257**	**39,684**	***(10.3)***	**43,893**	**48,498**
Loan-loss provisions	(4,923)	(5,822)	(17,000)		(11,500)	(8,100)
Operating profit	**29,999**	**38,435**	**22,684**	***(41)***	**32,393**	**40,398**
Other income/expenses	0	0	-		-	0
Profit before tax	**29,999**	**38,435**	**22,684**	***(41)***	**32,393**	**40,398**
Taxation	(6,670)	(9,352)	(4,694)		(6,924)	(8,746)
Preference dividends	0	0	0		0	0
Profit for period	**23,329**	**29,083**	**17,990**	***(38.1)***	**25,468**	**31,653**
Minority interest	(251)	(280)	(250)		(280)	(300)
Net profit	**23,078**	**28,803**	**17,740**	***(38.4)***	**25,188**	**31,353**
Adjusted profit	**23,078**	**28,803**	**17,740**	***(38.4)***	**25,188**	**31,353**
Balance sheet (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Net loans	1,354,896	1,475,336	1,519,596	*3*	1,641,164	1,805,280
Cash & equivalents	43,536	47,256	80,207	*69.7*	95,062	83,848
Placements with other banks	46,800	44,926	45,670	*1.7*	47,954	50,351
Other interest earning assets	358,080	370,905	382,032	*3*	401,134	421,190
Total interest earning assets	**1,803,312**	**1,938,423**	**2,027,506**	***4.6***	**2,185,313**	**2,360,670**
Net fixed assets	18,814	26,198	26,650	*1.7*	27,426	26,968
Intangible assets	0	0	0		0	0
Other assets	263,102	240,409	252,112	*4.9*	265,274	280,368
Total non-interest earning assets	**281,916**	**266,607**	**278,762**	***4.6***	**292,700**	**307,335**
Total assets	**2,085,228**	**2,205,030**	**2,306,268**	***4.6***	**2,478,013**	**2,668,005**
Customer deposits	1,585,746	1,695,343	1,780,110	*5*	1,922,519	2,076,320
Deposits from banks	0	0	0		0	0
Other int-bearing liabs	174,780	156,660	161,360	*3*	169,428	177,899
Total int-bearing liabs	**1,760,526**	**1,852,003**	**1,941,470**	***4.8***	**2,091,947**	**2,254,220**
Other non-int-bearing liabs	73,164	79,993	82,393	*3*	86,512	90,838
Shareholder funds	248,521	269,577	278,948	*3.5*	296,032	319,280
Other equity capital	3,017	3,457	3,457	*0*	3,522	3,667
Total liabs & equity	**2,085,228**	**2,205,030**	**2,306,268**	***4.6***	**2,478,013**	**2,668,005**
Total tier 1 capital	221,124	238,063	245,205	*3*	264,821	286,007
Total capital	**234,240**	**252,142**	**260,284**	***3.2***	**280,900**	**303,086**
Risk weighted assets	1,455,746	1,568,855	1,678,675	*7*	1,880,116	2,105,730
Average Risk weighted assets	**1**	**1**	**1**	***2.3***	**1**	**1**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Net int inc growth (%)	16.2	18.1	0.0		9.6	10.4
Non-int inc growth (%)	(1.3)	25.2	(7.3)		8.0	9.6
Operating inc growth (%)	10.6	20.1	(2.2)		9.1	10.2
Net profit growth (%)	3.0	24.8	(38.4)		42.0	24.5
Net interest margin (%)	2.9	3.2	3.1		3.2	3.2
Cost/income (%)	55.5	53.1	57.0		56.4	56.3
Loans/deposits (%)	86.9	88.6	87.3		88.0	89.7
Gross NPLs/total loans (%)	1.7	1.6	4.0		5.2	3.7
Loan provisions/NPLs (%)	0.0	0.0	0.0		0.0	0.0
ROA (%)	1.2	1.4	0.8		1.1	1.2
ROE (%)	10.7	11.1	6.5		8.8	10.2
Tier 1 CAR (%)	15.2	15.2	14.6		14.1	13.6
CAR (%)	16.1	16.1	15.5		14.9	14.4

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

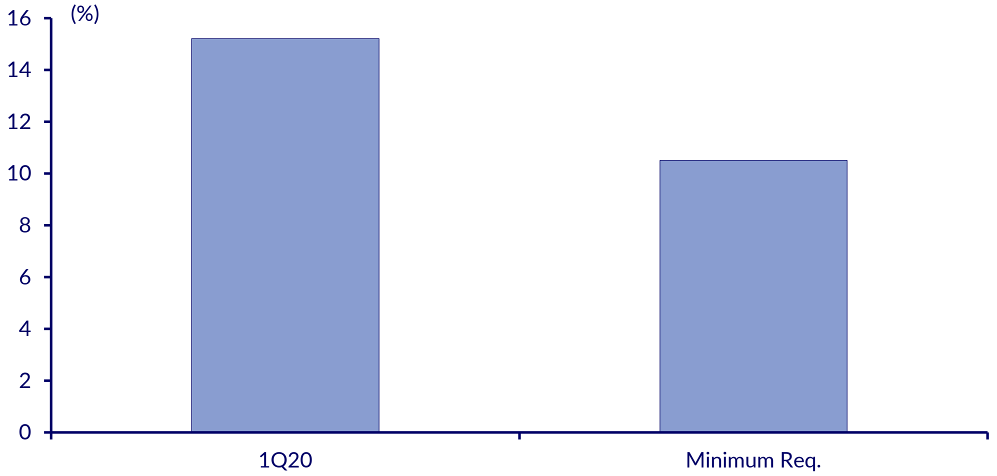
Strong balance sheet

Well positioned

BPI is probably the best positioned bank in the country to take advantage of opportunities in the post-Covid-19 world. First, BPI has the scale given that it is the third largest bank in the country with lots of capital given CET-1 ratio of 15.2%. Second, the bank has the reach given that it has one of the most extensive digitally linked nationwide branch and ATM network at 867 and 2,421 respectively. Finally, BPI should emerge as the least damaged bank post- Covid-19 pandemic given at 76% of loan book is in low-risk top tier corporates. Note that even BPI's consumer loan book which accounts for 20% of total loan book is conservatively positioned with mortgages accounting for 51% of the total.

Comfortably above the minimum required levels

BPI CET-1 ratio



Source: Company

BPI's loan breakdown

	2015	2019
Top tier corporate	74	76
Middle market corporate	4	4
Consumer	22	20
Total	**100**	**100**

Source: Company

Consumer loan book breakdown

	2015	2019
Mortgages	**55**	**51**
Vehicles	24	20
Credit card	19	26
Personal	2	2
Microfinance	0	1

Source: Company

Prepared for - W: matthew_goh@summarecon.com

Early emphasis on digitalisation

Engaging digitalisation

A couple of years back, BPI's management team made digitalization as one of its key initiatives. The bank has since been spending 7% of revenues per annum in augmenting its digital platform. Today, BPI's on-line/mobile app platform is arguably the best on the ground with the highest penetration rate at 40%, highest daily usage at 300k transactions per day, and is one of the few equipped with "QR" code. Management's foresight in investing and promoting its digital platform should enhance the company's client proposition in the post-Covid-19 world.

Digital banking – table of the tape

	Number of depositors	Number of on line/ mobile accounts	% of on-line/mobile accounts to total deposit accounts
BDO Unibank	10,200,000	Not disclosed	Not disclosed
Metrobank	Not disclosed	Not disclosed	20
Bank of the Philippine Islands	8,700,000	3,500,000	40
Security Bank	Not disclosed	Not disclosed	Not disclosed
Philippine National Bank	5,000,000	950,000	19
Rizal Commercial Banking Corporation	1,920,000	585,000	30
Union Bank of the Philippines (UBP) (all-in)	5,000,000	557,000	11
UBP ex SSS and GSIS account holders	2,000,000	557,000	28

Source: Companies mentioned

Banks that are active in alternative channels have seen transaction levels increase substantially

Number of on-line transactions per day

	Feb 20	March 2020 - onward	% change
BDO Unibank	na	na	na
Metrobank	na	na	na
Bank of the Philippine Islands	200,000	300,000	50
Security Bank	na	na	na
Philippine National Bank	na	na	na
Rizal Commercial Banking Corporation	3,600	7,200	100
Union Bank of the Philippines	52,000	58,000	12

Source: Companies mentioned

A handful of banks have ventured into contactless payments

QR code

	Do you have QR code?
BDO Unibank	No
Metrobank	No
Bank of the Philippine Islands	Yes
Security Bank	No
Philippine National Bank	No
Rizal Commercial Banking Corporation	Yes
Union Bank of the Philippines	Yes

Source: CLSA

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A winner in the new normal

A shift to online/ mobile app banking

In the new normal, we expect a shift to more on-line/mobile app banking transactions from traditional physical branch banking transactions. Given its first mover advantage and huge client base, BPI should come out as one of the biggest winners in this space. At present, volume of online transactions to total transactions is at 80% whereas total value of online transactions is 10% of total value of transactions. In the new normal, BPI expects online transaction value as a percentage of total transaction value to start moving up. Also, BPI's strong digital platform should enable the bank to hold on and even expand its deposit base. Note that BPI has one of the strongest deposit franchise in the country, with low cost CASA (current account-savings account) deposits accounting for 69% of total deposits. Further, BPI's strong digital platform should allow BPI to capture more on-line transactions with business establishment around the country.

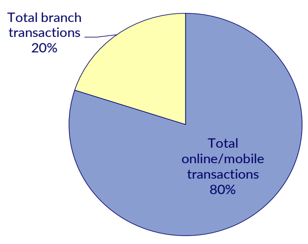
Banking at one's fingertips

BPI's on-line/mobile banking app

Source: Company

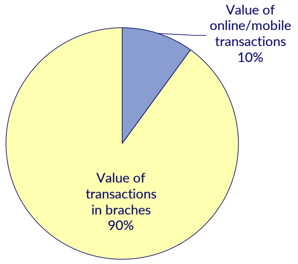
More upside ahead for on-line value of transactions

Breakdown of total transactions



Source: Company

Breakdown of value of transactions



Source: Company

Maintain BUY

Our target price is below 12-year forward -1std PB

We are maintaining our BUY call. We base our 12-month target price of P88.50 on 1.35x 21CL PB, a 17% discount to the stock's 12-year forward -1sd PB of 1.63x. We use the 12-year time series to capture global financial crisis years of 2008-09, and apply a hefty discount to this -1sd PB level to reflect: (1) that BPI's ROE has been declining for years now; and (2) the uncertainties ahead given the lingering Covid-19 pandemic.

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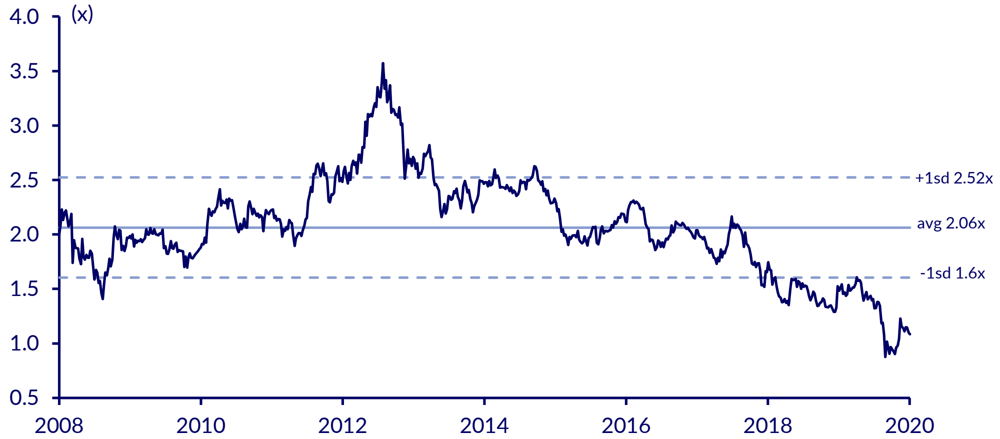
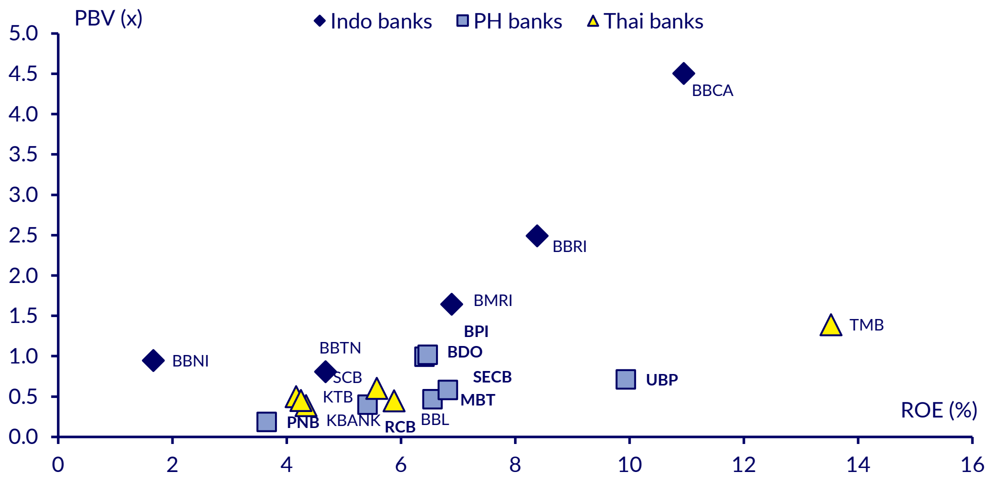
BPI's 12-year forward PB chart



Source: CLSA

Decently attractive vs regional peers

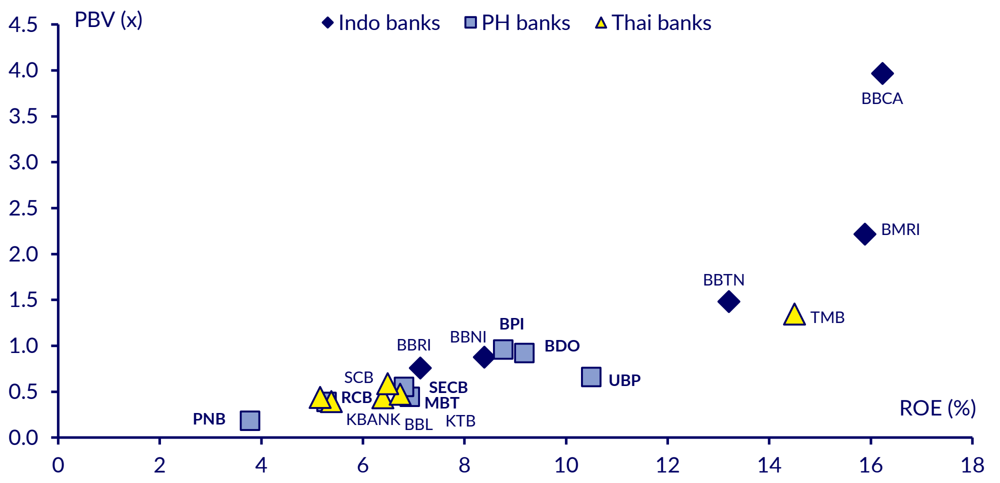
20CL TIPs banks ROE vs PB



Source: CLSA

Attractive valuations even when looking at 21CL levels

21CL TIPs banks ROE vs PB



Source: CLSA

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Valuation details

Our 12-month target price is based on 21CL PB of 1.35x, which is at a 17% discount to the stock's 12-year forward one standard deviation below the mean PB of 1.63x.

Investment risks

Banks in general are classified as cyclical companies. One of the key risks would be rising interest rates: generally cyclicals like banks do not do too well in terms of share-price performance in a rising-interest-rate environment. Another risk is greater competition. Note that the big-three banks are actively expanding and, with the possible entry of more foreign banks in the coming years, there could be an environment of more intense competition. We slapped on a 20% discount to the valuation as an added buffer to possible uncertainties ahead brought about by the negative effects of Covid-19.

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Detailed financials

Profit & Loss (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Interest income	58,312	65,849	80,190	101,583	103,375	112,679	123,463
Interest expense	(15,935)	(17,810)	(24,347)	(35,638)	(37,420)	(40,413)	(43,647)
Net interest income	**42,377**	**48,039**	**55,843**	**65,945**	**65,955**	**72,265**	**79,817**
Trading income	3,240	604	1,708	3,667	2,567	2,772	3,050
FX gains/(losses)	2,160	402	1,139	2,445	1,711	1,848	2,033
Fee/Commission income	7,998	8,340	8,224	9,062	8,156	8,808	9,689
Other operating income	10,776	13,635	11,610	13,215	13,876	14,986	16,376
Non-interest income	**24,174**	**22,981**	**22,681**	**28,389**	**26,310**	**28,415**	**31,147**
Total op income	**66,551**	**71,020**	**78,524**	**94,334**	**92,265**	**100,680**	**110,964**
Staff related expenses	(13,463)	(13,897)	(15,315)	(17,487)	(18,361)	(19,830)	(21,813)
Property related expenses	(10,156)	(11,344)	(13,146)	(16,123)	(16,929)	(18,283)	(20,112)
Other operating expenses	(11,322)	(13,292)	(15,141)	(16,467)	(17,290)	(18,674)	(20,541)
Total operating expenses	**(34,941)**	**(38,533)**	**(43,602)**	**(50,077)**	**(52,581)**	**(56,787)**	**(62,466)**
Preprovision OP	**31,610**	**32,487**	**34,922**	**44,257**	**39,684**	**43,893**	**48,498**
Specific provision for loans	0	0	0	0	0	0	0
General provision for loans	(4,800)	(3,795)	(4,923)	(5,822)	(17,000)	(11,500)	(8,100)
Other provisions	0	0	0	0	0	0	0
Loan-loss provisions	(4,800)	(3,795)	(4,923)	(5,822)	(17,000)	(11,500)	(8,100)
Operating profit	**26,810**	**28,692**	**29,999**	**38,435**	**22,684**	**32,393**	**40,398**
Associate income	0	0	0	0	0	0	0
Other exceptional items	0	0	0	0	0	0	0
Other income/expense	0	0	0	0	0	0	0
Profit before tax	**26,810**	**28,692**	**29,999**	**38,435**	**22,684**	**32,393**	**40,398**
Taxation	(4,535)	(5,956)	(6,670)	(9,352)	(4,694)	(6,924)	(8,746)
Profit after tax (before preference dividends)	**22,275**	**22,736**	**23,329**	**29,083**	**17,990**	**25,468**	**31,653**
Preference dividends	0	0	0	0	0	0	0
Profit for period	**22,275**	**22,736**	**23,329**	**29,083**	**17,990**	**25,468**	**31,653**
Minority interest	(225)	(320)	(251)	(280)	(250)	(280)	(300)
Net profit	**22,050**	**22,416**	**23,078**	**28,803**	**17,740**	**25,188**	**31,353**
Adjusted profit	**22,050**	**22,416**	**23,078**	**28,803**	**17,740**	**25,188**	**31,353**
EPS (P)	5.6	5.7	5.5	6.4	3.9	5.6	7.0
Adjusted EPS (P)	5.6	5.7	5.5	6.4	3.9	5.6	7.0
DPS (P)	1.8	1.9	1.8	1.8	1.8	1.8	1.8

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Net int inc growth (%)	9.7	13.4	16.2	18.1	0.0	9.6	10.4
Non-int inc growth (%)	16.7	(4.9)	(1.3)	25.2	(7.3)	8.0	9.6
Operating inc growth (%)	12.1	6.7	10.6	20.1	(2.2)	9.1	10.2
Operating exp growth (%)	9.6	10.3	13.2	14.9	5.0	8.0	10.0
Loan provision expense growth	20.7	(20.9)	29.7	18.3	192.0	(32.4)	(29.6)
Net profit growth (%)	20.9	1.7	3.0	24.8	(38.4)	42.0	24.5
EPS growth (% YoY)	20.8	1.5	(3.9)	17.0	(38.4)	42.0	24.5
Adj EPS growth (% YoY)	20.8	1.5	(3.9)	17.0	(38.4)	42.0	24.5
DPS growth (% YoY)	(0.1)	8.4	(7.6)	0.0	0.0	0.0	0.0
Margins (%)							
Spread (%)	2.5	2.6	2.7	3.0	2.9	2.9	3.0
Net interest margin (%)	2.6	2.7	2.9	3.2	3.1	3.2	3.2
Returns (%)							
ROA (%)	1.4	1.3	1.2	1.4	0.8	1.1	1.2
ROE (%)	13.9	12.9	10.7	11.1	6.5	8.8	10.2
Other key ratios (%)							
Non-interest inc/op inc (x)	36.3	32.4	28.9	30.1	28.5	28.2	28.1
Cost/income (%)	52.5	54.3	55.5	53.1	57.0	56.4	56.3
Staff costs/op costs (%)	38.5	36.1	35.1	34.9	34.9	34.9	34.9
Provision exp/loans (%)	0.5	0.3	0.4	0.4	1.1	0.7	0.4
Earnings payout ratio (%)	32.1	34.2	32.9	28.1	45.7	32.2	25.8

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Balance sheet (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Gross loans	1,059,396	1,223,001	1,377,798	1,501,310	1,553,349	1,691,617	1,863,479
Loan loss reserve	(18,676)	(20,663)	(22,902)	(25,974)	(33,753)	(50,453)	(58,199)
Net loans	**1,040,720**	**1,202,338**	**1,354,896**	**1,475,336**	**1,519,596**	**1,641,164**	**1,805,280**
Cash & equivalents	35,692	35,132	43,536	47,256	80,207	95,062	83,848
Placements with other banks	38,273	32,992	46,800	44,926	45,670	47,954	50,351
Other interest earning assets	326,706	328,504	358,080	370,905	382,032	401,134	421,190
Total interest earning assets	**1,441,391**	**1,598,966**	**1,803,312**	**1,938,423**	**2,027,506**	**2,185,313**	**2,360,670**
Net fixed assets	13,809	15,190	18,814	26,198	26,650	27,426	26,968
Intangible assets	0	0	0	0	0	0	0
Other assets	270,496	289,749	263,102	240,409	252,112	265,274	280,368
Total non-interest earning assets	**284,305**	**304,939**	**281,916**	**266,607**	**278,762**	**292,700**	**307,335**
Total assets	**1,725,696**	**1,903,905**	**2,085,228**	**2,205,030**	**2,306,268**	**2,478,013**	**2,668,005**
Current deposits	231,525	252,238	256,279	272,020	285,621	308,471	333,148
Savings deposits	820,181	860,612	883,650	899,181	944,140	1,019,671	1,101,245
Other deposits	379,594	449,350	445,817	524,142	550,349	594,377	641,927
Customer deposits	**1,431,300**	**1,562,200**	**1,585,746**	**1,695,343**	**1,780,110**	**1,922,519**	**2,076,320**
Deposits from banks	0	0	0	0	0	0	0
Other int-bearing liabs	65,755	89,523	174,780	156,660	161,360	169,428	177,899
Total int-bearing liabs	**1,497,055**	**1,651,723**	**1,760,526**	**1,852,003**	**1,941,470**	**2,091,947**	**2,254,220**
Other non-int-bearing liabs	60,957	68,631	73,164	79,993	82,393	86,512	90,838
Total liabilities	**1,558,012**	**1,720,354**	**1,833,690**	**1,931,996**	**2,023,863**	**2,178,459**	**2,345,058**
Share capital	68,899	69,107	119,142	119,448	119,183	119,183	119,183
Retained earnings	93,524	111,327	125,283	145,021	154,657	171,741	194,989
Reserves	2,711	254	4,096	5,108	5,108	5,108	5,108
Treasury stock	-	-	-	-	-	-	-
Shareholder funds	**165,134**	**180,688**	**248,521**	**269,577**	**278,948**	**296,032**	**319,280**
Minorities/other equity	2,550	2,863	3,017	3,457	3,457	3,522	3,667
Total equity	**167,684**	**183,551**	**251,538**	**273,034**	**282,405**	**299,554**	**322,947**
Total liabs & equity	**1,725,696**	**1,903,905**	**2,085,228**	**2,205,030**	**2,306,268**	**2,478,013**	**2,668,005**
Non-performing loans	15,793	16,256	22,509	23,855	60,996	86,001	67,001
Credit risk	-	-	-	-	-	-	-
Operational risk	-	-	-	-	-	-	-
Market risk	-	-	-	-	-	-	-
Risk weighted assets	**1,145,846**	**1,306,264**	**1,455,746**	**1,568,855**	**1,678,675**	**1,880,116**	**2,105,730**
Average Risk weighted assets	1	1	1	1	1	1	1
Total tier 1 capital	138,691	152,560	221,124	238,063	245,205	264,821	286,007
Total capital	**148,990**	**163,859**	**234,240**	**252,142**	**260,284**	**280,900**	**303,086**
BVPS (P)	41.9	45.9	55.2	59.9	62.0	65.7	70.9

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Loan growth (%)	19.2	15.5	12.7	8.9	3.0	8.0	10.0
Deposits growth (%)	12.2	9.1	1.5	6.9	5.0	8.0	8.0
Loans/deposits (%)	74.0	78.3	86.9	88.6	87.3	88.0	89.7
Growth in total assets (% YoY)	13.8	10.3	9.5	5.7	4.6	7.4	7.7
Risk-wtd assets growth (%)	16.7	14.0	11.4	7.8	7.0	12.0	12.0
Asset quality							
Provision expense/loans (%)	0.5	0.3	0.4	0.4	1.1	0.7	0.4
Gross NPLs/total loans (%)	1.5	1.4	1.7	1.6	4.0	5.2	3.7
Loan provisions/NPLs (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPL growth/loan growth	37.6	18.9	303.2	67.3	5,189.8	512.4	(220.9)
Loan provision growth/ loan provision expense growth	nm	nm	nm	nm	nm	nm	nm
Capital Adequacy							
Tier 1 CAR (%)	12.1	11.7	15.2	15.2	14.6	14.1	13.6
CAR (%)	13.0	12.5	16.1	16.1	15.5	14.9	14.4
RWA/total assets (%)	66.4	68.6	69.8	71.1	72.8	75.9	78.9
Equity/total assets (%)	9.7	9.6	12.1	12.4	12.2	12.1	12.1

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Net int income/assets (%)	2.6	2.6	2.8	3.1	2.9	3.0	3.1
Non-int income/assets (%)	1.5	1.3	1.1	1.3	1.2	1.2	1.2
Total op income/assets (%)	4.1	3.9	3.9	4.4	4.1	4.2	4.3
Op expenses/assets (%)	2.2	2.1	2.2	2.3	2.3	2.4	2.4
Op profit/assets (%)	6.3	6.0	6.1	6.7	6.4	6.6	6.7
Provision expenses/assets (%)	(0.3)	(0.2)	(0.2)	(0.3)	(0.8)	(0.5)	(0.3)
Other items/assets (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax expense/assets (%)	(1.0)	(1.2)	(1.3)	(1.6)	(1.2)	(1.3)	(1.4)
ROA (%)	1.4	1.3	1.2	1.4	0.8	1.1	1.2
ROA incl other items/assets (%)	5.0	4.6	4.6	4.9	4.5	4.8	5.0
Leverage (x)	10.1	10.3	9.2	8.2	8.1	8.2	8.3
ROE (%)	13.9	12.9	10.7	11.1	6.5	8.8	10.2

Source: www.clsa.com

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Central Pattana

Bt46.50 - BUY

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9 September 2020

Thailand

Property

Reuters CPN.BK
Bloomberg CPN TB

Priced on 7 September 2020
Thai SET @ 1,312.0

12M hi/lo Bt69.00/33.25

12M price target Bt62.50
±% potential +34%

Shares in issue 4,487.6m
Free float (est.) 33.2%

Market cap US$6.6bn

3M ADV US$11.2m

Foreign s'holding 26.4%

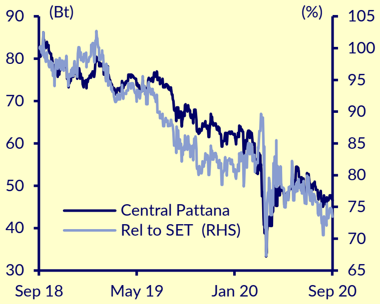
Major shareholders
Chirathivat Family 26.0%
Central Holding Co., Ltd. 27.0%

Blended ESG Score (%)*	
Overall	65.0
Country average	63.9
GEM sector average	65.9

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(2.1)	(14.7)	(32.1)
Relative	(0.5)	(6.6)	(13.6)
Abs (US$)	(3.0)	(14.4)	(33.8)



Source: Bloomberg

Customer-centric

Keeping clean - and relevant to changing shopper demands

Central Pattana malls continue to adjust to ever-changing shopper demands by introducing new tenants and designs, most recently to observe new social distancing and hygiene standards. In the nearer-term, as all of its malls have already re-opened and recording improving traffic flow, we view the worst as past. The firm's delayed construction notwithstanding, it has a solid landbank for longer-term growth. We maintain our High-Conviction BUY with a Bt62.5 target.

Evolving with changing shopper demands

Central Pattana's mall development has always centred around shopper demand. Over the years, it has added more variety to its dining options, brought in new anchors such as premium outlets, an aquarium, Ikea, and so on, and introduced local-inspired design. Recently the firm also quickly adapted to new hygienic and social distancing policy to ensure the highest health standards amid the pandemic.

The worst of the Covid-19 impact is over

After a 1.5-month closure, all Central Pattana malls have re-opened. Mall occupancy had recovered from 75-80% in mid-May at reopening (around 90% of total area permitted to resume operations) to 80-90% by July. Mall traffic also improved from 40-60% to 50-80% over the same period. Suburban and upcountry malls, which cater to local shoppers, enjoyed quicker recoveries than malls in downtown Bangkok and other tourist destinations. The company also expects rental discounts to continue to come down, from 30-50% at reopening, as traffic recovers.

Abundant land bank for new mall development

Management still expect to launch two new shopping malls in 2021 (CentralPlaza Ayutthaya and Si Racha) but with possible delays of a few months, and one new mall in 2022 (Chantaburi). Beyond 2022, the company already has land bank for more than 10 mixed-use projects (including Dusit Central Park), which should sustain around 5% Cagr in net leasable area over the next 5 years.

BUY with Bt62.5 TP

We rate Central Pattana at BUY with a mid-2021 DCF-derived target price of Bt62.5 (on 9.2% WACC and 2% terminal growth rate). We expect steady improvement in operations with recovering mal traffic. Although its forward PE is close to its five-year historical average, forward PB is still at a distressed level, implying mid-term recovery is not priced in yet. We also note that the firm does not revalue its investment property, implying both PE and PB may be overstated.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Btm)	33,728	36,719	26,374	36,540	39,833
Net profit (Btm)	11,216	11,738	6,479	10,596	11,872
EPS (Bt)	2.5	2.6	1.4	2.4	2.6
CL/consensus (16) (EPS%)	-	-	94	98	99
EPS growth (% YoY)	(17.3)	4.7	(44.8)	63.5	12.0
PE (x)	18.6	17.8	32.2	19.7	17.6
Dividend yield (%)	2.4	1.7	1.2	2.0	2.3
FCF yield (%)	(3.2)	1.9	(0.2)	(0.5)	2.1
PB (x)	3.2	2.9	2.8	2.5	2.3
ROE (%)	17.6	17.0	8.8	13.4	13.7
Net debt/equity (%)	36.8	38.3	40.7	39.9	35.5

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Btm)						
Revenue	**33,728**	**36,719**	**26,374**	*(28.2)*	**36,540**	**39,833**
Cogs (ex-D&A)	(10,557)	(10,969)	(6,698)		(9,915)	(10,539)
Gross Profit (ex-D&A)	**23,171**	**25,750**	**19,676**	*(23.6)*	**26,625**	**29,293**
SG&A and other expenses	(6,114)	(6,839)	(6,399)		(7,159)	(7,567)
Op Ebitda	**17,057**	**18,911**	**13,277**	*(29.8)*	**19,466**	**21,726**
Depreciation/amortisation	(5,906)	(7,117)	(7,733)		(8,648)	(9,307)
Op Ebit	**11,151**	**11,794**	**5,545**	*(53)*	**10,818**	**12,419**
Net interest inc/(exp)	(426)	(811)	(1,056)		(1,236)	(1,357)
Other non-Op items	2,715	3,163	3,238	*2.4*	3,263	3,338
Profit before tax	**13,440**	**14,146**	**7,727**	*(45.4)*	**12,845**	**14,400**
Taxation	(2,057)	(2,336)	(1,149)		(2,071)	(2,341)
Profit after tax	**11,383**	**11,809**	**6,578**	*(44.3)*	**10,775**	**12,058**
Minority interest	(168)	(71)	(99)		(178)	(187)
Net profit	**11,216**	**11,738**	**6,479**	*(44.8)*	**10,596**	**11,872**
Adjusted profit	**11,216**	**11,738**	**6,479**	*(44.8)*	**10,596**	**11,872**
Cashflow (Btm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**11,151**	**11,794**	**5,545**	*(53)*	**10,818**	**12,419**
Depreciation/amortisation	5,906	7,117	7,733	*8.7*	8,648	9,307
Working capital changes	(4,450)	(2,087)	(3,066)		(2,548)	(1,409)
Other items	1,634	1,870	(443)		(1,520)	(1,887)
Net operating cashflow	**14,242**	**18,693**	**9,769**	*(47.7)*	**15,398**	**18,430**
Capital expenditure	(20,930)	(14,827)	(10,290)		(16,340)	(14,000)
Free cashflow	**(6,689)**	**3,866**	**(521)**		**(942)**	**4,430**
M&A/Others	2,481	(1,069)	1,063		1,058	1,098
Net investing cashflow	**(18,450)**	**(15,896)**	**(9,227)**		**(15,282)**	**(12,902)**
Increase in loans	12,334	3,718	2,470	*(33.6)*	3,044	(650)
Dividends	(6,282)	(5,015)	(3,590)		(2,592)	(4,239)
Net equity raised/other	(4,167)	(1,369)	0		-	-
Net financing cashflow	**1,884**	**(2,666)**	**(1,120)**		**453**	**(4,888)**
Incr/(decr) in net cash	(2,324)	131	(578)		568	641
Exch rate movements	29	(143)	0		0	0
Balance sheet (Btm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	3,067	3,055	2,476	*(18.9)*	3,045	3,685
Accounts receivable	1,279	1,356	946	*(30.2)*	1,311	1,429
Other current assets	10,956	11,968	12,407	*3.7*	12,556	14,464
Fixed assets	124,144	126,882	129,440	*2*	137,132	141,825
Investments	16,499	19,090	19,184	*0.5*	19,278	19,375
Intangible assets	1,451	1,414	1,414	*0*	1,414	1,414
Other non-current assets	4,312	6,169	6,354	*3*	6,545	6,741
Total assets	**161,708**	**169,933**	**172,220**	**1.3**	**181,279**	**188,933**
Short-term debt	10,876	8,739	10,249	*17.3*	15,864	15,789
Accounts payable	1,782	1,694	1,387	*(18.1)*	1,784	1,908
Other current liabs	11,925	10,641	7,912	*(25.6)*	5,481	5,975
Long-term debt/CBs	19,522	25,164	26,164	*4*	23,664	23,164
Provisions/other LT liabs	43,427	43,232	43,098	*(0.3)*	42,964	42,830
Shareholder funds	65,726	72,128	75,017	*4*	83,022	90,655
Minorities/other equity	8,450	8,334	8,393	*0.7*	8,500	8,612
Total liabs & equity	**161,708**	**169,933**	**172,220**	**1.3**	**181,279**	**188,933**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	17.2	8.9	(28.2)		38.5	9.0
Ebitda margin (%)	50.6	51.5	50.3		53.3	54.5
Ebit margin (%)	33.1	32.1	21.0		29.6	31.2
Net profit growth (%)	(17.3)	4.7	(44.8)		63.5	12.0
Op cashflow growth (% YoY)	(50.8)	31.3	(47.7)		57.6	19.7
Capex/sales (%)	62.1	40.4	39.0		44.7	35.1
Net debt/equity (%)	36.8	38.3	40.7		39.9	35.5
Net debt/Ebitda (x)	1.6	1.6	2.6		1.9	1.6
ROE (%)	17.6	17.0	8.8		13.4	13.7
ROIC (%)	8.4	7.5	3.4		6.2	6.7

Source: www.clsa.com

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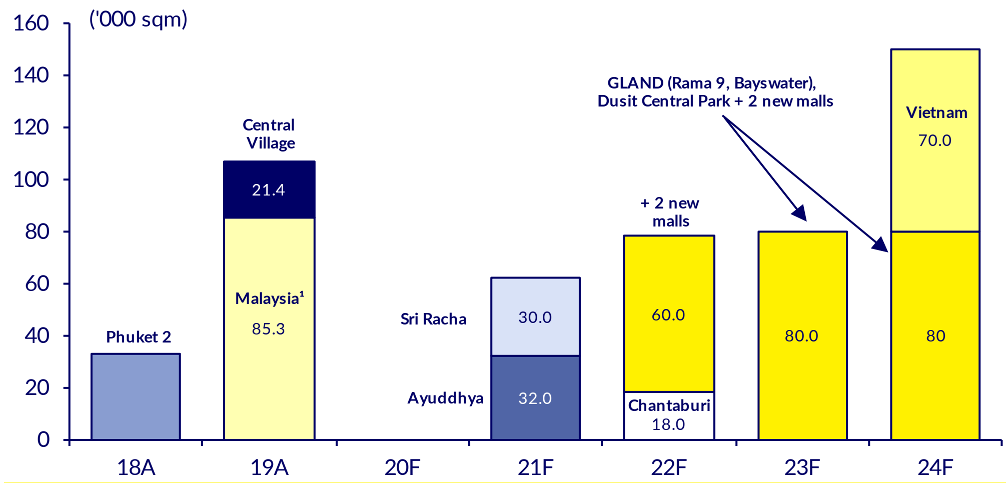
We expect potential delays of new malls planned for post 2021 opening due to Covid-19 impact

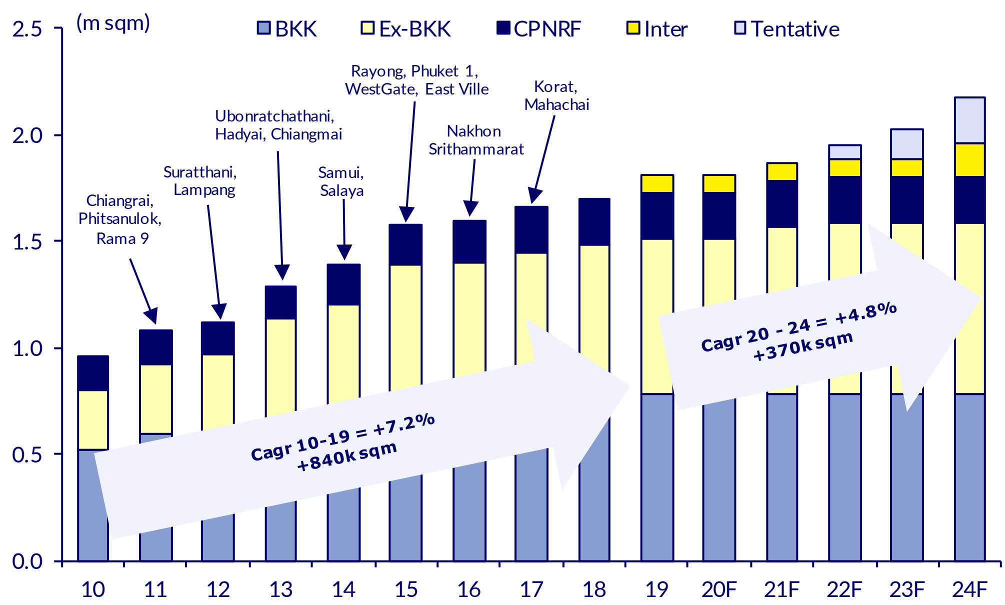
Estimated Central Pattana new mall expansion plan (as of 1Q20 post Covid-19 outbreak)



[1] 60:40 JV project with i-Berhad. Source: CLSA, Central Pattana

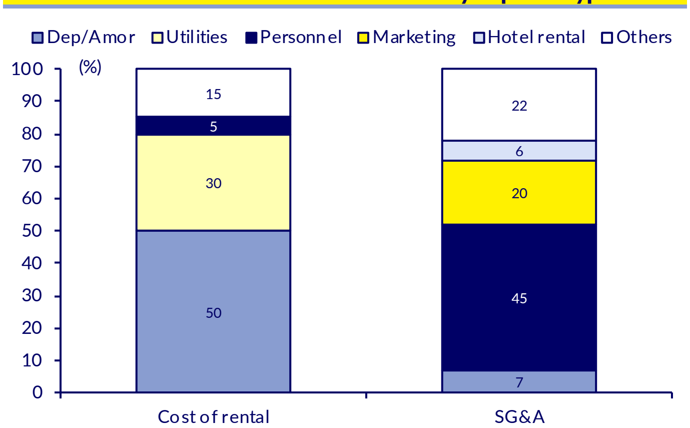
But we still believe 4.8% Cagr of NLA from 2020-24 is still achievable

Central Pattana's net leasable area (NLA)



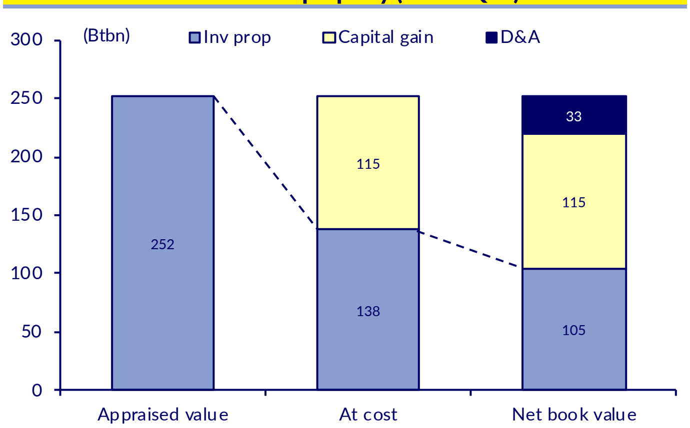
Source: Central Pattana

Central Pattana estimated cost break down by expense type



Source: Central Pattana

Central Pattana's investment property (as of 4Q19)



Source: Central Pattana

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P&L statement						
	2017	2018	2019	20CL	21CL	22CL
Operating revenue						
- Rent and services	26,057	29,026	31,843	23,640	32,429	35,213
- F&B	1,633	733	851	511	817	883
- Hotel operation	1,097	1,208	1,121	336	840	1,160
- Residential	0	2,762	2,904	1,888	2,454	2,577
Total	**28,787**	**33,728**	**36,719**	**26,374**	**36,540**	**39,833**
Operating expenses						
- Rent and services	(12,895)	(14,143)	(15,481)	(12,788)	(16,338)	(17,431)
- F&B	(1,280)	(332)	(379)	(281)	(368)	(397)
- Hotel operation	(344)	(423)	(394)	(134)	(311)	(395)
- Residential	0	(1,565)	(1,833)	(1,227)	(1,546)	(1,623)
Total	**(14,519)**	**(16,463)**	**(18,086)**	**(14,430)**	**(18,563)**	**(19,847)**
Gross operating margin	**14,268**	**17,266**	**18,633**	**11,944**	**17,977**	**19,986**
Other income	5,832	1,728	1,871	1,896	1,921	1,946
SG&A	(5,110)	(6,114)	(6,839)	(6,399)	(7,159)	(7,567)
Ebit	**14,990**	**12,879**	**13,665**	**7,440**	**12,739**	**14,364**
Interest	(364)	(426)	(811)	(1,056)	(1,236)	(1,357)
EBT	**14,626**	**12,453**	**12,853**	**6,385**	**11,503**	**13,007**
Tax	(1,795)	(2,057)	(2,336)	(1,149)	(2,071)	(2,341)
Share of profit from associate	839	987	1,292	1,342	1,342	1,392
Minorities	(102)	(168)	(71)	(99)	(178)	(187)
Net profit	**13,569**	**11,216**	**11,738**	**6,479**	**10,596**	**11,872**

Source: CLSA, CPN

Balance sheet						
	2017	2018	2019	20CL	21CL	22CL
Cash	2,418	3,021	2,053	1,475	2,043	2,684
ST investments	2,943	46	1,001	1,001	1,001	1,001
Net A/R	1,308	1,279	1,356	946	1,311	1,429
Housing inventory	3,606	7,787	8,362	9,816	8,967	10,552
Other current assets	2,839	3,169	3,606	2,590	3,589	3,912
Total current assets	**13,114**	**15,301**	**16,378**	**15,829**	**16,911**	**19,578**
LT investment	6,628	16,499	19,090	19,184	19,278	19,375
Net fixed assets	97,855	124,144	126,882	129,440	137,132	141,825
Other non-current assets	2,976	5,763	7,583	7,768	7,958	8,155
Total fixed assets	**107,459**	**146,407**	**153,555**	**156,391**	**164,368**	**169,355**
Total assets	**120,574**	**161,708**	**169,933**	**172,220**	**181,279**	**188,933**
Overdrafts & ST loans	-	7,948	4,970	6,330	12,320	12,320
Current Portion of LT loans	2,274	2,928	3,769	3,919	3,545	3,470
Accounts payable	1,106	1,782	1,694	1,387	1,784	1,908
Other current liabilities	10,974	11,925	10,641	7,912	5,481	5,975
Total current liabilities	**14,354**	**24,583**	**21,075**	**19,548**	**23,130**	**23,672**
LT borrowing	7,255	19,522	25,164	26,164	23,664	23,164
Other non curr liab	35,085	43,427	43,232	43,098	42,964	42,830
Total LT liabilities	42,340	62,949	68,396	69,262	66,628	65,994
Total liabilities	**56,694**	**87,532**	**89,471**	**88,810**	**89,757**	**89,666**
Common shares paid up capital	2,244	2,244	2,244	2,244	2,244	2,244
Comm. shares - premium	8,559	8,559	8,559	8,559	8,559	8,559
Reserves	224	224	224	224	224	224
Retained earnings	50,890	55,007	61,457	64,346	72,351	79,984
Revaluation/forex/others	(116)	(308)	(356)	(356)	(356)	(356)
Minority Interest	2,079	8,450	8,334	8,393	8,500	8,612
Total equity	**63,880**	**74,176**	**80,462**	**83,410**	**91,522**	**99,267**
Total liabilities and equity	**120,574**	**161,708**	**169,933**	**172,220**	**181,279**	**188,933**

Source: CLSA, CPN

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Cashflow statement	2017	2018	2019	20CL	21CL	22CL
Net profit	13,670	11,383	11,809	6,479	10,596	11,872
Depreciation	5,237	5,935	6,974	7,733	8,648	9,307
(Inc)/Dec in net working cap	9,681	(4,421)	(2,231)	(3,066)	(2,548)	(1,409)
Others	286	1,373	1,998	(1,378)	(1,298)	(1,340)
Cash flow - operations	**28,873**	**14,271**	**18,550**	**9,769**	**15,398**	**18,430**
Capex	(11,125)	(20,930)	(14,827)	(10,290)	(16,340)	(14,000)
(Inc)/dec of invt. in related parties	(131)	6	(551)	-	-	-
Others	(3,320)	2,474	(517)	1,063	1,058	1,098
Cash flow - investments	**(14,576)**	**(18,450)**	**(15,896)**	**(9,227)**	**(15,282)**	**(12,902)**
Inc (Dec) in debts	(8,363)	12,334	3,718	2,470	3,044	(650)
Dividend payment	(3,725)	(6,282)	(5,015)	(3,590)	(2,592)	(4,239)
Others	71	(4,167)	(1,369)	(0)	-	-
Cash flow - financing	**(12,016)**	**1,884**	**(2,666)**	**(1,120)**	**453**	**(4,888)**
Net cash in/(out) flow	**2,281**	**(2,295)**	**(12)**	**(578)**	**568**	**641**

Source: CLSA, CPN

We use 9.2% WACC in our DCF calculation

WACC derivation	
Market premium (%)	7.0
Risk free rate (%)	3.5
Market return (%)	10.5
Beta	1.0
Cost of equity (%)	**10.5**
Terminal growth rate (%)	2.0
Terminal multiple	14.0
Cost of debt (%)	**3.3**
Effective tax rate (%)	20
Cost of debt (adjusted for tax shield) (%)	2.6
Debt (%)	17.0
Equity (%)	83.0
WACC (%)	**9.2**

Source: CLSA, CPN

CPN's net free cashflow to firm

(Btm)	18A	19A	20CL	21CL	22CL	23CL	24CL	25CL	26CL	27CL
Ebit	12,879	13,665	7,440	12,739	14,364	15,758	19,358	24,067	24,583	24,116
- Tax on Ebit	(1,580)	(2,257)	(1,352)	(2,293)	(2,586)	(2,836)	(3,484)	(4,332)	(4,425)	(4,341)
NOPAT	11,299	11,408	6,088	10,446	11,779	12,921	15,873	19,735	20,158	19,775
Depreciation & amortization	5,906	7,117	7,733	8,648	9,307	10,285	10,658	10,862	9,796	9,107
Change in working capital + non cash	(2,031)	920	(3,200)	(2,682)	(1,543)	(2,397)	(182)	2,124	2,101	1,091
- Minorities	(168)	(71)	(99)	(178)	(187)	(203)	(254)	(316)	(314)	(308)
Adjusted operating cashflow	**15,006**	**19,373**	**10,522**	**16,233**	**19,356**	**20,607**	**26,095**	**32,405**	**31,741**	**29,665**
% growth	(47)	29	(46)	54	19	6	27	24	(2)	(7)
Total capex	(20,930)	(14,827)	(10,290)	(16,340)	(14,000)	(10,400)	(6,000)	(3,000)	(3,000)	(3,000)
Net free cashflow to firm	**(5,924)**	**4,546**	**232**	**(107)**	**5,356**	**10,207**	**20,095**	**29,405**	**28,741**	**26,665**
Discount factor				0.96	0.88	0.80	0.74	0.67	0.62	0.57
PV				(102)	4,696	8,198	14,785	19,818	17,745	15,081

Source: CLSA, CPN

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CPN's sum-of-the-parts valuation details

Valuation (Btm)	New
DCF value	80,220
Terminal value	214,723
Enterprise value	**294,944**
Less: Net debt (2020)	(33,936)
Equity value	**261,008**
Equity value per share	**58.2**
CPN Reit	
Market price (Bt/sh)	29.0
No. units (m)	2,212
Central Pattana stake (%)	27
Central Pattana investment in CPN Reit	17,125
CPN Reit value per share	**3.8**
CPN Commercial Growth Leasehold Property Fund	
Market price (Bt/sh)	11.0
No. units (m)	427
Central Pattana stake (%)	25
Central Pattana investment in CPN CG	1,173
CPN CG value per share	**0.3**
Dusit Thani	
Market price (Bt/sh)	7.5
No. units (m)	850
Central Pattana stake (%)	17
Central Pattana investment in Dusit Thani	1,089
Dusit Thani value per share	**0.2**
Target price	**62.5**

Source: CLSA, CPN

Central Pattana major operating assumptions

Key earnings drivers	2017	2018	2019	20 CL	21CL	22CL
Retail area under mgmt (sqm)	1,663,746	1,700,307	1,809,020	1,809,643	1,871,643	1,949,643
YoY growth (%)	4.3	2.2	6.4	0.0	3.4	4.2
No. of retail malls	32	32	34	34	36	39
Avg retail rental rate (Bt/sqm/mth)	1,628	1,659	1,682	1,514	1,696	1,760
YoY growth (%)	2.6	1.9	1.4	(10.0)	12.0	3.8
Gross margin (rental) (%)	50.5	51.3	51.4	45.9	49.6	50.5
SG&A (%)	17.8	18.1	18.6	24.3	19.6	19.0
Ebitda margin (%)	58.7	53.0	53.9	53.7	55.6	56.7

Source: CLSA, CPN

We have derived a mid-2021 target price of Bt62.5

Our mid-2021 target price of Bt62.5 is based on a sum-of-the-parts methodology. We value Central Pattana's existing 34 shopping malls and new mall/mixed-used developments according to its latest capex plan with a DCF calculation, using a WACC of 9.2%. As we only have new project development visibility until 2024, we currently expect the firm's latest new shopping malls to be completed in 2024 and their operation to stabilize by 2027. Consequentially, we expect a sharp drop in its Capex from 2025 onwards as there will be only Capex for maintenance and renovation. Our 2019-2027CL adjusted operating cashflow Cagr of 5% is reasonably conservative in our view. For CPN's investment in Reits and Dusit Thani, we use a market value approach.

Valuation details

We base our Bt62.5 target price on a 9.2% WACC and a 2.0% terminal-growth rate. Our number comprises a Bt58.2 DCF value from CPN's existing 34 shopping malls and new mall developments according to its latest capex plan and Bt4.3 from its investment in DTC, CPNREIT, and CPNCG.

Investment risks

As 44% of CPN's occupied area is under short-term fixed rental contracts (with around 75% contribution to total rental and services revenue), its same-store rental growth is more resilient to domestic consumption slowdown than its retail tenants' same-store retail sale growth. CPN's key business risks, therefore, stem more from operational disruptions due to political protests or the current Covid-19 outbreak and/or land-lease renewals as well as the delays of new mall openings. E-commerce is a risk because it can dampen retail tenant demand.

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Detailed financials

Profit & Loss (Btm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**27,634**	**28,785**	**33,728**	**36,719**	**26,374**	**36,540**	**39,833**
Cogs (ex-D&A)	(8,918)	(9,204)	(10,557)	(10,969)	(6,698)	(9,915)	(10,539)
Gross Profit (ex-D&A)	**18,716**	**19,581**	**23,171**	**25,750**	**19,676**	**26,625**	**29,293**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	(4,406)	(5,110)	(6,114)	(6,839)	(6,399)	(7,159)	(7,567)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	**14,309**	**14,471**	**17,057**	**18,911**	**13,277**	**19,466**	**21,726**
Depreciation/amortisation	(5,123)	(5,315)	(5,906)	(7,117)	(7,733)	(8,648)	(9,307)
Op Ebit	**9,187**	**9,157**	**11,151**	**11,794**	**5,545**	**10,818**	**12,419**
Interest income	0	0	0	0	0	0	0
Interest expense	(633)	(364)	(426)	(811)	(1,056)	(1,236)	(1,357)
Net interest inc/(exp)	(633)	(364)	(426)	(811)	(1,056)	(1,236)	(1,357)
Associates/investments	853	839	987	1,292	1,342	1,342	1,392
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	1,627	5,832	1,728	1,871	1,896	1,921	1,946
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**11,033**	**15,464**	**13,440**	**14,146**	**7,727**	**12,845**	**14,400**
Taxation	(1,686)	(1,795)	(2,057)	(2,336)	(1,149)	(2,071)	(2,341)
Profit after tax	**9,347**	**13,670**	**11,383**	**11,809**	**6,578**	**10,775**	**12,058**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**9,347**	**13,670**	**11,383**	**11,809**	**6,578**	**10,775**	**12,058**
Minority interest	(103)	(102)	(168)	(71)	(99)	(178)	(187)
Net profit	**9,244**	**13,568**	**11,216**	**11,738**	**6,479**	**10,596**	**11,872**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	9,244	13,568	11,216	11,738	6,479	10,596	11,872
Dividends	(3,141)	(3,725)	(6,282)	(5,015)	(3,590)	(2,592)	(4,239)
Retained profit	6,103	9,843	4,933	6,723	2,889	8,005	7,633
Adjusted profit	**9,244**	**13,568**	**11,216**	**11,738**	**6,479**	**10,596**	**11,872**
EPS (Bt)	2.1	3.0	2.5	2.6	1.4	2.4	2.6
Adj EPS [pre excep] (Bt)	2.1	3.0	2.5	2.6	1.4	2.4	2.6
Core EPS (Bt)	2.1	3.0	2.5	2.6	1.4	2.4	2.6
DPS (Bt)	0.8	1.4	1.1	0.8	0.6	0.9	1.1

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	13.8	4.2	17.2	8.9	(28.2)	38.5	9.0
Ebitda growth (% YoY)	18.6	1.1	17.9	10.9	(29.8)	46.6	11.6
Ebit growth (% YoY)	20.6	(0.3)	21.8	5.8	(53.0)	95.1	14.8
Net profit growth (%)	17.3	46.8	(17.3)	4.7	(44.8)	63.5	12.0
EPS growth (% YoY)	17.3	46.8	(17.3)	4.7	(44.8)	63.5	12.0
Adj EPS growth (% YoY)	17.3	46.8	(17.3)	4.7	(44.8)	63.5	12.0
DPS growth (% YoY)	18.6	68.7	(21.4)	(27.3)	(27.8)	63.5	12.0
Core EPS growth (% YoY)	17.3	46.8	(17.3)	4.7	(44.8)	63.5	12.0
Margins (%)							
Ebitda margin (%)	51.8	50.3	50.6	51.5	50.3	53.3	54.5
Ebit margin (%)	33.2	31.8	33.1	32.1	21.0	29.6	31.2
Net profit margin (%)	33.5	47.1	33.3	32.0	24.6	29.0	29.8
Core profit margin	33.5	47.1	33.3	32.0	24.6	29.0	29.8
Op cashflow margin	47.9	100.6	42.2	50.9	37.0	42.1	46.3
Returns (%)							
ROE (%)	18.9	23.8	17.6	17.0	8.8	13.4	13.7
ROA (%)	7.5	7.2	6.7	5.9	2.8	5.1	5.6
ROIC (%)	9.3	8.9	8.4	7.5	3.4	6.2	6.7
ROCE (%)	13.8	13.5	13.2	11.1	4.8	8.8	9.5
Other key ratios (%)							
Effective tax rate (%)	15.3	11.6	15.3	16.5	14.9	16.1	16.3
Ebitda/net int exp (x)	22.6	39.8	40.0	23.3	12.6	15.8	16.0
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	40.3	46.3	44.0	30.6	40.0	40.0	40.0

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

evaluator The Global Equities Database

Balance sheet (Btm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	3,080	5,361	3,067	3,055	2,476	3,045	3,685
Accounts receivable	1,102	1,308	1,279	1,356	946	1,311	1,429
Inventories	428	3,606	7,787	8,362	9,816	8,967	10,552
Other current assets	1,924	2,839	3,169	3,606	2,590	3,589	3,912
Current assets	**6,535**	**13,114**	**15,301**	**16,378**	**15,829**	**16,911**	**19,578**
Fixed assets	89,145	97,855	124,144	126,882	129,440	137,132	141,825
Investments	6,349	6,628	16,499	19,090	19,184	19,278	19,375
Goodwill	0	0	0	0	0	0	0
Other intangible assets	482	452	1,451	1,414	1,414	1,414	1,414
Other non-current assets	2,016	2,524	4,312	6,169	6,354	6,545	6,741
Total assets	**104,527**	**120,574**	**161,708**	**169,933**	**172,220**	**181,279**	**188,933**
Short term loans/OD	4,708	2,274	10,876	8,739	10,249	15,864	15,789
Accounts payable	825	1,106	1,782	1,694	1,387	1,784	1,908
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	0	0	0	0	0	0	0
Other current liabs	9,349	10,974	11,925	10,641	7,912	5,481	5,975
Current liabilities	**14,882**	**14,354**	**24,583**	**21,075**	**19,548**	**23,130**	**23,672**
Long-term debt/leases/other	13,197	7,255	19,522	25,164	26,164	23,664	23,164
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	23,444	35,085	43,427	43,232	43,098	42,964	42,830
Total liabilities	**51,523**	**56,694**	**87,532**	**89,471**	**88,810**	**89,757**	**89,666**
Share capital	2,244	2,244	2,244	2,244	2,244	2,244	2,244
Retained earnings	41,052	50,890	55,007	61,457	64,346	72,351	79,984
Reserves/others	8,741	8,667	8,475	8,427	8,427	8,427	8,427
Shareholder funds	**52,037**	**61,801**	**65,726**	**72,128**	**75,017**	**83,022**	**90,655**
Minorities/other equity	968	2,079	8,450	8,334	8,393	8,500	8,612
Total equity	**53,005**	**63,880**	**74,176**	**80,462**	**83,410**	**91,522**	**99,267**
Total liabs & equity	**104,527**	**120,574**	**161,708**	**169,933**	**172,220**	**181,279**	**188,933**
Total debt	17,904	9,529	30,398	33,903	36,412	39,528	38,953
Net debt	14,824	4,168	27,332	30,848	33,936	36,483	35,268
Adjusted EV	218,117	208,293	227,957	228,767	231,820	234,381	233,180
BVPS (Bt)	11.6	13.8	14.6	16.1	16.7	18.5	20.2

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	0.4	0.9	0.6	0.8	0.8	0.7	0.8
Growth in total assets (% YoY)	1.4	15.4	34.1	5.1	1.3	5.3	4.2
Growth in capital employed (% YoY)	4.2	0.3	49.2	9.7	5.4	9.1	5.1
Net debt to operating cashflow (x)	1.1	0.1	1.9	1.7	3.5	2.4	1.9
Gross debt to operating cashflow (x)	1.4	0.3	2.1	1.8	3.7	2.6	2.1
Gross debt to Ebitda (x)	1.3	0.7	1.8	1.8	2.7	2.0	1.8
Net debt/Ebitda (x)	1.0	0.3	1.6	1.6	2.6	1.9	1.6
Gearing							
Net debt/equity (%)	28.0	6.5	36.8	38.3	40.7	39.9	35.5
Gross debt/equity (%)	33.8	14.9	41.0	42.1	43.7	43.2	39.2
Interest cover (x)	14.5	25.2	26.2	14.5	5.3	8.8	9.2
Debt Cover (x)	0.7	3.0	0.5	0.6	0.3	0.4	0.5
Working capital analysis							
Inventory days	5.7	50.7	126.3	163.0	229.9	184.7	179.5
Debtor days	15.5	15.3	14.0	13.1	15.9	11.3	12.6
Creditor days	22.5	24.3	32.0	35.1	39.0	31.2	33.9
Working capital/Sales (%)	(24.3)	(15.0)	(4.4)	2.7	15.4	18.1	20.1
Capital employed analysis							
Sales/Capital employed (%)	40.7	42.3	33.2	33.0	22.5	28.5	29.6
EV/Capital employed (%)	321.6	306.1	224.6	205.5	197.6	183.1	173.3
Working capital/Capital employed (%)	(9.9)	(6.4)	(1.5)	0.9	3.5	5.2	6.0
Fixed capital/Capital employed (%)	131.4	143.8	122.3	114.0	110.3	107.1	105.4
Other ratios (%)							
EV/OCF (x)	16.5	7.2	16.0	12.2	23.7	15.2	12.7
EV/FCF (x)	29.8	11.7	(34.1)	59.2	(444.6)	(248.8)	52.6
EV/Sales (x)	7.9	7.2	6.8	6.2	8.8	6.4	5.9
Capex/depreciation (%)	115.2	209.3	354.4	208.3	133.1	189.0	150.4

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

evalu@tor The Global Equities Database

Cashflow (Btm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	9,187	9,157	11,151	11,794	5,545	10,818	12,419
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	5,123	5,315	5,906	7,117	7,733	8,648	9,307
Working capital changes	(1,932)	9,758	(4,450)	(2,087)	(3,066)	(2,548)	(1,409)
Interest paid / other financial expenses	(633)	(364)	(426)	(811)	(1,056)	(1,236)	(1,357)
Tax paid	(1,651)	(1,795)	(21)	(362)	826	(96)	(367)
Other non-cash operating items	3,133	6,879	2,082	3,043	(213)	(188)	(163)
Net operating cashflow	13,226	28,951	14,242	18,693	9,769	15,398	18,430
Capital expenditure	(5,902)	(11,125)	(20,930)	(14,827)	(10,290)	(16,340)	(14,000)
Free cashflow	7,324	17,825	(6,689)	3,866	(521)	(942)	4,430
Acq/inv/disposals	-	(131)	6	(551)	-	-	-
Int, invt & associate div	(40)	(3,320)	2,474	(517)	1,063	1,058	1,098
Net investing cashflow	(5,942)	(14,576)	(18,450)	(15,896)	(9,227)	(15,282)	(12,902)
Increase in loans	(4,719)	(8,363)	12,334	3,718	2,470	3,044	(650)
Dividends	(3,141)	(3,725)	(6,282)	(5,015)	(3,590)	(2,592)	(4,239)
Net equity raised/others	(660)	71	(4,167)	(1,369)	0	-	-
Net financing cashflow	(8,520)	(12,016)	1,884	(2,666)	(1,120)	453	(4,888)
Incr/(decr) in net cash	(1,236)	2,359	(2,324)	131	(578)	568	641
Exch rate movements	(10)	(78)	29	(143)	0	0	0
Opening cash	4,326	3,080	5,361	3,067	3,055	2,476	3,045
Closing cash	3,080	5,361	3,067	3,055	2,476	3,045	3,685
OCF PS (Bt)	2.9	6.5	3.2	4.2	2.2	3.4	4.1
FCF PS (Bt)	1.6	4.0	(1.5)	0.9	(0.1)	(0.2)	1.0

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(6.4)	118.9	(50.8)	31.3	(47.7)	57.6	19.7
FCF growth (% YoY)	-	143.4	(137.5)	-	(113.5)	-	-
Capex growth (%)	(61.2)	88.5	88.1	(29.2)	(30.6)	58.8	(14.3)
Other key ratios (%)							
Capex/sales (%)	21.4	38.7	62.1	40.4	39.0	44.7	35.1
Capex/op cashflow (%)	44.6	38.4	147.0	79.3	105.3	106.1	76.0
Operating cashflow payout ratio (%)	28.2	21.7	34.7	19.2	26.5	27.5	25.8
Cashflow payout ratio (%)	23.7	12.9	44.1	26.8	36.8	16.8	23.0
Free cashflow payout ratio (%)	42.9	20.9	-	129.7	-	-	95.7

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	33.2	31.8	33.1	32.1	21.0	29.6	31.2
Asset turnover (x)	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Interest burden (x)	1.2	1.7	1.2	1.2	1.4	1.2	1.2
Tax burden (x)	0.8	0.9	0.8	0.8	0.9	0.8	0.8
Return on assets (%)	7.5	7.2	6.7	5.9	2.8	5.1	5.6
Leverage (x)	2.1	1.9	2.0	2.1	2.1	2.0	1.9
ROE (%)	18.7	23.4	16.5	15.3	8.0	12.3	12.6

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	7,783	8,094	9,445	9,846	4,720	9,074	10,400
Average invested capital	83,848	90,714	112,469	131,944	138,357	146,476	154,841
ROIC (%)	9.3	8.9	8.4	7.5	3.4	6.2	6.7
Cost of equity (%)	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Cost of debt (adj for tax)	3.0	3.1	3.0	2.9	3.0	3.0	2.9
Weighted average cost of capital (%)	7.2	7.3	7.2	7.2	7.2	7.2	7.2
EVA/IC (%)	2.0	1.6	1.2	0.2	(3.8)	(1.0)	(0.5)
EVA (Btm)	1,711	1,467	1,301	321	(5,308)	(1,511)	(786)

Source: www.clsa.com

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soraphob.panpiemras@clsa.com

CLSA evalu@tor card

Central Pattana PCL (CPN TB) — Bt46.50 — BUY — TSR: 36.2%

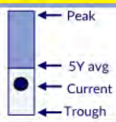
Central Pattana (CPN TB)	
GICS sector	Real estate
GICS industry	Real estate mgmt
Last price	Bt46.50
12M Hi/Lo	Bt69.00 / Bt33.25
CLSA target	Bt62.50
CLSA rec	Buy
Analyst	Soraphob Panpiemras
Last model updated	10 Jul 2020
Mkt cap (US$m)	6,625
3M ADTO (US$m)	11.2
Free float (%)	33.2
Total stock return (%)	36.2

Price performance (%)

	1M	3M	6M	1Y
Local	(4.6)	(14.7)	(19.5)	(32.9)
US$	(5.7)	(14.4)	(19.0)	(34.3)

Peak to trough levels (12M fwd)

(x)	PE	PB
Peak	43.3	5.8
Trough	18.1	2.3
Current	22.3	2.6
Average	28.0	4.3



Environmental, social & corporate governance

	ESG score (%)	Ctry rank	Sector rank
Weighted/Ranking	65.0	28/50	74/142

Earning/balance sheet quality scores

	Score
Earning-quality risk score (EQRS)	2/5
Balance-sheet-quality risk score (BQRS)	1/5

EQRS-BQRS framework created by Microstrategy team where high score = high risk.

Style analysis shows which quintile (within CLSA universe) the stock falls under based on the following style definitions

Value - 12M fwd earnings yield, 12M trl book yield (Q1 = least expensive)

Growth - Nxt 2-year Avg YoY EPS growth, Last 2-year YoY Avg EPS growth, Last 2Y Ebitda margin change, sustainable growth (Q1 = highest growth)

Momentum - 3M price change, 12M price change (Q1 = highest momentum)

Yield - 12M fwd dividend yield, buyback yld, FCF yld (Q1= highest yield)

Quality - Nxt 2-year Avg ROE, ROIC, earnings certainty, FCF conv (Q1= highest quality)

Garp - PE/G, price of sustainable growth (Q1= least expensive)

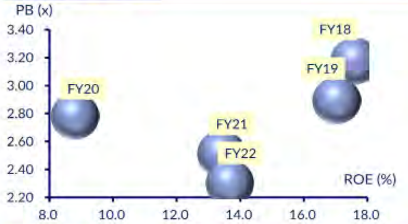
Risk - Size (inv), beta, net debt to equity (Q1 = highest risk)

Earnings Revision - EPS revision, net earnings revision ratio (Q1 = highest revisions)

12M forward PE

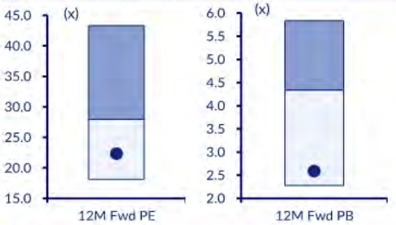
12M forward PB

PB versus ROE

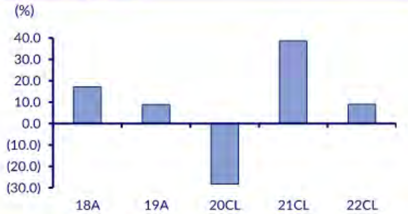


Price chart (5Y)

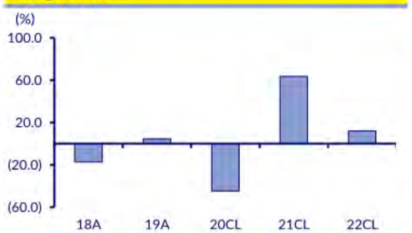
Peak-to-trough analysis (5Y)



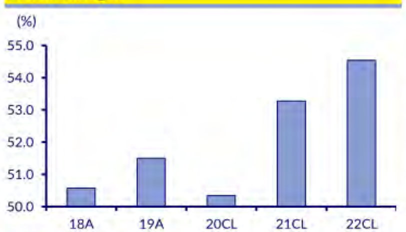
Revenue growth



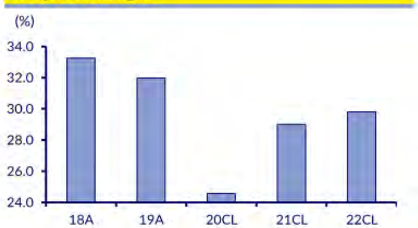
EPS growth



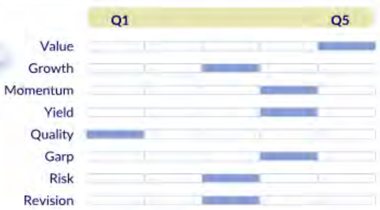
Ebitda margin



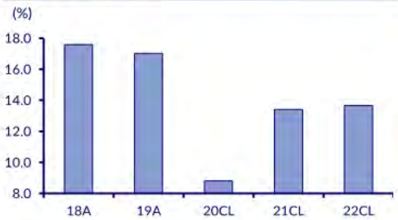
Net profit margin



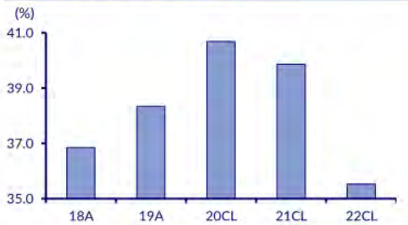
Style analysis



Return on equity



Net debt/(net cash) to equity



Year end: 31 Dec 2019

Prepared for - W: matthew_goh@summarecon.com

Hartalega

RM14.00 - BUY

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9 September 2020

Malaysia
Healthcare

Reuters	HTHB.KL
Bloomberg	HART MK
Priced on 7 September 2020	
KLSE Comp @ 1,516.4	
12M hi/lo	RM20.50/5.10
12M price target	RM25.00
±% potential	+79%
Shares in issue	3,283.0m
Free float (est.)	44.5%
Market cap	US$11.5bn
3M ADV	US$46.0m
Foreign s'holding	22.0%

Major shareholders
Hartalega Industries 55.5%

Blended ESG Score (%)*	
Overall	71.9
Country average	68.4
GEM sector average	66.7

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(26.9)	14.8	171.3
Relative	(26.9)	20.0	192.5
Abs (US$)	(26.3)	17.8	172.8

Source: Bloomberg

Pioneering new growth

Capitalising on structurally higher glove demand even post-vaccine

Hartalega's share price outperformance YTD is not unwarranted given record earnings projected following the surge in demand from Covid-19. However, the group's fundamentals remain intact even in a post-vaccine world, in our view, as we believe the baseline for global glove demand has shifted with a higher run-rate from historical 8-9% p.a. Hartalega is well-poised to capitalise on the global trend shift with its installed capacity more than doubling from 40bn pcs currently to 95bn pcs by end-2027. Reiterate BUY and RM25.00 target price.

At the forefront of innovation

Hartalega is the world's second-largest nitrile glove manufacturer after Top Glove, with 40bn pcs capacity. It has persistently been at the forefront of automation and efficiency with its manufacturing plant NGC 1.0 widely regarded as a revolutionary milestone for the industry. The group also pioneered the world demand switch from latex to nitrile gloves, which eliminates the protein allergy risks associated with rubber latex gloves, all while maintaining cost effectiveness.

Installed capacity to nearly double by end-2027

Post-completion of Plant 6 and 7, Hartalega's NGC 1.0 will have total installed capacity of 43.7bn by 1QCY21. The group has also recently completed its acquisition for NGC 1.5, which will have a total capacity of 19bn pcs (first line to commission in 1QCY21). This will be followed by NGC 2.0, in which the group is seeking to replicate the original plant business model with a total installed capacity of 32bn pieces (first line to commission in 1QCY22). All in, the group's total installed capacity is projected to be 97bn pieces by end-2027.

Record earnings projected with FY21 to grow 428% YoY

Covid-19 has thrust Hartalega into the limelight, alongside its peers, as the severe global demand shortage has shifted pricing power in favour of glove makers. While admittedly lagging peers in ASP hikes, Hartalega's long-standing commitment to long-term customers has prevented it from excessively capitalising on the current demand-supply mismatch. However, we believe this will place the group more favourably vis-à-vis peers in the longer-run given its strong relationship with customers.

Reiterate BUY; TP at RM25.00

We reiterate a BUY rating on Hartalega with unchanged target price of RM25.00 pegged to a 32x FY22 PE, a slight premium to its five-year average. This reflects that momentum is still very much in the glove sector's favour, while Hartalega is also poised to benefit from a structural rerating of the overall sector. We believe consensus has yet to appreciate the company's ability to price up its products.

Financials

Year to 31 March	19A	20A	21CL	22CL	23CL
Revenue (RMm)	2,827	2,924	5,847	6,623	5,781
Net profit (RMm)	455	435	2,339	2,618	1,643
EPS (sen)	13.6	13.0	69.9	78.3	49.1
CL/consensus (20) (EPS%)	-	-	134	151	155
EPS growth (% YoY)	2.7	(4.5)	438.0	11.9	(37.3)
PE (x)	102.9	107.7	20.0	17.9	28.5
Dividend yield (%)	0.6	0.5	3.0	3.4	2.1
FCF yield (%)	0.4	0.9	3.5	4.8	3.4
PB (x)	20.8	18.4	13.5	10.4	9.0
ROE (%)	21.4	18.1	77.7	65.5	33.9
Net debt/equity (%)	8.6	(1.2)	(7.0)	(20.8)	(29.5)

Source: www.clsa.com

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Financials at a glance

Year to 31 March	2019A	2020A	2021CL	(% YoY)	2022CL	2023CL
Profit & Loss (RMm)						
Revenue	**2,827**	**2,924**	**5,847**	*100*	**6,623**	**5,781**
Cogs (ex-D&A)	(1,689)	(1,769)	(2,176)		(2,559)	(2,893)
Gross Profit (ex-D&A)	**1,138**	**1,155**	**3,671**	*217.8*	**4,064**	**2,888**
SG&A and other expenses	(462)	(434)	(550)		(594)	(681)
Op Ebitda	**676**	**721**	**3,121**	*333.2*	**3,470**	**2,207**
Depreciation/amortisation	(104)	(125)	(129)		(132)	(133)
Op Ebit	**572**	**595**	**2,993**	*402.6*	**3,338**	**2,074**
Net interest inc/(exp)	(8)	(8)	3		17	29
Other non-Op items	(13)	(32)	6		6	6
Profit before tax	**551**	**556**	**3,002**	*439.7*	**3,361**	**2,109**
Taxation	(96)	(120)	(660)		(739)	(464)
Profit after tax	**455**	**436**	**2,341**	*437.2*	**2,621**	**1,645**
Minority interest	0	(1)	(2)		(3)	(2)
Net profit	**455**	**435**	**2,339**	*438*	**2,618**	**1,643**
Adjusted profit	**473**	**472**	**2,339**	*395.4*	**2,618**	**1,643**
Cashflow (RMm)	**2019A**	**2020A**	**2021CL**	**(% YoY)**	**2022CL**	**2023CL**
Operating profit	**572**	**595**	**2,993**	*402.6*	**3,338**	**2,074**
Depreciation/amortisation	104	125	129	*2.8*	132	133
Working capital changes	8	(20)	(503)		(133)	145
Other items	(51)	(41)	(651)		(716)	(430)
Net operating cashflow	**632**	**659**	**1,967**	*198.5*	**2,620**	**1,922**
Capital expenditure	(431)	(251)	(350)		(350)	(350)
Free cashflow	**201**	**408**	**1,617**	*296.3*	**2,270**	**1,572**
M&A/Others	(1)	0	0		0	0
Net investing cashflow	**(432)**	**(250)**	**(350)**		**(350)**	**(350)**
Increase in loans	21	(78)	50		50	50
Dividends	(297)	(249)	(1,403)		(1,571)	(986)
Net equity raised/other	69	73	0		0	0
Net financing cashflow	**(207)**	**(254)**	**(1,353)**		**(1,521)**	**(936)**
Incr/(decr) in net cash	(7)	155	264	*70.6*	749	637
Exch rate movements	0	-	0		-	0
Balance sheet (RMm)	**2019A**	**2020A**	**2021CL**	**(% YoY)**	**2022CL**	**2023CL**
Cash & equivalents	150	305	569	*86.5*	1,318	1,955
Accounts receivable	458	503	1,006	*100*	1,139	995
Other current assets	289	283	347	*22.4*	407	459
Fixed assets	2,070	2,191	2,412	*10.1*	2,630	2,847
Investments	-	-	-		-	-
Intangible assets	23	29	29	*0*	29	29
Other non-current assets	2	6	6	*0*	6	6
Total assets	**2,992**	**3,318**	**4,369**	*31.7*	**5,529**	**6,290**
Short-term debt	149	85	135	*58.5*	185	235
Accounts payable	260	276	340	*23*	399	451
Other current liabs	4	48	48	*0*	48	48
Long-term debt/CBs	195	189	189	*0*	189	189
Provisions/other LT liabs	126	175	175	*0*	175	175
Shareholder funds	2,256	2,541	3,477	*36.8*	4,524	5,181
Minorities/other equity	3	4	6	*69.4*	9	11
Total liabs & equity	**2,992**	**3,318**	**4,369**	*31.7*	**5,529**	**6,290**
Ratio analysis	**2019A**	**2020A**	**2021CL**	**(% YoY)**	**2022CL**	**2023CL**
Revenue growth (% YoY)	17.5	3.4	100.0		13.3	(12.7)
Ebitda margin (%)	23.9	24.6	53.4		52.4	38.2
Ebit margin (%)	20.2	20.4	51.2		50.4	35.9
Net profit growth (%)	3.7	(4.5)	438.0		11.9	(37.3)
Op cashflow growth (% YoY)	59.0	4.2	198.5		33.2	(26.6)
Capex/sales (%)	15.3	8.6	6.0		5.3	6.1
Net debt/equity (%)	8.6	(1.2)	(7.0)		(20.8)	(29.5)
Net debt/Ebitda (x)	0.3	-	-		-	-
ROE (%)	21.4	18.1	77.7		65.5	33.9
ROIC (%)	19.5	17.7	76.5		72.5	42.6

Source: www.clsa.com

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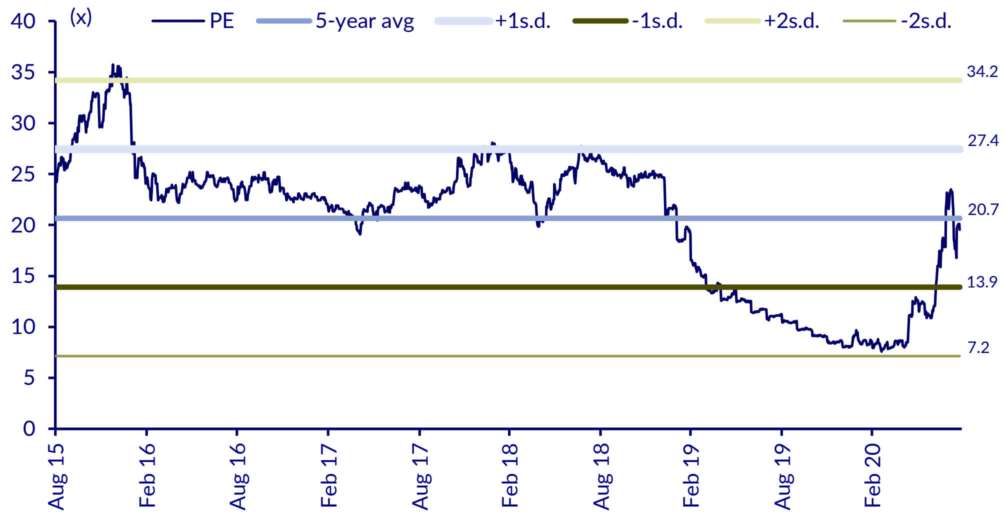
Valuation details

Our valuation methodology is based on ascribing 32x PE (slightly above the 5-year mean) to our FY22 (March) earnings estimate. Hartalega has historically traded above one standard deviation of its 5-year mean since its inclusion into the FBM KLCI Index as at end-2017. We have not pegged valuations to +1SD given that we are valuing the group on peak earnings (FY22), although we remain positive that Hartalega has the highest earnings resilience amongst peers when ASPs begin down-trending. This is given the group's defensive customer profile mix as well as its close to 50% discount to peers pricing currently, which will necessitate a more gradual downtrend of market pricing to converge to Hartalega's, in our view.

Our TP of RM25.00 is pegged to 32x FY22 PE

Hartalega's 5-year mean



Source: CLSA, Bloomberg

Investment risks

Capacity additions at Hartalega's Next Generation Complex 2.0 will be the key earnings driver for the group. Recently, Covid-19 had spurred stronger-than-ever demand for the glove makers; this could be structural should there be a sustainable increase in awareness once Covid-19 subsides. Other glove makers are also aggressively adding nitrile capacity, which could lead to intensified competition in the nitrile segment and squeeze margins. Regulatory tariff hikes could see costs escalate. In terms of supply/demand dynamics, oversupply could diminish the cost-through mechanism, leading to earnings downside risk.

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Detailed financials

Profit & Loss (RMm)

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Revenue	**1,822**	**2,406**	**2,827**	**2,924**	**5,847**	**6,623**	**5,781**
Cogs (ex-D&A)	(1,025)	(1,413)	(1,689)	(1,769)	(2,176)	(2,559)	(2,893)
Gross Profit (ex-D&A)	**797**	**993**	**1,138**	**1,155**	**3,671**	**4,064**	**2,888**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(21)	(27)	(27)	(28)	(34)	(36)	(40)
Other SG&A	(83)	(100)	(112)	(116)	(140)	(150)	(168)
Other Op Expenses ex-D&A	(222)	(230)	(323)	(290)	(376)	(408)	(473)
Op Ebitda	**471**	**636**	**676**	**721**	**3,121**	**3,470**	**2,207**
Depreciation/amortisation	(71)	(88)	(104)	(125)	(129)	(132)	(133)
Op Ebit	**401**	**547**	**572**	**595**	**2,993**	**3,338**	**2,074**
Interest income	1	1	3	3	11	26	39
Interest expense	(1)	(8)	(11)	(11)	(8)	(9)	(11)
Net interest inc/(exp)	0	(7)	(8)	(8)	3	17	29
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	(52)	(14)	5	6	6	6	6
Asset revaluation/Exceptional items	-	-	(18)	(37)	-	-	-
Profit before tax	**349**	**526**	**551**	**556**	**3,002**	**3,361**	**2,109**
Taxation	(65)	(87)	(96)	(120)	(660)	(739)	(464)
Profit after tax	**283**	**440**	**455**	**436**	**2,341**	**2,621**	**1,645**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**283**	**440**	**455**	**436**	**2,341**	**2,621**	**1,645**
Minority interest	0	(1)	0	(1)	(2)	(3)	(2)
Net profit	**283**	**439**	**455**	**435**	**2,339**	**2,618**	**1,643**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	283	439	455	435	2,339	2,618	1,643
Dividends	(127)	(233)	(283)	(248)	(1,403)	(1,571)	(986)
Retained profit	156	206	172	187	936	1,047	657
Adjusted profit	**283**	**439**	**473**	**472**	**2,339**	**2,618**	**1,643**
EPS (sen)	8.6	13.3	13.6	13.0	69.9	78.3	49.1
Adj EPS [pre excep] (sen)	8.6	13.3	14.1	14.1	69.9	78.3	49.1
Core EPS (sen)	8.6	13.3	14.1	14.1	69.9	78.3	49.1
DPS (sen)	3.9	7.0	8.5	7.4	42.0	47.0	29.5

Profit & loss ratios

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Growth (%)							
Revenue growth (% YoY)	21.6	32.0	17.5	3.4	100.0	13.3	(12.7)
Ebitda growth (% YoY)	22.4	34.8	6.3	6.7	333.2	11.2	(36.4)
Ebit growth (% YoY)	27.4	36.5	4.5	4.1	402.6	11.5	(37.9)
Net profit growth (%)	9.9	55.1	3.7	(4.5)	438.0	11.9	(37.3)
EPS growth (% YoY)	9.7	53.9	2.7	(4.5)	438.0	11.9	(37.3)
Adj EPS growth (% YoY)	9.7	53.9	6.7	(0.2)	395.4	11.9	(37.3)
DPS growth (% YoY)	9.7	81.2	20.3	(12.4)	466.9	11.9	(37.3)
Core EPS growth (% YoY)	9.7	53.9	6.7	(0.2)	395.4	11.9	(37.3)
Margins (%)							
Ebitda margin (%)	25.9	26.4	23.9	24.6	53.4	52.4	38.2
Ebit margin (%)	22.0	22.8	20.2	20.4	51.2	50.4	35.9
Net profit margin (%)	15.5	18.2	16.1	14.9	40.0	39.5	28.4
Core profit margin	15.5	18.2	16.7	16.1	40.0	39.5	28.4
Op cashflow margin	18.6	16.5	22.4	22.5	33.6	39.6	33.3
Returns (%)							
ROE (%)	17.8	23.9	21.4	18.1	77.7	65.5	33.9
ROA (%)	15.4	18.6	16.8	14.8	60.7	52.6	27.4
ROIC (%)	17.7	21.7	19.5	17.7	76.5	72.5	42.6
ROCE (%)	22.6	27.1	24.8	24.0	104.1	97.8	57.2
Other key ratios (%)							
Effective tax rate (%)	18.7	16.5	17.4	21.6	22.0	22.0	22.0
Ebitda/net int exp (x)	157,150.4	96.3	83.4	94.6	-	-	-
Exceptional or extraord. inc/PBT (%)	0.0	0.0	(3.2)	(6.7)	0.0	0.0	0.0
Dividend payout (%)	45.0	53.0	62.1	56.9	60.0	60.0	60.0

Source: www.clsa.com

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Balance sheet (RMm)

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Cash & equivalents	120	157	150	305	569	1,318	1,955
Accounts receivable	300	406	458	503	1,006	1,139	995
Inventories	271	291	276	276	340	399	451
Other current assets	0	13	13	7	7	7	7
Current assets	**691**	**866**	**897**	**1,092**	**1,922**	**2,864**	**3,408**
Fixed assets	1,570	1,745	2,070	2,191	2,412	2,630	2,847
Investments	-	-	-	-	-	-	-
Goodwill	20	20	23	29	29	29	29
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	1	1	2	6	6	6	6
Total assets	**2,283**	**2,632**	**2,992**	**3,318**	**4,369**	**5,529**	**6,290**
Short term loans/OD	147	194	149	85	135	185	235
Accounts payable	207	219	260	276	340	399	451
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	7	1	2	7	7	7	7
Other current liabs	2	0	2	41	41	41	41
Current liabilities	**363**	**414**	**412**	**409**	**523**	**633**	**735**
Long-term debt/leases/other	163	122	195	189	189	189	189
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	73	99	126	175	175	175	175
Total liabilities	**598**	**635**	**733**	**773**	**887**	**996**	**1,098**
Share capital	827	1,312	1,401	1,510	1,510	1,510	1,510
Retained earnings	855	682	855	1,031	1,967	3,014	3,671
Reserves/others	0	0	0	0	0	0	0
Shareholder funds	**1,682**	**1,994**	**2,256**	**2,541**	**3,477**	**4,524**	**5,181**
Minorities/other equity	3	3	3	4	6	9	11
Total equity	**1,685**	**1,997**	**2,259**	**2,545**	**3,483**	**4,533**	**5,192**
Total liabs & equity	**2,283**	**2,632**	**2,992**	**3,318**	**4,369**	**5,529**	**6,290**
Total debt	310	317	344	274	324	374	424
Net debt	190	160	194	(31)	(245)	(944)	(1,531)
Adjusted EV	46,020	46,376	46,855	46,616	46,405	45,709	45,124
BVPS (sen)	51.2	60.2	67.5	76.0	103.9	135.2	154.9

Balance sheet ratios

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Key ratios							
Current ratio (x)	1.9	2.1	2.2	2.7	3.7	4.5	4.6
Growth in total assets (% YoY)	16.4	15.3	13.7	10.9	31.7	26.5	13.8
Growth in capital employed (% YoY)	12.4	15.1	13.7	2.5	28.8	10.8	2.0
Net debt to operating cashflow (x)	0.6	0.4	0.3	-	-	-	-
Gross debt to operating cashflow (x)	0.9	0.8	0.5	0.4	0.2	0.1	0.2
Gross debt to Ebitda (x)	0.7	0.5	0.5	0.4	0.1	0.1	0.2
Net debt/Ebitda (x)	0.4	0.3	0.3	-	-	-	-
Gearing							
Net debt/equity (%)	11.3	8.0	8.6	(1.2)	(7.0)	(20.8)	(29.5)
Gross debt/equity (%)	18.4	15.9	15.2	10.8	9.3	8.3	8.2
Interest cover (x)	394.7	69.2	54.1	55.5	370.9	359.8	199.4
Debt Cover (x)	1.1	1.3	1.8	2.4	6.1	7.0	4.5
Working capital analysis							
Inventory days	84.2	72.6	61.2	56.9	51.6	52.7	53.7
Debtor days	54.0	53.5	55.8	60.0	47.1	59.1	67.4
Creditor days	63.0	54.9	51.7	55.2	51.6	52.7	53.7
Working capital/Sales (%)	19.5	20.4	17.1	15.8	16.5	16.6	16.5
Capital employed analysis							
Sales/Capital employed (%)	97.2	111.5	115.3	116.3	180.6	184.5	157.9
EV/Capital employed (%)	2,454.8	2,149.5	1,910.3	1,854.6	1,433.2	1,273.6	1,232.5
Working capital/Capital employed (%)	19.0	22.7	19.7	18.4	29.8	30.6	26.1
Fixed capital/Capital employed (%)	83.8	80.9	84.4	87.2	74.5	73.3	77.8
Other ratios (%)							
EV/OCF (x)	136.0	116.6	74.1	70.8	23.6	17.4	23.5
EV/FCF (x)	461.1	344.7	233.3	114.2	28.7	20.1	28.7
EV/Sales (x)	25.3	19.3	16.6	15.9	7.9	6.9	7.8
Capex/depreciation (%)	337.8	297.6	416.4	200.5	272.1	264.2	263.2

Source: www.clsa.com

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Cashflow (RMm)

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Operating profit	401	547	572	595	2,993	3,338	2,074
Operating adjustments	(52)	(21)	(21)	(39)	9	23	34
Depreciation/amortisation	71	88	104	125	129	132	133
Working capital changes	(82)	(140)	8	(20)	(503)	(133)	145
Interest paid / other financial expenses	2	(5)	4	9	3	17	29
Tax paid	(48)	(70)	(78)	(63)	(660)	(739)	(464)
Other non-cash operating items	47	(2)	44	52	(3)	(17)	(29)
Net operating cashflow	338	398	632	659	1,967	2,620	1,922
Capital expenditure	(239)	(263)	(431)	(251)	(350)	(350)	(350)
Free cashflow	100	135	201	408	1,617	2,270	1,572
Acq/inv/disposals	0	0	1	1	-	-	-
Int, invt & associate div	4	0	(1)	0	-	-	-
Net investing cashflow	(234)	(263)	(432)	(250)	(350)	(350)	(350)
Increase in loans	62	47	21	(78)	50	50	50
Dividends	(131)	(198)	(297)	(249)	(1,403)	(1,571)	(986)
Net equity raised/others	6	52	69	73	0	0	0
Net financing cashflow	(63)	(99)	(207)	(254)	(1,353)	(1,521)	(936)
Incr/(decr) in net cash	41	36	(7)	155	264	749	637
Exch rate movements	(5)	1	0	-	0	-	0
Opening cash	84	120	157	150	305	569	1,318
Closing cash	120	157	150	305	569	1,318	1,955
OCF PS (sen)	10.3	12.0	18.9	19.7	58.8	78.3	57.5
FCF PS (sen)	3.0	4.1	6.0	12.2	48.3	67.9	47.0

Cashflow ratio analysis

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Growth (%)							
Op cashflow growth (% YoY)	39.0	17.5	59.0	4.2	198.5	33.2	(26.6)
FCF growth (% YoY)	-	34.8	49.3	103.1	296.3	40.4	(30.7)
Capex growth (%)	(43.5)	10.2	64.0	(41.9)	39.5	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	13.1	10.9	15.3	8.6	6.0	5.3	6.1
Capex/op cashflow (%)	70.5	66.2	68.2	38.1	17.8	13.4	18.2
Operating cashflow payout ratio (%)	37.6	58.5	44.7	37.6	71.3	60.0	51.3
Cashflow payout ratio (%)	37.6	58.5	44.7	37.6	71.3	60.0	51.3
Free cashflow payout ratio (%)	127.6	172.9	140.8	60.7	86.8	69.2	62.7

DuPont analysis

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Ebit margin (%)	22.0	22.8	20.2	20.4	51.2	50.4	35.9
Asset turnover (x)	0.9	1.0	1.0	0.9	1.5	1.3	1.0
Interest burden (x)	0.9	1.0	1.0	0.9	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	15.4	18.6	16.8	14.8	60.7	52.6	27.4
Leverage (x)	1.3	1.3	1.3	1.3	1.3	1.2	1.2
ROE (%)	17.8	23.9	21.4	18.1	77.7	65.4	33.8

EVA® analysis

Year to 31 March	2017A	2018A	2019A	2020A	2021CL	2022CL	2023CL
Ebit adj for tax	326	457	472	467	2,334	2,603	1,618
Average invested capital	1,838	2,102	2,417	2,634	3,051	3,589	3,800
ROIC (%)	17.7	21.7	19.5	17.7	76.5	72.5	42.6
Cost of equity (%)	9.2	9.2	9.2	9.2	9.2	9.2	9.2
Cost of debt (adj for tax)	3.0	3.1	3.1	2.9	2.9	2.9	2.9
Weighted average cost of capital (%)	8.0	8.0	8.0	8.0	8.0	8.0	8.0
EVA/IC (%)	9.7	13.7	11.5	9.7	68.5	64.6	34.6
EVA (RMm)	179	289	279	257	2,091	2,318	1,315

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Keppel DC

S$2.92 - UNDERPERFORM

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9 September 2020

Singapore

Property

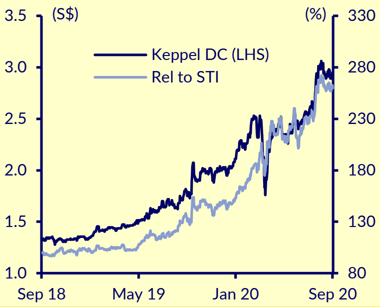
Reuters	KEPE.SI
Bloomberg	KDCREIT SP
Priced on 7 September 2020	
STI @ 2,511.2	
12M hi/lo	S$3.06/1.73
12M price target	S$2.75
±% potential	-6%
Shares in issue	1,632.4m
Free float (est.)	75.0%
Market cap	US$3.5bn
3M ADV	US$10.7m
Foreign s'holding	60.0%
Major shareholders	
Keppel T&T 25.0%	

Blended ESG Score (%)*	
Overall	66.9
Country average	69.8
GEM sector average	65.9

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(3.9)	17.7	66.9
Relative	0.9	29.0	109.0
Abs (US$)	(3.7)	20.1	68.9



Source: Bloomberg

Pure data centre play

Good growth prospects but positives priced in

Keppel DC Reit is the only pure data centre Reit in Asia and stands to benefit from structural growth in ecommerce and work-from-home trends in a post-Covid world. It offers resilience and low-but-steady growth, anchored by long weighted average lease expiry, high occupancy, and rental step-ups. Moreover, it has a track record of delivering inorganic growth through acquisitions, having more than doubled its AUM since its IPO. Despite the fundamentally positive outlook, we rate the firm Underperform with a S$2.75 target price, as positives are priced in.

Pure data centre play

Keppel DC Reit is the only pure data centre Reit in Asia. Its total assets under management (AUM) stand at S$2.6bn, with 64% from Singapore, 11% in Australia, 17% from Europe/UK, and 1% in Malaysia. Covid-19 has accelerated adoption of ecommerce and work-from-home trends, both of which structurally improve data centre demand. Keppel DC is a good proxy for data centre growth.

Resilient organic growth

Keppel DC Reit offers a good mix of resilience and organic growth. Its occupancy is at 94.7% as of March 2020, and long WALE of 7.4 years. Due to high relocation costs and tenants' inability to pre-terminate leases, we believe data centre occupancies are more resilient to economic cycles. Also, leases typically have rental step-ups of 1-4%/year for organic growth.

Strong inorganic growth track record

More importantly, Keppel DC Reit has a strong acquisition track record to drive inorganic growth, which we expect to continue. Its AUM has more than doubled since the S$1bn at its December 2014 IPO to S$2.6bn today. All the buys have been DPU-accretive and contributed to its 4-year distribution per unit (DPU) Cagr of 4.3%. We expect inorganic growth to continue, with third-party assets in the near-term, sponsor assets in the mid-term, and cost of capital at record lows.

Maintain Underperform on valuation

We maintain an Underperform on valuations as near-term positives are baked in. Our target price of S$2.75 is based on a dividend discount model (DDM), using cost of equity of 5.7% and terminal growth of 2.0%. We believe Keppel DC's current valuations at 3.1% forward yield and 2.5x PB are rich and the highest among S-Reits. However, positive catalysts can come from acquisitions, which we have yet to factor in given the uncertainty on size, price, timing, and funding structure.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (S$m)	176	195	251	264	270
Revenue growth (% YoY)	26.2	11.0	29.1	5.2	2.1
Net profit (S$m)	142	107	161	171	173
EPS (S¢)	11.1	7.5	9.9	10.5	10.6
CL/consensus (9) (EPS%)	-	-	102	101	98
EPS growth (% YoY)	92.2	(32.3)	31.7	6.1	1.3
DPS (S¢)	7.3	7.6	9.0	9.6	9.7
Dividend yield (%)	2.5	2.6	3.1	3.3	3.3
FCF yield (%)	2.1	2.4	4.0	4.0	4.2
PB (x)	2.7	2.6	2.5	2.5	2.5
Net debt/equity (%)	39.2	40.2	49.1	49.0	48.9

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (S$m)						
Revenue	**176**	**195**	**251**	*29.1*	**264**	**270**
Cogs (ex-D&A)	-	-	-		-	-
Gross Profit (ex-D&A)	**176**	**195**	**251**	*29.1*	**264**	**270**
SG&A and other expenses	(18)	(18)	(25)		(27)	(27)
Op Ebitda	**158**	**177**	**227**	*28*	**238**	**243**
Depreciation/amortisation	0	0	0		0	0
Op Ebit	**158**	**177**	**227**	*28*	**238**	**243**
Net interest inc/(exp)	(16)	(15)	(22)		(26)	(28)
Other non-Op items	9	(38)	(25)		(23)	(24)
Profit before tax	**151**	**124**	**180**	*45.2*	**188**	**191**
Taxation	(5)	(13)	(14)		(12)	(13)
Profit after tax	**146**	**111**	**166**	*49.6*	**176**	**178**
Minority interest	(4)	(5)	(5)		(5)	(5)
Net profit	**142**	**107**	**161**	*51.6*	**171**	**173**
Adjusted profit	**109**	**120**	**161**	*34.8*	**171**	**173**
Cashflow (S$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**158**	**177**	**227**	*28*	**238**	**243**
Depreciation/amortisation	0	0	0		0	0
Working capital changes	(30)	19	9	*(53.3)*	(1)	(1)
Other items	(16)	(41)	(43)		(40)	(40)
Net operating cashflow	**112**	**155**	**192**	*24*	**197**	**202**
Capital expenditure	(34)	(57)	(4)		(4)	(4)
Free cashflow	**78**	**98**	**188**	*91.8*	**193**	**198**
M&A/Others	(414)	(612)	(181)		1	1
Net investing cashflow	**(448)**	**(669)**	**(185)**		**(3)**	**(3)**
Increase in loans	145	216	186	*(14)*	4	4
Dividends	(82)	(127)	(153)		(164)	(167)
Net equity raised/other	284	453	(28)		(32)	(34)
Net financing cashflow	**347**	**543**	**5**	*(99.1)*	**(192)**	**(197)**
Incr/(decr) in net cash	11	29	12	*(57.2)*	2	2
Exch rate movements	1	(2)	0		0	0
Balance sheet (S$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	128	156	168	*8*	171	173
Accounts receivable	86	96	98	*2.4*	103	105
Other current assets	12	28	33	*17.7*	37	41
Fixed assets	2,029	2,637	2,819	*6.9*	2,819	2,819
Investments	-	-	-		-	-
Intangible assets	0	0	0		0	0
Other non-current assets	4	11	15	*36.3*	19	23
Total assets	**2,259**	**2,928**	**3,134**	*7*	**3,149**	**3,161**
Short-term debt	134	40	40	*0*	40	40
Accounts payable	42	60	71	*18.6*	75	76
Other current liabs	17	8	8	*0*	8	8
Long-term debt/CBs	573	880	1,066	*21.1*	1,070	1,074
Provisions/other LT liabs	17	37	37	*0*	37	37
Shareholder funds	1,445	1,868	1,881	*0.7*	1,894	1,905
Minorities/other equity	31	35	30	*(13.6)*	25	20
Total liabs & equity	**2,259**	**2,928**	**3,134**	*7*	**3,149**	**3,161**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	26.2	11.0	29.1		5.2	2.1
Ebitda margin (%)	89.8	91.0	90.3		89.8	89.8
Ebit margin (%)	89.8	91.0	90.3		89.8	89.8
Net profit growth (%)	117.5	(24.9)	51.6		6.1	1.3
Op cashflow growth (% YoY)	(5.0)	38.7	24.0		2.1	2.8
Capex/sales (%)	19.3	29.3	1.6		1.5	1.5
Net debt/equity (%)	39.2	40.2	49.1		49.0	48.9
Net debt/Ebitda (x)	3.7	4.3	4.1		4.0	3.9
ROE (%)	11.2	6.4	8.6		9.1	9.1
ROIC (%)	8.3	6.7	7.5		7.7	7.8

Source: www.clsa.com

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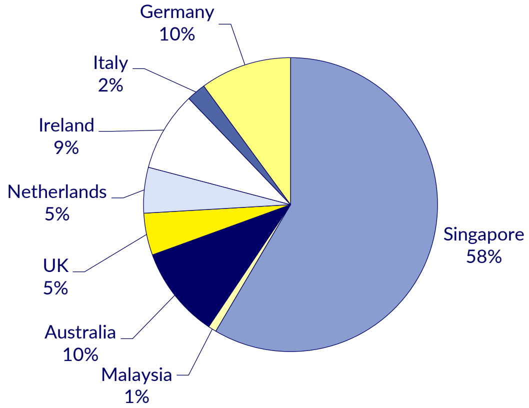
Asset under management by geography

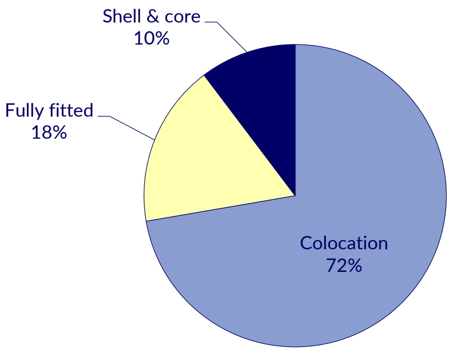


Source: CLSA, Company

Asset growth history since IPO

Source: Company

Rental revenue by type of leases



Source: CLSA, Company

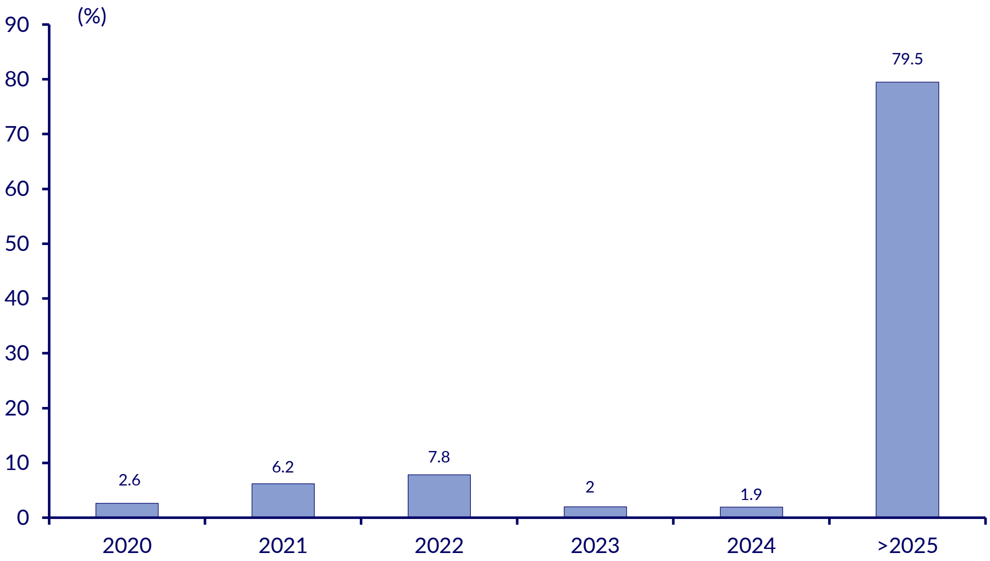
Typical lease type

Lease Type	Client Count	WALE² (years)	Ownership of Data Centre Components		
			M&E Equipment	Facility Management	Servers & Racks
Colocation	Multi	2.8	✓	✓	-
Fully-fitted	Single	11.5	✓	-	-
Shell & core	Single	8.1	-	-	-

Source: Company

Keppel DC's portfolio is currently 96.1% occupied, with long weighted average lease expiry of 7.4 years and minimal lease expiry over 2020-2021

Lease expiry profile - 2QFY20



Source: CLSA, Company

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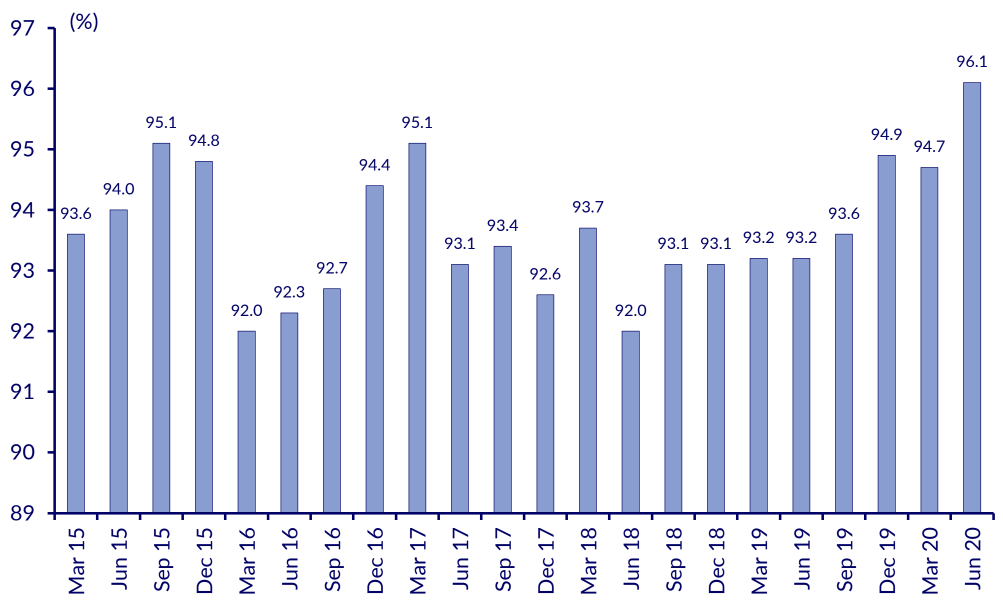
Data center tenants are typically stickier given high relocation costs, underpinning Keppel DC's high occupancy

Portfolio occupancy



Source: CLSA, Company

Keppel DC's balance sheet is strong

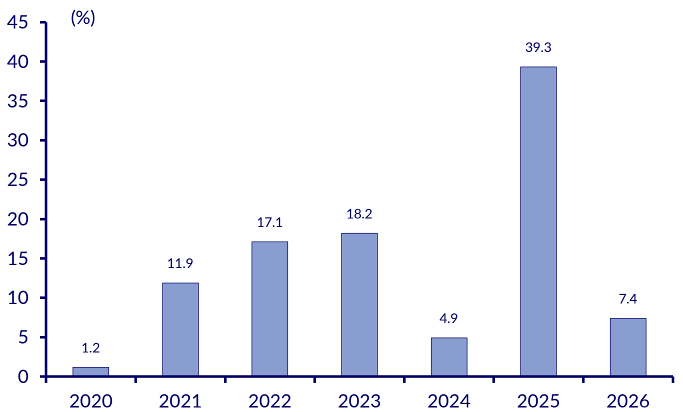
Keppel DC's balance sheet is strong, with gearing (debt-to-asset) at 34.5%, which is lower than the S-Reits average of 36% and regulatory limit of 50%. Its debt expiry profile is also well spread out, with only 1.2% of debt expiring in 2020 and 11.9% expiring in 2021.

Key capital management statistics

As at 30 Jun 2020	
Total debt	~$1,055.2m of external loans/notes (unencumbered)
Available facilities	~$326.6m of unutilised credit facilities
Aggregate leverage[1]	34.5%
Average cost of debt[2]	1.7% per annum
Debt tenor	3.7 years
Interest coverage[3]	12.8 times

[1] Computed based on gross borrowings and deferred payment as a percentage of deposited properties, both of which do not consider the lease liabilities pertaining to land rent commitments and options; [2] Including amortisation of upfront debt financing costs and excluding lease charges; [3] Interest Coverage Ratio disclosed above is computed based on the definition set out in Appendix 6 of the Code on Collective Investment Schemes revised on 16 April 2020. Source: Company

Debt maturity profile



Source: CLSA, Company

Keppel DC Reit has delivered respectable revenue and DPU growth through a combination of organic growth from annual rental step-up and inorganic growth through acquisitions and equity fund raising.

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Income statement						
(S$m)	**2017**	**2018**	**2019**	**20CL**	**21CL**	**22CL**
Co-location	98.8	128.6	145.8	177.5	181.0	184.9
Fully fitted	22.8	29.3	33.4	55.0	56.1	57.3
Shell and core	17.5	17.6	15.7	20.4	27.3	27.9
Total revenue	**139.1**	**175.5**	**194.8**	**252.9**	**264.4**	**270.1**
Property expenses	**(13.9)**	**(17.9)**	**(17.5)**	**(24.5)**	**(26.9)**	**(27.4)**
Co-location	86.6	112.4	129.4	154.4	157.5	160.9
Fully fitted	22.3	28.9	33.1	53.4	54.5	55.5
Shell and core	16.2	16.3	14.8	19.1	25.6	26.2
Net property income	**125.1**	**157.7**	**177.3**	**226.9**	**237.6**	**242.6**
NPI margin (%)	90.0	89.8	91.0	89.7	89.8	89.8
Interest income	1.4	0.8	1.2	1.2	1.3	1.4
Manager's management fees	(11.3)	(14.0)	(16.0)	(23.9)	(22.4)	(22.6)
Trustee's fee	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Other trusts expenses	(15.1)	(9.7)	(8.5)	(0.5)	(0.5)	(0.5)
Interest expense	(14.7)	(16.7)	(16.6)	(23.7)	(27.2)	(29.5)
Net appreciation in value of properties	(7.6)	33.2	(13.3)	0.0	0.0	0.0
Pre-tax profits	**377.0**	**378.0**	**379.0**	**380.0**	**381.0**	**382.0**
Tax	(7.3)	(5.0)	(12.6)	(13.5)	(12.3)	(12.6)
Net profit	**376.0**	**377.0**	**378.0**	**379.0**	**380.0**	**381.0**
Non-controlling interests	(5.0)	(4.1)	(4.6)	(4.7)	(4.8)	(4.9)
Tax deductibles	17.1	(45.8)	6.7	(8.2)	(7.2)	(6.2)
Total distributable income	**82.3**	**96.1**	**113.2**	**153.2**	**164.1**	**167.3**
DPU (scents)	**7.12**	**7.32**	**7.61**	**9.00**	**9.61**	**9.75**

Source: CLSA, Company

KDCREIT has a sound balance sheet with gearing consistently around 30-35%. Management expects to maintain gearing of 30% over the long-run to be prudent.

Balance sheet						
(S$m)	**2017**	**2018**	**2019**	**20CL**	**21CL**	**22CL**
Investment properties	1,570	2,029	2,637	2,819	2,819	2,819
Plant and equipment	0.00	0.00	0.00	0.00	0.00	0.00
Other assets	15.11	4.02	11.02	15.02	19.02	23.02
Non-current -assets	**1,585**	**2,033**	**2,648**	**2,834**	**2,838**	**2,842**
Cash and cash equivalents	118.18	128.42	155.88	168.37	170.61	172.64
Trade & other receivables	56.16	85.72	95.85	98.13	103.20	105.40
Other current assets	3.74	12.32	28.23	33.23	37.23	41.23
Current assets	**178.08**	**226.46**	**279.95**	**299.73**	**311.03**	**319.26**
Total assets	**1,763**	**2,259**	**2,928**	**3,134**	**3,149**	**3,161**
Trade & other payables	48.17	42.48	59.85	70.99	74.65	76.25
Borrowings	3.66	133.56	40.26	40.26	40.26	40.26
Others	1.40	16.95	8.04	8.04	8.04	8.04
Current liabilities	**53.22**	**192.99**	**108.16**	**119.29**	**122.96**	**124.55**
Trade & other Payables	0.00	0.00	0.00	0.00	0.00	0.00
Borrowings	575.66	573.08	880.46	1,066.36	1,070.36	1,074.36
Derivative financial instruments	1.35	4.46	7.75	7.75	7.75	7.75
Others	16.54	12.62	29.08	29.08	29.08	29.08
Non-current liabilities	**594**	**590**	**917**	**1,103**	**1,107**	**1,111**
Total liabilities	**647**	**783**	**1,025**	**1,222**	**1,230**	**1,236**
Unitholders funds	1,117	1,476	1,903	1,911	1,919	1,925
Total liability and equity	**1,763**	**2,259**	**2,928**	**3,134**	**3,149**	**3,161**

Source: CLSA, Company

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We do not expect major capex requirements over the next few years and key acquisitions to be funded through a mixture of debt and equity.

Cashflow statement

(S$m)	2017	2018	2019	20CL	21CL	22CL
Total return for the year:	70.3	146.0	111.1	166.2	176.1	178.4
Income tax	7.3	5.0	12.6	13.5	12.3	12.6
Net appreciation in value of investment prop	8.5	(32.6)	15.9	0.0	0.0	0.0
Interest income	(1.4)	(0.8)	(1.2)	(1.2)	(1.3)	(1.4)
Interest expense	14.7	16.7	16.6	23.7	27.2	29.5
Depreciation and amortisation	2.5	6.8	4.4	0.0	0.0	0.0
Managers' fees paid in units	0.4	0.6	1.6	0.0	0.0	0.0
Working capital requirement	20.3	(29.9)	19.0	8.9	(1.4)	(0.6)
Others items	(4.7)	0.2	(24.7)	(18.5)	(16.3)	(16.6)
Cashflow from operation	**117.8**	**111.9**	**155.3**	**192.5**	**196.5**	**201.9**
Interest received	0.0	0.0	0.0	1.2	1.3	1.4
Purchase of plant and equipment	(6.2)	(23.7)	(33.2)	0.0	0.0	0.0
Additions to property under development	(6.3)	(10.2)	(23.8)	(4.0)	(4.0)	(4.0)
Additions to investment properties	(292.7)	(414.1)	(612.3)	(181.9)	0.0	0.0
Cashflow from investing activities	**(305.1)**	**(447.9)**	**(669.2)**	**(184.7)**	**(2.7)**	**(2.6)**
Proceeds from issue of new units	0.0	303.1	478.2	0.4	0.4	0.4
Payment of unit issue costs	(0.9)	(2.2)	(5.6)	0.0	0.0	0.0
Proceeds from borrowings	356.7	229.2	383.2	185.9	4.0	4.0
Repayment of borrowings	(257.8)	(83.9)	(166.9)	0.0	0.0	0.0
Distribution to unitholders	(74.3)	(82.1)	(126.5)	(153.2)	(164.1)	(167.3)
Interest paid	(13.5)	(15.8)	(15.6)	(23.7)	(27.2)	(29.5)
Others	(0.5)	(1.1)	(3.7)	(4.7)	(4.8)	(4.9)
Cashflow from financing activities	**9.7**	**347.2**	**543.2**	**4.7**	**(191.6)**	**(197.3)**
Cash BOY	294.0	116.1	128.4	155.9	168.4	170.6
Change in cash	(177.6)	11.2	29.2	12.5	2.2	2.0
Cash EOY	**116.1**	**128.4**	**155.9**	**168.4**	**170.6**	**172.6**

Source: CLSA, Company

We use DDM model to discount FY21-26CL DPUs

We use a DDM model to discount FY21-26 DPUs to arrive at a mid-2021 valuation. Our cost of equity is at 5.7%, derived using a country weighted risk-free-rate of 2.0%, beta of 0.62 (based on long-run average from Bloomberg), and an equity risk premium of 6.0%. Our risk-free rate of 2.0% is based on the 10-year historical average Singapore government bond yield and lower than the 2.5% used by most of our Singapore coverage because Reits are more interest rate sensitive. Our terminal growth rate is 2.0%, higher than our usual 1.0% as most of its data centres come with rental escalation of 1-4%, which is higher than the Singapore average.

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DDM model						
Assumptions						
Risk-free rate (%)						2.0
Terminal growth rate (%)						2.0
Beta						0.62
Equity risk premium (%)						6.0
Cost of equity (%)						5.7
DDM model	**21CL**	**22CL**	**23CL**	**24CL**	**25CL**	**26CL**
	Year 0	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
DPU (S¢)	9.61	9.75	10.03	10.24	10.47	10.70
Discounted DPU (S¢)	9.61	9.22	8.97	8.67	8.38	8.10
PV of cashflows (S$)	0.53					
PV of terminal value (S$)	2.22					
Target price (S$)	**2.75**					

Source: CLSA

Valuation details

We use a dividend discount model (DDM) approach to value KDC Reit. We use a risk-free rate of 2.0% and market risk premium of 6.0%, which are a weighted average based on its geographical exposure. We used a beta of 0.62 and terminal growth of 2.0%.

Investment risks

Key risks of investing in KDC Reit will be higher capital expenditure than other property sub-segments, short land tenure at selected buildings, and foreign exchange risks. While data centres are relatively more resilient against Covid-19 than other property sub-segments, prolonged Covid-19 could damper global economic growth and rental outlook as well.

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evalu@tor The Global Equities Database

Detailed financials

Profit & Loss (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**99**	**139**	**176**	**195**	**251**	**264**	**270**
Cogs (ex-D&A)	-	-	-	-	-	-	-
Gross Profit (ex-D&A)	**99**	**139**	**176**	**195**	**251**	**264**	**270**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	(8)	(14)	(18)	(18)	(25)	(27)	(27)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	**91**	**125**	**158**	**177**	**227**	**238**	**243**
Depreciation/amortisation	0	0	0	0	0	0	0
Op Ebit	**91**	**125**	**158**	**177**	**227**	**238**	**243**
Interest income	1	1	1	1	1	1	1
Interest expense	(13)	(15)	(17)	(17)	(24)	(27)	(30)
Net interest inc/(exp)	(11)	(13)	(16)	(15)	(22)	(26)	(28)
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	(10)	(27)	(24)	(25)	(25)	(23)	(24)
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	(12)	(8)	33	(13)	-	-	-
Profit before tax	**58**	**78**	**151**	**124**	**180**	**188**	**191**
Taxation	(7)	(7)	(5)	(13)	(14)	(12)	(13)
Profit after tax	**51**	**70**	**146**	**111**	**166**	**176**	**178**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**51**	**70**	**146**	**111**	**166**	**176**	**178**
Minority interest	0	(5)	(4)	(5)	(5)	(5)	(5)
Net profit	**51**	**65**	**142**	**107**	**161**	**171**	**173**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	51	65	142	107	161	171	173
Dividends	(56)	(80)	(94)	(108)	(147)	(157)	(159)
Retained profit	(5)	(15)	48	(1)	15	14	14
Adjusted profit	**63**	**73**	**109**	**120**	**161**	**171**	**173**
EPS (S¢)	5.6	5.8	11.1	7.5	9.9	10.5	10.6
Adj EPS [pre excep] (S¢)	6.9	6.4	8.5	8.4	9.9	10.5	10.6
Core EPS (S¢)	6.9	6.4	8.5	8.4	9.9	10.5	10.6
DPS (S¢)	6.1	7.1	7.3	7.6	9.0	9.6	9.7

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	(3.2)	40.3	26.2	11.0	29.1	5.2	2.1
Ebitda growth (% YoY)	4.7	37.6	26.0	12.4	28.0	4.7	2.1
Ebit growth (% YoY)	4.7	37.6	26.0	12.4	28.0	4.7	2.1
Net profit growth (%)	(51.2)	28.1	117.5	(24.9)	51.6	6.1	1.3
EPS growth (% YoY)	(52.9)	3.5	92.2	(32.3)	31.7	6.1	1.3
Adj EPS growth (% YoY)	(1.2)	(6.8)	31.9	(0.6)	17.1	6.1	1.3
DPS growth (% YoY)	(5.7)	16.0	2.8	4.0	18.3	6.8	1.4
Core EPS growth (% YoY)	(1.2)	(6.8)	31.9	(0.6)	17.1	6.1	1.3
Margins (%)							
Ebitda margin (%)	91.7	90.0	89.8	91.0	90.3	89.8	89.8
Ebit margin (%)	91.7	90.0	89.8	91.0	90.3	89.8	89.8
Net profit margin (%)	51.4	46.9	80.8	54.7	64.2	64.8	64.2
Core profit margin	63.7	52.4	61.9	61.5	64.2	64.8	64.2
Op cashflow margin	76.4	84.7	63.8	79.7	76.6	74.3	74.8
Returns (%)							
ROE (%)	5.4	6.0	11.2	6.4	8.6	9.1	9.1
ROA (%)	5.7	6.8	7.6	6.1	6.9	7.1	7.2
ROIC (%)	6.7	7.9	8.3	6.7	7.5	7.7	7.8
ROCE (%)	7.6	8.9	8.7	7.5	8.2	8.3	8.5
Other key ratios (%)							
Effective tax rate (%)	11.7	9.4	3.3	10.2	7.5	6.5	6.6
Ebitda/net int exp (x)	7.9	9.4	10.0	11.5	10.1	9.2	8.6
Exceptional or extraord. inc/PBT (%)	(21.2)	(9.8)	22.0	(10.8)	0.0	0.0	0.0
Dividend payout (%)	110.1	123.3	66.0	101.3	91.0	91.6	91.7

Source: www.clsa.com

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Balance sheet (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	298	118	128	156	168	171	173
Accounts receivable	39	56	86	96	98	103	105
Inventories	-	-	-	-	-	-	-
Other current assets	2	4	12	28	33	37	41
Current assets	**338**	**178**	**226**	**280**	**300**	**311**	**319**
Fixed assets	1,226	1,570	2,029	2,637	2,819	2,819	2,819
Investments	-	-	-	-	-	-	-
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	19	15	4	11	15	19	23
Total assets	**1,583**	**1,763**	**2,259**	**2,928**	**3,134**	**3,149**	**3,161**
Short term loans/OD	7	4	134	40	40	40	40
Accounts payable	28	48	42	60	71	75	76
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	0	0	17	8	8	8	8
Other current liabs	0	1	0	0	0	0	0
Current liabilities	**35**	**53**	**193**	**108**	**119**	**123**	**125**
Long-term debt/leases/other	464	576	573	880	1,066	1,070	1,074
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	10	18	17	37	37	37	37
Total liabilities	**509**	**647**	**783**	**1,025**	**1,222**	**1,230**	**1,236**
Share capital	1,074	1,090	1,445	1,868	1,881	1,894	1,905
Retained earnings	-	-	-	-	-	-	-
Reserves/others	0	0	0	0	0	0	0
Shareholder funds	**1,074**	**1,090**	**1,445**	**1,868**	**1,881**	**1,894**	**1,905**
Minorities/other equity	0	27	31	35	30	25	20
Total equity	**1,074**	**1,117**	**1,476**	**1,903**	**1,911**	**1,919**	**1,925**
Total liabs & equity	**1,583**	**1,763**	**2,259**	**2,928**	**3,134**	**3,149**	**3,161**
Total debt	471	579	707	921	1,107	1,111	1,115
Net debt	173	461	578	765	938	940	942
Adjusted EV	3,459	3,779	4,556	5,566	5,735	5,733	5,730
BVPS (S¢)	95.4	96.7	106.9	114.4	115.2	116.0	116.7

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	9.6	3.3	1.2	2.6	2.5	2.5	2.6
Growth in total assets (% YoY)	30.7	11.4	28.1	29.6	7.0	0.5	0.4
Growth in capital employed (% YoY)	8.6	26.6	30.2	29.8	6.8	0.3	0.3
Net debt to operating cashflow (x)	2.3	3.9	5.2	4.9	4.9	4.8	4.7
Gross debt to operating cashflow (x)	6.2	4.9	6.3	5.9	5.7	5.7	5.5
Gross debt to Ebitda (x)	5.2	4.6	4.5	5.2	4.9	4.7	4.6
Net debt/Ebitda (x)	1.9	3.7	3.7	4.3	4.1	4.0	3.9
Gearing							
Net debt/equity (%)	16.1	41.3	39.2	40.2	49.1	49.0	48.9
Gross debt/equity (%)	43.8	51.9	47.9	48.4	57.9	57.9	57.9
Interest cover (x)	7.2	8.6	9.5	10.8	9.6	8.8	8.3
Debt Cover (x)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Working capital analysis							
Inventory days	-	-	-	-	-	-	-
Debtor days	168.9	124.5	147.5	170.1	140.8	138.9	141.0
Creditor days	-	-	-	-	-	-	-
Working capital/Sales (%)	12.0	7.4	22.0	28.8	20.8	21.8	23.1
Capital employed analysis							
Sales/Capital employed (%)	8.0	8.8	8.5	7.3	8.8	9.2	9.4
EV/Capital employed (%)	277.4	239.6	221.8	208.7	201.3	200.5	199.8
Working capital/Capital employed (%)	1.0	0.7	1.9	2.1	1.8	2.0	2.2
Fixed capital/Capital employed (%)	98.3	99.5	98.8	98.9	98.9	98.6	98.3
Other ratios (%)							
EV/OCF (x)	45.7	32.1	40.7	35.8	29.8	29.2	28.4
EV/FCF (x)	52.5	35.9	58.4	56.6	30.4	29.8	28.9
EV/Sales (x)	34.9	27.2	26.0	28.6	22.8	21.7	21.2
Capex/depreciation (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: www.clsa.com

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Cashflow (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	91	125	158	177	227	238	243
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	0	0	0	0	0	0	0
Working capital changes	(7)	20	(30)	19	9	(1)	(1)
Interest paid / other financial expenses	13	15	17	17	24	27	30
Tax paid	(1)	(5)	(2)	(16)	(14)	(12)	(13)
Other non-cash operating items	(20)	(38)	(31)	(42)	(53)	(55)	(57)
Net operating cashflow	76	118	112	155	192	197	202
Capital expenditure	(10)	(12)	(34)	(57)	(4)	(4)	(4)
Free cashflow	66	105	78	98	188	193	198
Acq/inv/disposals	(111)	(293)	(414)	(612)	(182)	-	-
Int, invt & associate div	-	-	-	-	1	1	1
Net investing cashflow	(121)	(305)	(448)	(669)	(185)	(3)	(3)
Increase in loans	96	99	145	216	186	4	4
Dividends	(58)	(74)	(82)	(127)	(153)	(164)	(167)
Net equity raised/others	264	(15)	284	453	(28)	(32)	(34)
Net financing cashflow	302	10	347	543	5	(192)	(197)
Incr/(decr) in net cash	257	(178)	11	29	12	2	2
Exch rate movements	4	2	1	(2)	0	0	0
Opening cash	37	294	116	128	156	168	171
Closing cash	298	118	128	156	168	171	173
OCF PS (S¢)	8.3	10.4	8.8	10.9	11.8	12.0	12.4
FCF PS (S¢)	7.2	9.3	6.1	6.9	11.5	11.8	12.1

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	38.4	55.5	(5.0)	38.7	24.0	2.1	2.8
FCF growth (% YoY)	41.2	59.8	(25.9)	25.9	91.8	2.1	2.8
Capex growth (%)	22.5	26.7	172.5	68.3	(93.0)	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	9.9	8.9	19.3	29.3	1.6	1.5	1.5
Capex/op cashflow (%)	12.9	10.5	30.3	36.7	2.1	2.0	2.0
Operating cashflow payout ratio (%)	74.1	68.3	83.6	69.5	76.3	79.9	78.8
Cashflow payout ratio (%)	74.1	68.3	83.6	69.5	76.3	79.9	78.8
Free cashflow payout ratio (%)	85.1	76.4	119.9	109.8	78.0	81.5	80.4

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	91.7	90.0	89.8	91.0	90.3	89.8	89.8
Asset turnover (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest burden (x)	0.6	0.6	1.0	0.7	0.8	0.8	0.8
Tax burden (x)	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Return on assets (%)	5.7	6.8	7.6	6.1	6.9	7.1	7.2
Leverage (x)	1.5	1.5	1.6	1.5	1.6	1.6	1.6
ROE (%)	5.4	6.4	11.3	6.6	8.7	9.2	9.3

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	80	113	152	159	210	222	227
Average invested capital	1,206	1,426	1,833	2,388	2,795	2,891	2,900
ROIC (%)	6.7	7.9	8.3	6.7	7.5	7.7	7.8
Cost of equity (%)	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Cost of debt (adj for tax)	2.7	2.8	3.0	2.8	2.9	2.9	2.9
Weighted average cost of capital (%)	4.5	4.6	4.6	4.5	4.6	4.6	4.6
EVA/IC (%)	2.1	3.4	3.7	2.1	2.9	3.1	3.2
EVA (S$m)	26	48	68	51	82	89	94

Source: www.clsa.com

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CLSA

PLDT

P1,440.00 - BUY

HIGH CONVICTION

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9 September 2020

Philippines

Telecoms

Reuters	TEL.PS
Bloomberg	TEL PM
ADR	PHI.N

Priced on 7 September 2020
Phils Phisix @ 5,935.9

12M hi/lo	P1,479.00/860.50
12M price target	P1,698.00
±% potential	+18%
Shares in issue	216.1m
Free float (est.)	53.8%
Market cap	US$6.4bn
3M ADV	US$5.0m
Foreign s'holding	28.7%

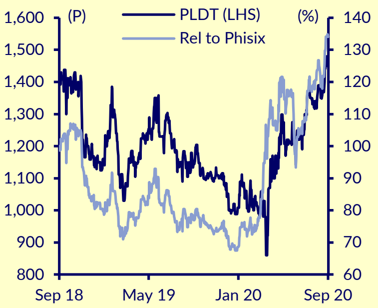
Major shareholders
First Pacific Group 25.6%
NTT Group 20.4%

Blended ESG Score (%)*	
Overall	59.5
Country average	52.4
GEM sector average	65.4

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	3.7	22.0	25.9
Relative	2.1	32.9	68.2
Abs (US$)	4.6	25.0	34.2



Source: Bloomberg

The data play

Riding the growth of data

PLDT is positioned to capture pent-up demand for data. Covid has accelerated data use in the consumer and enterprise segments. Despite falling data prices, we see steady top-line growth and further improving margins by as early as next year. A further upside from Covid is a likely delay to the roll-out of the country's third major telco to 2022, keeping down competition in the near-term. Network quality will be key to keeping market share in a three-player market. Longer-term, the firm's eWallet service could spur fresh growth. Reiterate BUY and a P1,698 target.

Pandemic impact accelerates data adoption

PLDT is a key beneficiary of accelerating demand for data on both mobile and broadband. Despite falling data prices, the group is able to capitalise on the base of data users it has today. The pandemic has boosted the need for data plans, which will result in higher spending in a post-Covid environment. Broadband penetration remains low, and PLDT is well positioned to capitalise on this growth segment.

Network infrastructure key to staying ahead of competition

Covid-19 has also delayed the official roll-out of a third telecom market player to 2022. As users become more data-dependent, management will be prioritising network quality. Increasing operating leverage will allow PLDT to sustain its elevated capex programme, which will be crucial to retaining its market share. Its large home broadband infrastructure is another key advantage.

Data demand to support growth

We foresee overall demand for data offsetting the impact of lower mobile load top-ups from prepaid users and minimal fixed broadband expansion in 2020. Next year should be stronger for PLDT as it gains operating leverage without the risk of the entrance of a third player. We expect margins to improve as mobile data average revenue per use (Arpu) continues to accelerate.

Reiterate BUY rating

We value PLDT using a sum-of-the-parts approach, valuing its: 1) core business operations on a forward (end-21CL) EV/Ebitda multiple of 5.5x, taking into account long-term risk from entrance of a new market player and priced approximately one standard deviation below its mean; and 2) 48% stake in e-wallet player Voyager that we value at EV/sales of 8.0x, which is at a discount to global payment and card network peers.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Pm)	164,752	169,187	179,479	200,457	209,304
Net profit (Pm)	24,441	27,111	26,554	31,060	31,292
EPS (P)	113.12	125.48	122.91	143.76	144.83
CL/consensus (12) (EPS%)	-	-	105	117	114
EPS growth (% YoY)	3.4	10.9	(2.1)	17.0	0.7
PE (x)	12.7	11.5	11.7	10.0	9.9
Dividend yield (%)	4.5	5.0	4.8	5.1	6.0
FCF yield (%)	4.5	(4.7)	1.2	(3.0)	6.9
PB (x)	2.6	2.6	2.4	2.2	2.0
ROE (%)	21.1	22.9	21.5	22.7	20.7
Net debt/equity (%)	106.8	144.6	146.8	155.6	147.9

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Pm)						
Revenue	**164,752**	**169,187**	**179,479**	*6.1*	**200,457**	**209,304**
Cogs (ex-D&A)	(14,427)	(13,429)	(16,363)		(17,363)	(20,164)
Gross Profit (ex-D&A)	**150,325**	**155,758**	**163,116**	*4.7*	**183,094**	**189,141**
SG&A and other expenses	(90,714)	(75,943)	(80,482)		(88,070)	(94,163)
Op Ebitda	**59,611**	**79,815**	**82,634**	*3.5*	**95,024**	**94,978**
Depreciation/amortisation	(48,132)	(40,414)	(35,961)		(39,961)	(42,258)
Op Ebit	**11,479**	**39,401**	**46,673**	*18.5*	**55,063**	**52,719**
Net interest inc/(exp)	(5,124)	(6,808)	(7,246)		(8,862)	(9,624)
Other non-Op items	21,927	4,067	(1,493)		(1,831)	1,606
Profit before tax	**28,282**	**36,660**	**37,933**	*3.5*	**44,369**	**44,702**
Taxation	(3,842)	(9,550)	(11,380)		(13,311)	(13,410)
Profit after tax	**24,440**	**27,110**	**26,553**	*(2.1)*	**31,059**	**31,291**
Minority interest	1	1	1	*0*	1	1
Net profit	**24,441**	**27,111**	**26,554**	*(2.1)*	**31,060**	**31,292**
Adjusted profit	**23,026**	**29,111**	**26,554**	*(8.8)*	**31,060**	**31,292**
Cashflow (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**11,479**	**39,401**	**46,673**	*18.5*	**55,063**	**52,719**
Depreciation/amortisation	48,132	40,414	35,961	*(11)*	39,961	42,258
Working capital changes	(9,158)	(12,976)	(25,851)		(13,858)	10,520
Other items	10,663	6,745	(12,986)		(15,355)	(12,017)
Net operating cashflow	**61,116**	**73,584**	**43,797**	*(40.5)*	**65,811**	**93,480**
Capital expenditure	(47,247)	(88,246)	(40,000)		(75,000)	(72,000)
Free cashflow	**13,869**	**(14,662)**	**3,797**		**(9,189)**	**21,480**
M&A/Others	22,193	3,878	936	*(75.9)*	839	798
Net investing cashflow	**(25,054)**	**(84,368)**	**(39,064)**		**(74,161)**	**(71,202)**
Increase in loans	(18,740)	(20,494)	14,500		21,500	9,500
Dividends	(13,928)	(15,592)	(15,067)		(15,932)	(18,635)
Net equity raised/other	14,524	20,333	(8,991)		(10,607)	(11,369)
Net financing cashflow	**(18,144)**	**(15,753)**	**(9,558)**		**(5,039)**	**(20,504)**
Incr/(decr) in net cash	17,918	(26,537)	(4,825)		(13,390)	1,774
Exch rate movements	831	(748)	0		0	0
Balance sheet (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	51,654	24,369	19,544	*(19.8)*	6,154	7,928
Accounts receivable	24,056	22,436	33,033	*47.2*	39,641	33,146
Other current assets	23,864	28,622	27,452	*(4.1)*	28,302	28,525
Fixed assets	195,964	232,134	236,982	*2.1*	272,927	303,616
Investments	56,204	54,641	54,754	*0.2*	54,967	55,180
Intangible assets	68,583	67,834	67,834	*0*	67,834	67,834
Other non-current assets	62,425	95,000	95,000	*0*	95,000	95,000
Total assets	**482,750**	**525,036**	**534,598**	*1.8*	**564,825**	**591,228**
Short-term debt	20,441	19,722	38,000	*92.7*	30,000	32,000
Accounts payable	74,610	77,845	61,420	*(21.1)*	55,021	59,268
Other current liabs	97,557	103,666	103,666	*0*	103,666	103,666
Long-term debt/CBs	155,835	172,859	169,081	*(2.2)*	198,581	206,081
Provisions/other LT liabs	17,641	34,645	34,645	*0*	34,645	34,645
Shareholder funds	118,353	117,991	129,478	*9.7*	144,604	157,260
Minorities/other equity	(1,687)	(1,692)	(1,692)		(1,692)	(1,692)
Total liabs & equity	**482,750**	**525,036**	**534,598**	*1.8*	**564,825**	**591,228**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	3.0	2.7	6.1		11.7	4.4
Ebitda margin (%)	36.2	47.2	46.0		47.4	45.4
Ebit margin (%)	7.0	23.3	26.0		27.5	25.2
Net profit growth (%)	3.4	10.9	(2.1)		17.0	0.7
Op cashflow growth (% YoY)	8.9	20.4	(40.5)		50.3	42.0
Capex/sales (%)	28.7	52.2	22.3		37.4	34.4
Net debt/equity (%)	106.8	144.6	146.8		155.6	147.9
Net debt/Ebitda (x)	2.1	2.1	2.3		2.3	2.4
ROE (%)	21.1	22.9	21.5		22.7	20.7
ROIC (%)	4.8	12.5	11.7		12.0	10.4

Source: www.clsa.com

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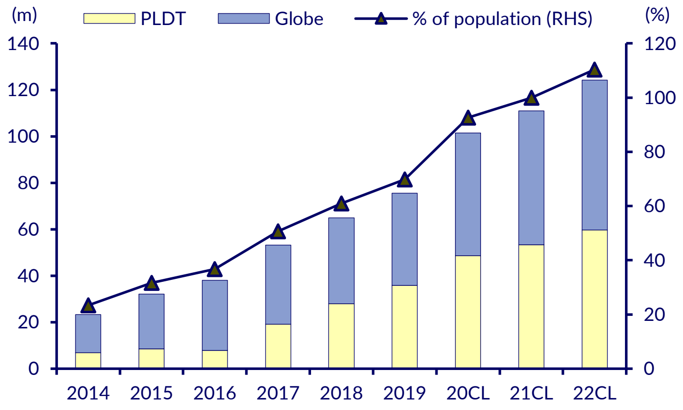
Philippines has reached critical mass in terms of data users

Pandemic impact accelerates adoption

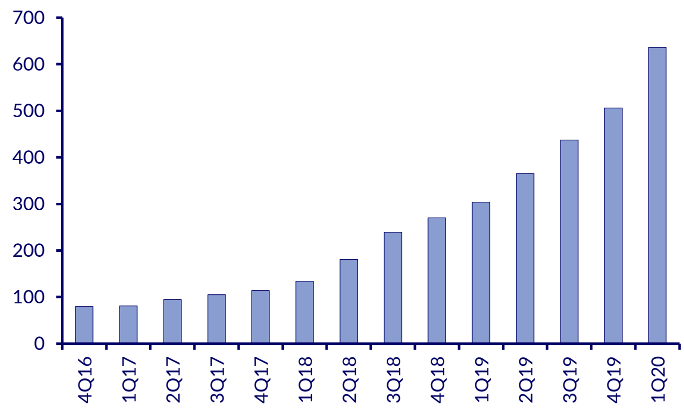
Even before Covid-19, the Philippines had already hit critical mass in terms of data users. What the country needed was a boost on user spending. Despite surpassing 70m users in 2019, average data consumption still lagged against regional peers. However, the sheer base of users has allowed PLDT to see Ebitda margins scale back to the 50-level.

Data users



Source: CLSA, Globe, PLDT

Average data consumption in Petabytes

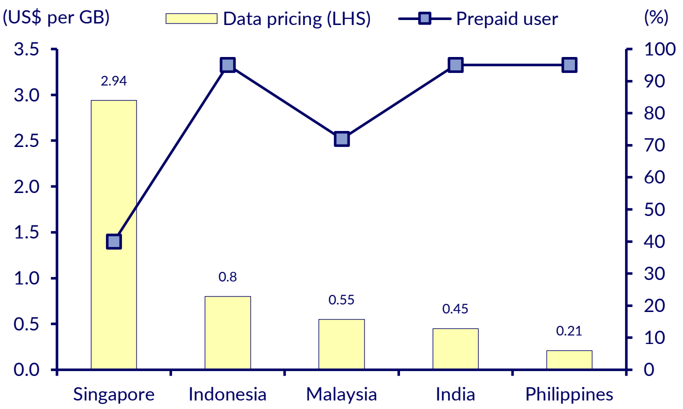


Source: CLSA, PLDT

PLDT to ride the growth in both mobile and home broadband

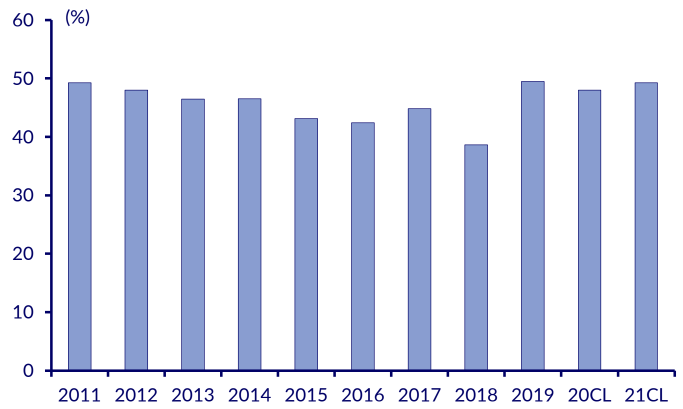
We believe that PLDT is a key beneficiary of accelerating demand for data on both mobile and broadband. Despite falling data prices, the group is able to capitalise on its current base of data users. This is reflected in the margin recovery the group has seen in the past few years; we expect this to continue into 2021.

Regional data pricing



Source: CLSA, Globe, PLDT

Ebitda margins



Source: CLSA, PLDT

The pandemic has boosted the need for data plans which will result in higher spending in a post-Covid environment. Broadband penetration remains low and PLDT is well positioned to capitalise on this long-term growth segment. We believe that home broadband will continue to be one of the main drivers of growth over the next five years. We think PLDT can sustain its number-1 market share given its larger infrastructure as compared to its main competitor (Globe Telecom) and smaller internet service providers.

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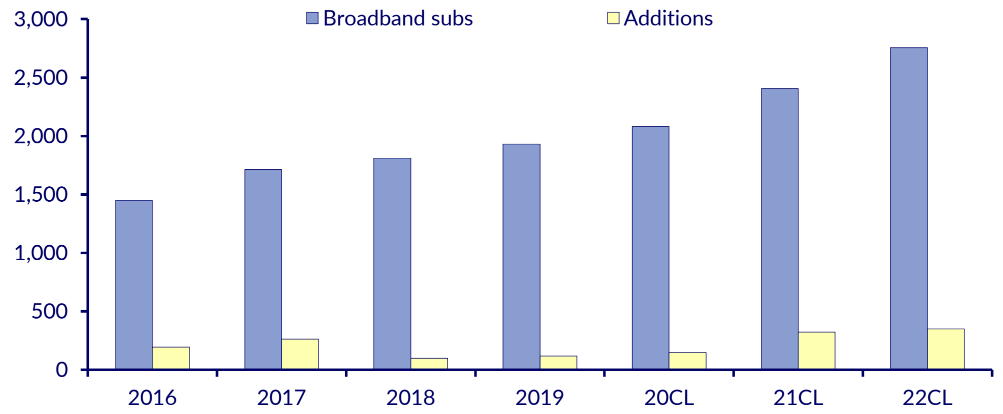
Broadband demand is expected to pick-up in 2021

Limited mobility and construction works is a hurdle for fixed home connections in 2020

Broadband users

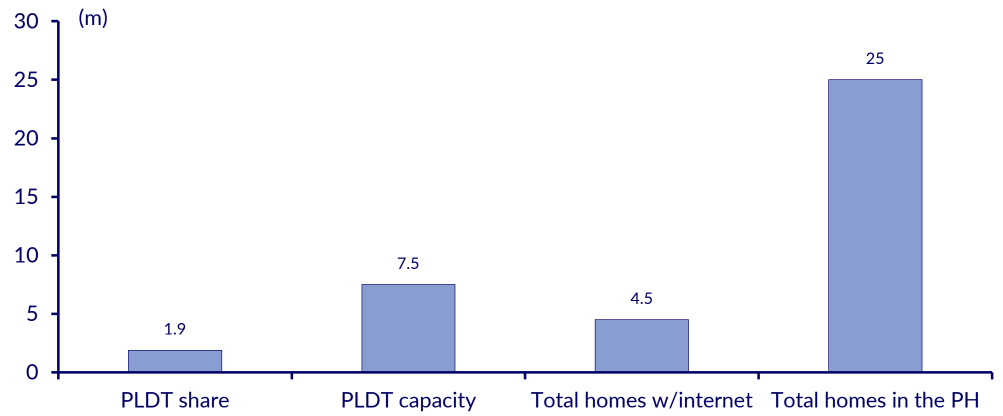


Source: CLSA, PLDT

Broadband penetration remains low in the country

PLDT is well positioned to capitalise on pent-up demand

Home capacity and opportunity of PLDT



Source: CLSA, PLDT

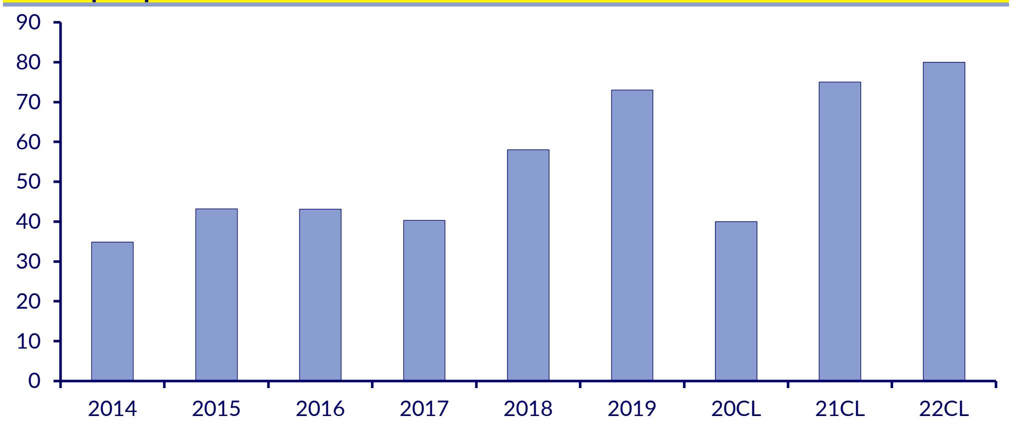
Network infrastructure key to staying ahead of competition

In a data-driven world, consumers stay with operators that can provide the necessary quality for key use cases in mobile and home. As users become more data-dependent, management will be prioritising network quality. Increasing operating leverage will allow PLDT to sustain its elevated capex program, which will be crucial to keeping market share. Its large home broadband infrastructure is another key advantage.

We expect a dip in capex spend in 2020 due to limited construction capacity

However, this will remain elevated from 2021 onwards

PLDT capex spend



Source: CLSA, PLDT

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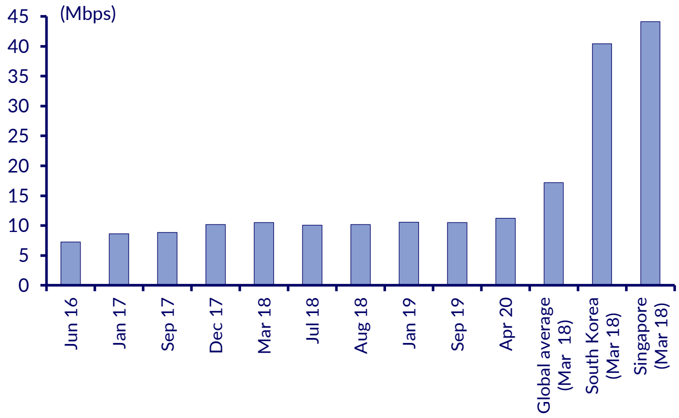
Network quality will be the key priority of management

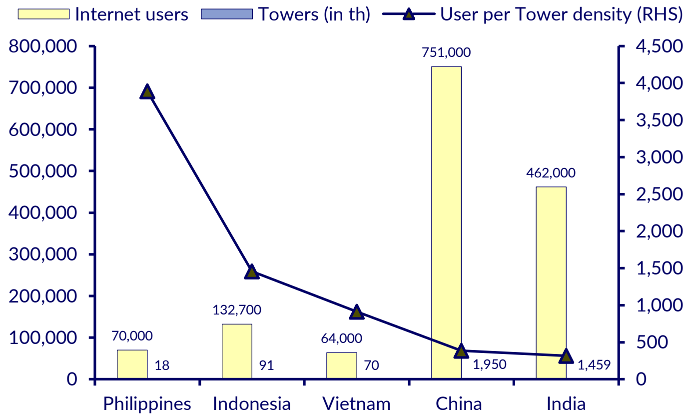
Acquiring the San Miguel frequencies in 2016 allowed PLDT and Globe to fast-track the upshift from 3G to 4G, which came at the same time that data usage started to accelerate. However, average download speeds have yet to be on par with those of global peers. This is due to the lack of cell sites in the country. Thankfully, network quality has been manageable during the lockdown. Management's main priority is to have a reliable network as data remains to the key driver. Covid-19 also contributed to delays of the official roll-out of a third market player to 2022.

Average download speeds (LTE)



Source: CLSA, Open Signal

Cell site density



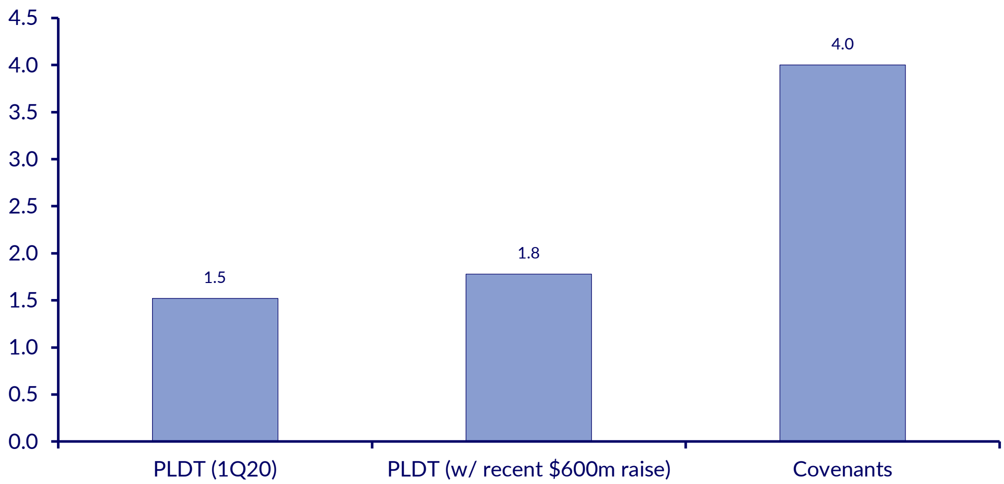
Source: CLSA

Data demand to support growth

As the group capitalises on the demand for data, this should help lower balance sheet and liquidity risk for the operator. It is a key advantage to PLDT that more than 70% of revenues are now data-driven. The group's balance sheet profile remains healthy with net debt/equity at 1.52x (versus covenants of 4.0x).

The group is in a strong position to lever up

Gearing levels net debt/equity



Source: CLSA, PLDT

Hedged operating cashflows should continue to support this

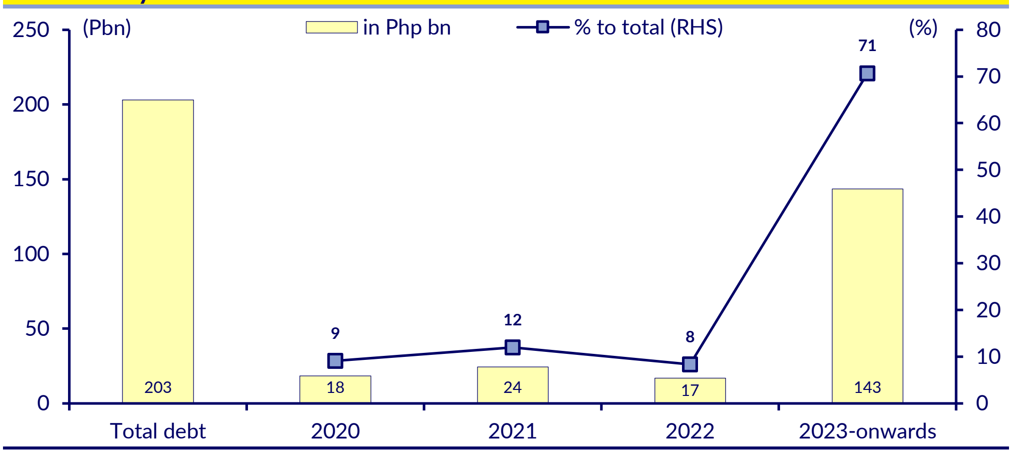
Moreover, about 71% of total debt is still set to mature in 2023 and beyond. The group has also managed to keep average cost of debt low at 4.8% as of 1Q20. It also recently raised US$600m in the international debt market that fetched rates of 2.5-3.5%, effectively lowering the group's average cost of debt. The proceeds should help refinance short-term debt and fund capex spend for the year.

Prepared for - W: matthew_goh@summarecon.com

More than two-thirds of total debt is set to mature in 2023 onwards

The groups recent funding reflects confidence as well in the long-term prospects of PLDT

Debt maturity of PLDT



Source: CLSA, PLDT

Reiterate BUY rating

Core business is valued at a discount to mean valuations due to uncertainty of the third player

We value PLDT using a SOTP approach, valuing its: 1) core business operations on a forward (end-21CL) EV/Ebitda multiple of 5.5x, taking into account long-term risk of the third player and priced approximately one standard deviation below its mean; and 2) 48% stake in e-wallet player Voyager that we value at EV/sales of 8.0x, which is at a discount to global payment and card network peers.

Voyager is 18% of telco SOTP

SOTP table

Segment	(Pm)	Per share	% of NAV	Valuation
Core business	300,231	1,390	82	EV/Ebitda 5.5x 21CL
Voyager	66,441	308	18	EV/sales of 8.0x 21CL (48.74% stake)
Total	**366,672**	**1,698**		
Net asset value (Pm)	366,672			
Current number of shares (m)	216			
NAV/share	1,698			

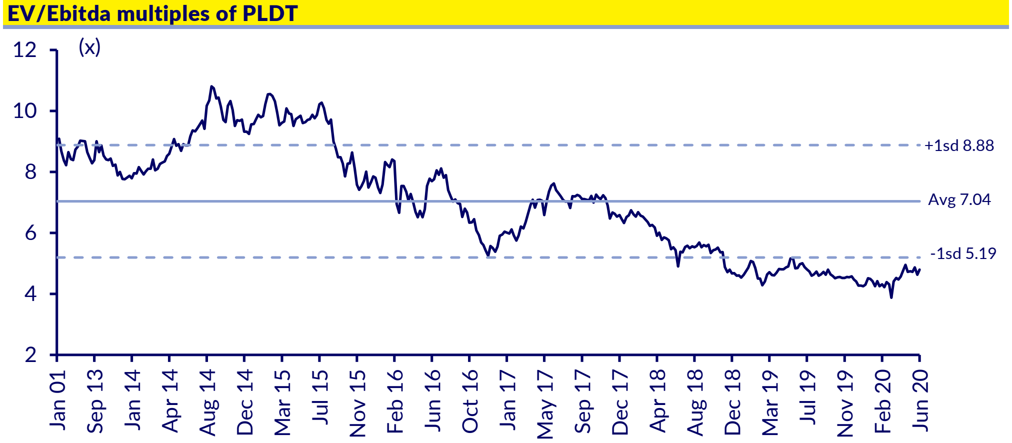
Source: CLSA

The telecom sector has experienced a de-rating in valuations ever since news broke that the government was seeking to introduce a third player in the sector in 2017. EV/Ebitda multiples halved over the past five years. Our assumption is that the third player will be a functional operator by 2022. To factor in this risk, we price the core business at 5.5x 21CL EV/Ebitda, around one standard deviation below its mean. We note upside risk if the third player is further delayed to 2023.

Third-player woes de-rates valuations of incumbents

Covid-19 was a positive catalyst for the stock, making it one of the outliers

EV/Ebitda multiples of PLDT



Source: CLSA

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We value e-wallet arm Voyager using 8.0x 21CL EV/Sales

For its e-wallet arm, Voyager, we value the business at 8.0x 21CL EV/sales, which is at a discount to global payment and card network peers of 12.0x. We price in the discount to take into account execution risk on the side of Voyager. The Philippines' key building blocks are high smartphone ownership, cheap data, low banking penetration, and high social media engagement, which will drive growth for the eWallet players. Deeper ecommerce adoption should supplement this thesis.

Global payment and card network peers trade at EV/Sales of 12.0x

Global payment peers EV/sales

	Mkt cap (US$m)	2020	2021
Merchant acquirers			
PayPal	197,317.74	9.7	8.3
Global Payments	53,970.64	9.5	8.2
Average		**9.6**	**8.3**
Card networks			
Visa	376,863.64	17.6	15.9
MasterCard	305,990.24	19.8	16.4
Average		**18.7**	**16.2**
Lending			
Moneysupermarket	2,219.01	4.8	4.5
LexinFintech	2,025.63	1.6	1.4
Finvolution	495.31	0.4	0.3
Average		**2.3**	**2.0**
Remittance			
Money Gram	205.54	1.0	1.0
Western Union	8,908.42	2.4	2.3
Average		**1.7**	**1.6**
Blended average (Payment and Cards)		14.1	12.2
Blended average		8.1	7.0

Source: CLSA

Valuation details

We value PLDT using the sum-of-the-parts approach as we value : 1) core business operations on a forward EV/Ebitda multiple of 5.5x end-21CL, taking into account long-term risk of the third player and priced one standard deviation below its mean; and 2) a c.48% stake in e-wallet player Voyager that we value at EV/sales of 8.0x, which is at a discount to global payment and card network peers.

Investment risks

Faster-than-expected breach of data-related revenue streams is an upside risk. Potential entry of a third player, intense competition, and increased capex associated with network modernisation are near-term risks to earnings, cashflows, and our target price. Additional downside risk could come from a longer-than-expected impact from Covid-19, which could further weaken mobile load top-ups from the mass market segment.

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Detailed financials

Profit & Loss (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	165,262	159,926	164,752	169,187	179,479	200,457	209,304
Cogs (ex-D&A)	(16,753)	(13,633)	(14,427)	(13,429)	(16,363)	(17,363)	(20,164)
Gross Profit (ex-D&A)	148,509	146,293	150,325	155,758	163,116	183,094	189,141
Research & development costs	0	0	0	0	0	0	0
Selling & marketing expenses	(7,687)	(5,908)	(6,340)	(5,395)	(7,751)	(8,489)	(8,065)
Other SG&A	(69,693)	(69,866)	(74,015)	(65,715)	(70,690)	(77,338)	(83,660)
Other Op Expenses ex-D&A	(4,453)	(2,756)	(10,359)	(4,833)	(2,041)	(2,244)	(2,438)
Op Ebitda	66,676	67,763	59,611	79,815	82,634	95,024	94,978
Depreciation/amortisation	(35,384)	(52,750)	(48,132)	(40,414)	(35,961)	(39,961)	(42,258)
Op Ebit	31,292	15,013	11,479	39,401	46,673	55,063	52,719
Interest income	1,046	1,412	1,943	1,745	1,745	1,745	1,745
Interest expense	(7,354)	(7,370)	(7,067)	(8,553)	(8,991)	(10,607)	(11,369)
Net interest inc/(exp)	(6,308)	(5,958)	(5,124)	(6,808)	(7,246)	(8,862)	(9,624)
Associates/investments	2,177	3,439	999	(1,819)	(3,055)	(3,393)	44
Forex/other income	(2,785)	(411)	(771)	424	424	424	424
Asset sales/other cash items	4,284	7,988	13,938	1,138	1,138	1,138	1,138
Provisions/other non-cash items	0	10,170	10,055	5,191	0	0	0
Asset revaluation/Exceptional items	(6,589)	(5,502)	(2,294)	(867)	0	0	0
Profit before tax	22,071	24,739	28,282	36,660	37,933	44,369	44,702
Taxation	(1,909)	(1,103)	(3,842)	(9,550)	(11,380)	(13,311)	(13,410)
Profit after tax	20,162	23,636	24,440	27,110	26,553	31,059	31,291
Preference dividends	-	-	-	-	-	-	-
Profit for period	20,162	23,636	24,440	27,110	26,553	31,059	31,291
Minority interest	1	1	1	1	1	1	1
Net profit	20,163	23,637	24,441	27,111	26,554	31,060	31,292
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	20,163	23,637	24,441	27,111	26,554	31,060	31,292
Dividends	(22,987)	(16,617)	(13,928)	(15,592)	(15,067)	(15,932)	(18,635)
Retained profit	(2,824)	7,020	10,513	11,519	11,488	15,128	12,657
Adjusted profit	27,858	19,605	23,026	29,111	26,554	31,060	31,292
EPS (P)	93.3	109.4	113.1	125.5	122.9	143.8	144.8
Adj EPS [pre excep] (P)	128.9	90.7	106.6	134.7	122.9	143.8	144.8
Core EPS (P)	128.9	90.7	106.6	134.7	122.9	143.8	144.8
DPS (P)	106.4	76.9	64.5	72.2	69.7	73.7	86.3

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	(3.4)	(3.2)	3.0	2.7	6.1	11.7	4.4
Ebitda growth (% YoY)	(5.0)	1.6	(12.0)	33.9	3.5	15.0	0.0
Ebit growth (% YoY)	(16.8)	(52.0)	(23.5)	243.2	18.5	18.0	(4.3)
Net profit growth (%)	(8.7)	17.2	3.4	10.9	(2.1)	17.0	0.7
EPS growth (% YoY)	(8.7)	17.2	3.4	10.9	(2.1)	17.0	0.7
Adj EPS growth (% YoY)	(20.9)	(29.6)	17.4	26.4	(8.8)	17.0	0.7
DPS growth (% YoY)	(12.8)	(27.7)	(16.2)	11.9	(3.4)	5.7	17.0
Core EPS growth (% YoY)	(20.9)	(29.6)	17.4	26.4	(8.8)	17.0	0.7
Margins (%)							
Ebitda margin (%)	40.3	42.4	36.2	47.2	46.0	47.4	45.4
Ebit margin (%)	18.9	9.4	7.0	23.3	26.0	27.5	25.2
Net profit margin (%)	12.2	14.8	14.8	16.0	14.8	15.5	15.0
Core profit margin	16.9	12.3	14.0	17.2	14.8	15.5	15.0
Op cashflow margin	29.6	35.1	37.1	43.5	24.4	32.8	44.7
Returns (%)							
ROE (%)	17.3	20.8	21.1	22.9	21.5	22.7	20.7
ROA (%)	6.1	3.1	2.1	5.8	6.2	7.0	6.4
ROIC (%)	13.7	6.7	4.8	12.5	11.7	12.0	10.4
ROCE (%)	12.4	5.7	4.5	14.5	15.1	15.8	13.7
Other key ratios (%)							
Effective tax rate (%)	8.6	4.5	13.6	26.1	30.0	30.0	30.0
Ebitda/net int exp (x)	10.6	11.4	11.6	11.7	11.4	10.7	9.9
Exceptional or extraord. inc/PBT (%)	(34.9)	16.3	5.0	(5.5)	0.0	0.0	0.0
Dividend payout (%)	114.0	70.3	57.0	57.5	56.7	51.3	59.6

Source: www.clsa.com

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evaluator The Global Equities Database

Balance sheet (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	38,722	32,905	51,654	24,369	19,544	6,154	7,928
Accounts receivable	24,436	33,761	24,056	22,436	33,033	39,641	33,146
Inventories	3,744	3,933	2,878	3,412	2,242	3,092	3,315
Other current assets	19,227	19,070	20,986	25,210	25,210	25,210	25,210
Current assets	**86,129**	**89,669**	**99,574**	**75,427**	**80,028**	**74,097**	**69,598**
Fixed assets	203,188	186,907	195,964	232,134	236,982	272,927	303,616
Investments	71,311	63,080	56,204	54,641	54,754	54,967	55,180
Goodwill	0	0	0	0	0	0	0
Other intangible assets	70,280	69,583	68,583	67,834	67,834	67,834	67,834
Other non-current assets	44,211	50,205	62,425	95,000	95,000	95,000	95,000
Total assets	**475,119**	**459,444**	**482,750**	**525,036**	**534,598**	**564,825**	**591,228**
Short term loans/OD	33,273	14,957	20,441	19,722	38,000	30,000	32,000
Accounts payable	52,950	60,445	74,610	77,845	61,420	55,021	59,268
Accrued expenses	92,219	90,740	95,724	100,815	100,815	100,815	100,815
Taxes payable	905	233	220	1,179	1,179	1,179	1,179
Other current liabs	2,666	1,716	1,613	1,672	1,672	1,672	1,672
Current liabilities	**182,013**	**168,091**	**192,608**	**201,233**	**203,086**	**188,687**	**194,934**
Long-term debt/leases/other	2	8	0	25	25	25	25
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	184,567	180,162	173,476	207,479	203,701	233,201	240,701
Total liabilities	**366,582**	**348,261**	**366,084**	**408,737**	**406,812**	**421,913**	**435,660**
Share capital	1,093	1,093	1,093	1,093	1,093	1,093	1,093
Retained earnings	3,483	634	12,081	18,063	29,550	44,676	57,332
Reserves/others	109,594	111,223	105,179	98,835	98,835	98,835	98,835
Shareholder funds	**114,170**	**112,950**	**118,353**	**117,991**	**129,478**	**144,604**	**157,260**
Minorities/other equity	(5,633)	(1,767)	(1,687)	(1,692)	(1,692)	(1,692)	(1,692)
Total equity	**108,537**	**111,183**	**116,666**	**116,299**	**127,786**	**142,912**	**155,568**
Total liabs & equity	**475,119**	**459,444**	**482,750**	**525,036**	**534,598**	**564,825**	**591,228**
Total debt	185,034	172,619	176,276	192,581	207,081	228,581	238,081
Net debt	146,312	139,714	124,622	168,212	187,537	222,427	230,153
Adjusted EV	386,994	392,493	384,357	429,505	448,717	483,394	490,906
BVPS (P)	528.4	522.8	547.8	546.1	599.3	669.3	727.9

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Growth in total assets (% YoY)	4.4	(3.3)	5.1	8.8	1.8	5.7	4.7
Growth in capital employed (% YoY)	11.2	(2.3)	(4.4)	18.1	10.5	15.4	5.4
Net debt to operating cashflow (x)	3.0	2.5	2.0	2.3	4.3	3.4	2.5
Gross debt to operating cashflow (x)	3.8	3.1	2.9	2.6	4.7	3.5	2.5
Gross debt to Ebitda (x)	2.8	2.5	3.0	2.4	2.5	2.4	2.5
Net debt/Ebitda (x)	2.2	2.1	2.1	2.1	2.3	2.3	2.4
Gearing							
Net debt/equity (%)	134.8	125.7	106.8	144.6	146.8	155.6	147.9
Gross debt/equity (%)	170.5	155.3	151.1	165.6	162.1	159.9	153.0
Interest cover (x)	4.4	2.2	1.9	4.8	5.4	5.4	4.8
Debt Cover (x)	0.3	0.3	0.3	0.4	0.2	0.3	0.4
Working capital analysis							
Inventory days	91.0	102.8	86.2	85.5	63.1	56.1	58.0
Debtor days	54.5	66.4	64.0	50.2	56.4	66.2	63.5
Creditor days	1,150.7	1,518.0	1,708.4	2,071.9	1,553.2	1,223.9	1,034.4
Working capital/Sales (%)	(61.3)	(60.3)	(75.4)	(77.1)	(58.3)	(45.3)	(48.4)
Capital employed analysis							
Sales/Capital employed (%)	62.1	61.5	66.3	57.6	55.3	53.6	53.0
EV/Capital employed (%)	145.5	151.0	154.7	146.3	138.4	129.1	124.4
Working capital/Capital employed (%)	(38.1)	(37.1)	(50.0)	(44.4)	(32.3)	(24.2)	(25.7)
Fixed capital/Capital employed (%)	76.4	71.9	78.9	79.1	73.1	72.9	76.9
Other ratios (%)							
EV/OCF (x)	7.9	7.0	6.3	5.8	10.2	7.3	5.3
EV/FCF (x)	57.6	20.1	27.7	(29.3)	118.2	(52.6)	22.9
EV/Sales (x)	2.3	2.5	2.3	2.5	2.5	2.4	2.3
Capex/depreciation (%)	122.6	70.5	100.0	222.5	113.8	192.0	174.3

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Cashflow (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	31,292	15,013	11,479	39,401	46,673	55,063	52,719
Operating adjustments	(9,221)	(444)	11,336	(7,932)	(8,739)	(10,693)	(8,018)
Depreciation/amortisation	35,384	52,750	48,132	40,414	35,961	39,961	42,258
Working capital changes	(17,469)	(13,826)	(9,158)	(12,976)	(25,851)	(13,858)	10,520
Interest paid / other financial expenses	5,910	5,602	4,840	5,530	7,246	8,862	9,624
Tax paid	(6,965)	(4,550)	(2,444)	(2,097)	(11,380)	(13,311)	(13,410)
Other non-cash operating items	10,045	1,569	(3,069)	11,244	(113)	(213)	(213)
Net operating cashflow	48,976	56,114	61,116	73,584	43,797	65,811	93,480
Capital expenditure	(42,259)	(36,616)	(47,247)	(88,246)	(40,000)	(75,000)	(72,000)
Free cashflow	6,717	19,498	13,869	(14,662)	3,797	(9,189)	21,480
Acq/inv/disposals	(4,408)	14,833	22,674	3,574	(809)	(906)	(947)
Int, invt & associate div	4,685	723	(481)	304	1,745	1,745	1,745
Net investing cashflow	(41,982)	(21,060)	(25,054)	(84,368)	(39,064)	(74,161)	(71,202)
Increase in loans	(19,650)	(39,199)	(18,740)	(20,494)	14,500	21,500	9,500
Dividends	(22,987)	(16,617)	(13,928)	(15,592)	(15,067)	(15,932)	(18,635)
Net equity raised/others	27,296	15,497	14,524	20,333	(8,991)	(10,607)	(11,369)
Net financing cashflow	(15,341)	(40,319)	(18,144)	(15,753)	(9,558)	(5,039)	(20,504)
Incr/(decr) in net cash	(8,347)	(5,265)	17,918	(26,537)	(4,825)	(13,390)	1,774
Exch rate movements	614	(552)	831	(748)	0	0	0
Opening cash	46,455	38,722	32,905	51,654	24,369	19,544	6,154
Closing cash	38,722	32,905	51,654	24,369	19,544	6,154	7,928
OCF PS (P)	226.7	259.7	282.9	340.6	202.7	304.6	432.7
FCF PS (P)	31.1	90.2	64.2	(67.9)	17.6	(42.5)	99.4

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(29.8)	14.6	8.9	20.4	(40.5)	50.3	42.0
FCF growth (% YoY)	(75.1)	190.3	(28.9)	(205.7)	-	(342.0)	-
Capex growth (%)	(1.3)	(13.4)	29.0	86.8	(54.7)	87.5	(4.0)
Other key ratios (%)							
Capex/sales (%)	25.6	22.9	28.7	52.2	22.3	37.4	34.4
Capex/op cashflow (%)	86.3	65.3	77.3	119.9	91.3	114.0	77.0
Operating cashflow payout ratio (%)	46.9	29.6	22.8	21.2	34.4	24.2	19.9
Cashflow payout ratio (%)	46.9	29.6	22.8	21.2	34.4	24.2	19.9
Free cashflow payout ratio (%)	342.2	85.2	100.4	-	396.8	-	86.8

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	18.9	9.4	7.0	23.3	26.0	27.5	25.2
Asset turnover (x)	0.4	0.3	0.3	0.3	0.3	0.4	0.4
Interest burden (x)	0.7	1.6	2.5	0.9	0.8	0.8	0.8
Tax burden (x)	0.9	1.0	0.9	0.7	0.7	0.7	0.7
Return on assets (%)	6.1	3.1	2.1	5.8	6.2	7.0	6.4
Leverage (x)	4.2	4.3	4.1	4.3	4.3	4.1	3.9
ROE (%)	18.1	21.5	21.5	23.3	21.8	22.9	21.0

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	28,585	14,344	9,920	29,137	32,671	38,544	36,904
Average invested capital	208,020	213,336	206,525	233,620	279,865	320,116	355,102
ROIC (%)	13.7	6.7	4.8	12.5	11.7	12.0	10.4
Cost of equity (%)	10.3	10.3	10.3	10.3	10.3	10.3	10.3
Cost of debt (adj for tax)	4.6	4.8	4.3	3.7	3.5	3.5	3.5
Weighted average cost of capital (%)	7.4	7.5	7.3	6.9	6.8	6.8	6.8
EVA/IC (%)	6.4	(0.8)	(2.5)	5.5	4.8	5.2	3.5
EVA (Pm)	13,210	(1,652)	(5,087)	12,900	13,501	16,617	12,580

Source: www.clsa.com

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Sea Limited

US$144.15 - BUY

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9 September 2020

Singapore

Internet

Reuters	SE.N
Bloomberg	SE US

Priced on 7 September 2020
STI @ 2,511.2

12M hi/lo	US$161.80/26.70
12M price target	US$178.00
±% potential	+23%
Shares in issue	436.6m
Free float (est.)	37.8%
Market cap	US$70.3bn
3M ADV	US$586.3m
Foreign s'holding	37.8%

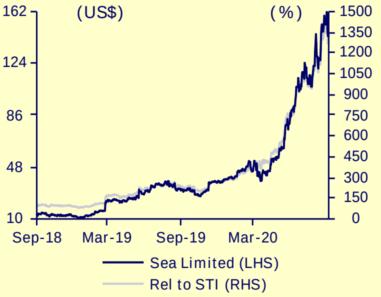
Major shareholders
Founder & management 36.6%
Tencent 25.6%

Blended ESG Score (%)*	
Overall	60.5
Country average	69.8
GEM sector average	60.0

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	4.3	60.7	356.0
Relative	9.5	76.1	471.0
Abs (US$)	4.3	60.7	356.0



Source: Bloomberg

Going viral

Sea's two main businesses dominate the Asean internet space

Internet platform provider Sea Ltd has adapted well to the pandemic environment. Sea's Shopee ecommerce platform is gaining share after proving adept at providing relevant product offerings to the Covid-19 situation. We continue to believe that over time it will be the region's No. 1 ecommerce platform. Meanwhile, its eGaming business is benefitting from self-developed hit *Free Fire*'s huge popularity, which shows no signs of waning, particularly amid increased time at home. We view Sea Ltd as the best way to play the Asean internet theme.

Momentum continues in 2020

After a strong 1Q, Sea's recent 2Q results far exceeded expectations, coming in well above the high end of consensus. Growth rates have reaccelerated, indicating that Sea has adapted well to the pandemic environment, as digital adoption accelerates in the region's nascent internet economy.

Garena continues to benefit from Free Fire popularity

According to app data aggregator App Annie, Garena's hugely popular self-developed *Free Fire* was the most popular game in Asean and Latin America in 2Q20. Momentum has reaccelerated since Covid-19 struck, as locked-down gamers have been afforded more screen time. User adoption has surged while paying ratio and Arppu have also benefitted. Ebitda margins also hit an all-time high. The popularity shows no signs of waning, with July said to be Garena's best-ever month.

Shopee gaining share; we think it will become Asean's No. 1 operator

Indicating that 1Q was no fluke, Shopee once again exceeded GMV expectations in 2Q, as it continues to adapt quicker than peers to the pandemic environment. Management nimbly shifted product exposures to those that were expected to do better in a locked-down world: household essentials, health & hygiene products and other fast-moving consumer goods. Sea's platform is gaining share and we believe it will become the No. 1 operator in Asean.

A long-term play on the Asean internet economy

The stock has had a strong run in the last 18 months; we believe this is justified by a strong top-line trajectory and Sea's emergence as the key winner in Asean's emerging internet space. We believe we are still at the early stages of remarkable growth as Asean catches up with more developed markets. Sea is likely to be a key player in e-gaming, ecommerce and eventually fintech. We reiterate our BUY rating with an US$178 target price, based on an SOTP valuation.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (US$m)	827	2,175	3,978	6,983	9,843
Net income (US$m)	(961)	(1,458)	(1,580)	(1,057)	(654)
EPS (US¢)	(283.9)	(333.9)	(271.9)	(181.9)	(112.6)
CL/consensus (9) (EPS%)	-	-	114	164	(471)
EPS growth (% YoY)	nm	nm	nm	nm	nm
PE (x)	nm	nm	nm	nm	nm
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	(1.4)	(0.3)	0.2	0.8	1.2
PB (x)	(200.7)	54.1	(381.7)	(76.9)	(65.0)
ROE (%)	(850.9)	(317.1)	(321.1)	198.5	67.6
Net debt/equity (%)	418.0	(263.3)	2,616.4	588.3	606.7

Source: www.clsa.com

Find CLSA research on Bloomberg, Thomson Reuters, FactSet and CapitalIQ - and profit from our **evalu@tor** proprietary database at clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (US$m)						
Revenue	**827**	**2,175**	**3,978**	*82.9*	**6,983**	**9,843**
Cogs (ex-D&A)	(812)	(1,570)	(3,029)		(4,398)	(5,884)
Gross Profit (ex-D&A)	**15**	**605**	**949**	*56.8*	**2,586**	**3,958**
SG&A and other expenses	(925)	(1,375)	(2,242)		(3,299)	(4,115)
Op Ebitda	**(910)**	**(770)**	**(1,294)**		**(714)**	**(157)**
Depreciation/amortisation	(79)	(121)	(171)		(276)	(441)
Op Ebit	**(989)**	**(891)**	**(1,465)**		**(989)**	**(597)**
Net interest inc/(exp)	(20)	(14)	(112)		(63)	(53)
Other non-Op items	55	(463)	72		-	-
Profit before tax	**(954)**	**(1,369)**	**(1,506)**		**(1,053)**	**(650)**
Taxation	(4)	(86)	(70)		-	-
Profit after tax	**(958)**	**(1,454)**	**(1,576)**		**(1,053)**	**(650)**
Minorities/pref divs/affils	(3)	(3)	(4)		(4)	(4)
Net income	**(961)**	**(1,458)**	**(1,580)**		**(1,057)**	**(654)**
Adjusted profit	**(961)**	**(1,458)**	**(1,580)**		**(1,057)**	**(654)**
Cashflow (US$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Net income	**(961)**	**(1,458)**	**(1,580)**		**(1,057)**	**(654)**
Depreciation/amortisation	79	121	171	*41.2*	276	441
Working capital changes	210	373	1,281	*243.7*	884	497
Other items	-	-	-		-	-
Net operating cashflow	**(495)**	**70**	**645**	*823.1*	**1,516**	**2,129**
Capital expenditure	(178)	(247)	(477)		(768)	(984)
Free cashflow	**(674)**	**(177)**	**168**		**748**	**1,145**
M&A/Others	(46)	(116)	0		0	0
Net investing cashflow	**(225)**	**(363)**	**(477)**		**(768)**	**(984)**
Increase in loans	565	1,041	1,150	*10.4*	-	-
Dividends	0	0	0		0	0
Net equity raised/other	(18)	1,538	0		-	-
Net financing cashflow	**547**	**2,580**	**1,150**	*(55.4)*	**0**	**0**
Incr/(decr) in net cash	(173)	2,286	1,318	*(42.4)*	748	1,145
Exch rate movements	(171)	(170)	0		0	0
Balance sheet (US$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	1,003	3,119	4,437	*42.2*	5,185	6,329
Accounts receivable	98	187	278	*48.9*	489	689
Other current assets	610	1,104	1,205	*9.2*	1,477	1,750
Fixed assets	192	319	640	*100.8*	1,132	1,676
Investments	111	114	114	*0*	114	114
Intangible assets	44	46	31	*(32.7)*	31	31
Other non-current assets	135	336	336	*0*	336	336
Total assets	**2,193**	**5,224**	**7,041**	***34.8***	**8,763**	**10,925**
Short-term debt	1	31	31	*0*	31	31
Accounts payable	37	69	122	*76.4*	179	234
Other current liabs	1,148	2,262	3,683	*62.8*	4,992	5,908
Long-term debt/CBs	1	0	0	*0*	0	0
Provisions/other LT liabs	1,245	1,689	3,372	*99.7*	4,436	5,790
Shareholder funds	(243)	1,162	(179)		(886)	(1,048)
Minorities/other equity	4	10	10	*0*	10	10
Total liabs & equity	**2,193**	**5,224**	**7,041**	***34.8***	**8,763**	**10,925**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	99.7	163.1	82.9		75.6	40.9
Ebitda margin (%)	(110.0)	(35.4)	(32.5)		(10.2)	(1.6)
Ebit margin (%)	(119.6)	(41.0)	(36.8)		(14.2)	(6.1)
Net profit growth (%)	nm	nm	nm		nm	nm
Op cashflow growth (% YoY)	nm	nm	823.1		135.1	40.4
Capex/sales (%)	21.6	11.4	12.0		11.0	10.0
Net debt/equity (%)	418.0	(263.3)	2,616.4		588.3	606.7
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	(850.9)	(317.1)	(321.1)		198.5	67.6
ROIC (%)	-	-	-		-	-

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Garena: from publisher to developer

Garena is evolving from its early days as a publisher

Garena, the company's eGaming business, has traditionally been reliant on third-party relationships. The company, through those relationships, releases third-party content in its core regions of Asean and Taiwan after localising the products. The localisation, including translations and adding elements that that monetise well in the respective countries, helps intellectual property (IP) owners to quickly scale and easily improve chances of monetisation.

Garena has a longstanding relationship with Chinese gaming behemoth Tencent, which is a key strategic holder of Sea. Through this relationship, Garena has first right of refusal on all of Tencent's games in Asean and Taiwan, with the exception of Vietnam, as Tencent is also a shareholder of another local player there.

Its self-developed hit, Free Fire, has been a massive success

In recent years, Garena has branched out from a publisher of other developers' titles to a developer in its own right, with the launch of *Free Fire*. This game has been a global hit, hitting the No. 1 spot in many countries and regions around the world, including Latin America and the Middle East.

Going forward, the company plans to continue to support *Free Fire* and push for even greater customer engagement while balancing the need for more self-developed content. Sea's strong relationships with key gaming developers should continue to support its pipeline.

Shopee: winning the space

Despite coming to the table late, Shopee has caught up to peers in a short space of time

In the ecommerce business, Shopee has gained material market share since launching in 2015. It is either a top 1 or 2 operator in most of the key countries in which it operates. The competition is stronger in this sector than in the e-gaming space, with established operators Lazada and Tokopedia also offering popular services.

From its early days, Shopee carved out a niche that was separate from the competition. Its focus on social media, fashion and apparel and the mobile app set it apart from the competition, and it has closed the gap with key rivals.

Asean's ecommerce marketplace is still 6-7 years behind China's, in our view. This offers investors the opportunity to again participate in China's extraordinary internet rise. Sea, in our view, stands tallest amongst peers in both ecommerce and e-gaming, given the rising popularity of both platforms. Their fintech operation is also burgeoning.

Well-capitalised

Sea is sitting on a huge cash pile to take advantage of the large growth ahead in the sector

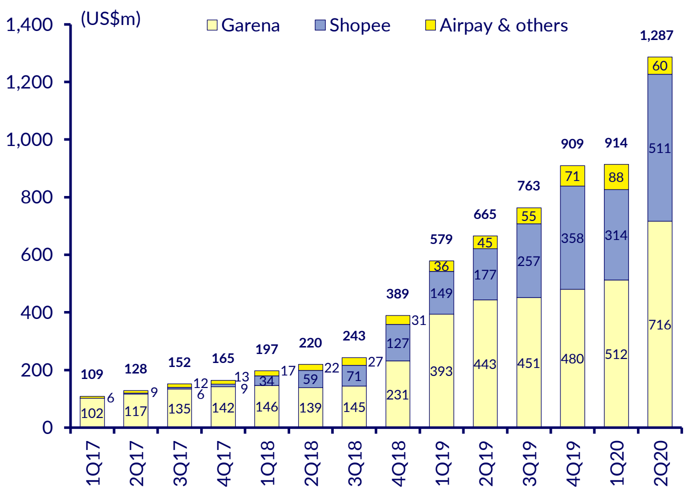
The company is well-capitalised to benefit from strong expected growth. The company is sitting on roughly US$3bn in cash after the most recent convertible bond issuance in May. With a highly profitable gaming business supporting the still loss-making ecommerce business, Shopee is on strong footing that should enable it to weather the intense competition expected in the coming years.

We value Sea on a sum-of-the-parts basis, comprising Shopee, Garena and net cash. We value Shopee 21CL P/GMV at 1.0x on its winner status and Garena on 20x 21CL PE, given the rerating of global gaming. We currently do not ascribe a valuation to the SeaMoney payments business, given that its profitability remains some time off, in our view.

Prepared for - W: matthew_goh@summarecon.com

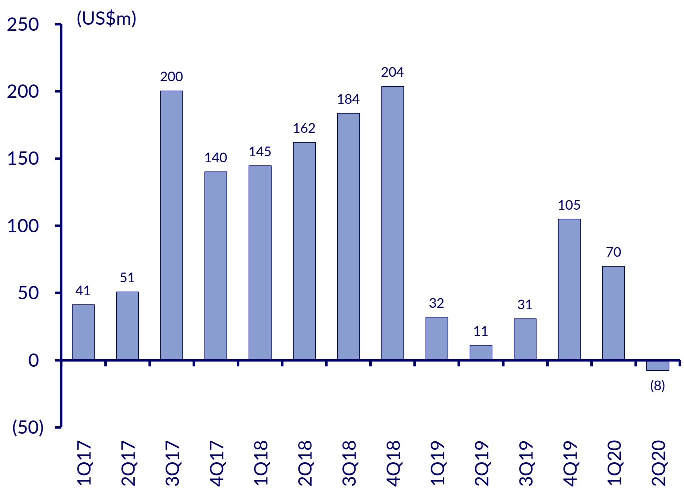
Key charts

Group adjusted revenue



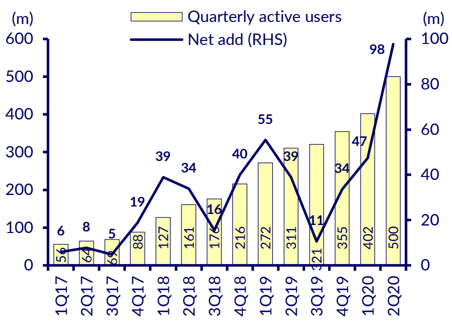
Source: Sea

Group adjusted Lbitda



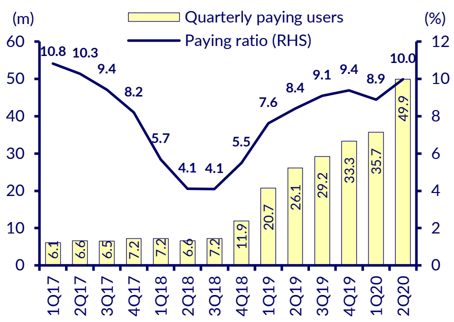
Source: Sea

Garena: quarterly active users (QAUs)



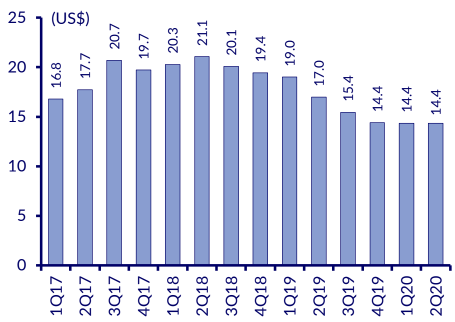
Source: Sea

Garena: quarterly paying users (QPUs)



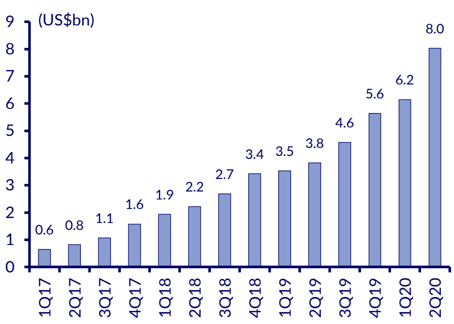
Source: Sea

Garena: quarterly Arppu



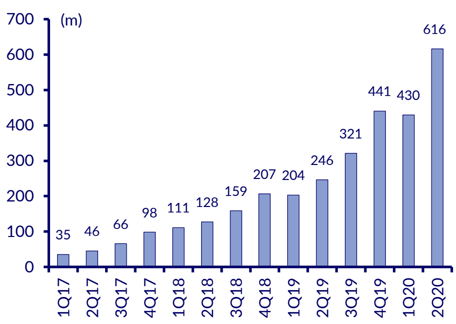
Source: Sea

Shopee: gross GMV



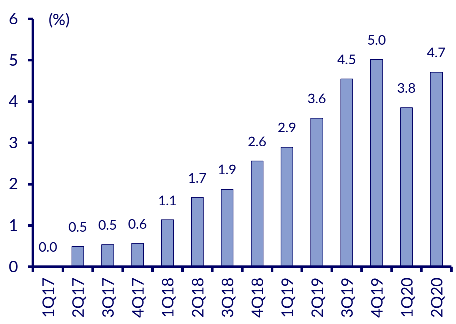
Source: Sea

Shopee: gross orders



Source: Sea

Shopee: marketplace take rate



Source: Sea

SOTP valuation

Segment	Valuation method	Base value (US$bn)	Multiple (x)	Valuation (US$bn)	Per ADR (US$)
Garena	21CL PE on adjusted net earnings	1.66	20.0	33.3	56.0
Shopee	21CL P/GMV	67.0	1.0	67.0	112.8
Airpay	No valuation				
Net cash	End 20CL[1]	5.3		5.3	9.0
Total				**105.6**	**178**

[1] We assume 2018, 2019 and 2020 convertible instruments are fully converted; diluted share count is assumed to be 594m. Source: CLSA

Prepared for - W: matthew_goh@summarecon.com

Valuation details

We value Sea Limited on a sum-of-the-parts basis, comprising Garena, Shopee and net cash. Garena is valued based on a 20x FY21CL PE multiple on forward cash adjusted net earnings, set at a 30% discount to global peers, given a less established track record in games development and a high concentration risk in its hit title, Free Fire. Shopee is valued on a forward P/GMV multiple of 1x, which we deem fair versus global competitors, despite the lack of profitability and shorter track record, as the growth expectations are far greater and we increasingly believe that Shopee will be the key winner in the Asean ecommerce space. We still ascribe zero valuation to SeaMoney, as we have yet to see tangible evidence that this can be more than just a support business to Sea Ltd's two main businesses.

Investment risks

The key risk is a more adverse impact from Covid-19 than factored in; this could hinder the ecommerce business if consumer confidence is weak. Sea also faces different competitors in each of its business lines. Online gaming is an inherently low-visibility segment due to rapid changes in user tastes, development of new technologies, and competition from other games studios. Success of new games in Garena's pipeline and games updates are not guaranteed. In addition, Southeast Asia ecommerce, especially in Indonesia, is competitive. A change of tax structure to include small merchants in Indonesia may also hinder growth. Shopee's monetisation might be delayed. Similar to Chinese internet companies, Sea operates under foreign-ownership restrictions and a variable-interest-entity structure and has a dual-class shareholding structure.

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evalu@tor The Global Equities Database

Detailed financials

Profit & Loss (US$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**346**	**414**	**827**	**2,175**	**3,978**	**6,983**	**9,843**
Cogs (ex-D&A)	(233)	(327)	(812)	(1,570)	(3,029)	(4,398)	(5,884)
Gross Profit (ex-D&A)	**113**	**87**	**15**	**605**	**949**	**2,586**	**3,958**
Research & development costs	(21)	(29)	(68)	(157)	(239)	(349)	(492)
Selling & marketing expenses	(187)	(426)	(705)	(970)	(1,688)	(2,601)	(3,335)
Other SG&A	(73)	(97)	(162)	(265)	(445)	(492)	(445)
Other Op Expenses ex-D&A	2	3	10	16	130	143	157
Op Ebitda	**(166)**	**(461)**	**(910)**	**(770)**	**(1,294)**	**(714)**	**(157)**
Depreciation/amortisation	(40)	(41)	(79)	(121)	(171)	(276)	(441)
Op Ebit	**(205)**	**(502)**	**(989)**	**(891)**	**(1,465)**	**(989)**	**(597)**
Interest income	1	3	12	34	44	62	73
Interest expense	0	(27)	(31)	(48)	(156)	(125)	(125)
Net interest inc/(exp)	1	(24)	(20)	(14)	(112)	(63)	(53)
Associates/investments	9	(18)	50	(461)	59	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	(2)	(4)	5	(2)	13	0	0
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**(197)**	**(549)**	**(954)**	**(1,369)**	**(1,506)**	**(1,053)**	**(650)**
Taxation	(9)	(11)	(4)	(86)	(70)	-	-
Profit after tax	**(205)**	**(559)**	**(958)**	**(1,454)**	**(1,576)**	**(1,053)**	**(650)**
Minorities and other	(20)	(2)	(3)	(3)	(4)	(4)	(4)
Profit before preference dividends	(225)	(561)	(961)	(1,458)	(1,580)	(1,057)	(654)
Preference dividends	0	0	0	0	0	0	0
Net income	**(225)**	**(561)**	**(961)**	**(1,458)**	**(1,580)**	**(1,057)**	**(654)**
Extraordinaries/others	2	1	0	(5)	0	0	0
Profit avail to ordinary shares	(223)	(560)	(961)	(1,463)	(1,580)	(1,057)	(654)
Dividends	-	-	-	-	-	-	-
Retained profit	(223)	(560)	(961)	(1,463)	(1,580)	(1,057)	(654)
Adjusted profit	**(225)**	**(561)**	**(961)**	**(1,458)**	**(1,580)**	**(1,057)**	**(654)**
EPS (US¢)	(131.5)	(272.8)	(283.9)	(333.9)	(271.9)	(181.9)	(112.6)
Adj EPS [pre excep] (US¢)	(131.5)	(272.8)	(283.9)	(333.9)	(241.9)	(161.8)	(100.2)
Core EPS (US¢)	(131.5)	(272.8)	(283.9)	(333.9)	(271.9)	(181.9)	(112.6)
DPS (US¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	18.3	19.8	99.7	163.1	82.9	75.6	40.9
Ebitda growth (% YoY)	nm	nm	nm	nm	nm	nm	nm
Ebit growth (% YoY)	nm	nm	nm	nm	nm	nm	nm
Net income growth (%)	nm	nm	nm	nm	nm	nm	nm
EPS growth (% YoY)	nm	nm	nm	nm	nm	nm	nm
Adj EPS growth (% YoY)	nm	nm	nm	nm	nm	nm	nm
DPS growth (% YoY)	-	-	-	-	-	-	-
Core EPS growth (% YoY)	nm	nm	nm	nm	nm	nm	nm
Margins (%)							
Ebitda margin (%)	(48.0)	(111.4)	(110.0)	(35.4)	(32.5)	(10.2)	(1.6)
Ebit margin (%)	(59.4)	(121.3)	(119.6)	(41.0)	(36.8)	(14.2)	(6.1)
Net income margin (%)	(65.1)	(135.5)	(116.2)	(67.0)	(39.7)	(15.1)	(6.6)
Core profit margin	(65.1)	(135.5)	(116.2)	(67.0)	(39.7)	(15.1)	(6.6)
Op cashflow margin	(33.2)	(80.7)	(59.9)	3.2	16.2	21.7	21.6
Returns (%)							
ROE (%)	832.9	(326.9)	(850.9)	(317.1)	(321.1)	198.5	67.6
ROA (%)	(46.8)	(41.4)	(47.5)	(25.5)	(25.0)	(12.5)	(6.1)
ROIC (%)	(1,169.8)	-	-	-	-	-	-
ROCE (%)	340.0	104.8	93.7	56.5	45.1	18.7	8.9
Other key ratios (%)							
Effective tax rate (%)	(4.3)	(2.0)	(0.4)	(6.3)	(4.6)	0.0	0.0
Ebitda/net int exp (x)	-	(19.6)	(46.0)	(53.9)	(11.5)	(11.3)	(3.0)
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-	-	-

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Balance sheet (US$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	170	1,347	1,003	3,119	4,437	5,185	6,329
Accounts receivable	35	62	98	187	278	489	689
Inventories	4	10	38	27	27	27	27
Other current assets	101	302	572	1,077	1,178	1,450	1,723
Current assets	**310**	**1,721**	**1,711**	**4,410**	**5,920**	**7,150**	**8,768**
Fixed assets	31	74	192	319	640	1,132	1,676
Investments	45	28	111	114	114	114	114
Goodwill	0	31	31	31	31	31	31
Other intangible assets	30	37	13	15	0	0	0
Other non-current assets	70	97	135	336	336	336	336
Total assets	**486**	**1,988**	**2,193**	**5,224**	**7,041**	**8,763**	**10,925**
Short term loans/OD	2	2	1	31	31	31	31
Current maturities of long term loan	0	0	0	29	29	29	29
Accounts payable	6	9	37	69	122	179	234
Accrued expenses	102	285	637	981	1,764	2,569	3,342
Taxes payable	6	10	10	27	27	27	27
Other current liabs	147	332	502	1,254	1,892	2,396	2,538
Current liabilities	**264**	**638**	**1,186**	**2,362**	**3,836**	**5,202**	**6,172**
Long-term debt/leases/other	-	-	1	0	0	0	0
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	143	875	1,245	1,689	3,372	4,436	5,790
Total liabilities	**406**	**1,513**	**2,432**	**4,052**	**7,209**	**9,639**	**11,963**
Share capital	371	1,565	1,809	4,688	4,688	4,688	4,688
Retained earnings	9	11	15	5	(1,574)	(2,631)	(3,285)
Reserves/others	(505)	(1,106)	(2,068)	(3,531)	(3,292)	(2,943)	(2,451)
Treasury stock	0	0	0	0	0	0	0
Shareholder funds	**(126)**	**469**	**(243)**	**1,162**	**(179)**	**(886)**	**(1,048)**
Minorities/other equity	205	6	4	10	10	10	10
Total equity	**79**	**475**	**(239)**	**1,173**	**(168)**	**(876)**	**(1,038)**
Total liabs & equity	**486**	**1,988**	**2,193**	**5,224**	**7,041**	**8,763**	**10,925**
Total debt	2	2	2	31	31	31	31
Net debt	(168)	(1,345)	(1,001)	(3,088)	(4,406)	(5,153)	(6,298)
Adjusted EV	24,660	28,288	47,683	59,745	63,671	62,923	61,778
BVPS (US¢)	(73.4)	228.0	(71.8)	266.2	(37.8)	(187.4)	(221.6)

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.2	2.7	1.4	1.9	1.5	1.4	1.4
Growth in total assets (% YoY)	13.0	309.3	10.3	138.3	34.8	24.5	24.7
Growth in capital employed (% YoY)	nm	nm	nm	nm	nm	nm	nm
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to Ebitda (x)	0.0	0.0	0.0	0.0	0.0	0.0	(0.2)
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(211.8)	(283.2)	418.0	(263.3)	2,616.4	588.3	606.7
Gross debt/equity (%)	2.3	0.4	(0.8)	2.7	(18.5)	(3.6)	(3.0)
Interest cover (x)	(8,897.7)	(18.8)	(31.2)	(17.8)	(9.1)	(7.4)	(4.2)
Debt Cover (x)	(61.7)	(166.0)	(263.1)	2.2	20.7	48.8	68.5
Working capital analysis							
Inventory days	6.3	7.7	10.7	7.5	3.2	2.2	1.7
Debtor days	39.4	42.7	35.2	23.9	21.4	20.1	21.8
Creditor days	11.7	8.2	10.3	12.4	11.6	12.5	12.8
Working capital/Sales (%)	(35.3)	(63.3)	(57.8)	(47.8)	(58.4)	(45.9)	(37.6)
Capital employed analysis							
Sales/Capital employed (%)	(389.3)	(47.6)	(66.7)	(113.6)	(87.0)	(115.8)	(134.2)
EV/Capital employed (%)	(27,771.7)	(3,250.7)	(3,844.1)	(3,119.4)	(1,392.1)	(1,043.6)	(842.1)
Working capital/Capital employed (%)	137.5	30.1	38.5	54.3	50.8	53.2	50.5
Fixed capital/Capital employed (%)	(35.1)	(8.5)	(15.5)	(16.6)	(14.0)	(18.8)	(22.8)
Other ratios (%)							
EV/OCF (x)	(214.9)	(84.6)	(96.3)	855.1	98.7	41.5	29.0
EV/FCF (x)	(177.7)	(68.3)	(70.8)	(337.1)	379.8	84.1	54.0
EV/Sales (x)	71.3	68.3	57.7	27.5	16.0	9.0	6.3
Capex/depreciation (%)	133.8	341.5	325.1	292.3	305.6	278.6	223.4

Source: www.clsa.com

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Cashflow (US$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Net income	(225)	(561)	(961)	(1,458)	(1,580)	(1,057)	(654)
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	40	41	79	121	171	276	441
Working capital changes	18	30	210	373	1,281	884	497
Minority interest adjustment	-	-	-	-	-	-	-
Dividend from affiliates	-	-	-	-	-	-	-
Deferred taxes adjustment	-	-	-	-	-	-	-
Other net non-operating income	-	-	-	-	-	-	-
Other non-cash operating items	53	156	177	1,034	772	1,413	1,846
Net operating cashflow	(115)	(334)	(495)	70	645	1,516	2,129
Capital expenditure	(24)	(80)	(178)	(247)	(477)	(768)	(984)
Free cashflow	(139)	(414)	(674)	(177)	168	748	1,145
Acq/inv/disposals	(6)	(39)	(46)	(116)	-	-	-
Other investing items	-	-	-	-	-	-	-
Net investing cashflow	(30)	(119)	(225)	(363)	(477)	(768)	(984)
Increase in loans	2	674	565	1,041	1,150	-	-
Dividends	0	0	0	0	0	0	0
Net equity raised/others	198	950	(18)	1,538	0	-	-
Other financing items	0	0	0	0	0	0	0
Net financing cashflow	200	1,624	547	2,580	1,150	0	0
Incr/(decr) in net cash	55	1,171	(173)	2,286	1,318	748	1,145
Exch rate movements	(1)	6	(171)	(170)	0	0	0
Opening cash	116	170	1,347	1,003	3,119	4,437	5,185
Closing cash	170	1,347	1,003	3,119	4,437	5,185	6,329
OCF PS (US¢)	(67.0)	(162.5)	(146.3)	16.0	98.8	232.2	326.0
FCF PS (US¢)	(81.1)	(201.2)	(199.0)	(40.6)	25.7	114.5	175.3

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	nm	nm	nm	nm	823.1	135.1	40.4
FCF growth (% YoY)	-	-	-	-	-	346.2	53.1
Capex growth (%)	(6.5)	231.8	123.8	38.4	93.2	60.9	28.1
Other key ratios (%)							
Capex/sales (%)	7.0	19.3	21.6	11.4	12.0	11.0	10.0
Capex/op cashflow (%)	(20.9)	(23.9)	(36.0)	353.7	74.0	50.7	46.2
Operating cashflow payout ratio (%)	-	-	-	0.0	0.0	0.0	0.0
Cashflow payout ratio (%)	-	-	-	-	-	-	-
Free cashflow payout ratio (%)	-	-	-	-	-	-	-

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	(59.4)	(121.3)	(119.6)	(41.0)	(36.8)	(14.2)	(6.1)
Asset turnover (x)	0.8	0.3	0.4	0.6	0.6	0.9	1.0
Interest burden (x)	1.0	1.1	1.0	1.5	1.0	1.1	1.1
Tax burden (x)	1.0	1.0	1.0	1.1	1.0	1.0	1.0
Return on assets (%)	(46.8)	(41.4)	(47.5)	(25.5)	(25.0)	(12.5)	(6.1)
Leverage (x)	5.6	4.5	17.7	7.9	12.2	(15.1)	(10.3)
ROE (%)	(251.1)	(201.7)	(813.0)	(311.7)	(313.8)	201.6	67.9

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	(214)	(512)	(993)	(947)	(1,533)	(989)	(597)
Average invested capital	18	(7)	(65)	(224)	(828)	(1,511)	(1,684)
ROIC (%)	(1,169.8)	-	-	-	-	-	-
Cost of equity (%)	13.5	13.5	13.5	13.5	13.5	13.5	13.5
Cost of debt (adj for tax)	5.2	5.1	5.0	5.3	5.2	5.0	5.0
Weighted average cost of capital (%)	13.5	13.5	13.5	13.5	13.5	13.5	13.5
EVA/IC (%)	(1,183.3)	0.0	0.0	0.0	0.0	0.0	0.0
EVA (US$m)	(217)	0	0	0	0	0	0

Source: www.clsa.com

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Telkom

Rp2,900 - BUY

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9 September 2020

Indonesia

Telecoms

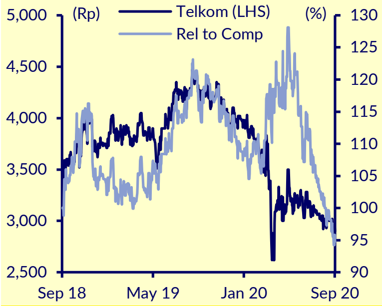
Reuters	TLKM.JK
Bloomberg	TLKM IJ
ADR	TLK.N
Priced on 7 September 2020	
Jakarta Comp @ 5,230.2	
12M hi/lo	Rp4,360/2,620
12M price target	Rp3,800
±% potential	+31%
Shares in issue	100,799.0m
Free float (est.)	46.3%
Market cap	US$19.5bn
3M ADV	US$30.1m
Foreign s'holding	20.0%
Major shareholders	
Republic of Indonesia 53.7%	

Blended ESG Score (%)*	
Overall	47.8
Country average	53.9
GEM sector average	65.4

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(2.7)	(10.2)	(31.1)
Relative	(4.3)	(15.1)	(16.9)
Abs (US$)	(3.9)	(15.8)	(34.2)



Source: Bloomberg

Playing to its strengths

Now a price leader in mobile as well; fixed broadband good long term

Having the largest user base nationwide and low smartphone penetration, Telkom data revenue growth indirectly benefits from a rise in subscriber base, pick up in smartphone penetration, ecommerce and fintech. Whilst there is pressure from declining legacy/non-core revenue, this should be negligible by 2021. Revenue growth is poised to improve; coupled with strong FCF, undemanding valuation, and 6.4-6.7% dividend yield, we reiterate BUY and an Rp3,800 target price.

Regaining its edge in mobile

Telkom's core mobile business Telkomsel leads in terms of speed and coverage but its dominance has diminished since 2017, when SMS/voice revenue started declining and the ex-Java market was exposed to competition from smaller operators. The company also saw downtrading in 2Q20 due to Covid-19 impact on purchasing power. That said, Telkomsel now has a data revenue contribution of 72% and it is positioning itself as the price leader.

Fixed broadband still has ample room for growth

The big-three telco operators have an average smartphone penetration of 78% (Telkomsel 70%) but there remains room for data revenue to grow in the mid to high teens per annum over the medium term. Longer-term, we are positive on fixed-broadband prospects, with penetration of only 15% of total households and a strong entry barrier in terms of price and investment costs. Indihome Ebitda margins continue to rise due to improved economics of scale.

Indirect beneficiary of ecommerce and fintech wav

Indonesia is a unique market where mobile ecommerce as a percent of ecommerce is dominant (now 60%). About 25% of online transactions are paid via mobile wallet; this should rise further. Ecommerce is just 5% of retail sales, though this is rising fast. Smartphone penetration has risen to 73% but is still low vs peers. All these should be data revenue drivers; we forecast 13-15% per-annum growth for Telkom.

Good assets, depressed valuation, reiterate BUY

Telkom trades at one standard deviation below its 10-year valuation band. Our Rp3,800 target price is based on an average of 10-year DCF (Rp4k), 5.2x EV/Ebitda following the Singapore Telecommunications adjustment (Rp3.9k), and 15x 21CL PE (Rp3.4k). We like Telkom's dominance in service quality and its sturdy balance sheet. In addition, the company has started to play to its strength this year with a combination of aggressive pricing and ample data capacity.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Rpbn)	130,784	135,567	133,215	139,170	149,307
Net profit (Rpbn)	18,032	18,663	20,465	22,555	24,274
EPS (Rp)	185.71	192.20	210.76	232.28	249.99
CL/consensus (19) (EPS%)	-	-	101	103	101
EPS growth (% YoY)	(18.6)	3.5	9.7	10.2	7.6
PE (x)	15.6	15.1	13.8	12.5	11.6
Dividend yield (%)	5.7	6.2	6.4	6.7	7.6
FCF yield (%)	5.0	7.0	8.6	9.8	11.0
PB (x)	2.9	2.8	2.8	2.7	2.6
ROE (%)	18.9	18.9	20.4	21.9	22.9
Net debt/equity (%)	22.7	28.9	30.0	29.8	29.9

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Rpbn)						
Revenue	**130,784**	**135,567**	**133,215**	*(1.7)*	**139,170**	**149,307**
Cogs (ex-D&A)	(61,252)	(60,315)	(54,200)		(55,170)	(59,274)
Gross Profit (ex-D&A)	**69,532**	**75,252**	**79,015**	*5*	**84,000**	**90,033**
SG&A and other expenses	(9,281)	(10,420)	(9,701)		(10,525)	(11,604)
Op Ebitda	**60,251**	**64,832**	**69,314**	*6.9*	**73,475**	**78,429**
Depreciation/amortisation	(21,406)	(23,178)	(28,362)		(30,013)	(31,675)
Op Ebit	**38,845**	**41,654**	**40,952**	*(1.7)*	**43,461**	**46,754**
Net interest inc/(exp)	(2,493)	(3,148)	(3,242)		(2,649)	(2,739)
Other non-Op items	53	(598)	(598)		(598)	(598)
Profit before tax	**36,405**	**37,908**	**37,112**	*(2.1)*	**40,214**	**43,417**
Taxation	(9,426)	(10,316)	(8,801)		(8,531)	(9,210)
Profit after tax	**26,979**	**27,592**	**28,312**	*2.6*	**31,683**	**34,207**
Minority interest	(8,947)	(8,929)	(7,846)		(9,129)	(9,933)
Net profit	**18,032**	**18,663**	**20,465**	*9.7*	**22,555**	**24,274**
Adjusted profit	**18,032**	**19,835**	**20,465**	*3.2*	**22,555**	**24,274**
Cashflow (Rpbn)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**38,845**	**41,654**	**40,952**	*(1.7)*	**43,461**	**46,754**
Depreciation/amortisation	21,406	23,178	28,362	*22.4*	30,013	31,675
Working capital changes	(3,240)	(684)	(25)		(61)	97
Other items	(11,340)	(9,199)	(11,253)		(11,067)	(11,748)
Net operating cashflow	**45,671**	**54,949**	**58,036**	*5.6*	**62,347**	**66,778**
Capital expenditure	(31,562)	(35,218)	(33,758)		(34,787)	(35,867)
Free cashflow	**14,109**	**19,731**	**24,278**	*23*	**27,560**	**30,911**
M&A/Others	(3,528)	(573)	0		0	0
Net investing cashflow	**(35,090)**	**(35,791)**	**(33,758)**		**(34,787)**	**(35,867)**
Increase in loans	8,285	7,600	65	*(99.2)*	(1,473)	(446)
Dividends	(26,743)	(25,847)	(26,256)		(28,290)	(31,768)
Net equity raised/other	0	0	-		-	-
Net financing cashflow	**(18,458)**	**(18,247)**	**(26,192)**		**(29,763)**	**(32,214)**
Incr/(decr) in net cash	(7,877)	911	(1,914)		(2,203)	(1,303)
Exch rate movements	171	(108)	0		0	0
Balance sheet (Rpbn)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	17,439	18,242	16,328	*(10.5)*	14,125	12,822
Accounts receivable	12,141	12,089	11,879	*(1.7)*	12,410	13,314
Other current assets	13,688	11,391	11,597	*1.8*	11,843	12,112
Fixed assets	143,248	156,973	162,369	*3.4*	167,143	171,334
Investments	9,672	11,225	10,760	*(4.1)*	11,087	11,432
Intangible assets	7,536	9,344	8,918	*(4.6)*	8,842	9,033
Other non-current assets	2,472	1,944	1,963	*1*	1,983	2,003
Total assets	**206,196**	**221,208**	**223,815**	**1.2**	**227,434**	**232,050**
Short-term debt	10,339	18,215	18,238	*0.1*	17,722	17,566
Accounts payable	15,214	14,346	14,101	*(1.7)*	14,597	15,641
Other current liabs	20,708	25,808	26,531	*2.8*	27,616	28,967
Long-term debt/CBs	33,748	33,869	33,911	*0.1*	32,953	32,663
Provisions/other LT liabs	8,884	11,720	11,729	*0.1*	11,848	12,075
Shareholder funds	98,403	99,153	101,200	*2.1*	104,583	107,010
Minorities/other equity	18,900	18,097	18,106	*0*	18,116	18,127
Total liabs & equity	**206,196**	**221,208**	**223,815**	**1.2**	**227,434**	**232,050**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	2.0	3.7	(1.7)		4.5	7.3
Ebitda margin (%)	46.1	47.8	52.0		52.8	52.5
Ebit margin (%)	29.7	30.7	30.7		31.2	31.3
Net profit growth (%)	(18.6)	3.5	9.7		10.2	7.6
Op cashflow growth (% YoY)	(7.6)	20.3	5.6		7.4	7.1
Capex/sales (%)	24.1	26.0	25.3		25.0	24.0
Net debt/equity (%)	22.7	28.9	30.0		29.8	29.9
Net debt/Ebitda (x)	0.4	0.5	0.5		0.5	0.5
ROE (%)	18.9	18.9	20.4		21.9	22.9
ROIC (%)	21.6	20.6	20.3		21.7	22.8

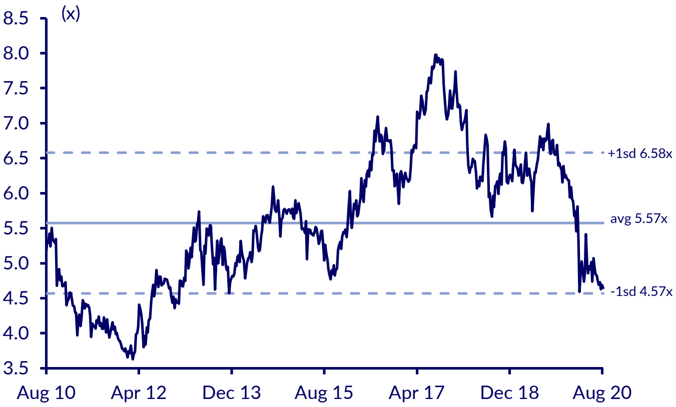
Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Telkom 10-year forward PE band

Source: CLSA

Telkom 10-year forward EV/Ebitda band



Source: CLSA

Assumptions summary

	20CL	21CL	22CL
Subscribers (m)	161,072	163,072	165,072
Arpu (Rp000/month)	44	47	50
Data traffic (TB)	9,680,828	14,162,710	18,783,625
Data yield (Rp/MB)	6.7	5.3	4.5
Ebitda margin (%)	52.0	52.8	52.5
Npat margin (%)	15	16	16
Growth (% YoY)			
Total revenue (%)	(2)	4	7
Indihome revenue (%)	20	20	15
Mobile revenue (%)	(3)	6	7
Legacy revenue (%)	(32)	(21)	(18)
Data revenue (%)	12	15	13
Subscribers (%)	(6)	1	1
Arpu (%)	2	6	6
Data traffic (%)	44	46	33
Data yield (%)	(22)	(21)	(15)
Total revenue (Rpbn)	133,215	139,170	149,307
Indihome revenue (Rpbn)	21,990	26,388	30,346
Mobile revenue (Rpbn)	85,970	91,433	98,089
Legacy revenue (Rpbn)	20,900	16,454	13,567
Data revenue (Rpbn)	65,070	74,979	84,522
Subscribers ('000)	161,072	163,072	165,072
Data traffic (TB)	9,680,828	14,162,710	18,783,625
Data yield (Rp/mb)	6.7	5.3	4.5

Source: CLSA

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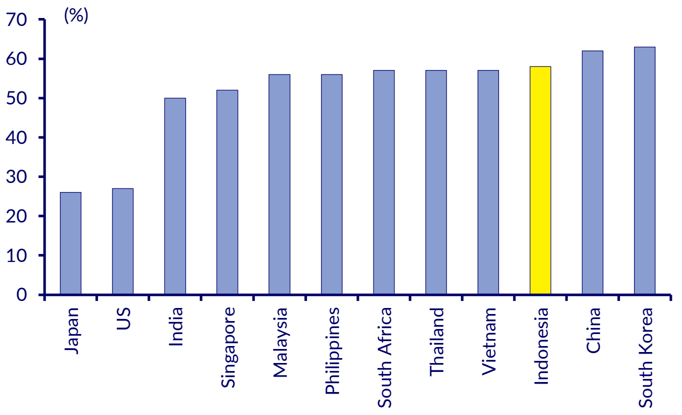
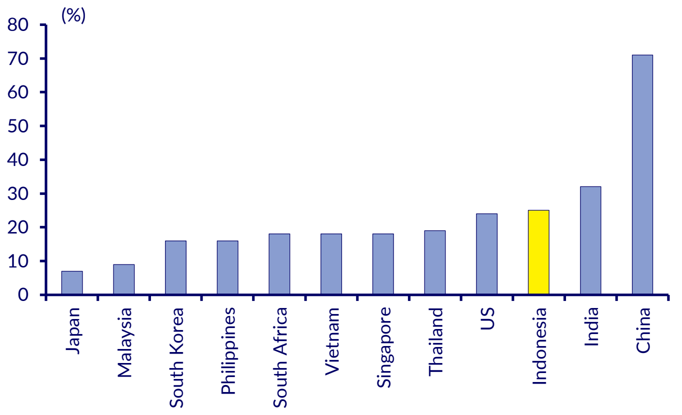
Mobile commerce) as a percent of ecommerce transactions



Source: Worldpay from *FIS 2020 Global Payments Report*

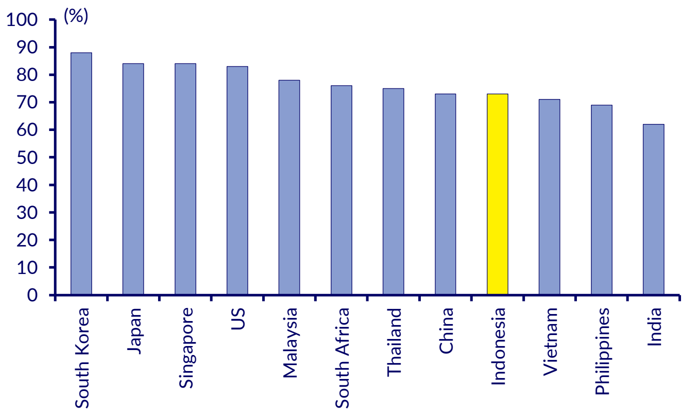
Digital/mobile wallet as a percent of ecommerce payments



Source: Worldpay from *FIS 2020 Global Payments Report*

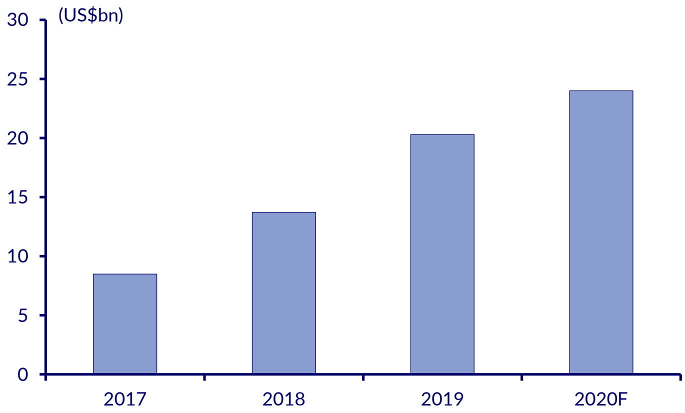
Two-thirds of unbanked adults in Indonesia have mobile phones, according to World Bank data.

Smartphone penetration by country



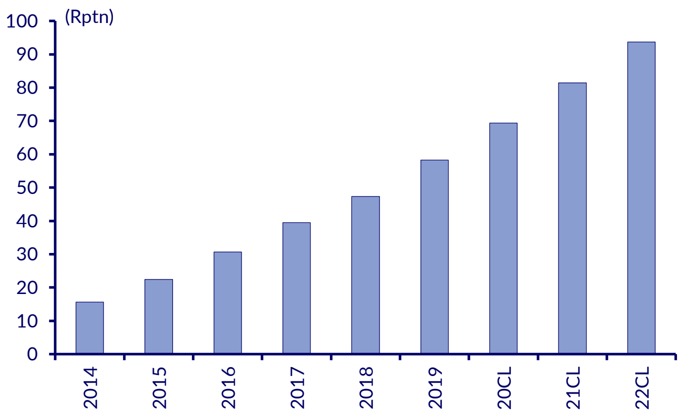
Source: Worldpay from *FIS 2020 Global Payments Report*

Indonesia ecommerce revenue



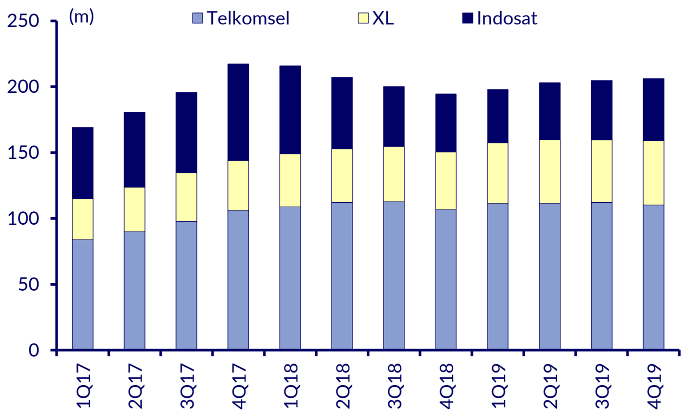
Source: Government of Indonesia

Telkom data revenue



Source: Telkom, CLSA

Numbers of Smartphone users by each operator



Source: Companies

Prepared for - W: matthew_goh@summarecon.com

Valuation summary

Method	Description	Value per share
DCF	(Singtel adjusted)	4,100
EV/Ebitda	5.2x 21CL (post Singtel portion of 8.0x)	4,000
PE	15.0x 21CL	3,400
Target price		**3,800**

Source: CLSA

Telkom trades at one standard deviation below its 10-year valuation band. We derive our target price from an average of 10-year DCF (Rp4.1k), 5.2x EV/Ebitda post-Singtel adjustment (Rp4.0k), and 15x 21CL PE (Rp3.4k). The multiple assigned for EV/Ebitda and PE is close to the 10-year mean.

We peg our EV/Ebitda and PE multiples to a 10-year mean (5.6x EV/Ebitda and 16.5x PE), as we expect reversion from below one standard deviation upon evidence of top-line growth resumption that should materialise in 1H21. Telkom's Ebitda/Npat margins actually improved YoY; its ability to pay a 6.4-6.7% dividend yield is not materially impacted, in our view.

We believe a combination of DCF, EV/Ebitda and PE is best suited to capture Telkom's long-, mid-, and short-term valuation. Telkom's sturdy balance, high FCF yield of about 7%, dividend yield of about 5%, and ROIC of about 15% support good long-term cashflow generation. EV/Ebitda captures the small net margins, high growth segment such as Indihome, there are no bottomline disclosure for these, but Ebitda margin is rising rapidly. When Indihome becomes a sufficiently profitable segment to drive the group bottom line, the PE ratio could trend closer to DCF value over the mid-term. Price performance is supported by about 6.4-6.7% dividend yield.

Telkom EV/Ebitda valuation

21CL Ebitda (Rpbn)	73,475
Multiple (pre-Singtel adjustment of 8.0x) (x)	5.2
Equity value (Rpbn)	587,797
Add: Cash (Rpbn)	14,125
Less: Debt (Rpbn)	(50,675)
Less: Singtel's portion (Rpbn)	(151,528)
Equity value (Rpbn)	399,719
Value per share (Rp/share)	**4,000**

Source: CLSA

We estimate that Telkomsel's Ebitda contributes 74% of Telkom group total; as such, estimated EV for Telkomsel would be Rp433tn (8x EV/Ebitda). Since Singtel owns 35% of Telkomsel, we deduct 35% of Telkomsel EV (Rp151.3tn) from the group EV/Ebitda calculation. The 5.2x headline EV/Ebitda assigned to Telkom group is actually 8x after deducting Singtel's 35% equity interest in Telkomsel, calculated as 5.2x/0.65 = 8x.

Prepared for - W: matthew_goh@summarecon.com

Telkom 10-year DCF forecast

Year ending Dec 31 (Rpbn)	21CL	22CL	23CL	24CL	25CL	26CL	27CL	28CL	29CL	30CL
Revenue	139,170	149,307	159,482	170,366	182,197	195,841	211,198	228,254	247,054	267,684
Operating Ebit	43,461	46,754	50,334	54,208	58,495	63,722	70,075	76,992	84,726	93,300
Less: Cash tax	(8,620)	(8,984)	(9,707)	(10,489)	(11,350)	(12,366)	(13,603)	(14,991)	(16,535)	(18,260)
Noplat	34,841	37,770	40,628	43,720	47,145	51,356	56,472	62,001	68,191	75,040
Add: Depreciation	30,013	31,675	33,354	35,033	36,719	38,416	40,129	41,865	43,627	45,420
Less: Working capital	(61)	97	54	51	44	8	(1,264)	(602)	(462)	(270)
Less: Capex	(34,787)	(35,867)	(37,302)	(38,794)	(40,345)	(41,959)	(43,637)	(45,383)	(47,198)	(49,086)
FCF	30,007	33,675	36,734	40,011	43,562	47,821	51,700	57,881	64,158	71,104
Period (years)	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3	9.3
Discount rate	1.03	1.15	1.27	1.42	1.57	1.75	1.94	2.16	2.40	2.66
Discounted FCF	29,074	29,368	28,836	28,270	27,704	27,373	26,637	26,843	26,781	26,715
Terminal value										904,167
Discounted terminal value										339,710

Source: CLSA

Summary of DCF valuation

Sum of FCF	277,601
WACC (%)	11.1
Terminal value	339,710
Terminal growth (%)	3
Add: Cash	16,328
Less: Debt	(52,419)
Equity value	581,490
Less: Singtel's portion	(178,205)
Telkom's portion	403,285
DCF val/share	4,100

Source: CLSA

We apply a WACC of 10.7% and terminal growth rate of 3%; Telkom has the lowest cost of debt among operators due to its healthy balance sheet and status as a state-owned enterprise. We derive our beta from Bloomberg historical data. Furthermore, we assume the company will adopt a 20:80 debt:equity mix, lower than 21CL's 40:60 after considering the market value of its equity, which translates to a PB of 2.9x. We also expect Telkom to pare down its debts over the medium term.

Assumptions on Telkom WACC

Variables	Assumptions
Risk-free rate (%)	8.0
Beta	0.8
Equity risk premium (%)	5.0
Cost of equity (%)	12.0
Pretax cost of debt (%)	7.5
Post-tax cost of debt (%)	5.6
Equity/capital (%)	80.0
Debt/capital (%)	20.0
WACC (%)	11.1
Terminal growth (%)	3.0

Source: CLSA

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Valuation details

Our target price is based on the average of our DCF (WACC of 10.7% and terminal growth of 3%) forecast until 30CL, EV/Ebitda and PE valuations. We deduct the value of Singtel's 35% equity stake in Telkom. Telkom trades at one standard deviation below its 10-year average. We derive our target price from an average of its 10-year DCF (Rp4.1k), a 5.2x EV/Ebitda post-Singtel adjustment (Rp4.0k), and a 15x 21CL PE (Rp3.4k). The multiple we assign to EV/Ebitda and PE are close to their 10-year means. We peg our EV/Ebitda and PE multiples to its10-year mean (5.6x EV/Ebitda and 16.5x PE) as we expect a reversion from below one standard deviation upon evidence of top-line growth resuming, which should materialise in 1H21. We believe a combination of DCF, EV/Ebitda and PE is best-suited to capture Telkom's long, mid and short-term valuations.

Investment risks

Competition and the transition from its legacy businesses are the biggest risks for Telkom. The financial performance of its non-cellular business is unpredictable given a lack of clarity in the released data. Potential for greater government interference could impact the firm more than its non-state-owned-enterprise competitors. The company's core businesses are relatively insulated from Covid-19.

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Detailed financials

Profit & Loss (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**116,333**	**128,256**	**130,784**	**135,567**	**133,215**	**139,170**	**149,307**
Cogs (ex-D&A)	(48,093)	(53,119)	(61,252)	(60,315)	(54,200)	(55,170)	(59,274)
Gross Profit (ex-D&A)	**68,240**	**75,137**	**69,532**	**75,252**	**79,015**	**84,000**	**90,033**
Research & development costs	0	0	0	0	0	0	0
Selling & marketing expenses	(4,132)	(5,268)	(4,214)	(3,724)	(3,513)	(3,860)	(4,212)
Other SG&A	(4,610)	(5,260)	(6,137)	(6,696)	(6,234)	(6,510)	(7,229)
Other Op Expenses ex-D&A	(1,771)	(230)	1,070	0	45	(155)	(164)
Op Ebitda	**57,727**	**64,379**	**60,251**	**64,832**	**69,314**	**73,475**	**78,429**
Depreciation/amortisation	(18,532)	(20,446)	(21,406)	(23,178)	(28,362)	(30,013)	(31,675)
Op Ebit	**39,195**	**43,933**	**38,845**	**41,654**	**40,952**	**43,461**	**46,754**
Interest income	1,716	1,434	1,014	1,092	1,003	898	777
Interest expense	(2,810)	(2,769)	(3,507)	(4,240)	(4,245)	(3,547)	(3,516)
Net interest inc/(exp)	(1,094)	(1,335)	(2,493)	(3,148)	(3,242)	(2,649)	(2,739)
Associates/investments	-	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	88	61	53	(598)	(598)	(598)	(598)
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**38,189**	**42,659**	**36,405**	**37,908**	**37,112**	**40,214**	**43,417**
Taxation	(9,017)	(9,958)	(9,426)	(10,316)	(8,801)	(8,531)	(9,210)
Profit after tax	**29,172**	**32,701**	**26,979**	**27,592**	**28,312**	**31,683**	**34,207**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**29,172**	**32,701**	**26,979**	**27,592**	**28,312**	**31,683**	**34,207**
Minority interest	(9,820)	(10,556)	(8,947)	(8,929)	(7,846)	(9,129)	(9,933)
Net profit	**19,352**	**22,145**	**18,032**	**18,663**	**20,465**	**22,555**	**24,274**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	19,352	22,145	18,032	18,663	20,465	22,555	24,274
Dividends	(13,500)	(16,609)	(16,229)	(17,730)	(18,419)	(19,171)	(21,846)
Retained profit	5,852	5,536	1,803	933	2,047	3,383	2,427
Adjusted profit	**19,352**	**22,145**	**18,032**	**19,835**	**20,465**	**22,555**	**24,274**
EPS (Rp)	199.3	228.1	185.7	192.2	210.8	232.3	250.0
Adj EPS [pre excep] (Rp)	199.3	228.1	185.7	204.3	210.8	232.3	250.0
Core EPS (Rp)	199.3	228.1	185.7	204.3	210.8	232.3	250.0
DPS (Rp)	133.9	167.8	163.9	179.1	186.0	193.6	220.7

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	13.5	10.2	2.0	3.7	(1.7)	4.5	7.3
Ebitda growth (% YoY)	13.3	11.5	(6.4)	7.6	6.9	6.0	6.7
Ebit growth (% YoY)	20.9	12.1	(11.6)	7.2	(1.7)	6.1	7.6
Net profit growth (%)	24.9	14.4	(18.6)	3.5	9.7	10.2	7.6
EPS growth (% YoY)	24.9	14.4	(18.6)	3.5	9.7	10.2	7.6
Adj EPS growth (% YoY)	24.9	14.4	(18.6)	10.0	3.2	10.2	7.6
DPS growth (% YoY)	53.7	25.3	(2.3)	9.2	3.9	4.1	14.0
Core EPS growth (% YoY)	24.9	14.4	(18.6)	10.0	3.2	10.2	7.6
Margins (%)							
Ebitda margin (%)	49.6	50.2	46.1	47.8	52.0	52.8	52.5
Ebit margin (%)	33.7	34.3	29.7	30.7	30.7	31.2	31.3
Net profit margin (%)	16.6	17.3	13.8	13.8	15.4	16.2	16.3
Core profit margin	16.6	17.3	13.8	14.6	15.4	16.2	16.3
Op cashflow margin	40.6	38.5	34.9	40.5	43.6	44.8	44.7
Returns (%)							
ROE (%)	24.4	25.1	18.9	18.9	20.4	21.9	22.9
ROA (%)	17.3	17.8	14.2	14.2	14.0	15.2	16.0
ROIC (%)	29.5	29.6	21.6	20.6	20.3	21.7	22.8
ROCE (%)	37.8	38.2	29.2	28.2	26.7	27.6	29.1
Other key ratios (%)							
Effective tax rate (%)	23.6	23.3	25.9	27.2	23.7	21.2	21.2
Ebitda/net int exp (x)	52.8	48.2	24.2	20.6	21.4	27.7	28.6
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	67.2	73.6	88.3	93.2	88.3	83.4	88.3

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

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Balance sheet (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	29,767	25,145	17,439	18,242	16,328	14,125	12,822
Accounts receivable	7,900	9,564	12,141	12,089	11,879	12,410	13,314
Inventories	584	631	717	585	575	601	644
Other current assets	9,450	12,221	12,971	10,806	11,022	11,243	11,467
Current assets	**47,701**	**47,561**	**43,268**	**41,722**	**39,804**	**38,379**	**38,248**
Fixed assets	114,498	130,171	143,248	156,973	162,369	167,143	171,334
Investments	11,508	12,270	9,672	11,225	10,760	11,087	11,432
Goodwill	3,089	3,530	5,032	6,446	6,446	6,446	6,446
Other intangible assets	769	2,804	2,504	2,898	2,472	2,396	2,587
Other non-current assets	2,046	2,148	2,472	1,944	1,963	1,983	2,003
Total assets	**179,611**	**198,484**	**206,196**	**221,208**	**223,815**	**227,434**	**232,050**
Short term loans/OD	5,432	7,498	10,339	18,215	18,238	17,722	17,566
Accounts payable	13,690	15,791	15,214	14,346	14,101	14,597	15,641
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	2,954	2,790	1,180	3,431	2,927	2,837	3,063
Other current liabs	17,686	19,297	19,528	22,377	23,604	24,779	25,904
Current liabilities	**39,762**	**45,376**	**46,261**	**58,369**	**58,869**	**59,935**	**62,175**
Long-term debt/leases/other	26,367	27,974	33,748	33,869	33,911	32,953	32,663
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	7,938	13,004	8,884	11,720	11,729	11,848	12,075
Total liabilities	**74,067**	**86,354**	**88,893**	**103,958**	**104,510**	**104,735**	**106,913**
Share capital	9,971	9,971	7,408	7,664	7,664	7,664	7,664
Retained earnings	76,615	84,896	90,995	91,489	93,536	96,919	99,346
Reserves/others	(2,541)	(2,541)	0	0	-	-	-
Shareholder funds	**84,045**	**92,326**	**98,403**	**99,153**	**101,200**	**104,583**	**107,010**
Minorities/other equity	21,499	19,804	18,900	18,097	18,106	18,116	18,127
Total equity	**105,544**	**112,130**	**117,303**	**117,250**	**119,305**	**122,699**	**125,137**
Total liabs & equity	**179,611**	**198,484**	**206,196**	**221,208**	**223,815**	**227,434**	**232,050**
Total debt	31,799	35,472	44,087	52,084	52,149	50,675	50,229
Net debt	2,032	10,327	26,648	33,842	35,820	36,550	37,408
Adjusted EV	293,274	299,064	316,959	321,896	324,348	324,760	325,285
BVPS (Rp)	865.6	950.8	1,013.4	1,021.1	1,042.2	1,077.1	1,102.1

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.2	1.0	0.9	0.7	0.7	0.6	0.6
Growth in total assets (% YoY)	8.1	10.5	3.9	7.3	1.2	1.6	2.0
Growth in capital employed (% YoY)	7.7	13.8	17.6	5.0	2.7	2.7	2.1
Net debt to operating cashflow (x)	0.0	0.2	0.6	0.6	0.6	0.6	0.6
Gross debt to operating cashflow (x)	0.7	0.7	1.0	0.9	0.9	0.8	0.8
Gross debt to Ebitda (x)	0.6	0.6	0.7	0.8	0.8	0.7	0.6
Net debt/Ebitda (x)	0.0	0.2	0.4	0.5	0.5	0.5	0.5
Gearing							
Net debt/equity (%)	1.9	9.2	22.7	28.9	30.0	29.8	29.9
Gross debt/equity (%)	30.1	31.6	37.6	44.4	43.7	41.3	40.1
Interest cover (x)	14.6	16.4	11.4	10.1	9.9	12.5	13.5
Debt Cover (x)	1.5	1.4	1.0	1.1	1.1	1.2	1.3
Working capital analysis							
Inventory days	3.0	3.0	3.0	2.8	2.6	2.5	2.5
Debtor days	24.7	24.9	30.3	32.6	32.8	31.9	31.4
Creditor days	76.6	73.1	68.5	64.6	62.9	61.5	60.7
Working capital/Sales (%)	(14.1)	(12.1)	(7.7)	(12.3)	(12.9)	(12.9)	(12.8)
Capital employed analysis							
Sales/Capital employed (%)	108.1	104.7	90.9	89.7	85.9	87.4	91.9
EV/Capital employed (%)	272.6	244.2	220.2	213.0	209.1	203.9	200.1
Working capital/Capital employed (%)	(15.2)	(12.6)	(7.0)	(11.0)	(11.1)	(11.3)	(11.8)
Fixed capital/Capital employed (%)	106.4	106.3	99.5	103.9	104.7	105.0	105.4
Other ratios (%)							
EV/OCF (x)	6.2	6.1	6.9	5.9	5.6	5.2	4.9
EV/FCF (x)	14.3	17.5	22.5	16.3	13.4	11.8	10.5
EV/Sales (x)	2.5	2.3	2.4	2.4	2.4	2.3	2.2
Capex/depreciation (%)	153.4	166.0	156.5	163.7	126.5	122.7	119.5

Source: www.clsa.com

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Cashflow (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	39,195	43,933	38,845	41,654	40,952	43,461	46,754
Operating adjustments	88	61	53	(598)	(598)	(598)	(598)
Depreciation/amortisation	18,532	20,446	21,406	23,178	28,362	30,013	31,675
Working capital changes	(678)	390	(3,240)	(684)	(25)	(61)	97
Interest paid/other financial expenses	(1,094)	(1,335)	(2,493)	(3,148)	(3,242)	(2,649)	(2,739)
Tax paid	(9,017)	(9,958)	(9,426)	(10,316)	(9,305)	(8,620)	(8,984)
Other non-cash operating items	205	(4,132)	526	4,863	1,892	801	573
Net operating cashflow	47,231	49,405	45,671	54,949	58,036	62,347	66,778
Capital expenditure	(26,787)	(32,294)	(31,562)	(35,218)	(33,758)	(34,787)	(35,867)
Free cashflow	20,444	17,111	14,109	19,731	24,278	27,560	30,911
Acq/inv/disposals	(770)	(713)	(3,528)	(573)	-	-	-
Int, invt & associate div	-	-	-	-	-	-	-
Net investing cashflow	(27,557)	(33,007)	(35,090)	(35,791)	(33,758)	(34,787)	(35,867)
Increase in loans	(2,893)	2,930	8,285	7,600	65	(1,473)	(446)
Dividends	(18,271)	(23,982)	(26,743)	(25,847)	(26,256)	(28,290)	(31,768)
Net equity raised/others	3,259	0	0	0	-	-	-
Net financing cashflow	(17,905)	(21,052)	(18,458)	(18,247)	(26,192)	(29,763)	(32,214)
Incr/(decr) in net cash	1,769	(4,654)	(7,877)	911	(1,914)	(2,203)	(1,303)
Exch rate movements	(119)	32	171	(108)	0	0	0
Opening cash	28,117	29,767	25,145	17,439	18,242	16,328	14,125
Closing cash	29,767	25,145	17,439	18,242	16,328	14,125	12,822
OCF PS (Rp)	486.4	508.8	470.4	565.9	597.7	642.1	687.7
FCF PS (Rp)	210.5	176.2	145.3	203.2	250.0	283.8	318.3

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	8.2	4.6	(7.6)	20.3	5.6	7.4	7.1
FCF growth (% YoY)	19.1	(16.3)	(17.5)	39.8	23.0	13.5	12.2
Capex growth (%)	1.1	20.6	(2.3)	11.6	(4.1)	3.0	3.1
Other key ratios (%)							
Capex/sales (%)	23.0	25.2	24.1	26.0	25.3	25.0	24.0
Capex/op cashflow (%)	56.7	65.4	69.1	64.1	58.2	55.8	53.7
Operating cashflow payout ratio (%)	27.5	33.0	34.9	31.6	31.1	30.2	32.1
Cashflow payout ratio (%)	28.6	33.6	35.5	32.3	31.7	30.7	32.7
Free cashflow payout ratio (%)	66.0	97.1	115.0	89.9	75.9	69.6	70.7

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	33.7	34.3	29.7	30.7	30.7	31.2	31.3
Asset turnover (x)	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Interest burden (x)	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Tax burden (x)	0.8	0.8	0.7	0.7	0.8	0.8	0.8
Return on assets (%)	17.3	17.8	14.2	14.2	14.0	15.2	16.0
Leverage (x)	1.7	1.7	1.8	1.8	1.9	1.9	1.9
ROE (%)	29.3	30.0	23.5	23.5	23.9	26.2	27.6

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	29,940	33,678	28,787	30,319	31,241	34,242	36,836
Average invested capital	101,464	113,599	133,177	147,375	153,841	158,052	161,599
ROIC (%)	29.5	29.6	21.6	20.6	20.3	21.7	22.8
Cost of equity (%)	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Cost of debt (adj for tax)	6.9	6.9	6.7	6.6	6.9	7.1	7.1
Weighted average cost of capital (%)	11.1	11.1	11.1	11.1	11.1	11.2	11.2
EVA/IC (%)	18.4	18.5	10.5	9.5	9.2	10.5	11.6
EVA (Rpbn)	18,632	21,012	13,989	13,972	14,097	16,569	18,766

Source: www.clsa.com

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Carlsberg Malaysia

RM19.92 - SELL

Li Ean Thain
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9 September 2020

Malaysia

Consumer

Reuters CBMS.KL
Bloomberg CAB MK

Priced on 7 September 2020
KLSE Comp @ 1,516.4

12M hi/lo RM38.94/17.88

12M price target RM17.10
±% potential -14%

Shares in issue 305.7m
Free float (est.) 49.3%

Market cap US$1.5bn

3M ADV US$1.5m

Foreign s'holding 69.2%

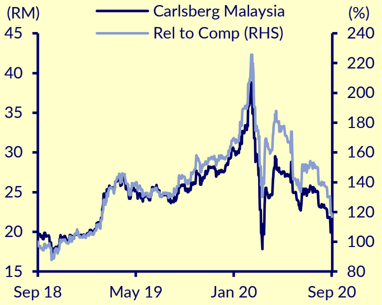
Major shareholders
Carlsberg A/S 50.7%

Blended ESG Score (%)*	
Overall	86.3
Country average	68.4
GEM sector average	66.7

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(14.7)	(20.8)	(23.8)
Relative	(14.7)	(17.2)	(17.9)
Abs (US$)	(14.0)	(18.7)	(23.4)



Source: Bloomberg

Lost fizz

Premiumisation efforts haunt brewer amid hard times

Carlsberg may need to wind back earlier efforts to shift its product line-up toward a more premium positioning as consumers tighten belts. The 40% of sector on-trade outlets closed will be a hit to sales volumes, particularly at the premium-end. We also see a structural overhang for the sector with tightening regulations, and maintain a cautious stance on breweries; on this basis, we view Carlsberg as one of the losers of the Covid pandemic and prefer Heineken in the brewery space as beneficiary of mass market volume gains. SELL on a RM17.10 target price.

Premiumisation to take the back seat

On-trade has been an important channel in the push for premiumisation. We think that the pandemic will bring about radical changes in consumption patterns as consumers tighten belts and shift beer demand towards mass and local category beers. Carlsberg's premiumisation of its portfolio promised great growth in good times; but Covid may have reshaped the landscape for breweries in Malaysia.

Channel shift causing disruption

Malaysia's brewery space is largely skewed towards the on-trade channel (a split of 67:33 on-to-off trade sales), however since the onslaught of Covid consumers have had no choice but to shift towards off-trade channels for beer purchases. This does not bode well for Carlsberg's focus on premium brands that rely more on on-trade channels for sales.

Volumes recovery to be slower than expected

As we enter a new normal we think it may take longer to recover back to the beer volume highs we saw in 2019. As on-trade establishments start to re-open, we may see that some have not survived, placing a further dampener on volumes. While the premiumisation trend (value growth faster than volume growth) may continue, the difference in value over volume growth has narrowed substantially, suggesting a much slower pace of premiumisation. Consumer purchasing power is the primary concern, hurting Carlsberg Malaysia particularly, as the brewery focused more heavily on premium segments.

Maintain SELL

We maintain our SELL rating on Carlsberg Malaysia with industry shifts to impact growth strategies. Our unchanged target price of RM17.10 is based on a discounted cash flow (DCF) method, using a cost of equity of 11.9% and a terminal growth rate of 2%. We prefer Heineken as a beneficiary of mass market volume gains, as the owner of the most popular mass market beer in Malaysia, Tiger.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (RMm)	1,982	2,257	1,747	2,041	2,119
Net profit (RMm)	277	291	161	262	269
EPS (RM)	0.91	0.95	0.53	0.86	0.88
CL/consensus (11) (EPS%)	-	-	79	95	89
EPS growth (% YoY)	25.3	5.0	(44.5)	62.3	2.8
PE (x)	22.0	20.9	37.7	23.2	22.6
Dividend yield (%)	5.0	5.0	0.0	3.4	4.4
FCF yield (%)	5.3	5.2	1.3	3.9	5.4
PB (x)	36.0	41.0	19.7	16.8	16.8
ROE (%)	118.4	183.3	70.4	78.0	74.4
Net cash per share (RM)	0.1	0.0	0.2	0.3	0.4

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (RMm)						
Revenue	**1,982**	**2,257**	**1,747**	*(22.6)*	**2,041**	**2,119**
Cogs (ex-D&A)	(1,318)	(1,539)	(1,206)		(1,332)	(1,382)
Gross Profit (ex-D&A)	**664**	**717**	**542**	*(24.5)*	**709**	**736**
SG&A and other expenses	(276)	(300)	(286)		(321)	(331)
Op Ebitda	**388**	**417**	**256**	*(38.7)*	**388**	**405**
Depreciation/amortisation	(41)	(42)	(42)		(41)	(45)
Op Ebit	**347**	**375**	**214**	*(43)*	**347**	**360**
Net interest inc/(exp)	(7)	(9)	(10)		(17)	(24)
Other non-Op items	21	16	13	*(20)*	16	19
Profit before tax	**361**	**382**	**217**	*(43.2)*	**345**	**355**
Taxation	(75)	(82)	(47)		(74)	(76)
Profit after tax	**287**	**300**	**171**	*(43.2)*	**271**	**279**
Minority interest	(10)	(9)	(9)		(9)	(9)
Net profit	**277**	**291**	**161**	*(44.5)*	**262**	**269**
Adjusted profit	**277**	**291**	**161**	*(44.5)*	**262**	**269**
Cashflow (RMm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**347**	**375**	**214**	*(43)*	**347**	**360**
Depreciation/amortisation	41	42	42	*(0.7)*	41	45
Working capital changes	60	18	(92)		(14)	81
Other items	(67)	(57)	(47)		(74)	(76)
Net operating cashflow	**380**	**379**	**117**	*(69.2)*	**300**	**410**
Capital expenditure	(57)	(65)	(40)		(61)	(78)
Free cashflow	**323**	**314**	**77**	*(75.6)*	**239**	**332**
M&A/Others	5	4	1	*(78.6)*	1	1
Net investing cashflow	**(52)**	**(60)**	**(39)**		**(61)**	**(77)**
Increase in loans	63	-	-		50	50
Dividends	(356)	(325)	0		(210)	(269)
Net equity raised/other	(9)	(12)	(11)		(18)	(25)
Net financing cashflow	**(302)**	**(337)**	**(11)**		**(177)**	**(244)**
Incr/(decr) in net cash	26	(18)	67		62	89
Exch rate movements	(5)	0	0		-	0
Balance sheet (RMm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	97	79	146	*85.6*	208	296
Accounts receivable	208	217	230	*5.8*	268	197
Other current assets	106	69	66	*(4.1)*	73	76
Fixed assets	193	207	205	*(0.9)*	225	258
Investments	73	85	98	*15.4*	113	132
Intangible assets	3	8	8	*0*	8	8
Other non-current assets	3	15	15	*0*	15	15
Total assets	**683**	**679**	**768**	*13*	**910**	**982**
Short-term debt	75	75	75	*0*	125	175
Accounts payable	379	380	297	*(21.7)*	328	341
Other current liabs	31	36	36	*0*	36	36
Long-term debt/CBs	-	-	-		-	-
Provisions/other LT liabs	16	32	32	*0*	32	32
Shareholder funds	169	148	310	*108.7*	362	362
Minorities/other equity	12	8	18	*113.8*	27	36
Total liabs & equity	**683**	**679**	**768**	*13*	**910**	**982**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	12.1	13.8	(22.6)		16.8	3.8
Ebitda margin (%)	19.6	18.5	14.6		19.0	19.1
Ebit margin (%)	17.5	16.6	12.2		17.0	17.0
Net profit growth (%)	25.3	5.0	(44.5)		62.3	2.8
Op cashflow growth (% YoY)	12.4	(0.3)	(69.2)		156.5	36.7
Capex/sales (%)	2.9	2.9	2.3		3.0	3.7
Net debt/equity (%)	(11.9)	(2.3)	(21.7)		(21.3)	(30.5)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	118.4	183.3	70.4		78.0	74.4
ROIC (%)	176.5	291.0	115.8		131.3	141.0

Source: www.clsa.com

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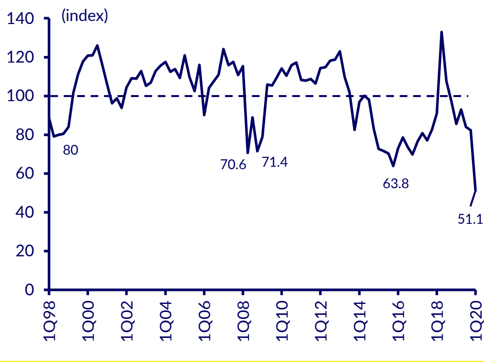
Growth rates may be slow with consumer purchasing power being the primary concern

Premiumisation to take a backseat

We think that while the premiumisation trend will remain, growth rates may be slow with consumer purchasing power being the primary concern. In previous years, beer volumes in Malaysia continued to grow despite financial crises and excise tax increases as consumers appeared to be inelastic to price changes. However, the pandemic has hit the economy worse. Malaysia's Consumer Sentiment Index (CSI) and unemployment rate is worse than it was the previous financial crises, which will inevitably impact consumers' purchasing power.

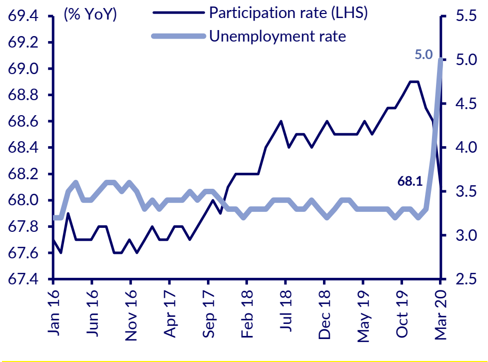
Unemployment rate spiked to 5%

Malaysia CSI



Source: CLSA, MIER

Unemployment and job participation rates



Source: CLSA, CEIC

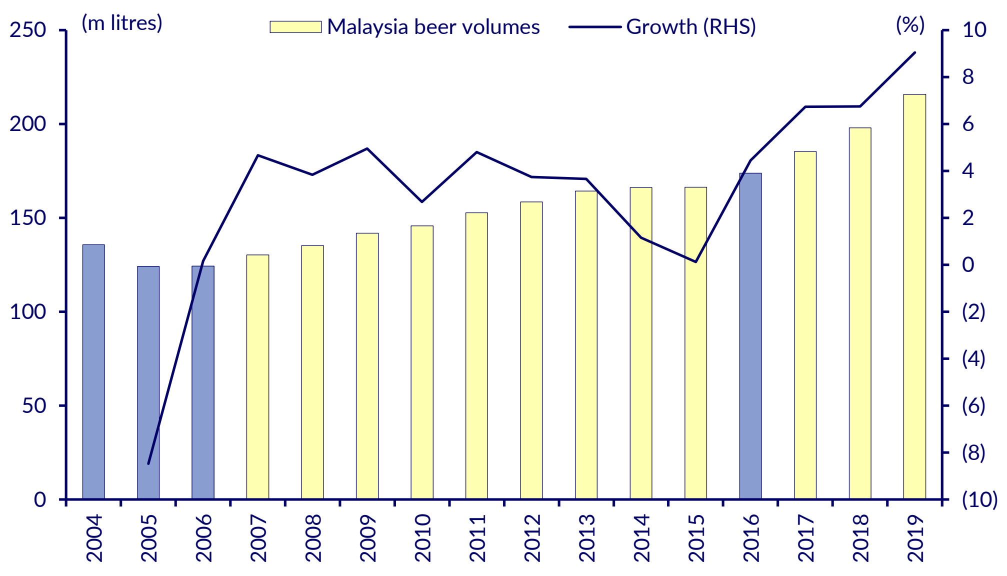
This pandemic has brought about radical changes in consumption patterns from the shifting of behaviour of consumers who are tightening their belt and bringing about a trading down of beer consumption towards mass and local category beers. This is only beginning and we think that mass will regain centre stage as premium beers take a backseat.

Volumes may be the more effective strategy to go with

Volumes may be the more effective strategy to go with. An indication that volumes will be of increasing in importance can be taken from the past where we have seen beer volumes tending to grow despite economic downturns.

Beer volume grew every year since 2006

Malaysia beer volumes



Note: Bars highlighted in blue indicates years excise taxes were raised. Source: CLSA, Euromonitor

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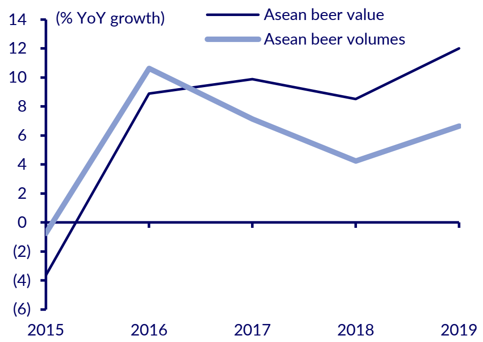
Premiumisation is supported by increasing urbanisation and disposable income in Asean countries. In 2019, the gap between Malaysia beer values and volumes narrowed compared to the rest of Asean, indicating a slowdown in premiumisation. Although still positive, Malaysia's rate of disposable income growth has started to narrow.

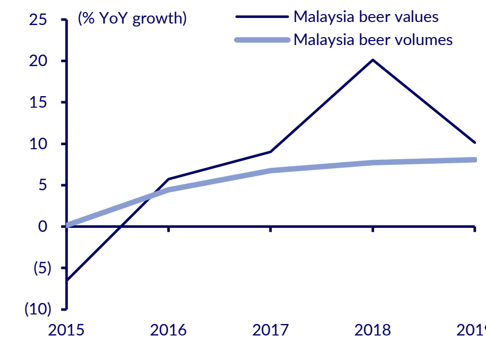
Premiumisation slowing in Malaysia as compared to Asean

Asean beer premiumisation



Source: CLSA, Euromonitor

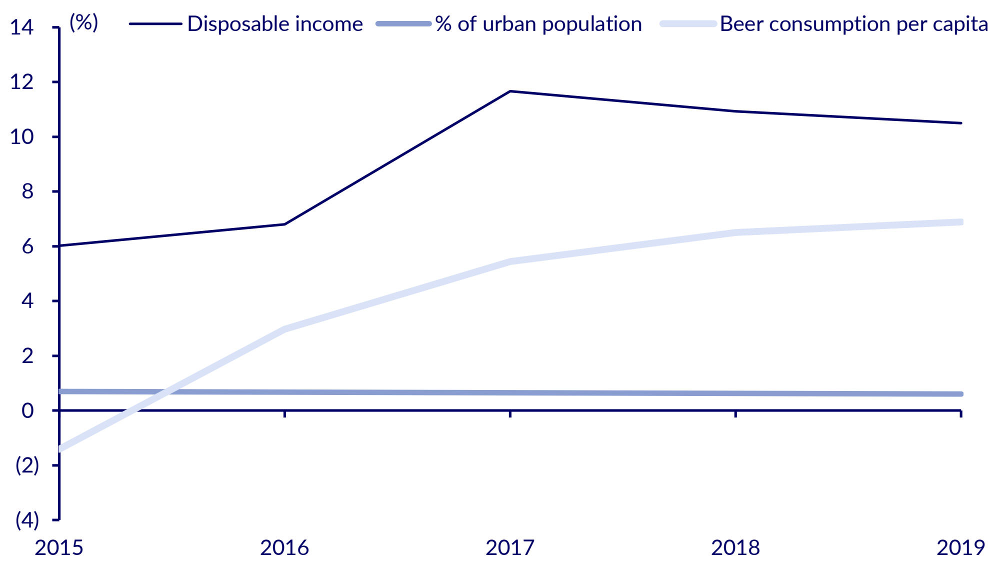
Malaysia beer premiumisation



Source: CLSA, Euromonitor

Beer consumption per capita dipped in 2015 due to the impact of GST

Malaysia YoY growth trends

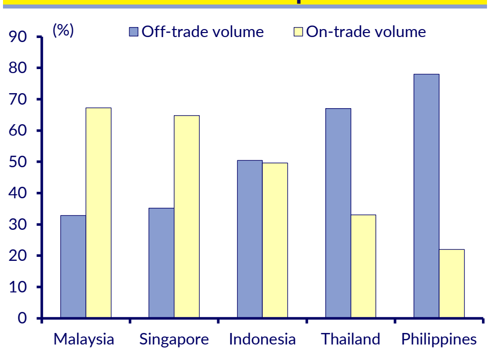


Source: CLSA, Euromonitor

Channel shifting causing disruptions

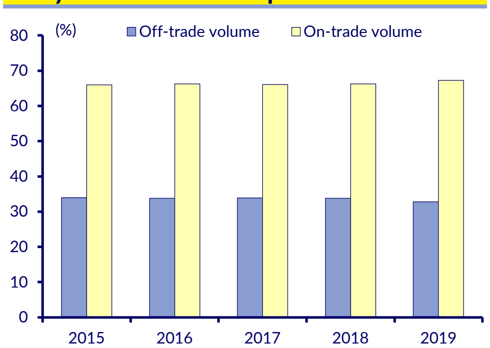
Malaysia and Singapore has the highest split of on-trade volumes

Asean 2019 off-to-on trade split



Source: CLSA, Euromonitor

Malaysia off-to-on trade split



Source: CLSA, Euromonitor

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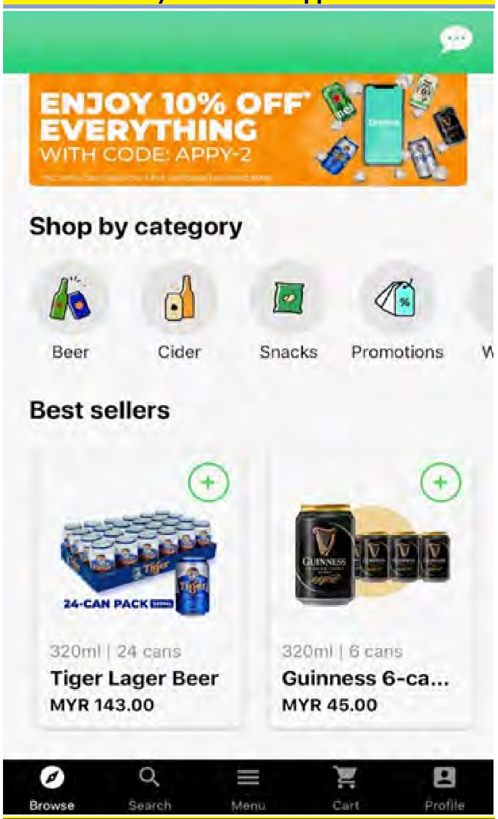
Malaysia's beer on-to-off trade channel split as of 2019 was 67:33

Malaysia's beer channel on-to-off trade channel split in 2019 was 67:33, which has largely been the same for the past five years, according to data from Euromonitor. Regardless if consumers return to pre-quarantine behaviour and consume on-trade, the growing importance of the off-trade channel is undeniable as consumers adapt to ordering beverages online and increase in-home consumption.

Heineken have their own online platform, Drinkies that offers a variety of beverages online, along with a third-party partnership with Shoppee. Carlsberg has third-party partnerships with several platforms such as Shoppee, Happy Fresh, and Potboy.

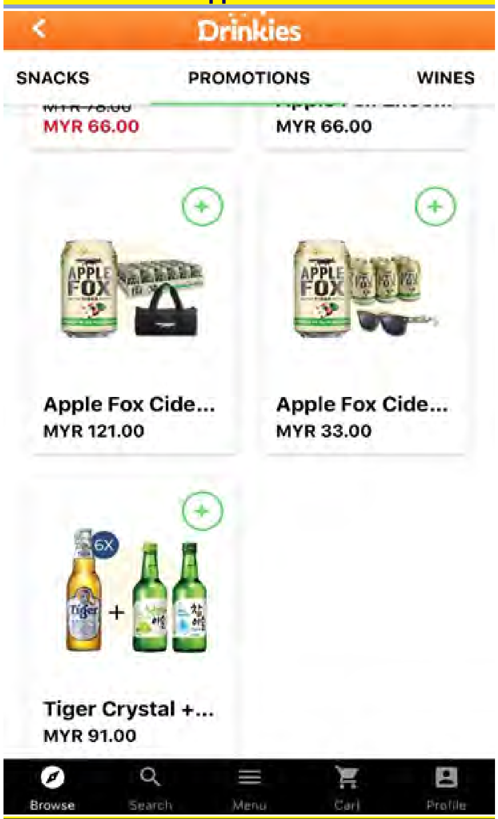
Heineken's own online platform for off-trade sales

Heineken Malaysia Drinkies app



Source: Company

Heineken Drinkies app



Source: Company

Volume recovery to be slower than expected

While beer volumes will recover from 21CL onwards, it may take longer than previously expected

The new normal is bound to change the industry in many ways. While beer volumes are likely to start to recover from 21CL onwards, it may take longer than previously expected for it to return to 2019 levels. Our previous expectations of a sharp and quick V-shaped volumes recovery was too optimistic. As on-trade establishments start we may see that some have not survived. This effectively reduces on-trade channel sales for breweries. Furthermore, deteriorating economic conditions will cause consumers to tighten their belts, impacting premium beer growth as they switch preferences to mass and local beers.

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Carlsberg: present value of cashflows

	0	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
	20CL	21CL	22CL	23CL	24CL	25CL	26CL	27CL	28CL	29CL	30CL
Revenue (RMm)	1,747	2,041	2,119	2,267	2,426	2,595	2,777	2,972	3,180	3,402	3,640
Growth (%)	(23)	17	4	7	7	7	7	7	7	7	7
Ebit (RMm)	214	347	360	385	412	441	472	505	540	578	618
Ebit margin (%)	12	17	17	17	17	17	17	17	17	17	17
Cash tax payable	(47)	(74)	(76)	(81)	(87)	(93)	(99)	(106)	(113)	(121)	(130)
Tax rate (%)				21	21	21	21	21	21	21	21
Associate	13.0	15.6	18.8	22.7	24.3	26.0	27.8	29.7	31.8	34.0	36.4
% of revenue	1	1	1	1	1	1	1	1	1	1	1
NOPAT	168	272	283	327	350	374	400	428	458	491	525
Growth (%)	(43)	62	4	16	7	7	7	7	7	7	7
Add: Depn.	42	41	45	65	67	69	72	75	79	84	89
Less: OWC	(92)	(14)	81	10	6	6	6	7	7	8	8
Less: Capex	(40)	(61)	(78)	(68)	(73)	(78)	(83)	(89)	(95)	(102)	(109)
CF to the firm	78	238	331	334	349	371	395	422	450	480	513
Discount factor		1.0	0.9	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.4
PV of cashflow		233	294	271	258	250	242	235	229	223	217
Total PV of cashflow	2,452										
Fair value (RM)	17.10										

Source: CLSA

Carlsberg: DCF-derived target price

WACC (%)	9.8
Total PV of cashflow	2,452
PV of terminal valuation	2,846
Enterprise value	5,298
Net cash	71
Equity value	5,369
MI	(140)
Share outstanding	306
Target price (RM)	17.10

Source: CLSA

Carlsberg: WACC

Risk-free rate (%)	4.2
Beta (x)	1.0
Market risk premium (%)	7.7
Cost of equity (%)	11.9
Cost of debt (%)	4.0
Debt to equity	27:73
WACC (%)	9.8

Source: CLSA

Prepared for - W: matthew_goh@summarecon.com

Valuation details

We use the Discounted Cash Flow (DCF) methodology to value Carlsberg Malaysia. Our cost of equity is 11.9%, using a risk free rate of 4.2%, market risk premium of 7.7% and a three year observed beta of 1.0x. We assume a terminal growth rate of 2%. We use the ASEAN peer average 0.27:0.73 debt:equity split in reaching our WACC: although Carlsberg Malaysia currently has very little debt, it has plenty of room to adopt more leverage and we think it is realistic to assume that it operates a more aggressive capital structure over time.

Investment risks

Downside risk to earnings include unfavourable regulatory risk such as excise tax hikes that could dent demand in the short term, higher-than-expected raw material price increase, slowdown in premium products, a prolonged Covid-19 and slowdown in ASEAN beer growth.

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Detailed financials

Profit & Loss (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**1,679**	**1,768**	**1,982**	**2,257**	**1,747**	**2,041**	**2,119**
Cogs (ex-D&A)	(1,082)	(1,149)	(1,318)	(1,539)	(1,206)	(1,332)	(1,382)
Gross Profit (ex-D&A)	**597**	**620**	**664**	**717**	**542**	**709**	**736**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(252)	(271)	(271)	(285)	(262)	(286)	(297)
Other SG&A	(25)	(24)	(14)	(21)	(28)	(40)	(40)
Other Op Expenses ex-D&A	8	8	9	6	4	5	5
Op Ebitda	**328**	**332**	**388**	**417**	**256**	**388**	**405**
Depreciation/amortisation	(34)	(33)	(41)	(42)	(42)	(41)	(45)
Op Ebit	**294**	**299**	**347**	**375**	**214**	**347**	**360**
Interest income	2	2	1	2	1	1	1
Interest expense	(7)	(6)	(8)	(11)	(11)	(18)	(25)
Net interest inc/(exp)	(5)	(4)	(7)	(9)	(10)	(17)	(24)
Associates/investments	(5)	0	21	16	13	16	19
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**284**	**295**	**361**	**382**	**217**	**345**	**355**
Taxation	(73)	(62)	(75)	(82)	(47)	(74)	(76)
Profit after tax	**211**	**232**	**287**	**300**	**171**	**271**	**279**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**211**	**232**	**287**	**300**	**171**	**271**	**279**
Minority interest	(6)	(11)	(10)	(9)	(9)	(9)	(9)
Net profit	**205**	**221**	**277**	**291**	**161**	**262**	**269**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	205	221	277	291	161	262	269
Dividends	(220)	(235)	(345)	(312)	0	(210)	(269)
Retained profit	(15)	(14)	(67)	(21)	161	52	0
Adjusted profit	**205**	**221**	**277**	**291**	**161**	**262**	**269**
EPS (RM)	0.7	0.7	0.9	1.0	0.5	0.9	0.9
Adj EPS [pre excep] (RM)	0.7	0.7	0.9	1.0	0.5	0.9	0.9
Core EPS (RM)	0.7	0.7	0.9	1.0	0.5	0.9	0.9
DPS (RM)	0.7	0.9	1.0	1.0	0.0	0.7	0.9

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	1.2	5.3	12.1	13.8	(22.6)	16.8	3.8
Ebitda growth (% YoY)	7.1	1.3	16.8	7.5	(38.7)	51.7	4.4
Ebit growth (% YoY)	7.7	1.7	16.1	8.0	(43.0)	62.1	3.8
Net profit growth (%)	(5.1)	7.9	25.3	5.0	(44.5)	62.3	2.8
EPS growth (% YoY)	(5.1)	7.9	25.3	5.0	(44.5)	62.3	2.8
Adj EPS growth (% YoY)	(5.1)	7.9	25.3	5.0	(44.5)	62.3	2.8
DPS growth (% YoY)	0.0	20.8	14.9	0.0	(100.0)	-	28.5
Core EPS growth (% YoY)	(5.1)	7.9	25.3	5.0	(44.5)	62.3	2.8
Margins (%)							
Ebitda margin (%)	19.5	18.8	19.6	18.5	14.6	19.0	19.1
Ebit margin (%)	17.5	16.9	17.5	16.6	12.2	17.0	17.0
Net profit margin (%)	12.2	12.5	14.0	12.9	9.2	12.8	12.7
Core profit margin	12.2	12.5	14.0	12.9	9.2	12.8	12.7
Op cashflow margin	15.7	19.1	19.2	16.8	6.7	14.7	19.3
Returns (%)							
ROE (%)	62.4	71.3	118.4	183.3	70.4	78.0	74.4
ROA (%)	33.0	35.9	41.3	43.3	23.2	32.5	29.9
ROIC (%)	81.2	98.1	176.5	291.0	115.8	131.3	141.0
ROCE (%)	89.1	102.8	167.8	239.9	104.4	123.2	123.3
Other key ratios (%)							
Effective tax rate (%)	25.8	21.2	20.6	21.4	21.4	21.4	21.4
Ebitda/net int exp (x)	63.6	84.3	58.1	46.7	26.7	22.8	16.9
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	107.4	120.3	110.3	105.1	0.0	80.0	100.0

Source: www.clsa.com

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Balance sheet (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	36	75	97	79	146	208	296
Accounts receivable	270	248	208	217	230	268	197
Inventories	96	68	97	67	64	71	73
Other current assets	6	12	9	2	2	2	2
Current assets	**409**	**403**	**410**	**365**	**442**	**549**	**569**
Fixed assets	172	178	193	207	205	225	258
Investments	73	64	73	85	98	113	132
Goodwill	0	0	0	0	0	0	0
Other intangible assets	4	3	3	8	8	8	8
Other non-current assets	3	3	3	15	15	15	15
Total assets	**662**	**651**	**683**	**679**	**768**	**910**	**982**
Short term loans/OD	33	17	75	75	75	125	175
Accounts payable	252	276	379	380	297	328	341
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	29	26	31	34	34	34	34
Other current liabs	0	0	-	2	2	2	2
Current liabilities	**315**	**319**	**485**	**491**	**409**	**490**	**552**
Long-term debt/leases/other	-	-	-	-	-	-	-
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	17	20	16	32	32	32	32
Total liabilities	**331**	**339**	**502**	**523**	**440**	**521**	**584**
Share capital	154	149	149	149	149	149	149
Retained earnings	149	134	17	0	161	214	214
Reserves/others	19	16	2	(1)	(1)	(1)	(1)
Shareholder funds	**322**	**299**	**169**	**148**	**310**	**362**	**362**
Minorities/other equity	8	13	12	8	18	27	36
Total equity	**330**	**312**	**181**	**157**	**327**	**389**	**399**
Total liabs & equity	**662**	**651**	**683**	**679**	**768**	**910**	**982**
Total debt	33	17	75	75	75	125	175
Net debt	(3)	(58)	(22)	(4)	(71)	(83)	(121)
Adjusted EV	6,023	5,981	6,008	6,010	5,939	5,921	5,873
BVPS (RM)	1.1	1.0	0.6	0.5	1.0	1.2	1.2

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.3	1.3	0.8	0.7	1.1	1.1	1.0
Growth in total assets (% YoY)	0.0	(1.5)	4.8	(0.5)	13.0	18.6	7.9
Growth in capital employed (% YoY)	(1.8)	(22.3)	(37.3)	(3.9)	67.6	19.4	(9.5)
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	0.1	0.0	0.2	0.2	0.6	0.4	0.4
Gross debt to Ebitda (x)	0.1	0.1	0.2	0.2	0.3	0.3	0.4
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(0.9)	(18.6)	(11.9)	(2.3)	(21.7)	(21.3)	(30.5)
Gross debt/equity (%)	10.1	5.4	41.4	47.9	22.9	32.1	43.9
Interest cover (x)	41.9	46.8	43.1	35.8	20.4	19.8	14.7
Debt Cover (x)	7.9	20.2	5.1	5.1	1.6	2.4	2.3
Working capital analysis							
Inventory days	29.4	26.2	22.9	19.4	19.8	18.5	19.0
Debtor days	60.3	53.5	42.0	34.4	46.7	44.5	40.1
Creditor days	84.8	84.0	90.8	90.0	102.5	85.7	88.3
Working capital/Sales (%)	5.4	1.4	(4.9)	(5.8)	(2.1)	(1.1)	(4.9)
Capital employed analysis							
Sales/Capital employed (%)	513.3	695.5	1,243.7	1,474.0	681.1	666.1	764.3
EV/Capital employed (%)	1,840.7	2,352.6	3,769.4	3,926.0	2,315.0	1,932.5	2,118.7
Working capital/Capital employed (%)	27.9	10.1	(60.9)	(84.8)	(14.6)	(7.6)	(37.6)
Fixed capital/Capital employed (%)	52.7	69.9	121.1	135.3	80.0	73.5	93.1
Other ratios (%)							
EV/OCF (x)	22.9	17.7	15.8	15.9	50.8	19.8	14.3
EV/FCF (x)	27.3	19.9	18.6	19.1	77.3	24.8	17.7
EV/Sales (x)	3.6	3.4	3.0	2.7	3.4	2.9	2.8
Capex/depreciation (%)	133.0	118.4	140.3	165.6	95.6	148.4	173.2

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Cashflow (RMm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	294	299	347	375	214	347	360
Operating adjustments	(5)	(6)	(6)	(7)	(10)	(17)	(24)
Depreciation/amortisation	34	33	41	42	42	41	45
Working capital changes	(2)	74	60	18	(92)	(14)	81
Interest paid / other financial expenses	5	4	7	9	10	17	24
Tax paid	(65)	(66)	(70)	(60)	(47)	(74)	(76)
Other non-cash operating items	2	0	1	1	0	0	0
Net operating cashflow	263	338	380	379	117	300	410
Capital expenditure	(43)	(38)	(57)	(65)	(40)	(61)	(78)
Free cashflow	221	300	323	314	77	239	332
Acq/inv/disposals	0	2	2	(1)	-	-	-
Int, invt & associate div	3	2	3	6	1	1	1
Net investing cashflow	(39)	(33)	(52)	(60)	(39)	(61)	(77)
Increase in loans	(1)	(17)	63	-	-	50	50
Dividends	(224)	(242)	(356)	(325)	0	(210)	(269)
Net equity raised/others	(7)	(7)	(9)	(12)	(11)	(18)	(25)
Net financing cashflow	(233)	(265)	(302)	(337)	(11)	(177)	(244)
Incr/(decr) in net cash	(8)	40	26	(18)	67	62	89
Exch rate movements	5	3	(5)	0	0	-	0
Opening cash	40	32	75	97	79	146	208
Closing cash	36	75	97	79	146	208	296
OCF PS (RM)	0.9	1.1	1.2	1.2	0.4	1.0	1.3
FCF PS (RM)	0.7	1.0	1.1	1.0	0.3	0.8	1.1

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	18.0	28.4	12.4	(0.3)	(69.2)	156.5	36.7
FCF growth (% YoY)	21.1	36.2	7.6	(2.8)	(75.6)	210.4	39.1
Capex growth (%)	4.2	(11.9)	50.5	14.0	(38.1)	52.9	27.3
Other key ratios (%)							
Capex/sales (%)	2.5	2.1	2.9	2.9	2.3	3.0	3.7
Capex/op cashflow (%)	16.2	11.1	14.9	17.0	34.2	20.4	19.0
Operating cashflow payout ratio (%)	83.6	78.7	80.5	80.7	0.0	69.9	65.7
Cashflow payout ratio (%)	83.6	69.6	90.7	82.2	0.0	69.9	65.7
Free cashflow payout ratio (%)	99.8	78.4	106.6	99.1	0.0	87.9	81.2

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	17.5	16.9	17.5	16.6	12.2	17.0	17.0
Asset turnover (x)	2.5	2.7	3.0	3.3	2.4	2.4	2.2
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Return on assets (%)	33.0	35.9	41.3	43.3	23.2	32.5	29.9
Leverage (x)	2.0	2.0	2.7	4.0	3.0	2.3	2.4
ROE (%)	62.6	72.3	116.2	177.9	70.5	75.7	70.8

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	218	236	275	295	168	272	283
Average invested capital	269	240	156	101	145	207	201
ROIC (%)	81.2	98.1	176.5	291.0	115.8	131.3	141.0
Cost of equity (%)	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Cost of debt (adj for tax)	3.7	3.9	4.0	3.9	3.9	3.9	3.9
Weighted average cost of capital (%)	7.2	7.2	7.2	7.2	7.2	7.2	7.2
EVA/IC (%)	74.0	90.8	169.3	283.8	108.5	124.1	133.8
EVA (RMm)	199	218	264	287	158	257	268

Source: www.clsa.com

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Genting Singapore

S$0.70 - SELL

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9 September 2020

Singapore

Hotels & Leisure

Reuters	GENS.SI
Bloomberg	GENS SP
Priced on 7 September 2020	
STI @ 2,511.2	
12M hi/lo	S$0.96/0.51
12M price target	S$0.67
±% potential	-4%
Shares in issue	12,057.2m
Free float (est.)	48.1%
Market cap	US$6.1bn
3M ADV	US$15.2m

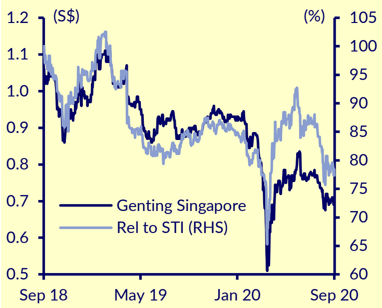
Major shareholders
Genting Bhd 52.8%

Blended ESG Score (%)*	
Overall	56.4
Country average	69.8
GEM sector average	66.7

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	2.2	(16.3)	(22.8)
Relative	7.3	(8.3)	(3.3)
Abs (US$)	2.5	(14.6)	(21.8)



Source: Bloomberg

Last resort

The rebound in tourism in Singapore will take much longer

Being tied closely to tourism, Genting's key asset, Resorts World Sentosa (RWS) is unlikely to recover quickly from the ravages of Covid-19. Recovery is reliant on a return of mass market tourism to Singapore and we do not see that happening until later-2021. Locals may help pick up some of the slack but we estimate that they only contribute to 30% of the property's total gross gaming revenue (GGR). Medium-term expansions - RWS 2.0 and potentially Yokohama, if they win a licence - are unlikely to make a splash anytime soon. SELL.

Tourism gap will continue to weigh on top-line

We currently factor a more prolonged recovery that is likely to last the majority of 2021 with mass-market tourism unlikely to return to normalised levels until late 2021 at the earliest. Until that returns, the company will suffer from sustained top-line pressure given that foreigners drive 70% of GGR for RWS. Current promotions to drive domestic visitation will be insufficient to cushion the impact, in our view.

Diversification far from certain

Management has sought to diversify the firm's reliance on Singapore's tourism market by first trying their luck in Korea and now Japan. A licence win in Japan would be a boon for medium-term growth prospects but competition for the licences is intense and they are up against the biggest hitters in the world of casino gaming. Visibility on the firm's bid for a Yokohoma integrated resort (IR) license remains uncertain given the pause from the Covid-19 pandemic.

RWS 2.0: a medium-term boost but there could be delays

Closer to home, the project to expand RWS is in its infancy still. The US$4.5bn RWS 2.0 expansion will take the best part of five years but depending on how things shake out over Covid, there could be delays to the timetable. The expansion is a medium-term driver for increased foot traffic in the property, with more attractions and, crucially, more hotel capacity to entice customers to stay longer.

No V-shaped tourism recovery in Singapore

Genting Singapore has held up surprisingly well since the pandemic began, despite a dependency on hospitality and tourism. However, tourism-related plays are unlikely to show a V-shaped recovery. We value the firm using 6.5x 22CL EV/Ebitda, representing around 1sd below its long-term mean and close to its trough valuations, which we think is justified in the current environment, with the lack of dividend support. We hold a SELL rating, with 4% downside to our S$0.67 target.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (S$m)	2,539	2,480	1,018	1,713	2,133
Ebitda (S$m)	1,218	1,173	153	672	1,005
Net profit (S$m)	755	689	(208)	247	491
EPS (S$)	0.06	0.06	(0.02)	0.02	0.04
CL/consensus (21) (EPS%)	-	-	108	68	93
EPS growth (% YoY)	25.5	(8.9)	(130.2)	nm	98.7
EV/Ebitda (x)	4.3	4.0	41.6	10.1	7.2
PE (x)	11.1	12.2	nm	33.9	17.1
Dividend yield (%)	5.0	5.8	0.0	5.8	5.8
FCF yield (%)	12.3	10.9	(16.3)	(3.0)	0.1
Net cash per share (S$)	0.3	0.3	0.2	0.1	0.1

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (S$m)						
Revenue	**2,539**	**2,480**	**1,018**	*(59)*	**1,713**	**2,133**
Cogs (ex-D&A)	(1,310)	(1,291)	(815)		(1,032)	(1,118)
Gross Profit (ex-D&A)	**1,230**	**1,190**	**203**	*(83)*	**681**	**1,015**
SG&A and other expenses	(11)	(16)	(50)		(10)	(10)
Op Ebitda	**1,218**	**1,173**	**153**	*(86.9)*	**672**	**1,005**
Depreciation/amortisation	(316)	(390)	(405)		(387)	(410)
Op Ebit	**903**	**783**	**(252)**		**285**	**595**
Net interest inc/(exp)	36	60	40	*(32.4)*	20	15
Other non-Op items	4	4	4	*(10.7)*	4	4
Profit before tax	**943**	**847**	**(208)**		**309**	**613**
Taxation	(188)	(158)	-		(62)	(123)
Profit after tax	**755**	**689**	**(208)**		**247**	**491**
Minority interest	0	0	0		0	0
Net profit	**755**	**689**	**(208)**		**247**	**491**
Adjusted profit	**755**	**689**	**(208)**		**247**	**491**
Cashflow (S$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**903**	**783**	**(252)**		**285**	**595**
Depreciation/amortisation	316	390	405	*3.8*	387	410
Working capital changes	(9)	(67)	(380)		(104)	(72)
Other items	(64)	(20)	182		104	(6)
Net operating cashflow	**1,146**	**1,086**	**(45)**		**671**	**926**
Capital expenditure	(120)	(172)	(1,320)		(920)	(920)
Free cashflow	**1,026**	**914**	**(1,365)**		**(249)**	**6**
M&A/Others	14	(75)	0		0	0
Net investing cashflow	**(105)**	**(246)**	**(1,320)**		**(920)**	**(920)**
Increase in loans	(210)	(785)	0		0	0
Dividends	(422)	(422)	(301)		(181)	(482)
Net equity raised/other	(31)	102	(3)		(3)	(3)
Net financing cashflow	**(663)**	**(1,105)**	**(305)**		**(183)**	**(485)**
Incr/(decr) in net cash	377	(266)	(1,670)		(432)	(479)
Exch rate movements	3	(1)	0		0	0
Balance sheet (S$m)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	4,214	3,947	2,278	*(42.3)*	1,846	1,367
Accounts receivable	144	137	46	*(66.8)*	102	135
Other current assets	168	49	25	*(48.3)*	34	39
Fixed assets	4,857	4,667	5,605	*20.1*	6,158	6,685
Investments	-	-	-		-	-
Intangible assets	103	153	130	*(15)*	110	94
Other non-current assets	281	297	297	*0*	297	297
Total assets	**9,767**	**9,250**	**8,380**	***(9.4)***	**8,547**	**8,616**
Short-term debt	206	4	4	*0*	4	4
Accounts payable	455	489	129	*(73.6)*	230	290
Other current liabs	202	210	210	*0*	210	210
Long-term debt/CBs	832	257	257	*0*	257	257
Provisions/other LT liabs	291	232	232	*0*	232	232
Shareholder funds	7,781	8,058	7,548	*(6.3)*	7,615	7,623
Minorities/other equity	0	0	0	*0*	0	0
Total liabs & equity	**9,767**	**9,250**	**8,380**	***(9.4)***	**8,547**	**8,616**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	6.1	(2.3)	(59.0)		68.3	24.5
Ebitda margin (%)	48.0	47.3	15.0		39.2	47.1
Ebit margin (%)	35.6	31.6	(24.7)		16.6	27.9
Net profit growth (%)	25.7	(8.8)	(130.2)		nm	98.7
Op cashflow growth (% YoY)	(8.8)	(5.2)	(104.1)		nm	38.0
Capex/sales (%)	4.7	6.9	129.7		53.7	43.1
Net debt/equity (%)	(40.8)	(45.8)	(26.7)		(20.8)	(14.5)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	9.9	8.7	(2.7)		3.3	6.4
ROIC (%)	14.5	13.4	(4.9)		3.8	7.3

Source: www.clsa.com

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Bets are off

A diversification away from Singapore is sensible for Genting Singapore

Moves to diversify Genting Singapore's revenues from currently solely within the island nation are sensible. The company made an unsuccessful foray into Korea a few years ago before refocusing efforts on the Japan bid, when the gaming bill was passed there.

After initially focusing on Osaka, the company earlier this year withdrew their bid, choosing to bid for Yokohama instead. Competition is stronger here though and they will be up against the biggest gaming companies in the world.

In Singapore, after successfully renegotiating an extension of their licence last year, the company committed to expanding the current RWS infrastructure to the tune of US$4.5bn. The new expanded property will include new attractions, more gaming space and, importantly, more hotel room capacity; something that is sorely needed on Sentosa.

The new attractions in RWS 2.0 will be welcome but most are years away

New attractions of RWS 2.0

Source: Genting Singapore

This expansion is part of a bigger objective of the Singapore government to drive more tourism into Sentosa and the Greater Southern Waterfront, the part of the main island of Singapore opposite Sentosa. This is, however, a long-term endeavour that will blossom over a 5-10 year period.

The company has built up its coffers and cash on the balance sheet will see them through this crisis

Though the company's operations are in a precarious situation as the Covid-19 pandemic continues to ravage tourism, the financials are strong and can withstand a long-period of reduced revenues. As of December 2019, the company was in a net cash position of S$3.7bn. While some of this is earmarked for RWS 2.0 and potentially Yokohama, there is more than enough to support the company through the current crisis. We think the dividend will even be maintained this year, owing to the large cash position on its balance sheet.

Our valuation is based on a 7.5x EV/Ebitda multiple (roughly one standard deviation below its long-term mean, given the nearer term risk) applied to 22CL Ebitda, which we see as the first year resembling anything near a normalised level post-Covid.

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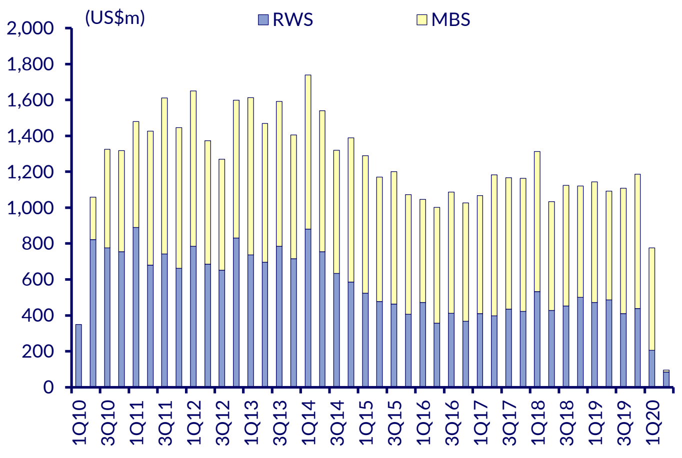
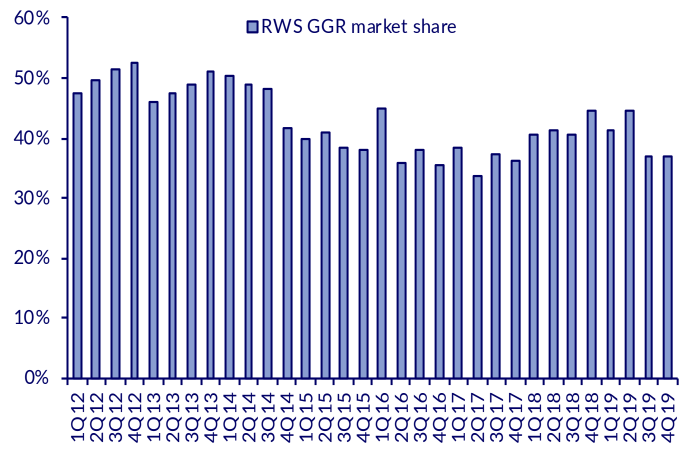
Singapore GGR by property



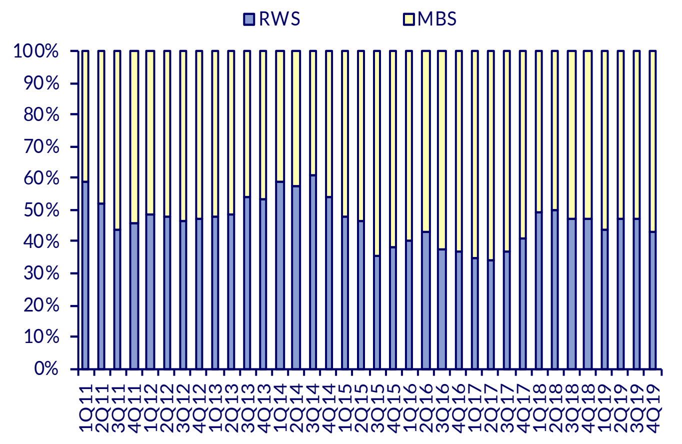
Source: CLSA, GENS, LVS

RWS market share



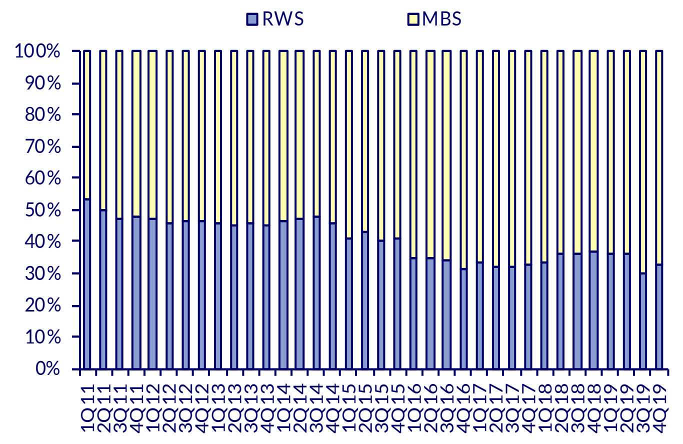
Source: CLSA, GENS, LVS

Singapore VIP volume market share



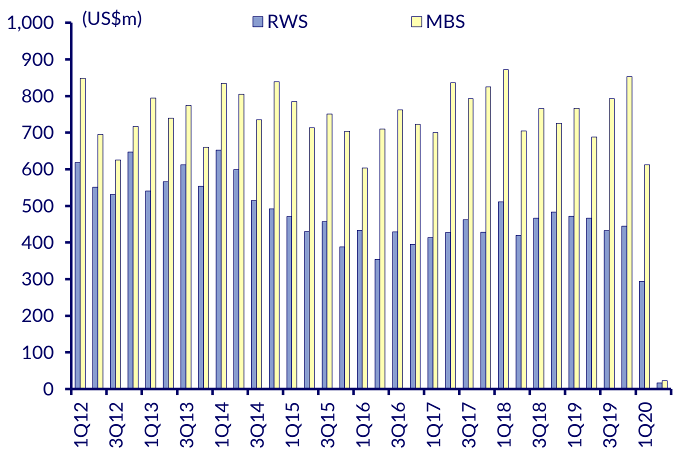
Source: CLSA, GENS, LVS

Singapore mass/slots volume market share



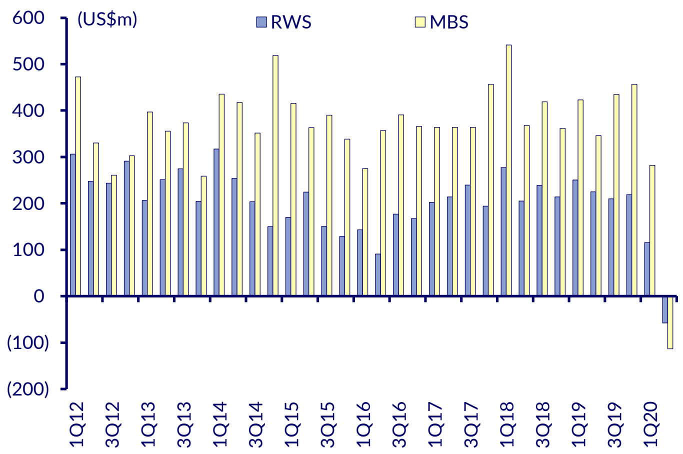
Source: CLSA, GENS, LVS

Singapore net revenues



Source: CLSA, GENS, LVS

Singapore property Ebitda



Source: CLSA, GENS, LVS

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Recent valuations have been distorted by the expected Ebitda this year

We value the stock on 6.5x EV/Ebitda multiple (roughly one standard deviation below its long-term mean, given the near-term pressure from Covid-19)

12m fwd EV/Ebitda

Source: CLSA Evalu@tor

Valuation details

Our valuation is based on a 6.5x EV/Ebitda multiple (roughly one standard deviation below its long-term mean, given the near-term pressure from Covid-19) applied to 22CL Ebitda.

Investment risks

Risks include an even more extended and adverse impact from Covid-19 than already factored in, execution risks on the buildout of RWS 2.0, and better-than-expected ramp-up at Genting Highlands that structurally peels away customers from RWS.

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Detailed financials

Profit & Loss (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**2,228**	**2,393**	**2,539**	**2,480**	**1,018**	**1,713**	**2,133**
Cogs (ex-D&A)	(1,452)	(1,241)	(1,310)	(1,291)	(815)	(1,032)	(1,118)
Gross Profit (ex-D&A)	**776**	**1,151**	**1,230**	**1,190**	**203**	**681**	**1,015**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	-	-	-	-	-	-	-
Other SG&A	-	-	-	-	-	-	-
Other Op Expenses ex-D&A	(16)	(47)	(11)	(16)	(50)	(10)	(10)
Op Ebitda	**760**	**1,104**	**1,218**	**1,173**	**153**	**672**	**1,005**
Depreciation/amortisation	(297)	(283)	(316)	(390)	(405)	(387)	(410)
Op Ebit	**464**	**821**	**903**	**783**	**(252)**	**285**	**595**
Interest income	84	71	72	80	44	23	17
Interest expense	(45)	(36)	(36)	(20)	(3)	(3)	(3)
Net interest inc/(exp)	39	35	36	60	40	20	15
Associates/investments	(6)	3	4	4	4	4	4
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**497**	**860**	**943**	**847**	**(208)**	**309**	**613**
Taxation	(112)	(174)	(188)	(158)	-	(62)	(123)
Profit after tax	**385**	**686**	**755**	**689**	**(208)**	**247**	**491**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**385**	**686**	**755**	**689**	**(208)**	**247**	**491**
Minority interest	(118)	(85)	0	0	0	0	0
Net profit	**266**	**601**	**755**	**689**	**(208)**	**247**	**491**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	266	601	755	689	(208)	247	491
Dividends	(360)	(421)	(422)	(482)	0	(482)	(482)
Retained profit	(94)	180	334	206	(208)	(235)	8
Adjusted profit	**266**	**601**	**755**	**689**	**(208)**	**247**	**491**
EPS (S$)	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Adj EPS [pre excep] (S$)	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Core EPS (S$)	0.0	0.0	0.1	0.1	0.0	0.0	0.0
DPS (S$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	(7.2)	7.4	6.1	(2.3)	(59.0)	68.3	24.5
Ebitda growth (% YoY)	22.6	45.2	10.3	(3.7)	(86.9)	338.7	49.6
Ebit growth (% YoY)	68.0	77.2	9.9	(13.2)	(132.1)	nm	108.8
Net profit growth (%)	254.3	125.6	25.7	(8.8)	(130.2)	nm	98.7
EPS growth (% YoY)	255.2	125.4	25.5	(8.9)	(130.2)	nm	98.7
Adj EPS growth (% YoY)	255.2	125.4	25.5	(8.9)	(130.2)	nm	98.7
DPS growth (% YoY)	100.0	16.7	0.0	14.3	(100.0)	-	0.0
Core EPS growth (% YoY)	255.2	125.4	25.5	(8.9)	(130.2)	nm	98.7
Margins (%)							
Ebitda margin (%)	34.1	46.1	48.0	47.3	15.0	39.2	47.1
Ebit margin (%)	20.8	34.3	35.6	31.6	(24.7)	16.6	27.9
Net profit margin (%)	12.0	25.1	29.7	27.8	(20.4)	14.4	23.0
Core profit margin	12.0	25.1	29.7	27.8	(20.4)	14.4	23.0
Op cashflow margin	52.3	52.5	45.1	43.8	(4.4)	39.2	43.4
Returns (%)							
ROE (%)	3.7	8.2	9.9	8.7	(2.7)	3.3	6.4
ROA (%)	3.1	6.2	7.5	6.7	(2.9)	2.7	5.5
ROIC (%)	5.7	11.7	14.5	13.4	(4.9)	3.8	7.3
ROCE (%)	7.7	15.6	19.1	17.5	(5.1)	4.9	9.5
Other key ratios (%)							
Effective tax rate (%)	22.6	20.3	19.9	18.7	0.0	20.0	20.0
Ebitda/net int exp (x)	-	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	135.3	70.0	55.8	70.0	-	195.2	98.3

Source: www.clsa.com

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Balance sheet (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	4,963	3,834	4,214	3,947	2,278	1,846	1,367
Accounts receivable	198	127	144	137	46	102	135
Inventories	62	49	49	49	25	34	39
Other current assets	618	129	119	0	0	0	0
Current assets	**5,841**	**4,138**	**4,526**	**4,133**	**2,349**	**1,982**	**1,541**
Fixed assets	5,242	5,069	4,857	4,667	5,605	6,158	6,685
Investments	-	-	-	-	-	-	-
Goodwill	0	0	0	0	0	0	0
Other intangible assets	146	125	103	153	130	110	94
Other non-current assets	217	275	281	297	297	297	297
Total assets	**11,446**	**9,607**	**9,767**	**9,250**	**8,380**	**8,547**	**8,616**
Short term loans/OD	182	203	206	4	4	4	4
Accounts payable	350	463	455	489	129	230	290
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	0	0	0	0	0	0	0
Other current liabs	100	200	202	210	210	210	210
Current liabilities	**633**	**866**	**863**	**703**	**343**	**443**	**504**
Long-term debt/leases/other	978	1,013	832	257	257	257	257
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	305	286	291	232	232	232	232
Total liabilities	**1,916**	**2,165**	**1,986**	**1,192**	**832**	**933**	**993**
Share capital	5,461	5,483	5,492	5,498	5,498	5,498	5,498
Retained earnings	1,698	1,926	2,274	2,543	2,335	2,100	2,108
Reserves/others	63	33	15	17	(285)	17	17
Shareholder funds	**7,222**	**7,442**	**7,781**	**8,058**	**7,548**	**7,615**	**7,623**
Minorities/other equity	2,308	0	0	0	0	0	0
Total equity	**9,530**	**7,442**	**7,781**	**8,058**	**7,548**	**7,615**	**7,623**
Total liabs & equity	**11,446**	**9,607**	**9,767**	**9,250**	**8,380**	**8,547**	**8,616**
Total debt	1,161	1,216	1,039	261	261	261	261
Net debt	(3,803)	(2,618)	(3,176)	(3,687)	(2,017)	(1,585)	(1,106)
Adjusted EV	6,854	5,742	5,196	4,693	6,363	6,795	7,274
BVPS (S$)	0.6	0.6	0.6	0.7	0.6	0.6	0.6

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	9.2	4.8	5.2	5.9	6.8	4.5	3.1
Growth in total assets (% YoY)	(4.8)	(16.1)	1.7	(5.3)	(9.4)	2.0	0.8
Growth in capital employed (% YoY)	(8.3)	(15.8)	(4.5)	(5.1)	26.5	9.0	8.1
Net debt to operating cashflow (x)	-	-	-	-	-	-	-
Gross debt to operating cashflow (x)	1.0	1.0	0.9	0.2	(5.8)	0.4	0.3
Gross debt to Ebitda (x)	1.5	1.1	0.9	0.2	1.7	0.4	0.3
Net debt/Ebitda (x)	-	-	-	-	-	-	-
Gearing							
Net debt/equity (%)	(39.9)	(35.2)	(40.8)	(45.8)	(26.7)	(20.8)	(14.5)
Gross debt/equity (%)	12.2	16.3	13.3	3.2	3.5	3.4	3.4
Interest cover (x)	12.3	25.0	27.2	42.1	(60.2)	118.1	235.0
Debt Cover (x)	1.0	1.0	1.1	4.2	(0.2)	2.6	3.6
Working capital analysis							
Inventory days	14.9	16.2	13.6	13.8	16.5	10.4	11.8
Debtor days	69.1	24.8	19.5	20.7	32.8	15.8	20.4
Creditor days	95.8	119.4	127.9	133.5	138.5	63.4	84.8
Working capital/Sales (%)	19.2	(15.0)	(13.6)	(20.7)	(26.3)	(17.7)	(15.3)
Capital employed analysis							
Sales/Capital employed (%)	38.9	49.6	55.1	56.7	18.4	28.4	32.7
EV/Capital employed (%)	119.7	119.0	112.8	107.4	115.0	112.7	111.6
Working capital/Capital employed (%)	7.5	(7.4)	(7.5)	(11.7)	(4.8)	(5.0)	(5.0)
Fixed capital/Capital employed (%)	91.5	105.1	105.5	106.8	101.3	102.1	102.6
Other ratios (%)							
EV/OCF (x)	5.9	4.6	4.5	4.3	(142.4)	10.1	7.9
EV/FCF (x)	6.3	4.9	5.1	5.1	(4.7)	(27.3)	1,170.4
EV/Sales (x)	3.1	2.4	2.0	1.9	6.3	4.0	3.4
Capex/depreciation (%)	25.5	29.4	41.0	47.2	345.8	250.6	233.9

Source: www.clsa.com

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Cashflow (S$m)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	464	821	903	783	(252)	285	595
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	297	283	316	390	405	387	410
Working capital changes	168	98	(9)	(67)	(380)	(104)	(72)
Interest paid / other financial expenses	(50)	(46)	(45)	(68)	(41)	(21)	(15)
Tax paid	112	174	188	158	0	62	123
Other non-cash operating items	175	(75)	(206)	(110)	222	63	(114)
Net operating cashflow	1,165	1,256	1,146	1,086	(45)	671	926
Capital expenditure	(70)	(76)	(120)	(172)	(1,320)	(920)	(920)
Free cashflow	1,095	1,180	1,026	914	(1,365)	(249)	6
Acq/inv/disposals	-	(67)	-	-	-	-	-
Int, invt & associate div	(200)	600	14	(75)	-	-	-
Net investing cashflow	(270)	457	(105)	(246)	(1,320)	(920)	(920)
Increase in loans	(475)	46	(210)	(785)	0	0	0
Dividends	(360)	(361)	(422)	(422)	(301)	(181)	(482)
Net equity raised/others	(145)	(2,460)	(31)	102	(3)	(3)	(3)
Net financing cashflow	(980)	(2,775)	(663)	(1,105)	(305)	(183)	(485)
Incr/(decr) in net cash	(85)	(1,062)	377	(266)	(1,670)	(432)	(479)
Exch rate movements	47	(68)	3	(1)	0	0	0
Opening cash	5,002	4,963	3,834	4,214	3,947	2,278	1,846
Closing cash	4,963	3,834	4,214	3,947	2,278	1,846	1,367
OCF PS (S$)	0.1	0.1	0.1	0.1	0.0	0.1	0.1
FCF PS (S$)	0.1	0.1	0.1	0.1	(0.1)	0.0	0.0

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(7.7)	7.8	(8.8)	(5.2)	(104.1)	nm	38.0
FCF growth (% YoY)	0.7	7.7	(13.0)	(10.9)	(249.3)	-	-
Capex growth (%)	(60.0)	9.3	57.2	43.4	669.5	(30.3)	0.0
Other key ratios (%)							
Capex/sales (%)	3.1	3.2	4.7	6.9	129.7	53.7	43.1
Capex/op cashflow (%)	6.0	6.1	10.4	15.8	(2,953.2)	137.0	99.3
Operating cashflow payout ratio (%)	30.9	33.5	36.8	44.4	-	71.8	52.1
Cashflow payout ratio (%)	30.9	33.5	36.8	44.4	-	71.8	52.1
Free cashflow payout ratio (%)	32.9	35.7	41.1	52.7	-	-	7,760.9

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	20.8	34.3	35.6	31.6	(24.7)	16.6	27.9
Asset turnover (x)	0.2	0.2	0.3	0.3	0.1	0.2	0.2
Interest burden (x)	1.1	1.0	1.0	1.1	0.8	1.1	1.0
Tax burden (x)	0.8	0.8	0.8	0.8	1.0	0.8	0.8
Return on assets (%)	3.1	6.2	7.5	6.7	(2.9)	2.7	5.5
Leverage (x)	1.2	1.2	1.3	1.2	1.1	1.1	1.1
ROE (%)	4.0	8.1	9.9	8.7	(2.7)	3.3	6.4

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	359	655	723	637	(252)	228	476
Average invested capital	6,287	5,571	5,003	4,750	5,184	6,013	6,506
ROIC (%)	5.7	11.7	14.5	13.4	(4.9)	3.8	7.3
Cost of equity (%)	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Cost of debt (adj for tax)	1.0	1.0	1.0	1.0	1.3	1.0	1.0
Weighted average cost of capital (%)	4.2	4.2	4.2	4.2	4.4	4.2	4.2
EVA/IC (%)	1.5	7.5	10.2	9.2	(9.2)	(0.4)	3.1
EVA (S$m)	94	418	511	435	(479)	(27)	200

Source: www.clsa.com

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Jollibee

P138.10 - UNDERPERFORM

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9 September 2020

Philippines

Consumer

Reuters	JFC.PS
Bloomberg	JFC PM
Priced on 7 September 2020	
Phils Phisix @ 5,935.9	
12M hi/lo	P235.00/91.10
12M price target	P143.00
±% potential	+4%
Shares in issue	1,089.4m
Free float (est.)	42.7%
Market cap	US$3.1bn
3M ADV	US$3.3m
Foreign s'holding	18.0%

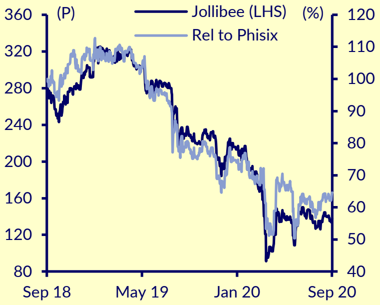
Major shareholders
Tony Tan Caktiong 79.0%

Blended ESG Score (%)*	
Overall	59.2
Country average	52.4
GEM sector average	66.7

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	2.9	6.2	(39.7)
Relative	1.3	15.7	(19.4)
Abs (US$)	3.8	8.8	(35.7)



Source: Bloomberg

Off its feed

Stay-at-home orders expose weak investment in delivery

The lockdown measures forcing consumers to stay at home have negatively impacted fast-food restaurants such as Jollibee; compounding the problem are the firm's relatively weak delivery capabilities. This year, the company provisioned P7bn for its global business restructuring. Hence, we expect short-term pain before the company sees a recovery. Overall, we see limited upside to investing in Jollibee. We maintain our Underperform rating and our P143 target price.

More in-home consumption

Increased in-home consumption was forced on consumers, particularly in 2Q20, negatively impacting restaurants during the period. Making the situation worse is that Jollibee's target market is mostly the lower income segment, the most adversely affected demographic by Covid-19. This has led to an announcement of a global store rationalisation, affecting 7% of its 2019 store network.

Weak delivery capabilities

The Philippines has the strictest lockdown restrictions relative to the other countries in which Jollibee operates. While delivery jumped significantly during the lockdown (114-157% between April and June 2020), it was not enough to offset lost dine-in sales. The main reason for this was that only a third of its domestic store network could handle delivery orders. The company now intends to bring this number to 50%. It is also eyeing rolling out more cloud kitchens, or food service stores that mostly focus on take-out and delivery orders.

Short-term pain for long-term gain

In 2020, the company provisioned P7bn for its global business restructuring, on top of the P1bn expense allocation it announced to support domestic employees. These should cause the company to incur huge losses this year. As of 1H20, the company has already posted attributable losses of P11.96bn. Note that in June 2020, Jollibee issued US$600m in guaranteed senior notes, in addition to the US$600m of perpetual capital securities in January 2020.

Underperform on Jollibee

We maintain our Underperform rating on Jollibee with a target price of P143. This is based on 25x forward PE, which is two standard deviations below its 5-year mean of 35x, to factor in the weak discretionary spending. We believe this multiple is reasonable given that prolonged weak consumer sentiment poses a critical downside risk to our base case assumption of a business transformation-driven recovery back to 2019 earnings by 2022.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Pm)	161,168	179,626	123,446	171,007	181,495
Revenue growth (% YoY)	20.6	11.5	(31.3)	38.5	6.1
Net profit (Pm)	8,213	6,432	(15,662)	5,020	7,586
EPS (P)	7.44	5.82	(14.16)	4.54	6.86
CL/consensus (13) (EPS%)	-	-	nm	116	112
EPS growth (% YoY)	17.4	(21.8)	(343.3)	nm	51.1
PE (x)	18.6	23.7	nm	30.4	20.1
FCF yield (%)	15.5	13.7	(19.3)	15.5	6.1
Dividend yield (%)	1.8	1.9	0.0	1.1	1.7
PB (x)	3.1	2.9	2.2	2.1	2.0
ROE (%)	18.7	12.8	(25.9)	7.2	10.3

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Pm)						
Revenue	**161,168**	**179,626**	**123,446**	*(31.3)*	**171,007**	**181,495**
Cogs (ex-D&A)	(120,535)	(136,785)	(106,233)		(133,974)	(144,020)
Gross Profit (ex-D&A)	**40,633**	**42,842**	**17,213**	*(59.8)*	**37,033**	**37,474**
SG&A and other expenses	(19,488)	(22,867)	(18,081)		(20,352)	(18,878)
Op Ebitda	**21,145**	**19,974**	**(868)**		**16,680**	**18,596**
Depreciation/amortisation	(11,886)	(13,473)	(9,283)		(10,197)	(8,626)
Op Ebit	**9,259**	**6,501**	**(10,151)**		**6,484**	**9,970**
Net interest inc/(exp)	(2,193)	(2,787)	(3,195)		(3,218)	(3,227)
Other non-Op items	3,256	5,769	(3,697)		4,192	4,122
Profit before tax	**10,322**	**9,484**	**(17,043)**		**7,457**	**10,866**
Taxation	(2,680)	(3,061)	656		(2,135)	(2,868)
Profit after tax	**7,642**	**6,423**	**(16,387)**		**5,322**	**7,998**
Minority interest	571	10	725	*7,520.4*	(302)	(411)
Net profit	**8,213**	**6,432**	**(15,662)**		**5,020**	**7,586**
Adjusted profit	**8,213**	**6,432**	**(15,662)**		**5,020**	**7,586**
Cashflow (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**9,259**	**6,501**	**(10,151)**		**6,484**	**9,970**
Depreciation/amortisation	11,886	13,473	9,283	*(31.1)*	10,197	8,626
Working capital changes	13,165	11,038	(19,528)		14,041	1,618
Other items	(1,046)	(69)	(5,511)		(1,463)	(2,384)
Net operating cashflow	**33,263**	**30,943**	**(25,907)**		**29,259**	**17,830**
Capital expenditure	(9,630)	(10,042)	(3,578)		(5,548)	(8,501)
Free cashflow	**23,633**	**20,902**	**(29,485)**		**23,711**	**9,330**
M&A/Others	(30,609)	(38,649)	12,381		(13,395)	(4,542)
Net investing cashflow	**(40,239)**	**(48,691)**	**8,803**		**(18,943)**	**(13,043)**
Increase in loans	10,161	18,500	5,316	*(71.3)*	(4,758)	(4,929)
Dividends	(2,692)	(2,815)	0		(1,673)	(2,529)
Net equity raised/other	1,685	(332)	30,205		302	411
Net financing cashflow	**9,154**	**15,354**	**35,521**	***131.3***	**(6,129)**	**(7,046)**
Incr/(decr) in net cash	2,178	(2,394)	18,416		4,186	(2,259)
Exch rate movements	-	-	-		-	-
Balance sheet (Pm)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	23,286	20,892	39,308	*88.1*	43,495	41,236
Accounts receivable	4,863	5,906	4,095	*(30.7)*	5,448	5,836
Other current assets	14,390	18,821	12,546	*(33.3)*	18,113	20,606
Fixed assets	26,673	32,592	28,701	*(11.9)*	26,086	27,997
Investments	40,116	49,778	36,358	*(27)*	47,719	50,224
Intangible assets	31,542	50,208	50,181	*(0.1)*	50,181	50,181
Other non-current assets	9,644	9,079	5,977	*(34.2)*	8,123	8,592
Total assets	**150,513**	**187,276**	**177,166**	***(5.4)***	**199,163**	**204,672**
Short-term debt	10,646	32,636	9,182	*(71.9)*	11,162	6,629
Accounts payable	28,717	34,652	22,656	*(34.6)*	31,379	33,183
Other current liabs	263	392	246	*(37.2)*	347	369
Long-term debt/CBs	21,375	19,180	45,334	*136.4*	40,405	40,405
Provisions/other LT liabs	40,515	48,135	32,923	*(31.6)*	45,396	48,143
Shareholder funds	47,676	52,781	68,049	*28.9*	71,396	76,453
Minorities/other equity	1,320	(499)	(1,224)		(922)	(511)
Total liabs & equity	**150,513**	**187,276**	**177,166**	***(5.4)***	**199,163**	**204,672**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	20.6	11.5	(31.3)		38.5	6.1
Ebitda margin (%)	13.1	11.1	(0.7)		9.8	10.2
Ebit margin (%)	5.7	3.6	(8.2)		3.8	5.5
Net profit growth (%)	18.3	(21.7)	(343.5)		nm	51.1
Op cashflow growth (% YoY)	(22.9)	(7.0)	(183.7)		nm	(39.1)
Capex/sales (%)	6.0	5.6	2.9		3.2	4.7
Net debt/equity (%)	17.8	59.1	22.8		11.5	7.6
Net debt/Ebitda (x)	0.4	1.5	(17.5)		0.5	0.3
ROE (%)	18.7	12.8	(25.9)		7.2	10.3
ROIC (%)	14.5	6.3	(12.2)		6.0	9.4

Source: www.clsa.com

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Despite having 90% of its stores open in June 2020, same-store sales barely recovered, posting -48% in June versus -57% in April

The negative SSSg despite delivery sales doubling in 2Q20 also suggests that delivery sales were not enough to offset lost dine-in sales

Jollibee 2Q20 metrics

(%)	Apr 20	May 20	Jun 20
SSSg			
Global	(47.0)		(39.0)
Philippines	(57.0)		(48.0)
China	(37.0)		(25.0)
North America	(25.0)		(9.0)
EMEAA	(45.0)		(22.0)
Delivery growth			
Philippines	157.0	145.0	114.0
China	16.0	8.0	9.0
Smashburger (company-owned)	600.0	519.0	459.0
Jollibee Vietnam	181.0	110.0	99.0
Hong Kong	105.0	22.0	40.0
Singapore	588.0	512.0	666.0
Store closure ratios			
Philippines	53.0	30.0	10.0
China	2.0	2.0	2.0
North America (ex-CBTL)	18.0	13.0	10.0
EMEAA (ex-SuperFoods)	8.0	9.0	3.0
CBTL	40.0	35.0	24.0
Superfoods	14.0	9.0	8.0
Blended	**40.0**	**26.0**	**12.0**

Source: Company information

The company announced a global store rationalisation this year, translating to about 7% of its 2019 store network

Planned store closures for 2020

Business transformation closures[1]	255
Franchised store closures	161
Store ownership change[2]	95

[1] Company-owned stores; [2] From company-owned to franchisees. Source: Company information

There has also been a cut in planned store expansion, mostly due to the weak discretionary consumption amidst the pandemic

Planned store expansion for 2020

	Budget	Reduction	Jollibee forecast
Philippines	280	185	95
Total foreign	370	155	215
China	70	25	45
North America[1]	140	40	100
EMEAA	160	90	70
Total worldwide	**650**	**340**	**310**

[1] Including CBTL. Source: Company information

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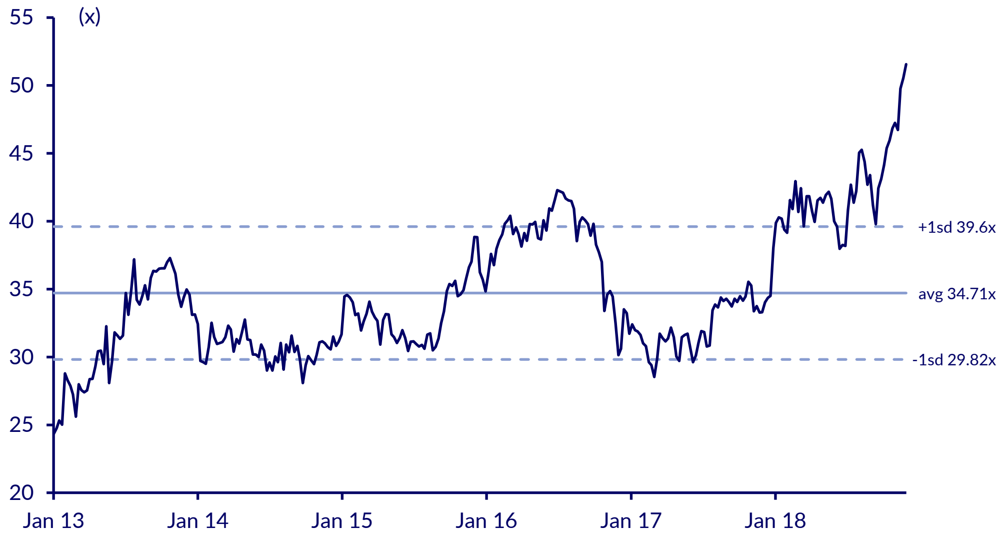
Jollibee price-to-earnings ratio between Jan 2013 and Dec 2018



Source: CLSA

Valuation details

We reiterate our Underperform rating on Jollibee with a target price of P143. This is based on 25x forward PE, which is -2SD to its mean of 35x, to factor in the weak discretionary spending. Our 5-year mean was based on multiples between January 2013 and December 2018 to remove the impact of the not very meaningful forward PE in 2019, given that 2020 has negative earnings. We believe that this multiple is reasonable given a prolonged weak consumer sentiment poses a critical downside risk to our base case assumption of a business transformation-driven recovery back to 2019 earnings by 2022.

Investment risks

Apart from the negative impact on store operations and consumer behaviour due to Covid-19, other downside risks include price increases in imported raw materials such as beef and pork, as well as short supply of locally sourced raw materials such as chicken, oil, and rice. Upside risks include better-than-expected sales growth and margin expansion, both domestically and overseas.

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Detailed financials

Profit & Loss (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**115,614**	**133,583**	**161,168**	**179,626**	**123,446**	**171,007**	**181,495**
Cogs (ex-D&A)	(90,622)	(99,636)	(120,535)	(136,785)	(106,233)	(133,974)	(144,020)
Gross Profit (ex-D&A)	**24,992**	**33,947**	**40,633**	**42,842**	**17,213**	**37,033**	**37,474**
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(2,669)	(3,343)	(4,028)	(3,983)	(2,596)	(5,207)	(5,533)
Other SG&A	(11,861)	(13,929)	(15,461)	(18,885)	(15,485)	(15,145)	(13,345)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	**10,461**	**16,675**	**21,145**	**19,974**	**(868)**	**16,680**	**18,596**
Depreciation/amortisation	(3,996)	(8,928)	(11,886)	(13,473)	(9,283)	(10,197)	(8,626)
Op Ebit	**6,465**	**7,747**	**9,259**	**6,501**	**(10,151)**	**6,484**	**9,970**
Interest income	287	269	424	401	276	549	569
Interest expense	(268)	(1,793)	(2,617)	(3,187)	(3,470)	(3,767)	(3,795)
Net interest inc/(exp)	19	(1,524)	(2,193)	(2,787)	(3,195)	(3,218)	(3,227)
Associates/investments	(337)	(283)	(87)	23	500	525	551
Forex/other income	-	-	-	-	-	-	-
Asset sales/other cash items	1,583	2,136	3,343	5,746	(4,197)	3,667	3,570
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**7,730**	**8,076**	**10,322**	**9,484**	**(17,043)**	**7,457**	**10,866**
Taxation	(1,677)	(1,583)	(2,680)	(3,061)	656	(2,135)	(2,868)
Profit after tax	**6,054**	**6,493**	**7,642**	**6,423**	**(16,387)**	**5,322**	**7,998**
Preference dividends	-	-	-	-	-	-	-
Profit for period	**6,054**	**6,493**	**7,642**	**6,423**	**(16,387)**	**5,322**	**7,998**
Minority interest	111	447	571	10	725	(302)	(411)
Net profit	**6,165**	**6,940**	**8,213**	**6,432**	**(15,662)**	**5,020**	**7,586**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	6,165	6,940	8,213	6,432	(15,662)	5,020	7,586
Dividends	(1,992)	(2,356)	(2,692)	(2,815)	0	(1,673)	(2,529)
Retained profit	4,172	4,584	5,521	3,617	(15,662)	3,347	5,058
Adjusted profit	**6,165**	**6,940**	**8,213**	**6,432**	**(15,662)**	**5,020**	**7,586**
EPS (P)	5.6	6.3	7.4	5.8	(14.2)	4.5	6.9
Adj EPS [pre excep] (P)	5.6	6.3	7.4	5.8	(14.2)	4.5	6.9
Core EPS (P)	5.6	6.3	7.4	5.8	(14.2)	4.5	6.9
DPS (P)	1.9	2.2	2.5	2.6	0.0	1.5	2.3

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	14.7	15.5	20.6	11.5	(31.3)	38.5	6.1
Ebitda growth (% YoY)	19.1	59.4	26.8	(5.5)	(104.3)	nm	11.5
Ebit growth (% YoY)	20.7	19.8	19.5	(29.8)	(256.1)	nm	53.8
Net profit growth (%)	(17.1)	12.6	18.3	(21.7)	(343.5)	nm	51.1
EPS growth (% YoY)	(17.4)	12.3	17.4	(21.8)	(343.3)	nm	51.1
Adj EPS growth (% YoY)	(17.4)	12.3	17.4	(21.8)	(343.3)	nm	51.1
DPS growth (% YoY)	1.0	17.4	13.6	4.0	(100.0)	-	51.1
Core EPS growth (% YoY)	(17.4)	12.3	17.4	(21.8)	(343.3)	nm	51.1
Margins (%)							
Ebitda margin (%)	9.0	12.5	13.1	11.1	(0.7)	9.8	10.2
Ebit margin (%)	5.6	5.8	5.7	3.6	(8.2)	3.8	5.5
Net profit margin (%)	5.3	5.2	5.1	3.6	(12.7)	2.9	4.2
Core profit margin	5.3	5.2	5.1	3.6	(12.7)	2.9	4.2
Op cashflow margin	11.9	32.3	20.6	17.2	(21.0)	17.1	9.8
Returns (%)							
ROE (%)	19.1	18.8	18.7	12.8	(25.9)	7.2	10.3
ROA (%)	7.4	6.6	5.2	2.6	(5.4)	2.5	3.6
ROIC (%)	20.7	20.8	14.5	6.3	(12.2)	6.0	9.4
ROCE (%)	21.5	21.6	18.4	9.1	(12.2)	8.0	12.3
Other key ratios (%)							
Effective tax rate (%)	21.7	19.6	26.0	32.3	3.9	28.6	26.4
Ebitda/net int exp (x)	-	10.9	9.6	7.2	(0.3)	5.2	5.8
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	32.9	34.4	33.3	44.3	-	33.7	33.7

Source: www.clsa.com

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evalu@tor The Global Equities Database

Balance sheet (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	16,733	21,107	23,286	20,892	39,308	43,495	41,236
Accounts receivable	3,377	3,941	4,863	5,906	4,095	5,448	5,836
Inventories	5,987	6,836	8,812	9,966	7,410	11,108	13,421
Other current assets	4,271	5,272	5,578	8,855	5,137	7,005	7,186
Current assets	**30,369**	**37,156**	**42,538**	**45,619**	**55,950**	**67,055**	**67,678**
Fixed assets	16,656	20,870	26,673	32,592	28,701	26,086	27,997
Investments	9,900	32,847	40,116	49,778	36,358	47,719	50,224
Goodwill	9,087	15,730	31,542	50,208	50,181	50,181	50,181
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	6,718	9,017	9,644	9,079	5,977	8,123	8,592
Total assets	**72,728**	**115,619**	**150,513**	**187,276**	**177,166**	**199,163**	**204,672**
Short term loans/OD	1,562	5,454	10,646	32,636	9,182	11,162	6,629
Accounts payable	21,961	25,255	28,717	34,652	22,656	31,379	33,183
Accrued expenses	-	-	-	-	-	-	-
Taxes payable	309	224	263	392	246	347	369
Other current liabs	0	-	0	-	-	0	-
Current liabilities	**23,831**	**30,933**	**39,627**	**67,680**	**32,084**	**42,889**	**40,182**
Long-term debt/leases/other	10,594	14,901	21,375	19,180	45,334	40,405	40,405
Convertible bonds	-	-	-	-	-	-	-
Provisions/other LT liabs	4,022	27,995	40,515	48,135	32,923	45,396	48,143
Total liabilities	**38,447**	**73,829**	**101,517**	**134,994**	**110,341**	**128,689**	**128,729**
Share capital	6,734	8,605	9,726	9,890	40,820	40,820	40,820
Retained earnings	29,860	33,864	39,392	43,009	27,347	30,694	35,752
Reserves/others	(2,811)	(2,256)	(1,443)	(119)	(119)	(119)	(119)
Shareholder funds	**33,783**	**40,212**	**47,676**	**52,781**	**68,049**	**71,396**	**76,453**
Minorities/other equity	499	1,578	1,320	(499)	(1,224)	(922)	(511)
Total equity	**34,281**	**41,790**	**48,996**	**52,282**	**66,825**	**70,474**	**75,943**
Total liabs & equity	**72,728**	**115,619**	**150,513**	**187,276**	**177,166**	**199,163**	**204,672**
Total debt	12,155	20,355	32,022	51,816	54,516	51,567	47,034
Net debt	(4,578)	(752)	8,736	30,924	15,208	8,073	5,798
Adjusted EV	134,330	117,375	120,248	131,715	128,693	110,500	106,131
BVPS (P)	31.5	37.2	43.9	48.3	62.3	65.3	70.0

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.3	1.2	1.1	0.7	1.7	1.6	1.7
Growth in total assets (% YoY)	12.3	59.0	30.2	24.4	(5.4)	12.4	2.8
Growth in capital employed (% YoY)	(2.1)	40.8	39.9	43.5	(1.4)	(4.2)	4.0
Net debt to operating cashflow (x)	-	-	0.3	1.0	(0.6)	0.3	0.3
Gross debt to operating cashflow (x)	0.9	0.5	1.0	1.7	(2.1)	1.8	2.6
Gross debt to Ebitda (x)	1.2	1.2	1.5	2.6	(62.8)	3.1	2.5
Net debt/Ebitda (x)	-	-	0.4	1.5	(17.5)	0.5	0.3
Gearing							
Net debt/equity (%)	(13.4)	(1.8)	17.8	59.1	22.8	11.5	7.6
Gross debt/equity (%)	35.5	48.7	65.4	99.1	81.6	73.2	61.9
Interest cover (x)	25.2	4.5	3.7	2.2	(2.8)	1.9	2.8
Debt Cover (x)	1.1	2.1	1.0	0.6	(0.5)	0.6	0.4
Working capital analysis							
Inventory days	22.1	21.6	21.6	22.8	27.5	23.4	29.3
Debtor days	13.9	10.0	10.0	10.9	14.8	10.2	11.3
Creditor days	80.0	79.4	74.4	77.0	90.5	68.4	77.2
Working capital/Sales (%)	(7.5)	(7.1)	(6.0)	(5.7)	(5.1)	(4.8)	(3.9)
Capital employed analysis							
Sales/Capital employed (%)	388.8	319.1	275.2	213.8	149.0	215.5	219.8
EV/Capital employed (%)	451.8	280.4	205.4	156.7	155.3	139.2	128.5
Working capital/Capital employed (%)	(29.0)	(22.5)	(16.6)	(12.3)	(7.6)	(10.3)	(8.6)
Fixed capital/Capital employed (%)	56.0	49.9	45.5	38.8	34.6	32.9	33.9
Other ratios (%)							
EV/OCF (x)	9.8	2.7	3.6	4.3	(5.0)	3.8	6.0
EV/FCF (x)	19.2	3.4	5.1	6.3	(4.4)	4.7	11.4
EV/Sales (x)	1.2	0.9	0.7	0.7	1.0	0.6	0.6
Capex/depreciation (%)	168.3	100.5	81.0	74.5	38.5	54.4	98.5

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

Cashflow (Pm)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	6,465	7,747	9,259	6,501	(10,151)	6,484	9,970
Operating adjustments	1,357	2,300	3,827	5,779	(2,972)	3,890	3,710
Depreciation/amortisation	3,996	8,928	11,886	13,473	9,283	10,197	8,626
Working capital changes	3,557	27,261	13,165	11,038	(19,528)	14,041	1,618
Interest paid / other financial expenses	19	(1,524)	(2,193)	(2,787)	(3,195)	(3,218)	(3,227)
Tax paid	(1,677)	(1,583)	(2,680)	(3,061)	656	(2,135)	(2,868)
Other non-cash operating items	-	-	-	-	-	-	-
Net operating cashflow	13,718	43,129	33,263	30,943	(25,907)	29,259	17,830
Capital expenditure	(6,726)	(8,974)	(9,630)	(10,042)	(3,578)	(5,548)	(8,501)
Free cashflow	6,992	34,155	23,633	20,902	(29,485)	23,711	9,330
Acq/inv/disposals	(270)	(34,312)	(30,609)	(38,649)	12,381	(13,395)	(4,542)
Int, invt & associate div	-	-	-	-	-	-	-
Net investing cashflow	(6,997)	(43,286)	(40,239)	(48,691)	8,803	(18,943)	(13,043)
Increase in loans	2,154	3,962	10,161	18,500	5,316	(4,758)	(4,929)
Dividends	(1,992)	(2,356)	(2,692)	(2,815)	0	(1,673)	(2,529)
Net equity raised/others	(1,648)	2,925	1,685	(332)	30,205	302	411
Net financing cashflow	(1,486)	4,531	9,154	15,354	35,521	(6,129)	(7,046)
Incr/(decr) in net cash	5,236	4,374	2,178	(2,394)	18,416	4,186	(2,259)
Exch rate movements	-	-	-	-	-	-	-
Opening cash	11,498	16,733	21,107	23,286	20,892	39,308	43,495
Closing cash	16,733	21,107	23,286	20,892	39,308	43,495	41,236
OCF PS (P)	12.6	39.4	30.1	28.0	(23.4)	26.5	16.1
FCF PS (P)	6.4	31.2	21.4	18.9	(26.7)	21.4	8.4

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(10.5)	214.4	(22.9)	(7.0)	(183.7)	nm	(39.1)
FCF growth (% YoY)	(34.3)	388.5	(30.8)	(11.6)	(241.1)	-	(60.7)
Capex growth (%)	43.2	33.4	7.3	4.3	(64.4)	55.0	53.2
Other key ratios (%)							
Capex/sales (%)	5.8	6.7	6.0	5.6	2.9	3.2	4.7
Capex/op cashflow (%)	49.0	20.8	29.0	32.5	(13.8)	19.0	47.7
Operating cashflow payout ratio (%)	14.8	5.5	8.2	9.2	-	5.8	14.4
Cashflow payout ratio (%)	14.5	5.5	8.1	9.1	-	5.7	14.2
Free cashflow payout ratio (%)	28.5	6.9	11.4	13.5	-	7.1	27.1

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	5.6	5.8	5.7	3.6	(8.2)	3.8	5.5
Asset turnover (x)	1.7	1.4	1.2	1.1	0.7	0.9	0.9
Interest burden (x)	1.2	1.0	1.1	1.5	1.7	1.2	1.1
Tax burden (x)	0.8	0.8	0.7	0.7	1.0	0.7	0.7
Return on assets (%)	7.4	6.6	5.2	2.6	(5.4)	2.5	3.6
Leverage (x)	2.1	2.5	2.9	3.3	3.1	2.7	2.8
ROE (%)	18.3	17.1	16.8	12.7	(27.5)	7.8	10.9

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	5,063	6,228	6,855	4,403	(9,760)	4,627	7,339
Average invested capital	24,429	30,006	47,158	69,846	80,080	77,410	77,942
ROIC (%)	20.7	20.8	14.5	6.3	(12.2)	6.0	9.4
Cost of equity (%)	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Cost of debt (adj for tax)	1.5	1.5	1.4	1.3	1.8	1.4	1.4
Weighted average cost of capital (%)	8.6	8.6	8.6	8.6	8.6	8.6	8.6
EVA/IC (%)	12.1	12.1	5.9	(2.3)	(20.8)	(2.6)	0.8
EVA (Pm)	2,958	3,642	2,794	(1,604)	(16,684)	(2,035)	628

Source: www.clsa.com

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Notes

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CLSA

Semen Indonesia

Rp10,575 - BUY

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9 September 2020

Indonesia
Materials

Reuters SMGR.JK
Bloomberg SMGR IJ

Priced on 8 September 2020
Jakarta Comp @ 5,230.2

12M hi/lo Rp13,450/5,875

12M price target Rp11,900
±% potential +13%

Shares in issue 5,931.5m
Free float (est.) 43.6%

Market cap US$4.3bn

3M ADV US$3.4m

Foreign s'holding 20.0%

Major shareholders
The Government of Indonesia 51.0%

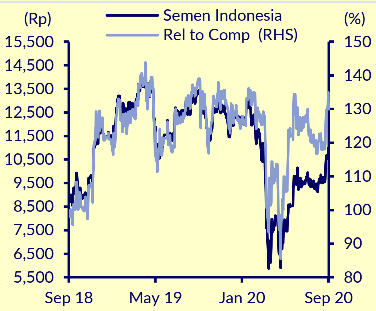
Blended ESG Score (%)*

Overall	50.2
Country average	53.9
GEM sector average	69.4

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	9.3	12.2	(21.4)
Relative	7.5	6.1	(5.2)
Abs (US$)	8.2	5.5	(24.8)



Source: Bloomberg

Standing firm

Firm to remain strong amid weak near-term outlook

Cement demand was hit hard by flooding and Covid-19 in 1H20. However, Indonesia construction activity has gradually recovered following relaxation of social distancing in June. While new project tenders might be delayed to late 2020 or 2021, we may have seen the worst in May. While we categorise Semen Indonesia and the broader sector among the losers of Covid, we remain positive on the firm's longer-term outlook as we expect volumes to pick up again in 2021. We rate the company a BUY with an Rp11,900 target price.

Volume increasing
July domestic cement sales volume continue to improve, rising 9% MoM. This brought 7M20 volume to 32.5m tonnes, down 9% YoY. This was significantly better than a 12.1% YoY decline in 5M20. Semen Indonesia total sales volume grew 2% YoY, higher than domestic industry trends. For comparison, data from our regional analysts show pickups in China and India cement consumption following lockdown relaxation.

Sustained margin levels as volume accelerates
Prices have been stable in 2020, similar to 2019, as market leaders such as Semen Indonesia kept prices steady and smaller players followed suit. Lower energy costs (coal) also helped control costs. Hence, despite volume pressure, margins have been mostly stable; Semen Indonesia 2Q20 margin improved YoY, also helped by better synergy with Solusi Bangun Indonesia.

Expected recovery in 2021
YoY, our Semen Indonesia domestic volume assumptions are a 7% decrease for 2020 and a 7% increase for 2021. We believe a combination of pent-up demand and new projects will boost demand next year. Aside from infrastructure projects, private projects should also recover; developers have already started new launches in 3Q20 and should be more aggressive in 2021.

Reiterate BUY
We estimate 8%/46% YoY earnings growth for 2020/21. Our Rp11,900 target price is based on blended PE, EV/Ebitda and PB target multiple using a 2021/22 blended estimate. We reiterate a BUY rating, given our view that the current valuation is still attractive, given potential recovery in the coming quarters.

Financials

Year to 31 December	18A	19A	20CL	21CL	22CL
Revenue (Rpbn)	30,688	40,368	39,994	43,225	46,521
Net profit (Rpbn)	3,079	2,392	2,575	3,760	4,398
EPS (Rp)	519.11	403.29	434.05	633.90	741.40
CL/consensus (16) (EPS%)	-	-	118	138	106
EPS growth (% YoY)	90.0	(22.3)	7.6	46.0	17.0
PE (x)	20.4	26.2	24.4	16.7	14.3
EV/Ebitda (x)	10.8	4.6	10.9	9.6	8.6
PB (x)	2.0	1.9	1.9	1.7	1.6
FCF yield (%)	3.4	(32.7)	4.4	5.2	6.1
Net debt/equity (%)	14.1	76.9	67.8	56.4	46.0
Dividend yield (%)	1.3	2.0	1.5	1.6	2.4

Source: www.clsa.com

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Financials at a glance

Year to 31 December	2018A	2019A	2020CL	(% YoY)	2021CL	2022CL
Profit & Loss (Rpbn)						
Revenue	**30,688**	**40,368**	**39,994**	*(0.9)*	**43,225**	**46,521**
Cogs (ex-D&A)	(19,767)	(14,244)	(24,660)		(27,537)	(29,822)
Gross Profit (ex-D&A)	**10,920**	**26,124**	**15,333**	*(41.3)*	**15,688**	**16,699**
SG&A and other expenses	(4,557)	(6,621)	(7,239)		(6,743)	(7,071)
Op Ebitda	**6,363**	**19,503**	**8,095**	*(58.5)*	**8,945**	**9,628**
Depreciation/amortisation	(1,590)	(13,410)	(1,936)		(2,160)	(2,208)
Op Ebit	**4,773**	**6,093**	**6,158**	*1.1*	**6,785**	**7,419**
Net interest inc/(exp)	(777)	(2,987)	(2,857)		(1,914)	(1,710)
Other non-Op items	109	90	102	*13.1*	112	122
Profit before tax	**4,105**	**3,196**	**3,403**	*6.5*	**4,983**	**5,831**
Taxation	(1,019)	(825)	(851)		(1,246)	(1,458)
Profit after tax	**3,086**	**2,371**	**2,553**	*7.6*	**3,737**	**4,373**
Minority interest	(7)	21	22	*5*	23	24
Net profit	**3,079**	**2,392**	**2,575**	*7.6*	**3,760**	**4,398**
Adjusted profit	**3,079**	**2,392**	**2,575**	*7.6*	**3,760**	**4,398**
Cashflow (Rpbn)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Operating profit	**4,773**	**6,093**	**6,158**	*1.1*	**6,785**	**7,419**
Depreciation/amortisation	1,590	13,410	1,936	*(85.6)*	2,160	2,208
Working capital changes	(1,209)	(977)	648		(372)	(410)
Other items	(1,201)	(1,801)	(3,985)		(3,304)	(3,362)
Net operating cashflow	**3,953**	**16,725**	**4,758**	*(71.6)*	**5,269**	**5,856**
Capital expenditure	(1,816)	(37,263)	(2,000)		(2,000)	(2,000)
Free cashflow	**2,137**	**(20,538)**	**2,758**		**3,269**	**3,856**
M&A/Others	309	376	200	*(46.8)*	238	285
Net investing cashflow	**(1,506)**	**(36,887)**	**(1,800)**		**(1,762)**	**(1,715)**
Increase in loans	(30)	20,153	(2,061)		(2,058)	(2,055)
Dividends	(827)	(1,245)	(957)		(1,030)	(1,504)
Net equity raised/other	18	(42)	22		23	24
Net financing cashflow	**(839)**	**18,867**	**(2,995)**		**(3,064)**	**(3,534)**
Incr/(decr) in net cash	1,608	(1,295)	(38)		443	606
Exch rate movements	0	0	0		(2)	(2)
Balance sheet (Rpbn)	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Cash & equivalents	5,246	3,950	3,911	*(1)*	4,353	4,958
Accounts receivable	5,786	6,860	6,172	*(10)*	6,659	7,156
Other current assets	4,976	5,848	5,792	*(1)*	6,445	6,982
Fixed assets	32,749	56,602	56,666	*0.1*	56,507	56,300
Investments	86	89	98	*10*	108	118
Intangible assets	0	0	0		0	0
Other non-current assets	2,314	6,458	6,458	*0*	6,458	6,458
Total assets	**51,156**	**79,807**	**79,097**	*(0.9)*	**80,529**	**81,972**
Short-term debt	1,724	3,292	3,232	*(1.8)*	3,174	3,119
Accounts payable	4,476	5,670	5,453	*(3.8)*	6,089	6,567
Other current liabs	2,003	3,278	3,250	*(0.9)*	3,397	3,547
Long-term debt/CBs	8,140	26,725	24,725	*(7.5)*	22,725	20,725
Provisions/other LT liabs	2,076	6,950	6,950	*0*	6,950	6,950
Shareholder funds	31,192	32,277	33,895	*5*	36,625	39,518
Minorities/other equity	1,544	1,615	1,593	*(1.4)*	1,570	1,546
Total liabs & equity	**51,156**	**79,807**	**79,097**	*(0.9)*	**80,529**	**81,972**
Ratio analysis	**2018A**	**2019A**	**2020CL**	**(% YoY)**	**2021CL**	**2022CL**
Revenue growth (% YoY)	10.3	31.5	(0.9)		8.1	7.6
Ebitda margin (%)	20.7	48.3	20.2		20.7	20.7
Ebit margin (%)	15.6	15.1	15.4		15.7	15.9
Net profit growth (%)	90.0	(22.3)	7.6		46.0	17.0
Op cashflow growth (% YoY)	108.7	323.1	(71.6)		10.8	11.1
Capex/sales (%)	5.9	92.3	5.0		4.6	4.3
Net debt/equity (%)	14.1	76.9	67.8		56.4	46.0
Net debt/Ebitda (x)	0.7	1.3	3.0		2.4	2.0
ROE (%)	10.2	7.5	7.8		10.7	11.6
ROIC (%)	9.3	8.5	6.9		7.7	8.3

Source: www.clsa.com

Prepared for - W: matthew_goh@summarecon.com

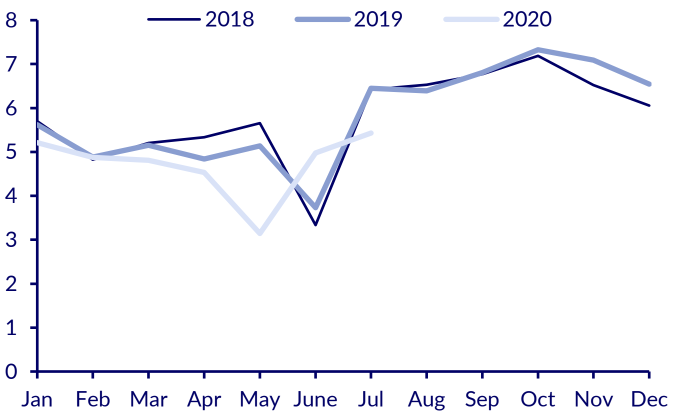
Resumed construction activity should lift cement consumption

Bad start, but the worst might be over

July cement sales volume continue to improve, up 9% MoM. This brings 7M20 volume to 32.6m tonnes, a 9% YoY decline. This was significantly better than a 12.1% decline in 5M20. Semen Indonesia total volume rose 2% YoY in 6M20, higher than total domestic industry numbers.

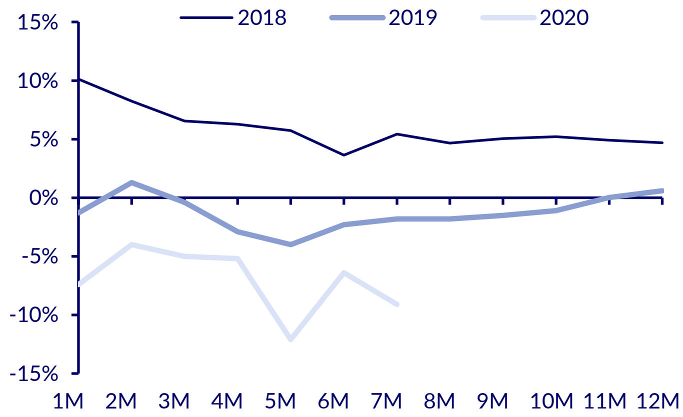
May might be the lowest point of 2020 for Semen Indonesia as the company's YTD volume fell 13.3% YoY, similar with the industry. A combination of floods in January and February and Covid-19-related restrictions in March through May were the key drivers. YoY, we estimate a decline of 7% (from flat growth estimated previously) for volume demand before bouncing back by 7% in 2021.

Domestic monthly domestic sales volume



Source: Semen Indonesia

Domestic cumulative monthly sales volume growth YoY



Source: Semen Indonesia

Neighbouring economies such as China and India have shown gradual recovery in cement demand as well following lockdowns.

China cement value production has continued to pick up post-lockdown

Comparison with China on post-lockdown cement demand

China cement prices remained steady during early 2020 in the midst of the lockdown despite weak volume. However, as activities resumed in April and May, production volume picked up, gradually improving MoM. After registering a 29% YoY decline in 2M20, the volume decline narrowed to 8% by 5M20.

In India, volume uptick better than expected in May

India cement demand in July/August held up better than expected, at flat to slightly down YoY. Average prices have fallen by c.3-4% QoQ, in line with expectations, though our channel checks indicated there is a likelihood of price increase post the monsoons.

Stable price and lower input cost help steady margins

On the positive side, prices have been stable in 2020, similar to 2019, as market leaders such as Semen Indonesia kept prices steady and smaller players followed suit. In addition, lower energy costs (coal) also helped control costs. Hence, despite volume pressure, overall margins have been mostly stable; 1Q20 margins improved YoY, helped by better synergy with SMCB. YoY, margins improved despite a slight sales volume increase (up 7% YoY). Note that the increase was due to the addition of SMCB volume in 2019 only accounting for February and March); for the month of January, only Semen Indonesia volume was recorded.

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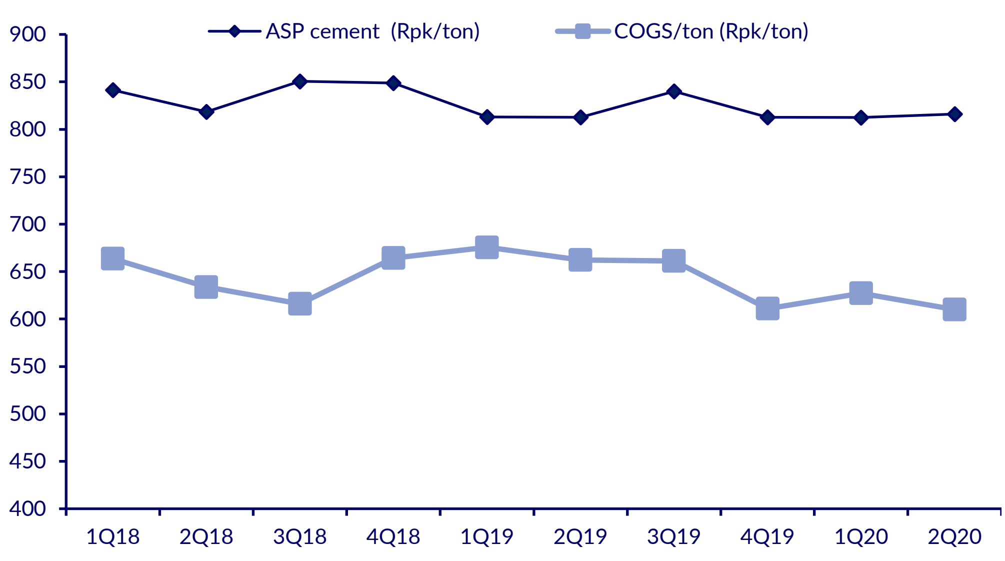
Semen Indonesia 1Q20 financial highlights

(Rpbn)	2Q19	1Q19	2Q20	QoQ %	YoY %	6M19	6M20	YoY %
Revenue	8,224	8,580	7,446	(13)	(9)	16,351	16,026	(2)
Gross profit	2,451	2,704	2,108	(22)	(14)	4,665	4,812	3
Ebit	980	1,157	932	(19)	(5)	2,041	2,089	2
NPAT	217	446	166	(63)	(23)	485	612	26
Margins								
Ebit margin (%)	29.8	31.5	28.3			28.5	30.0	
Net margin (%)	11.9	13.5	12.5			12.5	13.0	

Source: Semen Indonesia, CLSA

ASP has been stable since 2018 while cost gradually declined due to lower energy costs and better efficiency

Semen Indonesia quarterly ASP and Cogs on per-tonne basis



Note: ASP calculated by dividing cement revenue with cement sales volume. Source: Semen Indonesia

Expected recovery in 2021

We expect a single-digit decline in 2020 and recovery of growth in 2021

YoY, we estimate a Semen Indonesia domestic volume decrease of 7% for 2020 and a 7% increase for 2021. We believe a combination of pent-up demand and new projects will drive up demand next year. Aside from infrastructure projects, private projects should also recover: Developers have already started new launches in 3Q20 (see our *Indonesia property* report, published 8 July) and should be more aggressive in 2021.

We expect revenue to decline 1% YoY in 2020 before rebounding in 2021 by 8% YoY. Ebit and net profit are expected to show 1%/8% increase in 2020 and 10%/46% YoY growth in 2021. Key 2021 turnaround drivers are likely to be volume growth recovery (up 7% YoY) and ASP improvement (up 2% YoY), with costs relatively stable.


CLSA Indonesia property

Warming up

Prepared for - W: matthew_goh@summarecon.com

Key assumptions

		19A	20CL	21CL	22CL
Sales volume	(m tons)	42.6	40.6	43.4	45.8
Growth	(%)		(4.7)	7.0	5.4
Domestic sales	(m tons)	36.3	33.8	36.1	37.9
Growth	(%)		(7.0)	7.0	5.0
Export sales	(m tons)	6.3	6.8	7.3	7.8
Growth	(%)		8.2	6.9	7.1
ASP	(Rpk/tonne)	777.8	793.3	809.2	833.5
Growth	(%)		2.0	2.0	3.0
Total revenue	(Rpbn)	40,368	39,994	43,225	46,521
Cement revenue	(Rpbn)	33,143	32,202	35,142	38,134
Ready mix cement	(Rpbn)	3,121	3,277	3,343	3,410
Others	(Rpbn)	4,104	4,514	4,740	4,977
Cogs	(Rpbn)	27,654	26,597	29,697	32,030
Raw material	(Rpbn)	1,874	1,786	1,987	2,156
Labour	(Rpbn)	2,254	2,299	2,391	2,439
Manufacturing overhead	(Rpbn)	23,663	22,512	25,319	27,435
Others	(Rpbn)	(137)	-	-	-
Production cost	(Rpk/tonne)	649.0	655.2	683.8	700.1
Gross profit	(Rpbn)	12,714	13,397	13,528	14,491
Selling expense	(Rpbn)	3,084	3,519	3,328	3,582
Percent of revenue		7.6	8.8	7.7	7.7
G&A expense	(Rpbn)	3,537	3,719	3,415	3,489
Percent of revenue		8.8	9.3	7.9	7.5
Gross margin	(%)	31.5	33.5	31.3	31.1
Ebitda margin	(%)	48.3	20.2	20.7	20.7
Ebit margin	(%)	15.1	15.4	15.7	15.9
Net margin	(%)	5.9	6.4	8.7	9.5

Source: CLSA

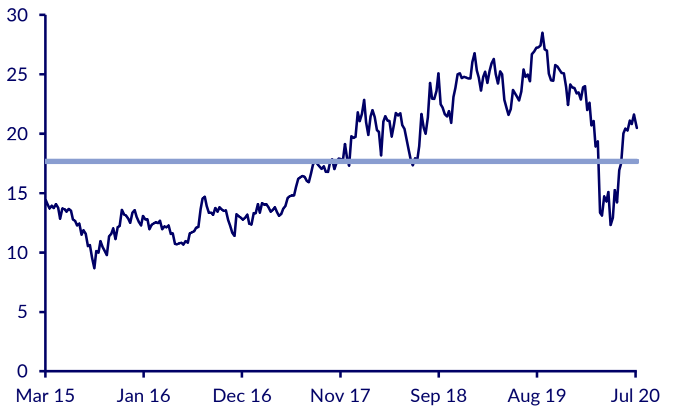
Reiterate BUY with target price of Rp11,900

We have a BUY call on Semen Indonesia with a target price of Rp11,900

We have a BUY call on Semen Indonesia with a target price of Rp11,900. We use an equally weighted PE, EV/Ebitda and PBV based on blended 2021/22 estimates. The PE ratio represents the multiples that the market is willing to pay for the stock based on its profitability, and EV/Ebitda shows the strength of profitability growth for a highly leveraged company such as this. We use a PB multiple to reduce the volatility of the two aforementioned multiples, especially during the weak cycle (2015-2016). We use five-year averages as proxies for a full cycle, underpinned by a period of underperformance in the first two years and a recovery stage in the past three years, and to reflect that by next year we expect Semen Indonesia to be even more dominant in an industry enjoying a healthy upturn in construction spending. Our target price implies a valuation of 27.4x 20CL PE, 11.9x 20CL EV/Ebitda and 2.1x 20CL PB.

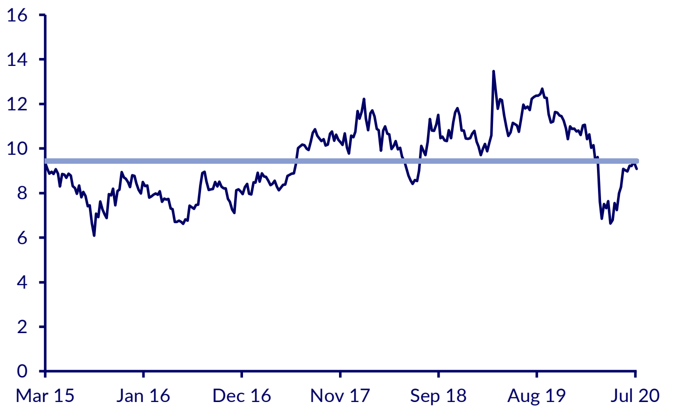
Prepared for - W: matthew_goh@summarecon.com

Semen Indonesia forward PE based on consensus



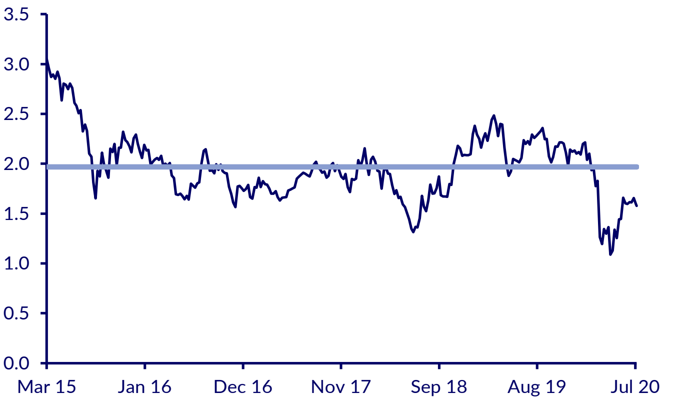
Source: Bloomberg, CLSA

Semen Indonesia forward EV/Ebitda based on consensus



Source: Bloomberg, CLSA

Semen Indonesia forward PB based on consensus



Source: Bloomberg, CLSA

Semen Indonesia valuation metrics

Parameters	Target multiple	21/22CL EPS	Target price
PE	17.7	688	12,144
		Ebitda	
EV/Ebitda	9.4	9,285	10,896
		BV	
PBV	1.97	6,419	12,644
Blended TP			**11,900**
Implied PE 20CL			27.4
Implied EV/Ebitda 20CL			11.9
Implied PBV 20CL			2.1

Source: Bloomberg, CLSA

Valuation details

We use an equally weighted PE, EV/Ebitda and PBV based on blended 2021/22 estimates. The PE ratio represents the multiples that the market is willing to pay for the stock based on its profitability, and EV/Ebitda shows the strength of profitability growth for a highly leveraged company such as this. We use a PB multiple to reduce the volatility of the two aforementioned multiples, especially during the weak cycle (2015-2016). We use five-year averages as proxies for a full cycle, underpinned by a period of underperformance in the first two years and a recovery stage in the past three years, and to reflect that by next year we expect Semen Indonesia to be even more dominant in an industry enjoying a healthy upturn in construction spending.

Investment risks

A prolonged Covid-19 pandemic could hinder cement consumption, weakening company sales. Other risks are slower-than-expected industry recovery, integration process disruption following the acquisition, and prolonged high interest rates. Industry consolidation should reduce price pressure but this process could be slower than expected. Slow property-sector recovery could also hinder demand, as the retail segment historically commands higher margins.

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Detailed financials

Profit & Loss (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Revenue	**26,134**	**27,814**	**30,688**	**40,368**	**39,994**	**43,225**	**46,521**
Cogs (ex-D&A)	(14,168)	(18,079)	(19,767)	(14,244)	(24,660)	(27,537)	(29,822)
Gross Profit (ex-D&A)	**11,967**	**9,735**	**10,920**	**26,124**	**15,333**	**15,688**	**16,699**
Research & development costs	0	0	0	0	0	0	0
Selling & marketing expenses	(2,719)	(2,412)	(2,237)	(3,084)	(3,519)	(3,328)	(3,582)
Other SG&A	(2,163)	(2,915)	(2,320)	(3,537)	(3,719)	(3,415)	(3,489)
Other Op Expenses ex-D&A	-	-	-	-	-	-	-
Op Ebitda	**7,084**	**4,409**	**6,363**	**19,503**	**8,095**	**8,945**	**9,628**
Depreciation/amortisation	(2,111)	(1,775)	(1,590)	(13,410)	(1,936)	(2,160)	(2,208)
Op Ebit	**4,973**	**2,633**	**4,773**	**6,093**	**6,158**	**6,785**	**7,419**
Interest income	184	169	182	218	129	158	198
Interest expense	(363)	(756)	(959)	(3,205)	(2,985)	(2,073)	(1,908)
Net interest inc/(exp)	(180)	(588)	(777)	(2,987)	(2,857)	(1,914)	(1,710)
Associates/investments	37	(10)	2	(2)	-	-	-
Forex/other income	(18)	-	-	-	-	-	-
Asset sales/other cash items	271	218	107	92	102	112	122
Provisions/other non-cash items	-	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-	-
Profit before tax	**5,085**	**2,254**	**4,105**	**3,196**	**3,403**	**4,983**	**5,831**
Taxation	(550)	(604)	(1,019)	(825)	(851)	(1,246)	(1,458)
Profit after tax	**4,535**	**1,650**	**3,086**	**2,371**	**2,553**	**3,737**	**4,373**
Preference dividends	0	0	0	0	0	0	0
Profit for period	**4,535**	**1,650**	**3,086**	**2,371**	**2,553**	**3,737**	**4,373**
Minority interest	(13)	(29)	(7)	21	22	23	24
Net profit	**4,522**	**1,621**	**3,079**	**2,392**	**2,575**	**3,760**	**4,398**
Extraordinaries/others	0	0	0	0	0	0	0
Profit avail to ordinary shares	4,522	1,621	3,079	2,392	2,575	3,760	4,398
Dividends	(1,809)	(1,809)	(827)	(1,245)	(957)	(1,030)	(1,504)
Retained profit	2,713	(188)	2,252	1,147	1,618	2,730	2,894
Adjusted profit	**4,522**	**1,621**	**3,079**	**2,392**	**2,575**	**3,760**	**4,398**
EPS (Rp)	762.3	273.3	519.1	403.3	434.1	633.9	741.4
Adj EPS [pre excep] (Rp)	762.3	273.3	519.1	403.3	434.1	633.9	741.4
Core EPS (Rp)	762.3	273.3	519.1	403.3	434.1	633.9	741.4
DPS (Rp)	304.9	304.9	139.4	209.9	161.3	173.6	253.6

Profit & loss ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Revenue growth (% YoY)	(3.0)	6.4	10.3	31.5	(0.9)	8.1	7.6
Ebitda growth (% YoY)	(2.5)	(37.8)	44.3	206.5	(58.5)	10.5	7.6
Ebit growth (% YoY)	(15.7)	(47.1)	81.3	27.7	1.1	10.2	9.4
Net profit growth (%)	0.0	(64.1)	90.0	(22.3)	7.6	46.0	17.0
EPS growth (% YoY)	0.0	(64.1)	90.0	(22.3)	7.6	46.0	17.0
Adj EPS growth (% YoY)	0.0	(64.1)	90.0	(22.3)	7.6	46.0	17.0
DPS growth (% YoY)	(18.8)	0.0	(54.3)	50.5	(23.1)	7.6	46.0
Core EPS growth (% YoY)	0.0	(64.1)	90.0	(22.3)	7.6	46.0	17.0
Margins (%)							
Ebitda margin (%)	27.1	15.9	20.7	48.3	20.2	20.7	20.7
Ebit margin (%)	19.0	9.5	15.6	15.1	15.4	15.7	15.9
Net profit margin (%)	17.3	5.8	10.0	5.9	6.4	8.7	9.5
Core profit margin	17.3	5.8	10.0	5.9	6.4	8.7	9.5
Op cashflow margin	20.0	6.8	12.9	41.4	11.9	12.2	12.6
Returns (%)							
ROE (%)	16.3	5.6	10.2	7.5	7.8	10.7	11.6
ROA (%)	10.8	4.1	7.2	6.9	5.8	6.4	6.8
ROIC (%)	14.1	5.3	9.3	8.5	6.9	7.7	8.3
ROCE (%)	16.2	7.5	12.9	12.5	10.3	11.4	12.4
Other key ratios (%)							
Effective tax rate (%)	10.8	26.8	24.8	25.8	25.0	25.0	25.0
Ebitda/net int exp (x)	39.4	7.5	8.2	6.5	2.8	4.7	5.6
Exceptional or extraord. inc/PBT (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	40.0	111.6	26.9	52.0	37.2	27.4	34.2

Source: www.clsa.com

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Balance sheet (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Cash & equivalents	2,834	3,638	5,246	3,950	3,911	4,353	4,958
Accounts receivable	3,993	4,886	5,786	6,860	6,172	6,659	7,156
Inventories	2,671	3,686	3,544	4,642	4,464	4,985	5,376
Other current assets	875	1,592	1,432	1,207	1,328	1,460	1,606
Current assets	**10,373**	**13,802**	**16,008**	**16,659**	**15,875**	**17,457**	**19,096**
Fixed assets	30,847	32,523	32,749	56,602	56,666	56,507	56,300
Investments	94	84	86	89	98	108	118
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	2,913	2,555	2,314	6,458	6,458	6,458	6,458
Total assets	**44,227**	**48,963**	**51,156**	**79,807**	**79,097**	**80,529**	**81,972**
Short term loans/OD	1,686	1,795	1,724	3,292	3,232	3,174	3,119
Accounts payable	4,078	4,927	4,476	5,670	5,453	6,089	6,567
Accrued expenses	677	630	901	1,223	1,200	1,297	1,396
Taxes payable	364	246	363	626	620	670	721
Other current liabs	1,347	1,205	739	1,430	1,430	1,430	1,430
Current liabilities	**8,152**	**8,804**	**8,203**	**12,240**	**11,934**	**12,659**	**13,233**
Long-term debt/leases/other	4,450	8,099	8,140	26,725	24,725	22,725	20,725
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	1,051	1,622	2,076	6,950	6,950	6,950	6,950
Total liabilities	**13,652**	**18,524**	**18,420**	**45,915**	**43,609**	**42,334**	**40,908**
Share capital	593	593	593	593	593	593	593
Retained earnings	26,984	26,864	29,141	30,225	31,843	34,573	37,467
Reserves/others	1,458	1,458	1,458	1,458	1,458	1,458	1,458
Shareholder funds	**29,035**	**28,915**	**31,192**	**32,277**	**33,895**	**36,625**	**39,518**
Minorities/other equity	1,539	1,524	1,544	1,615	1,593	1,570	1,546
Total equity	**30,574**	**30,439**	**32,736**	**33,892**	**35,488**	**38,195**	**41,064**
Total liabs & equity	**44,227**	**48,963**	**51,156**	**79,807**	**79,097**	**80,529**	**81,972**
Total debt	6,135	9,894	9,864	30,017	27,957	25,899	23,845
Net debt	3,301	6,256	4,618	26,067	24,046	21,546	18,886
Adjusted EV	67,472	70,422	68,803	90,319	88,267	85,735	83,040
BVPS (Rp)	4,895.1	4,874.8	5,258.7	5,441.6	5,714.3	6,174.6	6,662.4

Balance sheet ratios

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Key ratios							
Current ratio (x)	1.3	1.6	2.0	1.4	1.3	1.4	1.4
Growth in total assets (% YoY)	15.9	10.7	4.5	56.0	(0.9)	1.8	1.8
Growth in capital employed (% YoY)	23.7	8.3	1.8	60.5	(0.7)	0.3	0.4
Net debt to operating cashflow (x)	0.6	3.3	1.2	1.6	5.1	4.1	3.2
Gross debt to operating cashflow (x)	1.2	5.2	2.5	1.8	5.9	4.9	4.1
Gross debt to Ebitda (x)	0.9	2.2	1.6	1.5	3.5	2.9	2.5
Net debt/Ebitda (x)	0.5	1.4	0.7	1.3	3.0	2.4	2.0
Gearing							
Net debt/equity (%)	10.8	20.6	14.1	76.9	67.8	56.4	46.0
Gross debt/equity (%)	20.1	32.5	30.1	88.6	78.8	67.8	58.1
Interest cover (x)	14.2	3.7	5.2	2.0	2.1	3.3	4.0
Debt Cover (x)	0.9	0.2	0.4	0.6	0.2	0.2	0.2
Working capital analysis							
Inventory days	57.0	58.4	61.8	54.0	62.5	58.1	59.0
Debtor days	53.0	58.3	63.5	57.2	59.5	54.2	54.2
Creditor days	88.1	82.8	80.4	67.0	76.3	70.9	72.1
Working capital/Sales (%)	4.1	11.3	14.0	9.3	8.2	8.4	8.7
Capital employed analysis							
Sales/Capital employed (%)	77.1	75.8	82.2	67.3	67.2	72.4	77.6
EV/Capital employed (%)	199.2	191.9	184.2	150.6	148.3	143.5	138.5
Working capital/Capital employed (%)	3.2	8.6	11.5	6.3	5.5	6.1	6.7
Fixed capital/Capital employed (%)	91.1	88.6	87.7	94.4	95.2	94.6	93.9
Other ratios (%)							
EV/OCF (x)	12.9	37.2	17.4	5.4	18.6	16.3	14.2
EV/FCF (x)	(26.3)	(45.2)	32.2	(4.4)	32.0	26.2	21.5
EV/Sales (x)	2.6	2.5	2.2	2.2	2.2	2.0	1.8
Capex/depreciation (%)	369.0	194.4	114.2	277.9	103.3	92.6	90.6

Source: www.clsa.com

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evalu@tor The Global Equities Database

Cashflow (Rpbn)

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Operating profit	4,973	2,633	4,773	6,093	6,158	6,785	7,419
Operating adjustments	-	-	-	-	-	-	-
Depreciation/amortisation	2,111	1,775	1,590	13,410	1,936	2,160	2,208
Working capital changes	(360)	(1,059)	(1,209)	(977)	648	(372)	(410)
Interest paid / other financial expenses	(363)	(756)	(959)	(3,205)	(2,985)	(2,073)	(1,908)
Tax paid	(550)	(604)	(1,019)	(825)	(851)	(1,246)	(1,458)
Other non-cash operating items	(591)	(95)	777	2,229	(149)	14	4
Net operating cashflow	5,221	1,895	3,953	16,725	4,758	5,269	5,856
Capital expenditure	(7,790)	(3,452)	(1,816)	(37,263)	(2,000)	(2,000)	(2,000)
Free cashflow	(2,569)	(1,557)	2,137	(20,538)	2,758	3,269	3,856
Acq/inv/disposals	648	(5)	18	68	(31)	(33)	(35)
Int, invt & associate div	475	377	291	308	231	270	320
Net investing cashflow	(6,667)	(3,080)	(1,506)	(36,887)	(1,800)	(1,762)	(1,715)
Increase in loans	2,211	3,759	(30)	20,153	(2,061)	(2,058)	(2,055)
Dividends	(1,809)	(1,809)	(827)	(1,245)	(957)	(1,030)	(1,504)
Net equity raised/others	(111)	38	18	(42)	22	23	24
Net financing cashflow	292	1,988	(839)	18,867	(2,995)	(3,064)	(3,534)
Incr/(decr) in net cash	(1,155)	803	1,608	(1,295)	(38)	443	606
Exch rate movements	0	0	0	0	0	(2)	(2)
Opening cash	3,989	2,834	3,637	5,245	3,950	3,912	4,353
Closing cash	2,834	3,637	5,245	3,950	3,912	4,353	4,958
OCF PS (Rp)	880.1	319.4	666.4	2,819.7	802.1	888.4	987.2
FCF PS (Rp)	(433.2)	(262.6)	360.3	(3,462.5)	464.9	551.2	650.0

Cashflow ratio analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Growth (%)							
Op cashflow growth (% YoY)	(25.5)	(63.7)	108.7	323.1	(71.6)	10.8	11.1
FCF growth (% YoY)	(467.5)	-	-	(1,060.9)	-	18.6	17.9
Capex growth (%)	23.4	(55.7)	(47.4)	1,952.5	(94.6)	0.0	0.0
Other key ratios (%)							
Capex/sales (%)	29.8	12.4	5.9	92.3	5.0	4.6	4.3
Capex/op cashflow (%)	149.2	182.2	45.9	222.8	42.0	38.0	34.2
Operating cashflow payout ratio (%)	34.6	95.5	20.9	7.4	20.1	19.5	25.7
Cashflow payout ratio (%)	34.6	95.5	20.9	7.4	20.1	19.5	25.7
Free cashflow payout ratio (%)	-	-	38.7	-	34.7	31.5	39.0

DuPont analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit margin (%)	19.0	9.5	15.6	15.1	15.4	15.7	15.9
Asset turnover (x)	0.6	0.6	0.6	0.6	0.5	0.5	0.6
Interest burden (x)	1.0	0.9	0.9	0.5	0.6	0.7	0.8
Tax burden (x)	0.9	0.7	0.8	0.7	0.7	0.8	0.7
Return on assets (%)	10.8	4.1	7.2	6.9	5.8	6.4	6.8
Leverage (x)	1.4	1.5	1.6	2.0	2.3	2.2	2.1
ROE (%)	15.6	5.4	9.8	7.1	7.4	10.1	11.0

EVA® analysis

Year to 31 December	2016A	2017A	2018A	2019A	2020CL	2021CL	2022CL
Ebit adj for tax	4,436	1,928	3,588	4,521	4,619	5,089	5,565
Average invested capital	31,471	36,533	38,790	53,083	66,602	66,484	66,683
ROIC (%)	14.1	5.3	9.3	8.5	6.9	7.7	8.3
Cost of equity (%)	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Cost of debt (adj for tax)	8.9	7.3	7.5	7.4	7.5	7.5	7.5
Weighted average cost of capital (%)	12.8	12.5	12.5	12.5	12.5	12.5	12.5
EVA/IC (%)	1.3	(7.2)	(3.3)	(4.0)	(5.6)	(4.8)	(4.2)
EVA (Rpbn)	399	(2,624)	(1,262)	(2,105)	(3,707)	(3,222)	(2,771)

Source: www.clsa.com

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Notes

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Companies mentioned

7-Eleven (SEM MK - RM1.36 - O-PF)
Abdul Rahman Saleh Airport (N-R)
Aboitiz Power (AP PM - P26.50 - BUY)
AC Energy (ACEN PM - P2.69 - BUY)
Ace Hardware (ACES IJ - RP1,570 - U-PF)
Advanc (N-R)
Ahmad Yani Airport (N-R)
AirAsia (AAGB MK - RM0.66 - SELL)
Airports of Thailand (AOT TB - BT58.2 - U-PF)
AIS (ADVANC TB - BT183.5 - BUY)
Alibaba (BABA US - US$281.39 - BUY)
Alipay (N-R)
AllDay (N-R)
AllHome (HOME PM - P5.90 - BUY)
Alliance (ABMB MK - RM2.17 - U-PF)
Alliance Global (AGI PM - P6.21 - BUY)
Andhra Bank (N-R)
Anhui Boya (N-R)
Ant (N-R)
Ant Financial (N-R)
AppAnnie (N-R)
Asiana Airlines (N-R)
Axiata (AXIATA MK - RM3.03 - U-PF)
Ayala Corp (AC PM - P702.00 - BUY)
Ayala Land (ALI PM - P30.00 - BUY)
Bancnet (N-R)
BANCNET (N-R)
Bangkok Bank (BBL TB - BT104.5 - BUY)
Bank Central Asia (BBCA IJ - RP31,425 - O-PF)
Bank Mandiri (BMRI IJ - RP5,850 - BUY)
Bank Negara (BBNI IJ - RP5,250 - O-PF)
Bank Rakyat (BBRI IJ - RP3,510 - O-PF)
BDO Unibank (BDO PM - P90.15 - BUY)
Bentoel (N-R)
Bloomberry (BLOOM PM - P6.96 - U-PF)
Blue Sail (N-R)
BMC (N-R)
Boost Wallet (N-R)
BPI (BPI PM - P65.80 - BUY)
BTN (BBTN IJ - RP1,545 - O-PF)
BTS (N-R)
Bumrungrad (BH TB - BT110.5 - BUY)
Capex (N-R)
CapitaLand (CAPL SP - S$2.73 - BUY)
CapitaLand Mall (CT SP - S$1.98 - BUY)
Carlsberg Malaysia (CAB MK - RM19.80 - SELL)
Celcom (N-R)
Central Pattana (CPN TB - BT46.5 - BUY)
Central Provident Fund (N-R)
Centre of Covid-19 Situation Administration (N-R)
Changi Airport (N-R)
Changi City Point (N-R)

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China Reality Research Consumer (N-R)
Christiani & Nielsen (N-R)
CIMB (CIMB MK - RM3.24 - U-PF)
CMT (N-R)
Consumer Retail - (N-R)
Covidien (N-R)
CP All (CPALL TB - BT63.8 - BUY)
CPNCG (N-R)
CPNREIT (N-R)
Credit China (N-R)
CSI REITs (N-R)
CTOS Holdings (N-R)
CVS Health (N-R)
dalgona Coffee (N-R)
Danajamin (N-R)
Department of Health Philippines (N-R)
Department of Tourism (N-R)
Digi (DIGI MK - RM4.11 - SELL)
DJarum (N-R)
DMCI (DMC PM - P3.97 - BUY)
Dongwon F&B (N-R)
Dusit Thani (N-R)
Ebitda (N-R)
e-CTOS (N-R)
Esprit (N-R)
Euromonitor (N-R)
Export-Import (N-R)
Facebook (N-R)
Family Mart (N-R)
Finvolution (N-R)
Free Fire (N-R)
Gamuda (GAM MK - RM3.45 - O-PF)
GCash (N-R)
G-Cash (N-R)
Genting Malaysia (GENM MK - RM2.33 - O-PF)
Genting Singapore (GENS SP - S$0.69 - SELL)
GHL Systems (N-R)
GLAND (N-R)
Global Payments (N-R)
Globe Telecom (GLO PM - P2,088.00 - BUY)
GMR Infrastructure (N-R)
Gojek (N-R)
Gojek (N-R)
Google Play (N-R)
Google-Temasek (N-R)
Gourmet Master (2723 TT - NT$104.5 - SELL)
Grab Holdings (N-R)
Grab Philippines (N-R)
GrabPay Malaysaia (N-R)
Green Packet (N-R)
Greenhill (N-R)
Group Digital Life (N-R)
GT Capital (GTCAP PM - P385.00 - BUY)

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Gudang Garam (GGRM IJ - RP47,100 - BUY)
H&M (N-R)
Hanadandjoeddin Airport (N-R)
Hartalega (HART MK - RM14.00 - BUY)
Heineken Malaysia (HEIM MK - RM19.98 - U-PF)
Holcim Indo (N-R)
Hong Leong Bank (HLBK MK - RM14.82 - BUY)
iflix (N-R)
IHH (IHH MK - RM5.29 - O-PF)
IMI (IMI PM - P5.80 - O-PF)
Indofood (INDF IJ - RP7,800 - BUY)
Indofood CBP (ICBP IJ - RP10,325 - BUY)
Indonesia Tourism Development Corporation (N-R)
Indra Sistemas SA (N-R)
Instagram (N-R)
Intco Medical (N-R)
International Air Transport Association (N-R)
Istanbul Sabiha Gokcen Airport (N-R)
Japan International Cooperation Agency (N-R)
JG Summit (JGS PM - P62.00 - SELL)
Jollibee (JFC PM - P138.10 - U-PF)
Kalbe Farma (KLBF IJ - RP1,600 - U-PF)
Kasikornbank (KBANK TB - BT82.2 - BUY)
Keppel Corp (KEP SP - S$4.34 - U-PF)
Keppel DC (KDCREIT SP - S$2.92 - U-PF)
KLCC Stapled Reit (KLCCSS MK - RM7.89 - U-PF)
Kodomo Airport (N-R)
Krishop (N-R)
KrisShop (N-R)
Krung Thai Bank (KTB TB - BT9.6 - BUY)
Kualanamu Airport (N-R)
Lacoste (N-R)
Las Vegas Sands (N-R)
Lazada (N-R)
Lembar Port (N-R)
Line (N-R)
Lombok International Airport (N-R)
M1 (N-R)
Mactan-Cebu International Airport (N-R)
Malaysia Telecoms (N-R)
Malaysian Association of Hotels (N-R)
Manggar Port (N-R)
Manila Water (MWC PM - P14.10 - BUY)
Mapletree Ind (MINT SP - S$3.07 - BUY)
MasterCard (N-R)
Matahari Dept Store (LPPF IJ - RP1,265 - SELL)
Maxis (MAXIS MK - RM5.10 - SELL)
Max's (MAXS PM - P4.77 - BUY)
Maybank (MAY MK - RM7.26 - O-PF)
Megawide (MWIDE PM - P7.35 - BUY)
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Meralco (N-R)
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Ministry of Tourism and Sports (N-R)
Mitra Adiperkasa (MAPI IJ - RP665 - O-PF)
MOF Malaysia (N-R)
Moody ' s (N-R)
Mynews (MNHB MK - RM0.59 - BUY)
Netflix (N-R)
Nielsen (N-R)
Ninoy Aquino International Airport (N-R)
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Petronas Dagangan (N-R)
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Philippine Statistics Authority (N-R)
Philippines Offshore Gaming Operations (N-R)
PLDT (TEL PM - P1,440.00 - BUY)
PNB (PNB PM - P19.76 - U-PF)
PT Asiana (N-R)
PTT E&P (PTTEP TB - BT88.0 - U-PF)
Public Bank (PBK MK - RM16.06 - O-PF)
Puregold (PGOLD PM - P51.20 - U-PF)
Ramayana (RALS IJ - RP610 - SELL)
RCBC (RCB PM - P16.28 - U-PF)
Retail Reits (N-R)
RevPar (N-R)
RevPAR (N-R)
RHB Bank (RHBBANK MK - RM4.69 - BUY)
Robinsons Retail (RRHI PM - P68.90 - BUY)
Royal Thai Government (N-R)
RWM (N-R)
Sampoerna (HMSP IJ - RP1,640 - O-PF)
San Miguel Corporation (N-R)
San Miguel Food & Bev (N-R)
SATS (SATS SP - S$2.98 - BUY)
SEA Ltd (N-R)
Security Bank (SECB PM - P94.00 - BUY)
Sembcorp Marine (SMM SP - S$0.20 - SELL)
Semen Indonesia (SMGR IJ - RP10,575 - BUY)
Setel (N-R)
Shakey's Pizza (PIZZA PM - P5.80 - BUY)
Shopee (N-R)
Siam Commercial Bank (SCB TB - BT71.0 - O-PF)

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Singapore O&G (N-R)
Singapore Reits (N-R)
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Soetta and Merak port (N-R)
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SSI (SSI PM - P1.13 - U-PF)
SSILife (N-R)
StarHub (STH SP - S$1.18 - U-PF)
Startupbootcamp (N-R)
Starwood (N-R)
STGT (STGT TB - BT72.8 - BUY)
SunCon (SCGB MK - RM1.89 - BUY)
Suntec Reit (SUN SP - S$1.44 - U-PF)
Taiwan FamilyMart (N-R)
Tang Digital (N-R)
TD Coffee (N-R)
Telcos (N-R)
Telekom Malaysia (T MK - RM4.22 - BUY)
Telkom (TLKM IJ - RP2,900 - BUY)
Temasek (N-R)
Tencent (700 HK - HK$511.00 - BUY)
Thai Win (N-R)
Tik Tok (N-R)
Tisco (TISCO TB - BT66.5 - BUY)
TMB Bank (TMB TB - BT0.9 - SELL)
Tokopedia (N-R)
Top Glove (TOPG MK - RM8.28 - BUY)
Total Access Comm (DTAC TB - BT35.8 - BUY)
Touch ‘ n Go (N-R)
Touch ‘ n Go Digital (N-R)
Tourism Malaysia (N-R)
True Money (N-R)
Unilever Indo (UNVR IJ - RP8,375 - O-PF)
UnionBank (UBP PM - P54.10 - BUY)
Viber (N-R)
Vinci (N-R)
Vinci Construction (N-R)
Visa (N-R)
Voyager (N-R)
WeChat (N-R)
Western Union (N-R)
Wilcon (WLCON PM - P16.04 - BUY)
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XO (N-R)
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05/08/2020

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