CREDIT SUISSE

Asian Daily (Asia Edition)

Taiwan Semiconductor Manufacturing

6 July 2021
Asia Equity Research

Top of the Pack

CS Pic of the Day

Taiwan Semiconductor Manufacturing: ESG report profiles sustainable ROIC

TSMC prioritizes ESG at the Chairman/Board level

Source: Company data

The company formalised ESG within the organisation by renaming its governing bodies from CSR to ESG in March 2021, with TSMC's governance now led by its ESG Steering Committee and ESG Committee. TSMC's Chairman (Mark Liu) heads up the ESG Steering Committee to place direction at the top of the organisation and is led by Executives from different functional groups for quarterly meetings to formulate visions, strategies and collaborate on implementation.

Regional

Research by Markets

China

Malaysia

Singapore

Taiwan

Thailand

Connecting clients to corporates

Corporate Days / Conferences

Korea Company Insights - Semiconductor / Display Equipment Day	
Date	15 July
Info	Virtual Event
India Consumer Day	
Date	10 - 12 August
Info	Virtual Event
Indonesia Day	
Date	11 - 13 August
Info	Virtual Event
Taiwan Non-Tech Day	
Date	16 - 18 August
Info	Virtual Event
9th China Internet C-Level Virtual Conference	
Date	30 August - 01 September
Info	Hong Kong
6th Credit Suisse Japan Kyoto+ Conference	
Date	01 - 03 September
Info	Taipei
22nd Asian Technology Conference	
Date	06 - 10 September
Info	Virtual Event
2nd Japan New Economy Day	
Date	28 - 30 September
Info	Virtual Event
12th Annual China Investment Conference	
Date	01 - 05 November
Info	Shenzhen
Japan Corporate Day	
Date	17 - 19 November
Info	Virtual Event

Key Changes

	EPS			TP	
(% change)	T+1	T+2	Chg	Up/ Dn	Rating
Win Semi	(0.3)	(2.7)	0.0	(5.0)	N
VPEC	8.5	5.9	3.2	15.5	O
Alibaba	(4.4)	(7.0)	(2.7)	16.2	O
Alibaba (H)	(4.4)	(7.0)	(2.4)	18.9	O
Airtac	3.1	0.6	0.0	24.5	O
BYD (H)	0.0	0.0	0.0	20.6	O
BYD (A)	0.0	0.0	0.0	12.2	O

Asian Indices - Performance

% change	Latest	1D %	1W %	3M %	YTD %
ASX300	7,302	0.6	0.0	7.2	11.1
CSEALL	7,747	0.2	(0.8)	7.7	14.4
Hang Seng	28,310	(1.8)	(3.3)	(2.2)	4.0
HS H-Share	10,416	(2.3)	(4.3)	(7.1)	(3.0)
HS Red Chip	3,957	(0.9)	(3.2)	(3.6)	4.2
JCI	6,023	0.3	0.0	0.2	0.7
KLSE	1,533	(0.1)	(1.7)	(3.3)	(5.8)
KOSPI	3,282	(0.0)	(0.6)	5.4	14.2
KSE100	47,686	(0.2)	(0.0)	7.6	9.0
NIFTY 50	15,722	0.3	(0.9)	5.7	12.4
NIKKEI	28,622	(0.6)	(1.5)	(3.6)	4.3
TOPIX	1,956	0.9	(0.3)	(0.8)	8.4
PCOMP	7,002	0.5	0.7	8.7	(1.9)
SET	1,578	(1.0)	(0.3)	(1.1)	8.9
STI	3,129	0.2	0.2	(1.7)	10.0
TWSE	17,710	(0.0)	1.2	6.9	20.2
VNINDEX	1,420	0.2	2.2	16.0	28.7

Source: Credit Suisse Rave

Global Indices

%change	Latest	1D %	1W %	3M %	YTD %
DJIA	34,786	0.4	1.0	4.9	13.7
S&P 500	4,352	0.8	1.7	8.3	15.9
NASDAQ	14,639	0.8	1.9	8.6	13.6
SOX	3,316	0.6	2.3	2.3	18.6
EU-STOX	3,535	0.2	(0.3)	6.0	13.7
FTSE	7,123	(0.0)	(0.2)	5.7	10.3
DAX	15,650	0.3	0.3	3.6	14.1
CAC-40	6,553	(0.0)	(1.1)	7.4	18.0
10 YR LB	1.432	0.1	(3.2)	(13.5)	57.1
2 YR LB	0.236	(1.0)	(7.2)	43.2	101.1
US$:E	1.186	(0.0)	(0.6)	0.4	(2.9)
US$:Y	111.0	(0.1)	0.2	0.7	7.5
GOLD	1,787	0.6	0.4	3.4	(5.8)
VIX	15.07	(2.6)	(3.5)	(13.0)	(33.8)

Source: Credit Suisse Rave

Asian currencies (vs US$)

% change	Latest	1D %	1W %	3M %	YTD %	Target 3M	Target 12M
A$	0.752	(0.0)	(0.7)	(1.7)	(2.2)	0.79	0.8
Bt	32.1	0.0	1.1	2.6	7.0	30.9	30.5
D	22,998	(0.1)	(0.1)	(0.3)	(0.3)	n.a.	n.a.
HK$	7.77	0.0	0.0	(0.1)	0.2	7.76	7.8
JPY	111.0	(0.1)	0.2	0.7	7.5	109.0	107.0
NT$	27.89	0.0	0.0	(2.0)	(0.6)	31.0	31.0
P	49.1	(0.5)	1.2	1.1	2.3	47.2	47.0
PRs	157.5	0.0	0.0	3.6	(1.4)	n.a.	n.a.
RM	4.16	0.1	0.2	0.6	3.5	4.08	4.05
Rmb	6.47	0.1	0.3	(1.4)	(0.8)	6.3	6.29
Rp	14,530	0.2	0.8	0.1	3.5	14,100	14,000
Rs	74.51	(0.1)	0.4	1.6	2.0	74.0	73.5
S$	1.35	0.0	0.4	0.4	2.0	1.31	1.29
W	1,129	(0.1)	0.3	0.5	4.1	1,090	1,080

Source: Credit Suisse Rave

Asian Indices

Index	EPS grth.(%)		P/E (x)		Performance		
	T+1	T+2	T+1	T+2	1D%	1M%	YTD%
Asia x Japan	37.3	12.2	16.3	14.6	(1.2)	(2.5)	3.8
Asia Pac x JP	38.7	11.3	16.6	14.9	(0.9)	(2.5)	4.3
Australia	29.5	16.5	19.8	17.0	(0.0)	(0.6)	11.4
China	16.7	18.5	17.0	14.3	(2.3)	(3.7)	(1.6)
Hong Kong	32.1	13.2	18.5	16.4	(0.7)	(3.1)	7.5
India	33.4	16.7	23.3	20.0	0.2	1.1	13.9
Indonesia	28.2	20.5	15.9	13.2	0.5	(5.7)	(10.1)
Japan	20.8	11.5	16.7	14.9	0.8	0.7	8.6
Korea	98.0	5.3	12.0	11.4	(0.1)	1.6	8.7
Malaysia	107.9	(6.0)	12.6	13.4	(0.2)	(4.6)	(7.7)
Pakistan	26.2	28.1	8.0	6.2	0.2	(5.7)	(10.8)
Philippines	52.1	25.7	21.0	16.7	0.6	2.5	(1.4)
Singapore	44.8	13.6	15.0	13.2	0.1	(0.9)	9.6
Taiwan	42.0	2.7	16.2	15.8	(0.3)	0.9	16.6
Thailand	58.8	14.7	19.9	17.3	(0.7)	(2.6)	4.1

Source: Credit Suisse Rave

Asian Daily

6 July 2021

Taiwan Semiconductor Manufacturing (2330.TW)

New report: ESG report profiles sustainable ROIC

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (NT$): 675.00

Previous target price (NT$): 675.00

- **ESG focus elevated.** We highlight takeaways from the 230pg CSR report published on 30-Jun, outlining its plans and progress in ESG.
- **CSR highlights**. (1) TSMC maintains innovation through wide technology and product offerings; (2) Investment intensity remains with R&D targeting 8.5%/sales vs 8.2% in 2020; (3) Staff turnover at 5.3% though new hiring did rise to 15.7%; (4) Female mix down to 37%; (5) China wafer localisation target only 5% by 2030.
- **Controlling Moore's Law's rising environmental cost.** Environmental externalities rose 15% YoY from increased process steps and higher power EUV. TSMC is managing these challenges through strong environmental conservation efforts.
- **Sustainable ROIC and GMs**. Strong customer/supplier relationships and innovation should allow it to offset higher capex through higher pricing and share gains on advanced nodes driving power, performance, density and system gains with 3DFabric. We stay OUTPERFORM with NT$675 TP (25x 2022E ex-cash) with path to NT$750-930 based on 20-25x ex-cash NT$36 EPS by 2025.

Price (05-Jul-21, NT$)	**591.00**	Est. pot. % chg. to TP			14.2
Mkt cap (NT$/US$ mn)	15,324,855 / 549,239	Blue sky scenario (NT$)			787.64
Number of shares (mn)	25,930	Grey sky scenario (NT$)			450.08
Free float (%)	87.3	**Performance**	**1M**	**3M**	**12M**
52-wk range (NT$)	673 - 338	Absolute (%)	(0.7)	(3.1)	79.4
ADTO-6M (US$ mn)	1,052.1	Relative (%)	(5.2)	(10.2)	28.9

Year	**12/19A**	**12/20A**	**12/21E**	**12/22E**
Revenue (NT$ mn)	1,069,985	1,339,255	1,549,735	1,759,676
EBITDA (NT$ mn)	659,543	898,509	1,060,955	1,215,730
EBIT (NT$ mn)	372,701	566,784	635,443	718,730
Net profit (NT$ mn)	345,301	518,158	583,530	654,772
EPS (CS adj.) (NT$)	13.32	19.98	22.5	25.25
Chg. from prev. EPS (%)	n.a.	n.a.	0.0	0.0
Consensus EPS (NT$)	n.a.	n.a.	22.84	26.11
EPS growth (%)	(1.7)	50.1	12.6	12.2
P/E (x)	44.4	29.6	26.3	23.4
Dividend yield (%)	1.7	1.7	1.8	1.8
EV/EBITDA (x)	22.6	16.6	14.1	12.4
P/B (x)	9.45	8.29	7.04	6.05
ROE (%)	20.9	29.9	29.0	27.8
Net debt/equity (%)	(25.2)	(24.1)	(18.7)	(10.4)

Source: Company data, Refinitiv, Credit Suisse estimates

ESG focus elevated at the company. We highlight takeaways from TSMC's 230-page CSR report issued 30 June, outlining its ESG vision and progress, which has taken on bigger focus by investors and TSMC with the Chairman steering the process. The report provides insights into TSMC's innovation, green manufacturing, labour and supply chain management and social programmes with key metrics on its targets, success and shortfalls.

Figure 1: TSMC prioritises ESG at the Chairman/Board level

Source: Company data

CSR report highlights. (1) TSMC maintains innovation through 833 front-end and 77 back-end technologies, 510 customers, and 11,617 products with 12.4 mn 12" wafer shipments. (2) Investment intensity remains with R&D targeting 8.5%/sales vs 8.2% in 2020 and generating sixth highest US patents. (3) Customer and employee satisfaction intact at 92.8% for customers and staff turnover of 5.3% though new hiring did rise to 15.7%. (4) Female mix down from 41% to 37% and concentrated at 77% for technicians but only 12.5% of top management; a challenge for the industry. (5) China raw material (wafer) localisation target only 5% by 2030 supporting the global wafer makers. (6) TSMC's 11.5% tax rate saved 8 pp of credits, though Nanjing contracted not to disclose.

Controlling Moore's Law's rising environmental cost. Environmental externalities rose 15% YoY to NT$16 bn from increased Moore's Law complexity and 10x higher power of EUV over DUV. By-products are increasing with greenhouse gases up 2x in ten years from rising fab energy usage, unit waste increasing +22% YoY, and city water consumption rising +22% YoY and up 28% per mask layer in five years. TSMC is managing these challenges through strong environmental conservation with 87% water recycling, 95% waste recycling, ramp of reclaimed water and recycled waste facilities and a doubling of energy efficiency from 40nm through 7nm within four years.

ROIC and GMs sustainable. We believe TSMC's strong customer/supplier relationships and innovation should allow it to offset higher capital intensity through rising new node pricing, lower discounts and share gains on advanced nodes driving power, performance, density and system level gains with 3DFabric. We stay OUTPERFORM with NT$675 TP (25x 2022 ex-cash) with path to NT$750-930 based on 20-25x ex-cash NT$36 EPS by 2025.

Figure 2: TSMC 50% GMs still achievable through 5nm

	28nm	20/16nm	7nm	5nm	3nm
Capex per 1,000 wafers (mn)	$100	$140	$200	$250	$320
1000 Wafers	1,000	1,000	1,000	1,000	1,000
Capex / Wafer	$100,000	$140,000	$200,000	$250,000	$320,000
Depreciation / Wafer (60mos)	$1,667	$2,333	$3,333	$4,167	$5,333

	28nm	20/16nm	7nm	5nm	3nm
Wafer Price	$5,670	$7,820	$10,810	$13,585	$17,385
Depreciation / Wafer	$1,667	$2,333	$3,333	$4,167	$5,333
Non Depreciation Costs	$1,168	$1,577	$2,072	$2,628	$3,359
Gross Profit	$2,835	$3,910	$5,405	$6,793	$8,693
GM%	50%	50%	50%	50%	50%

Source: Credit Suisse estimates

Research Analysts

Randy Abrams, CFA / 886 2 2715 6366
randy.abrams@credit-suisse.com

Haas Liu / 886 2 2715 6365
haas.liu@credit-suisse.com

Asian Daily

5 July 2021

Asia Pacific Strategy

Credit Suisse GEM valuation snapshot

Figure 1: Historical valuations

2-Jul-21	12m fwd PE		Trailing P/B (x)		Trailing Div. Yield (%)	
	Current	5Y avg	Current	5Y avg	Current	5Y avg
Brazil	9.2	12.0	2.4	1.9	3.1	3.2
Chile	14.0	15.9	1.4	1.6	2.3	3.0
China	15.7	12.8	2.2	1.9	1.4	1.9
Colombia	11.5	11.6	1.1	1.3	2.1	3.2
Czech Republic	14.4	13.5	1.3	1.3	5.2	6.3
Egypt	7.0	9.3	1.6	2.7	1.7	2.4
Greece	12.7	13.1	1.6	1.0	3.0	2.5
Hungary	9.6	10.0	1.3	1.5	0.6	1.6
India	22.3	18.9	3.5	3.0	1.0	1.3
Indonesia	14.4	15.3	2.3	2.6	2.5	2.7
Korea	11.7	10.4	1.5	1.1	1.4	2.0
Malaysia	13.6	15.8	1.6	1.7	3.5	3.1
Mexico	14.5	15.0	2.1	2.2	2.4	2.6
Pakistan	6.5	7.6	1.2	1.3	4.3	6.0
Peru	11.6	13.5	1.8	2.2	1.2	2.4
Philippines	18.6	16.8	1.9	2.1	1.2	1.6
Poland	13.3	11.8	1.4	1.3	1.1	2.0
Qatar	13.0	12.5	2.0	1.8	2.7	3.8
Russia	6.8	6.1	1.1	0.9	4.7	5.6
South Africa	9.8	13.2	2.0	2.1	2.0	2.8
Taiwan	16.0	14.8	2.8	2.0	2.5	3.6
Thailand	18.5	15.6	2.1	2.0	2.3	2.9
Turkey	5.3	6.8	1.1	1.1	4.0	3.2
UAE	13.6	10.4	1.5	1.4	3.8	4.7
Con Discretionary	26.8	19.1	3.5	2.6	0.4	1.0
Con Staples	23.8	22.3	3.9	3.7	1.9	2.1
Energy	8.4	9.2	1.0	0.9	3.3	3.9
Financials	8.8	8.8	1.1	1.2	3.0	3.6
Health Care	39.9	26.7	6.0	4.2	0.7	0.9
Industrials	14.1	12.7	1.9	1.4	1.4	2.0
Info Technology	16.5	14.9	3.2	2.5	1.7	2.1
Materials	9.1	11.1	2.0	1.5	3.0	3.2
Real Estate	6.8	7.9	1.0	1.2	4.0	4.0
Communication Services	22.2	18.6	3.9	2.7	1.0	2.5
Utilities	10.9	10.7	1.2	1.1	3.5	3.4
EMF	14.0	12.6	2.1	1.7	1.9	2.5
EM Asia	15.4	13.2	2.2	1.8	1.6	2.2
EM Europe	7.6	7.3	1.2	1.0	4.0	4.5
EM Latin America	10.4	12.9	2.2	1.9	2.8	3.0

Source: Refinitiv Datastream, MSCI

Figure 2: Forecast valuations

2-Jul-21	EPS Growth (%)			3M chg in EPS est (%)		P/E (x)		
	2020	2021	2022	2021	2022	2020	2021	2022
Brazil	-27.9	176.4	-3.5	21.9	18.9	24.9	9.0	9.3
Chile	-42.3	97.2	12.6	8.0	6.3	29.4	14.9	13.2
China	4.0	16.7	18.5	-2.9	-3.0	19.8	17.0	14.3
Colombia	-74.0	162.4	39.8	6.8	3.0	36.2	13.8	9.9
Czech Republic	-8.8	-1.7	17.9	1.6	7.3	15.4	15.7	13.3
Egypt	-10.6	22.4	12.6	-3.7	-6.3	9.1	7.4	6.6
Greece	-6.2	25.3	13.9	3.0	5.9	17.3	13.8	12.1
Hungary	-38.8	64.5	12.6	11.9	8.4	16.8	10.2	9.1
India	11.5	33.4	16.7	4.4	2.8	31.0	23.3	20.0
Indonesia	-23.8	28.2	20.5	-0.8	-1.8	20.4	15.9	13.2
Korea	17.3	98.0	5.3	23.3	5.7	23.8	12.0	11.4
Malaysia	-34.6	107.9	-6.0	-1.8	-0.5	26.3	12.6	13.4
Mexico	-42.1	132.4	5.8	5.9	1.2	34.6	14.9	14.1
Pakistan	32.0	26.2	28.1	4.3	1.2	10.1	8.0	6.2
Peru	-87.5	819.7	20.9	8.2	8.0	219.8	23.9	19.8
Philippines	-47.6	52.1	25.7	-6.3	-4.3	31.9	21.0	16.7
Poland	-6.4	25.3	5.3	10.3	7.5	17.1	13.7	13.0
Qatar	-16.3	22.6	12.3	1.1	1.0	17.0	13.8	12.3
Russia	-47.4	121.2	2.2	25.0	10.4	29.9	13.5	13.2
South Africa	5.8	55.3	13.5	0.7	2.0	16.6	10.7	9.4
Taiwan	26.9	42.0	2.7	18.5	10.3	23.1	16.2	15.8
Thailand	-44.9	58.8	14.7	5.9	1.5	31.6	19.9	17.3
Turkey	16.0	50.1	20.2	12.1	4.5	8.8	5.9	4.9
UAE	-28.4	8.5	17.4	-3.0	-2.8	16.1	14.8	12.6

Source: Refinitiv Datastream

Figure 3: Forecast valuations (continued)

2-Jul-21	EPS Growth (%)			3M chg in EPS est (%)		P/E (x)		
	2020	2021	2022	2021	2022	2020	2021	2022
Con Discretionary	1.7	32.7	39.4	-15.5	-10.5	40.8	30.8	22.1
Con Staples	7.1	23.2	13.2	0.7	0.7	31.4	25.4	22.5
Energy	-55.5	172.7	6.8	29.6	15.1	23.7	8.7	8.1
Financials	-9.1	18.6	11.1	4.7	3.1	11.0	9.3	8.3
Health Care	38.8	64.3	4.6	-1.0	-1.0	64.7	39.3	37.6
Industrials	-15.2	92.7	2.2	23.4	7.8	27.6	14.3	13.9
Info Technology	41.4	42.3	18.9	8.3	5.0	25.7	18.0	15.2
Materials	-4.9	196.7	-6.7	23.0	17.5	26.2	8.8	9.5
Real Estate	-2.8	11.2	15.5	-5.9	-5.4	8.1	7.3	6.3
Communication Services	12.0	60.5	-7.1	24.3	-4.1	34.2	21.3	23.0
Utilities	9.5	8.6	11.3	-5.1	-3.9	12.5	11.5	10.3
EMF	-3.3	50.1	10.2	8.3	3.2	22.0	14.7	13.3
EM Asia	6.5	37.5	12.1	6.4	1.4	22.3	16.2	14.5
EM Europe	-38.7	92.5	4.6	21.1	9.4	15.0	7.8	7.4
EM Latin America	-35.7	173.1	-0.1	18.1	14.4	28.5	10.4	10.5

Source: Refinitiv Datastream

Figure 4: Index - absolute performance in US$ (%)

2-Jul-21	MSCI Index performance in US$				
	1W	1M	3M	YTD	12M
Brazil	-2.1	-0.9	23.6	7.8	35.3
Chile	-1.0	-3.9	-15.4	-1.6	11.4
China	-3.0	-4.0	-3.7	-1.6	17.9
Colombia	0.6	1.3	-0.5	-17.4	15.8
Czech Republic	-3.1	-6.2	11.2	17.4	44.5
Egypt	0.3	-2.2	-8.7	-13.0	-14.7
Greece	-2.9	-4.4	6.2	8.9	21.3
Hungary	-3.9	-3.5	13.4	14.9	43.6
India	-1.4	-1.2	4.7	11.3	49.4
Indonesia	-1.0	-7.3	-5.5	-13.0	5.0
Korea	-1.8	-0.4	0.8	4.0	58.5
Malaysia	-1.9	-5.5	-4.6	-10.8	-2.9
Mexico	-1.2	-1.3	7.5	12.6	47.5
Pakistan	0.0	-7.6	-6.5	-9.7	5.6
Peru	0.1	-14.2	-10.5	-19.1	9.6
Philippines	-1.0	-0.4	8.0	-3.8	11.1
Poland	-2.6	-4.6	18.0	10.9	25.1
Qatar	0.1	0.3	2.5	2.3	9.6
Russia	-0.7	1.2	13.2	17.7	26.8
South Africa	-1.1	-10.0	-5.3	8.7	32.1
Taiwan	0.2	-0.1	4.5	17.1	61.9
Thailand	-1.9	-5.8	-6.3	-3.1	1.2
Turkey	0.4	-1.9	-4.9	-22.4	-14.6
UAE	0.8	-0.6	10.2	23.6	43.8
Con Discretionary	-1.9	-1.6	-2.2	-3.0	27.5
Con Staples	-1.4	-3.4	1.9	-0.1	17.3
Energy	-1.4	-0.4	10.6	13.4	23.2
Financials	-2.5	-4.2	2.2	5.3	24.4
Health Care	-1.4	0.2	10.1	6.9	28.2
Industrials	0.6	2.4	11.1	14.8	39.1
Info Technology	-1.6	-0.9	-0.8	5.9	65.8
Materials	-0.8	-4.5	6.3	15.8	61.9
Real Estate	-3.2	-6.4	-8.1	-3.0	-4.4
Communication Services	-2.2	-3.5	-3.6	5.6	16.1
Utilities	-3.4	-6.4	-0.6	0.2	11.8
EMF	-1.8	-2.4	1.3	5.0	32.4
EM Asia	-1.9	-2.4	-0.6	3.4	32.5
EM Europe	-1.2	-0.4	12.5	13.1	24.2
EM Latin America	-1.8	-1.5	14.8	6.8	34.9

Source: Refinitiv Datastream, MSCI

Research Analysts
Kin Nang Chik / 852 2101 7482
kinnang.chik@credit-suisse.com

Asian Daily

5 July 2021

Asia Pacific Strategy

Credit Suisse valuation snapshot

Figure 1: Country - DDM based valuations

2-Jul-21	Implied Discount Rate (%)			Equity Risk Premium (%)				Implied Discount Rate (%)			Equity Risk Premium (%)		
	Current	5Y avg	Std Dev	Current	5Y avg	Std Dev		Current	5Y avg	Std Dev	Current	5Y avg	Std Dev
Australia	9.4	9.9	0.3	7.9	8.0	0.7	Malaysia	10.1	9.9	0.2	6.8	6.3	0.5
China	7.4	7.9	0.4	4.3	4.6	0.5	Philippines	9.1	9.5	0.4	5.1	4.7	1.4
Hong Kong	7.6	7.9	0.3	6.5	6.5	0.6	Singapore	9.7	10.0	0.3	8.2	8.1	0.7
India	10.1	11.1	0.4	4.1	4.3	0.6	Taiwan	10.2	10.8	0.5	9.7	10.0	0.4
Indonesia	11.0	11.1	0.4	4.4	3.9	0.5	Thailand	9.8	10.7	0.4	8.2	8.7	0.5
Korea	10.0	11.1	0.7	7.9	9.2	0.7	Asia ex Japan	9.9	10.6	0.4	8.5	8.6	0.6

Source: Refinitiv Datastream, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Figure 2: Historical valuations

2-Jul-21	12m fwd PE		Trailing P/B (x)		Trailing Div. Yield (%)	
	Current	5Y avg	Current	5Y avg	Current	5Y avg
Australia	17.2	16.4	2.4	2.0	2.9	4.1
China	15.7	12.8	2.2	1.9	1.4	1.9
Hong Kong	17.3	15.6	1.4	1.3	2.4	2.9
India	22.3	18.9	3.5	3.0	1.0	1.3
Indonesia	14.4	15.3	2.3	2.6	2.5	2.7
Japan	16.2	14.4	1.5	1.3	2.0	2.2
Korea	11.7	10.4	1.5	1.1	1.4	2.0
Malaysia	13.6	15.8	1.6	1.7	3.5	3.1
Philippines	18.6	16.8	1.9	2.1	1.2	1.6
Singapore	14.2	13.2	1.3	1.2	2.9	4.0
Taiwan	16.0	14.8	2.8	2.0	2.5	3.6
Thailand	18.5	15.6	2.1	2.0	2.3	2.9
Asia Pac ex JP sectors						
Cons. Discretionary	27.6	18.8	3.6	2.5	0.5	1.3
Consumer Staples	24.5	22.1	4.1	3.5	1.8	2.2
Energy	12.6	12.5	1.2	1.2	2.7	3.3
Financials	10.3	10.3	1.2	1.3	3.0	3.8
Health Care	40.9	31.0	6.8	5.6	0.8	1.0
Industrials	14.7	13.4	1.7	1.3	1.7	2.5
Information Tech	16.8	15.0	3.2	2.5	1.7	2.1
Materials	10.9	12.9	2.0	1.6	3.0	3.4
Real Estate	9.8	10.8	0.9	0.9	3.8	3.8
Communication Services	23.9	19.5	4.1	2.7	0.8	2.5
Utilities	14.0	13.6	1.4	1.4	3.6	3.5
Asia Pacific	15.9	14.1	1.9	1.6	1.9	2.5
Asia ex Japan	15.5	13.4	2.1	1.7	1.7	2.3
Asia Pac ex JP	15.8	13.9	2.1	1.7	1.9	2.6

Source: Refinitiv Datastream, MSCI

Figure 3: Index - absolute performance in US$ (%)

2-Jul-21	MSCI Index performance in US$					
	1W	1M	3M	6M	12M	YTD
Australia	-1.6	-2.8	5.5	8.1	31.4	8.1
China	-3.0	-4.0	-3.7	-1.6	17.9	-1.6
Hong Kong	-1.9	-3.2	-0.1	7.3	21.1	7.3
India	-1.4	-1.2	4.7	10.9	49.4	11.3
Indonesia	-1.0	-7.3	-5.5	-13.0	5.0	-13.0
Japan	-0.8	-0.8	-1.1	0.7	23.6	0.7
Korea	-1.8	-0.4	0.8	4.0	58.5	4.0
Malaysia	-1.9	-5.5	-4.6	-10.8	-2.9	-10.8
Philippines	-1.0	-0.4	8.0	-3.8	11.1	-3.8
Singapore	-0.3	-2.8	-1.5	7.5	21.2	7.5
Taiwan	0.2	-0.1	4.5	17.1	61.9	17.1
Thailand	-1.9	-5.8	-6.3	-3.1	1.2	-3.1
Asia Pac ex JP sectors						
Cons. Discretionary	-1.9	-1.2	-1.4	-2.4	29.8	-2.4
Consumer Staples	-1.6	-3.6	-0.7	-2.9	13.0	-2.8
Energy	-2.2	-4.6	1.9	6.0	17.6	6.0
Financials	-2.3	-4.7	0.1	6.4	26.5	6.4
Health Care	-1.5	-0.2	8.5	4.4	22.6	4.5
Industrials	0.0	1.4	7.8	14.3	34.8	14.3
Information Tech	-1.7	-0.7	-0.7	5.5	65.6	5.6
Materials	-1.0	-4.6	5.7	10.3	49.9	10.4
Real Estate	-3.0	-4.1	-2.9	1.7	5.3	1.7
Communication Services	-2.3	-3.7	-5.0	4.9	15.9	4.9
Utilities	-3.0	-5.8	-1.7	0.3	7.2	0.4
Asia Pacific	-1.5	-2.0	-0.2	3.0	28.5	3.1
Asia ex Japan	-1.9	-2.5	-0.6	3.7	31.2	3.8
Asia Pac ex JP	-1.9	-2.5	0.2	4.2	31.0	4.3

Source: Refinitiv Datastream, MSCI

Figure 4: Forecast valuations

2-Jul-21	EPS Growth (%)			P/E (x)			3M chg in EPS est (%)		P/B (x)			Dividend Yield (%)		
	2020	2021	2022	2020	2021	2022	2021	2022	2020	2021	2022	2020	2021	2022
Australia	-20.1	29.5	16.5	25.7	19.8	17.0	5.2	10.4	2.40	2.30	2.24	2.7	3.7	4.1
China	4.0	16.7	18.5	19.8	17.0	14.3	-2.9	-3.0	2.20	2.03	1.83	1.4	1.6	1.7
Hong Kong	-25.6	32.1	13.2	24.5	18.5	16.4	-1.7	-0.4	1.40	1.34	1.27	2.4	2.7	3.0
India	11.5	33.4	16.7	31.0	23.3	20.0	4.4	2.8	3.69	3.35	3.00	1.1	1.3	1.5
Indonesia	-23.8	28.2	20.5	20.4	15.9	13.2	-0.8	-1.8	2.35	2.17	2.00	2.8	3.0	3.7
Japan	-28.5	21.5	20.8	24.3	20.1	16.7	5.9	3.7	1.60	1.50	1.42	2.0	2.0	2.1
Korea	17.3	98.0	5.3	23.8	12.0	11.4	23.3	5.7	1.41	1.37	1.24	2.2	1.7	1.8
Malaysia	-34.6	107.9	-6.0	26.3	12.6	13.4	-1.8	-0.5	1.60	1.51	1.44	3.0	4.7	4.1
Philippines	-47.6	52.1	25.7	31.9	21.0	16.7	-6.3	-4.3	1.88	1.79	1.65	1.5	1.5	1.7
Singapore	-34.1	44.8	13.6	21.7	15.0	13.2	3.5	1.2	1.29	1.23	1.18	2.9	3.8	4.3
Taiwan	26.9	42.0	2.7	23.1	16.2	15.8	18.5	10.3	2.92	2.65	2.45	2.4	3.3	3.5
Thailand	-44.9	58.8	14.7	31.6	19.9	17.3	5.9	1.5	2.16	1.98	1.88	2.2	2.7	3.0
Asia Pac ex JP sectors														
Cons. Discretionary	-11.5	41.3	42.0	45.5	32.2	22.7	-15.8	-10.0	3.70	3.41	3.04	0.5	0.6	0.8
Consumer Staples	6.8	14.3	11.5	29.6	25.9	23.3	-2.0	-1.7	4.25	3.96	3.66	1.8	2.1	2.3
Energy	-38.1	92.4	11.6	25.2	13.1	11.7	9.4	5.8	1.23	1.18	1.11	2.5	3.2	3.4
Financials	-11.2	22.2	8.8	13.2	10.8	9.9	4.9	3.7	1.20	1.15	1.07	2.9	3.7	4.0
Health Care	24.6	54.8	1.1	61.4	39.6	39.1	-1.2	-1.3	7.16	6.27	5.61	0.6	1.0	0.8
Industrials	-22.7	81.9	6.2	28.2	15.5	14.5	17.9	5.6	1.67	1.53	1.42	1.8	2.2	2.4
Information Tech	40.6	42.0	18.9	26.0	18.3	15.4	8.2	4.9	3.14	2.97	2.64	2.1	2.2	2.4
Materials	1.7	92.2	-0.6	21.2	11.0	11.1	20.6	20.5	2.04	1.87	1.74	2.6	4.7	4.5
Real Estate	-10.1	13.9	12.9	11.9	10.5	9.3	-3.4	-3.1	0.89	0.83	0.79	3.8	4.2	4.6
Communication Services	12.7	64.7	-9.7	37.2	22.6	25.1	30.1	-5.0	4.37	3.80	3.41	0.8	0.9	1.0
Utilities	15.0	-2.7	10.9	14.3	14.7	13.3	-5.0	-3.8	1.34	1.24	1.19	4.0	3.9	4.1
Asia Pacific	4.6	32.7	11.4	22.0	16.6	14.9	5.8	2.6	1.87	1.75	1.63	1.9	2.3	2.4
Asia ex Japan	2.0	37.3	12.2	22.4	16.3	14.6	5.8	1.2	2.06	1.93	1.76	1.8	2.1	2.2
Asia Pac ex JP	-2.1	38.7	11.3	23.0	16.6	14.9	5.8	2.2	2.11	1.98	1.82	1.9	2.3	2.5

Source: Refinitiv Datastream. Note: PE and EPS growth numbers for Australia and Japan corresponds to Jun 20-22 and Mar 20-22; EPS change numbers correspond to Jun 21-22 and Mar 22-23, respectively.

Research Analysts
Kin Nang Chik / 852 2101 7482
kinnang.chik@credit-suisse.com

Asian Daily

6 July 2021

Alibaba Group Holding Limited (BABA.N)

1Q FY22 preview: Moving on the right track

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (US$): 253.00

Previous target price (US$): 260.00

- Revenue is expected to be +33% YoY to Rmb204 bn as CMR (+15%)/other China retail (+10% excl. Sun-Art) slow down. Cloud (+37%) was impacted by termination of a top customer past quarter.
- Adj. EBITA -11% YoY on stepping up of investments. Marketplace margin -3 pp as livestreaming ecommerce outgrows. Investments in new initiatives would hike to Rmb17bn from Rmb 4bn last year.
- Key focus. (1) Momentum on core e-commerce and competition. (2) Progress in new initiatives including CGP, Taobao Deal, and Eleme. Our channel checks show BABA has stepped up support to SMEs (to promote a vibrant ecosystem) and is ramping up quickly for CGP (volume is now ~one-third of the leader).
- We cut FY22-24E EPS by 4-10% to reflect growth slowdown and cut TPs to US$253/HK$245 (from US$260/HK$251). While we agree that BABA continues to face intense competition, it is well understood by the market and reflected after the earnings downgrade in 4Q21. With core e-commerce trading at 11x FY22E P/E, BABA offers value for longer-term investors, in our view. Maintain OUTPERFORM.

Price (02-Jul-21, US$)	217.75	Est. pot. % chg. to TP			16.2
Mkt cap (US$ mn)	589,152	Blue sky scenario (US$)			380.0
Number of shares (mn)	2,706	Grey sky scenario (US$)			200.0
Free float (%)	68.9	**Performance**	**1M**	**3M**	**12M**
52-wk range (US$)	317 - 206	Absolute (%)	(0.8)	(2.9)	(2.6)
ADTO-6M (US$ mn)	748.1	Relative (%)	3.0	0.9	(20.8)

Year	3/21A	3/22E	3/23E	3/24E
Revenue (Rmb mn)	717,289	925,501	1,121,241	1,326,656
EBITDA (Rmb mn)	196,842	202,795	244,431	301,151
EBIT (Rmb mn)	89,678.0	111,749	131,143	171,347
Net profit (Rmb mn)	178,954	168,823	212,669	265,416
EPS (CS adj.) (Rmb)	65.13	61.01	76.32	94.59
Chg. from prev. EPS (%)	n.a.	(4.4)	(7.0)	(9.9)
Consensus EPS (Rmb)	n.a.	63.18	77.23	94.95
EPS growth (%)	22.9	(6.3)	25.1	23.9
P/E (x)	21.6	23.1	18.4	14.9
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	17.3	16.0	12.5	9.5
P/B (x)	4.02	3.4	2.9	2.46
ROE (%)	20.7	16.0	17.0	18.0
Net debt/equity (%)	(36.6)	(44.8)	(50.5)	(55.3)

Source: Company data, Refinitiv, Credit Suisse estimates

1Q FY22 preview. We project total revenue to be +33% YoY. By segment, **CMR** growth would slow to 15%, on +15.5% GMV and flattish take rate as BABA becomes less aggressive in monetisation to support merchants. We attribute the GMV slowdown to soft China consumption and high base last year on pent-up demand post Covid. **Other China retail** commerce (Sun-Art, Tmall Supermarket, Freshippo, CGP, etc.) is projected at +73% YoY (10% ex. Sun-Art). **Cloud** +37% YoY post contract termination with a top customer earlier this year. **Non-GAAP EBITA margin** would be 19.7%, down 10 pp YoY, as marketplace-based core commerce adj. EBITA margin decline by 3 pp to 65% on livestreaming e-commerce with loss from new initiatives to reach an estimated Rmb17 bn (1Q FY21: Rmb4 bn).

Figure 1: 1Q FY22 preview

RMB m	FY1Q22F	QoQ (%)	YoY (%)	Consensus	+/-
Total revenues	**204,384**	**9%**	**33%**	**214,482**	**-5%**
Core commerce	178,660	11%	34%		
CMR + commission	81,897	29%	15%		
Other China retail commerce	52,083	-13%	73%		
Cloud	16,913	1%	37%		
DME	7,611	-5%	9%		
Innovation initiatives	1,200	-2%	10%		
Gross profit	**79,626**	**29%**	**15%**	**86,181**	**-8%**
GPM (%)	39.0%			40.2%	-1.2ppts
Adj. EBITA	**40,264**	**78%**	**-11%**		
Adj. EBITA (%)	19.7%				
Non-GAAP Net Income	**38,175**	**46%**	**-3%**		
Non-GAAP NPM (%)	18.7%				
Non-GAAP Net Income atrr. to ordinary s	**39,675**	**40%**	**-2%**	**39,184**	**1%**
Non-GAAP NPM (%)	19.4%			18.3%	1.1ppts
Diluted EPS (Rmb)	12.1	-709%	-30%	10.8	12%
Non-GAAP diluted EPS (Rmb)	**14.4**	**39%**	**-3%**	**13.9**	**3%**

Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Key progresses we observed. In 4Q21, management stressed that FY22 would be a year of investment. Several noticeable changes: **(1) Supporting SMEs for a more vibrant ecosystem.** The platform is shifting more resources and traffic to SMEs and mid-end merchants to ensure a balanced ecosystem. New emerging brands with specialised products are gaining traction fast, leveraging on feed and content based user acquisition, according to our channel check. In spite of short-term impact on monetisation, the changes are positive in the long term, as the ecosystem becomes more dynamic. More merchants would be attracted back on the platforms. **(2) Community Group Purchase is ramping up quickly.** MMC has been delivering better-quality products and services, receiving positive feedback from users. Growth momentum is also encouraging, with 8-9 mn daily orders (a third of the market leader), according to industry participants. While financial contribution would be small, MMC would create a valuable traffic access point in less-developed regions, with high purchase frequency and customer stickiness. We expect more colours would be shared in new initiative progress in a few quarters. **(3) The recent organisation upgrade also put more emphasis on local services.**

Negatives are largely in the price, retain OUTPERFORM. We cut FY22-24E EPS by 4-10% to reflect growth slowdown and cut TPs to US$253/HK$245 (from US$260/HK$251). While we agree that BABA continues to face intense competition, it is well understood by the market and reflected after the earnings downgrade in 4Q21. In our view, BABA's recent strategy change continues to be well executed and move in the right direction. With core e-commerce trading at 11x FY22E P/E (against a teens GMV growth), BABA offers value for longer-term investors, in our view. Maintain OUTPERFORM.

Valuation metrics

Company	Ticker	Rating	Price	Target	TP chg	Up/dn to TP	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		DY (%)	P/B (x)	Scenario	
		(prev.)	Local	price (prev.)	(%)	(%)	T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	Blue sky	Grey sky
Alibaba	BABA.N	O	217.75	253.0 (260.0)	(2.7)	16.2	03/21	(4.4)	(7.0)	61.01	76.32	(6.3)	25.1	23.1	18.4	0.0	3.4	380.0	200.0
Alibaba (H)	9988.HK	O	206.0	245.0 (251.0)	(2.4)	18.9	03/21	(4.4)	(7.0)	7.63	9.54	(6.3)	25.1	22.5	18.0	0.0	3.3	368.12	193.75

Source: Refinitiv, Credit Suisse estimates

Research Analysts

Kenneth Fong / 852 2101 6395
kenneth.kc.fong@credit-suisse.com

Ashley Xu / 852 2101 7153
ashley.xu@credit-suisse.com

Asian Daily

5 July 2021

BYD Co Ltd (1211.HK)

June sales jump 51% YoY; another month of outperformance

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (HK$): 280.00

Previous target price (HK$): 280.00

- Well above the preliminary June overall passenger vehicle sector sales performance—down 15% YoY (CAAM estimate), BYD sales volume rose 51% YoY/10% MoM to 46,295 units. Growth was driven by new energy vehicle segment's 192% YoY growth, while the ICE segment declined 51% YoY.
- We estimate that its high-end large-sized sedan 'Han' sold ~8,300 units (flat MoM). And we estimate overall 'DM-i' low-cost PHEV products sold ~18k units in June (up ~80% MoM), which had turned out to be a key volume driver (accounting for ~35% of total volume).
- More importantly, BYD guided that 'DM-i' products order backlog volume would exceed 100k units. In the first six months, BYD's total PHEV volume was 56,771 units, and we think the company's full-year 2021's target of 200k units looks achievable given the strong order backlog on hand. BYD expects total 'DM-i' products (Qin, Song, Tang, and Han) monthly delivery to exceed 40k units by end-2021.
- We estimate BYD booked Rmb850 mn net profit in 1H21. We introduce 2023 estimates and keep our 2021-22 estimates and TPs of HK$280 for BYD-H and Rmb280 for BYD-A unchanged.

BYD's DM-i products (including Qin plus DM-i, Song plus DM-i, Tang DM-i and DM-i Han) can come at a similar cost as the ICE models, but with a significantly stronger performance vs ICE models. Take Qin plus DM-i for example, the incremental cost is around Rmb18,000, including Rmb8,000 for the 8kWh "blade battery" pack, Rmb10,000 for the electric motor and electric control units, Rmb2,000 high-voltage components, along with Rmb2,000 saving via replacing traditional engine and transmission to Atkinson cycle engine and ECVT or DHT (dedicated hybrid transmission). This Rmb18,000 can be offset by the 10% vehicle purchase tax reduction and Rmb6,800 government subsidy, thus the customer payments for a traditional ICE vehicle and DM-i PHEV are almost the same.

Figure 1: BYD sales by segment in June 2021

Unit	May-21	May-20	YoY	1H 21	1H 20	YoY
Total sales	51,015	33,725	51%	246,689	158,628	56%
ICE	9,649	19,560	-51%	92,110	97,951	-6%
Sedan	2,019	2,567	-21%	24,565	15,955	54%
SUV	6,930	15,978	-57%	60,832	75,074	-19%
MPV	700	1,015	-31%	6,713	6,922	-3%
NEV	41,366	14,165	192%	154,579	60,677	155%
Pure electric	20,016	9,907	102%	93,440	46,261	102%
Plug-in hybrid	20,100	3,157	537%	56,771	11,188	407%
e-bus	697	1,010	-31%	2,618	2,881	-9%
e-truck	553	91	508%	1,750	347	404%

Source: Company data

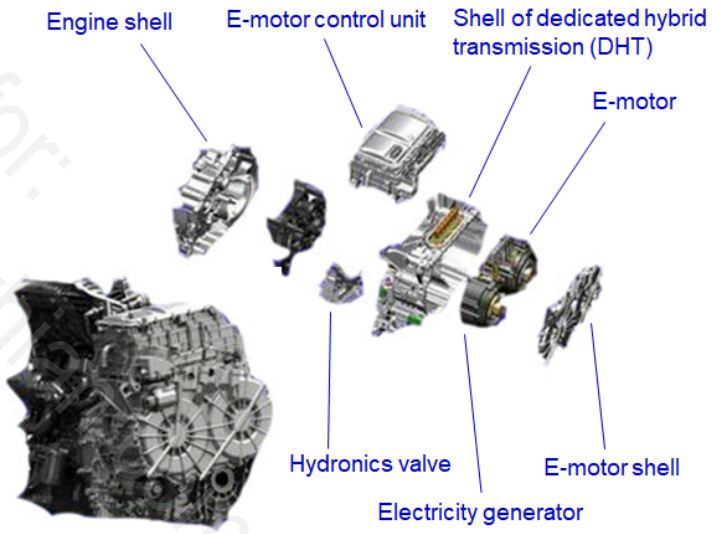
In the past, there were three key concerns that prevented car buyers from purchasing new energy vehicles—higher price, drive distance, and charging issue. BYD's 'DM-i' PHEV technology resolves these issues, as it offers the same price as the ICE vehicles, with no drive distance and charging concerns as a gasoline engine is on standby.

Price (05-Jul-21, HK$)	**232.20**	Est. pot. % chg. to TP			20.6
Mkt cap (HK$/US$ mn)	787,129 / 101,347	Blue sky scenario (HK$)			350.0
Number of shares (mn)	2,861	Grey sky scenario (HK$)			50.0
Free float (%)	78.4	**Performance**	**1M**	**3M**	**12M**
52-wk range (HK$)	278 - 69.00	Absolute (%)	21.0	30.8	242.0
ADTO-6M (US$ mn)	348.3	Relative (%)	23.2	35.2	225.5

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	154,443	186,761	216,471	227,978
EBITDA (Rmb mn)	24,964.2	23,798.2	24,853.2	25,418.3
EBIT (Rmb mn)	12,776.4	10,527.3	10,580.3	10,143.4
Net profit (Rmb mn)	4,234.3	4,645.6	4,929.2	4,609.6
EPS (CS adj.) (Rmb)	1.55	1.62	1.72	1.61
Chg. from prev. EPS (%)	n.a.	0.0	0.0	n.a.
Consensus EPS (Rmb)	n.a.	1.75	2.39	3.11
EPS growth (%)	162.3	4.6	6.1	(6.5)
P/E (x)	124.5	119.0	112.1	119.9
Dividend yield (%)	0.1	0.1	0.1	0.1
EV/EBITDA (x)	27.7	27.9	26.5	25.5
P/B (x)	9.27	6.44	6.12	5.85
ROE (%)	7.5	6.5	5.6	5.0
Net debt/equity (%)	58.2	8.7	3.0	(5.4)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 2: BYD DM-i technology components



Source: Company data

Valuation metrics

Company	Ticker	Rating (prev.)	Price Local	Target price (prev.)	TP chg (%)	Up/dn to TP (%)	Year T	EPS Chg(%) T+1	EPS Chg(%) T+2	EPS T+1	EPS T+2	EPS grth (%) T+1	EPS grth (%) T+2	P/E (x) T+1	P/E (x) T+2	DY (%) T+1	P/B (x) T+1	Scenario Blue sky	Scenario Grey sky
BYD (H)	1211.HK	O	232.2	280.0	0.0	20.6	12/20	0.0	0.0	1.62	1.72	4.6	6.1	119.0	112.1	0.1	6.4	350.0	50.0
BYD (A)	002594.SZ	O	249.55	280.0	0.0	12.2	12/20	0.0	0.0	1.62	1.72	4.6	6.1	153.7	144.8	0.1	8.3	350.0	50.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts

Bin Wang / 852 2101 6702
bin.wang@credit-suisse.com

Scarlett Ge / 852 2101 6760
scarlett.ge@credit-suisse.com

Asian Daily

6 July 2021

Dongfeng Motor Group Company Limited (0489.HK)

A-share IPO-related high-dividend-yield story unchanged despite weak June sales

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (HK$): 12.80

Previous target price (HK$): 12.80

- In line with expectation, the overall Dongfeng Motor Group's sales volume fell 15% YoY in June 2021 to 232,497 units. In particular, its passenger vehicle segment's June sales volume fell 19% YoY, which was below sector-wide estimated 15% YoY drop (CAAM estimate).
- We attribute the double-digit YoY decline of Dongfeng and overall sector to the production pause due to auto chip supply shortage. Some auto makers paused production in May/June by bringing forward their annual summer vacation from July/August to May/June.
- However, the retail sales situation was much better than above-mentioned wholesales. China Passenger Car Association (CPCA) forecast June retail volume dipped 5% YoY MoM to 1.58 mn units. This was echoed by Dongfeng Honda's retail volume in June, -15% YoY to 60,527, which was 12% higher than the wholesales volume of 54,007 (-30% YoY) in the same month.
- Despite its weak June wholesales, Dongfeng Motor remains our sector key OUTPERFORM rating amid Hong Kong-listed auto names due to its high dividend yield (17.5%) post its proposed A-share IPO share, and low valuation (0.37x P/E and 3.7x 2021E P/E).

Dongfeng Motor recently issued a few updated documents at the Shenzhen Stock Exchange for its proposed A-share IPO, which indicated its A-share IPO process still in progress instead of cancellation like what Geely Auto had announced. Meanwhile, Dongfeng Motor's management said it has tentatively postponed the 2020 annual dividends to after the A-share listing. Management had promised to raise the dividend payout ratio from previous 15%, to 40% in 2020 and onward, implying dividend yield of 17.5% for 2021E (including special dividend for the 2020 annual dividend).

Figure 1: Dongfeng sales volume by segment in June

(unit)	Jun-21	YoY	MoM	6M 2021	YoY
Total CV	59,259	-1.9%	3%	349,150	33%
Total Bus	2,806	55%	21%	13,505	50%
Heavy Truck	33,991	-1%	2%	203,122	35%
Middle Truck	1,200	-32%	-42%	9,551	23%
Light Truck	21,262	-6%	6%	122,972	30%
Total PV	173,238	-18.6%	6%	1,075,261	21.9%
Sedan	97,787	-16%	12%	531,289	13%
MPV	8,481	-12%	-8%	51,827	21%
SUV	66,970	-22%	1%	492,145	33%
Total Sales	232,497	-14.9%	5%	1,424,411	24.5%

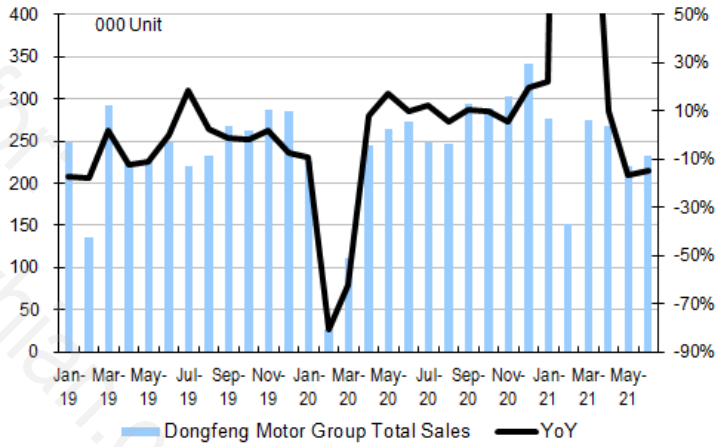
Source: Company data

Price (05-Jul-21, HK$)	**7.24**	Est. pot. % chg. to TP	76.8
Mkt cap (HK$/US$ mn)	62,381 / 8,032	Blue sky scenario (HK$)	16.0
Number of shares (mn)	8,616	Grey sky scenario (HK$)	5.0
Free float (%)	90.8	**Performance**	**1M 3M 12M**
52-wk range (HK$)	9.90 - 4.71	Absolute (%)	(3.2) 0.7 44.2
ADTO-6M (US$ mn)	20.8	Relative (%)	0.1 6.2 29.1

Year	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Revenue (Rmb mn)	107,964	105,413	108,070	109,752
EBITDA (Rmb mn)	3,896.0	5,588.6	6,074.0	6,462.7
EBIT (Rmb mn)	937.0	2,278.9	2,445.5	2,515.4
Net profit (Rmb mn)	10,792.0	14,135.1	14,407.9	15,025.2
EPS (CS adj.) (Rmb)	1.25	1.64	1.67	1.74
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Rmb)	n.a.	1.41	1.5	1.57
EPS growth (%)	(16.1)	31.0	1.9	4.3
P/E (x)	4.8	3.7	3.6	3.5
Dividend yield (%)	1.7	17.5	11.1	11.6
EV/EBITDA (x)	15.8	10.4	8.7	7.2
P/B (x)	0.38	0.37	0.35	0.33
ROE (%)	8.2	10.2	9.9	9.8
Net debt/equity (%)	6.8	4.1	0.5	(3.3)

Source: Company data, Refinitiv, Credit Suisse estimates

Figure 2: Dongfeng Motor monthly sales volume trend



Source: Company data

Research Analysts

Bin Wang / 852 2101 6702
bin.wang@credit-suisse.com

Scarlett Ge / 852 2101 6760
scarlett.ge@credit-suisse.com

Asian Daily

5 July 2021

Malaysia Market Strategy

New report: 26W21 flows - Local institutions turned net buyers

- In spite of the lockdown extension and stricter mobility curbs, local institutions turned net buyers (RM117.9 mn) only for the fifth time in 2021. Local retailers were again net buyers (RM311.4 mn) while foreign institutions were net sellers (RM499.3 mn).
- Top 5 sells by local inst.: Serba (RM62.7 mn), TOPG (RM56.2 mn), CMSB (RM45.3 mn), CIMB (RM44.5 mn), HART (RM39.8 mn). Top 5 buys by local inst.: PBK (RM89.5 mn), MISC (RM19.3 mn), RHB (RM18.0 mn), Frontken (RM17.9 mn), Dialog (RM16.5 mn).
- Short-selling activity -3% WoW, with the total value of short-selling decreasing to RM115.1 mn (from RM118.8 mn in 25W21). The healthcare sector made up 16.9% of total short positions.
- Key events that could drive flows: (1) developments on COVID-19 cases and vaccination; (2) newsflow on politics and resumption of parliament; (3) BNM's monetary policy decision due 8 July. CS' economics team expects BNM to keep rates stable at 1.75% for the rest of 2021. However, the adverse economic impact of lockdown measures has raised the probability of further monetary easing.

Local institutional investors turned net buyers. In spite of news on the extension of lockdown and even stricter mobility curbs announced towards end of last week, local institutions turned net buyers last week with net inflows of RM117.9 mn (vs 25W21: -RM297.7 mn, June 2021: -RM1.19 bn vs May 2021: -RM231.7 mn). Local institutions have only been buyers in 5 out of the past 26 weeks. The last time local institutions were net buyers was in week 20 (3WMay2021). Local institutions' YTD net outflow amounts to some RM6.18 bn. Local retailers were again net buyers, with net inflows of RM311.4 mn (vs 25W21's +RM584.1 mn, June 2021's +RM1.69 bn vs May 2021's +RM485.0 mn). Cumulatively, local retailers' net inflows amounted to RM8.26 bn YTD (2020's +RM15.6 bn). Foreigners remain net sellers during the week in review (from 28 June to 2 July) with net outflows of RM499.3 mn (-RM469.4 mn a week earlier, June 2021's -RM1.17 bn vs May 2021's –RM161.4 mn). Foreigners were net sellers across the board except in the technology sector (+RM13.7 mn). While foreign institutions were net sellers of banks in 26W21 (-RM171.5 mn), they remained positive on CIMB, net purchasing RM68.7 mn worth of shares.

- **Foreign institutions**: Foreigners were net sellers across the board except in the technology sector (+RM13.7 mn). While foreign institutions were net sellers of banks in 26W21 (-RM171.5 mn), they remained positive on CIMB, net purchasing RM68.7 mn worth of shares. The sectors that suffered most foreign institutional outflows were: (1) financial services (-RM1717.5 mn), (2) utilities (-RM102.2 mn) and (3) consumer (-RM73.3 mn).
- **Local institutions**: Local institutions' net selling was focused on the healthcare, energy and construction sectors with net outflows of RM89.4 mn, RM44.0 mn and RM8.9 mn, respectively. Local institutions were net buyers in financial services (+RM88.1 mn), consumer (+RM53.8 mn) and plantation (+RM24.5 mn).
- **Local retailers**: Local retailers' net buying was mainly in the energy (+RM106.7 mn) and utilities (+RM72.8 mn) sectors, while they disposed of shares in technology (-RM42.6 mn) and property (-RM1.9 mn).

Short-selling lower WoW. Short-selling activity was 3% lower WoW in 26W21, with the total value of short-selling decreasing to RM115.1 mn (from RM118.8 mn in 25W21, but well below the levels in 1-2W21 (1W = RM1.8 bn, 2W = RM392 mn). The healthcare sector remains the focus of short-sellers during the week, constituting 16.9% or 7.5 mn shares of the total short positions. This was followed by the technology and energy sectors, at 12.0% (5.3 mn shares) and 11.6% (5.1 mn shares), respectively. Short-sellers increased their short position on Supermax (2 July: 61.9 mn vs 25 June: 58.5 mn) and Kossan (2 July: 22.7 mn vs 25 June: 21.9 mn), while net short positions on Top Glove (2 July: 242.0 mn vs 25 June: 248.1 mn) and Hartalega (2 July: 58.5 mn vs 25 June: 60.8 mn) were reduced WoW.

Market activity lower WoW. Market activity was lower WoW, with market average daily value (ADV) down slightly by 1% WoW to RM2.81 bn on lower ADV by local institutions and local retailers of -2.8% and -2.5%, respectively. On the other hand, foreign institutional ADV was higher by 5% WoW to RM506 mn. Local institutions and local retail participation were relatively stable WoW at 39% and 43%, respectively, while foreign institutions' participation was higher at 18% (25W21: 17%).

Healthcare sector worst performing in 25W21. Overall, the benchmark KLCI index was weaker WoW at 1,533 points (-1.7%) with most sectors in the red. The best performing sectors were technology (+0.5% WoW) and transport & logistics (+0.1%). Healthcare was the worst-performing sector during the week (-3.4%), followed by property (-2.8%) and construction (-2.5%). YTD, the KLCI index is 5.8% lower, with the top performing sector being technology, having gained 13.8% YTD. The worst performing sectors YTD are healthcare (-20.4%), plantation (-12.1%), and construction (-10.7%).

Figure 1: Net buying/(selling) by sectors - 26W21 (RM' mn)

	Local Institution	Local Retail	Foreign	Others
Construction	(8.9)	8.2	(17.8)	18.6
Consumer	53.8	16.9	(73.3)	2.5
Energy	(44.0)	106.7	(27.3)	(35.3)
Financial Services	88.1	56.3	(171.5)	27.2
Healthcare	(89.4)	67.7	(9.0)	30.9
Industrial	4.8	10.6	(11.0)	(4.4)
Plantation	24.5	11.0	(40.0)	4.6
Property	10.7	(1.9)	(11.7)	2.9
REIT	1.8	1.3	(1.9)	(1.1)
Technology	15.1	(42.6)	13.7	13.7
Telco & Media	20.6	1.4	(13.9)	(7.9)
Transport & Logistic	29.5	1.3	(31.3)	0.5
Utilities	10.8	72.8	(102.2)	18.5
Market	**117.9**	**311.4**	**(499.3)**	**70.1**

Source: DiBots

Research Analysts
Danny Goh / 60 3 2723 2083
danny.goh@credit-suisse.com

Asian Daily

5 July 2021

Singapore Market Strategy

Key takeaways from EY on global tax reform and Singapore

- As part of our Pulse of Singapore series, we hosted Stephen Bruce, Tax Partner at Ernst and Young to explore the potential impact of BEPS 2.0 on Singapore's long-term competitiveness. Key takeaways were:
- While a lower tax rate is attractive to companies doing business in Singapore, it is not usually the sole reason for locating in the country. Other factors such as the existing ecosystem, talent, taxation certainty and rule of law are key for long-term business planning.
- Singapore seems to be substance-based as incentives are provided only if a company has substantial activity in the country. Hence, substance-based carve-out for certain industries could allow Singapore to continue providing these incentives.
- While a definitive impact on Singapore is difficult to determine at this stage, assuming that the rules on BEPS 2.0 are applied equally across jurisdictions, Singapore still provides a strong proposition for MNCs. Pillar 2 could allow for higher tax revenues while the exemptions or carve-outs that are eventually agreed upon could limit the potential loss of tax revenues from Pillar 1.

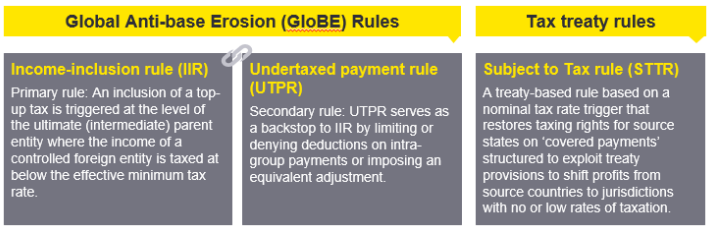
Continuing with our Pulse of Singapore series, where we host various industry experts to gain insights into the key issues impacting the country; we hosted Stephen Bruce, Tax Partner at Ernst and Young to explore the potential impact of BEPS 2.0 on Singapore's long-term competitiveness.

Brief overview of BEPS 2.0. The Base Erosion and Profit Shifting (BEPS 2.0) has recently captured headlines with 130 countries in agreement on key details under the framework. BEPS 2.0 will include two pillars:

Pillar 1 - focuses on allocating a share of residual profits to market jurisdictions with nexus using revenue-based allocation. Multinationals in scope will initially be those with a global turnover of more than €20 bn and profitability above 10% (PBT/revenue), the turnover threshold may be reduced to €10 bn after 7 years.

Pillar 2 - focuses on a global minimum tax where the rate is agreed to be at least 15%. Multinationals in scope will be those that meet a global turnover of €750 mn. The design of Pillar 2 consists of global anti-base erosion rules and a treaty-based rule.

Figure 1: Pillar 2 rules



Source: Ernst and Young

A detailed implementation plan together with remaining issues on BEPS 2.0 are expected to be finalised by Oct 2021. These may be brought into law in 2022 and come into effect as early as 2023.

Lower tax is attractive but not the only reason to locate in Singapore. The country provides a number of tax incentive schemes such as the Pioneer Certificate Incentive and Development and Expansion Incentive which encourage companies to grow their capabilities and activities in the country to be eligible for a concessionary tax rate of 5-10%. While a lower tax rate is attractive, it is not the most important reason for locating in Singapore. Other factors such as the existing ecosystem, talent, taxation certainty and rule of law are also key to long-term business planning. Meanwhile, other non-tax incentives e.g. grants could also be enhanced to improve Singapore's competitiveness if needed.

Figure 2: Singapore 2020 rankings for ease of doing business

Source: World Bank

Relief from carve-outs. Further discussions and negotiations will be required before a more detailed implementation plan can be presented and certain industries such as the financial services and shipping may have carve-outs that would minimise the impact from the new rules. Singapore's current tax regime seems to be substance-based and incentives are not provided unless there is a substantial amount of activity in the country e.g. to qualify for certain tax incentives, companies need to have a certain level of activity/investment/staff size etc. Thus, substance-based carve-outs could allow Singapore to continue providing tax incentives.

Considering the potential impact on Singapore? Under Pillar 2, a global minimum tax should allow Singapore to collect more tax revenues given that MNCs would have to pay the shortfall vs the 15% global minimum in their home country anyway, and the decision to locate in Singapore is usually not solely based on taxation. Pillar 1 could result in lost tax revenues as a portion of "excess profits" need to be allocated to other jurisdictions. However, substance-based carve-outs would impact how much tax gets reallocated.

Finance Minister Lawrence Wong noted that while Singapore is a signatory to the OECD/G20 Inclusive Framework on BEPS, it is too early to assess the impact of these tax rules. Nonetheless, Singapore's adjustment to its tax system will be guided by three principles: Singapore will abide by internationally-agreed standards; safeguard its taxing rights; and seek to minimise the compliance burden for businesses. Regardless, Minister Wong noted that BEPS 2.0 will make it harder to attract companies to Singapore in the long run. However, the country has already been moving away from cost-based competition, and focusing on non-tax factors will continue to be of increasing importance.

Research Analysts
Nicholas Teh / 65 6212 3026
nicholas.teh@credit-suisse.com

Asian Daily

6 July 2021

Taiwan Compound Semiconductor Sector

Entering into iPhone build seasonality; prefer VPEC to Win Semi

- VPEC 2Q sales ahead. VPEC reported June sales of NT$319 mn, +10% MoM/+57% YoY, concluding 2Q sales at NT$896 mn (+1% QoQ), ahead of CSe, as a result of stronger pull-in for RF on earlier iPhone ramp and strength from fabless customers, in our view.
- Win Semi 2Q sales slightly below. Win Semi reported June sales of NT$2.06 bn, flattish MoM and +3% YoY, concluding 2Q sales at NT$6.1 bn for +2% QoQ, in line with CSe but below street. We see downside to its 2H GM on less favourable mix and lower utilisation.
- iPhone and fabless ramp more positive for VPEC. As noted earlier, we believe VPEC could benefit from iPhone 13's UHB RFFE allocation shift and fabless ramps for Android. We believe Win Semi could also benefit from iPhone seasonality, but highlight it could suffer from smaller die size for Face ID VCSEL and continuing WiFi softness.
- Prefer VPEC to Win Semi. We raise VPEC's 2021-22E EPS by 6-9% on iPhone share gain and fabless ramp, and lift TP to NT$160 (from NT$155) on 32x 12M P/E. We lower Win Semi's 2021-22E EPS within 3% on softer VCSEL but keep TP at NT$363. We continue to like VPEC over Win Semi on more diversified client base.

VPEC 2Q sales ahead. VPEC reported June revenue of NT$319 mn, +10% MoM/+57% YoY, with growth coming from both RF (+9% MoM) and optical (+20% MoM). This concluded 2Q sales at NT$896 mn (+1% QoQ), ahead of CSe of 8% QoQ decline, with RF growing at single-digit % QoQ despite higher 1Q base. We believe the better June and 2Q sales were mainly driven by stronger pull-in for RF on earlier iPhone ramp and continuous strength from fabless customers, including initial ramp for US fabless and China localisation trend. We estimate RF accounted for 88% of 2Q sales (vs 85% in 1Q), while overall optical sales saw 20% QoQ contraction, with PD/LD sales staying flattish but VCSEL sales were softer post 1Q's automotive LiDAR VCSEL pull-in. We believe 2Q GM should be down slightly on higher mix for RF, but OP/EPS should be similar QoQ on greater revenue scale.

Figure 1: VPEC quarterly P/L

(NT$ mn)	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2020	2021E	2022E
Revenue	644	757	889	896	937	898	2,645	3,620	4,185
GP	270	315	379	378	395	379	1,114	1,531	1,784
OP	160	202	282	275	276	255	688	1,088	1,273
Net profit	113	146	225	223	222	204	533	873	1,040
EPS (NT$)	0.61	0.79	1.22	1.20	1.20	1.10	2.88	4.72	5.62
GM (%)	42.0	41.6	42.6	42.2	42.2	42.2	42.1	42.3	42.6
OPM (%)	24.8	26.7	31.7	30.7	29.5	28.4	26.0	30.0	30.4

Source: Company data, Credit Suisse estimates

Win Semi 2Q sales slightly below. Win Semi reported June sales of NT$2.06 bn, flattish MoM and +30% YoY, concluding 2Q sales at NT$6.1 bn for +2% QoQ, in line with CSe and its guidance of low-single-digit % QoQ, but below street's expectation of +4% QoQ. We believe the stronger cellular and Wi-Fi momentum in 2Q is largely offset by seasonal slowdown of optical/VCSEL, ahead of new product refresh. We continue to believe its 2Q GM will remain under pressure (CSe down 0.9 pp QoQ to 32.6%) on less favourable mix (lower 5G mix), rising depreciation, and NTD appreciation against the USD.

iPhone and fabless ramp more positive for VPEC. As noted in early June, we believe the allocation on 5G sub-6 GHz ultra-high-band (UHB) RFFE for 2H21 iPhone 13 could shift from last year's sole-supplied by Skyworks to dual-sourced from 2H21 (adding Qorvo). We believe this allocation change should be positive for VPEC as it has higher market share at Qorvo (~80%) vs Skyworks (20-30%), while margin profile is also accretive. We also highlight that the Face ID module for 2H21 iPhone is likely to adopt smaller VCSEL (~40% die shrink), which could reduce the wafer consumption for existing suppliers, although we believe Lumentum/Win Semi's allocation could see moderate increase in 2H21 given its early mover's advantage on adopting new design. We believe there will be limited impact to Win Semi's optical sales in 2021, but it will be more challenging in 2022 on full-year impact from the design change, as well as potential share loss to new entrants. Lastly, we also see potential change on Wi-Fi suppliers, which should benefit VPEC over Win Semi.

For the Android devices, we see limited impact to Win Semi or VPEC's shipment in 2Q-3Q21, despite the noise on order cuts. In fact, we see acceleration ramp by Chinese/Taiwanese fabless and Qualcomm, which is driving both Win Semi and VPEC's near-term momentum, on top of iPhone seasonality. Of the two, we believe VPEC could benefit more as has a more diversified customer base and is winning allocation at Qualcomm. In the mid-term, we believe VPEC is in a more superior position to capture the China locaisation trend given its more diversified customer base and technology leadership. Net-net, we believe the iPhone seasonality and continuous strength on Android should support both Win Semi and VPEC's sales to grow QoQ.

Figure 2: Win Semi quarterly P/L

(NT$ mn)	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2020	2021E	2022E
Revenue	6,566	6,861	6,009	6,132	6,969	7,358	25,546	26,468	28,375
GP	2,851	2,399	2,012	1,999	2,512	2,713	10,569	9,236	10,297
OP	2,146	1,664	1,196	1,360	1,838	2,020	7,782	6,413	7,564
Net profit	1,979	1,296	1,151	1,079	1,558	1,621	6,529	5,410	6,110
EPS (NT$)	4.67	3.06	2.72	2.54	3.67	3.82	15.40	12.76	14.41
GM (%)	43.4	35.0	33.5	32.6	36.0	36.9	41.4	34.9	36.3
OPM (%)	32.7	24.3	19.9	22.2	26.4	27.5	30.5	24.2	26.7

Source: Company data, Credit Suisse estimates

Prefer VPEC to Win Semi. We raise VPEC's 2021-22E EPS by 6-9% on iPhone share gain and fabless ramp, and lift TP to NT$160 on 32x 12M P/E. We lower Win Semi's 2021-22E EPS within 3% on softer VCSEL but keep TP at NT$363. We continue to like VPEC over Win Semi on more diversified customer base and stable GM.

Valuation metrics

Company	Ticker	Rating	Price	Target	TP chg	Up/dn to TP	Year	EPS Chg(%)		EPS		EPS grth (%)		P/E (x)		DY (%)	P/B (x)	Scenario	
		(prev.)	Local	price (prev.)	(%)	(%)	T	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+2	T+1	T+1	Blue sky	Grey sky
Win Semi	3105.TWO	N	382.0	363.0	0.0	(5.0)	12/20	(0.3)	(2.7)	12.76	14.41	(17.1)	12.9	29.9	26.5	2.6	5.1	500.0	215.0
VPEC	2455.TW	O	138.5	160.0 (155.0)	3.2	15.5	12/20	8.5	5.9	4.76	5.58	54.7	17.3	29.1	24.8	1.9	7.8	220.0	80.0

Source: Refinitiv, Credit Suisse estimates

Research Analysts
Jerry Su / 886 2 2715 6361
jerry.su@credit-suisse.com

Harvie Chou / 886 2 2715 6364
harvie.chou@credit-suisse.com

Asian Daily

5 July 2021

Airtac (1590.TW)

2Q21 sales ahead; momentum to sustain into 3Q

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (NT$): 1,450

Previous target price (NT$): 1,450

- 2Q21 sales ahead. Airtac reported June sales of NT$2.38 bn, up 6% MoM and 41% YoY, with better sales growth particularly from machine tools, battery, and automotive industries. 2Q sales of NT$7.0 bn grew 19% QoQ, ahead of CS/street's 15-18% QoQ growth.
- Momentum to continue into 3Q. Airtac noted that demand outlook for pneumatic remains robust and its visibility has further extended by 2-3 weeks. It is adding equipment and is hiring more operators to catch up with end-demand. With better pneumatic demand and linear guideway ramp, we expect its 3Q sales to decline by a mere 2% QoQ, ahead of normal seasonality of a 5-10% QoQ decline.
- Linear guideway ramp is also on track. Airtac noted the progress for linear guide is on-track, although still limited by capacity and workforce. Nevertheless, we believe the contribution from linear guide will see greater improvement in 2H as its new capacity comes online.
- OUTPERFORM. We fine tune our model and raise 2021-22E EPS by 1-3% on better sales and OPM. We keep our TP unchanged at NT$1,450 on 33.5x 2022E P/E (~35x plus 5% dilution from rights). We believe it should complete the rights issuance in late 3Q.

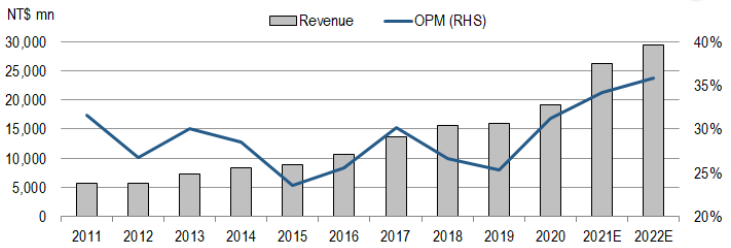
Price (05-Jul-21, NT$)	**1,165**	Est. pot. % chg. to TP			24.5
Mkt cap (NT$/US$ mn)	220,214 / 7,892	Blue sky scenario (NT$)			1,700
Number of shares (mn)	189.02	Grey sky scenario (NT$)			800.0
Free float (%)	80.0	**Performance**	**1M**	**3M**	**12M**
52-wk range (NT$)	1,195 - 520	Absolute (%)	21.4	11.0	129.3
ADTO-6M (US$ mn)	29.9	Relative (%)	16.9	3.9	78.9

Year	**12/19A**	**12/20A**	**12/21E**	**12/22E**
Revenue (NT$ mn)	15,896.3	19,103.0	26,225.3	29,379.4
EBITDA (NT$ mn)	5,252.5	7,996.9	10,756.1	12,745.9
EBIT (NT$ mn)	4,028.0	5,964.2	8,965.1	10,524.1
Net profit (NT$ mn)	2,726.3	4,845.3	6,874.5	8,280.9
EPS (CS adj.) (NT$)	14.42	25.63	36.37	43.81
Chg. from prev. EPS (%)	n.a.	n.a.	3.1	0.6
Consensus EPS (NT$)	n.a.	n.a.	34.89	41.56
EPS growth (%)	(4.0)	77.7	41.9	20.5
P/E (x)	80.8	45.4	32.0	26.6
Dividend yield (%)	0.4	0.8	1.2	1.5
EV/EBITDA (x)	43.8	28.7	21.3	17.7
P/B (x)	11.22	9.35	8.56	7.05
ROE (%)	14.5	22.4	27.9	29.1
Net debt/equity (%)	54.2	41.1	32.5	17.5

Source: Company data, Refinitiv, Credit Suisse estimates

2Q21 sales ahead. Airtac reported June sales of NT$2.38 bn, up 6% MoM and 41% YoY, with better sales growth particularly from machine tools, battery, and automotive industries (combined 20-25% of revenue). 2Q sales of NT$7.0 bn grew 19% QoQ and 32% YoY, ahead of CSe/Street's 15-18% QoQ, given better end-demand with increasing backlogs, offset by stricter controls on logistic/transportation in Southern China since late-May on rising COVID-19 cases. It believes the rising component cost increase has limited impact on its GM as it has turned more selective on taking new orders in 2Q amid supply constraints, as well as greater scale with new SKUs and share gain.

Figure 1: OPM expansion to continue in 2021-22



Source: Company data, Credit Suisse estimates

Momentum to continue into 3Q. Airtac noted demand outlook for its pneumatic business remains robust and its visibility has been extended from prior ~2 weeks to 4-5 weeks recently. It is also facing supply constraints and the orders it has received in June is higher than its overall capacity (CSe ~20% gap). It has been asking its operators to work overtime, as well as add new equipment and hire more operators to increase output and catch up with end-demand. We believe some of its orders that were originally scheduled for shipment in 2Q has been pushed out to July, while the continuing strength in pneumatics, increasing automation level, government push on infrastructure builds, and ramp up of linear guideway, should support Airtac's 3Q sales momentum to sustain. We now expect its 3Q sales to decline by a mere 2% QoQ, ahead of normal seasonality of a 5-10% QoQ decline and expectation of a 5% QoQ decline. We believe its 4Q sales will follow normal seasonality of a 5-10% QoQ decline, but will still register 15-20% YoY growth as it further ramps the linear guideway output. For 2021, we forecast its sales to grow 37% YoY (vs guidance of over-30% YoY) and OPM to arrive at 34.2% (vs guidance of 34.0%).

Linear guideway ramp is also on track. Airtac noted the progress for linear guide is on-track as its sales/output continues to improve MoM, although still limited by capacity and workforce. It has been shipped with more standard guideways than miniature guideways given the capacity constraint and supporting its in-house use, especially as it aims to prepare some inventory before engaging more customers. We believe it is on track to increase its capacity to Rmb700-800 mn by July-2021; Rmb1 bn by early-2022; and Rmb2 bn by end-2022 to address the Rmb25 bn total linear guide market in China. We estimate its sales contribution of linear guide was at low-single % in 2Q but should see greater improvement in 2H as its new capacity comes on-line.

Figure 2: Airtac quarterly P/L

NT$ mn	3Q20	4Q20	1Q21	2Q21E	3Q21E	4Q21E	2020	2021E	2022E
Revenue	5,220	5,390	5,934	7,036	6,901	6,354	19,103	26,225	29,379
GP	2,653	2,711	2,876	3,537	3,448	3,162	9,453	13,023	14,612
OP	1,706	1,729	1,974	2,575	2,254	2,163	5,964	8,965	10,524
Net profit	1,542	1,582	1,447	1,901	1,778	1,748	4,845	6,875	8,281
EPS (NT$)	8.16	8.37	7.66	10.06	9.41	9.25	25.63	36.37	43.81
GM (%)	50.8	50.3	48.5	50.3	50.0	49.8	49.5	49.7	49.7
OPM (%)	32.7	32.1	33.3	36.6	32.7	34.0	31.2	34.2	35.8

Source: Company data, Credit Suisse estimates

Reiterate OUTPERFORM. We fine tune our model and raise 2021-22E EPS by 1-3% on better sales and OPM. We keep our TP unchanged at NT$1,450 on 33.5x 2022E P/E (~35x plus 5% dilution from rights, scheduled to completed by late 3Q). We believe the industry remains on an up-cycle, where Airtac should be the key beneficiary, especially from China localisation and relocation trend.

Research Analysts
Jerry Su / 886 2 2715 6361
jerry.su@credit-suisse.com

Harvie Chou / 886 2 2715 6364
harvie.chou@credit-suisse.com

Asian Daily

6 July 2021

AEON Thana Sinsap PCL (AEONTS.BK)

1Q FY22 — PPOP missed, profit ahead

Maintain UNDERPERFORM

Previous Rating: UNDERPERFORM

Target price (Bt): 170.00

Previous target price (Bt): 170.00

- AEONTS reported 1Q FY22 PPOP of Bt2.67 bn, down 12% YoY and up 12% QoQ, and a core profit of Bt1.15 bn, up 117% YoY and down 3% QoQ. PPOP was a miss but the bottom line was ahead of our expectation due to a lower-than-expected rise in the credit cost.
- The PPOP miss was mainly due to negative loan growth, down 1% QoQ and 2% YoY, likely from weak consumer spending and AEONTS's more careful approval for new loans. NIM looked generally in line at 18.3%. Loan yield was lower than expected at 20.4% but was offset by good OPEX cost control and non-interest income.
- The asset quality worsened. The credit cost rose to 5.6%, up QoQ from 4.0% ending the declining trend that continued for the past three quarters. The coverage ratio fell to 225%, down QoQ from 230%. The NPL was steady QoQ at 5.7%, vs 4Q FY21 at 5.8% and 230%.
- Despite the underperformance in the past three months, the outlook remains challenging with the resurgence of COVID-19. We believe the credit cost will rise and loan growth will likely remain sluggish until a material pickup in the economic activities which may not be until the vaccination rate gets high in early next year.

Price (05-Jul-21, Bt)	**185.00**	Est. pot. % chg. to TP			(8.1)
Mkt cap (Bt/US$ mn)	46,250 / 1,439	Blue sky scenario (Bt)			240.0
Number of shares (mn)	250.0	Grey sky scenario (Bt)			100.0
Free float (%)	36.9	**Performance**	**1M**	**3M**	**12M**
52-wk range (Bt)	250 - 96.25	Absolute (%)	(9.3)	(20.9)	63.0
ADTO-6M (US$ mn)	14.1	Relative (%)	(7.3)	(20.9)	47.9

Year	**2/20A**	**2/21E**	**2/22E**	**2/23E**
Pre-provision Op profit (Bt mn)	11,251.5	11,684.3	11,670.1	12,511.9
Pre-tax profit (Bt mn)	5,169.7	4,524.3	4,963.8	5,565.2
Net attributable profit (Bt mn)	3,996.2	3,471.4	3,815.8	4,289.5
EPS (CS adj.) (Bt)	15.98	13.89	15.26	17.16
Chg. from prev. EPS (%)	n.a.	0.0	0.0	0.0
Consensus EPS (Bt)	n.a.	14.76	15.15	17.14
EPS growth (%)	11.1	(13.1)	9.9	12.4
P/E (x)	11.6	13.3	12.1	10.8
Dividend yield (%)	2.6	2.3	2.7	3.0
BVPS (CS adj.) (Bt)	82.92	65.79	76.09	87.67
P/B (x)	2.23	2.81	2.43	2.11
ROE (%)	20.6	18.7	21.5	21.0
ROA (%)	4.4	3.7	3.9	4.1
Tier 1 Ratio (%)	n.a.	n.a.	n.a.	n.a.

Source: Company data, Refinitiv, Credit Suisse estimates

1Q FY22 results — ahead of our expectation

AEONTS reported 1Q FY22 results (end-May 2021) with a PPOP of Bt2.67 bn, down 12% YoY and up 12% QoQ, and a core profit of Bt1.15 bn, up 116% YoY and down 4% QoQ. PPOP was a miss but the bottom line was ahead of our expectation from a lower-than-expected rise in the credit cost. 1Q FY22 PPOP and net profit account for 23% and 30% of our FY22E.

Disappointing loan growth

The miss in PPOP was mainly due to negative loan growth. The loan portfolio fell 1% QoQ and 2% YoY, the second consecutive quarter with negative loan growth, from both credit card and personal loans. MD&A attributed the shrinkage to deteriorating spending from the COVID-19 pandemics but we believe AEONTS could be more careful in approving new loans following the new lower ceiling lending rate from Aug-2021.

NIM looked generally in line at 18.3%, down YoY from 20.2% and up QoQ from 17.5%. Loan yield was slightly lower than expected at 20.4% but was offset by good OPEX control (cost to income ratio at 41.9%, down QoQ from 47.3%) and non-interest income (from a higher QoQ bad debt recovery income).

Worsening asset quality

The asset quality worsened. The credit cost rose to 5.6%, up QoQ from 4.0% ending the declining trend that continued for the past three quarters. The coverage ratio fell to 225%, down QoQ from 230%. The NPL was steady QoQ at 5.7%, vs 4Q FY21 at 5.8% and 230%.

Outlook still challenging

AEONTS has underperformed the market by 21% over the past three months but the outlook remains challenging with the resurgence of COVID-19. The deteriorating economic conditions and delay in the country reopening will put negative pressure on the asset quality and the nearterm business outlook, in our view. We believe the credit cost will likely rise and loan growth could remain sluggish until a material pickup in the economic activities, which may not come through until the vaccination rate rises early next year. AEONTS trades on a 2022E PE of 12-13x, a premium to historical avg. of 11x, and a yield of 2-3%, compared to 4-8% yield offered by banks.

Figure 1: 1Q FY22 results summary

(Bt bn)	1QFY21 May-20	4QFY21 Feb-21	1QFY22 May-21	QoQ	YoY	FY22E Feb-22	YoY	% FY22E
Net interest income	4.50	3.90	3.98	2.2	-11.6	17.51	1.5	22.7
Net Fee & services income	0.21	0.19	0.21	10.3	1.6	0.87	5.9	24.0
Non-interest income	0.59	0.64	0.61	-5.1	2.3	2.45	-5.0	24.8
Operating expenses	-2.08	-2.15	-1.92	-10.5	-7.8	-8.29	1.7	23.2
PPOP	**3.01**	**2.39**	**2.67**	**11.6**	**-11.5**	**11.67**	-0.1	22.9
Loan loss provision	-2.39	-0.88	-1.23	38.8	-48.7	-6.69	-6.4	18.3
Core profit	**0.53**	**1.20**	**1.15**	**-3.8**	**116.2**	**3.82**	**9.9**	30.2
Net profit	**0.53**	**1.18**	**1.15**	**-2.9**	**116.8**	**3.82**	**9.9**	30.1
Balance sheet								
Gross loans	88.5	87.4	86.7	-0.8	-2.0	97.8	6.0	
Total assets	88.6	87.4	86.8	-0.6	-2.0	101.2	7.6	
Equity	14.5	17.1	18.2	6.4	24.8	19.0	15.7	
NPLs	3.3	5.0	5.0	-1.8	51.1	4.0	7.3	
Ratios (%)								
NPL (% of gross loans)	3.70	5.77	5.71			4.09		
LLR/NPLs	359.4	229.9	225.0			208.5		
Loan yield	22.7	19.8	20.4			20.9		
Cost of funding	3.3	2.9	2.9			3.2		
Overall spread	19.4	17.0	17.5			17.7		
NIM (CS calculation)	20.2	17.7	18.3			18.4		
Cost/income	40.9	47.3	41.9			41.5		
LLP (% of avg loans)	10.7	4.0	5.6			7.0		
Return on equity	12.1	29.2	26.2			21.5		

Source: Company data, Credit Suisse estimates

Research Analysts
Warayut Luangmettakul / 662 614 6214
warayut.luangmettakul@credit-suisse.com