2 February 2024

Market Outlook | Event

Market Strategy

Small Cap Corporate Access 2024 – Key Takeaways

- **SCCA 2024.** Our fourth instalment of RHB Small Cap Corporate Access (SCCA 2024) was held on 30 Jan 2024. The event featured 16 corporations from Indonesia, Malaysia, Singapore and Thailand. About 158 fund managers and analysts across the region attended the event to gain insights and obtain a deeper understanding of the latest developments from these corporations. We note that market sentiment and activities have picked up of late, thanks to renewed investor confidence on the global economy, the more dovish tone in the US monetary policy, China's economic recovery, improvement in emerging market trade activities and bottom-up company-specific catalysts.
- **Reasons to be more optimistic.** RHB's house view on the US monetary policy has turned more dovish. This, coupled with the re-acceleration of global growth, should lend support to a more upbeat market expectation. While equity markets often get direction from a combination of external and domestic factors, the focus on corporate fundamentals and earnings could be key in 2024 as the global economy stabilises and fund flows into emerging markets recover.
- **Various growth opportunities.** Most of the companies featured in SCCA 2024 share a promising future, with their own strategies to capture the various growth opportunities. New market penetration, product diversification, capacity expansion, production capacity relocation, favourable government policies and foreign direct investments are among the strategies taken to chart their next chapters of growth. While material prices are less of a concern these days and elevated labour costs are a new norm moving into 2024, decelerating economic growth, high inflation and volatile FX rates and certain demand uncertainties remain the key challenges highlighted.
- **Curated to meet everyone's need.** This year, we featured companies from various sectors including healthcare, industrial products, oil & gas, technology, consumer products, consumer discretionary, financial services, construction, real estate and financial institutions. As there is no one size that fits all, we tried to present a wide range of investment ideas to suit the diverse pool of investors with different mandates. The snapshot of the 10 companies from Malaysia, as well as two each from Indonesia, Singapore and Thailand is shown in Figure 2.
- **The key takeaways** from the respective breakout sessions are summarised in the subsequent pages. We highlight a few names that caught our eye:
  i. **Indonesia: Bank Tabungan Negara (BBTN IJ)** has completed Phase 1 of its distressed asset sale that is set to reduce NPLs. The expected cut in the Bank Indonesia rate in 2H24 will reduce the cost of funds. 2024 loan growth of 10-11% is expected to be mainly driven by mortgages. It intends to expand its new business segment by increasing the customer base and focusing on high-ticket lending products for the emerging affluent market.
  ii. **Malaysia: MCE Holdings (MCE MK).** We see sustainable earnings growth potential led by content growth, market share gains from local marques, parts localisation, the tremendous upside in the EV space and expansion plan on top of favourable industry megatrends and government policies, coupled with its below-peer valuation and sturdy balance sheet.
  iii. **Singapore: United Hampshire REIT (UHREIT SP)** offers attractive double-digit dividend yields (based on 1H23 results). The REIT's differentiated portfolio (22 assets) of grocery-anchored shopping centres and self-storage assets – all in the US – should benefit from resilient consumer spending. It is trading at an attractive >30% discount to book value.
  iv. **Thailand: Srinanaporn Marketing (SNNP TB).** The leading snack manufacturer could apply its strength and business transformation to become a regional snack player. 2024 earnings could be driven by both local and international markets – new product launches, higher utilisation rates for its new facilities in Vietnam, and wider GPM from rising exports. Its oversea business expansions provide vast room for growth in the long term.

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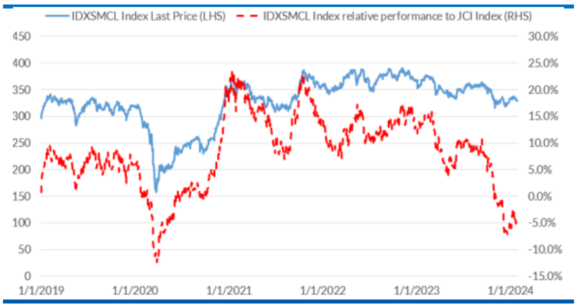
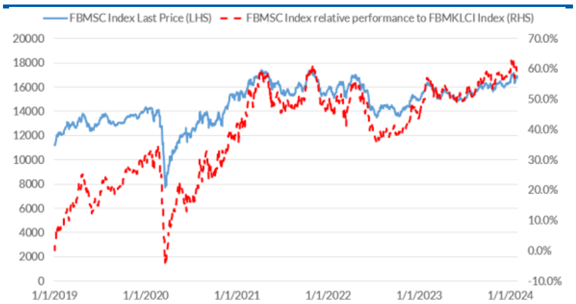
Performance of Indonesia's small-cap index



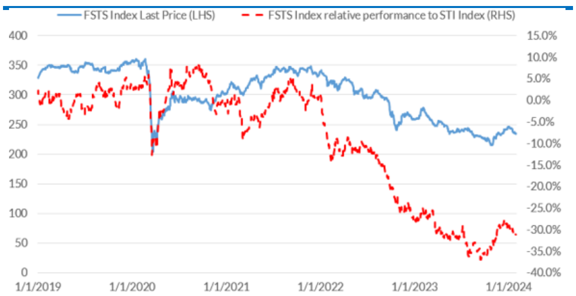
Source: Company data, RHB

Performance of Malaysia's small-cap index



Source: Company data, RHB

Performance of Singapore's small-cap index



Source: Company data, RHB

Performance of Thailand's small-cap index

Source: Company data, RHB

RHB Small Cap Corporate Access 2024

Figure 1: RHB Small Cap Corporate Access 2024

Source: RHB

Figure 2: Snapshot of featured companies

Company Name	Bloomberg Ticker	Sector	Last Price (Local Currency)	P/E (x) Actual	P/BV (x) Actual	ROE (%) Actual	Yield (%) Actual
MCE Holdings	MCE MK	Industrials/EMS	1.72	12.26	0.60	6.52	0.87
Avaland	AVALAND MK	Real Estate	0.27	883.33	0.44	0.06	N/A
Rohas Tecnic	RTEC MK	Construction	0.39	31.30	0.55	1.75	N/A
Icon Offshore	ICON MK	Energy	0.82	2.77	1.22	41.75	6.10
Focus Point Holdings	FPHB MK	Consumer Discretionary	0.72	11.61	3.25	28.60	4.20
Karex	KAREX MK	Health Care	0.81	63.39	1.78	2.86	0.62
MSM Malaysia Holdings	MSM MK	Consumer Staples	2.36	N/A	1.10	-9.19	N/A
YBS International	YBS MK	Industrials	0.69	685.00	2.44	0.30	N/A
Cnergenz	CNERGEN MK	Technology	0.58	17.21	1.79	10.30	1.38
Autocount Dotcom	ADB MK	Information Technology	0.64	N/A	N/A	93.30	3.13
Econ Healthcare Asia	ECON SP	Health Care	0.20	10.64	1.33	12.83	1.15
United Hampshire US REIT	UHU SP	Real Estate	0.51	12.53	0.67	5.41	10.39
Bank Tabungan Negara	BBTN IJ	Financials	1305.00	5.50	0.55	12.17	3.33
Puradelta Lestari	DMAS IJ	Real Estate	161.00	7.33	1.36	17.86	13.66
SCG Decor	SCGD TB	Industrials	9.10	N/A	N/A	N/A	1.48
Srinanaporn Marketing	SNNP TB	Consumer Staples	18.60	28.67	5.86	20.61	2.25

Source: Company data, Bloomberg

Key Takeaways From Breakout Sessions

MALAYSIA

MCE Holdings (MCE MK)

Tier-1 manufacturer of electronic and mechatronic auto parts

- Being a Tier-1 manufacturer grants MCE significant vertical integration capabilities, which makes for it having greater control over business processes.
- The lifespan of its products is long (5-10 years) while demand for them is sticky. Note that the design of these products belongs to MCE.
- Associated risks include higher initial investments required and longer product development periods.
- Management does not see many direct competitors in this space. Depending on what the product is, there may be competitors in some areas, due to the dual-vendor policies of some clients. That said, MCE is the dominant player in each product category – from switches to sensors and cameras.

National car segment expected to continue expanding

- Despite TIV being anticipated to peak in 2023, the national car segment continues to gain market share, with double-digit growth forecasted by MCE's own customers.
- The value of products like parking sensors and cameras sold per car is also expected to increase. The sourcing cost of electronic products, currently at around 30-40%, is projected to rise further – driven by consumer demand for technology-enhanced vehicles.
- MCE is currently supplying parts to 2-wheeler (2W) vehicles in Indonesia. It is also trying to make inroads into Malaysia's 2W market as well.
- Proton and Perodua are expected to introduce affordable EV models some time in 2025. As such, MCE is expected to benefit from the rollout of affordable local EVs, based on its competency in electronic parts and its sturdy track record.
- Also, due to its experience in dealing with China companies, management is confident that it will stand to benefit greatly if more localisation of parts used is implemented. Management expects to see 10-20% revenue exposure to the EV vehicle segment in 3-5 years.

Expansion plan

- A new third factory building has been constructed to provide additional space for the production of complex technological items and hi-tech electronic manufacturing, especially for export.
- The overall utilisation rate is currently at an average of 70% (based on a 5-day work week). Management believes there is further room to ramp up the utilisation rate.
- MCE is actively exploring opportunities in Indonesia and India (it has existing partnerships in Indonesia) and plans to establish a new JV company in India to facilitate further growth opportunities.

Business as usual

- Management reassured us that operations are running as usual despite the Daihatsu scandal, with no disruptions to orders or sales.
- It expects to chart double-digit revenue growth in FY24, while its overall GPM is expected to be maintained despite the usual product cost-down initiative.

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Avaland (AVALAND MK)

Revamped internal operations

- Avaland has undergone a major transformation since Ayala Land – the Philippines' largest property developer – became the majority shareholder in 2018.
- A major change for the group has been the divestment of its internal construction arm. Management now outsources the construction works of all its projects to external parties. This is because the group's older properties frequently suffered from defects, resulting in high costs even after the handover of projects.
- All projects launched since 2019 have been outsourced to external parties with a key requirement of achieving a Quality Assessment System in Construction (QLASSIC) score of at least 75% to ensure product quality.

Building its brand equity

- Avaland is building its brand equity through quality product development – this is reaffirmed by the multiple awards won for its projects.
- The group's developments are categorised into three main segments: Ava Luxe (c.MYR1.5m per unit), Ava Prime (>MYR500k per unit), and Ava Ria (<MYR500k per unit). All of its ongoing projects have received GreenRE ratings.
- Take-up rates have been strong – Aetas Damansara, the group's first luxury development launched in 2020, was well-received with a take-up rate of 98%. The project caters to market demand with features such as private lifts for all units.

Pipeline

- Historically, the group has been active in Cyberjaya and Subang, both to the south of Kuala Lumpur. However, in recent years, the group has secured landbank in Bangi, Seputeh, and Taman Desa, gradually moving closer to Kuala Lumpur.
- 1Q24 should see the launches of three new projects in each of the three segments – Amika (GDV: MYR452m), Anja Bangi (GDV: MYR563m), and Aetas Seputeh (GDV: MYR365m).
- For long-term growth, Avaland plans to grow its unbilled sales with 2-3 launches per year. However, for now, landbanking activities will be focused in the Klang Valley.
- Management believes that launching multiple projects simultaneously will allow for bulk purchases of materials, resulting in improved margins.

Financial results

- 9M23 revenue of MYR347m has surpassed FY22's MYR225m turnover, primarily due to increased billings from Aetas and Alira. Consequently, 9M23 revenue has grown to MYR28.5m (FY22: MYR7.1m).
- FY23 sales stood at MYR586m – the highest in the past five years. Unbilled sales grew to MYR867m, at 1.5x FY23's sales.
- Management expects to achieve MYR700-800m in sales for FY24, given the three pipeline projects.
- Despite the strong earnings momentum, management guided that it will resume dividend payouts only in FY25 or FY26, as Avaland is on a growth trajectory and land acquisitions are the priority.

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Rohas Tecnic (RTEC MK)

Update on Rohas Tecnic's financial performance and business

- RTEC is a diversified group involved in the fabrication of steel structures for telecommunication companies (telcos) and transmission lines (also known as its manufacturing arm; 30% of FY22 revenue) and EPCC of water projects, and telecommunication and transmission lines (69% of FY22 revenue). RTEC also has a utilities arm (1% of FY22 revenue) that operates a mini-hydropower plant in Indonesia, an independent tower company in Cambodia, and a company that supplies treated water in Vietnam.
- Profitability-wise, the normalised PBT margin for the manufacturing arm is in the range of 18-25% (with transmission lines commanding higher margins) while the EPCC segment has a normalised PBT margin of 8-12%.
- As for the utilities business (which is recurring in nature), the mini-hydropower plant in Aceh, Indonesia, has a MYR4m PBT contribution annually. Meanwhile, the water supply and distribution project in Vietnam, and the tower company in Cambodia, contribute MYR1-2m to PBT annually.
- For its 7.7MW mini-hydropower plant in Aceh, RTEC has the most favourable rates in Indonesia. When it secured the project a few years ago, the tariff was set at USD0.13 per kWh. However, the Indonesian Government has since reduced the tariff to USD0.09 per kWh. Nevertheless, the group continues to benefit from a competitive price advantage in the country.
- RTEC's revenue has been showing YoY declines for the past three quarters due to the slower rollout of projects by Tenaga Nasional (TNB MK, BUY, TP: MYR11.80) in 2023. Meanwhile, the towers to be deployed for Digital Nasional's 5G rollout will be from telco operators' existing towers. In particular, the brand new 5G towers number only in the hundreds, with RTEC building about 60% of them – this is not that sizeable. Only the rollout of telecommunication towers from JENDELA has been rather decent in 2023, but these have slowed down towards the end of last year with no major rollouts yet to be seen for 2024.

Orderbook update

- In Jan 2024, RTEC secured a MYR200m job to build the façade of the Bukit Chagar Station for the Rapid Transit System Link Johor Bahru-Singapore Project (RTS Link project) via a JV with SediaBena Builders. Contributions from the project will come in 2H24, given the project's short timeline (targeted completion by May 2025). As such, based on our estimates, RTEC's orderbook now stands at c.MYR500m.
- This is the first time that RTEC is involved in the provision of steel structures for a building as opposed to towers. Looking ahead, management could likely further diversify the group's activities into building related projects following its debut in the RTS Link project.
- RTEC's estimated outstanding orderbook is broken down into manufacturing of towers (telecommunications and transmission; MYR100m), EPCC of transmission lines (MYR160m), RTS Link project (MYR200m), and water and tower installation projects (MYR40m).

Job prospects and strategy

- For FY24, RTEC targets to win another MYR300-400m worth of new jobs (in addition to the RTS Link job).
- On its tenderbook, there are about MYR90m worth of new orders for towers in the pipeline. Meanwhile, TNB is set to put up tenders for a transmission grid in West Malaysia's northern portion, ie the areas connected to Thailand (estimated value at MYR100-200m). Other opportunities include water supply and flood mitigation projects that could be worth MYR400-500m in total. For its overseas jobs, RTEC is now focusing less on EPCC jobs in Bangladesh, given the intense competition and low margins there.

- The National Energy Transition Roadmap or NETR could provide opportunities in terms of renewable energy (RE) zones. These will run parallel with the conventional transmission grid – requiring extra transmission lines to be built.
- TNB's capex plan also highlights that c.MYR54bn will be allocated towards the conventional grid while MYR35bn is to be used for energy transition-related initiatives. Henceforth, the next decent-sized project coming up for prequalification would be by Mar 2024 – potentially giving way for more transition grid-related projects in 2024 and 2025. This could flow into RTEC's EPCC and manufacturing business orderbook.
- Additionally, RTEC's forte in the EPCC transmission line segment could enable the group to participate in transmission grid-related projects for RE zones in New South Wales, Australia. Since Australia did not have much emphasis on transmission grids – aside from its inhabited areas – there are not that many local contractors heavily focused on such grids. As such, tenders to build new transmission grids have been opened up to international contractors. The request for proposal for transmission grids in RE zones may come in 2Q24 or 3Q24, with awards likely to be given in 2025.

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Icon Offshore (ICON MK)

Vessel and financial performance

- ICON has an active fleet of 18 OSVs – these comprise of 13 anchor-handling tug supply (AHTS) vessels, two platform supply vessels (PSVs), and three accommodation work barges (AWBs). OSV utilisation is at 86% as of 3Q23 (3Q22: 86%, 2Q23: 84%). This brings the group's 9M23 utilisation rate to 81% vs 84% in 9M22.
- 11 vessels are under the Petronas Integrated Logistics Control Tower (ILCT) Production Operations Vessel (POV) contract, two more are on long-term (LT) contracts in Brunei, and five are on spot charters (with one vessel finishing its LT charter). The group targets to keep its utilisation for 2023 and 2024 at over 80%, if not slightly higher.
- Its 9M23 earnings declined YoY, mainly due to the disposal of its rig that was completed in Dec 2022. Stripping out rig contributions, 9M23 revenue rose by 10% YoY (9M22: MYR143.2m) from an improvement in daily charter rates (DCR) for its spot charter vessels, which masked the marginally lower utilisation rate.
- Additionally, the group changed its vessels' estimated useful life to 20 years from 25 years to be in line with Petronas' policy, which resulted in additional depreciation of MYR1.8m in 3Q23. This affected PATAMI and increased its finance cost on account of the rise in the overnight policy rate or OPR, as well as due to lower contributions from vessels working in Brunei as a result of the late start in chartering.
- The group's orderbook value came up to MYR444.8m as at 3Q23, with 99% accounted for by LT charters.
- On ESG, ICON focused on five topics in 2022-2023: i) Climate change, ii) occupational health and safety, iii) talent attraction and retention, iv) waste and pollution management, and v) management of air emissions. The group guided that it is on target to meet its ESG KPIs.

Strategic roadmap for 2024

- In Brunei, the group looks to maximise its rates for LT contracts as well as spot charters. Two of its AWBs will continue on their term contracts in Brunei for 2024.
- In Malaysia, ICON will maximise its utilisation and leverage on the projected higher DCR for both the Petronas ILCT POV and spot charter vessels. It is also potentially reactivating two laid-up vessels (expected to cost c.MYR6m or slightly more per vessel). These two will be on spot contracts or as replacement vessels, and one of the pair is expected to be deployed in March. ICON will also be redeploying its AWB vessel (previously working in Brunei) to the spot market.
- The key focus will be on the Petronas ILCT POV tender, which expires in June. The new POV contract is expected to come with a higher DCR, and a tenure of 3+3 years. Results are expected in 1Q24. ICON expects to deploy the same number of vessels under the ILCT contract as it believes that there is a need to have a few vessels on spot rates to leverage on the higher DCR, albeit with a likely lower utilisation rate.
- The group expects its EBITDA to strengthen, primarily driven by a higher DCR which would absorb the expected cost increases.
- Prior to the new ILCT tender, the DCR rose by 15% YoY in 2023 and by another c.5% YTD. Note there is a c.30% difference between its LT and spot rate. Also, recently, its AWB's daily charter rates for operations in Malaysia outpaced that in Brunei by about 10%.
- Moreover, the group is looking into hydraulic workover units or HWUs via a potential acquisition from an existing player or through organic growth. Given its improved gearing ratio, ICON is also looking out for potential M&As or investments.

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Focus Point (FPHB MK)

Optical segment – banking on a growing population of people with myopia

- FPHB aims to open 10 wholly-owned outlets and 10 Sight Savers franchise stores for this segment. Management believes that its current market share is around 20%, and there is room for further growth, especially given the unsaturated market.
- It believes that the eyewear industry is growing rapidly in tandem with the increasing number of people with myopia, particularly in the digital age post-pandemic. Hence, it expects sales in this segment to be stable and resilient.
- Its more aggressive franchise expansion plan for FY24 specifically targets ramping up the number of its street shops. Management believes that this is an untapped segment that it may have overlooked in the past, as the majority of the current stores are located in shopping malls. Meanwhile, the associated risk of opening street shops is lower – given the lower capex requirement and easier hiring process.
- Management expects to record strong single-digit SSSG from this segment. It also expects operating costs to increase at a more stable 5-10% YoY, primarily due to rental and wage costs. It has allocated a capex of MYR16m for expansion and store renovations for this segment.

F&B business a secondary growth engine

- After recording a 9M23 segmental LBT of MYR1.2m, management expects to see an earnings turnaround as the issue of excess workers – originally hired to cater to a new customer – was resolved in Sep 2023.
- We understand that the business-to-business or B2B unit is still growing, with existing client sales improving. In the meantime, management is actively pursuing new clients for the central kitchen operations concurrently.
- FPHB aims to expand the Komugi retail outlets by adding 3-4 new stores this year, taking a more cautious approach compared to the optical segment, as it requires more effort and careful management to minimise wastage and ensure consistent quality.
- Long-term goals include increasing F&B revenue to 40-50% of total revenue (FY22: 15%).
- FPHB plans to launch its pilot frozen yogurt brand in Mid-Valley Megamall in March. Despite moderate competition with market leader llaollao, FPHB intends to offer its products at prices that are 20% lower than the former, while maintaining high-quality ingredients. If successful, this venture could result in the opening of 3-5 new stores in FY24, with an estimated capex of MYR250k per store.
- The overall capex for F&B will be MYR3m, which should be sufficient for its store expansion.

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Karex (KAREX MK)

Better outlook ahead post pandemic

- The condom industry has gone through several challenging years due to the COVID-19 pandemic. The condom market tapered off by close to 40%, partly due to the Government diverting its funds for HIV prevention to COVID-19-related expenditure.
- Management noted that the industry has seen quite a consolidation throughout the pandemic years, with smaller factories in China, Malaysia and Europe being shut down. This has resulted in Karex being in a better position as the company has seen a recovery with FY23 PAT at MYR10.5m vs FY22 LAT of MYR6.2m.
- Its personal lubricant division has also been gaining traction, which made up c.10% of FY23 revenue. Management noted that this is an interesting division as demand in general has been healthy with the increased usage as well as a pick-up in sexual health awareness.
- The OEM segment remains significant for Karex, accounting for c.60% of its revenue, with gross profit margins of more than 25%.

Launch of new synthetic product

- Despite not being new to the market, synthetic condoms are still a relatively small segment – its raw materials are dominated by two types of polymer materials ie polyisoprene and polyurethane, which cost more than natural latex.
- Management highlighted that while natural latex condoms are affordable, synthetic condoms are preferred due to the latter's better pull factor and heat transferability. Karex is currently developing a new type of synthetic condom with a different polymer used for its new synthetic product.
- Management believes that the cost of this polymer is cheaper than natural rubber and could potentially replace natural rubber condoms in the future. Moreover, synthetic condoms can be sold at a higher ASP, given customer preferences. It anticipates that the new product will be able to garner GPMS of 60-70%.
- It also noted that the new synthetic product will likely be first marketed to the OEM segment instead of the tender and own-brand segments. This would help global brands transition faster to synthetic condoms to replace natural rubber condoms.
- The new product has gone through two rounds of clinical trials undertaken by professionals to gather data and analysis for efficacy and safety. Management is hopeful that it will able to launch its product in 1-2 small markets by June this year.

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YBS International (YBS MK)

At a glance

- YBS International's main activities are precision mould design & fabrication, precision injection moulding, precision stamping, and the manufacturing of corrugated cartons and honeycombed paperboard.
- Key segments served: Aerospace and security, automotive/transportation, telecommunication and IT, office and home appliances, life sciences, and medical and semiconductor.
- For its existing businesses, management notes that the performances from the aerospace and automotive segments remain robust, while contributions from the telecommunications segment are still weak.

Venturing into battery contract manufacturing

- YBS has entered into a deal with Enovix Corp, a US-listed advanced silicon battery company, to set up a high-volume lithium-ion battery manufacturing facility in Penang. Mass production of such batteries is expected to commence in Apr 2024. The total investment for this new manufacturing facility is approximately MYR660m. The contract agreement comes with a take-or-pay clause with a guaranteed volume of up to 75% to mitigate the risk associated with such a project.
- The capacity of this facility, which will initially be equipped with four lines, is estimated to be 1,350 units per hour for each line. Management anticipates utilisation at 50% in the first year, followed by 75% and 85% in the second and third years. Potential revenue per line could fetch USD50-100m pa at a capacity utilisation rate of 85%.
- YBS believes that once production commences, this segment will supersede its existing businesses – and will contribute positively to its topline growth. Meanwhile, PBT margins should hover at around the industry norm of 4-6%, based on the guaranteed output. Management highlighted that one miniature battery unit is priced at c.USD5 on average, while a medium-sized one is priced at c.USD10 per unit.
- The focus of this segment will be on wearables and portable devices such as smartwatches and smartphones, as well as wireless earphones. At this juncture, YBS does not intend to venture into EV battery manufacturing, given the high proportion of raw materials for each battery – China, it believes, has the upper hand when it comes to raw materials. Management said the target markets for this new venture would mainly be the US and Europe.

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Cnergenz (CNERGEN MK)

Well-established EMS provider with a network of reputable clients

- Cnergenz offers integrated solutions for the development and commissioning of production line systems (38.5% of FY22 revenue), sells and customises surface mount technology (SMT) machinery (56.8% of FY22 revenue), as well as provides technical support and training services (4.7% of FY22 revenue). The group currently has a presence in Malaysia, Thailand, and Vietnam.
- Cnergenz has a diverse client portfolio, with over 115 customers spanning both local and international markets. These clients are distributed across various industries, including automotive, industrial, aerospace, medical, semiconductor, consumer electronics, and telecommunications. This diversity in clientele mitigates the group's exposure to the cyclical nature of any single sector.
- On profitability, management guided that its GPM is stable –at around the mid-to-high teens – while its PAT margin is hovering at the low teens.
- Margins shrank in 3Q23, mainly due to a less favourable product mix then. The group's general and administrative expenses also rose, driven by a higher staff headcount, and elevated administrative expenses associated with exhibition costs.

New business and orderbook updates

- The group has successfully launched its smart factory solutions segment, initiating a smart factory integration project at a facility in Bayan Lepas, Penang, in collaboration with a local 5G network provider.
- While traditional solutions typically entail human intervention to maintain equipment-readiness on production lines, the new smart factory solution segment transforms manufacturing by digitising operations. This entails real-time data provision and centralised factory management via a command centre. This is also expected to widen margins slightly.
- As of end-Sep 2023, the group's outstanding orderbook was valued at MYR33m. Additionally, its tenderbook value totalled MYR150m, with about MYR50m allocated for the conventional business and MYR100m for smart warehouse or factory tenders, both domestically and internationally.

Other catalysts

- The surge in EV adoption within the automotive sector serves as a key growth driver for the group. Given Cnergenz's comprehensive involvement across the automotive production line supply chain – including equipment, screens, light detection and ranging (LIDAR) sensors, and EV charging infrastructure – the company is in a sweet spot to capitalise on the upturn and growth of the EV industry. It is worth noting that the EV industry accounts for c.40% of group revenue.
- The deployment of 5G networks, coupled with advancements in technology such as artificial intelligence (AI) in the computer segment, presents significant opportunities for the group. This demand surge extends across areas including mobile phones, wired infrastructure, photonic solutions supporting high-speed 5G transmission, personal computers, data centres, and high-power computing required to fuel AI innovations.

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Autocount Dotcom (ADB MK)

E-invoice: A gateway to more customers

- Announced in Budget 2024, e-invoice is an initiative introduced to enhance the efficiency of Malaysia's tax administration management, in an attempt to foster the growth of the digital economy. The e-invoice will enable near real-time storage of transactions and will be rolled out as early as 1 Aug 2024 for taxpayers with annual revenue of >MYR100m, and will be made mandatory for all taxpayers from 1 Jul 2025.
- Currently, SMEs make up 97% of total businesses in Malaysia. Being the market leader, equipped with four years of experience operating an e-invoice business in Singapore, Autocount is poised to capitalise on both the e-invoice initiative and the increasing number of SMEs, although detailed figures have not yet been revealed.

Expanding into the ASEAN region

- Despite being the market leader in Malaysia, generating c.MYR30m in FY21 sales and charting a 3-year CAGR of c.15% for accounting software licenses, Autocount can be seen as somewhat negligible in the eyes of global players such as INTUIT and XERO. To further improve its competitive capability, the group intends to establish its presence in Thailand, Indonesia, Vietnam, and the Philippines, financed by its IPO proceeds.
- The software accounting market in these countries is relatively fragmented compared to Malaysia. One of the available software providers is SAP, which can be costly for SMEs. In the Philippines, the lack of companies that comply with the tax authority's requirements eases Autocount's progress in penetrating the market.
- The localisation process in Thailand has reached 80%, while Autocount is in the midst of obtaining a license to conduct sales in foreign countries. The localisation process in Indonesia, however, has just started, and the expenditure related to hiring or marketing is minimal at this time.

Financials and guidance

- Autocount is targeting 20-30% earnings growth in FY24 across the entire group, placing focus on recurring revenue, which accounts for c.23% of total sales. This is further reflected by the strong growth in the cloud segment of 9% QoQ.
- The cloud segment is preferred as it provides Autocount with a consistent revenue stream compared to the sale of licenses, which is a one-off income. Management guided that for a similarly sized customer, the recurring revenue from cloud software would only take about one year to catch up to the higher one-off sale of software licenses.
- As at 3QFY23, Autocounts has a comfortable net cash position of MYR39m, giving the group ample room for any capital expenditure or dividend payouts made to shareholders.

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SINGAPORE

Econ Healthcare Asia (ECON SP)

Largest private nursing home operator in Singapore and Malaysia

- Econ Healthcare Asia is the largest private nursing home operator in Singapore and Malaysia. It also has a presence in China and recently acquired an ambulance service business in Singapore. It runs 13 Medicare centres and nursing homes in all three markets, with a total bed capacity of 1,743 as of 30 Sep 2023.
- Singapore is the largest revenue contributor at 87.2% for 1H24. Medicare centre and nursing home fees represent the largest revenue segment at 98% for 1H24.
- Medicare centres and nursing home fees increased from SGD20.8m in 1H23 to SGD24.4m in 1H24 due to the ramp up of new Econ Care Residences (Henderson), fee increment, and the improvement in home care business.

Growth led by bed capacity pricing increase

- Revenue from Singapore in 1H23 increased, mainly due to the ramp-up of Henderson, which contributed SGD2.4m and SGD0.8m through improvement in the homecare business and fee increment.
- The average bed rate is currently around SGD3,000 per month, while the rate increase for the past three years has ranged between 5% and 7% per year.
- 1H24 occupancy stood at 75% taking into account higher bed count from its new Econ Care Residences (Henderson) home.

Positive outlook on the ageing population trend and expansion to healthcare-related services

- The ageing population trend is driving higher bed demand and long-term growth. Singapore citizens and permanent residents get up to 75% and 50% in government subsidies under the Subsidy Framework for Residential Long-Term Care Services.
- The new ECON Medicare Centre and Nursing Home in Jurong East is expected to be operational in 2026, which will add another 732 beds to its total capacity.
- New ambulance acquisition is expected to be completed soon and will be earnings accretive, as the business is profitable.
- ECON is looking to grow via more acquisitions and venturing into complementary healthcare and eldercare related businesses.

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United Hampshire US REIT (UHU SP)

United Hampshire US REIT is Asia's first US grocery-anchored shopping centre and self-storage REIT with a portfolio of 22 assets across eight states on the east coast. The REIT is backed by two reputable sponsors – UOB Global Capital and The Hampshire Companies.

Portfolio update

- Portfolio occupancy (3Q) for grocery & necessity properties remained high and stable all through the pandemic and now stands at 97.2%. Occupancy for the self-storage segment has also held up well at c.90%. Overall rental reversions are still in the positive single digits.
- Long weighted average lease expiry profile of 7.2 years provides income stability. The leases are on a triple-net basis – with tenants bearing any operational cost increases – and do not have any break clauses. In addition, the leases come with a built-in rental escalation of c.3% pa.
- Strong US economic GDP growth and retail sales have resulted in healthy demand for necessity retailers, with underlying performance of anchor tenants still showing healthy YoY growth.
- Minimal impact from e-commerce, with tenants leveraging customer experience with omni-channel retailing experience.
- Minimal lease rollover (<5%) until 2027, and therefore there is limited risk of occupancy decline. Completed three accretive acquisitions and three divestments since IPO in 2020.

Financial update

- High fixed-rate hedge of 80.9% with c.93% of debt maturing in Nov 2026 or later. There is a small mortgage loan of USD21m due in 2024, which is expected to be refinanced.
- Financing cost of 4.04% pa is not expected to increase significantly in the near term as there are minimal refinancing needs, and as interest rates will likely peak with rate cuts anticipated later this year.
- Aggregate leverage slightly on the higher side at 41.7%, but management is comfortable with asset quality. Despite some cap rate expansion expected, overall asset valuation is unlikely to decline significantly (>5%).

Dividend and valuation

- The REIT offers healthy double-digit dividend yields of >10%, based on 1H23 annualised distribution of 5.62 cents and trades at a c.31% discount to book value of USD0.74, based on the last closing price.

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INDONESIA

Bank Tabungan Negara (BBTN IJ)

11M23 results

- Loans at Bank Tabungan Negara (BBTN) increased 10.9% YoY in Nov 2023 to IDR327.9trn, in line with expectation, and driven by 10.7% and 19.8% YoY growths in mortgages and high yield segment. Strategic initiatives to focus on high-yield loans – subsidised micro loans (KUR), home equity loans (KAR), and soft loans (KRING), resulted in higher loan yields of up to 8.16% for 11M23 (vs 11M22: 8.06%).
- In 2023, BBTN expanded its online presence by adding BTN Mobile and e-deposit users. As of Nov 2023, the new BBTN Mobile Apps had acquired 1m new customers. In 11M23, total transaction volume increased 38% YoY to IDR51trn, with a total transaction of 385m (+121% YoY).
- BBTN's strategy of focusing on low-cost funding (CASA + retail deposits) resulted in an increase on CASA ratio to 59.9% as of Nov 2023 (vs Nov 2022: 56.1%). CASA increased 11.4% YoY to IDR171.3trn. Total deposits, on the other hand, only increased 2.6% YoY to IDR330.3trn – falling short of management's target of 5-7% growth by end-2023.
- BBTN increased non-interest income by implementing initiatives to boost fee-based income. Non-interest income totalled IDR3.05trn, or 10.6% of total income (+64.5% YoY). Few initiatives to increase fee-based income include expanding trade finance, bank guarantees, intensifying recovery, and adding more features to treasury transactions for retail customers (bond and FX retail).
- BBTN's 11M23 earnings increased 2.1% YoY to IDR2.85trn – within with expectation.

FY24F earnings growth strategy

- BBTN expects to implement additional initiatives in 2024, including improving CASA, accelerating digital banking capabilities, expanding on high yield loans, developing new revenue engines through strategic partnerships, improving collection and recovery capabilities, and strengthening BTN's value proposition to focus on more than just mortgages.
- With the recent adjustment to subsidised housing price caps, as well as government policies and incentives on the property sector, such as 100% VAT discount for the purchase of houses priced below IDR5bn until Jun 2024, we anticipate that these incentives will stimulate housing demand, and BBTN will benefit from this development since c.80% of the bank’s loans are related to mortgage loans.
- 2024 guidance:
    - Loan growth 10-11% (FY23 guidance: 10-11%, 11M23: 10.9%)
    - Third parties fund growth: 8-9% (FY23 guidance: 5-7%, 11M23: 2.6% YoY)
    - NIM: Above or at 4% (11M23: 3.73%)
    - NPL: Below 3% (FY23 guidance: below 3.5%, 9M23: 3.53%)
    - NPL coverage above or at 160% (9M23: 142%)
    - Cost of credit: 1.1-1.2% (FY23 guidance: 1.2-1.4%, 11M23: 1.21%)
    - Net profit growth: 10-11% (FY23 guidance: +/- 8%, 11M23: 2.1%)

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Puradelta Lestari (DMAS IJ)

Updates on Puradelta Lestari

- DMAS booked IDR499bn in marketing sales in 4Q23 (+69% QoQ, -7% YoY), which brought its FY23 total to IDR1.87trn (flat YoY) – in line with expectations.
- Out of 68.5ha of land sold in FY23, 80% of this was for the industrial sector – mainly for the data centre, F&B, and fast-moving consumer goods segments.
- Management said it has received enquiries on c.90ha of land – the majority of which stemmed from data centre companies.
- DMAS' current landbank stands at c.807ha, comprising 274ha (for industrial use), 361ha (for commercial use), and 172ha (for residential use).
- Management is actively hunting opportunities to expand its landbank. It has spotted c.400ha in an area close to the current landbank, which carries a total estimated acquisition cost of nearly IDR3trn on top of infrastructure costs. DMAS still prefers internal cash and debt financing as the preferred means to finance such a huge capex. This is based on the company's current net cash position of IDR948bn as at 9M23.

Our take

- We believe 2H24 should bring more positive catalysts for the sector. A decrease in the level of uncertainty over Indonesia's economy as well as a likely lowering of the Bank Indonesia benchmark interest rate (as expected by RHB economists) should lead to a more supportive environment for more investments to be made in the sector.
- DMAS is one of our sector Top Picks, as its strategic industrial area is located close to Tanjung Priok Port (with easier access via a toll road network). Its industrial estate has well-developed infrastructure (especially for data centres) and ecosystems for the growing automotive and auto parts sector – including all things EV-related. We believe these factors will act as additional catalysts for the company.
- It is worth noting that the company's current industrial landbank can only facilitate sales for another 4-5 years, so it makes the acquisition of nearby land in the medium term a priority. Capex requirements will also start increasing, in our view – elevating concerns over the impact this will have on DMAS' dividend policy.
- DMAS currently trades at a 70% discount to RNAV, which is at a slight premium to its peer average.

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THAILAND

Srinanaporn Marketing (SNNP TB)

Thailand's leading snacks manufacturer

- Srinanaporn has over 30 years of experience in manufacturing and distributing snack and beverage items. Key product lines for beverages include ready-to-drink jelly and flavoured jelly dessert under the Jele brand. Snack products include seasoned cuttlefish under the Bento brand, and extruded biscuits and bread sticks under the Lotus brand.
- As of 9M23, SNNP attained a leading market shares of 78% (for Jele jelly pouch) and a 72% (for Bento cuttlefish) in their own product segments. Total sales for the period grew 12% YoY to THB4.4bn, with net profit growing by 30% YoY to THB471m. It also booked an attractive 28% GPM, 11% NPM, and c.21% ROE. Snack sales contributed 55% while beverages accounted for 45% of total sales. 75% of sales were from the local market while 25% stemmed from exports.
- SNNP is running six production facilities in three countries – Thailand, Vietnam, and Cambodia – for both domestic consumption and export, with a total capacity that could generate up to THB11.5bn in sales. Therefore, it may not need to invest further in production. SNNP could apply its strength as a medium-sized manufacturer with prominent core brands, and its businesses transformation in recent years to become a regional snack player.

Favourable earnings outlook in 2024

- SNNP targets double-digit sales expansion in 2024, to be driven by both domestic and international markets. In Thailand, management is confident the company's performance will be driven by the growing modern retail distribution channel, the tourism industry's recovery, and the launch of new products – including a new category of high-margin food supplements in late-February.
- For overseas markets, sales could be driven by a possible economic recovery and higher utilisation in Vietnam, rising market penetration in China and South Korea, and access to the Philippines. After opening in 2023, SNNP's production utilisation rate for its new facilities in Vietnam may ramp up to c.50% in 2024 from an average 20-30% last year.
- Margin-wise, growing overseas markets offer opportunities to earn wider GPMs. The company does not expect any significant changes in the prices of key raw materials for now. It is also working to control and reduce its opex-to-sales ratio from 2023.
- Seeing better equity profits from its subsidiary distributor Siri Pro, which has restructured its operations. Management expects it to turn profitable by 4Q24.

Seeing long-term growth potential

- SNNP has set a 5-year target of attaining THB8.0bn in total sales by 2026 or a 13% CAGR (2021-2026) – two-thirds from the domestic market and one-third from international markets, with the latter expected to deliver stronger growth (+24% 5-year CAGR).
- In Vietnam, it targets THB2bn sales in 2026 or a strong 43% 5-year CAGR (from THB332m in 2021). Apart from higher utilisation at its new production plant, the planned expansion of its distribution network for general trade retailers throughout the country (from the current coverage of c.30%) provides vast room for growth.
- SNNP is open to M&A discussions, but this is not a priority at this time, as it aims to ramp up production in relation to its 5-year plan and improve operational efficiency.

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SCG Decor (SCGD TB)

Ceramic tile business

- Currently, SCG Decor has an overall production capacity of 187.2m sq m per year. Its production capacities in Thailand and Vietnam are roughly similar, at c.80m sq m each. In the Philippines and Indonesia, it has much smaller annual production capacities at 11-13m sq m each. The average utilisation rate of its regional production capacities has been as high as 81%.
- With its ceramic tile productions in ASEAN countries, SCG Decor has commanded the largest market shares in Thailand (33%), Vietnam (26%), and the Philippines (17%). But it only has a small 4% share of the highly-competitive Indonesian ceramic tile market.
- In FY23, all the ceramic tile markets under SCG Decor's coverage declined YoY. Among its key markets, Vietnam (-29% YoY) was the worst performer due to the unresolved turmoil in the domestic property market, while Indonesia (-7% YoY) and the Philippines (-11% YoY) were moderately impacted by slower construction activities. Although Thailand was the best market, the local demand declined 4% YoY, with 2Q23 and 3Q23 being the worst-performing quarters. This resulted in the company's overall sales volume for FY23 declining 16% YoY to 139m sq m.

Sanitaryware and fitting business

- Following its restructuring in Dec 2023, SCG Decor's holding company has a 99% stake in SCG Ceramics. Meanwhile, the ceramic tile businesses in other ASEAN countries (Vietnam, the Philippines, and Indonesia) and the highly reputable sanitaryware and fitting business in Thailand were also added into SCG Decor's business structure.
- Compared to its ceramic tiles production capacity, the sanitaryware and fitting business unit, which is only based in Thailand, has a production capacity of 4m units per year at utilisation rates of 73% for sanitaryware and 85% for fitting products. Although SCG Decor has been a long-time market share leader of sanitaryware and fitting business in Thailand, this unit has accounted for only 18.5% of the company's total core revenue.
- It has a more aggressive expansion plan for Vietnam, the Philippines, and Indonesia to capture a larger share of these high-growth markets with >10% CAGR projected (FY22-26F) vs a mere 2% YoY growth in Thailand.

Financials

- FY23 total core revenue dropped 6% YoY due to core revenues in the non-Thailand markets shrinking at double-digit rates, although its businesses in Thailand were able to command 3-4% YoY growth.
- In tandem with the core revenue direction, FY23 core profit declined 30% YoY to THB817m. Although the company announced FY23 net profit growth of 61% YoY, this was mainly due to non-recurring items emerging from the restructuring process.
- SCG Decor's net debt-to-equity is as low as 0.2x after the restructuring process, and this may provide expansion opportunities for the company via mergers and acquisitions.

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