

MARKET NEWS

US stocks were higher after the close on Tuesday, as gains in communication services, energy and materials sectors led shares higher. At the close in NYSE, the DJIA rose 1.77%, while the S&P 500 index advanced 1.57%, and the NASDAQ Composite index gained 1.58%. Advancing stocks outnumbered falling ones on the NYSE by 2,102 to 904 and 88 ended unchanged; on the Nasdaq Stock Exchange, 1,030 declined and 2,113 advanced, while 180 ended unchanged. (Source: Nasdaq, CNBC)

During the last trading session, the FSSTI index plunged 15.09pt to 2,966.45, taking the ytd performance to -12.83%. Among the top active stocks were Genting Singapore (-1.71%), Yangzijiang Shipbuilding (-1.65%), Thai Beverage (-0.80%), Thomson Medical (unchanged) and Singtel (-0.64%). The FTSE ST Mid Cap Index fell 1.07%, while the FTSE ST Small Cap Index declined 1.04%. The broader market saw 132 gainers and 266 losers with total trading value of S\$985.3m.

WHAT'S IN THE PACK

Japfa (JAP SP) – 3Q18: Strong beat from Vietnam swine and Indonesia poultry

(JAP SP/BUY/S\$0.69/Target: S\$0.98)

Japfa's 3Q18 core net profit beat our street-high 2018 forecast significantly. 9M18 net profit met 95% of our and 105% of consensus 2018 forecasts. Core net profit soared 141% yoy in 3Q18 due to strong performances in three key segments: a) Vietnam swine business under the Animal Protein Other segment, b) Indonesia poultry, and c) dairy. We raise our 2018-20 core net profit forecasts by 6.6-7.1%. Accordingly, we raise our target price by 9% to S\$0.98, implying 12.4x 2018F PE, a 16% discount to peers.

Tianjin Zhongxin Pharmaceutical (TIAN SP) – 3Q18: Results in line, investment thesis intact

(TIAN SP/BUY/US\$0.895/Target: US\$1.59)

In a typically weak quarter, TJZX's 3Q18 net profit rose 6.6% yoy to Rmb87.4m. Top-line revenue recorded explosive growth of 20.7% yoy to Rmb1.6b. Gross profit rose in tandem (+22.5% yoy), coming in at Rmb614.8m. However, the solid revenue growth was offset by a lower share of associate profits which declined 82.6% yoy. We believe our investment thesis of multi-year growth led by key drug Su Xiao's ASP hike is intact and we reiterate BUY with a PE-based target price of US\$1.59.

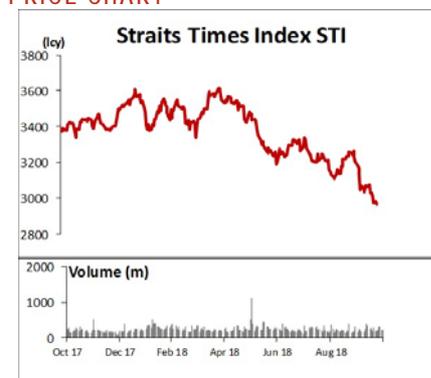
Japfa Ltd (JAP SP) - Trading BUY

The stock price has broken out from the flag pattern and has traded above the cloud on substantial volume. The RSI is rising above its neutrality level in both weekly and daily timeframes while the daily MACD is in the positive territory...

Singapore Exchange (SGX SP) - Trading SELL

The stock price has broken out from the descending channel formed since April on substantial volume. The ADX has a reading of above 25 and the DIs are negatively placed. These suggest the bearish momentum. Additionally, there is a bearish MACD crossover on the daily...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	24874.6	(6.0)	0.6
S&P 500	2682.6	(7.9)	0.3
FTSE 100	7035.9	(6.3)	(8.5)
AS30	5887.9	(6.9)	(4.5)
CSI 300	3110.3	(9.6)	(22.8)
FSSTI	2966.5	(8.9)	(12.8)
HSCEI	9999.0	(9.2)	(14.6)
HSI	24585.5	(11.5)	(17.8)
JCI	5789.1	(3.1)	(8.9)
KLCI	1685.9	(6.0)	(6.2)
KOSPI	2014.7	(14.0)	(18.4)
Nikkei 225	21457.3	(11.0)	(5.7)
SET	1638.5	(6.7)	(6.6)
TWSE	9526.1	(13.4)	(10.5)
BDI	1522	(1.2)	11.4
CPO (RM/mt)	2032	(2.3)	(15.0)
Brent Crude (US\$/bbl)	76	(8.2)	13.5

Source: Bloomberg

TOP VOLUME

Company	Price (\$)	Chg (%)	Volume ('000s)
Genting Singapore	0.86	(1.7)	34,589
Thomson Medical Group	0.08	0.0	22,886
Yangzijiang Shipbuilding	1.19	(1.7)	19,918
Thai Beverage	0.62	(0.8)	18,897
CapitaLand Commercial Trust	1.72	(0.6)	17,719

TOP GAINERS

Company	Price (\$)	Chg (%)	Volume ('000s)
Siic Environment Holdings	0.26	6.1	1,043
Japfa	0.69	3.8	3,689
Jardine Strategic Hldgs	33.28	1.2	367
Ascendas India Trust	1.09	0.9	348
Cromwell European Reit	0.55	0.9	78

TOP LOSERS

Company	Price (\$)	Chg (%)	Volume ('000s)
Manulife Us Real Estate Inv	0.72	(5.9)	1,804
Venture Corp	14.65	(4.4)	2,676
StarHub	1.87	(3.1)	2,317
Cosco Shipping International	0.34	(2.9)	6,755
Raffles Medical Group	1.06	(2.8)	2,175

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TRADERS' CORNER



Source: Nextview

Japfa (JAP SP)

Trading BUY
 Last price: S\$0.69
 Target price: S\$0.735
 Protective stop: S\$0.66

The stock price has broken out from the flag pattern and has traded above the cloud on substantial volume. The RSI is rising above its neutrality level in both weekly and daily timeframes while the daily MACD is in the positive territory.

The stock price has also moved above the descending channel as shown on the daily chart. We see increasing odds for the stock price to retest its high on 28 Aug 18 (S\$0.735). Stops could be placed at S\$0.66 (low on 29 Oct), giving a potential reward risk ratio of 1.5.

Approximate timeframe on average: 1-2 weeks

Our institutional research has a fundamental BUY and target price of S\$0.98.



Source: Nextview

Singapore Exchange (SGX SP)

Trading SELL
 Last price: S\$6.73
 Target price: S\$6.38
 Protective stop: S\$6.97

The stock price has broken out from the descending channel formed since April on substantial volume. The ADX has a reading of above 25 and the DIs are negatively placed. These suggest the bearish momentum. Additionally, there is a bearish MACD crossover on the daily.

We see increasing odds for the stock price to test S\$6.38 (61.8% FR of 2009 to 2010 price swing). Stops could be placed at S\$6.97 (high on 25 Oct), giving a potential reward risk ratio of 1.5.

Approximate timeframe on average: 2-4 weeks

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FROM THE REGIONAL MORNING NOTES...

Japfa (JAP SP)

3Q18: Strong Beat From Vietnam Swine And Indonesian Poultry

Japfa's 3Q18 core net profit beat our street-high 2018 forecast significantly. 9M18 net profit met 95% of our and 105% of consensus 2018 forecasts. Core net profit soared 141% yoy in 3Q18 due to strong performances in three key segments: a) Vietnam swine business under the Animal Protein Other segment, b) Indonesia poultry, and c) dairy. We raise our 2018-20 core net profit forecasts by 6.6-7.1%. Accordingly, we raise our target price by 9% to S\$0.98, implying 12.4x 2018F PE, a 16% discount to peers.

3Q18 RESULTS

Year to 31 Dec (US\$m)	3Q18	3Q17	yoy % chg
Revenue	877.4	814.3	7.8%
Operating Profit	82.4	56.0	47.1%
Operating Margin (%)	9.4%	6.9%	2.5ppt
Net Profit	33.7	15.7	114.7
Net Margin (%)	3.8%	1.9%	1.9ppt
Core Net Profit	29.3	12.1	141.1
Core Net Margin (%)	3.3%	1.5%	1.9ppt

Source: Japfa, UOB Kay Hian

RESULTS

- APO: Strong turnaround due to Vietnam swine business.** 3Q18 core net profit of the Animal Protein Other (APO) segment reported a strong turnaround to US\$9.9m from US\$7.3m loss in 3Q17, mainly due to the Vietnam swine business. To recap, swine prices declined to below cost levels since 4Q16 when China restricted swine imports from Vietnam. After more than a year of demand-supply rebalancing in the Vietnam market, swine prices recovered in 2Q18 to above cost and continued to increase in 3Q18. Export restriction to China remains in place; removal of this restriction could bode well for Japfa. More importantly, Japfa's farming productivity continues to improve on lower production cost of swine.
- Indonesia poultry: Higher poultry ASPs and breeding productivity.** 3Q18 core net profit grew 55% yoy due to strong profit in breeding operations from higher-than-expected day old chick (DOC) ASP on a lack of supply in Indonesia. In addition, commercial farm operations also recorded strong profit due to higher broiler ASP. Key factors underpinning the volume growth of Japfa's breeding operations are high productivity and quality of its DOC breed.
- Dairy and consumer food: Remained relatively stable.** The dairy segment reported a 3% yoy growth in operating profit from the continued focus on improving milk yields and volumes in China. On the other hand, core net profit in the consumer food segment remained loss-making although losses have narrowed marginally qoq from US\$6.8m in 2Q18 to US\$6.2m in 3Q18.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2016	2017	2018F	2019F	2020F
Net Turnover	3,032.9	3,189.9	3,550.4	3,788.7	4,039.5
EBITDA	396.4	286.6	411.8	440.1	465.7
EBIT	311.4	188.6	305.7	322.2	338.5
Net profit	118.8	22.6	108.1	119.1	130.4
Adjusted net profit	130.2	15.7	108.1	119.1	130.4
Adjusted EPS (cent)	7.4	0.9	5.9	6.5	7.1
Adjusted PE (x)	6.7	55.8	8.7	7.9	7.2
P/B (x)	1.1	1.2	1.6	1.4	1.2
EV/EBITDA (x)	3.5	5.5	4.7	4.4	4.2
Dividend yield (%)	1.6	0.8	0.7	0.7	0.7
Net margin (%)	4.3	0.5	3.0	3.1	3.2
Net debt to equity (%)	46.3	69.4	83.7	73.9	64.6
Interest cover (x)	5.2	2.8	3.3	3.5	3.6
ROE (%)	16.4	2.3	13.3	12.9	12.5
Consensus net profit	-	-	92.0	103.3	110.0
UOBKH/Consensus (x)	-	-	1.18	1.15	1.19

Source: Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Expect robust core net profits in 2018-19.** The turnaround in the Vietnam swine business should continue due to favourable swine prices in Vietnam. In addition, the Indonesia poultry segment should continue to benefit from more efficient regulations in Indonesia to manage the supply of poultries and more subsidies ahead of the Indonesia elections in early-19.

EARNINGS REVISION/RISK

- We raise our 2018-20 net profit forecasts by 6.6-7.1% after raising net profit for the Indonesian poultry and APO segments on better-than-expected ASPs and operating margins.
- Risks include unfavourable forex rates, demand-supply imbalances for key proteins, price and availability of feed raw materials, competition and animal disease outbreak.

VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of S\$0.98**, which implies 12.2x 2018F PE, a 16% discount to peers' 14.8x.

SHARE PRICE CATALYST

- Better-than-expected prices for Indonesia poultry, China dairy and Vietnam swine.
- Stronger-than-expected turnaround in the Vietnam swine business.
- Reversal of rupiah weakness.

SOTP VALUATION

	2018F core net profit (US\$m)	Ascribed PE multiple (x)	Value (US\$m)	Remarks
PT Japfa	74.8	12.9	964.4	Based on 12.9x 2018F core net profit. This is pegged to PT Japfa's 8-year PE mean; it is at a slight discount to peers' average of 13.6x.
Dairy	50.0	12.4	619.5	Based on 12.4x 2018F core net profit; this is pegged to the valuation multiple Japfa paid to acquire its remaining minority stake in 2018. This is at a slight discount to China Modern Dairy's 2018F PE of 14.0x
APO	23.7	12.9	305.6	Similar valuation basis with PT Japfa as both segments operate under the same business model.
Consumer food	(22.8)	0.0		Ascribed zero value.
Corporate net debt in 2018F			(400.0)	
Total			1,489.5	
After 10% conglomerate discount			1,340.6	
Shares outstanding			1,846.7	
Value per share (US\$)			0.73	
US\$/SGD conversion rate			1.35	
Value per share (S\$)			0.90	

Source: UOB Kay Hian

PEER COMPARISON

Company	Rec	Price @ 30 Oct 18 (lcl ccy)	Market Cap (US\$m)	----- PE -----			3-yr EPS CAGR	EV/ EBITDA 2018F (x)	P/B 2018F (x)	---- ROE ----		Div yield 2018F (%)	Net gearing 2018F (%)
				2018F (x)	2019F (x)	2020F (x)				2018 F (%)	2019F (%)		
Japfa	BUY	0.69	920	8.7	7.9	7.2	99.5	4.7	1.6	13.3	12.9	0.7	84
Indonesia protein peers													
PT Japfa Tbk	BUY	2,000	1,540	10.7	9.4	9.3	34.8	7.1	2.2	19.9	19.3	1.1	45
Charoen Pokphand Indo	BUY	5,450	5,868	20.6	18.6	17.5	27.0	13.5	4.8	24.0	22.6	1.1	26
Malindo Feedmill	HOLD	1,260	185	13.1	10.4	10.1	134.2	7.4	1.3	10.8	11.7	0.8	98
Average				14.8	12.8	12.3	65.4	9.3	2.8	18.2	17.9	1.0	56
Dairy peers													
Inner Mongolia Yili Ind	NR	21.37	18,648	19.7	16.7	13.9	15.8	13.3	3.9	24.4	26.0	3.4	(50)
China Mengniu Dairy	BUY	22.15	11,087	23.0	18.0	14.7	32.8	13.7	2.8	12.8	14.7	1.0	(10)
China Modern Dairy	NR	0.89	695	5.4	12.6	7.0	45.4	8.8	0.7	4.0	6.2	-	95
Average				16.0	15.8	11.9	31.3	12.0	2.4	13.7	15.7	1.5	12

Source: Bloomberg, UOB Kay Hian

Tianjin Zhongxin Pharmaceutical Group Corporation (TIAN SP)

3Q18: Results In Line, Investment Thesis Intact

In a typically weak quarter, TJZX's 3Q18 net profit rose 6.6% yoy to Rmb87.4m. Top-line revenue recorded explosive growth of 20.7% yoy to Rmb1.6b. Gross profit rose in tandem (+22.5% yoy), coming in at Rmb614.8m. However, the solid revenue growth was offset by a lower share of associate profits which declined 82.6% yoy. We believe our investment thesis of multi-year growth led by key drug Su Xiao's ASP hike is intact and we reiterate BUY with a PE-based target price of US\$1.59.

3Q18 RESULTS

Year to 31 Dec (Rmbm)	3Q18	3Q17	yoy % chg
Revenue	1,576.6	1,306.1	20.7
Gross profit	614.8	501.8	22.5
Gross profit margin	39.0	38.4	0.6
Share of profits of associates	3.4	19.3	-82.6
Profit before tax	110.0	97.1	13.4
PATMI	87.4	82.0	6.6

Source: Tianjin Zhongxin, UOB Kay Hian

RESULTS

- 3Q18 attributable net profit of Rmb87.4m (+6.6% yoy), in line with expectations.** Tianjin Zhongxin Pharmaceutical Group (TJZX) reported a 3Q18 attributable net profit of Rmb87.4m representing 14.8% of our estimate on a normalised basis. Revenue grew 20.7% yoy to Rmb1.6b. Gross profit rose in tandem with revenue and registered 22.5% growth yoy. While the strong performance supports our investment thesis, a lower share of associates' profits (-82.6% yoy) eroded much of the solid revenue growth. As a result, net profit margins declined 0.8% to 5.5%.
- Building up a cash hoard.** The strong earnings performance led to an operating cash inflow of Rmb107.5m in 3Q18 against an outflow of Rmb50.9m in 3Q17. Sequentially, this represents an increase of 2.9x. TJZX's cash balance was maintained at Rmb1.2b or 21% over the balance as at 31 Dec 17.

STOCK IMPACT

- TJZX's multi-year growth story led by Su Xiao.** With Su Xiao's (速效救心丸) price hike set firmly in motion, management expects a meaningful impact on 2018 profits while the full impact will be seen in 2019. Moreover, with management's new strategy to grow Su Xiao's sales volume, we re-iterate our view that TJZX is on the cusp of a multi-year growth story.
- Trade friction with US unlikely to hurt TJZX.** Management acknowledged the complicated and volatile external environment which had exerted downward pressure on China's domestic market but shared that TJZX's export business is relatively small and foreign tariffs on exports have a minimal impact.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2016	2017	2018F	2019F	2020F
Net turnover	6,243	5,689	5,867	6,125	6,350
EBITDA	439	495	661	794	866
EBIT	349	411	573	700	767
Net profit (rep./act.)	422	476	589	697	748
Net profit (adj.)	422	476	589	697	748
EPS (Rmb)	0.55	61.9	76.6	90.6	97.2
PE (x)	11.1	9.8	7.9	6.7	6.3
P/B (x)	1.1	1.0	1.0	0.9	0.8
EV/EBITDA (x)	9.3	8.4	5.6	4.4	3.7
Dividend yield (%)	4.1	2.5	5.0	6.0	6.4
Net margin (%)	6.8	8.4	10.0	11.4	11.8
Net debt/(cash) to equity (%)	(13.5)	(10.7)	(19.9)	(22.6)	(25.8)
Interest cover (x)	32	84	n.a.	n.a.	n.a.
ROE (%)	10.4	11.0	12.7	13.8	13.7

Source: Bloomberg, UOB Kay Hian

- **Increasing competitiveness through mixed-ownership reform.** Following TJZX's induction into China's "Double Hundred" SOE reform list ("国企改革<<双百行动>>"), Tianjin Pharmaceutical Group Co. Ltd has proposed to carry out a mixed-ownership reform. While the proposed reform is still in the planning stage, we believe the proposed mixed-ownership reform can have the effect of maximising TJZX's full profit potential. We read into the announcement by Tianjin Development Holdings Limited (882 HK) and believe any mixed-ownership reform will likely introduce a strategic shareholder that will enhance the commercial productivity of SOEs.

EARNINGS REVISION/RISK

- No change to earnings estimates.
- Risks include a) tougher-than-expected competition, b) foreign currency volatility, and c) regulatory risk arising from negative impact from reforms.

VALUATION/ RECOMMENDATION

- **Maintain BUY with a PE-based target price of US\$1.59**, pegged to peers' average of 14.1x 2018F PE. While TJZX is smaller in market capitalisation, its ROE and yield are similar to peers' average. We think TJZX is poised for a major turnaround as its blockbuster drug experiences a substantial price appreciation in the Chinese market.

SHARE PRICE CATALYST

- Announcement of positive impact from relevant reforms, ie injection of private ownership, and the delisting of Singapore-listed shares.
- Continued profit growth as its Su Xiao drug price hike takes place.

** For a more detailed corporate note, please contact your trading representative.*

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