28 May 2018

Against The Grain

Our Contrarian Calls

"Contrarian investing is simple but not easy"

Paraphrasing Warren Buffet

This report highlights our non-consensus stock calls. In our fundamental bottom-up analysis of our ASEAN plus Hong Kong coverage, we identified several companies where there is a disconnect between fundamentals and pricing. We reach these "contrarian ideas" from several perspectives, where our view of the future differs from the consensus or where our interpretation of events goes against the grain of perceived market wisdom. The table below shows our calls.

Our methodology uses fundamental analysis, coupled with RHB's on-the-ground insights. We do not aim to be contrarian just to be different, but have relied on thorough analysis and solid information:

i. We performed a fundamental bottom-up analysis to uncover disconnects between fundamentals and market prices. Where needed, we also looked at top-down macroeconomic forces;

ii. We took into account the various potential outcomes - we used scenario analysis. As stocks need catalysts to move prices, we have tried to identify such catalysts, wherever possible.

iii. We have corroborated our analysis with on-the-ground observations and discussions, often with industry experts.

Our findings have resulted in a list of 11 companies. In the table below, we have grouped these companies based on their ratings. A detailed write-up is inside. We present our recommendations on all these companies and our level of conviction is shown in the potential returns for these stocks.

This report, "Against The Grain", is now a quarterly exercise that highlights our contrarian calls on stocks that we cover in the region. Please click on the following link to our previous report *Against The Grain - Our Contrarian Calls*, which was issued on 15 Jan, if you are interested in our earlier offering.

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Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-18F	P/B (x) Dec-18F	Yield (%) Dec-18F
Cocoaland	BUY	MYR2.30	MYR3.10	34.8	13.3	1.9	4.3
Hartalega	BUY	MYR6.07	MYR7.20	18.6	40.8	9.7	1.5
Platinum	BUY	THB7.95	THB10.30	29.6	25.4	2.5	2.5
DBS	NEUTRAL	SGD28.95	SGD29.60	2.2	13.2	1.5	4.1
First Resources	NEUTRAL	SGD1.64	SGD1.60	(2.6)	12.0	1.8	2.7
Gadang	NEUTRAL	MYR0.75	MYR0.82	9.3	4.8	0.7	4.2
Charoen Pokphand	SELL	THB24.50	THB21.48	(12.3)	19.9	1.4	1.4
China Overseas Grand Oceans Grc	SELL	HKD3.55	HKD2.30	(35.2)	7.2	0.4	2.1
Indocement Tunggal Prakarsa	SELL	IDR17,750	IDR14,700	(17.2)	23.3	2.5	3.3
IRPC	SELL	THB6.75	THB6.43	(4.8)	10.9	1.5	4.6
Raffles Medical	SELL	SGD1.07	SGD1.02	(4.6)	27.8	2.5	2.1

Source: RHB; Data as of 24 May 2018

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Hong Kong/China

Figure 1: Contrarian call from Hong Kong/China

Company	Ticker	Rating	Target (LCY)	Share price (LCY)	Market cap (USDm)	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROAE (%)		Net Margin (%)	
						FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
China Overseas Grand Oceans Group	81 HK	SELL	2.3	3.56	1,553	6.6	5.6	0.7	0.6	4.4	4.3	19.4%	17.1%	7.7%	7.8%

Data as of 24 May 2018
Source: RHB, Bloomberg

China Overseas Grand Oceans Group (81 HK, SELL, TP: HKD2.30)

China Overseas Grand Oceans Group (COGO) is our contrarian SELL (six Buys, two Neutrals, two Sells) with a Street-low HKD2.30 TP. We see a danger of earnings disappointment in FY18F. Despite accelerating growth momentum in contracted sales and margin expansion medium term, we think the magnitude might be lower than consensus.

What is the consensus view?

- **FY18F and FY20F GPM** to rise to 20.3% and 23.8%;
- **FY18F contracted sales:** 30% YoY growth;
- **A rapid earnings recovery** of 40% CAGR over FY17-20F and earnings growth of 71.1% in FY18F.

Where do we differ?

- **Despite COGO's contracted ASP rising since FY17,** we expect FY18 GPM of 19.9%, 0.4ppts below consensus – dragged by a delivery of properties presold in FY16. Given that it takes 2-3 years for presold properties to be delivered, we anticipate FY17 presold properties of 21.5% YoY growth in contracted ASP should only yield significant GPM expansion from FY19F. In FY19-20, COGO's GPMs should be 21.4%/22.5% (vs 22.8/23.8% for consensus);
- **We are bullish on developers** with significant exposure in Tier-3&4 cities, but we are bearish on COGO given weak execution – slow asset turnover and low sell-through rates. COGO should report FY18F contracted sales of 25% YoY growth;
- **Our less optimistic assumptions** on GPMs and contracted sales lead us to expect earnings CAGR of 27.8% over FY17-20 and earnings growth of 50.1% in FY18.

What could possibly trigger a change in consensus?

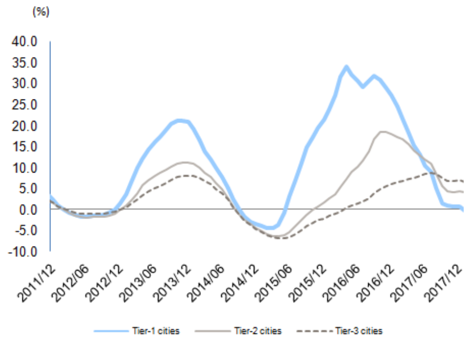
- **Weaker contributions** to property sales in COGO's addressable markets from the Government's shanty town redevelopment plan;
- **Inability to capitalise on the boom** in its addressable markets and report weaker-than-expected contracted sales growth;
- **Lower-than-expected properties** delivered and GPM.

Where could we potentially go wrong?

- **Faster-than-expected construction** leading to better-than-expected revenue and earnings growth;
- **Stronger-than-expected** contracted sales growth.

SELL with a TP of HKD2.30, based on a 65% discount to end-FY18F ENAV of HKD6.60.

Figure 2: A slowdown in ASP growth in Tier-3 cities



Source: IDC, Company data

Figure 3: COGO's weak growth outlook

Name	Stock Code	FY17-20F CAGR (%) Contracted Sales	Revenue	Net Profit
Country Garden	2007 HK	29.5%	34.2%	28.5%
Evergrande	3333 HK	24.5%	21.7%	26.7%
Sunac	1918 HK	32.7%	53.9%	40.8%
COLI	688 HK	27.6%	27.9%	24.4%
Longfor	960 HK	24.4%	23.0%	19.1%
CR Land	1109 HK	24.5%	33.2%	18.5%
Greentown	3900 HK	16.6%	17.0%	4.1%
CIFI	884 HK	39.1%	38.7%	36.3%
Shimao	813 HK	35.5%	29.8%	39.8%
Agile	3383 HK	36.2%	22.1%	25.9%
KWG	1813 HK	44.3%	33.1%	33.7%
CSC	1668 HK	17.2%	20.7%	15.0%
COGO	**81 HK**	**21.0%**	**15.7%**	**27.8%**

Source: IDC, Company data

Indonesia

Figure 4: Contrarian call from Jakarta

	Ticker	Rating	Target price	Share Price	Market Cap	P/E (x)		P/B (x)		EV/EBITDA (x)		ROAE		Net profit margin	
						Dec-18F	Dec-19F	Dec-18F	Dec-19F	Dec-18F	Dec-19F	Dec-18F	Dec-19F	Dec-18F	Dec-19F
Indocement Tunggal	INTP IJ	Sell	14,700	17,250	4,483	22.60	18.60	2.43	2.35	13.34	11.54	10.9%	12.9%	17.4%	19.4%

Note: Data as of 24 May 2018

Source: RHB, Bloomberg

Indocement Tunggal (INTP IJ, SELL, TP: IDR14,700)

Indocement Tunggal (Indocement) is our contrarian SELL with a low-end of consensus TP of IDR14,700. There are 30 analysts that cover the company: six have Buys, 12 are Neutral, and the remaining 12 are Sells. Street believes FY18 will be a recovery year for Indocement, given that its sales growth has accelerated. However, we believe earnings will likely remain under pressure – fuelled by potentially higher production costs.

What is consensus' view?

- **Market sees recovery in earnings,** indicated by a pick-up in cement sales growth;
- **Street expects** the company to accelerate the increase in its ASPs after the *Lebaran* festivities, when national cement demand is expected to see a pick-up;
- **Market also likes** Indocement's high dividend payout ratio policy.

Where do we differ?

- **We see competition** in the cement industry remaining intense, given the overcapacity situation in the market. While we expect FY18 domestic cement demand to grow 7% YoY, cement supply is estimated to grow at a faster 8.6% YoY;
- **Hence, un-utilised national cement production capacity** is likely to increase to 37% in FY18 from 36% in FY17. This production capacity is estimated to increase to 42m tonnes in FY18 from 37m tonnes in FY17;
- **Given the higher un-utilised capacity,** we see cement companies preferring to increase their sales volumes to reduce fixed costs per unit instead of raising ASPs. Still, while we do see the possibility of an ASP hike, it will only a final option to partially offset higher production costs, in our view;
- **EBIT margins are likely to decline,** driven by higher production costs. This is in line with the higher price of coal. Energy costs – which comprise coal and electricity – accounted for around 45% of manufacturing expenses. YTD, the average price of coal has increased to USD101 per tonne from USD88 per tonne in FY17.

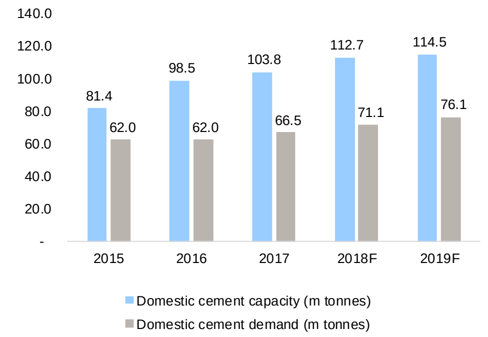
What could possibly trigger a change in consensus?

- **Results** below expectations;
- **A continued increase** in coal prices;
- **The commencement** of additional cement production capacity in the industry.

Where could we potentially go wrong?

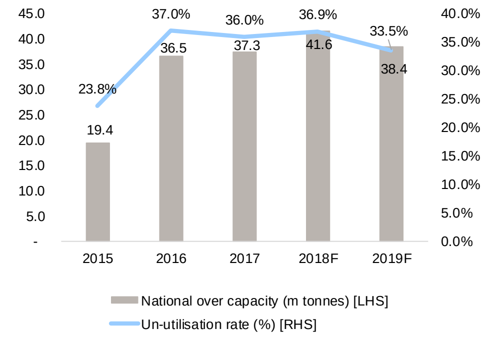
- **Stronger-than-expected cement sales volume growth** due to a pick-up in demand. Indocement has increased the penetration of its second brand *Rajawali* to compete with new players that have been selling cement at lower prices. This may accelerate the company's sales growth.

Figure 5: Domestic cement demand vs capacity



Source: Indonesia Cement Association, RHB

Figure 6: National over-capacity and its un-utilisation rate



Source: Indonesia Cement Association, RHB

Malaysia

Figure 7: Contrarian calls from Kuala Lumpur

Company	Ticker	Rating	Target (LCY)	Share price (LCY)	Market cap (USDm)	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROAE (%)		Net Margin (%)	
						FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
Cocoaland	COLA MK Equity	Buy	3.02	2.36	135.4	13.7	13.1	2.0	1.9	7.2	6.6	14.9	15.3	13.5	13.6
Hartalega^	HART MK Equity	Buy	7.20	6.11	5,034.0	39.7	33.0	9.6	9.1	26.6	22.3	24.9	28.4	16.3	17.3
Gadang^	GADG MK Equity	Neutral	0.82	0.76	125.3	4.8	4.4	0.6	0.6	2.7	2.4	14.2	13.8	14.6	14.7

Note: ^FY18-19 valuations refer to those of FY19-20
Note 2: Data as of 23 May 2018
Source: RHB, Bloomberg

Cocoaland (COLA MK, BUY, TP: MYR3.02)

We initiated on Cocoaland this year with a BUY and we are the only BUY on the Street. We have a consensus high TP of MYR3.02. We like the robust growth of its gummy products from steady local sales, as well as growing exports. With about 40 years' experience in food manufacturing and in-house products, the company has strong brand equity in the domestic market and is popular overseas.

What is the consensus view?

- **Our forecasts are in line with consensus** but, we believe the Street is too conservative with its valuation.

Where do we differ?

- **We use a higher valuation** vis-à-vis consensus, as we believe Cocoaland could potentially catch up, following the strong run-up in large-cap staple food stocks.

What could possibly trigger a change in consensus?

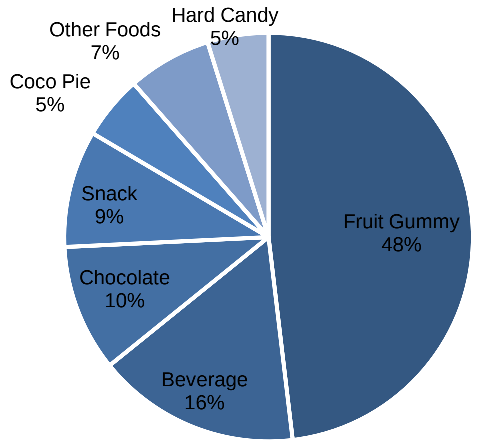
- **Higher earnings growth** and a stronger recovery in consumer sentiment may potentially cause the market to turn more bullish on this stock.

Where could we potentially go wrong?

- **Weaker earnings** if Cocoaland's contract manufacturing business falls more than expected, or if the gummy segment fails to sustain its strong growth momentum.

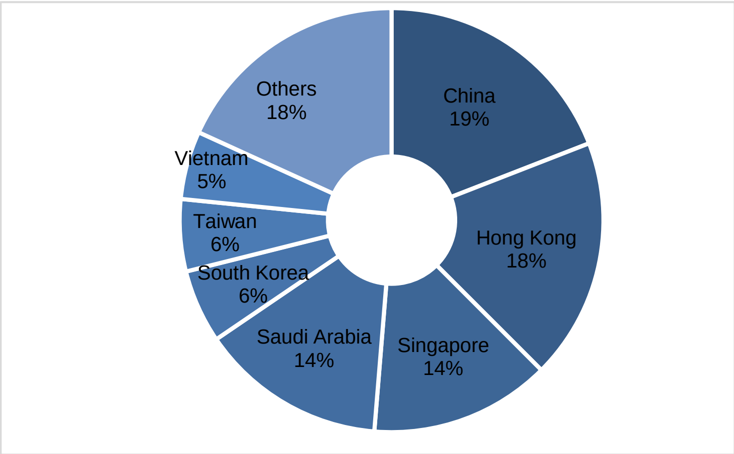
We have a BUY call and MYR3.02 TP, based on 16x FY18F P/E, or +1.5SD from its 5-year mean. We believe the valuation is fair given the robust sales of its gummy products, generous dividend payout from a sturdy balance sheet, healthy cash flow generation, and proven track record from its strong brand equity – both domestically and in its export markets.

Figure 8: Products composition



Source: Company data

Figure 9: Geographical sales mix



Source: Company data

Hartalega (HART MK, BUY, TP: MYR7.20)

We have a BUY call on Hartalega – one of two BUYs on the Street – and a consensus high TP of MYR7.20. The stock is our top contrarian call for Malaysia's rubber glove sector. It has outperformed relative to the market by more 100% over the last 12 months. We believe its outperformance should continue, driven by its imminent inclusion into the FBM KLCI come June, as well as our view of a stronger USD that ought to boost translated MYR-denominated earnings for the company. The stock remains a defensive play, driven by resilient demand from the medical industry.

What is the consensus view?

- **Consensus mainly has a neutral view** on the stock, as it is currently trading at 38x FY19F P/E. Valuations are at a 62% premium to its peers;
- **There are also diverging views** on the industry's ability to pass-through costs, capacity expansion, demand, and the USD/MYR trend. The Street is concerned that demand will moderate after strong growth in 2017, and the industry's c.15% YoY capacity expansion is likely to result in excess capacity in the market. Consensus also believes that the MYR will remain resilient.

Where do we differ?

- **We believe Hartalega's high valuation is justified,** as the company is more profitable when compared to its peers. It has consistently generated net profit margins of c.18-20% when compared to the peer average of 8-10%;
- **Hartalega targets to launch its anti-microbial gloves** in Europe by 2H18, and is working on securing US Food & Drug Administration (FDA) approval for America. In the mid- to longer-term, we expect the company's new anti-microbial gloves to potentially set a new norm in glove manufacturing, and possibly drive margins expansion in the interim, due to technological barriers to entry and product differentiation;
- **RHB's economics team** expects the USD/MYR rate to average 3.98 in 4Q18 and 4 in 1Q19, mainly driven by the view that inflation could surprise on the upside – resulting in higher rates that will benefit the USD;
- **We believe glove manufacturers are rational** and will be able to manage their capacity expansion plans to match demand.

What could possibly trigger a change in consensus?

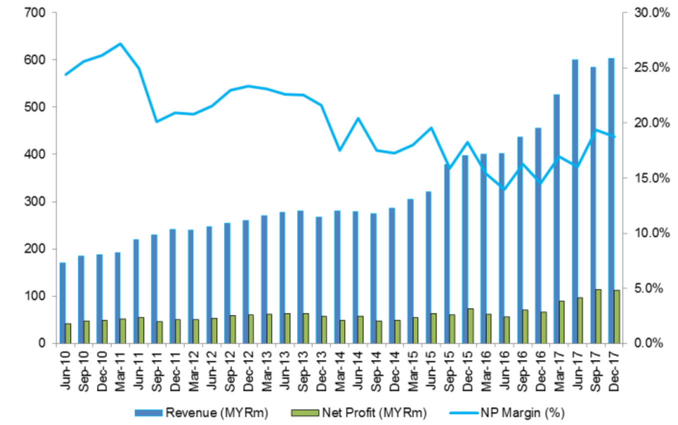
- **A stronger USD,** further environmental regulations in China resulting in a shortage of vinyl gloves, and roll-out of new products by Hartalega, which could potentially lead to greater product differentiation and barriers to entry.

Where could we potentially go wrong?

- **Weaker-than-expected glove demand,** volatility of input costs that will result in its inability to pass-through costs effectively, and booking disappointing earnings.

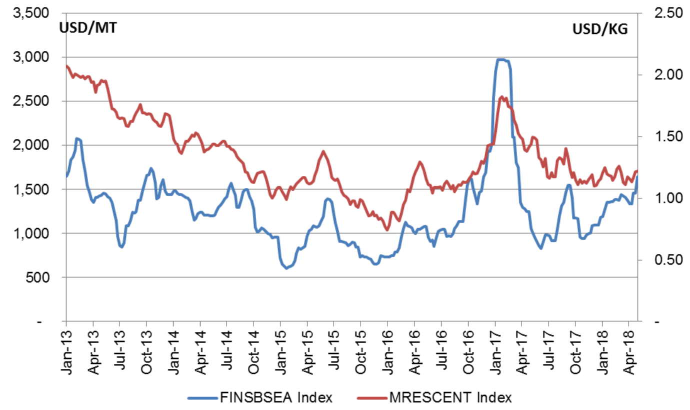
BUY. Our DCF-based TP of MYR7.20 values the stock at 41x P/E, +2SD above its 1-year forward P/E. We believe the higher-than-peer average valuation for Hartalega is justified by its better profitability and consistent earnings/management track record.

Figure 10: Consistent earnings growth, resilient demand



Source: Company data

Figure 11: Cost pass-through mechanism in place



Source: Bloomberg, Company data

Gadang (GADG MK, NEUTRAL, TP: MYR0.82)

We have a NEUTRAL on Gadang with a Street low TP of MYR0.82. Gadang is a contrarian call as the market – in our view – is too generous in its valuation of the company. We prefer to take a more conservative stance, and have a NEUTRAL call on the stock versus two BUYs from our competitors.

What's the consensus view?

- **Consensus prefers to value** the company at a higher forward FY18 P/E of 9x vs our 6x, which is in line with Gadang's 3-year average P/E;
- **Consensus holds a more optimistic view** of the construction & engineering sector despite uncertainties on future large-scale infrastructure projects – which rationalises its higher target multiple.

Where do we differ?

- **We are more cautious** on the construction sector, following a change in the Federal Government, which intends to review the viability of major upcoming infrastructure projects;
- **Earnings over the past 2-3 financial years** were skewed on the upside by the property development segment, which has softened in FY18;
- **We believe a lower P/E** better justifies the company's near- to mid-term prospects.

What could possibly trigger a change in consensus?

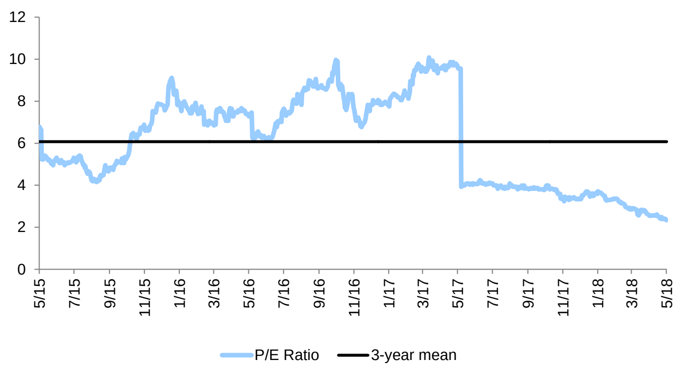
- **We expect the market** to turn more cautious, as fewer new construction jobs are booked and contributions from the property segment slow further.

Where could we potentially go wrong?

- **Stronger-than-expected construction jobs flow** and higher-than-expected take-up rates in Gadang's developments.

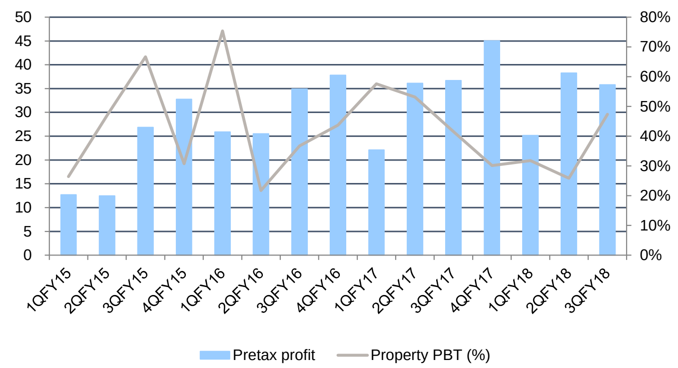
We have a NEUTRAL rating on the company, while our SOP-based TP also implies a FY18F P/E of 6x – this is in line with Gadang's 3-year mean. We view this as justified, as we expect its prospects to be subdued in the near- to mid-term.

Figure 12: Gadang 3-year mean P/E



Source: RHB, Bloomberg

Figure 13: Quarterly PBT and property contributions (%)



Source: RHB, Company data

Singapore

Figure 14: Contrarian calls from Singapore

Company	Ticker	Rating	1FY end	TP (LCY)	Price (LCY)	MCap (USDm)	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	EV/EBITDA (x) 1FY	EV/EBITDA (x) 2FY	ROAE (%) 1FY	ROAE (%) 2FY	Net Margin (%) 1FY	Net Margin (%) 2FY
DBS Group Holdings	DBS SP	Neutral	Dec-18	29.60	28.73	54,607	13.1	12.5	1.5	1.4	na	na	11.6%	11.5%	na	na
First Resources	FR SP	Neutral	Dec-18	1.60	1.64	1,911	12.0	9.8	1.8	1.6	6.7	5.5	15.9%	17.5%	27.0%	28.7%
Raffles Medical	RFMD SP	Sell	Dec-18	1.02	1.07	1,412	27.8	30.6	2.5	2.4	14.3	13.9	9.0%	7.9%	13.4%	10.9%

Note: Data as of 23 May 2018

Source: RHB, Bloomberg

DBS (DBS SG, NEUTRAL, TP: SGD29.60)

We have a NEUTRAL on DBS with a TP of SGD29.60 at the low-end of consensus. There are 16 Buys and six Neutral recommendations (including ours), for this stock. Our TP of SGD29.60 is lower than consensus' SGD33.07. While we see the bank's earnings improving on the back of a rising interest rate environment, we believe its valuation is stretched, and DBS may be susceptible to news flow regarding delays or less frequent hikes in the US federal funds rate (FFR).

What is the consensus view?

- **Consensus is bullish on DBS,** due to its earnings enhancement from interest rate hikes. The market expects the FFR to increase over the next few quarters, and this ought to help raise the SIBOR and contribute to NIMs widening. We concur with this view;
- **NPLs have stabilised** after the issues with oil & gas service support players surfaced and were sorted out – about two years back. Consensus and our expectations are for credit costs to be more moderate, going forward.

Where do we differ?

- **We differ with consensus** over DBS' valuation. The stock has traded at an average P/BV of 1.17x over the past five years, and is currently at a sharply higher 1.46x P/BV – this implies a premium of 0.29x, which compares with United Overseas Banks' (UOB) premium of 0.08x;
- **The market has factored in** a fair bit of positives into the bank's share price. The consensus TP for DBS suggests that market expects its long-term ROEs to be closer to 14%, which will be contingent on continued rises in the FFR. We see the bank being susceptible to news flow on delays or fewer FFR hikes, going forward.

What could possibly trigger a change in consensus?

- **News flow** relating to the FFR hike trend could change the consensus view on DBS.

Where could we potentially go wrong?

- **If the uptrend** in FFR escalates, then the bank's earnings growth could come in stronger than we expected.

We have a NEUTRAL call, while our GGM-derived TP reflects a long term ROE of 12.9% and CoE of 9.6%, which yields a target P/BV of 1.51x. After the special dividend of SGD0.50 (ex-dividend on 3 May), there is limited scope for DBS to dish out a similar amount of one-off dividends. This may limit share price upside.

Figure 15: Banks' NIMs

Net Interest Margin	DBS	OCBC	UOB
FY15	1.77%	1.67%	1.77%
FY16	1.80%	1.67%	1.71%
1Q17	1.74%	1.62%	1.73%
2Q17	1.74%	1.65%	1.75%
3Q17	1.73%	1.66%	1.79%
4Q17	1.78%	1.67%	1.81%
FY17	1.75%	1.65%	1.77%
1Q18	1.83%	1.67%	1.84%
FY18F	1.85%	NA	1.86%

Source: Companies data, RHB

Figure 16: Banks' capital adequacy ratio (CAR)

	DBS	OCBC	UOB
3Q17 CET1 CAR	14.0%	13.2%	14.3%
3Q17 Tier 1 CAR	14.8%	14.0%	14.8%
FY17 CET1 CAR	14.3%	13.9%	15.1%
FY17 Tier 1 CAR	15.1%	15.0%	16.2%
1Q18 CET1 CAR	14.0%	13.1%	14.9%
1Q18 Tier 1 CAR	15.0%	14.2%	16.4%

Source: Companies data

First Resources (FR SP, NEUTRAL, TP: SGD1.60)

We have a NEUTRAL on First Resources with a Street low TP of SGD1.60. There are 10 Buy calls and six Neutrals (including us), with our SGD1.60 TP implying a flat performance ahead. The bulls, however, see a 25% upside, with most of BUY calls having been in place for the better part of this year. This is quite a feat for a stock that has fallen 14% YTD and underperformed the STI by 19% during the same period. Our less table-thumping view is based on the tough operating environment that the company is in, given the lacklustre CPO prices and increasing competition on the downstream front. This makes it difficult to drive earnings and, therefore, valuations to attractive levels.

What is the consensus view?

- **Majority of brokers** have a Buy call, with an average TP of SGD2.02 per share;
- **There is a divergent view** on CPO price direction and fair valuations for the stock.

Where do we differ?

- **We believe First Resources is fairly valued** at current levels, as it is trading at 12.3x 2018F earnings, or slightly higher than its 5-year historical average of 11.3x. However, it is lower than its 10-yr historical average of 13.5x. It is also trading at a slight premium to the current average valuation for its SGX- and JSX-listed peers of 11.5x;
- **As we expect CPO prices** to remain relatively unexciting for the next 4-5 months, we see no catalysts to move to the consensus TP in the medium term, given that its share price already fairly reflects its 3-year earnings CAGR of 15%. CPO prices for YTD (April) are averaging USD623 per tonne, from a high of USD651 per tonne in January.

What could possibly trigger a change in consensus?

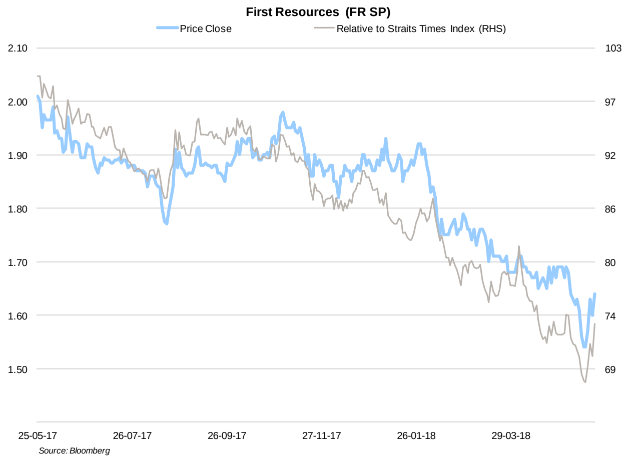
- **We expect the market** to turn more negative on First Resources if its earnings continue to disappoint with weaker upstream profits on the back of lower CPO prices (every MYR100 per tonne change in CPO price affects its earnings by 4-5%). Dismal downstream contributions are also a factor – as they were in the recent 1Q18 results.

Where could we potentially go wrong?

- **Stronger demand** for its products – not just CPO but also for refined products and biodiesel – as well as a significant spike in CPO prices.

We have a NEUTRAL call and our TP is based on a target 2018 P/E of 12x – this is in line with First Resource's 5-year forward mean. Our TP suggests EV/ha of USD13,000, which is in line with its regional peers, which trade between USD10,000-15,000 per ha.

Figure 17: First Resources' yearly share price performance vs the STI



Source: Bloomberg, RHB

Figure 18: Breakdown of First Resources' 1Q18 segmental earnings

Segments	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue					
CPO	104.8	122.1	107	-12.3	2.1
PK	25.5	25.7	24.7	-4.1	-3.2
FFB	4.2	3.7	3.3	-10.7	-22.1
Downstream	181.8	169.5	128.4	-24.2	-29.4
EBITDA					
Plantation & palm oil	75.5	71.4	68.5	-4.1	-9.2
Downstream	7.3	4.7	-0.7	-115.2	-109.7

Source: IDC, Company data

Raffles Medical (RFMD SP, SELL, TP: SGD1.02)

Raffles Medical (Raffles) is our contrarian SELL, with a TP of SGD1.02 at the low-end of consensus. The market has probably underestimated Raffles, particularly its potential losses from new China hospitals. Consensus is neutral on the outlook. The average 12-month SGD1.19 TP by 12 analysts on the Street – including RHB – suggest an 11% upside from the current share price. We believe this is hard to achieve, given the start-up costs from new China hospitals that is likely to weigh on its bottom line over the next two years.

What is the consensus view?

- **Consensus is neutral,** even with the commencement of its China hospitals nearing;
- **Despite the slow growth** from Singapore operations, there was a slight recovery in patient loads and stable operating margins in 1Q18. Potential rental income from tenanted space in the Raffles hospital extension could support bottomline.

Where do we differ?

- **We are bearish** on Raffles' near term outlook, as we think start-up costs from the new China hospitals will cut the bottom line, especially in FY19 when the Chongqing hospital is in the second year of its ramp-up phase while the Shanghai hospital opens;
- **Based on consensus earnings,** we think the market has not fully priced in the start-up costs of the new hospitals;
- **Structurally,** we think local operations are increasingly difficult. Insurers no longer offer full-rider Integrated Shield Plan (IPs) to new customers. The IPs allows patients to pay nothing for hospital bills, as it is fully-covered under this plan. The strong SGD against regional currencies also deems Singapore's private hospitals less competitive than their regional peers;
- **Rental income** from the Raffles' hospital extension could come later than expected, as our recent visit shows that most of the floors are still empty. We note that Raffles could give a few lease-free months to new tenants, similar to what was offered at the Holland Village medical centre.

What could possibly trigger a change in consensus?

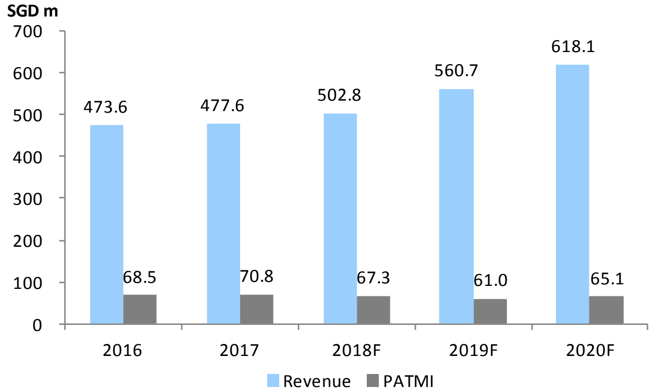
- **We expect** the market to turn more bearish on Raffles when its Chongqing hospital starts operations in 4Q18 and registers losses.

Where could we potentially go wrong?

- **Strong traction** in its China hospitals leading to a faster ramp-up phase, and lower start-up losses;
- **An ageing population** in Singapore could support stronger revenue and volume growth from local patient loads.

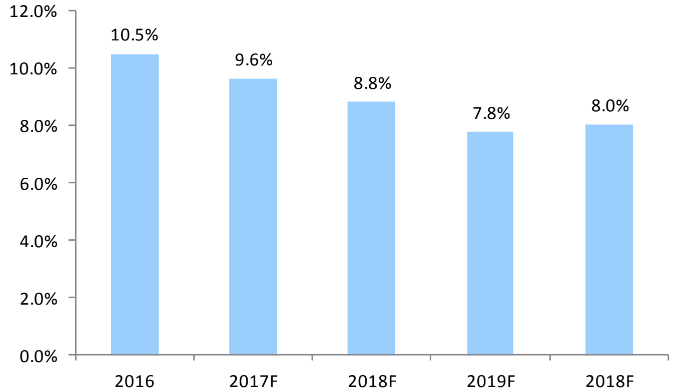
SELL with a DCF-based SGD1.02 TP, implying 28x FY18F P/E, slightly below its 5-year mean of 29x. While valuations are undemanding when compared to other hospital peers, this is underpinned by a potential drag in bottomline over the next two years.

Figure 19: Revenue and PATMI forecast



Source: Company data , RHB

Figure 20: ROEs to fall as a result of start-up costs



Source: Company data, RHB

Thailand

Figure 21: Contrarian calls from Bangkok

Company	Ticker	Rating	Target (THB)	Share price (THB)	Market cap (USDm)	P/E (x)		P/BV (x)		EV/EBITDA (x)		ROAE (%)		Net Margin (%)	
						FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F	FY18F	FY19F
Charoen Pokphand Foods PCL	CPF TB	SELL	21.5	24.8	6,645.5	20.3	17.4	1.4	1.3	23.6	20.0	6.5%	7.9%	2.5%	2.9%
IRPC PCL	IRPC TB	SELL	6.4	6.9	4,355.7	11.1	10.9	1.5	1.4	7.6	7.0	13.9%	13.2%	5.5%	5.1%
The Platinum Group PCL	PLAT TB	BUY	10.3	8.0	692.7	25.4	18.0	2.5	2.3	15.7	11.8	9.9%	13.2%	40.8%	34.8%

Note: Data as of 23 May 2018
Source: RHB, Bloomberg

IRPC (IRPC TB, SELL, TP: THB6.43)

IRPC is our contrarian SELL, with a TP of THB6.43 at the low-end of consensus. The company is an integrated refinery and petrochemicals player, with total refining and petrochemical capacities of 215kbpd and 3.1mtpa respectively. While consensus TP average is THB7.96 per share – with 20 Buys on Bloomberg – we have a SELL with a TP of THB6.43 per share.

What is the consensus view?

- **Consensus net profit for 2018 is slightly higher than ours,** at THB13.3bn. Management has also guided for full utilisation of its refinery (100%) and robust GIMs;
- **The market may expect IRPC to more likely achieve** its targets rather than not.

Where do we differ?

- **We expect a 2018 net profit at THB12.6bn (+17% YoY).** This is with our assumption that its refinery will be able to run at 100%, or 215kbpd. We expect GIMs at USD14.90 per bbl, with contributions from the refinery at USD5.40 per bbl, petrochemicals at USD8.50 per bbl, and power at USD1 per bbl. This is mostly within consensus range, if not slightly lower;
- **We believe the annual targets set by IRPC may be quite a stretch to reach,** as this will be the first year that its refinery will run at a 100% utilisation rate. Additionally, the refinery's contributions and spreads may be under pressure due to the rising crude premium;
- **While IRPC's net profit and EBITDA looks set to improve in the coming years,** we remain concerned about its financial obligations. For 2018, its operating cash flow is c.THB20bn. However, after its financial obligations totalling THB23bn – ie debt repayments (THB10bn), capex (THB7bn) and dividends (THB6bn) – its cash flow remains quite thin.

What could possibly trigger a change in consensus?

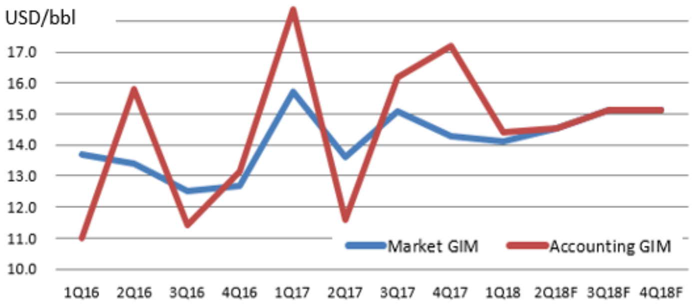
- **We expect the market to perhaps turn less** positive on this company once its quarterly earnings enter at a lower-than-expected range.

Where could we potentially go wrong?

- **Stronger refinery margins and petrochemicals spreads** could push earnings into a higher range. IRPC's refineries and petrochemicals plants may run at a higher rate than we expect, while its efficiency and cost-cutting programmes may achieve better than what we expected.

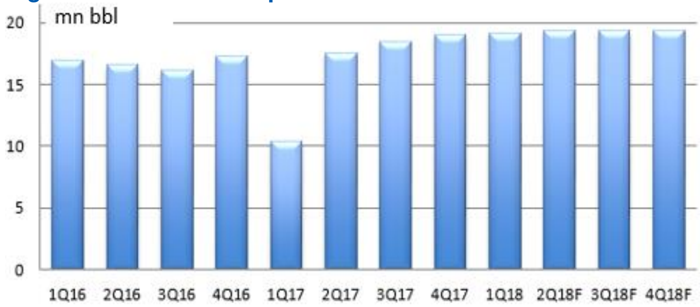
We have a SELL, and our THB6.43 TP is based on 1.4x 2018F P/BV, or +1.35x SD of its forward P/BV. This implies a FY18F P/E of 10.4x. We view this as justified, as the SET Energy Index forward P/BV is at trading at a +2SD forward P/BV of 1.7x.

Figure 22: IRPC's market and accounting GIM



Source: RHB, Company data

Figure 23: IRPC's total production



Source: RHB, Company data

Charoen Pokphand Foods (CPF TB, SELL, TP: THB21.50)

Charoen Pokphand Foods (Charoen Pokphand) is our contrarian SELL with a Street low TP of THB21.50. There are 17 BUYs, four Neutrals and two Sells on Bloomberg. We think the market has overestimated the rebound in its Vietnam swine business. The latter has been pressuring earnings for a year now. While consensus is very bullish on the rebound, we suspect this might not enough to turn around the group's operations because:

i. **The swine business in Thailand** is still under pressure;
ii. **Local feed costs** remain at high levels;
iii. **There is an oversupply scenario** with India's shrimp supply:
iv. **Bellisio Foods** is still underperforming.

What is the consensus view?

- **Consensus is bullish on the rebound in swine prices in Vietnam,** which has spiked up to VND40,000 per kg (+33% QoQ) from VND30,895/kg in 1Q18. Street believes that this could turn this business unit profitable in 2018.

Where do we differ?

We think Charoen Pokphand's Vietnam business unit cannot turn around the group's overall earnings. This is because:

- **Its swine business in Thailand still remains under pressure.** With the farm business in Thailand accounting for 15% of total revenue and Vietnam only making up 7%, we suspect the recovery in the latter might not be enough to completely turn around the group's overall business;
- **Local feed costs remain at high levels.** The price of corn – the core raw material for Charoen Pokphand's livestock feed – still stood at 3-year highs in 1Q18. We think this could continue to pressure the group's livestock GPMs in the latter half of this year;
- **An oversupply of shrimp in India and increase in exports** has caused shrimp prices in Thailand to decrease significantly in recent months to THB125 per kg from an ASP THB174 per kg in 2017 (-40%). We think this could result in an overall slowdown of Charoen Pokphand's aquaculture business from its prior rebound;
- **Its latest big M&A is still underperforming.** Bellisio Foods still recorded a loss of THB300m in 1Q18**.** We think it needs more time to turn profitable, given the intense competition in the US frozen food industry.

What could possibly trigger a change in consensus?

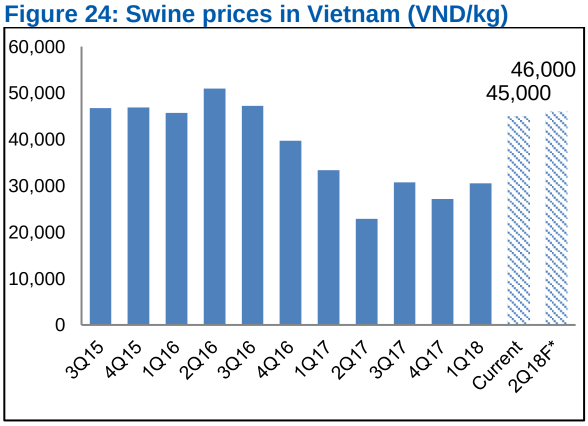
- **We expect the market to turn more negative** on Charoen Pokphand after its 2Q18 results are announced.

Where could we potentially go wrong?

- **Better swine and broiler prices** in Vietnam and Thailand;
- **Any significant changes** in the trade dispute between the US and China, which caused an increase in the latter's imports of swine and broiler.

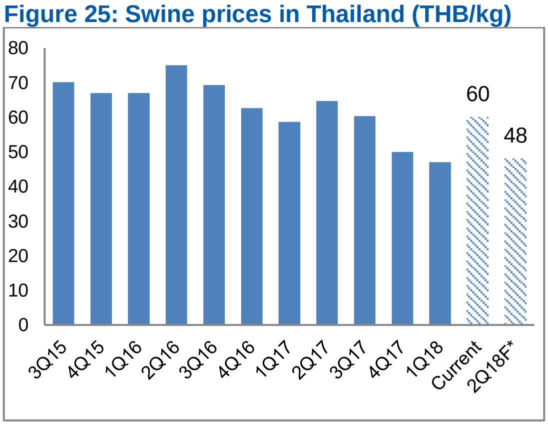
We have a SELL on Charoen Pokphand, and our TP is based on BV multiples, which implies a FY18F P/BV of 1.1x, -1SD from its 3-year average. This is to buffer the commodities price risk, which might delay its core earnings recovery. We view this as justified, as we expect the group's share price to continue trading at low valuation levels – this is because its core operations are struggling in a trough cycle, given the commodities nature of its business.

Figure 24: Swine prices in Vietnam (VND/kg)



Source: Company data, RHB

Figure 25: Swine prices in Thailand (THB/kg)



Source: Company data, RHB

Platinum (PLAT TB, BUY, TP: THB10.30)

We have a BUY on Platinum with a Street high TP of THB10.30 while the consensus average TP is THB8.72. Platinum develops retail property projects, with its core businesses that include rental and services, hotels, and food centres. We like the company for its solid flow of recurring income, while the opening of The Market Bangkok in 4Q18 is a near-term catalyst.

What is the consensus view?

- **Consensus net profit** for 2018 is a moderate 7% lower than our estimate, at THB818m. This is because there have been doubts over a possible increase in opex as Platinum prepares for the opening of The Market Bangkok at year's end, which may undermine earnings growth. Other issues are over the success of its new projects, and the discontinuity in the launches of development projects.

Where do we differ?

- **We expect 2018 net profit** to be THB878m (+14% YoY), before jumping to THB1.24bn (+41% YoY) in 2019. The opening of The Market Bangkok in 4Q ought to double its net leasable area and act as growth driver. The mall is positioned to cater to the lower- to middle-income segments, ie the remaining segments that do not have retail space dedicated to them in Ratchaprasong's shopping area. We believe there is still robust demand for retail space among small vendors in Bangkok's prime shopping area. We expect it to have an occupancy rate of 75% when it opens. We also anticipate the number to increase gradually to 80% in FY19;
- **As the country's biggest** and most successful destination for modern clothing sold wholesale, we believe Platinum will continue to command stronger rental rates for renewed contracts at its Platinum Fashion Mall project, and higher room rates at its hotel, the Novotel Bangkok Platinum Pratunam. This is based on the improving domestic economy and strengthening tourism environment, which may help to boost spending and demand. The factors may widen its GPMs and help limit the impact of an increase in its opex-to-earnings ratio this year.

What could possibly trigger a change in consensus?

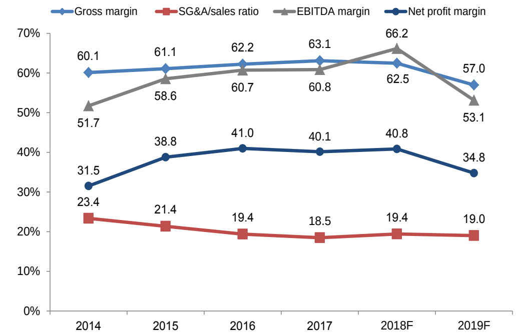
- **The market may turn** more positive on Platinum, based on its efficiency in increasing rental rates at Platinum Fashion Mall, as well as controlling opex, and further progress in obtaining leases for The Market Bangkok.

Where could we potentially go wrong?

- **Higher-than-expected** pre-opening expenses for The Market Bangkok mall may dampen net profit growth;
- **Weak consumption** and tourism may affect traffic to its flagship mall and hotel. This, in turn, may undermine the magnitude of rental rate increases for the wholesale mall and the hotel's revenue per available room (RevPar) growth;
- **Delays in the opening** of new projects including The Market Bangkok and the two hotels in Koh Samui. There are also future plans to launch a hotel and office building at The Market Bangkok in 2021 and 2022 respectively.

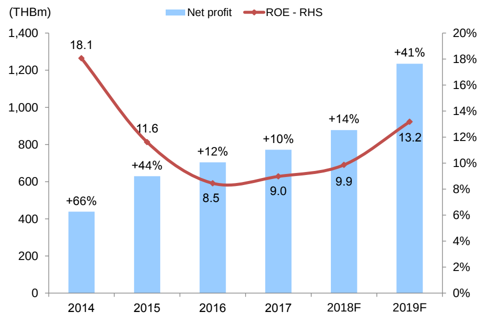
We have a BUY call on the stock, while our DCF-based TP is THB10.30 (WACC: 8.37%, TG: 3%) also reflects a FY18F P/E of 33x. Its valuation is justified when compared with Central Pattana (CPN TB, BUY, TP: THB95.00), which operates in the same business. It is a recurring income-based firm that suits long-term investments. Platinum's superior earnings growth outlook in 2019 may bring down its P/E to 18x next year from 25x currently, and make it much cheaper than Central Pattana (24x FY19F P/E). Its ROEs may also escalate to 13% in 2019 vs 10% projected for this year.

Figure 26: Platinum's profit margin trend



Source: Company data, RHB

Figure 27: Platinum's net profit, net profit growth and ROE



Source: Company data, RHB

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