

STRATEGY – SINGAPORE

Views From Our 1H22 Analyst Week

Judging by the high levels of interest at our recent webinars for retail clients, the Singapore equity market remains a key focus after having returned 9.8% in 2021. With the SGX being a REIT-heavy market, it was no surprise that questions were skewed towards the impact of the impending interest rate upcycle. Other sectors that had significant investor interest were financials and technology. Our 2022 year-end target for the STI is 3,500, implying around 7% upside.

WHAT'S NEW

- **The views from retail land.** UOB Kay Hian hosts a series of webinars for its retail clients on a biannual basis. It was evident from client participation and volume of questions raised that there continues to be a high level of interest from investors to put their money to work. Questions ranged from the impact of the US Fed's rate cycle on Singapore's key sectors to the viability of Special Purpose Acquisition Companies in the Singapore market, the impact of property cooling measures imposed in Dec 21, and the correlation of the US tech sector to Singapore's.
- **Worry over REITs' performance in an interest rate upcycle.** This was clearly at the top of retail investors' minds with questions on REITs outnumbering those on banks by 2:1. Given the prevalence of REITs on the SGX and the sector's yield premium vs the ultra-low interest rate environment in the past decade, a large majority of retail investors have exposure to REITs and are currently wondering if they need to switch out. We note that S-REITs have provided positive total returns throughout the past two interest-rate upcycles, and this outperformance could repeat depending on the magnitude and steepness of the US Fed's interest rate hikes. In our view, investors should focus on selective REIT sub-sectors such as retail and hospitality given the post-COVID-19 re-opening theme, as well as selective new economy plays.
- **Banks – A consensus overweight** but recent share price strength (financials +9.6% in the past one month) had investors questioning if the sector is a crowded trade. Other questions on financials centered on earnings upside from potentially higher NIMs, DBS's and UOB's recent acquisitions in Taiwan and SE Asia respectively, and OCBC's cybersecurity travails.
- **Continued elevated levels of interest in the tech sector.** There was clearly a continued high level of interest in Singapore's technology stocks (eg AEM, Frencken, Nanofilm and UMS) with investors appearing to take a "buy the dip" strategy instead of seeing the recent share-price fragility as an indication of demand weakness or a broad market re-appraisal of tech valuations.

TOP PICKS FOR 1H22

- **Our top large-cap picks** are City Developments, ComfortDelGro, DBS, Genting Singapore, Keppel Corp, OCBC, Raffles Medical, Sembcorp Industries, Sembcorp Marine, ST Engineering and Thai Beverage. Within the S-REITs space, we like Lendlease REIT, Frasers Centrepoint Trust, Ascott Residence Trust, CDL Hospitality Trust, Digital Core REIT and Mapletree Industrial Trust. Meanwhile, in the small/mid-cap sector, we highlight Civmec, Food Empire, Innotek and UMS Holdings.

PEER COMPARISON

Company	Ticker	Rec	Price (S\$)		Upside to TP (%)	PE (x)		2022F (%)			M.cap S\$m	P/B (x)
			19 Jan 22	Target		2020	2021F	Yield	ROE			
City Developments	CIT SP	BUY	7.10	8.50	19.7	n.a.	27.8	13.7	1.1	5.5	6,439	0.8
ComfortDelGro	CD SP	BUY	1.38	1.90	37.7	48.4	19.9	13.2	5.1	8.4	2,990	1.1
DBS	DBS SP	BUY	35.93	40.28	12.1	19.9	13.6	13.8	3.9	11.2	92,281	1.7
Genting Singapore	GENS SP	BUY	0.78	1.08	38.5	136.8	43.2	16.2	4.5	7.3	9,411	1.2
Keppel	KEP SP	BUY	5.32	6.74	26.7	n.a.	16.9	11.5	3.5	7.6	9,680	0.9
OCBC	OCBC SP	BUY	12.23	16.12	31.8	15.3	11.0	10.7	4.3	9.4	54,934	1.1
Raffles Medical	RFMD SP	BUY	1.31	1.66	26.7	36.6	33.3	30.1	1.7	8.5	2,447	2.7
Sembcorp Industries	SCI SP	BUY	2.20	2.59	17.7	n.a.	12.7	11.1	2.7	9.5	3,916	1.2
Sembcorp Marine	SMM SP	BUY	0.08	0.11	32.5	n.a.	n.a.	n.a.	0.0	(2.9)	2,605	0.3
ST Engineering	STE SP	BUY	3.71	4.05	9.2	22.2	22.9	21.4	4.0	23.0	11,550	5.1
Thai Beverage	THBEV SP	BUY	0.64	0.92	43.8	15.9	15.2	15.0	3.3	14.8	16,076	2.3

Source: Bloomberg, UOB Kay Hian

STI 2022 YEAR-END TARGET: 3,500

SECTOR PICKS

Company	Rec	Price (S\$)	
		19 Jan	Target
City Developments	BUY	7.10	8.50
ComfortDelGro	BUY	1.38	1.90
DBS	BUY	35.93	40.28
Genting Singapore	BUY	0.78	1.08
Keppel	BUY	5.32	6.74
OCBC	BUY	12.23	16.12
Raffles Medical	BUY	1.31	1.66
Sembcorp Industries	BUY	2.20	2.59
Sembcorp Marine	BUY	0.083	0.110
ST Engineering	BUY	3.71	4.05
Thai Beverage	BUY	0.64	0.92
Small caps			
Civmec	BUY	0.635	0.98
Food Empire	BUY	0.75	1.30
Innotek	BUY	0.745	1.20
UMS	BUY	1.38	1.66

Source: Bloomberg, UOB Kay Hian

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- For 1H22, we are **OVERWEIGHT** on consumer, financials, land transport, property, REITs, shipyards & industrials and technology, and MARKET WEIGHT on aviation, gaming, healthcare, plantations and telecommunications. COVID-19 recovery plays include Singapore Airlines (SIA), SATS, Genting Singapore (GENS), Ascott Residence Trust, CDL Hospitality Trusts, and Far East Hospitality Trust.
- We forecast **29% yoy EPS growth in 2022**. With our EPS growth forecast of 29% yoy for the UOBKH coverage universe for the Singapore market in 2022, we believe that patient investors will be rewarded. We note that this is an upgrade vs 3Q21 when our 2022 earnings growth forecast was 24%; overall, we have become slightly more bullish in our earnings outlook.
- **Earnings growth for most sectors in 2022**. Looking at the table below, all sectors, with the exception of aviation, will contribute to the 29% EPS growth in 2022, with property, shipyards and land transport being the top three contributors. However, it should be noted that the first two sectors will be coming off low bases in 2021. Separately, for the STI component stocks, we are forecasting 20% yoy EPS growth vs consensus which is less bullish at 14% yoy growth.

CORE EPS GROWTH BY SECTOR (% CHANGE YOY)

	2019	2020	2021E	2022E	2023E
Aviation	(63.2)	n.a.	n.a.	n.a.	10.2
Finance	10.9	(29.7)	40.8	3.1	7.8
Healthcare	(19.5)	11.8	9.8	10.6	0.6
Land Transport	(2.0)	(62.4)	48.8	37.0	8.6
Media	(25.4)	(19.6)	(89.4)	NM	2.9
Plantation	(7.2)	21.5	12.6	6.5	7.4
Property	1.4	n.a.	n.a.	102.5	4.2
REITs	3.0	(17.1)	27.4	6.9	4.3
Shipyards	10.1	(79.7)	414.2	34.3	13.0
Technology	(2.9)	(18.4)	(0.1)	10.3	8.0
Telecoms	(13.4)	(60.6)	119.8	24.5	13.3
AGGREGATE GROWTH	(0.5)	(55.6)	89.6	28.9	8.3

Source: UOB Kay Hian

- **STI target for 2022**. We forecast the STI to reach 3,500 by end-22 using a top-down methodology. This implies about 12% upside from current levels which underlines our bullishness for the market. Our 2022 STI target is based on 20% earnings growth for 2022, and target PE and P/B multiples of just under 14x and 1.0x respectively. Both of these target multiples are around 10% discount to the past 5-year average for the index, which we believe is fair given moderating earnings growth and potential risks to the economy and thus our forecasts.
- **Trading above long-term PE valuations**. In our view, the STI's valuations are not stretched at present, trading at 2022F PE and P/B of 13.2x and 1.1x respectively and paying a yield of over 4%. We highlight that these multiples are meaningful discounts to the STI's long-term averages, so we expect some level of mean reversion in 1H22.
- **At 1.0x P/B for 2022, the STI appears inexpensive**. In our view, P/B valuations have normalised from depressed levels, having bounced off the -2SD level of 0.9x P/B. Looking ahead into 2022, Bloomberg consensus forecasts 1.1x P/B, which is in line with its past five-year average but a 27% discount to its long-term average of 1.5x. We believe that this discount may narrow as we head into 2022, given that ROE is expected to expand by 0.7ppt to 8.9%. However, we highlight that this is nevertheless still a material discount to the STI's long-term average ROE of 10.8%.

STI PE TRADING BAND



Source: Bloomberg

STI P/B TRADING BAND



Source: Bloomberg

SECTOR WEIGHTINGS

Weighting	Sectors and preferred stocks
OVERWEIGHT	Consumer: Thai Beverage Financials: OCBC over DBS Land transportation: ComfortDelGro Property: CapitaLand Investments, City Developments, Propnex REITs: Selected REITs: Lendlease REIT, Digital Core REIT, Frasers Logistics and Mapletree Industrial Shipyards/Industrials: Sembcorp Industries, Sembcorp Marine, Yangzijiang Shipbuilding Technology: Venture, UMS
MARKET WEIGHT	Aviation: ST Engineering Gaming: Genting Singapore Healthcare: Raffles Medical Plantations: Wilmar International Telecommunications: NetLink NBN Trust
UNDERWEIGHT	Healthcare – Gloves: Riverstone
COVID-19 RECOVERY PLAYS	Aviation: SIA, SATS Consumer: Thai Beverage, Singapore Post Gaming: Genting Singapore Hospitality: Ascott REIT, CDL Hospitality Trusts, Far East Hospitality Trust, ARA US Hospitality Trust, City Developments Land transportation: ComfortDelGro Property Developers: CapitaLand Investments, City Developments Telecommunications: Singapore Telecommunication

Source: UOB Kay Hian

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