14 February 2023

ESG Diamonds In The Rough

"Rough diamonds may sometimes be mistaken for worthless pebbles"

Thomas Browne

Our Best Investment Ideas

In the eighth edition of this report, we have again mined for and unearthed more diamonds in the rough for 2023. The performance of all our "diamonds" has been sterling over the years. We feature the performance of our 2022 diamonds in Figure 1. The investment ideas we offer are a selection of stocks chosen by our analysts, according to this criteria:

- **i. ROE of 15% or above;**
- **ii. 2023 net debt/shareholder funds of <0.7x;**
- **iii. Increasing margins in 2023 vs that of 2022;**
- **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 potentially even higher 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.

Environmental, Social and Governance (ESG) score as a major criteria. Since mid-2021, we have assigned ESG scores to all companies under coverage, monitored these scores, and also 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 (study from 2021). The study (link: here) 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. Overall, we estimate that a strong ESG score (we considered only companies with scores that are higher than or equal to their country medians), high ROEs, and superior earnings result in investments with robust long-term returns.

Our findings this time 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. We have BUY recommendations on 11 of these counters, and our conviction is evidenced by their potentially strong upside returns.

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-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
AKR Corporindo	Buy	IDR1,700	29.8	13.4	2.3	17.6	3.7
Arwana Citramulia	Buy	IDR1,490	46.1	10.4	3.7	38.0	6.0
Home Product Center	Buy	THB18.80	26.2	27.9	7.2	26.5	2.9
Land and Houses	Buy	THB10.85	9.6	13.3	2.1	16.3	6.2
Press Metal	Buy	MYR6.18	18.4	20.8	6.7	36.0	1.4
Puradelta Lestari	Buy	IDR250	47.9	7.5	1.2	18.5	8.6
Samaiden Group	Buy	MYR1.06	25.7	15.1	2.8	20.3	-
Sheng Siong	Buy	SGD1.76	8.6	17.5	4.9	29.5	4.0
Sunway Construction	Buy	MYR2.07	24.9	12.9	2.6	21.1	4.6
Telkom Indonesia	BUY	IDR5,100	34.2	13.1	2.6	20.7	4.2
Thai Beverage	Buy	SGD0.91	29.3	13.8	2.0	14.9	3.8
Time dotCom	Neutral	MYR5.30	1.9	18.3	2.9	16.3	4.4

Source: Company data, RHB (Data as of 10 Feb 2023)

Some See Coal, We See Diamonds

Source: RHB (artwork by a 14-year old child of an RHB team member)

Our five criteria used to unearth the diamonds:

1. ROEs of 15% or above
2. 2023 net debt*/shareholders' funds <0.7x
   **net debt = ST debt + LT debt – cash & equivalents*
3. Increasing margins in 2023 vs those of 2022
4. Trading below sector mean valuations
5. 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 - Finding Diamonds In The Rough from Feb 2022 - based on similar criteria, our findings resulted in the list of 14 companies shown below in **Figure 1**.

Based on the highest price reached by a particular stock since we issued our Feb 2022 report, we calculated the return. The results are shown in the table below, with healthy absolute returns for all stocks. From our previous report, five stocks made the list again this time: Arwana Citramulia, Home Product Center, Press Metal, Puradelta Lestari, and Sunway Construction.

Figure 1: Diamonds we picked in Feb 2022 and their performance

Company	Ticker	Share price on 14 Feb 2022	Peak price	Date of peak price	% Return revlative to peak price	Price as of year end 2022	% Return relative to price at year end 2022
Arwana Citramulia	ARNA IJ	803.0	1,120.0	31/5/2022	**39.5**	1,030.0	28.27
Carlsberg Brewery	CAB MK	19.2	23.9	19/8/2022	**24.5**	23.3	21.35
Central Pattana	CPN TB	55.4	73.0	30/11/2022	**31.7**	68.5	23.62
Frencken Group	FRKN SP	1.6	1.7	15/2/2022	**6.6**	1.0	(40.81)
Guan Chong	GUAN MK	2.6	3.0	21/2/2022	**14.6**	2.6	-
Heineken Malaysia	HEIM MK	19.3	26.0	2/12/2022	**34.9**	26.5	37.30
Home Product Center	HMPRO TB	14.4	16.2	11/3/2022	**12.2**	14.7	1.80
HRnet Group	HRNET SP	0.7	0.8	11/11/2022	**11.7**	0.8	10.96
Mayora Indah	MYOR IJ	1,736.0	2,600.0	1/12/2022	**49.8**	2,280.0	31.34
Press Metal	PMAH MK	6.6	7.3	3/3/2022	**10.5**	5.3	(20.56)
Puradelta Lestari	DMAS IJ	172.0	178.8	17/2/2022	**4.0**	161.0	(6.40)
SKP Resources	SKP MK	1.5	1.8	23/12/2022	**15.1**	1.7	7.28
ST Engineering	STE SP	3.6	4.1	7/6/2022	**14.3**	3.5	(4.18)
Sunway Construction	SCGB MK	1.4	1.7	31/3/2022	**21.5**	1.6	16.10

Source: RHB, Bloomberg

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

Malaysia

Figure 2: Diamonds from Kuala Lumpur

Company	Ticker	ESG	Rating	Target price	Share price	Market cap (USDm)	P/E (x) 2023F	P/E (x) 2024F	P/BV (x) 2023F	P/BV (x) 2024F	EV/EBITDA (x) 2023F	EV/EBITDA (x) 2024F	ROAE (%) 2023F	ROAE (%) 2024F	Net margin (%) 2023F	Net margin (%) 2024F
Press Metal	PMAH MK	3.4	Buy	6.18	5.22	9,728	20.9	19.7	6.6	5.3	14.6	13.3	35.5	29.9	13.0	13.2
Sunway Construction	SCGB MK	3.2	Buy	2.02	1.66	495	12.5	11.7	2.5	2.3	5.8	5.7	21.1	20.6	5.0	4.9
Time dotCom	TDC MK	3.0	Neutral	5.30	5.20	2,191	18.0	16.6	2.9	2.8	10.4	9.8	16.3	17.0	28.7	27.7
Samaiden Group	SAMAIDEN MK	3.2	Buy	1.06	0.85	75	17.2	13.2	3.1	2.5	10.8	7.1	19.5	20.7	8.3	8.4
***ESG country median**		**3.0**														

*Note: Data as at 10 Feb 2023; *The ESG country median score of 3.0 is based on ESG scores of all stocks under our coverage in Malaysia.*
Source: RHB, Bloomberg

Press Metal (PMAH MK, BUY, TP: MYR6.18)

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Company description and ESG analysis. Press Metal (PMAH) is a Malaysia-based aluminium company with an extensive global presence. It has an ESG score of 3.44.

i. E: Press Metal's carbon footprint ranks amongst the best in the global aluminium industry, thanks to it having access to hydropower, possibly boosting its long-term upside on the burgeoning market potential for low-carbon aluminium.

ii. S: Recorded two consecutive years of zero workplace injuries and fatalities, thanks to its regular occupational health and safety training.

iii. G: There are good levels of transparency afforded by the company's reporting framework and management's regular dialogues with investors.

We forecast commendable ROEs of 36.6% and 29.9% for FY23 and FY24 vs 33.6% in FY22. We are of the view that earnings growth will remain intact, backed by the growing and perpetual demand for aluminium. PMAH's Phase 2 PT Bintan is currently 84% completed. The first 500k tonnes pa portion of production is now operational, and this has increased production volume progressively since. Upon completion, PMAH should add another 1m tonnes of refining capacity to its total.

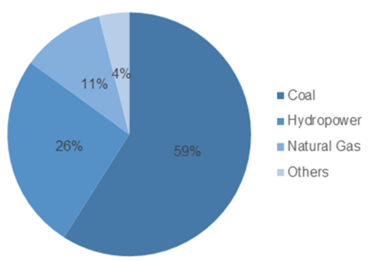
2022 net debt/equity close to 0.7x. In view of the expected completion of construction of PT Bintan Phase 2 by 4Q22, we do not expect its borrowings to spike up in 2023. We have yet to factor in its option to acquire a further 20% stake in Sunstone (JV in China) – this may not pan out, as we gather that PMAH is still in talks on finalising the deal.

We expect margins to improve, spurred by the reopening of China – the largest consumer of global aluminium. The revival of China's economy should lift sentiment and support the demand for aluminium, which has slowed down in the past few months. London Metal Exchange aluminium prices have also rebounded 12% YTD, as of 6 Jan. While carbon anode still has yet to show any signs of recovery, the price of alumina has come down from the 3-year high of USD503.57/tonne, which was recorded in Mar 2022. Even so, the average alumina-to-aluminium cost ratio still stands at an optimal 13.8%.

Valuation. Press Metal is trading at 20.7x FY23F P/E, which is still well below its historical mean of 26x, but is 45% above the global peer average of 14.2x. Nevertheless, we believe Press Metal deserves a premium valuation, after factoring in its favourable cost structure, as well as the scarcity of hydro-powered smelters worldwide that have a solid ESG profile.

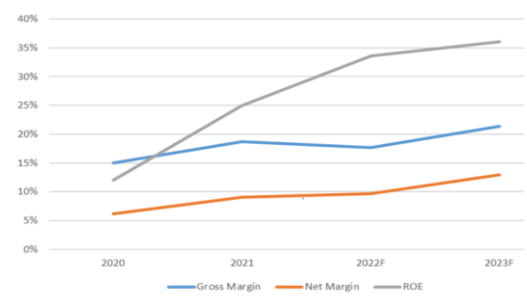
Downside risks: Plunge in aluminium prices, a sharp weakening of the USD, the interruption of power supply in smelting plants and a slowdown in global economic growth.

Figure 3: Smelters across the world according on what type of energy they run on (%)



Source: Company data, RHB

Figure 4: PMAH's margin and ROE profile (%)



Source: Company data, RHB

Sunway Construction Group (SCGB MK, BUY, TP: MYR2.07)

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Company description and ESG analysis. Sunway Construction Group (SCGB) is one of Malaysia's largest construction companies. Apart from civil & infrastructure construction services, the company also provides the more specialised: i) Foundation & geotechnical engineering, and ii) mechanical, electrical & plumbing or MEP services. Additionally, it runs highly profitable precast concrete product manufacturing operations in Malaysia and Singapore. Aside from fulfilling local requirements, SCGB also largely supplies hose concrete products for Housing & Development Board (HDB) in the island republic.

The company has an ESG score of 3.2:

i. E: Implemented rooftop solar panels costing MYR8.8m at its Sunway Precast Industries plant at Senai, Johor and Sunway Enterprise Park, to reduce carbon emissions at site operations. With this, 373MWh of energy can be consumed via solar generation at these locations, avoiding 218 tonnes of carbon emissions.

ii. S: The group ensures the safety and health of all its employees, and public areas surrounding the construction sites, via various training and safety programmes. This is seen from its lower lost-time injury rate per 1,000 workers of 0.16 in FY21 vs 0.54 in FY20, despite longer worked man hours of 17.9m hours in FY21 (FY20: 14.7m hours).

iii. G: 62.5% of its board members are independent, with full disclosures on director remunerations – including salaries and bonuses. Apart from that, women make up 25% the group's board, reinforcing its commitment to gender diversity, an integral component of good corporate governance.

We forecast a commendable ROE of 21.1% for FY23 vs 17.2% in FY21. We believe earnings growth in FY23 will be mainly driven by higher progress billings from ongoing projects (Light Rail Transit 3 and Johor Bahru-Singapore Rapid Transit System Link) in addition to the newly won MYR1.7bn data centre job in Sedenak Technology Park (STeP). Aside from that, its precast segment has a sizeable outstanding orderbook of MYR520m (or 13% of total orderbook) as at end-3Q22, which should be buttressed by a robust pipeline of Singapore's HDB flats in 2023 at 23k units (CY22: 23k units) vs 17k units in CY21.

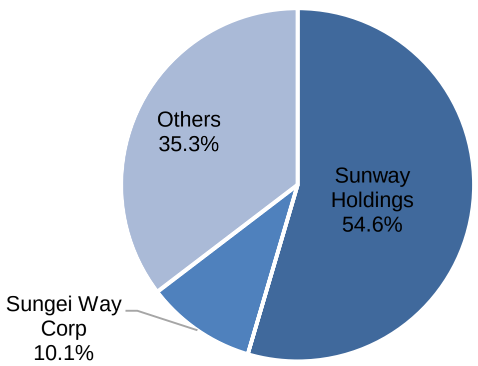
FY23F net debt/equity manageable at 0.3x. Following the completion of its integrated construction precast hub in Pulau Punggol in late 2022 with an c.SGD80m investment, we do not expect any major capex requirements over the next few years. The group's manageable debt position could give ample room to gear up for more jobs in future.

We expect net profit margins to remain strong above 4.5% levels, ie at 5% in FY23. This is attributable to the visible pipeline of projects from SCGB's parent company (>30% of its outstanding orderbook), which should further help in orderbook replenishment and earnings visibility. Overall, the group has demonstrated its ability to venture into new areas – by securing the data centre job in STeP in Dec 2022, bringing its total estimated outstanding orderbook to about MYR5.5-5.9bn – which reflects a commendable orderbook/revenue cover of 3.2-3.5x. Its total active tenderbook size is estimated to be above MYR10bn.

Trading below its historical average. SCGB is trading at an undemanding 12.7x FY22F P/E, which is -1.5SD from the 5-year mean of 15.5x.

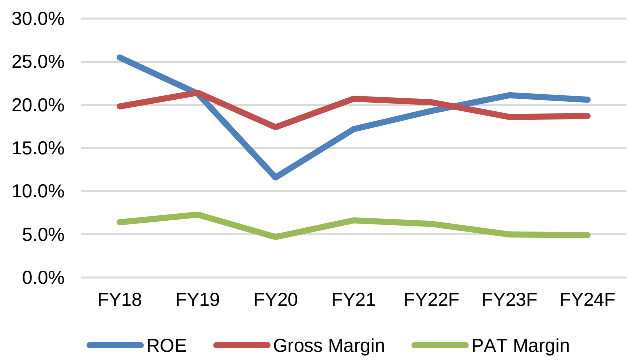
Downside risks to our recommendation include a failure to secure new contracts, higher-than-expected operating costs, and longer-than-expected delays in the rollout of mega infrastructure projects.

Figure 5: SCGB's shareholding structure



Source: Company data, RHB

Figure 6: SCGB's profitability margins and ROE profiles



Source: Company data, RHB

Time dotCom (TDC MK, NEUTRAL, TP: MYR5.30)

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The little telco that could. Time dotCom (TDC) specialises in domestic and international connectivity, data centre (DC), cloud computing and managed services solutions for the retail, enterprise and wholesale markets. The group's key assets include a submarine cable network (Cross Peninsular Cable System) across West Malaysia and joint stakes in four undersea cables with international connectivity (Unity, APG, AAE-1 and FASTER). TDC also owns the largest independent carrier-neutral tier-3 DC in downtown Kuala Lumpur (AIMS Group). The group's retail fibre broadband service is delivered via a 100% full fibre infrastructure that connects to over 1.2m premises nationwide (multi-dwelling units). The company has an ESG score of 3.0, based on our proprietary in-house methodology.

i. E: TDC's extensive fibre optic cables require little maintenance, with little emission risks. The DC business is, however, a major consumer of energy. Energy consumption for its DCs has soared, due to the strong demand for co-location services and capacity expansion. The use of power savings solutions has enabled the more efficient usage of power.

ii. S: The group plays a key role in advancing the Government's aspirations for more affordable and quality broadband connectivity. TDC is an active proponent of the JENDELA programme to extend fibre connectivity to less urban areas. There were no data breaches in 2022.

iii. G: The Board is made up of 10 directors, of which five are independent (50%) and four are women (40%).

ROE expansion. We project commendable ROEs of 13.5% and 16% for FY22 and FY23, from 12% in FY21. This is supported by stronger earnings growth from the continued expansion of its fibre footprint, higher utilisation of DCs, and increased demand for cloud offerings (AVM) from enterprise digitalisation initiatives.

Net cash balance sheet. The group has a net cash balance of MYR282m as at 9MFY22, with over MYR2bn in cash proceeds expected from the proposed sale of up to a 70% stake in AIMS Group (announced in Nov 2022) to Digital Bridge. Annual capex spending is typically met via internal cash flow.

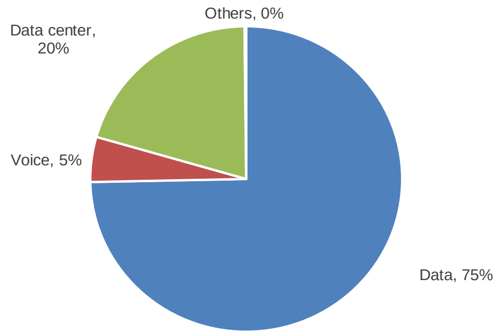
More special dividends in the offing. Management has earmarked up to MYR1bn in proceeds (54 sen per share) from the sale of AIMS Group, to be returned to shareholders in the form of special dividends. TDC has a regular dividend policy (up to 50% of group normalised PAT), with actual payout ratios ranging 51-104% over the past three years.

Margins should remain relatively steady. We expect TDC's margin to be supported by good cost vigilance, operating efficiencies and some recovery in regional bandwidth sales. The expansion of its fibre retail footprint would further enlarge its addressable market and drive margin enhancement.

Stock valuation is supported by robust earnings execution and a solid track record. The group posted a commendable core earnings CAGR of 14% for FY17-21 on the back of a corresponding revenue CAGR of 10.2%. The valuation of the stock is in line with its domestic telco peers, at about 10x EV/EBITDA.

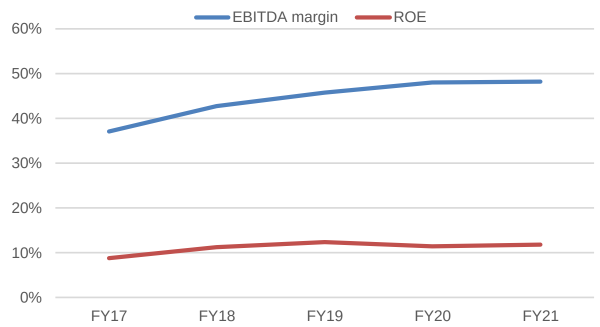
Downside risks to our recommendation include weaker-than-expected earnings, higher-than-expected capex and adverse regulatory developments. The opposite of these circumstances would present upside risks.

Figure 7: TDC's revenue mix (FY21)



Source: Company data, RHB

Figure 8: TDC's EBITDA margin and ROE trends



Source: RHB

Samaiden Group (SAMAIDEN MK, BUY, TP: MYR1.06)

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Company description and ESG analysis. Samaiden is a renewable energy (RE) turnkey EPCC services provider that offers end-to-end solutions to build RE – mainly solar photovoltaic (PV) – systems from scratch. It also aims to own RE projects.

The company has an ESG score of 3.2.

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

ii. S: Samaiden has adopted a series of human resources policies and best practices to build a conducive work environment and a positive workplace culture. The company also funds staff training costs to upskill workers.

iii. G: Samaiden has applied and adopted the majority of best practices of the Malaysian Code on Corporate Governance. 40% (two out of five) of the board members are women. 60% (3 out of 5) of the board members are independent non-executive directors, including the chairman. We highlight that Samaiden adopted the board diversity policy, which considers the Board's diversity in different aspects such as professional experiences, business experiences, skills, knowledge, gender, age, ethnicity, and educational background.

We forecast commendable ROEs of 19.9% and 20.7% for FY23 and FY24 vs 17.7% in FY22. We believe the ROE expansion will be driven by the higher net margins coming from the declining PV module costs, as well as the group's earnings growth. This growth, in turn, comes from robust commercial and industrial EPCC jobs and upcoming corporate green power programme (CGPP) contracts.

Samaiden is also participating in the bid for the 600MW quota for asset ownership which should further boosts earnings. This is in line with its strategic plan to enlarge its clean energy portfolio to generate a diverse recurring income stream, for the purpose of balancing out seasonal EPCC projects.

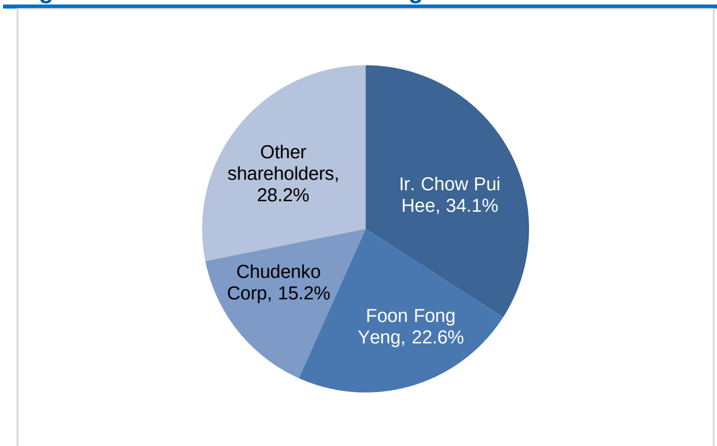
Net cash position for 2023F. Samaiden has maintained a sound financial position since its listing and, as of 30 Sep 2022, its net cash stood at MYR73.6m. We are cognisant of its intent to expand its asset base which may increase debt levels in FY23-24 as the group may need to tap on debt financing for CGPP projects.

We expect margins to improve, driven by the softening of PV module costs on the back of declining polysilicon prices as well as the weakening of the USD/MYR rate.

Trading at a discount to its Malaysian utility peers at 13x FY24F P/E vs 14x. We believe the stock is trading at an undemanding valuation, given the group's 3-year 33.8% earnings CAGR, driven by its sturdy orderbook growth.

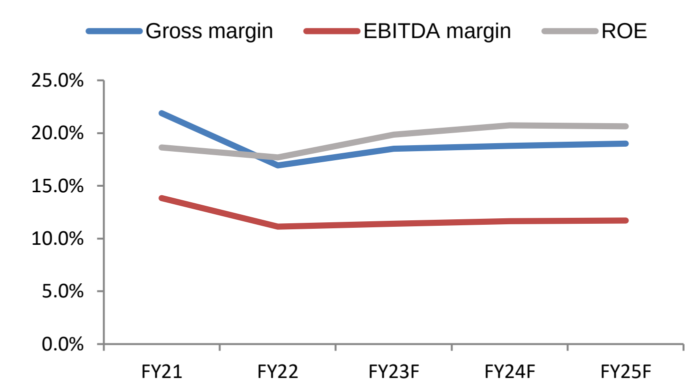
Downside risks to our recommendation include the inability to secure more projects, competition risks and higher-than-expected project costs.

Figure 9: Samaiden's shareholding structure



Source: Company data, RHB

Figure 10: Samaiden's margin and ROE profiles



Source: RHB

Thailand

Figure 11: Diamonds from Bangkok

Company	Ticker	ESG	Rating	Target price	Share price	Market cap (USDm)	P/E (x) 2023F	P/E (x) 2024F	P/BV (x) 2023F	P/BV (x) 2024F	EV/EBITDA (x) 2023F	EV/EBITDA (x) 2024F	ROAE (%) 2023F	ROAE (%) 2024F	Net margin (%) 2023F	Net margin (%) 2024F
Home Product Center	HMPRO TB	3.7	Buy	18.8	14.9	5,804	28.6	26.7	7.3	6.9	16.0	15.1	26.5	26.7	10.3	10.6
Land and Houses	LH TB	3.4	Buy	10.9	9.9	3,504	13.3	12.2	2.1	2.0	12.1	10.9	15.9	17.0	22.9	23.2
***ESG country median**		**3.4**														

*Note: Data as at 10 Feb 2023; *The ESG country median score of 3.4 is based on ESG scores of all stocks under our coverage in Thailand*
Source: RHB, Bloomberg

Home Product Center (HMPRO TB, BUY, TP: THB18.80)

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Home Product Center (HMPRO) is Thailand's biggest home improvement retailer, providing a complete range of services relating to construction, refurbishment, renovation, and improvement of buildings through a one-stop shopping store format under the HomePro and Mega Home trade names. The company has an ESG score of 3.7.

i. E: HMPRO has set an operating framework to tackle environmental issues in the supply chain. Renewable energy usage and zero waste progress are at 25% and 84% of its 2030 goals. HMPRO offers Eco Choice products to customers, which currently account for c.45% of the sales mix.
ii. S: It prioritises the development of employees and protects the welfare of its workers and their families' with fair wages. It strengthens its business growth through partnerships with suppliers, and promotes sustainability management.
iii. G: HMPRO firmly upholds and complies with the principles of good corporate governance.

We forecast commendable ROEs of 26.5% and 26.7% in FY23 and FY24 vs 26.2% in FY22. Key drivers for HMPRO's favourable core profit growth (11% in 2023 and 7% in 2024) include: i) Strong rebound in the performance of stores in tourism-led cities on improved demand, ii) higher demand for home improvement activities, which are likely to be promising in view of the post-pandemic economic recovery, iii) recurring income recovery in terms of mall occupancy rates and smaller rental rate discounts given to tenants, and iv) potential ramping up of new store launches, at five stores pa over 2023-2024, from a net opening of three stores in 2022.

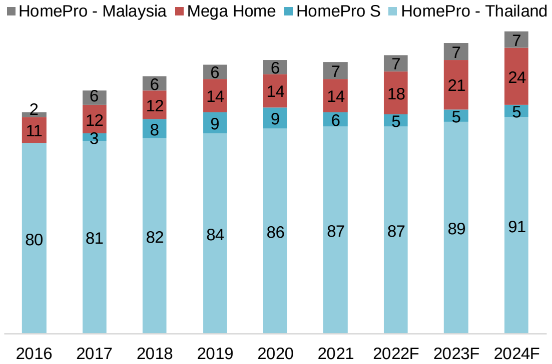
2023 net debt/equity <0.2x. We expect HMPRO to book resilient net profit growth over the next two years, to support debt repayments and shareholders' equity hikes. With the projected capex of c.THB5bn pa, its net D/E ratio may be still far below the covenant threshold of 2.5x, implying significant room for further business expansions.

We expect margins to improve, driven by higher contributions from high-GPM private label products and physical store sales, and better operations of Mega Home construction material stores. Meanwhile, improving recurring income may enhance EBIT margins and NPM. With inflation and FX fluctuations, we still expect HMPRO to pass through costs and effectively control opex, to maintain its margins.

It is trading below the sector P/E mean, at 28x FY23F P/E vs 38x for the SET Commerce Sector Index. The stock is also trading at c.-1SD from its 5-year historical mean P/E.

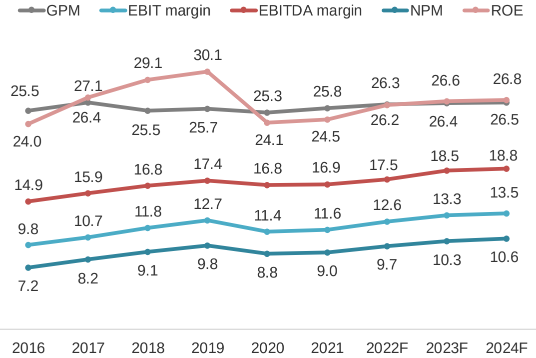
Downside risks: Delay in the opening of new stores, inflation and oil price hikes which may affect purchasing power.

Figure 12: HMPRO's store breakdown by format



Source: Company data, RHB

Figure 13: Profit margins and ROE profile (%)



Source: Company data, RHB

Land and Houses (LH TB, BUY, TP: THB10.90)

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Land and Houses has developed residential projects – especially single-detached houses (SDHs) – for 50 years. It is involved in the entire process, from conceptualising the designs at the start until the delivery of high-quality projects to consumers. Currently, the majority of its projects are in Bangkok and the vicinities, as well as in other major cities in Thailand. LH has an ESG score of 3.4:

i. E: The company has organised activities to reduce plastic waste under the Think Green for a Better Living initiative, and is determined to establish an environmental and energy management system.

ii. S: The board of directors has always realised LH's responsibilities to the society and communities it operates in. Hence, it has supported a budget that sponsors various departments to continuously organise activities for the benefit of the community.

iii. G: There are activities being undertaken to encourage: i) Compliance with its code of conduct, ii) good corporate governance culture, iii) the provision of effective communication channels for practice guidelines, and iv) following up on compliance with the code of conduct for all employees.

We believe the company is on its way with regards to ROE expansion. During the pandemic, LH's ROE was slightly affected by slow-moving projects – especially its condominium segment – although the SDH business continues to perform well. We expect ROEs to rise gradually from FY22 onwards. Even better, there will be more upside for ROEs in FY23 – this is when the company is planning to resume its asset monetisation exercise, which is slated to take place in 4Q23.

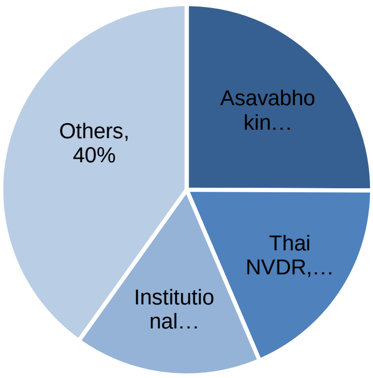
2022 net D/E of c.1.1x. Although LH has long enjoyed its active portfolios of hospitality assets in Thailand and the US, as well as essential stakes in associated companies, its net D/E has hovered at c.1.1x for the past three years. This level is above the 0.5x average commanded by other pure-play developers without any significant recurring-income assets on hand. If LH sells off these hospitality assets and all its investment stakes, we believe it will be in a net cash position.

We expect margins to strengthen further due to its pricing power over the low-rise projects segment, especially in SDH brands that focus on the luxury market. After its high success in driving the SDH segment to boost presales and sales revenues in FY22, we expect LH to adopt a similar business strategy within this year. This assumption is based on its annual plan announced in mid-January for the launch of new projects. Note: LH has proven that its SDH projects have normally commanded 3-4% higher GPMs than the townhouse and condominium segments. Therefore, we expect NPM to increase gradually to 23.2% in FY24 from 22.5% in FY22.

P/E remains in the middle of the spectrum. LH's 13x FY23F P/E is higher than the 9x average for pure housing developers. This is because the company's significant recurring-income assets on hand have allowed it to distinguish itself from other pure-play developers that are only focused on residential projects for sale. When compared to other SET-listed commercial property developers, LH's P/E was far lower than more than 25x FY23F P/Es for pure-play developers with recurring-income projects on hand.

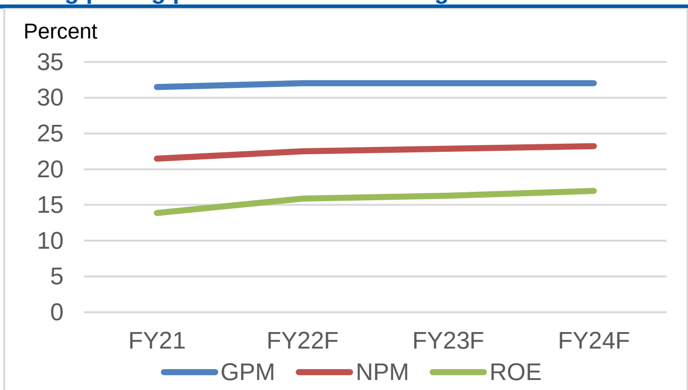
Downside risks to our recommendation include delays in new launches, commercial banks' stricter lending measures, and intensive competition within the industry.

Figure 14: The majority stakes are under the founder's family and a high free float of 65%



Source: Company data, RHB

Figure 15: Profitability to increase gradually due to LH's strong pricing power over the SDH segment



Source: RHB

Singapore

Figure 16: Diamonds from Singapore

Company	Ticker	ESG	Rating	Target price	Share price	Market cap (USDm)	P/E (x) 2023F	P/E (x) 2024F	P/BV (x) 2023F	P/BV (x) 2024F	EV/EBITDA (x) 2023F	EV/EBITDA (x) 2024F	ROAE (%) 2023F	ROAE (%) 2024F	Net margin (%) 2023F	Net margin (%) 2024F
Sheng Siong	SSG SP	3.0	Buy	1.76	1.62	1,833	17.6	17.0	4.9	4.5	11.3	10.7	29.4	27.9	10.0	10.0
Thai Beverage	THBEV SP	3.2	Buy	0.91	0.70	13,232	15.2	14.0	2.1	2.0	7.0	6.3	14.5	14.7	10.6	10.9
***ESG country median**		**3.0**														

*Note: Data as at 10 Feb 2023; *The ESG country median score of 3.0 is based on ESG scores of all stocks under our coverage in Singapore.*
Source: RHB, Bloomberg

Sheng Siong (SSG SP, BUY, TP: SGD1.76)

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With 61 stores located in suburban areas nationwide, Sheng Siong operates Singapore's third-largest supermarket chain that caters to the mass market. The company has an ESG score of 3.0:

i. E: SSG has an internal policy framework to improve energy and water use efficiencies.

ii. S: The company supports community initiatives, and makes charitable donations and sponsorships to the local community.

iii. G: It did not have any material data security or privacy issues over the past few years. SSG's board of directors comprises four independent directors and one non-executive director. The group CEO is an executive director.

We forecast 27-30% ROEs over FY23-25. We see earnings growth being driven by store openings and margin expansion. The outlook for new supermarket outlets available for tender remains encouraging, as the Housing & Development Board's horizon for new supermarket leases is still in positive territory, on the back of both new and matured developments in the housing estate front. There are four new supermarkets – with floor areas of 5,000-6,000sq ft each – at Punggol, Yishun, Clementi, and Toa Payoh that are up for tender in the next six months. We conservatively forecast the addition of two new outlets for SSG each year in FY23 and FY24. Margins expansion will mainly stem from gross margin expansion initiatives, in our view.

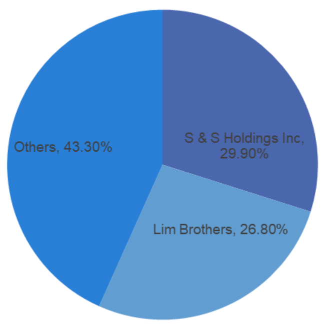
2022 net cash of SGD0.15 per share. The company generates positive working capital cash flow. Suppliers grant credit terms on its inventory while SSG retails its products at its supermarkets for cash or near-to-immediate credit terms from credit card companies. Over each of the past three years, SSG has generated over SGD100m in operating cash flow. There is, therefore, little to no debt on its balance sheet.

Still driving GPM expansion. The company's GPM expanded over the past five years, to 30% in 3Q22, from 26% in 2017. Bulk handing, tilting its sales mix towards fresh products, directly purchasing from sources, and growth of its house brands (to a lesser extent) have all helped to drive GPM growth. Over the past two years, the COVID-19 pandemic has also led SSG to diversify its supply sources, which helped to expand GPMs. We do expect the company to book slightly wider GPMs moving into FY23-24, and have imputed this into our corresponding estimates.

Trading below the historical mean valuation at an attractive -0.5SD from the historical mean P/E. Our TP is based on 19x FY23F P/E, at +0.5SD from the historical mean.

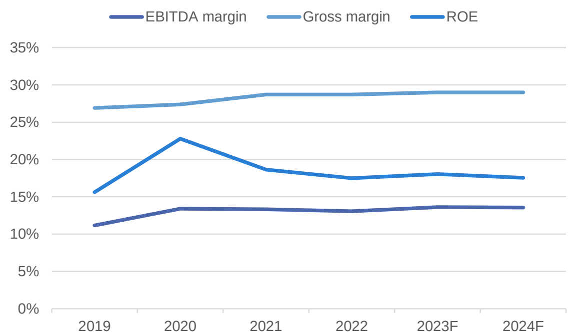
Downside risks to our recommendation include slower-than-expected store expansion, loss of market share, and an unexpected decline in overall supermarket sales.

Figure 17: Key shareholders of SSG



Source: Company data, RHB

Figure 18: SSG's margin and ROE profiles



Source: RHB

Thai Beverage (THBEV SP, BUY, TP: SGD0.91)

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Thai Beverage is a Thailand-based company engaged in the production and distribution of alcoholic and non-alcoholic beverages and food. The company's operating segments include spirits, beer, non-alcoholic beverages, and food. Geographically, it derives a majority of its revenue from Thailand, and has a presence in Vietnam.

The company has an ESG score of 3.2.

i. E: Thaibev is committed to continuously developing sustainable practices throughout its value chain by applying new technology to improve efficiency, build operational excellence, manage risks in business operations and collaborate with business partners in promoting environmental and social values.

ii. S: Thaibev is dedicated to corporate social responsibility programmes across a broad range of activities throughout Thailand, including across many demographics, while focusing on five key dimensions: Education, public health, sports, arts, culture & community, and social development.

iii. G: ThaiBev adheres to the Code of Business Conduct with business management systems that are efficient, transparent, and auditable. It is aligned with the principles of corporate governance to build shareholder and stakeholder confidence, strengthen its competitiveness, and drive its business performance.

We expect ThaiBev to sustain its ROE at c.15% over the next three years, underpinned by robust consumption growth in key markets including Thailand and Vietnam. In the near term, we expect ThaiBev's earnings recovery momentum to continue – taking into account further normalisation of economic activities – whilst the progressive pick-up in tourist arrivals should also lift consumption and benefit all of the group's divisions.

Indebtedness. We project that ThaiBev's net gearing will moderate in the next three years to 0.4-0.5x. This will be underpinned by earnings recovery and strong cash flow generation.

We anticipate margins to gradually recover, notwithstanding the higher raw material costs and pick-up in A&P marketing activities. This will be driven by the price adjustments to pass on the higher costs, as well as a volume recovery which will propel operating leverage.

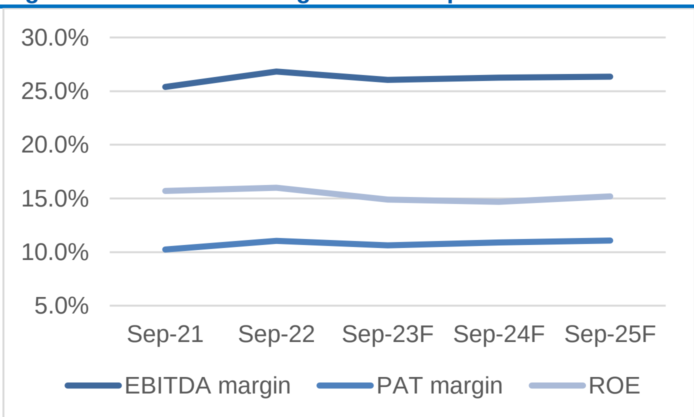
Valuation. ThaiBev is trading at slightly below its 5-year mean of 14.5x, which we deem as unwarranted, considering the growth prospects and its established market position.

Downside risks to our recommendation include higher-than-expected input costs and a slower-than-expected pick-up in tourism activities.

Figure 19: ThaiBev's sustainability focus

Source: Company data, RHB

Figure 20: ThaiBev's margin and ROE profiles



Source: RHB

Indonesia

Figure 21: Diamonds from Jakarta

Company	Ticker	ESG	Rating	Target price	Share price	Market cap (USDm)	P/E (x) 2023F	P/E (x) 2024F	P/BV (x) 2023F	P/BV (x) 2024F	EV/EBITDA (x) 2023F	EV/EBITDA (x) 2024F	ROAE (%) 2023F	ROAE (%) 2024F	Net margin (%) 2023F	Net margin (%) 2024F
AKR Corporindo	AKRA IJ	3.1	Buy	1,700	1,310	1,738	13.9	12.6	2.3	2.1	10.0	8.6	17.6	17.7	4.5	4.5
Arwana Citramulia	ARNA IJ	3.3	Buy	1,490	1,020	495	10.0	8.5	3.5	3.1	6.0	4.9	38.0	38.5	23.6	24.7
Puradelta Lestari	DMAS IJ	3.2	Buy	250	169	538	6.7	6.6	1.2	1.1	5.9	5.5	18.5	17.4	62.3	54.8
Telkom Indonesia	TLKM IJ	3.2	Buy	5,100	3,800	24,874	12.9	11.0	2.5	2.3	4.7	4.4	20.7	21.9	17.7	19.1
***ESG country median**		**3.0**														

*Note: Data as at 10 Feb 2023. *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: IDR1,700)

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AKR Corporindo is a prominent petroleum and chemicals distributor (under its distribution & trading segment) with strong infrastructure and connectivity in Indonesia. The company has an ESG score of 3.1.

i. E: Initiatives relating to thermal power utilities with lower emissions (from gas instead of coal) to cater to the industrial park, and built-in water treatment and waste water management systems.

ii. S: AKRA supports the regional governments by prioritising employment of workers from surrounding areas (c.200,000 jobs).

iii. G: AKRA complies with international (ASEAN Corporate Governance Scorecard) and domestic standards.

ROE (without extraordinary gains): The historical percentage improved to c.20% (as of 9M22) from c.9% in 2019 (FY23F: 17%). Apart from the resilience in its distribution & trading segment (c.75% of consolidated gross profit), strong support is expected from industrial land sales (c.1,300ha left) – likely to be dominated by EV battery-related companies. The approval of Java Integrated Industrial and Port Estate or JIIPE as a Special Economic Zone is a testament to AKRA's ability to meet strict requirements. The industrial area offers complete infrastructure access, such as an integrated port (for ships of up to 150,000 deadweight tonnage), is close to railways and toll-roads, and has power utilities, and LNG containers.

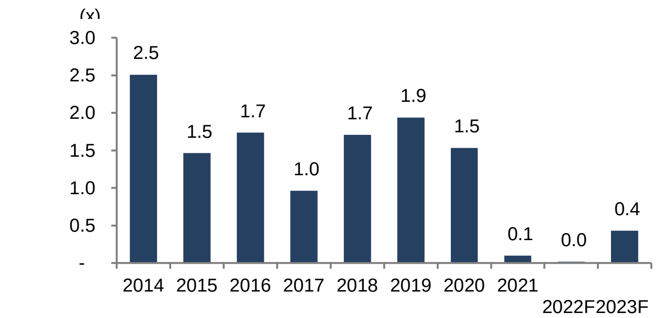
AKRA is running on net cash (as of 9M22: IDR1.3trn). Its strong cash flow generation will cover its massive capex needs (to acquire new land and power utilities) in the upcoming years, and this should keep its balance sheet in check (FY23F net gearing: 0.1x; future funds will continue to be from internal sources).

A higher proportion of contributions from JIIPE will improve overall margins – GPM for the petroleum and chemical business has a c.8% yield, compared to its recurring land sales' of c.90% (c.20% contribution to total gross profit). Moving forward, charges from utilities services will also generate a steady topline.

The stock is trading above its closest domestic peers (c.8x P/E; only industrial estates, without any other revenue stream), at c.14x FY23F P/E. We believe such a premium valuation is justified by the company's excellent cash controls (regular dividends with c.55% payout ratio; c.6% average total yield in the past six years), diversified business, and good ESG measures. Based on its environmental practices, AKRA has been included in all Indonesian ESG stock indexes.

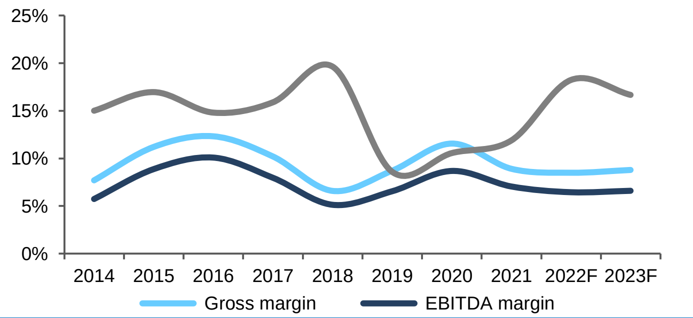
Downside risks to our rating include execution risks from a delay in the JIIPE's development, and unfavourable changes in government regulations that can deter FDI.

Figure 22: AKRA's net debt / EBITDA trend



Source: Company data, RHB

Figure 23: AKRA's margin and ROE profile



Source: RHB

Arwana Citramulia (ARNA IJ, BUY, TP: IDR1,490)

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Arwana Citramulia is one of Indonesia's largest ceramic tile producers with an annual capacity of 64m sq m. It targets the low- to middle-income segments. ARNA has two plants in Western Java, two in Eastern Java, and one in South Sumatra. The company's operational efficiency and good working capital management gives it a competitive advantage. ARNA's balance sheet and cash position are strong. With an increasing payout ratio, the company consistently pays high dividend yields.

ARNA has an ESG score of 3.3.

i. E: ARNA has been recognised and awarded by the Industry Ministry for its green manufacturing processes. Its manufacturing facilities are ISO 14001:2015 (environmental management systems) certified. The company has consistently lowered gas consumption to improve operating efficiencies and cut down carbon emissions.

ii. S: CSR activities include renovating schools and homes, and donating blood and providing medical treatment. On recruitment, ARNA prioritises locals when hiring workers. There have been no media reports on any conflicts between the company and local communities.

iii. G: Its good corporate governance is supported by audit and remuneration committees. ARNA has good transparency, business ethics, and discloses information about its business activities.

We anticipate ROEs of 38.5% and 38% for FY23 and FY24 vs 36.1% in FY22F. We believe that higher sales volumes, widened margins from better sales mix, and lower gas consumption per unit will drive earnings growth. ARNA's goal is to increase its high-end porcelain ceramic tile sales contributions to 9% of total sales in 2023 and 13% in 2024 (up from 4% in 2022). Lower-end tiles (eg best buy brands) are expected to contribute 15% of total sales in 2024, down from 25% in 2022. Consequently, we believe GPM should increase because porcelain ceramic tiles have GPMs ranging between 42% and 45% vs best buy tiles' 30%.

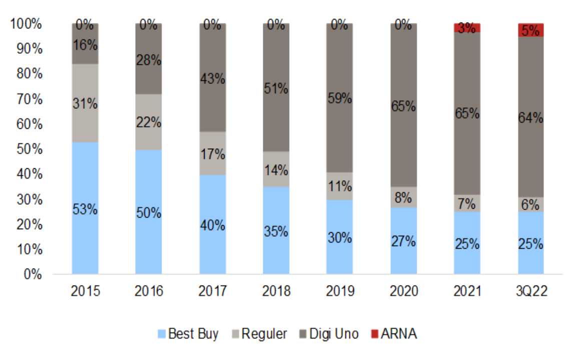
In a net cash position. Good working capital management – eg managing a low inventory level and matching payable and receivable payment terms – has resulted in a strong balance sheet and cash position. ARNA has consistently increased capacities at its facilities over the years with no external funding, eg debt or equity raising.

We anticipate margins to improve in the future as a result of an improved sales mix and lower gas consumption per unit. ARNA intends to reduce its gas consumption per unit of production to 1.35Nm^3 per sq m by 2023. In the last five years, it has reduced its gas consumption per unit of production to 1.47Nm^3 per sq m in 2021 from 1.77Nm^3 per sq m in 2017. Lower gas usage is one of the primary drivers of its COGS per unit falling to IDR24,150 per sq m in 2021 vs 2017's IDR25,651 per sq m despite increasing porcelain ceramic and Digi UNO tile production, which requires more gas in the production process.

The stock is trading below the sector valuation – at 10.5x FY23F P/E vs 17.4x for the Indonesia building materials sector. Improved trading liquidity and financial performances, we believe, should result in a re-rating of ARNA's valuation.

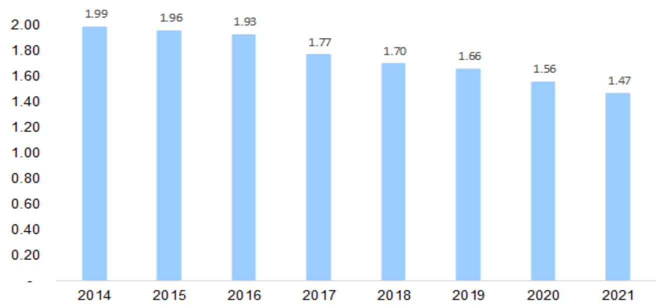
Downside risks to our recommendation include an increase in industrial gas prices and lower-than-expected sales volume.

Figure 24: ARNA's sales mix is consistently improving



Source: Company data, RHB

Figure 25: ARNA's is making continuous improvements in lowering gas consumption per unit in production



Source: Company data, RHB

Puradelta Lestari (DMAS IJ, BUY, TP: IDR250)

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Puradelta Lestari is a JV between Sinar Mas Land (57.28%) and Sojitz Corp (25%) that is developing an industrial centre called Deltamas with a total area of 3,185ha. As of 9M22, DMAS still has a total landbank of 981ha. DMAS has an ESG score of 3.2:

i. E: It continues to maintain environmental quality and minimises the environmental impact of its business activities. DMAS established a nursery to ensure reforestation activities in the Kota Deltamas area. In addition, the company operates clean water treatment facilities to ensure water supply quality for its customers, as well as waste water treatment facilities.

ii. S: DMAS operates a team that contributes to the development of communities around the Kota Deltamas area. The company undertakes various efforts to improve the health and welfare of the surrounding community.

iii. G: The board of commissioners and board of directors are guided by transparency, accountability, responsibility, independency, and fairness principles.

Solid marketing sales. The company booked FY22 marketing sales of IDR1.86trn and is expecting this performance to be sustained in 2023 despite global economic uncertainties and Indonesia's political season. There are 90ha of industrial land already under negotiation, of which 45ha are from data centres – a segment that has a higher selling price, ie c.IDR3m per sq m vs conventional industries' IDR2m per sq m. It is worth nothing that data centre contributions expanded 9M22 GPM to 70.2% vs 9M21's 56.6% – we believe this segment will likely be the key driver for DMAS' 2023 performance as well.

We expect net profit margins to be at 62.3% and 54.8% in FY23 and FY24 vs 60% in FY22F. Margins expansion this year should be driven by data centre sales, while the upcoming election period will spur industry demand overall, especially given government incentives for the EV sector and its supporting industries, eg batteries and auto parts, which are likely to expand.

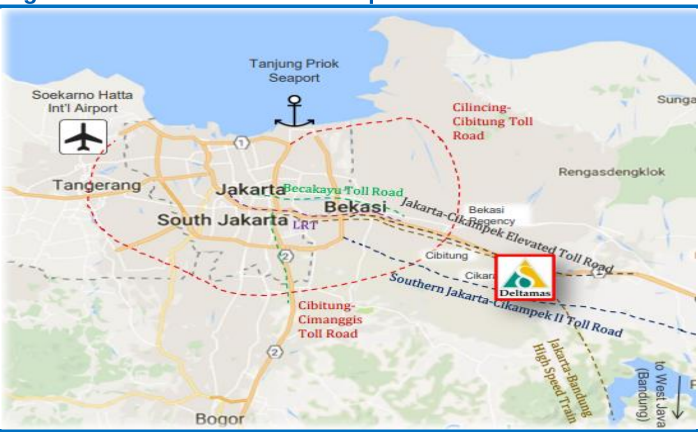
Landbank expansion. Despite having sufficient landbank for the next five years, DMAS intends to expand its industrial zone southwards. The company said touching other parts of Java was not on the agenda, and that there was 200-250ha of potential additional landbank. At the same time, it is also developing the residential and commercial areas near its industrial land – currently, the largest AEON Mall in ASEAN is under construction with a total area of 20ha. The mall is slated to begin operations in 1H24.

More infrastructure passing through Deltamas. The Japek II South Toll Road, which is expected to start operations in 2023-2024, will pass the southern part of Deltamas – improving supply and distribution access for tenants at the industrial estate, especially as the toll road to Patimban Port is slated to be completed by 2024. Also, one of the planned HSR stations will be located 2km from DMAS's industrial zone, which we believe will support the company's residential and commercial segments.

Strong cash position. DMAS is operating in a net cash position and has been historically generous in paying dividends. In 2019-2021, the company paid 152%, 113%, and 98% of its earnings, which provided yields of 21%, 25%, and 10%.

Downside risks to our recommendation include Indonesia entering its election period, which may decelerate foreign direct investments or FDIs and place a drag on industrial demand.

Figure 26: Infrastructure development around Deltamas



Source: Company

Figure 27: AEON mall to be completed in 1H24 (20ha)

Source: Company

Telkom Indonesia (TLKM IJ, BUY, TP: IDR5,100)

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Company description and ESG analysis. Telkom Indonesia is an Indonesia state-owned enterprise, which is engaged in information and communication technology (ICT) services and telecommunications networks. Telkom categorises its businesses into three digital business domains – digital connectivity, digital platform, and digital services.

The company has an ESG score of 3.2.

i. E: Although its operations do not have a direct impact on the environment, TLKM minimises the industry's impact via measures including the use of renewable energy (to reduce fossil fuel energy consumption and emissions), implementation of waste management systems – particularly for electronic waste – and by using more energy efficient hardware.

ii. S: TLKM consistently ensures and encourages the active role of stakeholders in planning and formulating its social responsibility strategies. As of 2021, TLKM has spent IDR384bn (0.5% YoY) on community involvement and development activities.

iii. G: As a state-owned enterprise, TLKM is committed to implementing good corporate governance. In carrying out its business, TLKM upholds its business ethics. In Jan 2022, to improve its whistleblowing system, TLKM launched the Telkom Integrity Line, with improvements including cooperation with an independent party, establishing anonymous whistleblowing system and increasing the number of its complaint channels from three to seven.

We forecast ROEs of 20.7% and 21.9% for FY23 and FY24. We believe earnings growth will remain resilient, as ARPU growth is supported by increasing data demand. Potentially higher interest rates should not weigh on its net margin expansion, as its debt to EBITDA is the lowest among operators in Indonesia.

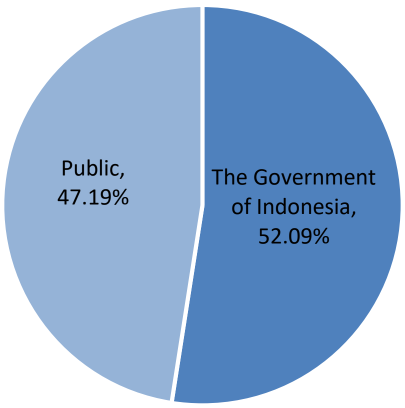
2023FY net debt/equity <0.6x. Among the telecommunications operators in Indonesia, TLKM's net debt/equity is the lowest.

We expect margins to improve ahead – driven by growing ARPU, supported higher demand for data going forward. TLKM aims to book mid-to-high single=digit revenue and EBITDA growth through its Five Bold Moves initiatives – primarily the fixed mobile convergence initiative, which is expected to be finalised between Jul and Aug 2023 – and optimisation of the fibre and data centre business.

Undemanding valuation. TLKM is trading at 4.8x EV/EBITDA, or 29% below our TP. Based on our SOP valuation, we maintain our TP at IDR5,100.

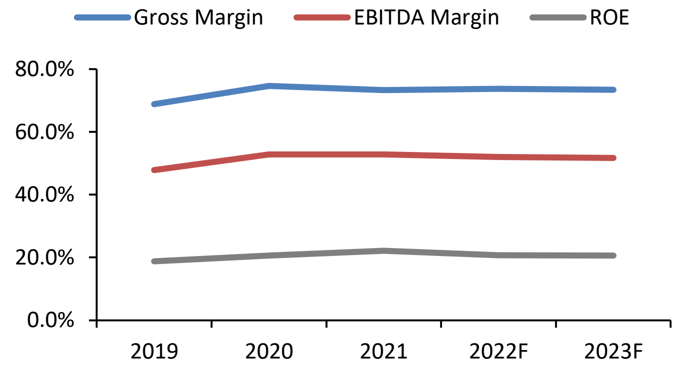
Downside risks to our recommendation: Tighter competition outside Java may impact its strong market share.

Figure 28: TLKM's shareholder spread



Source: Company data, RHB

Figure 29: TLKM's margin and ROE profiles



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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