Singapore Market Focus

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DBS Group Research . Equity

28 Jan 2022

Focus on FY22 earnings recovery

- Index rebalancing, Omicron, and rate hikes anticipation stir up an uneasy February
- Earnings recovery picks – Suntec REIT, ART, AEM, Starhub, ThaiBev, and Venture
- Back to office revival – ComfortDelgro, FCT, CICT, Suntec REIT
- Inflation resilient picks – UOB, CityDev, YZJSGD, ThaiBev, SingTel, Suntec REIT, CICT, ART

Eyes on Budget Details of the GST hike will likely be revealed in the 18 February Budget. Our economist thinks the increase could come as soon as July. MAS's latest off-cycle tightening move is seen as an attempt to cool inflationary pressures that facilitate the hike. We think retail sales will still register growth even if there is a July GST hike due to the frontloading of purchase in 1H, while an anticipated rise in tourism receipts can offset the 2H22 dip in domestic demand.

An uneasy February We think the STI should head for a February consolidation (1) ahead of the Budget (2) an end-February index rebalancing that affects heavyweights (e.g., banks) (3) local Omicron cases rise in the immediate term and (4) ahead of the anticipated start of rate hike cycle in March. Pullback support around 3200.

Earnings recovery With FY21 earnings season ending, this is an opportune time to position into FY22 earnings recovery theme. Our picks for earnings recovery generating >10% EPS growth for FY22F vs negative growth in FY21F are Suntec REIT, ART, AEM, and Starhub. Meanwhile, ThaiBev and Ventre Corp should see FY22F earnings growth picking up further from the previous year.

Back-to-office revival Singapore's workplace mobility jumped to within 8% of pre-COVID and transit stations improved to within 18% of pre-COVID with the 50% back-to-office guideline starting this year. We believe this will rise further when the work-in-office guideline is adjusted higher once the Omicron wave passes. Our picks are ComfortDelgro for ridership recovery, FCT for its assets' proximity to transit stations and heartland areas, CICT and Suntec REIT for their centrally located malls and office assets as well as a return of tourists and MICE events.

Inflation resilient picks MAS's latest off-cycle tightening move is a reminder that inflation remains a key concern, especially in 1H22. Banks should continue to outperform in an inflationary, rising rates environment; our pick is UOB. City Dev is our developer pick with properties often viewed as an inflation hedge. Value stocks thriving on the value unlocking team tend to outperform in a volatile environment. Our picks are Yangzijiang, ThaiBev and SingTel. We believe SREITs are a "sell-in-anticipation, buy-on-news" trade when rates are rising from near-zero levels and is still low even with three hikes this year. We prefer those that ride on the reopening theme such as Suntec REIT, CICT, and hospitality REIT such as ART.

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Key Indices

	Current	% Chng
FS STI Index	3,260.03	-0.4%
FS Small Cap Index	324.86	0.0%
SGD Curncy	1.35	0.0%
Daily Volume (m)	1,370.42	
Daily Turnover (S$m)	1,608.92	
Daily Turnover (US$m)	1194.45	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2021E	57.1	3.7
2022F	17.0	3.9
2023F	11.1	4.5

(x)	PER	EV/EBITDA
2021E	16.7	17.2
2022F	14.3	15.7
2023F	12.8	14.5

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
Suntec REIT	1.55	3,283	1.90	2.0	0.7	BUY
Ascott Residence	1.03	2,505	1.30	0.0	(1.9)	BUY
AEM Holdings	4.74	1,090	6.04	13.4	12.9	BUY
StarHub	1.30	1,670	1.60	4.0	(2.3)	BUY
Thai Beverage	0.65	12,028	0.92	(10.4)	(19.4)	BUY
Venture Corp	17.8	3,846	22.60	(6.8)	(12.1)	BUY
Frasers Centrepoint Trust	2.27	2,866	2.90	(3.8)	(13.0)	BUY
CapitaLand Integrated Commercial Trust	1.98	9,519	2.50	(8.3)	(12.0)	BUY
UOB	30.0	37,263	34.20	11.8	27.2	BUY
Yangzijiang Shipbuilding	1.29	3,760	1.95	(8.5)	25.2	BUY
Singtel	2.49	30,519	3.13	(2.7)	1.6	BUY
City Developments	7.13	4,800	10.50	(3.5)	(4.8)	BUY

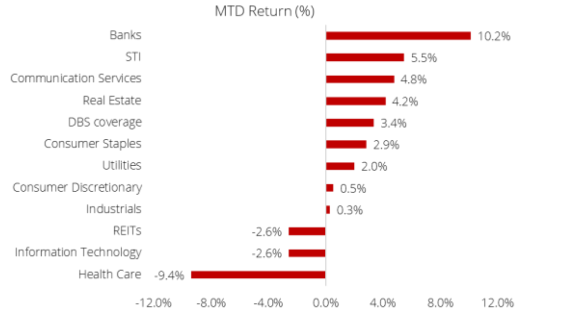
Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 27 Jan 2022

February Market Outlook

Positioning for faster and higher rates

- STI rose 5.5% MTD led by banks on rising interest rates
- Banks (OCBC, UOB) were buoyed by optimism that rates will rise sooner and faster
- SingTel (communication services) rose on its potential sale of Optus, its Australian Subsidiary
- Industrial (AREIT, MINT), logistics (MLT, FLT) and data centre (Keppel DC) REITs underperformed as both US and MAS 10-yr yields rose to a post-pandemic high
- Uncertainty over rising interest rates also dragged down technology stocks such as UMS, Frencken, AEM, and Nanofilm.

FTSE ST Indices' MTD Relative Performance for January



Source: DBS Bank

All eyes on Budget 2022

- Our Singapore economist is expecting the 7% to 9% GST hike to be announced as the current robust economic condition presents a window for such a policy move
- Hike could start as soon as July, unless growth unexpectedly deteriorates or inflation surges more than expected
- Lesser odds of further negative policy surprises, as property cooling measures were already implemented in Dec 21 and the GST hike has been hinted

February Event Calendar

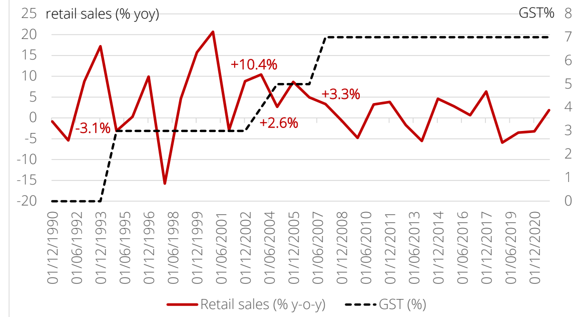
Date	Event	Comments
18 Feb	Singapore Budget 2022	Expecting GST hike

Source: DBS Bank

Will GST hike impact retail sales?

- Observations from previous GST hikes:
  - Retail sales registered positive y-o-y growth in three out of the four times that GST rates were adjusted up
  - 1994 was the only exception when GST was first introduced
  - Retail sales registered an average +3.3% y-o-y growth during years of GST hike, higher than the average +2.7% y-o-y growth from 1990 to 2021
  - Median y-o-y growth during the GST hike years was also higher at +2.95% compared to 2.73% from 1990 to 2021
- We deduce that GST hike has no negative impact on retail sales
- We believe the same will be true if GST is raised in 2H this year
  - 1H frontloading of purchase will likely offset a possible dip in 2H retail sales from domestic demand
  - But an anticipated rise in tourism receipts as air borders reopen can offset the 2H22 dip in domestic demand
- We remain positive on REITs with retail exposure FCT, Suntec REIT, CICT, SGREIT.

Singapore retail sales vs GST rates



Source: Bloomberg Finance L.P., DBS Bank

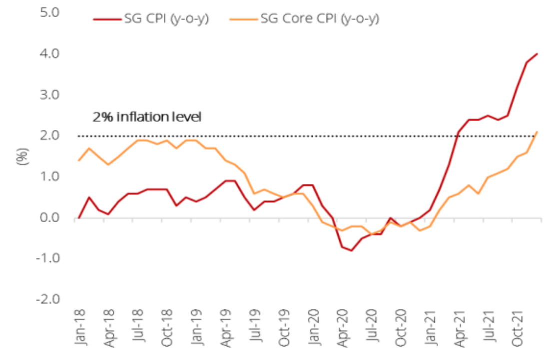
Focus on FY22 earnings recovery

DBS
Live more, Bank less

Another pre-emptive move against inflation

- MAS slightly raises the appreciation of the S$NEER policy band, in another pre-emptive shift against inflation
  - Policy bandwidth and the level at which it is centred remains unchanged
  - This comes after core CPI rose more than expected by +2.1% y-o-y (consensus +1.8%) in December and CPI rose by 4% y-o-y (consensus +3.7%
- Our economist continues to expect a GST hikes this year, despite the latest MAS move
- Higher inflation, rising rates environment are positive for banks (UOB, OCBC); negative on high-growth potential stocks with low/no dividend yield (Nanofilm)

Singapore CPI and core CPI levels

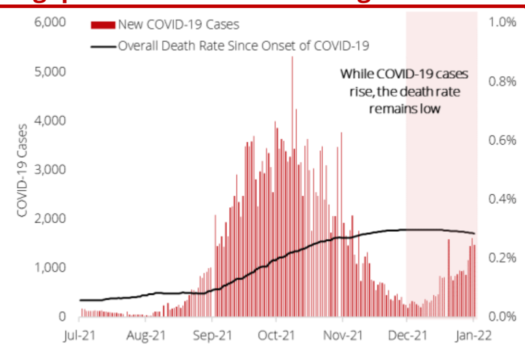


Source: MAS, Singapore Department of Statistics

Singapore's COVID-19 situation is still manageable

- Singapore's COVID-19 cases have risen past the 1,000 mark again, mainly due to Omicron infections
- We are cautiously optimistic that Singapore can avoid another period of heightened alert measures because:
  - 91% of Singapore's eligible population are fully vaccinated, with 54% having received their booster shots
  - The current ICU utilisation rate remains low at c.48%
  - 7-day moving average of death rate for COVID-19 cases remain low at 0.00% (vaccinated) and 0.01% (unvaccinated)
  - Data show that fully vaccinated individuals are significantly less likely to be severely ill or pass away
  -

Singapore's COVID-19 cases begin to rise



Source: MOH, DBS Bank

Rate hike expectations tweaked higher

- DBS interest rates strategist:
  - First rate hike in March (previous June)
  - Three hikes this year (previously two)
  - Six hikes over the next two years
  - US 10yr yield forecast remains at 2.1% for 2022, 2.3% for 2023
  - US 10-yr yield near-term range of 1.76% to 2%

US 10-yr yield near-term cap c.2%

Source: DBS Bank

Will there be a February consolidation?

- Straits Times Index currently trades near 13.4x (+0.25SD) 12-mth fwd PE with the solid +5% January rally
- A near-term February consolidation is possible:
  - Trading activity could quieten down ahead of 18 February Budget
  - End-February index rebalancing could affect heavyweights (e.g., bank stocks)
  - Markets could turn choppy heading towards the anticipated start of rate hike cycle in March
- Near-term support at 3,250 and 3,200
- We maintain our YE target of 3550 that prices in 15.6% y-o-y FY22F EPS growth

Straits Times Index

Source: DBS Bank

Strategy

Earnings recovery and acceleration

As the FY21 earnings season draws to a close in the current results season, we believe this is an opportune time for investors to position into companies that are anticipated to deliver earnings recovery or acceleration over the coming few quarters.

Our picks for earnings recovery of beyond +10% EPS growth for FY22F vs negative EPS growth in FY21F:

Suntec REIT - Suntec is positioned to deliver strong FY22F growth led by full-year contribution from its recent UK office accretive acquisition and recovery from the progressive ongoing reopening. Rental income from its Australia and UK portfolios are partially supported by rental supports/guarantees that provide earnings visibility in the near term. We are forecasting c.20% y-o-y growth in FY22F DPU (core DPU FY22F +9% y-o-y) and a two-year CAGR of 12% from FY20 to FY22F. If reopening progresses as planned, we estimate core DPU could surpass pre-COVID levels, at c.9Scts DPU in FY23F.

Ascott Residence - ART has a C.73% exposure in large domestic travel markets that enables it to be relatively more demand-shielded from any change in stance on border opening globally. Its maiden acquisitions within the student accommodation space are a testimony to its focus to grow the longer-stay lodging assets exposure to 15-20%. Our estimates pencil in 43% y-o-y DPU growth. The stock is attractive at a 0.9x P/NAV and a 5.4% FY22 dividend yield.

AEM - AEM is in a strategic position to benefit from its key customer and industry uptrend. Near-term key catalysts include the ramp-up of the next generation of handlers to its key customer. After procuring front-end equipment, AEM's key customer has begun to ramp up its next generation of test handlers that we believe is one of the key drivers of AEM's growth for FY22F.

Starhub - 10% annual earnings growth over FY21-23F led by (i) recovery from the pandemic in FY22F, reversing five years of decline from mobile services, (ii) sustained growth in fixed broadband business as consumers shift to higher-speed plans while content costs for TV business are reined in, (iii) growth of cybersecurity & regional ICT services. Starhub will embark on S$270m of additional investments over the next three years in areas like cloud-based software systems, 5G network, and next-gen 5G products and solutions. With almost 50% of the S$270m investment front-loaded in FY22F, there can be significant upside to FY23F earnings.

SIA Engineering – Amid the launch of multiple VTLs in Singapore, we expect earnings to recover 29% y-o-y in FY22F following the 79% EPS drop the previous year. In the medium term, we see net profit doubling in FY23 and growing a further c.40% in FY24. The government's goal to eventually open VTLs to all vaccinated travellers regardless of location will provide a further boost as air travel trends normalise.

Earnings recovery picks where FY22F EPS growth exceeds the previous year's growth are as follows:

Thai Beverage – We recently revised up our FY22F and FY23F earnings forecasts by 7% and 5% respectively on the potential return of the BeerCo IPO and expected improved margins from the spirits segment as molasses price trends down. A stabilisation in the COVID-19 situation in Thailand and Vietnam is likely to pave the way for a revival of the BeerCo IPO. We expect 19% y-oy EPS growth for FY22F vs. 6% for FY21A.

Venture Corp – We expect Venture to fulfil the bulk of its strong orders pipeline as chip shortages ease in 2022 with the increase in capacity from chip manufacturers gradually coming on stream. The group is also working towards launching new products across its various business segments. Its production facilities in Malaysia are currently running at almost full capacity, given the high worker vaccination rate. Overall, we expect a better 4Q21 vs 3Q21 and a stronger 2022 for Venture.

Earnings turnaround and recovery

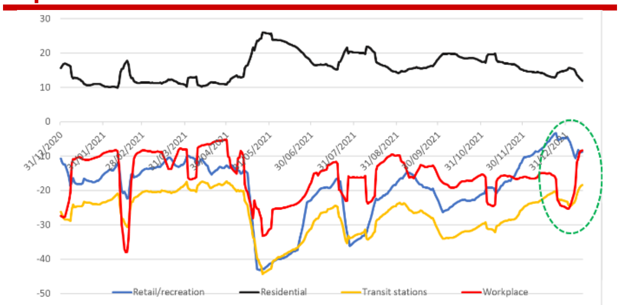
Company	Price 19 Jan 2022	Target Price	Target Return	Mkt Cap (S$m)	Rcmd	PER 22 (x)	EPS Growth 21 (%)	EPS Growth 22 (%)	EPS Growth 23 (%)	Div Yield 22 (%)	Net Debt / Equity 22	P/BV 21 (x)
Suntec REIT	1.56	1.90	22%	4,451	BUY	22.5	-1.4	25.0	8.6	5.9	0.4	0.8
Ascott Residence	1.07	1.30	22%	3,506	BUY	24.7	-27.7	108.6	27.8	5.4	0.3	0.9
SIA Eng	2.17	2.65	22%	2,436	BUY	25.5	-78.9	28.8	84.0	3.7	cash	1.5
StarHub	1.33	1.60	20%	2,301	BUY	15.6	-15.9	10.9	10.1	5.1	1.6	6.3
AEM	5.04	6.04	20%	1,561	BUY	12.5	-22.0	45.7	11.0	2.0	cash	4.0
Thai Bev	0.640	0.92	44%	16,076	BUY	13.4	6.0	18.9	2.9	3.9	0.3	2.3
Venture Corp	18.21	22.60	24%	5,291	BUY	15.3	3.0	12.7	7.0	4.1	Cash	2.0

Source: DBS Bank

Back-to-office revival

We are optimistic on the back-to-office theme with Google data pointing to a jump in both workplace and transit station mobility that coincided with the return of 50% back-to-office since the start of this year. Workplace mobility jumped more than 15ppt to within 8% of pre-COVID. Transit stations improved 6ppt to within 18% of pre-COVID. Reflecting this trend, LTA figures showed a similar pick-up in taxi and private-hire car trips, currently at c.75% of pre-COVID levels in November last year. We believe that workplace and transit station mobility numbers will rise further when the current 50% work-in-office guideline is adjusted higher once the Omicron wave passes.

Workplace and transit station mobility trending up



Source: Google, DBS Bank

Our picks are as follows:

(1) ComfortDelGro that benefits from higher ridership from increased commuting due to the return-to-office trend not just in Singapore but also in the UK and Australia

(2) FCT with its properties sitting at or right next to transit stations and proximity to heartland areas that give it an edge in tenant sales recovery

(3) CICT's central and downtown malls are well positioned to capture a return of tourists and MICE events. The near-term overhang on office vacancy is lifted with two newly completed buildings CapitaSpring and Asia Square Tower 2 achieving almost full occupancy

(4) Suntec REIT have centrally located malls and office properties that will benefit from the recovery of operating metrics in the CBD. The two-year DPU CAGR of 12% is the highest among peers from the reopening trend

Stock picks valuation table

Company	Price 20 Jan (S$)	12-mth Trgt Price (S$)	12-mth Tgt Return	Mkt Cap (S$m)	Rcmd	Div Yield 22 (%)	Net D/E 22	P/E 22 (x)	EPS Grwth 22 (%)	EPS Grwth 23 (%)
ComfortDG	1.37	2.06	50%	2,969	BUY	4.0	Cash	15.0	8.9	12.8
FCT	2.31	2.90	26%	3,929	BUY	5.5	0.3	19.2	0.5	5.8
Suntec REIT	1.55	1.90	23%	4,422	BUY	6.0	0.4	22.3	25.0	8.6
CICT	2.00	2.50	25%	12,952	BUY	5.7	0.4	18.4	17.8	4.9

*Source: DBS Bank, *As at 20 January 2022*

Inflation resilient picks as MAS tightens monetary policy

MAS's latest off-cycle move to slightly raise the appreciation rate of its Singapore dollar policy band is a reminder that inflation remains a key area of concern, especially in 1H22. December 2021 core CPI had risen a more-than-expected +2.1% y-o-y (consensus +1.8%), while CPI added +4% y-o-y (consensus +3.7%). The MAS move that underpins the SGD should defend against imported inflationary pressure especially when the FED is set to raise rates as early as March and do so three to four times this year.

A strong SGD is positive for Singapore Dollar denominated assets (e.g. equities, physical properties) that can be seen as a safe haven in a global rising interest rates environment.

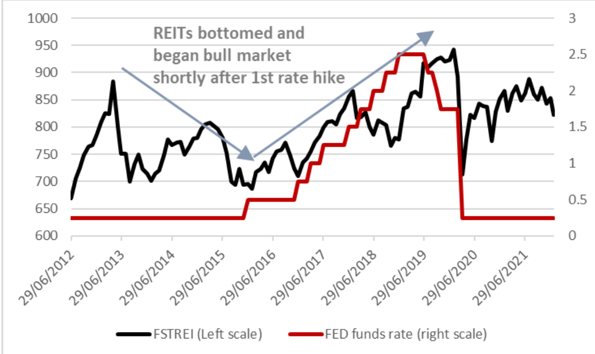
Inflationary and rising rates in an economic recovery environment continues to favour banks UOB and OCBC. Our preferred pick is UOB as it gears up on regional loans that typically have higher NIMs. Successive FED hikes are also NIM positive while the release of its management overlay buffers in general provisions may further provide ROE upside in FY22F.

Properties are viewed as an inflation hedge. Despite recent cooling measures, City Developments remains our preferred pick in the sector trading at about 0.8x P/NAV that is even lower than the low seen during GFC, despite a more diversified and stronger balance sheet.

Value stocks tend to outperform as compared to growth stocks(without yield) in an inflationary-rising rates environment. This could drive the value unlocking theme. Our picks are Yangzijiang that looks to list its investment arm this year in SGX by way of dividend-in-specie out to existing shareholders. ThaiBev is potentially looking to restart its BeerCo IPO that should deleverage its balance sheet as the COVID-19 situation in Thailand and Vietnam stabilises. SingTel could divest its digital advertising business worth S$500m and partially divest its data centre business worth more than S$2bn. This can help remove the gross undervaluation of its core business in Singapore and Australia that is valued at only S$2bn by the market versus our fair value of S$9bn.

An inflationary and rising rate environment is generally negative for REITs. But as the experience in the past 2013-2019 tapering-rate hike cycle shows, SREITs are a "sell-in-anticipation, buy-on-news" trade. This is especially true when rates are rising at near-zero levels and is still low by historical comparisons even with three hikes this year.

SREITs and FFR in the previous rate hike cycle



Source: Bloomberg Finance L.P., DBS Bank

While SREITs in general may continue to be choppy in 1Q22, we believe a bottom should also form and stock prices recover shortly after the actual rate hike cycle starts, economies reopen and inflationary pressure eases in 2H. In this current quarter, we are selective on SREITs, preferring those that rides on the reopening theme such as Suntec REIT, CICT, and hospitality REIT such as ART
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Stock picks valuation table

Company	Price 19 Jan 2022	12-mth Target Price	12-mth Target Return	Mkt Cap (S$m)	Rcmd	Div Yield 22 (%)	Net Debt / Equity 22	P/BV 21 (x)
UOB	29.89	34.20	14%	49,976	BUY	4.5	0.0	1.2
SingTel	2.47	3.13	27%	40,779	BUY	3.9	0.4	1.5
Thai Bev	0.64	0.92	44%	16,076	BUY	3.9	0.3	2.3
Yangzijiang	1.32	1.95	48%	5,183	BUY	4.8	cash	0.7
City Dev	7.10	10.50	48%	6,439	BUY	2.3	0.0	0.6
CICT	2.01	2.50	24%	13,017	BUY	5.6	0.4	1.0
Suntec REIT	1.56	1.90	22%	4,451	BUY	5.9	0.4	0.8
ART	1.07	1.30	22%	3,506	BUY	5.2	0.3	0.9

Source: DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 28 Jan 2022 06:19:23 (SGT)
Dissemination Date: 28 Jan 2022 06:46:52 (SGT)

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