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Finding ESG Diamonds In The Rough

Regional Thematic Research

5 March 2024

ESG Diamonds In The Rough

Our Best Investment Ideas

"Rough diamonds may sometimes be mistaken for worthless pebbles"

Thomas Browne

In the ninth edition of this report, we have again mined for and unearthed more diamonds in the rough for 2024. The performance of all our "diamonds" has been sterling over the years (the performance of these stocks is detailed in Figure 1). These investment ideas are a selection of stocks chosen by our analysts, according to this criteria:

i. **ROE of 15% or above;**
ii. **2024 net debt/shareholder funds of <0.7x;**
iii. **Increasing margins in 2024 vs that of 2023;**
iv. **Trading below their respective industry average multiples;**
v. **ESG score being above their country medians.**

The table below is an overview of our 12 "diamonds".

Our methodology uses a fundamental bottom-up analysis, coupled with RHB's on-the-ground insights. Our sector analysts provided their assessments of the average market multiples for the respective sectors that the companies operate in. As one of the criteria is "trading below the average market multiples", it means these stocks are out of favour currently. In parallel, the list was further refined based on our assessments of each company's potential to grow margins without compromising on ROE, while having a low gearing level. In an environment of ever-changing interest rates, companies with a high debt/equity ratio would be penalised more. We also imputed inflation into our assessments, as we considered only companies that have grown their margins.

Q&A. We present several questions on the criteria and on what actually constitutes "diamonds in the rough" which we were asked on the previous edition of this report. We provide our answers in **Figure 2**.

Environmental, Social and Governance (ESG) score is a major criterion. Since mid-2021, we have assigned ESG scores to all companies under coverage and integrated them into our valuations. We believe sustainable investment strategies will continue to deliver above-market returns. This conviction is backed by a meta-analysis from the NYU Stern Centre for Sustainable Business and Rockefeller Asset Management. The study found a positive correlation between ESG and the financial performance of companies in most of the 1,000 research papers published between 2015 and 2020.

Our findings have resulted in a list of 12 pinpointed stocks that are listed below. This list represents companies that our analysts believe can chart robust earnings growth, due to sector- or company-specific reasons.

This is a long-term strategy. As it takes time for coal to turn into diamonds, we believe that – in due course – all the companies in the list below should show healthy absolute returns. The pages that follow describe why we consider these picks in our coverage universe to have such sterling characteristics, as classified by country.

Company Name	Rating	Target	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
AKR Corporindo	Buy	IDR1,970	12.6	11.2	2.5	23.5	3.7
Central Pattana	Buy	THB85.00	28.3	17.8	3.0	17.4	2.3
Delfi	Buy	SGD1.55	60.8	8.2	1.5	19.2	6.1
Food Empire	Buy	SGD1.75	21.3	9.2	1.8	20.0	4.1
Heineken Malaysia	Buy	MYR29.60	30.1	16.6	14.9	89.8	6.0
HRnetGroup	Buy	SGD0.84	17.3	11.7	1.8	15.5	5.6
Kelington Group	Buy	MYR3.03	18.5	18.1	5.8	34.1	2.2
Kencana Energi Lestari	Buy	IDR1,300	54.8	3.6	0.9	29.5	3.3
Mitra Keluarga Karyasehat	Buy	IDR3,300	26.4	32.8	5.1	17.0	1.4
Samaiden Group	Buy	MYR1.46	17.6	18.3	3.2	19.4	-
Sumber Alfaria Trijaya	Buy	IDR3,500	28.7	37.8	6.5	25.1	-
Supalai	Buy	THB24.70	19.3	5.2	0.7	14.8	7.7

Source: Company data, RHB (Data as of 1 Mar 2024)

Our five criteria used:

i. ROEs of 15% or above;
ii. 2024 net debt*/shareholders' funds <0.7x, ie *net debt = ST debt + LT debt – cash & equivalents;
iii. Increasing margins in 2024 vs those of 2023;
iv. Trading below sector mean valuations;
v. ESG score above the country median.

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Our Findings

Excellent performance of our previous "diamonds"

In our previous report on a similar theme of Finding ESG Diamonds In The Rough as of Feb 2023, based on similar criteria, our findings resulted in the list of companies shown below in Figure 1.

Based on the highest price reached by a particular stock since we issued our Feb 2023 report, we calculated the return. The results are shown in the table below, with good absolute returns for most stocks. The stocks from Thailand were not helped by the political turmoil and huge market sell-off which began in mid-2023.

From our previous report, one stock made the list again this time, ie Samaiden Group.

Figure 1: "Diamonds" we picked in Feb 2023 and their performance

Company	Ticker	Share price on 14 Feb 2023	Peak price	Date of peak price	Return relative to peak price	Price as of year end 2023	Return relative to price at year end 2023
AKR Corporindo	AKRA IJ	1,239	1,534	29/9/2023	23.8%	1,445	16.6%
Arwana Citramulia	ARNA IJ	916	1,058	31/3/2023	15.5%	655	-28.5%
Home Product Center	HMPRO TB	14.4	15.7	21/2/2023	9.4%	11.7	-18.7%
Land and Houses	LH TB	9.17	9.50	17/4/2023	3.6%	8.15	-11.1%
Press Metal	PMAH MK	5.18	5.22	17/2/2023	1.0%	4.81	-7.1%
Puradelta Lestari	DMAS IJ	148	167	30/8/2023	12.6%	162	9.5%
Samaiden Group	SAMAIDEN MK	0.84	1.34	31/7/2023	59.7%	1.14	35.4%
Sheng Siong	SSG SP	1.57	1.76	2/5/2023	12.3%	1.61	2.4%
Sunway Construction	SCGB MK	1.60	2.01	20/12/2023	25.7%	1.95	22.0%
Telkom Indonesia	TLKM IJ	3,647	4,577	26/4/2023	25.5%	3,960	8.6%
Thai Beverage	THBEV SP	0.65	0.70	5/4/2023	7.1%	0.52	-20.4%
Time dotCom	TDC MK	4.53	5.58	3/10/2023	23.3%	5.34	18.0%

Source: RHB, Bloomberg

In the pages ahead, we summarise why these companies have "diamond"-type characteristics, as presented according to country.

Figure 2: Q&A on what actually constitutes a "diamond in the rough" and the meaning of it

On our previous edition of this report, we received multiple questions from our clients, which we summarize in the eight questions as per below.

Source: RHB

We reiterate our criteria, and append brief comments on these below:

i. ROE of 15% or above;
ii. 2024 net debt/shareholder funds of <0.7x;
iii. Increasing margins in 2024 vs that of 2023;
iv. Trading below their respective industry average multiples;
v. ESG score being above their country medians.

Throughout our nine years of finding "diamonds", we have especially maintained this three criteria: ROE of 15% or higher, increasing margins, and stocks trading below their respective industry average multiples. Note that:

i. As a starting point, we stuck with companies with a ROE of 15% or higher as the ROE is influenced by profitability, efficiency, and leverage.

ii. While no company is immune to competition, some are less vulnerable to this than others. Those companies with well-developed economic moats in place – and are usually leaders of their sectors – have the ability to grow their margins (operating or net). In the past we used "increasing market share" but that was a more difficult parameter to assess;

iii. We looked at companies that trade below their respective industry average multiples since one is more likely to realise a gain if one invests in a company for less than it is worth – and this lends a margin of safety on investment.

Criteria we have introduced over time:

- When it comes to funding future growth, we prefer companies that can meet their requirements though internally generated cash as opposed to taking on debt (or raising capital/issuing more stock).

- We introduced the ESG score in our report from 2022 onwards, and this criteria takes care of the governance aspect as well (in the past, we used "reasonable corporate governance" as one of the criteria).

Question 1: What was the criteria, in terms of quantitative and qualitative factors, to qualify as an ESG "diamond"?

We relied on both quantitative (screening) and qualitative (bottom-up analysis, mosaic theory, talking to industry experts) analyses.

We did not employ an automatic screening of these criteria but, instead, relied on qualitative factors. We found the "diamonds" in the stocks under our coverage, so we already have an in-depth understanding of these businesses and their proven managerial experience. We stress again that we replaced the "reasonable corporate governance" criterion with an all-round ESG score – which takes care of the "G" pillar. As a result, we are able to look into the future and better assess the evolution of a company and a sector. That said, we also allocated some margin for error (hence the criterion "trading below their respective industry average multiples").

Question 2: What were the parameters used for the ESG criteria? Was this arbitrary or based on benchmarking against certain ESG indices?

Nothing was arbitrary, but we relied on our own analyses and in-house developed methodology (consistent with the financial theory) which we made public in two reports:

i. We developed our internal methodology to score companies for ESG, and published our findings in Oct 2020;

ii. In Sep 2021, we issued a report explaining how we integrate our ESG scores into valuations.

As we do not know how other peers developed their ESG scores or how ESG indices were formed, we relied on our own in-depth analyses on the ESG for each company under coverage.

Question 3: **Can you comment on the share price performances of some these gems, and whether there is a correlation with the level of their ESG scores?**

We believe sustainable investment strategies will continue to deliver above-market returns. This conviction is backed by a 2021 meta-analysis from the NYU Stern Centre for Sustainable Business. The study found a positive correlation between ESG and the financial performance of both companies and investors, in most of the 1,000 research papers published between 2015 and 2020.

Question 4: Will this be a dynamic selection process in the future, where more companies could be added or potentially dropped off the list?

We published our first "ESG Diamonds In The Rough" report in Feb 2016. Since then, we have issued eight reports, mostly annually since this is a long-term strategy. As it takes time for coal to turn into diamonds, we found that – in due course – all the companies in the list would exhibit healthy absolute returns. Therefore, this has been a dynamic selection process where we continuously add or remove companies in the list.

Question 5: In your 2023 Finding ESG Diamonds In the Rough report, four Malaysian companies made the cut: Press Metal, Sunway Construction, Time dotCom and Samaiden Group. Of these, only one – Press Metal – is a FBM KLCI Top 30 stock. What does this say about the ESG scores and financial strength of our large-cap companies in Malaysia?

We stress that in our "Diamonds" reports, we are not highlighting strong companies that are investors' darlings. We actually search for companies that are undervalued (and likely out of favour with investors) and, as such, are trading below their industry average multiples.

Figure 3: "Diamonds" from Malaysia which we picked in Feb 2023 and their performance

Company	Ticker	Share price on 14 Feb 2023	Peak price	Date of peak price	Return relative to peak price	Price as of year end 2023	Return relative to price at year end 2023
Press Metal	PMAH MK	5.18	5.22	17/2/2023	1.0%	4.81	-7.1%
Samaiden Group	SAMAIDEN MK	0.84	1.34	31/7/2023	59.7%	1.14	35.4%
Sunway Construction	SCGB MK	1.60	2.01	20/12/2023	25.7%	1.95	22.0%
Time dotCom	TDC MK	4.53	5.58	3/10/2023	23.3%	5.34	18.0%

Source: RHB, Bloomberg

Question 6: Tell us more how these four Malaysian (listed in Figure 3) compare with the winners in other ASEAN nations? For the other companies within ASEAN, which industries were they from, and which ones stood out?

Again, these companies are not "winners". At least, not yet. We do hope they become winners in time. Based on our track record over the past eight years, with as many editions such reports, we have been proven to be accurate in spotting the future champions in their sectors).

The only way the four companies in Malaysia compare with others in ASEAN that we feature in this report, is that they meet the five criteria.

Question 7: Was it easier to find these gems in other ASEAN markets vs Malaysia?

Finding gems is never easy – there is a lot of effort in sifting through the data of c.400 ASEAN public-listed companies. We did not employ an automatic screening of parameters. Instead, our methodology made use of RHB's unique on-the-ground insights of our analysts who provided their assessments of the outlook for the companies they cover. We performed an initial bottom-up fundamental analysis – after a first round of cuts, our sector analysts provided their assessments of the average market multiples for the respective sectors that the companies operated in. In parallel, the list was further refined, based on our evaluation of each company's corporate governance.

Question 8: On the four Malaysian companies featured in the 2023 report, do you have BUY calls on all of them? Which are your Top Picks, and why do you like them?

In our 2023 report, we described the attractive features of our picks. As of 14 Feb 2023, we had BUYs on three of them and a NEUTRAL on Time Dotcom (note that our telco analyst had some very conservative assumptions, but believes Time Dotcom could turn into a diamond in the long term). In Figure 3 we show how these four companies performed in 2023.

Malaysia

Figure 4: "Diamonds" from Kuala Lumpur

Company	Ticker	ESG score	Rating	Target price	Share price	Market cap (USDm)	P/E (x)		P/B (x)		EV/EBITDA (x)		ROAE (%)		Net margin (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Heineken Malaysia	HEIM MK	3.3	Buy	29.6	22.8	1,441.15	16.6	15.6	14.9	14.7	10.9	10.2	89.8%	94.8%	15.0%	15.3%
Kelington Group	KGRB MK	3.1	Buy	3.03	2.6	349.85	18.1	16.8	5.8	4.7	10.3	9.5	34.1%	30.4%	7.5%	7.8%
Samaiden Group	SAMAIDEN MK	3.3	Buy	1.46	1.2	107.40	18.3	14.1	3.2	2.6	10.1	7.0	19.4%	20.2%	6.5%	6.6%
ESG* country median		**3.0**														

*Note: Data as at 1 Mar 2024. *The ESG country median score of 3.0 is based on ESG scores of all stocks under our coverage in Malaysia.*
Source: RHB, Bloomberg

Heineken Malaysia (HEIM MK, BUY, TP: MYR29.60)

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Company description and ESG analysis. Heineken Malaysia (Heineken) produces, packages, markets and distributes beer under the Guinness Stout, Anchor, Lion, Heineken, Anglia Shandy and Malta brands. The group has an ESG score of 3.3.

i. E: Heineken continues to contribute to environmental sustainability, by implementing a few initiatives to reduce GHG emissions and its reliance on natural resources.

ii. S: It has a good policy to enhance the awareness of health and safety amongst stakeholders, and put in place a framework that ensures a safe and conducive working environment for its staff.

iii. G: Heineken ensures accountability when identifying and managing sustainability matters, through a sound sustainability governance structure.

ROE: We forecast rising ROEs of c.90% and c.95% for FY24-FY25 vs 10.% in FY23. We expect its topline to be driven by the robust consumption of beer on the back of a stable employment market and ongoing efforts to contain contraband trade. In addition, the rise in tourist arrivals could also support sales volumes. Meanwhile, profit margins are expected to be supported by production efficiency gains and prudent operating cost control. On top of that, Heineken's favourable product mix – the result of a premiumisation strategy – will underpin its margin expansion. Its generous dividend policy of paying c.100% of net profit is expected to continue.

Indebtedness: Moderate FY24F net gearing. Notwithstanding the generous dividend payout ratios (c.100% of net profit in recent years), Heineken has been able to maintain a sturdy balance sheet position. We expect this favourable dynamic to continue, in anticipation of healthy cash flow generation and consistent profitability.

Margins: We expect net margins to improve, driven by solid topline growth, its premiumisation strategy, operational efficiency gains and prudent cost control.

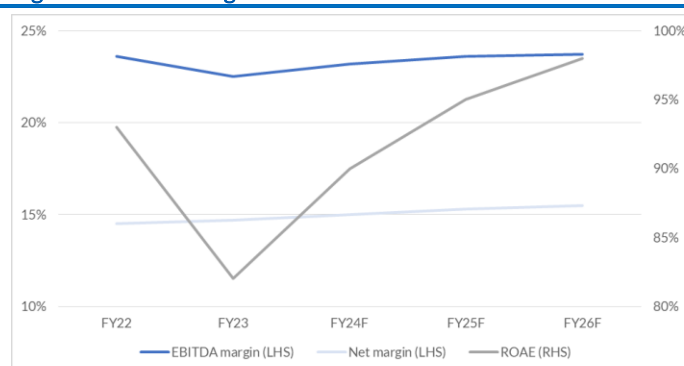
Trading at 17x CY24F P/E or at a discount to consumer staple peers. We believe Heineken's valuation is undemanding, considering the steady demand for beer and continuous operational gains that mitigate the effect of cost inflation. In addition, we see muted regulatory risks with the political stability in Malaysia.

Downside risks to our recommendation include weaker-than-expected consumer sentiment and a sharp rise in input costs.

Figure 5: Heineken's ESG focus

Source: Company data, RHB

Figure 6: Profit margins and ROE trend



Source: RHB

Kelington Group (KGRB MK, BUY, TP: MYR3.03)

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Company description and ESG analysis. Kelington Group (KGB) is involved in ultra-high purity (UHP) delivery systems, process engineering, and general contracting. The group commenced maiden production of liquid carbon dioxide (LCO2) in 4Q19, and is currently the biggest producer in the country with a production capacity of over 100,000 tonnes. KGB has an ESG score of 3.1 and has been a constituent of the FTSE4Good Malaysia Index since 2021. In the Dec 2023 review conducted by FT Russell, the group's ESG rating has been upgraded to 4 Stars.

i. E: KGB is committed to preserving the environment through various practices such as reducing electricity, water, and CO2 consumption. It is also managing the usage of materials to reduce waste and has taken steps to manage the disposal of scheduled waste in a responsible manner.

ii. S: KGB has maintained zero fatalities related to work-related injuries. It has in place an occupational health & safety management system that is 95%-certified to ISO 45001:2018. Apart from up-to-standard health & safety policies, we see active community engagement and efforts to uplift employee relations. KGB is focused on attracting and retaining talent, and helping employees develop their skills to further drive success.

iii. G: KGB has applied and adopted company codes and policies encompassing board policy, corporate code and policies and sustainability policies, to ensure best practices of good corporate governance. Directors are skilled and from diverse backgrounds. An outsourced investor relations unit co-hosts face-to-face and virtual meetings with the management team.

ROE: We forecast commendable ROEs of 34% and 30% for FY24 and FY25 vs 41% in FY23. Earnings growth will be driven by its robust outstanding orderbook of MYR1.3bn (tenderbook at c.MYR2bn), which should keep the group busy over the next 12 months. There is upside to the orderbook from more UHP jobs to be secured in successive quarters.

The second LCO2 plant, P2, is slated to commence production in mid-March with a capacity of 70,000 tonnes. The industrial gas segment should fuel the next leg up in KGB's earnings – on rising domestic demand from F&B players, an expanding client base (which includes the Oceania markets), and potential forays into the Indonesian and New Zealand markets.

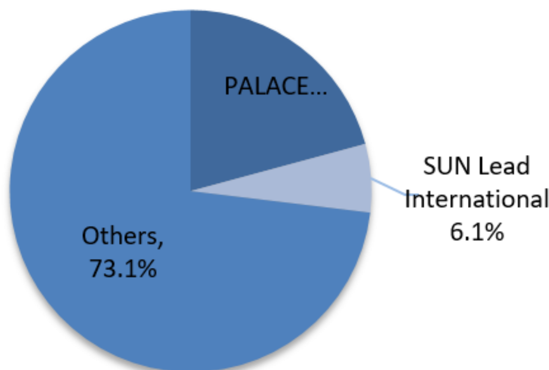
Indebtedness: Net cash position for FY24. The group has been in a net cash position over the past five years. We expect this to be maintained in the absence of major acquisitions and/or capex.

Margins: We expect margins to improve moving forward, driven by the focus on higher-margin UHP projects and the industrial gas business. The latter offers 2x higher margins than the KGB's conventional engineering business.

Trading below sector valuation at 17x FY24F P/E vs 25x for the KLTEC Index. The discount can be attributed to KGB's relatively smaller market capitalisation and profit base.

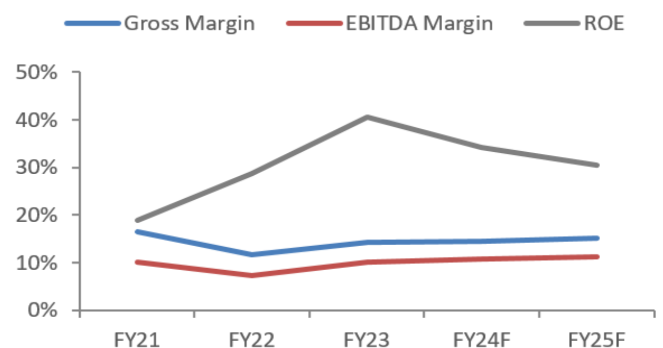
Downside risks to our recommendation: Weaker-than-expected earnings, project execution delays, and lower than-expected LCO2 demand and orderbook replenishment.

Figure 7: Major shareholders



Source: Company data, RHB

Figure 8: Margin and ROE profiles



Source: RHB

Samaiden Group (SAMAIDEN MK, BUY, TP: MYR1.46)

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Company description and ESG analysis. Samaiden Group (Samaiden) is a renewable energy (RE) turnkey EPCC services provider, providing end-to-end solutions to build RE – mainly solar photovoltaic (PV) – systems. Samaiden recently secured solar and biomass assets. The group has an ESG score of 3.3.

i. E: Samaiden ensures that its works comply with environmental laws and regulations to minimise the adverse impact on the environment. It is also constantly monitoring its sub-contractors and suppliers to avoid any environmental incidents and hazards. Samaiden's services are beneficial to the environment over the long run.

ii. S: The group has adopted a series of human resource policies and good practices in order to build a conducive work environment and positive workplace culture. Samaiden also funds staff training costs to upskill them.

iii. G: The group has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. 33% of the board members are women, and 67% of the board are independent non-executive directors. We highlight that Samaiden adopted a board diversity policy, which considers the board's diversity in different aspects such as professional experience, business experience, skill, knowledge, gender, age, ethnicity, and educational background.

ROE: We forecast commendable ROEs of 19% and 20% for FY24 and FY25 vs 10.9% in FY23. Samaiden's robust orderbook suggest an expansion of its ROE. As of Dec 2023, its orderbook stood at MYR358.2m with Large-Scale Solar 4 (LSS4) and biomass projects making up c.35% each. The expected recognition of LSS4 orders in FY24 and potential wins in the Corporate Green Power Programme (CGPP) and Kulim Hi-Tech Park (KHTP) tenders, indicates a strong earnings outlook. Furthermore, the focus on RE projects within the National Energy Transition Roadmap and Tenaga Yang Boleh Diperbaharui or TBB initiatives align with increasing demand for sustainable solutions, bolstering its future earnings growth potential and, subsequently, ROE growth.

In line with Samaiden's strategy to expand its clean energy portfolio, the group secured new assets in the CGPP (gross 43.3MW) and Feed-in Tariff or FiT biomass (7MW) segments. These moves aim to create a more stable and diverse recurring income source, balancing the cyclical nature of EPCC projects.

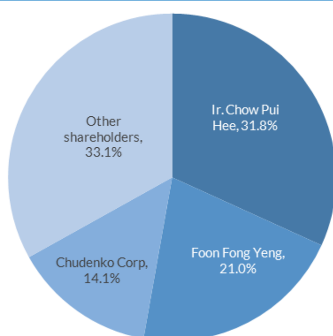
Indebtedness: 2024 net cash. Samaiden has maintained a sound financial position since its listing and, as of 31 Dec 2023, its net cash stood at MYR98.6m. However, the group's planned asset expansion may necessitate increased debt levels in FY24-25 to finance projects like CGPP and biomass plants.

Margins: We expect margins to improve moving forward, driven by the softening of PV module costs on the back of moderated polysilicon prices.

Trading at a discount to its solar peer, at 22x CY24F P/E vs Solarvest's 27x. We believe the stock is trading at an undemanding valuation, given the group's 3-year 51% earnings CAGR, driven by orderbook growth.

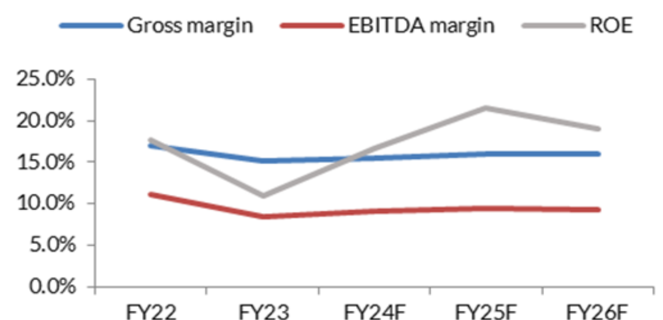
Downside risks to our recommendation include dependence on government policies and initiatives on RE, competition risks, and unexpected increases in project costs.

Figure 9: Shareholding structure



Source: Company data, RHB

Figure 10: Chart margins and ROE profiles



Source: RHB

Thailand

Figure 11: Diamonds from Bangkok

Company	Ticker	ESG score	Rating	Target price	Share price	Market cap (USDm)	P/E (x)		P/B (x)		EV/EBITDA (x)		ROAE (%)		Net margin (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Central Pattana	CPN TB	3.4	Buy	85.00	66.25	8,255.73	17.8	16.7	3.0	2.7	10.0	9.3	17.4%	16.8%	33.6%	34.2%
Supalai	SPALI TB	3.3	Buy	24.70	20.70	1,122.54	5.2	4.8	0.7	0.7	6.4	5.7	14.8%	14.4%	21.5%	21.4%
ESG* country median		**3.2**														

*Note: Data as at 1 Mar 2024. *The ESG country median score of 3.2 is based on ESG scores of all stocks under our coverage in Thailand*
Source: RHB, Bloomberg

Central Pattana (CPN TB, BUY, TP: THB85.00)

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Company description and ESG analysis. Central Pattana (CPN) is Thailand's biggest retail property developer. Its portfolio consists of 56 retail malls, 10 office buildings, eight hotels, and 30 residential projects. The company has an ESG score of 3.4.

i. E: It designs project landscapes to best harmonise with a city and original ecosystem, and applies Green Building guidelines to retail mall development.

ii. S: Its applies the "centre of life" strategy to develop retail malls into various lifestyle destinations for not just shopping, but also socialising. It develops and encourages tenants and partners to grow together with surrounding community, ie fair local labour employment and skill development.

iii. G: CPN attained the highest score on the Dow Jones Sustainability World Index 2023 in the real estate management and development category.

We forecast stabilised ROEs of c.17% over 2023-2025 and expect core profit to continue growing by a further 11% this year and 6% next year, driven by the retail mall business. Annually, CPN aims to open two new malls, 1-3 new hotels, and 5-7 new residential projects.

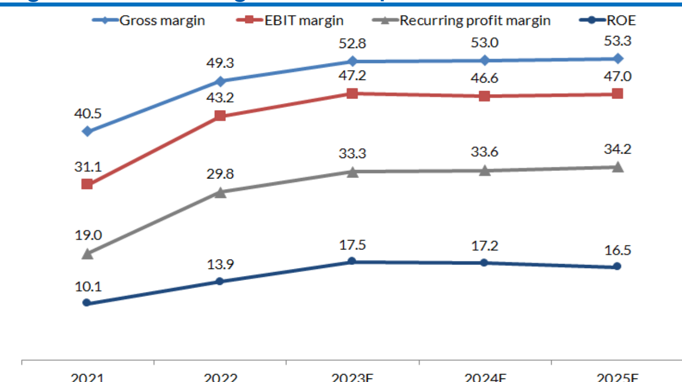
Indebtedness: 2022 net debt/equity of 0.6x. CPN's total 5-year capex is THB121bn (2024-2028F) with room for debt financing based on a 1.7x net D/E covenant threshold and our expected 0.6x as at end-2024F (stable vs 2023). The record 2024F core profit – expected to stay at 44% above pre-COVID-19 levels – may support the equity base expansion despite higher interest-bearing debt from investments in the pipeline.

We expect margins to improve, driven by a better performance of its mall tenants with revenue-sharing contracts, from higher customer traffic (ie tourists), a possible 3% increase in rental rate revision, more casual leasing, and lower utility costs. The hotel business may still benefit from the rising performance of new properties. Improving operating leverage may also support an increase in blended profit margins over the next three years.

Too undemanding valuation. CPN is trading at 18x FY24F P/E or around -2SD from its 5-year historical mean. It is also below the Thai retailers' 25x FY24F P/E and its regional retail developer peers' 21x FY24F P/E despite its record earnings outlook. We believe that a stronger performance from both mall and non-mall businesses may act as a catalyst.

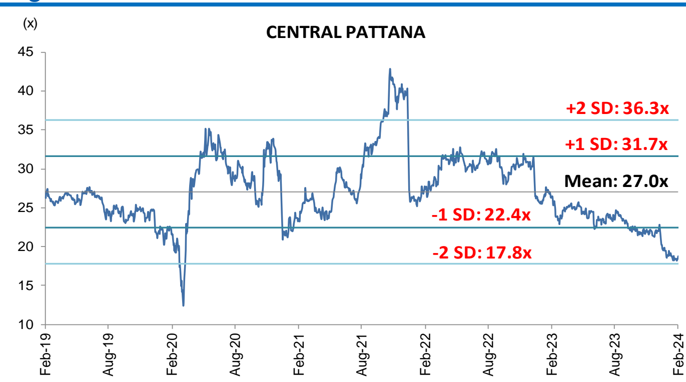
Downside risks to our recommendation include delays in the opening of new projects, popularity of online trading channels, slower-than-expected consumption and tourism recovery, and uncertainties like natural disasters, riots, and terrorism.

Figure 12: Profit margins and ROE profiles



Source: Company data, RHB

Figure 13: CPN's P/E and SD levels



Source: Bloomberg, RHB

Supalai (SPALI TB, BUY, TP: THB24.70)

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Company description and ESG analysis. Supalai is a residential real estate developer that focuses on the mid- to low-end segments in Bangkok and Thailand's upcountry provinces. It also has office buildings for rent and a small hotel business.

The company has an ESG score of 3.3:

i. E: The company has incorporated environmental conservation and energy-saving initiatives in its housing units (landed and condominiums) since its inception in 1989. This is under the "Save our world, Save your money" concept.

ii. S: For over 30 years, Supalai has been committed to its CSR tagline of "Supalai...we care for Thai Society". It focuses on creating a better quality of life for residents with CSR efforts that are based on promoting sustainable development.

iii. G: The board of directors has its own corporate governance policy handbook and annually reviews the code of conduct of Supalai's directors, executives, and employees.

ROE: For the past 15 years, Supalai's ROEs have stayed above the 15% threshold – except in FY20 (11.5%) and FY23 (12%). Within these two periods, its earnings power was interrupted by the start of the pandemic crisis in FY20 and Thailand's political vacuum period in FY22. We expect ROEs to improve in tandem with a stronger earnings trend from FY24 onwards – driven by stronger core revenues and higher GPMs.

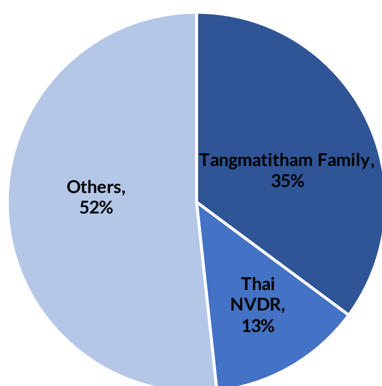
Indebtedness: 2024 net debt/equity is less than 0.7x. Although Supalai has expanded its new project offerings aggressively into provincial areas over the past three years, its financial position has been stringently controlled at a net D/E of 0.3-0.5x within FY18-23. For FY24, the company will expand more aggressively in Australia while maintaining the new projects expansion exposure in Bangkok and Thailand's provincial areas. In spite of this, we expect the upcoming transfer of five condominium projects this year to help alleviate Supalai's debt gearing situation while its net D/E as of end-FY24F should remain under 0.7x.

Margins: After expected GPMs decline moderately to the 36-37% average within FY23 from the near 40% norm, we expect GPMs to normalise within this year due to: i) Lower promotional activities via price discounts, and ii) a higher revenue proportion from condominium projects – especially from the company's high-margin luxury Supalai Icon Sathorn condominium project, where unit transfers should begin from 2Q24 onwards.

Trading below sector valuation at 5x FY24F P/E vs the residential property sector average of 9x. As it should book moderately weaker earnings in FY23 – and this may bring much pressure on its share price, thereby leading to a deep-low P/E – we expect its P/E to increase moving forward. This, in our view, will be especially so within FY24, when Supalai's earnings growth will strengthen due to its core businesses in Thailand and Australia.

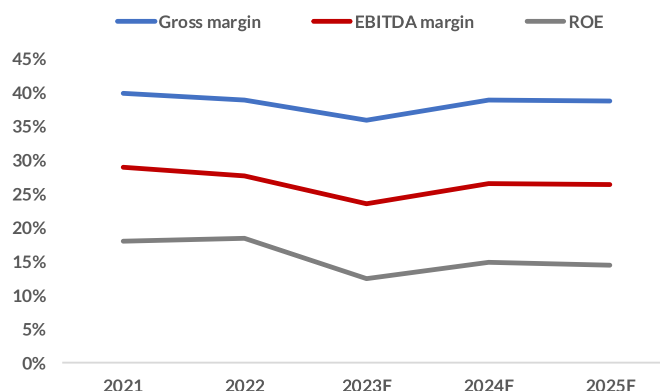
Downside risks to our recommendation includes the country's high household debt, commercial banks' strict lending measures, and Supalai's high revenue exposure to upcountry projects.

Figure 14: The shareholder structure is dominated by the founder's family



Source: Company data, RHB

Figure 15: Margins and ROEs on the uptrend from FY23's low ebb



Source: RHB

Singapore

Figure 16: Diamonds from Singapore

Company	Ticker	ESG score	Rating	Target price	Share price	Market cap (USDm)	P/E (x)		P/B (x)		EV/EBITDA (x)		ROAE (%)		Net margin (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Delfi	DELFI SP	3.0	Buy	1.55	0.97	438.13	8.2	7.3	1.5	1.3	4.1	3.6	19.2%	19.3%	8.4%	8.4%
Food Empire	FEH SP	3.1	Buy	1.75	1.44	564.81	9.2	8.6	1.8	1.6	5.2	4.5	20.0%	19.2%	13.6%	13.6%
HRnetGroup	HRNET SP	3.0	Buy	0.84	0.72	522.70	11.7	11.1	1.8	1.7	4.7	4.1	15.5%	15.4%	9.9%	9.9%
ESG* country median		**3.1**														

*Note: Data as at 1 Mar 2024. *The ESG country median score of 3.1 is based on ESG scores of all stocks under our coverage in Singapore*
Source: RHB, Bloomberg

Delfi (DELFI SP, BUY, TP: SGD1.55)

Company description and ESG analysis. Delfi is a chocolate confectionery company headquartered in Singapore.

i. E: Energy usage, water withdrawal, and waste generated are integral to Delfi's impact on the environment.

ii. S: The company is committed to employee well-being and occupational health and safety (OHS) with regular review of its practices.

iii. G: Delfi maintains a strong corporate governance framework that guides, drives, and oversees the organisation's direction towards greater heights of excellence.

We forecast high ROEs of c.19% for FY24-25. Delfi has decent net margins of 8-9% and strong financial leverage (assets to equity) ratio. It has assets that are supported by its balance sheet that features net cash, minimal debt, and low equity. It is a beneficiary of Indonesia's rising middle-class with disposable income.

Indebtedness: Net cash balance sheet. As a brand owner and manufacturer of its own brands of chocolates, Delfi's business is cash-generative, with operating cash flows for the past five years at USD7-77m per year – amounting to 1.3-12.6 US cents per share.

Margins: We expect margins to remain range-bound. Delfi's gross margins are largely protected against rises in raw material prices via various measures. The company's performance is subject to raw material prices – especially that of cocoa, its main input. It manages raw materials prices by entering into a forward-pricing arrangement with distributors – including for other inputs, eg sugar and milk – and locking in long-term purchase prices and volumes with suppliers over different forward delivery timeframes. Delfi locks its commodities prices for as far as 12 months. Gross margins have historically been at c.30-35% over the previous years' cocoa commodity price cycles, demonstrating that its measures to defend margins are sustainable.

The stock trades at a compelling 10x FY24F P/E, close to -1SD from its 16x mean. We deem the stock undervalued as our TP is pegged to 13x FY24F P/E – in line with FY23-25F earnings CAGR at 1x PEG. The stock has a dividend yield of c.6%.

Key downside risks to our earnings forecasts include lower-than-expected consumer demand for snacks (especially in Indonesia), a decline in raw material prices (eg cocoa beans, sugar) that could affect GPMs, and the negative effect of changes in the USD/IDR rate.

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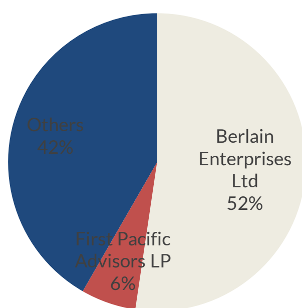
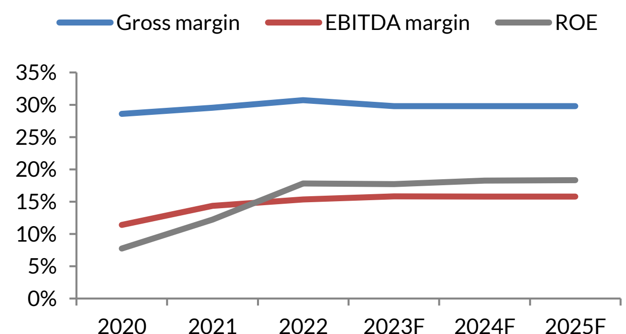
Figure 17: Shareholding structure (%)



Source: Bloomberg, RHB

Figure 18: Chart margins and ROE profiles



Source: RHB

Food Empire (FEH SP, BUY, TP: SGD1.75)

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Company description and ESG analysis. Food Empire (FEH) is a global F&B company that manufactures and markets instant beverages, frozen convenience food, confectionery, and snack food. The company's products can be found in over 50 countries across Asia, Africa, the Middle East, North America, and Europe. It has an ESG score of 3.1.

i. E: The company has implemented various energy conservation initiatives at the facility level, across its operations. It always strives to align energy and emissions management with the various country-specific energy regulations and policies.

ii. S: FEH is committed to supporting its employees and protecting their livelihoods. Since the COVID-19 pandemic, the company has not conducted any retrenchment exercises and still pays staff their full salaries, even when they were not able to fully execute their job roles due to COVID-19 measures.

iii. G: FEH has implemented a group-wide grievance mechanism via its whistleblowing policy. The policy allows employees to raise concerns regarding any wrongdoing, financial malpractice, illegal acts or business practices that go against its code of conduct in a safe and confidential manner.

ROE: Strong cash generation capability results in a strong equity base, dampening ROE. FEH's ROE is c.16-23%. We forecast earnings to outstrip dividend payouts, which results in a swelling equity base. Cash generation ability is also strong, outstripping dividend payments and supporting its equity base on its balance sheet. Hence, ROE is on a declining trend. FEH may, as such, have to increase dividend payments and keep cash at optimal levels to improve its ROE going forward.

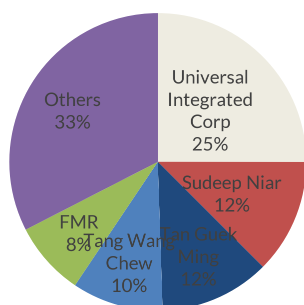
Indebtedness: Net cash balance sheet. FEH's balance sheet is in net cash as it operates a cash-generating business. As a brand owner and manufacturer, it has the ability to collect cash upfront or advance cash from distributors, thereby enhancing its working capital cash flow and boosting cash balances. Operating cash flow generated has exceeded net profit in recent years and we expect this trend to continue – based on its sales, credit, and cash collection practices.

Margins: We expect margins to be stable. As a brand owner and manufacturer, FEH has the ability to control margins via promotion spend, raw material hedging, selling price adjustments, and product resizing. We expect gross margins to be stable at 34-35% going forward.

Trades near TP but an earnings surprise could re-rate the stock even further. FEH currently trades at 9x FY24F P/E, near its historical mean P/E and our TP, which is based on 10x FY24F earnings. While the upside is currently limited, its FY23F earnings outperformance could allow for a further re-rating of the stock.

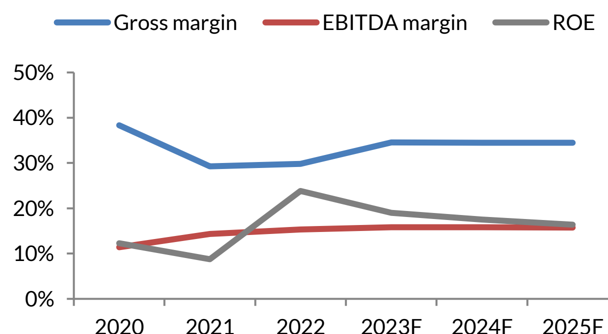
Downside risks to our forecasts include a disruption of operations due to the Russia-Ukraine conflict, and swings in the value of the RUB and currencies of other Commonwealth of Independent States.

Figure 19: Shareholding structure (%)



Source: Bloomberg, RHB

Figure 20: Chart margins and ROE profiles



Source: Company data, RHB

HRnetGroup (HRNET SP, BUY, TP: SGD0.84)

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Company description and ESG analysis. HRnetGroup (HRNET) is the largest Asia-based recruitment agency in Asia-Pacific ex-Japan, vs other key players with a presence in this region. The group operates 11 brands in 10 Asian growth cities – Singapore (where headquarters are located), Kuala Lumpur, Bangkok, Hong Kong, Taipei, Guangzhou, Shanghai, Beijing, Tokyo, and Seoul. Currently, it provides professional recruitment, flexible staffing, and other human resource services (eg payroll and training) to over 2,000 clients from 30 diversified sectors ie financial institutions, retail & consumer, IT, and telecommunications, among others.

i. E: The group engaged an external consultant to assist in conducting a materiality assessment of the "E" (as well as S and G) factor, which is relevant to its operations.

ii. S: Embraces gender diversity, with key positions in management filled with a good mix of both men and women. HRNET is committed to promoting diversity and equal opportunities, both within its own workplace and also amongst the group's clients.

iii. G: It has not had any material data security or privacy issues over the past few years. Its board of directors comprises six independent directors, three non-executive directors, and the group CEO is an executive director.

ROE: HRNET has strong ROE of c.16%. Being a service company with no heavy capex and assets, HRNET sports a high return on assets and low financial leverage with a net cash balance sheet. Without a need to generate a strong return on its assets, HRNET's net profit margin of 10-12% ensures that ROE is decent in the high teens.

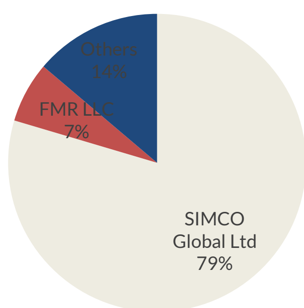
Indebtedness: Cash-generating group. HRNET is a service-based business providing companies with staffing solutions, with sales staff being its key revenue resource. The balance sheet is asset-light and the business has minimal working capital requirements. Hence, it has strong cash flow-generating ability. Historically, operating cash flow generated averaged c.120% of net profit annually. Its balance sheet has no debt and cash equivalent of SGD262m in 1H23 amounted to 27 SG cents per share. Uses of cash include share buybacks, taking stakes in regional staffing companies, and investing in other public-listed staffing companies.

Margin to improve in line with more permanent placements. HRNET's net margins range between 10% and 12%, with staff costs accounting for the biggest portion of opex at 14-18% of sales. Gross margins are also determined by its sales mix between flexible staffing and permanent placement, which currently stands at 88:12, in favour of flexible staffing's lower margins in 1H23. Permanent placement has higher margins due to the absence of cost that flexible staffing has to carry in cost of sales. As the economic recovery happens in various markets, we expect more permanent hiring to take place – improving revenue from permanent placement and boosting gross margins. We expect staff cost to sales to remain relatively stable since staff compensation is largely pegged to revenue.

Priced at -1SD from the historical P/E mean. HRNET offers exposure to the regional staffing market at an undemanding of 10-11x FY24F P/E and c.5% yield (at -1SD of its historical mean forward P/E). We anticipate the group to deliver a 2-year FY23-25 earnings growth CAGR of 5%, as we are positive on a recovery in hiring activities on the back of accelerating economic growth.

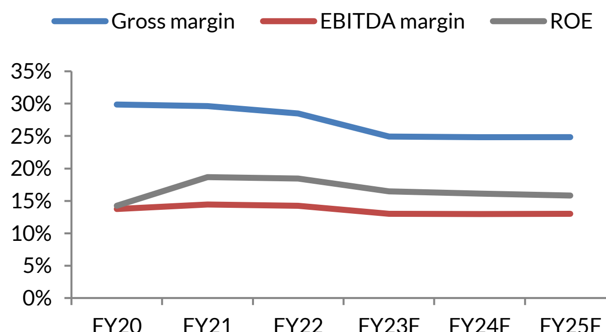
Key downside risk. Slower-than-expected recovery in the key labour markets of Singapore, China, and Taiwan.

Figure 21: Shareholding structure (%)



Source: Bloomberg, RHB

Figure 22: Chart margins and ROE profiles



Source: RHB

Indonesia

Figure 23: Diamonds from Jakarta

Company	Ticker	ESG score	Rating	Target price	Share price	Market cap (USDm)	P/E (x)		P/B (x)		EV/EBITDA (x)		ROAE (%)		Net margin (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
AKR Corporindo	AKRA IJ	3.2	Buy	1,970	1,750	2,238.63	11.2	11.1	2.5	2.2	6.8	5.3	23.5%	21.2%	6.4%	6.1%
Kencana Energi Lestari	KEEN IJ	3.2	Buy	1,300	840	196.26	3.6	2.7	0.9	0.7	4.1	3.2	29.5%	30.0%	48.3%	50.1%
Mitra Keluarga Karyasehat	MIKA IJ	3.3	Buy	3,300	2,610	2,369.55	32.8	28.0	5.1	4.6	21.2	18.6	17.0%	17.2%	24.6%	24.2%
Sumber Alfaria Trijaya	AMRT IJ	3.0	Buy	3,500	2,720	7,197.72	37.8	23.2	6.5	5.6	22.0	17.8	25.1%	26.2%	3.2%	3.5%
ESG* country median		**3.0**														

*Note: Data as at 1 Mar 2024. *The ESG country median score of 3.0 is based on ESG scores of all stocks under our coverage in Indonesia.*
Source: RHB, Bloomberg

AKR Corporindo (AKRA IJ, BUY, TP: IDR1,970)

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Company description and ESG analysis. AKR Corporindo (AKRA) is a prominent petroleum and chemicals distributor company with strong infrastructure and connectivity in Indonesia. Additional businesses include operating the Jakarta Integrated Industrial and Port Estate (JIIPE) – one of 19 areas recognised as Special Economic Zones by the Indonesia Government in Nov 2022 to attract more investments. The company has an ESG score of 3.2.

i. E: Initiative on thermal power utilities with less emissions to cater for the industrial park, built-in water treatment, and waste water management.

ii. S: AKRA supports the regional government by prioritising employment from surrounding communities (c.200,000 jobs).

iii. G: AKRA's governance complies with international (in this case, ASEAN Corporate Governance Scorecard) and domestic standards.

ROE should improve to c.24% for 2024F, above its 9-year average of c.13%. Apart from the resilience in its distribution & trading segment (c.75% of consolidated gross profit), strong support is expected from industrial land sales (c.806ha left) – likely to manufacturing companies. With JIIPE's anchor tenant, Freeport Indonesia, scheduled to begin commissioning in 2024, this should accelerate the land sales going forward.

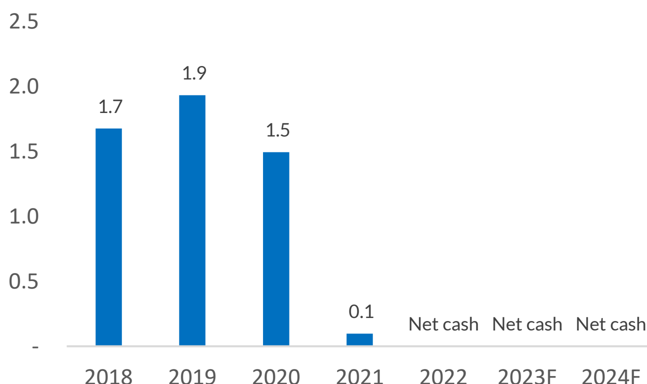
Debt: AKRA is running on net cash (as per 9M23: IDR6.5trn, c.22% of total assets). Strong cash flow generation will cover the needs of massive capex (to construct power utilities and sufficient infrastructure) in upcoming years, keeping AKRA's balance sheet profile in check.

Margins: Higher proportion from JIIPE's contribution to improve overall margins. GPM on petroleum and chemical business has c.8-10% yields, vs recurring land sales of c.90% (c.20% contribution to total gross profit). With JIIPE constructing power plants to distribute 1-1.3GW power, charges from utilities services will also increase JIIPE's gross profit to AKRA.

The stock is trading slightly above its closest domestic peers (c.9x P/E) at c.10x FY24F P/E. We believe the premium valuation is justified by the company's excellent cash control (regular dividend with c.55% payout ratio; c.6% average annual yield over the past six years), diversified business, and favourable ESG score.

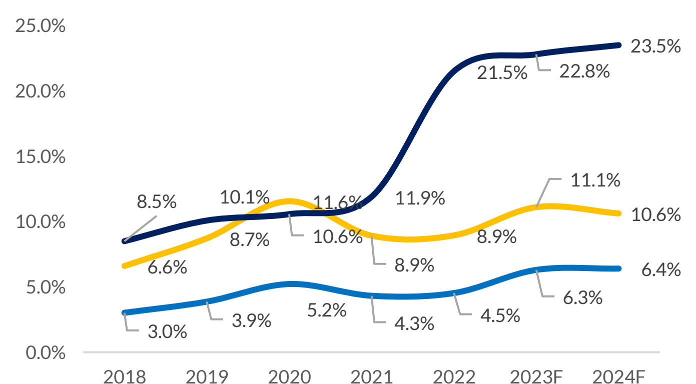
Risks include execution risk due to the delay in JIIPE developments, and unfavourable changes in government regulations that can deter foreign direct investments.

Figure 24: Net debt / EBITDA trend



Source: Company data, RHB

Figure 25: Chart margins and ROE profiles



Source: RHB

Kencana Energi Lestari (KEEN IJ, BUY, TP: IDR1,300)

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Company brief description and ESG analysis. Kencana Energi Lestari (KEEN) focuses on run-of-the-river (RoR) hydroelectric systems for all its plants – deemed the safest method for protecting the surrounding environment. All its power plants are constructed under a build-own-operate-transfer contract and it sells the electricity produced solely to Perusahaan Listrik Negara (PLN). The company has an ESG score of 3.2.

i. E: KEEN is fully committed to developing its business, ie to provide electricity through renewable methods (eg mini-hydro, solar photovoltaic or PV, and biomass) with a minimum impact to the surrounding environment.

ii. S: Each year, KEEN remains committed to implementing various corporate social responsibility programmes. The goal is to provide benefit to employees while creating prosperity and economic empowerment.

iii. G: The board of commissioners performs and functions independently, based on the company's Articles of Association, as well as appropriate laws and regulations. This is based on the principles of good corporate governance.

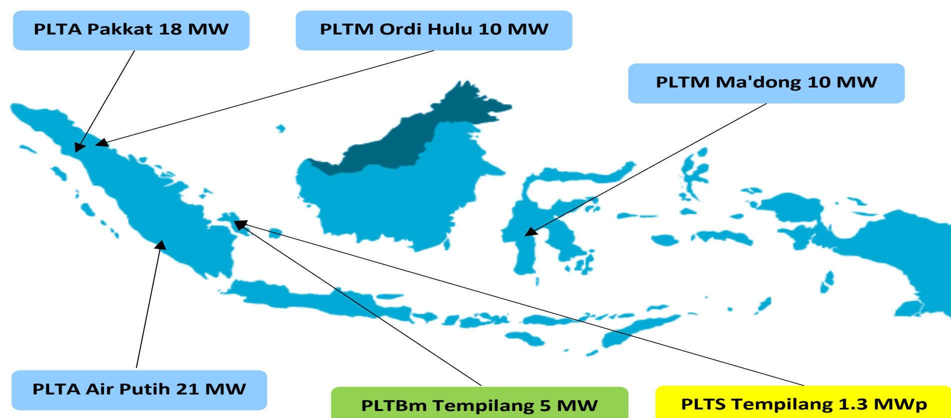
A fair choice for ESG play. Since its inception, KEEN has had ambitious targets. It was listed as among PLN's partners to develop hydropower plants in Indonesia – KEEN has been assigned to produce c.500MW (54MW currently produced, 10MW just completed construction) of RE in the future, although no fixed dates were given by PLN for the power purchase agreements (PPA).

Strong funding secured, no plans for any corporate action. Management is still relying on bank loans – mainly with Bank Mandiri (BMRI IJ, BUY, TP: IDR7,770) and Sarana Multi Infrastruktur (SMI) – with fair interest rates (c.5% pa), which it believes is enough to support expansion plans (c.USD2m per additional MW, c.20% by equity, internal rate of return above c.10%). In terms of operations, despite the drier weather this year, KEEN has been able to fulfil its base capacity contract with PLN so far (at c.65% of the utilisation agreement), with annual output generated at 257GWh (excluding excess output).

Valuation: Our IDR1,300 TP is derived from DCF (c.11% WACC, 3% TG) and target P/E (c.11x; c.35% P/E discount to closest peers) with potential EPS at c.IDR150 (FY23-24F average). We believe KEEN's earnings growth momentum is still feasible (FY23F net profit: 38% YoY). We only included a potential revenue hike from the recognition of construction progress for a hydropower plant (more than 35MW) in North Sumatra (Pakkat 2; c.USD230m in total for the next three years, still waiting for PPA signing) and did not include two other power plant projects in Sulawesi. However, we see additional electricity sales from the completed Ordi Hulu project (c.10MW) – bringing it to a total of c.64MW capacity running at the start of this year.

Risks to our recommendation. KEEN is exposed to changes in macroeconomic conditions during an economic downturn. It is also subjected to risks when drastic changes are made to laws that affect the company's field of business.

Figure 26: KEEN's operational assets



Note: PLTA: Hydro-power (above c.10MW capacity), PLTM: Mini-hydro, PLTS: Solar PV, PTLBm: Biomass
Source: Bloomberg, RHB

- The company has a total of 54MW capacity running to date (from Pakkat, Ma'dong, Air Putih, and Tempilang's biomass). Ordi Hulu (10MW) has just finished its construction and is expected to be operational this year.
- KEEN's electricity production grew significantly in the past four years from 104GWh (including excess output under a take-or-pay scheme to PLN) in 2019 to 311 GWh in 2022.

Mitra Keluarga Karyasehat (MIKA IJ, BUY, TP: IDR3,300)

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Company description and ESG analysis. MIKA is a leading hospital player, with 30 hospitals as of 2023. It operates hospitals in Java. MIKA is well-positioned to fulfil its commitment to providing service quality – to both BPJS (government healthcare scheme) and non-BPJS patients, and delivering a superior margin profile. The company has an ESG score of 3.3.

i. E: MIKA has made efforts to reduce electricity consumption and improve emission levels. It has a clear policy on waste management procedures, given the hazardous nature of its medical waste.

ii. S: MIKA implemented corporate social responsibility programmes to create a positive social impact, especially in community healthcare and education. There are no major issues between employees and employers. It consistently complies with the latest regulations on safeguarding employee health, safety, and welfare.

iii. G: MIKA continues to comply with current regulations, ie regularly conducting shareholder meetings and ensuring the equal distribution of public information to all shareholders. All capital market participants can access its disclosed information. Access to management is available via quarterly analyst meetings.

Maintaining ROE at c.17% in 2024. We expect MIKA to record healthy ROE levels ahead, mainly driven by its thick margin profile, prudent expansion plan, ability to offer premium quality services, and solid operating efficiencies. Note that the company possesses the highest EBITDA margin among domestic peers.

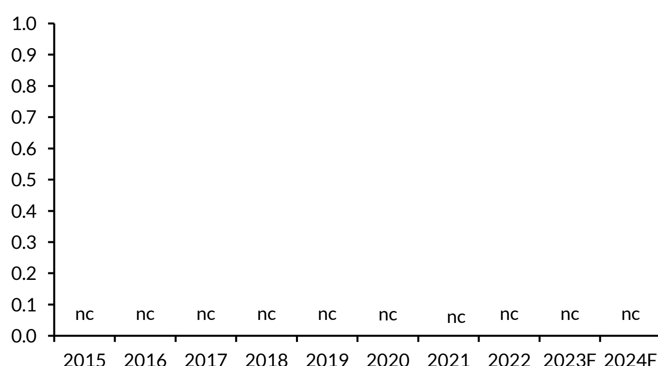
The company has recorded net cash position. MIKA maintains a healthy balance sheet profile by recording a net cash position since 1Q16 – which helped finance its expansion through internal cash reserves. During 9M23, the company had c.IDR1.3trn in net cash. Prudent expansion plans (1-3 new hospital openings) and strong cash flow generation from a thick margin profile should sustain its ample liquidity. Note that the company is mulling over acquisition strategies, which should pose no issue, owing to this ample cash pile.

Margins: Multiple strategies to bolster margin. MIKA has better scale, on the back of improved patient traffic (expedited during the COVID-19 period), with one new hospital to achieve EBITDA-positive levels by 1Q24, and the opening of a new centre of excellence. It also plans to add 250-300 beds across existing hospitals, to cater for more non-BPJS and general patients (excluding maternity and paediatric cases) and beef up margins. The Kasih Group's EBITDA margin was c.25% in FY23, with MIKA aiming to improve it to low-30% levels. The company also sees potential from the improvement of the coordination of benefits (COB) scheme, which fetches strong margins. COB's revenue reached 5-6% in 9M23, and MIKA expects it to grow further. MIKA has received interest from corporate and private insurance companies to collaborate on this scheme, and is revamping marketing strategies and several hospital features to capitalise on this opportunity.

Premium valuation is warranted owing to strong profitability. The stock is trading at 21-22x 2024F EV/EBITDA, at around -1SD from its 5-year mean. Though MIKA's valuation is higher vs its peers, we deem this is justified in light of its thick EBITDA margin.

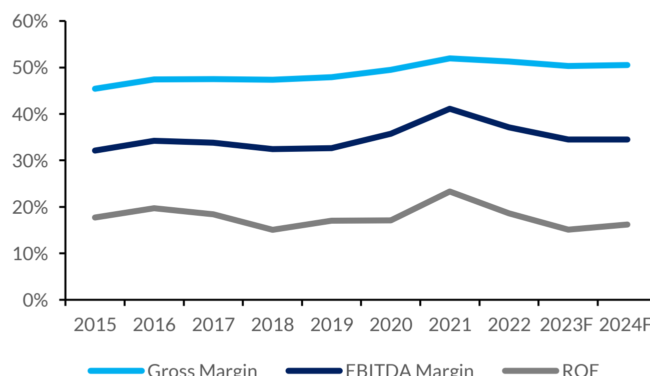
Risks to our recommendation are slower expansion plans, market competition from other hospital players, and risks related to diversification to ex-Java areas. Planned new hospital openings are still concentrated in Java areas, which already has intense competition.

Figure 27: Net debt / EBITDA trend



Source: Company data, RHB

Figure 28: Chart margins and ROE profiles



Source: Company data, RHB

Sumber Alfaria Trijaya (AMRT IJ, BUY, TP: IDR3,500)

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Company description and ESG analysis. Sumber Alfaria Trijaya is one of the biggest mini-market store chains in Indonesia, with several store formats. We see AMRT as a key beneficiary of the rising popularity of the modern trade format – especially mini-markets. The company has an ESG score of 3.0.

i. E: Actions taken to create an environmentally friendly office culture or green office, are seen through the implementation of zero-waste lifestyles via the 5R policy – Reduce, Reuse, Recycle, Rethink, and Repair.

ii. S: AMRT interacts closely with consumers at all levels of society, business people in its supply chain, and local communities in its operational areas. AMRT hopes to benefit the community via a variety of corporate social responsibility initiatives as outlined in its goals and strategies. It believes these programmes can contribute positively to society.

iii. G: Consistent and continued application of good corporate governance best practices are not only carried out as a form of compliance with prevailing rules and regulations, but with full awareness to ensure all activities are done in a correct and ethical manner.

ROE could reach c.25% in 2024, higher than the 2012-2022 average of c.16%. We are positive on AMRT's outlook, given its ability to leverage on its vast network and customer proximity – factors that facilitate strong bargaining power vs other fast-moving consumer goods (FMCG) players and firms seeking to get closer to consumers. Strong revenue generation from steady SSSG, continued store openings, and strategies to improve its margins should support its performance.

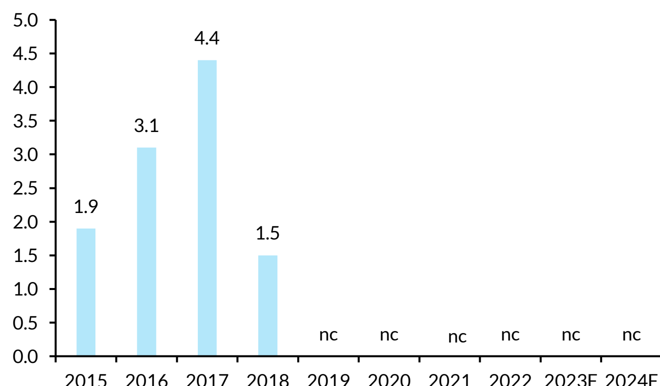
Indebtedness: AMRT has ample cash. We expect the company to continue being in a net cash position – as it has been over the last five quarters. In 9M23, AMRT had c.IDR3trn in net cash. Its healthy cash conversion cycle, strong cash flow generation, and manageable capex should keep its balance sheet in check to support its future expansion plans.

Margins: Various initiatives to improve profitability. AMRT booked a 20.9% GPM in 3Q23 (2Q23: 20.7%, 3Q22: 20.2%). Margin improvement was mainly attributed to its back margins, given its greater scale which led to stronger bargaining power over suppliers. Its massive store expansion plans should also help boost its negotiation power, leading to stronger margins. The company has several initiatives in place to improve profitability, mainly focusing on reviewing its logistics costs and employee productivity levels. Solid gross margins, digitalisation strategies, strong income from fee-based transactions, and other operational efficiency strategies should strengthen its net margin to 3-4%. This is higher than the 2012-2022 levels of 1-2%.

Premium valuation is justified. AMRT trades at c.26x 2024F P/E – below the regional peer average but higher than that of local retailers. We believe AMRT's premium valuation is justified, as we expect it to book c.22% earnings CAGR over 2023-2025 vs average local retailers' 15%.

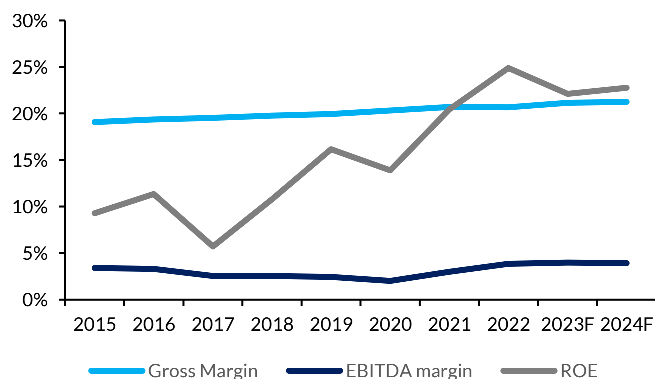
Downside risks to our recommendation include execution risks due to slower-than-expected expansion plans, weaker-than-expected purchasing power, and unfavourable changes in government regulations that impact the opening of its new stores.

Figure 29: Net debt / EBITDA trend



Source: Company data, RHB

Figure 30: Chart margins and ROE profiles



Source: Company data, RHB

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