

STRATEGY – SINGAPORE

Alpha Picks: Adding Aztech, Thai Beverage; removing ComfortDelGro and Uni-Asia

Our Alpha Picks portfolio fell 1.8% mom on an equal-weight basis and underperformed the STI which rose 4.0%. For Jan 22, we cut loss on ComfortDelGro and remove Uni-Asia as we do not see any near-term share price catalysts for both. We add Aztech as we believe the stock is oversold and its upcoming 1QFY22 results should be robust, while Thai Beverage should benefit from the revival of international tourism and the resultant boost to its sales.

WHAT'S NEW

- A weak start to 2022.** Our Alpha Picks portfolio had a poor month in Jan 22, declining 1.8% mom on an equal-weight basis (but +4.2% on a market-cap weighted basis) vs the STI which rose 4.0% mom. Our portfolio was hurt by REITs and small caps, with Frasers L&C Trust (-9.9% mom), Lendlease REIT (-8.4%) and Uni-Asia (-8.9%) being the main underperformers. Meanwhile, the outperformers were OCBC (+9.4% mom), BRC Asia (+5.8%) and Singapore Telecommunications (+4.7%). We remain bullish on selective REIT sub-sectors and thus have not changed our stock calls.
- Adding Aztech and Thai Beverage...** We add Aztech as we believe its share price correction presents a good buying opportunity given that it has a strong orderbook and operations remain intact. In addition, its upcoming 4Q21 results should be robust, and its current share buyback mandate should support its share price in our view. For Thai Beverage, we are positive on Thailand's international tourism revival and the expected boost to consumption volumes. Sales data showed strong numbers for Nov 21 and Dec 21 nationwide, and should positively impact on its upcoming 1QFY22 earnings.
- ...and cutting loss on ComfortDelGro and Uni-Asia.** While we had positioned ComfortDelGro as a re-opening play, its share price performance has been disappointing and thus we have elected to cut loss on this stock. While we are bullish on the stock in the longer term, we do not see any near-term share price catalysts. For Uni-Asia, we do not see meaningful share price catalysts and the stock also suffers from a lack of market liquidity.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jonathan Koh	Ascott Residence Trust	BUY		A play on COVID-19 reopening in the EU and UK
John Cheong	Aztech	BUY		Operations intact; 4Q21 performance should be good; share buyback supportive.
Llleythan Tan	BRC	BUY		Labour situation improving; proxy to reopening
John Cheong	Civmec	BUY		Delivery of solid earnings growth and winning of more contracts.
Jonathan Koh	Frasers L&C Trust	BUY		Exposure to e-commerce growth and sizeable sponsor pipeline
Vincent Khoo/ Jack Goh	Genting Singapore	BUY		A proxy to economic reopening with key catalysts, eg reopening of borders, attractive prospective yield
Jonathan Koh	Lendlease REIT	BUY		Finalisation of growth projects in Singapore
Jonathan Koh	OCBC	BUY		Dividend yield expected to improve from 4.8% for 2021F to 5.4% for 2022
Adrian Loh	Semb Marine	BUY		Merger with Keppel; better order flows in 1H22
Chong Lee Len & Chloe Tan	SingTel	BUY		Should re-rate post partial divestment of tower assets in Australia
Llleythan Tan	Thai Beverage	BUY		Revival of Thai tourism; strong 1QFY22 results
Leow Huey Chuen & Jacquelyn Yow	Wilmar	BUY		Benefitting from soybean meal price surge, unlocking of shareholder value in India
Adrian Loh	Yangzijiang	BUY		Higher shipbuilding margins, clarity on listing metrics for investments business

* Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation

Share price change since stock was selected as Alpha Pick

Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec*	Price (S\$)		Up/(down) to TP (%)
		31 Jan	Target	
Ascott Trust	BUY	1.02	1.29	26.5
Aztech	BUY	0.845	1.55	83.4
BRC Asia	BUY	1.63	1.91	17.2
Civmec	BUY	0.625	0.98	56.8
ComfortDelGro	BUY	1.37	1.79	30.7
Frasers L&C Tr	BUY	0.735	1.08	46.9
Genting SP	BUY	0.82	1.03	25.6
Lendlease REIT	BUY	12.47	16.12	29.3
OCBC	BUY	0.082	0.110	34.1
Sembcorp Marine	BUY	2.43	2.75	13.2
SingTel	BUY	0.655	0.92	40.5
Thai Bev	BUY	4.27	6.00	40.5
Wilmar	BUY	1.29	2.00	55.0
Yangzijiang	BUY	1.02	1.29	26.5

* Rating may differ from UOB Kay Hian's fundamental view

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Jan 21 (% mom)	To-date* (%)
Ascott Trust	BUY	(1.0)	10.3
BRC Asia	BUY	5.8	9.4
Civmec	BUY	(6.0)	(8.8)
ComfortDelGro	BUY	(2.9)	(18.6)
Frasers L&C Tr	BUY	(9.9)	(4.2)
Genting SP	BUY	(5.2)	(8.1)
Lendlease REIT	BUY	(8.4)	(10.4)
OCBC	BUY	9.4	9.4
Sembcorp Marine	BUY	0.0	(1.2)
SingTel	BUY	4.7	(1.2)
Uni-Asia	BUY	(8.9)	(23.3)
Wilmar	BUY	3.1	2.9
Yangzijiang	BUY	(3.7)	27.7
UOBKH Portfolio		-1.8	
FSSTI		4.0	

* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURNS (%)

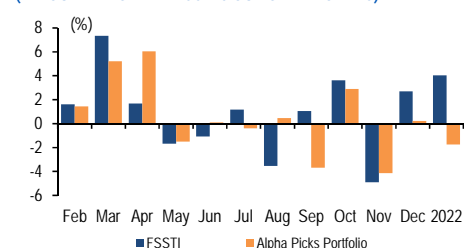
	3Q21	4Q21	2021	Jan 21
FSSTI return	-1.4	1.2	9.8	4.0
Alpha Picks Return				
- Price-weighted	16.3	-14.7	4.4	3.2
- Market cap-weighted	10.5	-5.9	3.8	4.2
- Equal-weighted	-2.2	-1.7	3.9	-1.8

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming same number of shares for each stock; a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting based on the market cap at inception date; higher market cap = higher weighting.
- 3) Equal-weighted: Assuming same investment amount for each stock; every stock will have the same weighting.

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS (WE OUTPERFORMED FSSTI 5 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

ANALYST(S)

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Aztech – BUY (John Cheong)

- **Recent share price correction presents good buying opportunity.** Aztech Global's (Aztech) share price has corrected by more than 30% since its IPO in Mar 21, with the majority of its correction taking place in the last two months of 2021 due to concerns over component shortages and fear of labour issues.
- **Operations remain intact with healthy orderbook.** We understand that Aztech's facilities are currently enjoying high utilisation rates and it is managing the components shortages well on the back of: a) leveraging the strong brand name of customers, b) maintaining its good long-term relationship with suppliers, and c) modifying the product designs to switch reliance to parts that are more readily available. The sequential improvement in net margin also proves Aztech's ability to manage the component shortages well (11.4% in 1Q21, 12.1% in 2Q21 and 12.8% in 3Q21). In addition, we also note that Aztech's orderbook remains healthy, having improved with orders standing at S\$636m as at 14 Oct 21 (1 Oct 21: S\$569m), of which S\$426m are scheduled for delivery in 2022 and S\$210m for 4Q21.
- **Optimistic on 4Q21 performance; recent share buyback a vote of confidence.** Based on its latest business update, Aztech is optimistic on its outlook, taking into consideration the healthy demand for IoT products, improving vaccination rate, strong orderbook and steps that were put in place to minimise production disruption due to power usage regulations. On the other hand, as a vote of confidence, Aztech has bought back 1.87m shares (0.24% of total shares) since the approval of its share buyback mandate on 13 Oct 2021. In addition, the major shareholder, Mr. Mun Hong Yew has also acquired approximately 0.5m shares in Aug and Sep 21.
- **Attractive valuation.** Trading at 7x 2022F PE, we opine this is unjustified as peers are trading at above 10x. We continue to like Aztech as it is a proxy to high-growth IoT products, where we believe orders are just starting to ramp up in 2021 and would sustain into 2022. Maintain BUY. Target price S\$1.55.

Share Price Catalysts

- More order wins, better-than-expected cost management, earnings or dividend surprise
- Timeline: 2-6 months

Thai Beverage – BUY (Llelleythan Tan)

- **Restart of international travel.** Thailand has reopened its international borders to fully-vaccinated travellers starting 1 Feb 22. This is after suspending its initial quarantine-free visa programme in Dec 21 for seven weeks due to an ongoing Omicron variant outbreak. From 1 Feb 22, fully-vaccinated international travellers are able to enter Thailand quarantine-free upon a negative pre-departure/on-arrival PCR swab test and another test on the fifth day of travel.
- **Pent-up tourism demand.** Tourism data from Thailand's authorities showed a sharp surge in tourist arrivals due to the quarantine-free programme in Dec 21. Total number of international arrivals in Dec 21 came in at 230,497, a sharp increase from 91,255 in Nov 21 and 20,272 in Oct 21. Jan 22 international arrivals are expected to soften slightly due to the brief suspension of the quarantine-free programme. However, 200,000-300,000 international travellers are forecast for Feb 22, and this is expected increase further in Mar 22.
- **Relaxation of alcohol consumption rules.** As of 24 Jan 22, restaurants across a number of Thailand's "blue zone" provinces are now allowed to serve alcohol till 11pm (vs 9pm previously). Blue zones include popular tourist destinations such as Bangkok and Phuket. Although bars, nightclubs and other entertainment venues are not legally allowed to open, Thailand's authorities have allowed these entertainment venues to temporarily reopen as restaurants, allowing the sale of alcohol but only after meeting strict COVID-19 guidelines.

- **Unlocking value through BeerCo IPO.** We believe that the potential IPO of ThaiBev's beer business may unlock value for the group in 1H22. Conservatively, we value the beer business at roughly US\$5b using 13x 2022 EBITDA, which is relatively small compared to Tsingtao Brewery Company (US\$16b), Budweiser Brewing Company APAC (US\$35b) and Asahi Group Holdings (US\$21b). Maintain BUY, with target price of S\$0.92.

Share Price Catalyst

- Events: BeerCo IPO, resumption of international tourism
- Timeline: 6+ months.

Oversea-Chinese Banking Corporation – BUY (Jonathan Koh)

- **Anticipating stellar loan growth in 2022.** OCBC's management guided for high single-digit loan growth in 2022. We expect the pick-up in loan growth in 2H21 to be sustained into 2022 while NIM is expected to be stable at 1.51-1.52%. Credit costs are expected to be 21bp, similar to the level seen in 3Q21.
- **Maintained double-digit growth of 13.6% in fee income, a reflection of higher volume of customer activities.** OCBC saw relatively flat wealth management fees qoq in 3Q21, but continued to expand assets under management (AUM) by 6%. In addition, we saw a stabilisation of asset quality with the bank's NPL ratio again unchanged at 1.5% in 3Q21 with higher upgrades/recoveries of NPLs at S\$359m, an increase of 42% qoq.
- **New CEO, but unchanged focus to expand in Greater Bay Area.** Ms Helen Wong is a competent leader with a strong track record, having led HSBC's Greater China operations, which is the largest profit centre of HSBC. New CEO Helen Wong emphasised focus on organic growth from: a) capturing investment and trade flows between ASEAN and Greater China, b) retail wealth management, c) sustainable finance, and d) accelerated growth in digitalisation. Maintain BUY with target price of S\$16.12.

Share Price Catalyst

- Events: OCBC's dividend yield improving from 4% for 2021 to 4.5% for 2022.
- Timeline: 6-12 months.

Sembcorp Marine – BUY (Adrian Loh)

- **An improved financial position post S\$1.5b capital raising that was completed in Sep 21.** During its 3Q21 business update call, SMM's management commented that it had a relatively strong liquidity position with its gearing at 0.4x as at end-3Q21. Importantly, the capital raising proceeds can be used more able to execute and complete the projects as well as for working capital needs for new orders and projects. The company does not expect any more capital raisings given that its banks can see that the overall industry is improving and that SMM is transitioning well into renewables.
- **New order flow enquiries have improved.** Thus, from management's standpoint as well as ours, 2022 will be much better than 2021. At present, SMM is working on tenders worth in excess of US\$10b and commented that its addressable market has improved tremendously. In addition, we highlight that its repairs and upgrades segment saw a sequentially higher volume of business in 3Q21 and this should continue over the coming quarters.
- **Maintain BUY with a target price of S\$0.11.** Our target price is based on a target multiple of 0.74x which is pegged to our 2022 estimated book value per share of S\$0.14. Our target P/B multiple is at a 30% discount to the company's past-five-year average P/B of 1.07x. In our view, we believe this discount is a reasonable reflection of the industry risks that SMM faces in at least the next 12 months. With its S\$1.5b rights issue completed, and with Temasek's mandatory general offer at S\$0.08/share having lapsed in early-Nov 21, we believe that much of the corporate-level risk has dissipated and there is very limited downside at the current share price.

Share Price Catalysts

- New orders for rigs, offshore renewable installations or fabrication works.
- Merger or JVs with other shipyards.
- Timeline: 3-6 months.

BRC – BUY (Llalleythan Tan/John Cheong)

- **Endemic transition to improve labour supply.** With Singapore's fully vaccinated rate reaching 89%, Singapore's transition to endemic living would help boost worksite activity as more construction workers return in the absence of lockdown restrictions.
- **Proxy to Singapore's reopening.** In spite of the ongoing COVID-19 pandemic, BRC has maintained its monopolistic market share, which has allowed its orderbook to grow steadily to S\$1.2b. BRC is set to benefit from the recovery in the construction sector and major upcoming projects including the new Tuas Megaport, Changi Airport Terminal 5, Greater Southern Waterfront, which would help to raise earnings.
- **Government spending to spur demand.** Singapore's government passed an infrastructure bill which allowed the government to borrow S\$90b in bonds to fund national infrastructure projects and upgrades. With its dominant market share, BRC would benefit as close to 90% of its total annual revenue is derived from Singapore.
- **Maintain BUY with a target price of S\$1.91.** We opine that the full re-opening of Singapore's international borders to foreign labour would cause a higher re-rating to our share price.

Share Price Catalyst

- Events: a) Faster-than-expected recovery in construction activities, b) more public housing projects awarded, and c) full relaxation of foreign labour restrictions.
- Timeline: 3-6 months.

Civmec – BUY (John Cheong)

- **One of Australia's leading construction and engineering services provider** to three key sectors: defence, resources and energy. Civmec's notable clients include Chevron, Rio Tinto, Alcoa Australia, BHP, Thyssenkrupp and the Royal Australian Navy.
- **We expect Civmec to deliver record earnings (+18% yoy) in FY22 (fiscal year ending June),** backed by a robust orderbook of A\$1b. This is almost double its orderbook of A\$0.6b in FY17. In FY21, Civmec delivered a strong earnings growth of 94% yoy. Civmec's 1QFY22 earnings grew 62% yoy, and the company sees a strong pipeline of new projects in the sectors it operates in. It also sees new opportunities in the green energy space.
- **Massive potential in new defence business underappreciated.** In Apr 18, the Royal Australian Navy awarded a huge contract to Civmec and Lurssen Shipyard to construct 12 Offshore Patrol Vessels by 2029. The contract is worth around A\$3b and is part of the country's A\$89b continuous shipbuilding contract.
- **We have a BUY rating and target price of S\$0.98,** pegged to 12x FY22F PE (1SD below its five-year mean). We think the current valuation of 9x FY22F PE for Civmec is attractive, given its strong growth profile and orderbook, especially in the defence sector which has a long tenure and high barriers to entry. Peers are trading at 15x FY22F PE.

Share Price Catalysts

- **Events:** a) Earnings surprise due to higher-than-expected contract wins and margin; b) better-than-expected dividend; and c) takeover offer by strategic shareholder given the high entry barriers of the defence business.

- Timeline: 3-6 months

Ascott Residence Trust – BUY (Jonathan Koh)

- **Benefitting from reopening and recovery in the EU and UK.** The EU had eased a longstanding ban on non-essential travel to member states in May 21. It launched digital vaccination certificates to allow travel without the need for quarantine within the bloc on 1 Jul 21. The UK has reopened its international borders by allowing fully-vaccinated travellers from EU member states to enter England, Scotland and Wales without the need for quarantine since 2 Aug 21 (the UK previously imposed a 10-day self-isolation requirement). The UK is currently enjoying a staycation boom. ART's Europe portfolio, which accounts for 20.4% of its total assets, benefits from the recovery in intra-regional travel and reopening of international borders.
- **Enhancing diversification and resiliency by building scale in long-stay assets.** ART has acquired three student accommodation properties in the US (Georgia Institute of Technology, University of South Carolina and Texas Tech University) and three rental housing properties in Japan (Sapporo) in 9M21. Student accommodation provides resilient and stable income streams as leases typically last for a year. The allocation to these long-stay assets increased by 6ppt ytd to 11% of portfolio value. Student accommodation provides higher gross margin compared with 50% for other hospitality assets. ART has a medium-term plan to increase asset allocation to student accommodation and rental housing to 15-20% of portfolio value, which will enhance resiliency. Maintain BUY with target price of S\$1.29.

Share Price Catalysts

- Yield-accretive acquisitions for student accommodation and rental housing properties.
- Contribution from Iyf one-north, its maiden development project, which is scheduled for completion in 4Q21.
- Timeline: 6-12 months.

Singapore Telecommunications Ltd – BUY (Chong Lee Len & Chloe Tan)

- **Monetisation of Optus tower asset for A\$1.9b.** Optus' sale of a 70% stake in Australia Tower Network (ATN – a wholly-owned subsidiary that houses Optus' towers) to AustralianSuper for A\$1.9b values ATN at 38x FY21 EV/EBITDA, or EV/sites of c.A\$1m/tower. This is a premium vs Telstra's recent tower sales and appealing vs traditional telco multiples of 8-12x EV/EBITDA, with the premium being reflective of the loss of control by Optus (which will retain only a 30% minority stake post divestment).
- **The endgame: A regional digital infra player.** Beyond unlocking value, the long-term goals for Singtel are to: a) drive organic growth through strong management, b) partner with capital providers to expand regionally, and c) focus on smart capital management to potentially explore JVs. This will allow them to set a regional digital infrastructure platform across multiple asset classes.
- **Positive monetisation exercise by Singtel.** We are positive on the monetisation exercise to drive future data centre portfolio worth S\$7b-8b. To recap, Singtel will continue to execute its strategic reset targets, following the repositioning of Amobee and Trustwave in May 21 and its digital infrastructure strategy. The focus will include: a) capitalising the digital/IT growth trend via strategic partnerships, b) leveraging its infrastructure assets (data centres, towers and fibre) to unlock value, c) sweating its key assets, and d) investing in 5G for network superiority and future monetisation. This is expected to help Singtel bridge the current market valuation gap as a conglomerate.
- **Maintain BUY with a DCF-based target price of S\$2.75** (discount rate: 7%, growth rate: 1.5%). At our target price, the stock will trade at 13x FY22F EV/EBITDA (5-year mean EV/EBITDA). The stock currently trades at 1SD below its 5-year mean EV/EBITDA of 13x.

Share Price Catalysts

- Events: a) successful monetisation of 5G, and b) faster-than-expected recovery in Optus' consumer and enterprise businesses.
- Timeline: 6-12 months.

Wilmar International – BUY (Leow Huey Chuen & Jacquelyn Yow)

- **Good earnings momentum for 4Q21; on track for another record core profit for 2021.** We remain positive on Wilmar, and believe that the company is on track to deliver a record-high core net profit for 2021, the highest since its listing. Overall, good earnings from palm and sugar divisions are sustainable into 4Q21 with improvement from its China operation. Its diversified business model paid off well again this year, with weak performance from China well compensated by its palm and sugar operations.
- **Adani Wilmar Limited (AWL) listing target for 1H22.** This is a relatively smaller IPO vs the listing of Yihai Jerry Arawana (YKA). The IPO roadshow has started and is on track to be listed in 1H22. The listing of AWL would be positive for Wilmar to unlock shareholder value, The IPO proceeds will be mainly used to fund AWL's expansion in India, especially to expand their product range, which will eventually mirror the business model in China. Maintain BUY with target price of S\$6.00.

Share Price Catalysts

- Events: a) Listing of AWL, and b) the expected announcement of strong 4Q21 results by end-Feb 22.
- Timeline: 2-4 months.

Lendlease Global Commercial REIT – BUY (Jonathan Koh)

- **Redevelopment of Grange Road Car Park to draw more youths to 313@Somerset.** Construction for the redevelopment of Grange Road Car Park into a multi-functional event space is scheduled to commence by end-21. The project is 100% pre-committed and is anchored by Live Nation, a leading live entertainment company listed on NYSE. The event space is expected to be operational by early-23.
- **Sewing up the remaining 68.2% stake in Jem.** LREIT is on track to complete the acquisition of a 28.1% effective stake for S\$337.3m in Jem by 1Q22. The two funds – Lendlease Jem Partners Fund (LLJP) and Asia Retail Investment Fund 3 (ARIF3) – have reached their liquidity window whereby all investors have to decide whether to hold or divest Jem. Being the largest investor in LLJP and ARIF3, LREIT has significant influence over the decision. The company plans to sew up the acquisition of the remaining 68.2% stake in Jem worth S\$1.2b-1.4b within the next 12 months.
- **Maintain BUY.** Our target price of S\$1.03 is based on dividend discount model (cost of equity: 6.0%, terminal growth: 1.0%).

Share Price Catalysts

- Events: a) redevelopment of Grange Road Car Park, and b) acquisition of Jem.
- Timeline: 6-12 months.

Genting Singapore – BUY (Vincent Khoo, Jack Goh)

- **Market will eventually price in 2022 recovery.** GENS is a major direct beneficiary of Singapore's COVID-19 national vaccination programme and re-opening of the economy. We believe that valuations will partially factor in GENS' return to pre-pandemic earnings dynamics.
- **Hopes of more travel corridors opened upon herd immunity.** With the current vaccinated travel lanes, we expect more inbound travel in 1H22 which will eventually benefit GENS as international patronage rebounds.

- **Lush prospective yields.** We expect GENS' dividend yield to normalise to 4.1% in 2022, assuming revenue and cash flows recover back to pre-pandemic levels. Meanwhile, we also expect GENS to deliver significantly better dividends in 2H21. Theoretically, our projected 2021 EBITDA after tax is sufficient to fund a DPS of 3.5 S cents (4.7% yield). Maintain BUY. Target price: S\$1.08.

Share Price Catalysts

- Events: a) Wide dispensation of COVID-19 vaccines which will allow herd immunity; b) initiation of green lane travel arrangements or travel bubbles between Singapore and neighbouring countries; and c) appealing 2022 yield of >4%.
- Timeline: 3-6 months

Frasers Logistics & Commercial Trust – BUY (Jonathan Koh)

- **Sizeable sponsor pipeline supports future growth.** FLCT has right of first refusal to acquire 64 properties with net lettable area (NLA) of 1.9m sqm in the Asia Pacific region and Europe. The acquisition pipeline provided by sponsor Frasers Property Ltd (FPL) is valued at S\$5.9b as at Sep 20. FLCT has completed the acquisition of four freehold logistics properties in Europe from FPL. Together with the acquisition of two freehold properties in the UK from a third-party vendor, the acquisitions are accretive to pro forma 1HFY21 DPU by 1.8%.
- **E-commerce central to FLCT's logistics portfolio.** About 31.4% of FLCT's tenants for its logistics portfolio are involved in e-commerce and/or e-fulfilment activities. The proportion has increased to 34% with the completion of the latest acquisitions
- **Australia: Increase in capital values supported by structural change.** In 2020, online retail sales penetration in Australia jumped 3.3ppt to 12.6% which is structural in our view and did not reverse post-lockdown. Yields were compressed by 46bp, 57bp and 50bp yoy respectively to 4.25% in Sydney, 4.43% in Melbourne and 5.00% in Brisbane due to an abundance of liquidity competing to acquire tenanted logistics properties at prime locations.
- **Europe: Upside in valuation.** Prime yields have recently hit a record low of 3.35% for Germany and 3.00% for the Netherlands. Thus, there is significant upside in the valuation of FLCT's logistics properties when they are revalued at end-FY21. Maintain BUY. Target price: S\$1.79.

Share Price Catalysts

- Events: a) Growth of e-commerce in Australia and Germany, b) compression of cap rates for logistics properties leading to sizeable revaluation gains, and c) continued expansion by tapping on sponsor's pipeline
- Timeline: 6-12 months.

Yangzijiang Shipbuilding – BUY (Adrian Loh)

- **Traditional year-end spike in end-consumer demand** will continue to support container rates with US retailers' inventory-to-sales ratio at 30-year lows. As a result of this, the Far East-North America route, which has already seen rates increase 33% yoy, will remain robust in our view. In the longer term, the 2024-25 period will witness the delivery of the majority of the current record global orderbook of 3.3m TEUs of containerships; however the shipping association BIMCO believes that higher long-term rates will ensure the profitability of these vessels.
- **9M21 gross profit of Rmb2.6b made up c.60% of our full-year 2021 estimates.** However we remain sanguine given that: a) the revived Chango yard will be nearly fully ramped up in 1Q22, b) the acquisition of the remaining 20% of the Xinfu yard was completed at end-3Q21 thus enabling full profit contribution in 4Q21 onwards, and c)

another 10-15 vessels were delivered in 4Q21. While 3Q21 gross margins for shipbuilding were lower yoy, we highlight that 3Q20 margins were a high base given that YZJ had material deliveries of very large containerships. Importantly, 3Q21 gross profit margins of 13.2% was in line with our estimates and management guidance

- **We believe that YZJ remains compelling** as its valuations remain undemanding, with 2021 EV/EBITDA and P/B multiples of 5.5x and 0.7x respectively, a 2022 PEG ratio of 0.2 and net cash of S\$0.47/share (or 33% of its current share price). Maintain BUY. Target price: S\$2.00.

Share Price Catalysts

- Events: a) New order wins, b) shipbuilding margin expansion from 4Q21 onwards, c) clarity regarding the metrics on the divestment of its debt investments arm.
- Timeline: 2-4 months.

VALUATION TABLE FOR ALPHA PICKS PORTFOLIO

Company	Ticker	Rec*	Price	Target	Upside To TP (%)	Last Year End	PE			Yield 2021F (%)	ROE 2021F (%)	Market Cap. (S\$m)	Price/ NTA ps (x)
			31 Jan 22 (S\$)	Price (S\$)			2020 (x)	2021F (x)	2022F (x)				
Ascott Trust	ART SP	BUY	1.02	1.29	26.5	12/20	32.0	359.2	34.6	5.5	2.3	3,342.1	0.9
Aztech	AZTECH SP	BUY	0.845	1.55	83.4	12/20	11.7	8.8	7.2	6.5	28.0	652.3	2.6
BRC Asia	BRC SP	BUY	1.63	1.91	17.2	9/21	18.7	8.3	7.5	5.5	16.2	447.2	1.3
Civmec	CVL SP	BUY	0.625	0.98	56.8	6/21	15.3	9.0	8.0	3.8	13.0	314.0	1.1
Frasers L&C Tr	FLT SP	BUY	1.37	1.79	30.7	9/21	31.1	38.6	19.6	5.6	5.6	5,050.0	1.1
Genting SP	GENS SP	BUY	0.735	1.08	46.9	12/20	128.9	40.7	15.2	4.8	7.3	8,867.6	1.1
Lendlease REIT	LREIT SP	BUY	0.82	1.03	25.6	6/21	26.8	33.9	22.0	5.7	4.6	977.1	1.0
OCBC	OCBC SP	BUY	12.47	16.12	29.3	12/20	15.6	11.2	10.9	4.2	9.4	56,013.0	1.1
Sembcorp Marine	SMM SP	BUY	0.082	0.110	34.1	12/20	n.a.	n.a.	n.a.	0.0	(2.9)	2,573.9	0.3
SingTel	ST SP	BUY	2.43	2.75	13.2	3/21	71.9	18.5	14.8	4.6	9.8	40,118.8	1.5
Thai Beverage	THBEV SP	BUY	0.655	0.92	40.5	9/21	16.3	15.6	15.4	3.2	14.8	16,452.8	2.4
Wilmar	WIL SP	BUY	4.27	6.00	40.5	12/20	12.8	11.8	11.3	3.5	9.0	26,882.2	1.1
Yangzijiang	YZJSGD SP	BUY	1.29	2.00	55.0	12/20	10.0	7.6	5.8	5.3	11.4	5,048.3	0.7

* Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation
Source: UOB Kay Hian

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