Strategy Note

Singapore | March 8, 2022

Singapore

Singapore Strategy

Balancing act

- We advocate a risk-off approach in the near term by positioning in REITs (yield and stability) but also watching for tactical entry for banks (for hikes).
- We are also positive on commodities and capital goods sector which may benefit from high CPO and energy prices. Finally, reopening hope remains.
- We lower our end-2022 FSSTI target to 3,475 pts, pegged at -1s.d. forward P/E of 12.5x to factor in potential prolonged near-term uncertainties.
- Our top large cap picks include SCI, WIL, AEM, YZJ, UOB, STE, CICT, AREIT, THBEV, SPOST

Highlighted Companies

HRnetGroup Limited
ADD, TP S$1.15, S$0.77 close

We like HRnet as a proxy play for the continued labour market recovery across Asia. With net cash at c.45% of its current market cap, HRnet trades at an attractive 6x PE (ex-cash).

Sembcorp Industries
ADD, TP S$2.96, S$2.70 close

SCI is riding on strong High Sulphur Fuel Oil (HSFO) prices that are benchmarked against crude oil prices. Cost plus model allows SCI to reap higher spark spread from natural gas fired cogeneration plants in Singapore. Persistent tight energy market could see earnings upside as we have conservatively assumed a 15% yoy decline in SCI's conventional energy profits.

Wilmar International
ADD, TP S$5.69, S$4.70 close

We like WIL as a potential beneficiary of rising CPO price and for its attractive valuation of 12.4x CY22F PE valuations and 3.6% dividend yield.

Keep some REITS for yield, tactically accumulate banks for hikes

The 4Q21 reporting season ended with higher number of beats qoq — 27 beats vs. 12 in 3Q21 — 11 misses and 29 companies within expectations. Post-results, we have raised our FY22F earnings for companies under our coverage by 2.2-9.7%. This will translate into a 16.6% yoy earnings growth for FY22F and a further 14.8% growth in FY23F. We lower our end-FY22F STI target to 3,475 pts (from 3,506 pts), pegged to a lower P/E target of 12.5x, based on -1 s.d. (vs -0.5 s.d. previously), in view of heightened macro uncertainty. We believe the current volatility warrants taking a more cautious stance. In terms of strategy, we advocate investors to maintain a risk-off approach in the near term by positioning in REITs, for yield and income stability, and tactically accumulating banks for the interest rate upcycle in the medium term. Despite recent geopolitical turmoil, what has not changed is that economies are looking for opportunities to establish post-Covd-19 normalcy. As more borders reopen, we believe the travel, retail and even telco sectors will be the main beneficiaries.

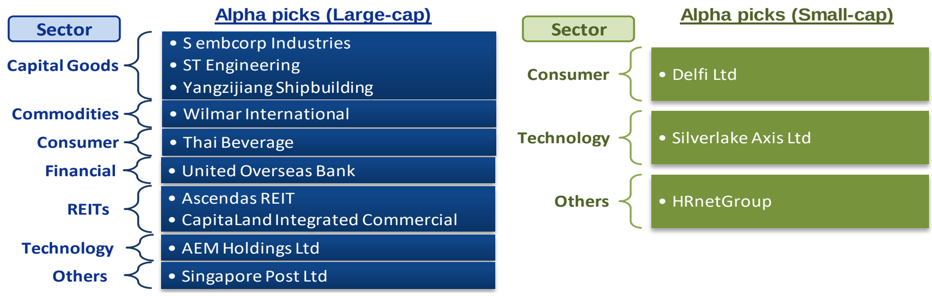
Positive on commodities and capital goods

We take a closer look at the sectors that are likely positively and negatively impacted by the Russia-Ukraine conflict. Commodity prices have moved up significantly and are expected to remain elevated due to geo-political tensions and added pressure from potential protracted supply chain shocks. Commodity plays, such as FR, GGR and WIL, are likely beneficiaries of rising CPO prices. Other beneficiaries include SCI, as its power plants are fuelled by gas and on cost-plus terms. The consumer, construction, technology, airlines and property sectors could be more adversely impacted as higher commodities prices directly affect input costs. Meanwhile, the impact on financials, healthcare, REITs, telco, gaming and land transport segments are assessed to be more neutral, with less direct effect from these factors.

We add CICT, AREIT and SPOST into top picks

Going into 1H22F, our preferred picks are CICT and AREIT for attractive yields and potential acquisition catalysts. Despite recent outperformances, we anticipate CPO price to remain on an uptrend, and we retain our Add rating on WIL. We like SCI for earnings upside potential from a tight energy market and STE for its defensiveness from a diversified business model and attractive 4% dividend yield. We also like UOB as our pick in the financials segment; we believe it offers a better risk-return profile at an attractive 1.1x FY22F P/BV. We favour SPOST as a proxy to reopening plays. Other big-cap picks include YZJ for its strong orderbook of US$8.5bn (as at end Dec 2021) and the spin-off of debt investment as a near-term catalyst. We retain THBEV and DELFI (small-cap pick) in our preferred stock list as both companies could potentially enjoy sequential GPM expansion in 1QCY22F, from cost pass-through (THBEV) and product mix optimisation (DELFI). We continue to like AEM and keep HRnet and SILV in our preferred small-cap picks. Key risk to our view is a protracted Ukraine-Russia tension that would continue to put pressure on the supply chain and commodity prices.

Figure 1: Alpha picks for 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Figure 2: Singapore Valuation

Prices as at	07-03-22					Free	Market		Price/ BVPS (X)			ROAE (recurring) %			P/E (Recurrent FD) (X)			3-Yr	Net Gearing		Net Div Yield %	
BBG code	Company name	Closing Price	Target price	% up / (down)	Recom.	Float (%)	Cap (US$m)	Month end	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	forward	FY22F	FY23F	CY22F	CY23F
	Aviation																					
SIE SP	SIA Engineering	2.15	2.92	36%	Add	22%	1,774	Mar 21	1.47x	1.48x	na	4.2%	4.6%	na	35.5x	31.8x	na	na.	-41%	-41%	3.7%	4.6%
SIA SP	Singapore Airlines	4.97	5.88	18%	Add	40%	10,838	Mar 21	0.68x	0.66x	na	-2.0%	1.1%	na	-34.5x	58.9x	na	na.	12%	17%	0.0%	0.0%
	Chemical																					
CSSC SP	China Sunsine Chemical H	0.48	0.78	64%	Add	35%	339	Dec 21	0.61x	0.55x	0.50x	13.5%	12.3%	11.4%	4.7x	4.7x	4.6x	-2.7%	-47%	-48%	4.2%	4.3%
JIUC SP	Jiutian Chemical Group Ltc	0.09	0.15	70%	Add	72%	129	Dec 21	0.83x	0.70x	0.60x	31.5%	23.1%	20.4%	2.9x	3.3x	3.2x	-6.2%	-86%	-88%	12.6%	8.2%
	Commodities																					
FR SP	First Resources Ltd	2.12	2.12	0%	Add	23%	2,457	Dec 21	1.89x	1.78x	1.69x	16.7%	11.6%	10.6%	11.8x	15.8x	16.4x	1.6%	-1%	-4%	4.2%	3.2%
GGR SP	Golden Agri-Resources	0.31	0.33	8%	Add	32%	2,889	Dec 21	0.58x	0.56x	0.53x	8.5%	5.4%	5.4%	7.0x	10.2x	9.8x	-14.1%	46%	39%	2.9%	2.0%
WIL SP	Wilmar International	4.70	5.69	21%	Add	31%	21,747	Dec 21	1.06x	1.01x	0.96x	8.8%	8.4%	8.7%	12.4x	12.3x	11.3x	1.9%	97%	86%	3.6%	3.7%
	Conglomerates																					
BOCS SP	Boustead Singapore Ltd	0.96	1.40	47%	Add	59%	339	Mar 21	1.08x	1.03x	na	8.8%	9.5%	na	12.3x	11.1x	na	na.	-70%	-74%	4.7%	4.7%
KEP SP	Keppel Corporation	5.95	7.20	21%	Add	60%	7,913	Dec 21	0.87x	0.85x	0.83x	7.0%	6.5%	6.2%	12.6x	13.1x	13.5x	-7.8%	70%	65%	4.4%	4.6%
SCI SP	Sembcorp Industries	2.70	2.96	10%	Add	50%	3,533	Dec 21	1.16x	1.04x	0.94x	10.8%	11.3%	10.6%	11.2x	9.8x	9.3x	22.9%	156%	148%	2.7%	3.1%
STE SP	ST Engineering	4.01	4.70	17%	Add	49%	9,171	Dec 21	4.97x	4.60x	4.18x	24.4%	27.0%	27.0%	20.8x	17.7x	16.2x	10.6%	174%	155%	4.0%	4.0%
	Construction and Materials																					
BOCJ SP	Boustead Projects Limited	0.95	1.40	48%	Add	29%	218	Mar 21	0.75x	0.73x	na	3.2%	3.5%	na	23.0x	20.9x	na	na.	-51%	-53%	1.0%	1.0%
BRC SP	BRC Asia Ltd	1.54	2.10	36%	Add	28%	310	Sep 21	1.12x	1.06x	na	14.5%	14.2%	na	8.0x	7.7x	na	na.	82%	77%	7.3%	7.8%
	Consumer Discretionary																					
DFI SP	Dairy Farm Int'l	2.46	2.90	18%	Hold	22%	3,329	Dec 21	2.59x	2.54x	2.49x	14.4%	19.2%	20.7%	18.1x	13.4x	12.1x	37.9%	82%	79%	5.0%	6.7%
SSG SP	Sheng Siong Group	1.50	1.60	7%	Hold	43%	1,657	Dec 21	5.05x	4.68x	4.36x	25.7%	25.0%	24.1%	20.4x	19.4x	18.8x	-3.3%	-49%	-51%	3.4%	3.6%
	Consumer Staples																					
DELFI SP	Delfi Ltd	0.78	1.09	41%	Add	43%	348	Dec 21	1.39x	1.32x	1.25x	10.6%	10.7%	10.6%	13.3x	12.6x	12.0x	-0.4%	-27%	-31%	4.1%	4.1%
JAP SP	Japfa Ltd	0.59	0.65	10%	Hold	19%	885	Dec 21	0.59x	0.55x	0.51x	6.6%	9.1%	8.8%	9.2x	6.3x	6.0x	3.9%	48%	47%	3.5%	3.5%
JUMBO SP	Jumbo Group Limited	0.32	0.31	-2%	Hold	29%	149	Sep 21	4.47x	3.85x	na	8.3%	20.1%	na	54.2x	20.6x	na	na.	-8%	-21%	1.3%	3.4%
KMLY SP	Kimly Group	0.39	0.56	45%	Add	48%	352	Sep 21	3.03x	2.66x	na	27.1%	25.9%	na	12.0x	11.0x	na	na.	-59%	-64%	4.8%	5.0%
KOUFU SP	Koufu Group Ltd	0.77	0.80	4%	Add	23%	314	Dec 20	3.44x	3.07x	na	22.2%	23.0%	na	16.4x	14.1x	na	na.	-61%	-62%	3.1%	3.5%
THBEV SP	Thai Beverage	0.67	0.91	37%	Add	32%	12,276	Sep 21	2.14x	1.99x	na	15.5%	15.1%	na	14.3x	13.7x	na	na.	70%	56%	3.5%	3.7%
	Financial Services																					
CBA SP	Credit Bureau Asia Ltd	1.00	1.20	20%	Add	25%	169	Dec 21	4.80x	4.71x	4.62x	16.8%	18.9%	19.7%	25.4x	25.2x	23.7x	3.2%	-84%	-79%	3.4%	3.6%
DBS SP	DBS Group	31.91	39.90	25%	Add	71%	60,343	Dec 21	1.39x	1.28x	1.17x	13.2%	14.3%	14.7%	10.9x	9.4x	8.4x	12.9%	N.A>	N.A>	4.5%	4.5%
IFAST SP	iFAST Corporation Ltd	5.61	9.70	73%	Add	46%	1,207	Dec 21	10.39x	8.86x	7.44x	23.8%	26.1%	26.1%	47.2x	36.6x	31.0x	17.5%	-30%	-52%	0.9%	1.1%
OCBC SP	OCBC	11.48	14.20	24%	Add	80%	37,899	Dec 20	1.02x	0.95x	0.88x	10.9%	11.7%	12.2%	9.5x	8.4x	7.5x	12.1%	N.A>	N.A>	5.2%	5.2%
SGX SP	Singapore Exchange	9.42	10.40	10%	Add	72%	7,395	Jun 21	6.64x	6.19x	na	30.5%	29.0%	na	22.5x	22.1x	na	na.	-44%	-46%	3.4%	3.4%
UOB SP	United Overseas Bank	29.12	35.40	22%	Add	86%	35,779	Dec 21	1.09x	1.02x	0.94x	9.6%	11.1%	12.2%	11.7x	9.5x	8.0x	16.1%	N.A>	N.A>	4.3%	4.3%
	HealthCare																					
HYP SP	Hyphens Pharma Internatic	0.29	0.36	24%	Add	24%	66	Dec 21	1.48x	1.34x	1.22x	13.9%	13.6%	13.3%	10.9x	10.3x	9.6x	9.8%	-37%	-40%	2.7%	2.9%
QNM SP	Q&M Dental Group	0.52	0.79	52%	Add	31%	359	Dec 21	4.78x	4.53x	4.26x	33.1%	32.0%	31.5%	14.8x	14.5x	14.0x	10.4%	38%	36%	5.8%	5.8%
RFMD SP	Raffles Medical Group	1.14	1.33	17%	Hold	48%	1,561	Dec 21	2.19x	2.15x	2.14x	6.8%	7.1%	7.4%	32.4x	30.7x	29.1x	0.3%	-11%	-15%	2.5%	2.5%
	Industrial Goods and Services																					
HLA SP	Hong Leong Asia	0.80	1.05	31%	Add	24%	440	Dec 20	0.60x	0.56x	na	7.8%	8.1%	na	8.0x	7.2x	na	na.	-33%	-32%	2.1%	2.3%
UGHC SP	UG Healthcare Corp Ltd	0.25	0.42	71%	Add	38%	112	Jun 21	0.62x	0.57x	na	14.8%	9.2%	na	4.5x	6.5x	na	na.	-53%	-64%	1.1%	0.8%
RSTON SP	Riverstone Holdings	0.78	1.10	41%	Add	33%	850	Dec 21	1.70x	1.60x	1.50x	15.3%	14.1%	12.7%	10.5x	11.6x	12.2x	-41.0%	-63%	-62%	4.7%	4.3%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Singapore Valuation - cont'd

Prices as at BBG code	07-03-22 Company name	Closing Price	Target price	% up / (down)	Recom.	Free Float (%)	Market Cap (US$m)	Month end	Price/ BVPS (X) CY22F	CY23F	CY24F	ROAE (recurring) % CY22F	CY23F	CY24F	P/E (Recurrent FD) (X) CY22F	CY23F	CY24F	3-Yr forward	Net Gearing FY22F	FY23F	Net Div Yield % CY22F	CY23F
	Land Transport																					
CD SP	ComfortDelGro	1.36	1.80	32%	Add	100%	2,166	Dec 21	1.05x	1.03x	1.01x	8.0%	8.4%	8.5%	13.4x	12.4x	12.0x	16.9%	-22%	-24%	6.0%	6.5%
SBUS SP	SBS Transit Ltd	2.90	3.40	17%	Add	26%	665	Dec 21	1.42x	1.33x	1.24x	11.5%	12.3%	12.6%	12.7x	11.1x	10.2x	9.5%	-46%	-61%	3.9%	4.5%
	Media																					
SPH SP	Singapore Press Holdings	2.34	2.11	-10%	Hold	96%	2,781	Aug 21	0.92x	0.91x	na	3.7%	3.9%	na	24.6x	23.3x	na	na.	45%	45%	2.8%	3.1%
	Oil Equipment and Services																					
CSE SP	CSE Global	0.48	0.57	20%	Add	71%	179	Dec 21	1.24x	1.18x	1.10x	10.3%	12.1%	13.0%	12.2x	9.9x	8.8x	22.6%	17%	11%	5.8%	5.8%
SMM SP	Sembcorp Marine	0.10	0.09	-6%	Hold	57%	2,214	Dec 21	0.83x	0.86x	0.88x	-7.4%	-3.0%	-2.3%	-6.1x	-28x	-37.2x	-72.9%	61%	82%	0.0%	0.0%
YZJSGD SP	Yangzijiang Shipbuilding	1.45	1.78	23%	Add	65%	4,170	Dec 21	0.67x	0.61x	0.57x	9.2%	11.3%	10.2%	7.5x	5.7x	5.7x	6.7%	-8%	-8%	3.6%	3.6%
	Property																					
APAC SP	APAC Realty Ltd	0.68	0.93	38%	Add	27%	176	Dec 21	1.53x	1.40x	1.29x	18.4%	19.6%	20.0%	8.2x	7.5x	6.7x	0.3%	-11%	-20%	9.1%	10.1%
CIT SP	City Developments	7.01	8.97	28%	Add	60%	4,672	Dec 21	0.63x	0.56x	0.53x	5.1%	6.9%	4.4%	13.6x	8.5x	12.4x	na.	71%	58%	2.9%	2.9%
FPL SP	Frasers Property Limited	1.06	1.41	33%	Add	12%	3,058	Sep 21	0.36x	0.35x	na	2.5%	2.4%	na	14.8x	14.9x	na	na.	72%	65%	3.1%	4.0%
HOBEE SP	Ho Bee Land	2.81	2.70	-4%	Add	25%	1,371	Dec 19	0.48x	na	na	3.9%	na	na	12.5x	na	na	na.	61%	N.A>	3.6%	na
HKL SP	Hongkong Land Holdings L	5.24	6.10	16%	Add	49%	12,230	Dec 21	0.35x	0.32x	0.30x	2.8%	2.7%	2.7%	12.3x	12.1x	11.5x	2.9%	17%	17%	4.2%	4.2%
PROP SP	Propnex Ltd	1.69	2.07	22%	Add	17%	460	Dec 21	5.59x	5.07x	4.61x	43.9%	42.9%	40.6%	12.9x	12.4x	11.9x	-4.1%	-134%	-129%	6.2%	6.5%
UOL SP	UOL Group	6.85	8.00	17%	Add	54%	4,250	Dec 21	0.56x	0.55x	0.54x	3.3%	3.2%	2.7%	17.3x	17.1x	20.5x	6.4%	23%	22%	2.5%	2.5%
WINGT SP	Wing Tai Holdings	1.70	1.98	16%	Add	50%	954	Jun 20	0.33x	na	na	2.0%	na	na	17.4x	na	na	na.	8%	6%	2.9%	na
	REITS																					
AREIT SP	Ascendas REIT	2.82	3.20	13%	Add	80%	8,699	Dec 21	1.14x	1.14x	1.14x	6.7%	6.9%	7.1%	17.2x	16.6x	16.2x	4.0%	55%	55%	5.9%	6.1%
ART SP	Ascott Residence Trust	1.03	1.21	17%	Add	60%	2,485	Dec 21	0.88x	0.90x	0.91x	1.9%	3.5%	4.7%	45.9x	25.8x	19.3x	53.6%	56%	58%	4.8%	6.2%
ALLT SP	ARA Logos Logistics Trus	0.82	0.92	13%	Add	89%	870	Dec 21	1.17x	1.18x	1.18x	4.8%	4.9%	5.1%	24.5x	23.7x	23.2x	3.0%	72%	72%	6.2%	6.4%
CICT SP	CapitaLand Integrated Cor	2.11	2.57	22%	Add	74%	10,267	Dec 21	1.07x	1.07x	1.07x	5.5%	5.7%	5.9%	19.0x	18.6x	18.3x	-2.0%	70%	70%	5.2%	5.3%
CDREIT SP	CDL Hospitality Trust	1.12	1.30	16%	Add	64%	1,013	Dec 21	0.86x	0.88x	0.90x	1.7%	3.3%	4.5%	51.6x	26.2x	19.9x	38.7%	66%	68%	4.4%	6.1%
ELITE SP	Elite Commercial REIT	0.64	0.76	20%	Add	76%	399	Dec 21	1.05x	0.96x	0.95x	8.1%	8.3%	8.0%	13.0x	12.0x	11.9x	-2.6%	70%	63%	7.9%	8.5%
EREIT SP	ESR-REIT	0.42	0.50	19%	Add	61%	1,245	Dec 21	1.08x	1.09x	1.10x	6.8%	7.2%	7.5%	14.9x	15.1x	14.5x	23.9%	71%	73%	7.4%	7.5%
FEHT SP	Far East Hospitality Trust	0.58	0.75	29%	Add	45%	843	Dec 21	0.70x	0.70x	0.70x	3.0%	4.0%	4.8%	23.0x	17.3x	14.5x	24.0%	57%	57%	4.6%	5.9%
FCT SP	Frasers Centrepoint Trust	2.27	2.73	20%	Add	59%	2,838	Sep 21	0.99x	0.99x	na	5.2%	5.3%	na	19.1x	18.8x	na	na.	44%	44%	5.6%	5.6%
FLT SP	Frasers Logistics & Comm	1.42	1.56	10%	Add	70%	3,852	Sep 21	1.10x	1.11x	na	6.2%	5.9%	na	18.1x	18.9x	na	na.	31%	31%	5.7%	5.6%
KDCREIT SI	Keppel DC REIT	2.22	2.70	22%	Add	76%	2,802	Dec 21	1.66x	1.66x	1.66x	7.9%	8.0%	8.2%	21.0x	20.8x	20.4x	-16.6%	49%	49%	4.8%	4.8%
KREIT SP	Keppel REIT	1.16	1.29	11%	Add	54%	3,165	Dec 21	0.89x	0.90x	0.92x	3.1%	3.4%	3.3%	28.3x	26.7x	27.4x	-2.7%	46%	47%	5.0%	5.1%
LREIT SP	Lendlease Global Commer	0.81	0.95	17%	Add	75%	709	Jun 21	0.81x	1.03x	na	5.1%	6.0%	na	15.7x	15.2x	na	na.	75%	76%	6.2%	6.5%
MUST SP	Manulife US REIT	0.63	0.89	41%	Add	94%	1,111	Dec 21	0.94x	0.95x	0.96x	7.7%	8.0%	8.3%	12.1x	11.7x	11.4x	59.7%	75%	75%	9.1%	9.7%
MCT SP	Mapletree Commercial Tru	1.82	2.18	20%	Add	66%	4,445	Mar 21	1.07x	1.07x	na	6.0%	6.3%	na	17.8x	17.0x	na	na.	52%	52%	5.3%	5.4%
MAGIC SP	Mapletree North Asia Com	1.08	1.13	5%	Add	61%	2,800	Mar 21	0.87x	0.88x	na	4.5%	4.7%	na	19.3x	18.8x	na	na.	72%	73%	7.1%	7.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Singapore Valuation - cont'd

Prices as at	07-03-22	Closing	Target	% up /		Free	Market	Month	Price/ BVPS (X)			ROAE (recurring) %			P/E (Recurrent FD) (X)			3-Yr	Net Gearing		Net Div Yield %	
BBG code	Company name	Price	price	(down)	Recom.	Float (%)	Cap (US$m)	end	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	forward	FY22F	FY23F	CY22F	CY23F
	REITS - cont'd																					
MINT SP	Mapletree Industrial Trust	2.59	3.08	19%	Add	73%	5,065	Mar 21	1.46x	1.46x	na	7.6%	7.9%	na	19.3x	18.5x	na	na.	56%	58%	5.3%	5.5%
MLT SP	Mapletree Logistics Trust	1.87	2.11	13%	Hold	71%	6,113	Mar 21	1.42x	1.42x	1.43x	6.0%	6.2%	6.2%	23.7x	23.0x	22.9x	2.4%	64%	70%	4.6%	4.6%
OUECT SP	OUE Commercial REIT	0.44	0.45	3%	Hold	64%	1,736	Dec 20	0.75x	0.75x	0.75x	3.4%	3.2%	3.3%	21.9x	23.4x	22.8x	-9.4%	51%	50%	6.7%	6.4%
PREIT SP	Parkway Life REIT	4.65	5.05	9%	Add	64%	2,067	Dec 20	1.91x	1.60x	1.60x	6.1%	5.8%	5.2%	32.0x	30.0x	31.1x	1.0%	55%	49%	3.0%	3.1%
SASSR SP	Sasseur REIT	0.87	1.06	22%	Add	24%	778	Dec 21	0.88x	0.89x	0.90x	6.9%	7.3%	7.6%	12.7x	12.2x	11.7x	6.0%	28%	27%	8.4%	8.8%
SPHREIT SP	SPH REIT	0.95	1.03	8%	Add	32%	1,956	Aug 21	1.06x	1.06x	na	5.8%	5.9%	na	18x	18.0x	na	na.	41%	41%	5.5%	5.6%
SGREIT SP	Starhill Global REIT	0.59	0.71	21%	Add	65%	960	Jun 21	0.70x	0.70x	na	5.1%	5.2%	na	13.7x	13.4x	na	na.	56%	56%	7.3%	7.4%
SUN SP	Suntec REIT	1.64	1.79	9%	Add	92%	3,456	Dec 20	0.78x	0.79x	0.80x	4.1%	4.3%	4.2%	18.9x	18.5x	19.0x	4.7%	72%	72%	6.6%	6.7%
	Services																					
GKEC SP	GKE Corp Ltd	0.11	0.16	47%	Add	61%	62	May 21	0.85x	0.77x	na	11.0%	12.8%	na	8.0x	6.3x	na	na.	35%	24%	3.1%	4.0%
HRNET SP	HRnetGroup Limited	0.77	1.15	49%	Add	20%	568	Dec 21	1.95x	1.78x	na	17.4%	16.9%	31.7%	11.6x	11.0x	11.3x	1.6%	-87%	-88%	4.3%	4.5%
SPOST SP	Singapore Post Ltd	0.65	0.90	40%	Add	62%	1,066	Mar 21	0.86x	0.83x	na	5.7%	6.4%	na	15.7x	13.5x	na	na.	-15%	-18%	2.7%	3.0%
	Technology																					
AEM SP	AEM Holdings Ltd	3.98	6.85	72%	Add	88%	905	Dec 21	2.49x	2.06x	1.75x	27.5%	24.9%	21.8%	10.0x	9.1x	8.7x	13.3%	-44%	-59%	2.5%	2.8%
AZTECH SP	Aztech Global Ltd	0.91	1.59	76%	Add	30%	513	Dec 21	2.07x	1.79x	1.57x	28.6%	28.2%	27.0%	7.7x	6.8x	6.2x	11.0%	-46%	-37%	6.5%	7.3%
FRKN SP	Frencken Group Ltd	1.52	2.06	36%	Add	76%	477	Dec 21	1.52x	1.35x	1.21x	17.2%	16.8%	15.9%	9.4x	8.5x	8.0x	10.9%	-28%	-35%	3.2%	3.5%
GVTL SP	Grand Venture Technology	0.92	1.60	75%	Add	40%	228	Dec 21	2.41x	1.96x	1.62x	25.4%	26.0%	23.8%	10.5x	8.3x	7.4x	26.1%	2%	-8%	1.9%	2.4%
ISDN SP	ISDN Holdings Ltd	0.61	0.96	59%	Add	54%	195	Dec 21	1.21x	1.08x	0.97x	14.4%	14.7%	14.7%	8.8x	7.8x	6.9x	14.3%	-17%	-24%	2.8%	3.2%
NANO SP	Nanofilm Technologies Int'	2.50	3.50	40%	Add	45%	1,208	Dec 21	3.36x	2.92x	2.54x	17.6%	18.8%	18.8%	20.4x	16.7x	14.4x	22.5%	-8%	-18%	1.2%	1.5%
SILV SP	Silverlake Axis Ltd	0.29	0.41	44%	Add	25%	560	Jun 21	1.94x	1.67x	na	17.8%	17.2%	na	11.5x	10.5x	na	na.	-67%	-70%	2.6%	2.9%
UMSH SP	UMS Holdings Ltd	1.11	1.63	47%	Add	83%	544	Dec 21	2.34x	2.07x	1.82x	24.5%	22.3%	21.5%	10.2x	9.9x	9.0x	15.6%	-14%	-23%	4.5%	4.5%
VMS SP	Venture Corporation	16.58	23.32	41%	Add	93%	3,540	Dec 21	1.69x	1.59x	1.49x	13.0%	13.3%	13.2%	13.4x	12.4x	11.7x	9.8%	-33%	-38%	4.5%	4.5%
VPS SP	Vicplas International Ltd	0.21	0.28	34%	Add	26%	77	Jul 21	1.25x	1.12x	na	14.5%	14.4%	na	9.1x	8.2x	na	na.	-2%	-7%	2.8%	3.0%
	Telecommunications																					
NETLINK SP	Netlink NBN Trust	0.97	1.10	14%	Add	75%	2,764	Mar 21	1.44x	1.50x	na	3.9%	4.0%	na	36.5x	36.3x	na	na.	19%	20%	5.4%	5.5%
ST SP	SingTel	2.51	3.30	31%	Add	50%	30,449	Mar 21	1.47x	1.42x	1.37x	8.7%	10.0%	11.4%	17.2x	14.4x	12.2x	21.1%	27%	27%	4.4%	5.2%
STH SP	StarHub	1.24	1.40	13%	Hold	34%	1,576	Dec 21	3.7x	3.6x	3.5x	14%	17%	18%	27.0x	21.9x	19.9x	-9.9%	139%	129%	4.0%	4.0%
	Transport Infrastructure																					
SATS SP	SATS Ltd	3.81	4.34	14%	Hold	56%	3,142	Mar 21	2.74x	2.68x	na	6.1%	13.0%	na	46.1x	21.3x	na	na.	3%	3%	2.4%	3.9%
	Travel and Leisure																					
GENS SP	Genting Singapore	0.76	0.96	26%	Add	47%	6,742	Dec 21	1.13x	1.11x	1.08x	4.5%	6.0%	6.2%	25.9x	18.8x	17.6x	54.3%	-38%	-35%	3.3%	3.3%
FSSTI		**3,188**																				

Note: Calendarized data unless otherwise stated

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

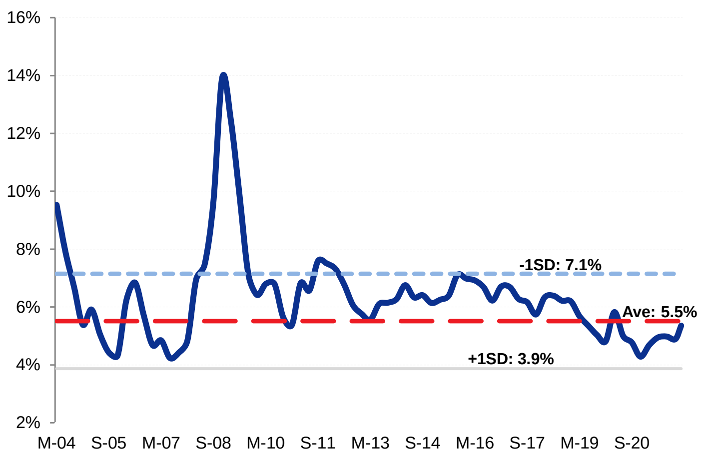
Strategy

Uncertainty has been heightened by increasing geopolitical risks, adding on to the concerns over supply chain disruptions and elevated inflation. Given the uncertainty, we believe a more cautious market stance is warranted as we head into 1H22. We highlight our three key themes and reshuffle our top picks post the 4Q21 results.

Flight to safety

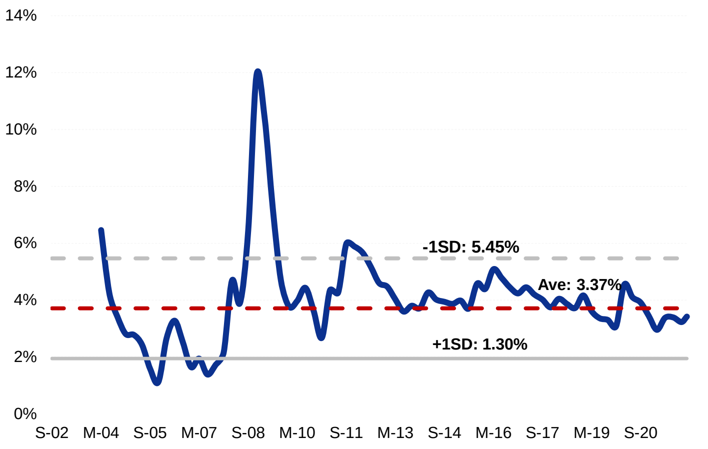
Despite the US Jan CPI surging to 7.5% yoy, above market expectations, the US Federal Reserve signalled a modest 25bp interest rate hike in Mar, given the uncertainty of the financial impact from the heightened geopolitical risks in Eastern Europe. Under these circumstances, we advocate investors to position in REITs in the near term, for yield and income stability. With REITs having priced in a c.50bp rate hike YTD, by our estimates, we believe REITs could remain defensive in the near term. The sector is trading at an FY22F DPU yield of 5.4% and valuations have normalised back to its average long-term yield spread of 360bp over the Singapore 10-year government bond yield. We expect the sector to deliver DPU growth of 6-7% in FY22F and a further 3% in FY23F, thanks to organic improvements and contributions from new acquisitions made in the prior year. We think the sector remains relatively shielded from rising interest costs, with a high 75% of total debt hedged into fixed rates. Moreover, REITs have little or no direct exposure to Eastern Europe (exposure mainly in UK, Germany, Netherlands, France, Belgium Spain and Italy). Our channel checks indicate that business operations in Europe have remained relatively stable to date. Our preferred picks are CICT and AREIT.

Figure 5: SREIT's forward dividend yield



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 6: SREIT's dividend yield spread

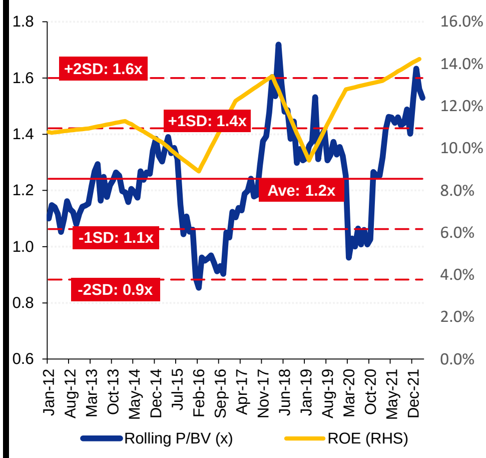


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

We advocate a tactical accumulate stance into banks for the medium term in this interest rate upcycle. While near-term geopolitical tensions may mean a more measured pace of rate hikes, nonetheless, the uptrend remains intact. With Singapore banks' earnings largely normalised in 2H21 and management continuing to take a conservative stance by building precautionary impairment buffers in the form of management overlays, we believe the worst of Covid-19-induced asset quality pressures have passed. Our current assumptions have factored in 6 rate hikes of 25bp over FY22-23F, which would result in a c.22-34bp NIM expansion over FY22-24F. Granted that NIMs may remain flattish in 1H22F given the time lag needed for asset repricing, sequential fee income improvement as regional economies progressively re-open and sustained wealth management income should provide earnings-upside momentum. This could likely catalyse the sector's outperformance in the medium term.

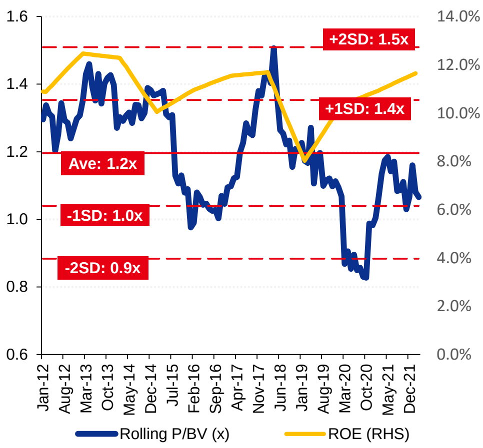
Singapore banks are currently trading at 1.1-1.5x FY22F P/BV. We believe there is still upside beyond the banks' peak valuations as seen during the previous rate hike cycle in 2018, when DBS/OCBC/UOB traded up to 1.7x/1.5x/1.4x historical 2018 P/BV, underpinned by a superior funding position (higher CASA and lower LDR) this time around. Our top pick is UOB given its better risk-return; UOB trades at 1.1x P/BV, below its peak valuation of 1.4x in Apr 18 during the previous rate hike cycle.

Figure 7: DBS Group's P/BV (x) trend



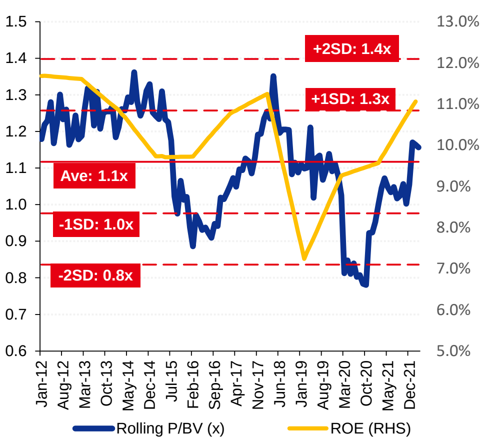
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: OCBC's P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: UOB's P/BV (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Impact from Ukraine-Russia tension – potential beneficiaries

Commodity prices have moved up significantly, particularly energy prices. With the added pressure from potential protracted supply chain shocks due to the Ukraine-Russian tension, we expect commodity prices to remain elevated. According to CGS-CIMB economist, Russia and Ukraine account for more than a quarter of global wheat exports in 2019. Ukraine is also a major exporter of corn and sunflower oil. Russia is a major exporter of energy commodities, such as oil, gas and coal, as well as metals, such as palladium. The far-reaching consequences include not just geo-political tensions and commodity prices but also further supply chain backlogs.

Our checks with Singapore companies indicate little direct exposure to Ukraine or Russia, although the consequential higher commodity prices and other supply shock issues could have a more far-reaching impact, potentially to consumers as well. Below is a table on the potential beneficiaries and sectors that could be negatively impacted by the ongoing tension.

Figure 10: Impact from the Russia-Ukraine conflict

Positively impacted sectors	
Commodities	Disruption of sunoil exports from Ukraine will further strain the supply constraints. This is likely to translate to higher CPO price with upside risk to our earnings projections for **FR, GGR and WIL,** to a certain extent.
Capital goods	Rising prices for feedstock (coal, gas) may have positive implications on **SCI**. Power plants that are fuelled by gas and on cost-plus terms, such as its Singapore cogen plant, could see higher absolute profits. Its Indian coal plants which have secured long-term power purchase agreements (PPAs) for c.80% of their combined capacity, are allocated local coal (>200% cheaper than international coal).
Negatively impacted sectors	
Consumer	We believe that the conflict may add further pressure on soft commodity prices, which may pressure margins of consumer companies. For **THBEV**, we understand raw material costs is equivalent to 6.4%/19.2% of spirits/beer segment revenue respectively, while packaging costs is equivalent to 6.3%/10.3% of spirits/beer segment FY9/21 revenue. We do expect raw material cost to be affected by higher barley prices. Overall, we believe that the cost pressures for THBEV are manageable and that there is room for further price increments to pass on higher prices (in Thailand beer segment, which has not raised prices recently) if necessary. For **DELFI**, sourcing of its key ingredients are from regions detached from the Russia-Ukraine crisis and has no direct bearing on Delfi's margins. Delfi had also been able to internalise cost increases through its forward hedging policy of up to six months in advance for raw materials, which allow the business to manoeuvre rising costs through price adjustments and repackaging. For **JAPFA**, the escalation of the UKR-RUS conflict could exacerbate cost pressures on feed ingredients and logistics disruptions in the near term.
Construction	The recent spike in iron ore prices have also translated to steel rebars' futures price trending up, returning to Oct 2021 levels but still some 10-15% away from its recent peak recorded in Jul 2021. We believe the impact from rising prices will vary between different companies, depnding on their hedging strategies. Higher steel prices could lead to higher provision for onerous contracts for **BRC Asia** in the near term, similar to what has happened for FY9/21 (could potentially be reversed when contracts are fulfilled or when market prices of steel rebars decline).
Property	Higher commodities prices could translate into higher raw material costs and lead to overall higher construction cost.
Technology	So far, there is no direct impact as yet from the Ukraine-Russia tension. However, if protracted, suppliers will eventually have to share the cost increase with customers. Higher oil prices will also lead to higher energy costs for manufacturers and energy availability could be a bigger concern than higher energy price. Oil price will affect plastic resin price as they are oil derivatives. This will generally affect contract manufacturers (**Aztech, Venture**) more as they are users of plastics in the manufacturing process. For semicon-related suppliers (**Frencken, UMS, Grand Venture, AEM**), there will be concern on Aluminium price and availability as these suppliers need Aluminium to produce the goods for their customers.
Airlines	For SIA, the group hedged 30% of its jet fuel needs up to 31 March 2022F at an average US$57/bbl Brent strike price, and 40% of its jet fuel needs for 15 months from 1 April 2022F to 30 June 2023F at an average US$60/bbl Brent strike price. We currently assumed an average Brent price of US$83/bbl for FY3/23F. It is unlikely that SIA will be able to pass on these higher fuel costs to passengers, as it is still focusing on raising its load factors. Having said that, we believe that SIA has an unpublicised arrangement with the Singapore government to fund its cash losses from operating its flights. The Singapore government has an interest in maintaining Singapore's air connectivity, which is why SIA has been deploying non-VTL flights which typically see load factors of below 20%. Hence, the Singapore government will probably absorb the rising losses of SIA's flights to a great extent.
Neutral sectors	
Financials	We understand that Singapore banks' exposure to Russia/Ukraine is minimal. As such, we do not expect material weakening in its asset quality, if any.
Healthcare	There is negligible impact on healthcare service providers such as **RFMD** and **QNM** as a result of the UKR-RUS conflict that is currently unfolding as both operators do not have direct operations in either countries. Nevertheless, we understand that RFMD maintains a network in RUS for referral of foreign patients to its hospitals. However, given the lack of medical tourist over the past two years, we do not think that the conflict will extenuate the negligible foreign patient volumes in RFMD's hospitals. The impact of the conflict on **HYP** is also limited, given that HYP does not have products originating from either countries. However, the potential aggravation of the conflict to involve the rest of Europe could disrupt shipping routes, impacting HYP's supply of Specialty Pharmaceutical products from Europe.
REITs	Minimal impact as REITs do not have exposure to Ukraine/Russia. For hospitality REITs, we understand that, so far, demand in Europe remains firm for both ART and CDLHT. Rising utilities prices could increase landlords' operating expenses, although this is not the biggest expense item. This could increase landlords' operating expenses in the medium term unless it is passed on to tenants.
Telco	We expect minimal impact on Singapore telcos from the escalating Ukraine-Russia tensions as the former have negligible direct exposure to the conflict.
Gaming	We do not see any impact on GENS' business arising from the Ukraine-Russia conflict due to a local operational presence through RWS.
Land Transport	We see minimal impact on **CD**'s and **SBUS**'s financials from the recent surge in international crude prices. Both players' public bus packages have fuel indexation and other cost factors built into the compensation formula. We understand that fuel indexation is typically adjusted on a monthly basis, allowing them to pass on the higher costs. While their Singapore rail operations are likely to suffer from higher electricity costs should conflict persist, the scale of rail operations is significantly smaller than buses'.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS
Please refer to Figures 2-4 for full name of companies

The clear beneficiaries of this event are the upstream commodity players, such as FR and GGR, and companies that can pass on the higher costs, such as SCI. We see upside risk to our current average CPO price forecast of RM4,100/tonne in 2022F, which has not captured the supply disruption from the Russia-Ukraine war. For SCI, rising prices for feedstock (coal, gas) may have positive implications for the company, particularly for power plants that are fuelled by gas and on cost-plus terms, such as its Singapore cogen plant.

If the rise in commodity prices continue to persist, potential sectors that could be more adversely affected are consumer, contract manufacturing and semi-con-related suppliers. We deem the impact on financial, healthcare, telco, gaming and land transport sectors to be relatively muted.

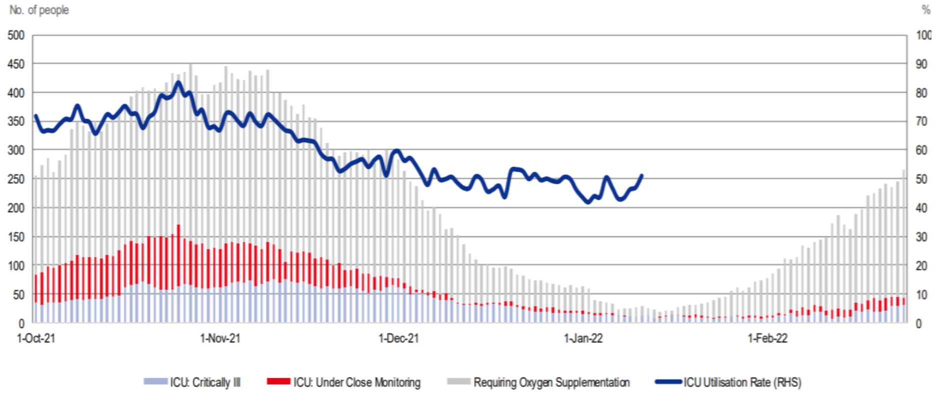
Resumption of re-opening

Despite the uncertainties above, what has not changed is that fact that globally, countries are looking to resume a post-Covid-19 normality, now that vaccination rates have increased significantly. According to Our World in Data, 64% of the world's population has been vaccinated as of end Feb 2022, and when the target of vaccinating 70% of the world's population is reached, the acute phase of the pandemic is considered ended, according to WHO's Director General Tedros Adhanom Ghebreyesus.

In Singapore, as at Mar 2022, 92% of population has been fully vaccinated and 68% of the population has received booster shots. Following the Feb 16 announcement to reinstate 100% of the quarantine-free Vaccinated Travel Lane (VTL) capacity of 15,000 daily passengers into Singapore and expanding the list of VTL countries to include Saudi Arabia, the UAE, Philippines, Israel and all cities in Thailand (from only Bangkok previously), the government will, from Mar 16, further extend VTL arrangements with Malaysia to include Penang (with 4 daily flights each way) and with Indonesia to include Bali-Denpasar (from only Jakarta previously). The VTL arrangement with India will also include all Indian cities beyond Chennai, Delhi and Mumbai. New VTLs with Greece and Vietnam have also been established. With the latest relaxations, Singapore has VTL arrangements with 30 countries/regions. Since gradually establishing VTLs from Sep 2021, a total of 456,215 VTL travellers have entered Singapore.

That said, the government announced that the streamlined Covid-19 safe management measures, which was to be rolled out from Feb 25 with further easing of capacity limits on Mar 4, will be postponed due to the still-high daily local case numbers currently. Singapore reported 16,274 cases on Mar 5, down from 17,564 cases the day before. The Covid-19 weekly infection growth rate remained below 1, at 0.95.

Figure 11: Covid-19 situation in Singapore



SOURCES: CGS-CIMB RESEARCH, MINISTRY OF HEALTH

Tourist arrivals to Singapore for 2021 amounted to 329.9k (or 12.2% of 2020 level and 1.7% of the peak 2019 numbers). Jan 22 tourist arrivals came in at 57.14k (or 17% of the 2021 quantum). Meanwhile, average hotel occupancy rate for Jan 2022 was 57.8%, while RevPAR came in at S$96.4/room night (+46% yoy).

While border re-opening is unlikely to be a straight upward trajectory, we note that the number of events to take place in Singapore has increased. Following the successful Singapore Air Show in Feb 2022, which attracted 13,000 visitors from 39 countries/regions, Singapore is expected to host another at least 19 physical or hybrid exhibitions/trade conferences/association conventions from Mar-Dec 2022, by our estimate. These include Clean Enviro Summit, Singapore International Water Week, World Cities Summit, OS+H Asia 2022, The Singapore Business Show 2022, Singapore Fintech Festival and Singapore

International Agri-Food Week. The F1 Singapore Grand Prix is also scheduled to take place on 30 Sep-2 Oct 2022. According to Singapore Association of Convention & Exhibition Organisers & Suppliers (SACEOS), the business events sector is expected to rebound to pre-pandemic levels by 2023.

We believe the reopening of borders and relaxation of safe distancing measures will benefit travel, hospitality, retail (including downtown malls), healthcare (medical tourism), and even telecom sectors. Our preferred plays for this theme are SIA Engineering, ART, SPOST and SingTel.

Stock picks

Going into 1H22F, our preferred picks are **CICT (Add, TP S$2.57, CP S$2.11)** and AREIT **(Add, TP S$3.20, CP S$2.82)** for attractive yields and potential acquisition catalysts. Despite recent outperformances, we anticipate commodity stocks' continued price uptrend to be underpinned by the strong CPO price outlook, and we retain our Add rating on **WIL (Add, TP S$5.69, CP S$4.70).**

We also like **UOB (Add, TP S$35.40, S$29.12)** in the financials segment; we believe UOB offers a better risk-return profile as it is trading at 1.1x FY22F P/BV below its Apr 18 peak valuation of 1.4x, during the previous rate hike cycle.

We favour **SPOST (Add, S$0.90, CP S$0.65)** as a proxy to reopening plays. Other big-cap picks include **YZJ (Add, TP S$1.78, CP S$1.45)** for its strong orderbook of US$8.5bn (as at end Dec 2021) and the spin-off of debt investment as a near-term catalyst.

We include **THBEV (Add, TP S$0.91, CP S$0.67)** and **DELFI (Add, S$1.09, CP S$0.78)** (small-cap pick) into our preferred stock list as both companies have seen sequential demand recovery from 4QCY21 onwards amid the easing of social mobility restrictions, and we expect the trend to continue into CY22F. Both have observed initial demand recovery as measures ease; THBEV has also taken the opportunity to hike prices to cover its increased costs. We think both THBEV and DELFI could see sequential GPM expansion in 1QCY22F, from the price hike impact fully kicking in to help offset cost elevation (THBEV) and from continued product mix optimisation (DELFI).

We also retain **AEM (Add TP S$6.85, CP S$3.98)** in our preferred pick list as we think the company will be able to achieve the high end of its FY22F revenue guidance of S$670-720m.

We like **HRnet (Add, TP S$1.15, CP S$0.77)** as a proxy for continued labour market recovery across Asia. We expect CY22F earnings growth to be underpinned by rising salaries and increasing placement volumes. M&A activity is also a possibility, given the group's strong net cash position. Our preference for **SILV (Add, TP S$0.41, CP S$0.29)**, is premised on its strong positioning to capture banks' growing investment appetite for technological and core banking system upgrades.

Key risk to our view and estimates is a protracted Ukraine-Russia tension that would continue to put pressure on supply chains and commodity prices or emergence of potential new Covid variants, that could derail economic recovery.

Figure 12: Alpha picks for 2022F

Company	Bbg Ticker	Recom.	Price (local curr)	Target Price (lc)	Total Return * (%)	Market Cap (US$ m)	Core P/E (x) CY22F	Core P/E (x) CY23F	3-yr EPS CAGR (%)	P/BV (x) CY23F	Recurr ROE (%) CY23F	Dvd Yld (%) CY23F
Alpha picks (Large-cap)												
AEM Holdings Ltd	AEM SP	Add	3.98	6.85	74.9%	905	10.0	9.1	15.2%	2.06	24.9%	2.8%
Ascendas REIT	AREIT SP	Add	2.82	3.20	19.5%	8,699	17.2	16.6	3.9%	1.14	6.9%	6.1%
CapitaLand Integrated Comr	CICT SP	Add	2.11	2.57	27.3%	10,267	19.0	18.6	-2.0%	1.07	5.7%	5.3%
Sembcorp Industries	SCI SP	Add	2.70	2.96	12.7%	3,533	11.3	9.8	22.8%	1.04	11.3%	3.1%
Singapore Post Ltd	SPOST SP	Add	0.65	0.90	42.6%	1,066	15.3	13.2	na	0.83	6.4%	3.0%
ST Engineering	STE SP	Add	4.01	4.70	21.1%	9,171	20.8	17.7	10.3%	4.60	27.0%	4.0%
Thai Beverage	THBEV SP	Add	0.67	0.91	40.5%	12,276	14.3	13.7	na	1.99	15.1%	3.7%
United Overseas Bank	UOB SP	Add	29.12	35.40	25.9%	35,779	11.7	9.5	16.1%	1.02	11.1%	4.3%
Wilmar International	WIL SP	Add	4.70	5.69	24.8%	21,747	12.4	12.3	1.9%	1.01	8.4%	3.7%
Yangzijiang Shipbuilding	YZJSGD SP	Add	1.45	1.78	26.4%	4,170	7.5	5.7	7.5%	0.61	11.3%	3.6%
Average							**13.1**	**11.6**	**5.7%**	**1.14**	**10.1%**	**4.2%**
Alpha picks (Small-cap)												
Delfi Ltd	DELFI SP	Add	0.78	1.09	44.7%	348	13.3	12.6	-0.4%	1.32	10.7%	4.1%
HRnetGroup Limited	HRNET SP	Add	0.77	1.15	53.9%	568	11.6	11.0	1.3%	1.78	16.9%	4.5%
Silverlake Axis Ltd	SILV SP	Add	0.29	0.41	46.7%	560	11.5	10.5	na	1.67	17.2%	2.9%
Average							**11.9**	**11.1**	**-12.5%**	**1.61**	**15.2%**	**3.8%**

note: * includes dividend yield
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS
Share price as at 7 Mar 2022

Lifting earnings post-results, but lowering STI target

4Q/2H21 results season ended with positive surprises beating the negative by c.2.5x (27:11 companies), as companies continue to benefit from the tailwinds of increased economic activity, rising commodity prices and an improvement in operating metrics. Another 31 companies delivered in-line set of numbers. The number of beats also gathered momentum on a qoq basis. The beats came from the capital goods, commodities, consumer, industrials, transport, telco sectors and selected REITs.

The biggest outperformers included YZJ, which exceeded our FY21 projections by 22% on good order wins, while Jiutian Chemicals beat our projections by 24% on strong ASP, tight supply and strong downstream demand amid rising commodity prices. Delfi also came at 127% of our FY21 projections, amid an improved cost profile and sales momentum recovery.

Commodity stocks also performed well, with WIL, GGR and FR coming in ahead of our FY21 projections by 16%/12%.4%. Higher CPO prices and improved downstream margins underpinned GGR's and FR's outperformance. WIL benefited from stronger-than-expected refining margins and CPO prices, which more than offset the weaker results from its food product division and associates; 90%-owned YKA also posted a 31% yoy fall in contributions.

Financials generally had a weaker end to the year, with iFASTand CBA coming in below expectations. With the exception of UOB, the other 2 banks — DBS/OCBC — came in below expectations, at 96%/94% of our estimates, due to weaker treasury and wealth fees and, in OCBC's case, higher credit cost. That said, DBS raised its absolute DPS guidance to 36 Scts/qtr (S$1.44 for FY22F), while UOB maintained its c.50% payout ratio. All banks guided for slower loan growth of mid-single digits for FY22F.

Capital goods/industrials were a mixed bag. SMM posted lower-than-expected losses, while SCI saw strong conventional energy prices in UK, SG and India. KEP's bottomline was boosted by fair value gains on investments.

REITs were generally in line, except for FEHT and SASSR, which delivered a beat on interest cost savings (FEHT) and better-than-expected revenue performance (SASSR). Overall, rental rebates from landlords were lower yoy as tenant sales improved on the back of relaxation in safe-distancing measures. Industrial REITs also saw a pick-up in occupancy and rental rates, while office REITs continued to enjoy positive rental reversions, even as occupancy slipped marginally qoq.

In tandem with their results announcements, GGR, PROP, MLT and MCT were upgraded to Add, while Starhub was downgraded to Hold.

Figure 13: Highlights of positive surprises and negative surprises for 4Q21

Above expectations

Sector	Company name	Remarks
Capital Goods	Keppel Corporation	All segments, save for O&M, beat
Capital Goods	Sembcorp Industries	Higher energy prices in UK, SG and India
Capital Goods	Sembcorp Marine	Smaller loss than our forecast, but in-line with guidance
Capital Goods	SIA Engineering	Tax provision writeback
Capital Goods	ST Engineering	Strong order wins
Commodities	First Resources	Higher CPO prices
Commodities	Golden Agri-Resources	Higher CPO prices and downstream profit
Commodities	Wilmar International	Higher refining margins; Higher CPO and sugar prices
Consumer	Delfi Ltd	Sales recovery
Consumer	Sheng Siong Group	Improvement in GPM
Consumer	Thai Beverage	All segments up
Manufacturing	AEM Holdings	Margin compression guidance overstated
Manufacturing	Silverlake Axis	Better than expected, given seasonally weaker period.
Others	BRC Asia	Stronger order wins
Others	China Sunsine Chemical	Higher GPM and volumes
Others	Jiutian Chemical Group Ltd	Higher ASPs
Others	Singapore Post	Strong freight forwarding and e-commerce
Property	Propnex	Strong showing across all segments
REITs (Hospitality)	Far East Hospitality Trust	Lower interest expense
REITs (Office)	Keppel REIT	Contributions from new acquisitions, offset by lower occupancy & associates
REITs (Retail)	Mapletree NA Comm Trust	Lower rental relief and contribution from HP Japan HQ
REITs (Retail)	Sasseur REIT	Higher entrusted manager agreement income, stronger RMB
REITs (Retail)	Suntec REIT	Lower rent relief, higher gross turnover rent
Telco	Netlink NBN Trust	Stronger performance in higher margin fibre business
Telco	Starhub	Higher service revenue and margin
Transport	SBS Transit	Ridership recovery
Transport	Singapore Airlines	Stronger cargo rev, lower loss on passenger airlines

Below expectations

Sector	Company name	Remarks
Capital Goods	CSE Global	Lower energy margins
Consumer	Japfa Ltd	Cost pressures
Finance	Credit Bureau Asia Ltd	Demand for commercial credit info slowed
Finance	DBS Group	Lower treasury and wealth management income
Finance	iFAST Corporation	Weaker revenue on broad market sell-off
Finance	OCBC	Higher credit costs
Gaming	Genting Singapore	Lower gaming revenue
Healthcare	Q&M Dental Group	Higher staff costs and tax expenses
Healthcare	Raffles Medical Group	Higher effective tax rate due to govt grants
Manufacturing	UMS Holdings	Higher taxes
Property	City Developments	Below; but improvments in performance in all segments
REITs (Office)	OUE Commercial REIT	Deconsolidation of OUE Bayfront contributions
Telco	SingTel	Lower associate earnings, high corporate costs
Transport	ComfortDelGro	Higher taxi rebates

In line

Sector	Company name
Finance	United Overseas Bank
Manufacturing	Aztech Global Ltd
Manufacturing	Frencken Group
Manufacturing	Grand Venture Technology
Manufacturing	ISDN Holdings
Manufacturing	Nanofilm Technologies
Manufacturing	Venture Corporation
Others	HRnetGroup Limited
Others	Hyphens Pharma International
Others	Riverstone Holdings
Others	UG Healthcare Corporation
Property	APAC Realty
Property	Frasers Property Limited
Property	UOL Group
REIT (Office)	Elite Commercial REIT
REIT (Retail)	Lendlease Global Commercial REIT
REITs	Frasers Logistics & Commercial Trust
REITs (Hospitality)	Ascott Residence Trust
REITs (Hospitality)	CDL Hospitality Trust
REITs (Hospitality)	Manulife US REIT
REITs (Industrial)	ARA Logos Logistics Trust
REITs (Industrial)	Ascendas REIT
REITs (Industrial)	ESR-REIT
REITs (Industrial)	Keppel DC REIT
REITs (Industrial)	Mapletree Industrial Trust
REITs (Industrial)	Mapletree Logistics Trust
REITs (Office)	Mapletree Commercial Trust
REITs (Retail)	CapitaLand Integrated Comm
REITs (Retail)	Frasers Centrepoint Trust
REITs (Retail)	Starhill Global REIT
Transport	SATS

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Post the strong 4QCY21 results, we raised our FY22-23F earnings by 2.2-9.7%, mainly in capital goods, commodities and slight uplifts in property, REITs and tech/manufacturing in CY22F, with stronger upward revisions in consumer, property, transport and capital goods in CY23F. This would result in boosting our CY22-23 market EPS growth to 16.6% and a further 14.8% in FY23F.

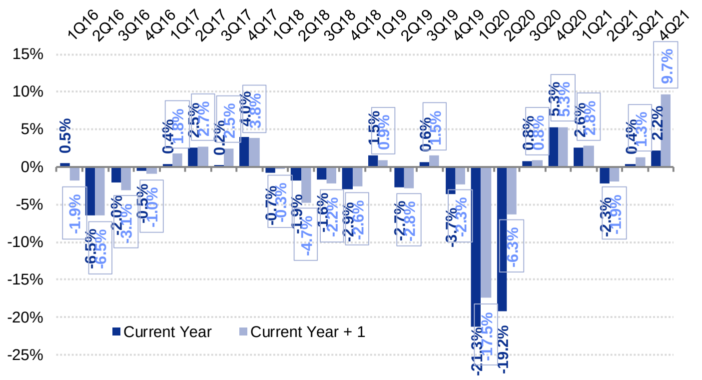
Key downside risks highlighted during the results season included concerns such as cost inflation, which would likely keep input costs high and erode margins, as well as continue to squeeze supply chains.

Figure 14: Earnings forecast changes, by sector

Sector	Core Net Profit (US$m) (4Q21)			Core Net Profit (US$m) (3Q21)			Earnings Change QoQ		YOY Growth %	
	CY21	CY22F	CY23F	CY21	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Financials	11,914	13,080	15,254	12,365	12,913	14,075	1.3%	8.4%	9.8%	16.6%
Property	1,678	2,056	2,127	1,857	2,012	1,824	2.2%	16.6%	22.6%	3.5%
REITS	3,326	3,590	3,802	3,230	3,494	3,707	2.7%	2.6%	7.9%	5.9%
Telcos	1,592	1,917	2,279	1,645	2,040	2,421	-6.0%	-5.8%	20.4%	18.9%
Transport	(879)	(28)	572	(949)	(13)	508	-118.7%	12.6%	96.8%	2150.5%
Capital Goods	890	1,716	2,214	770	1,551	2,005	10.7%	10.4%	92.9%	29.0%
Commodities	2,467	2,427	2,244	2,132	2,101	2,134	15.5%	5.1%	-1.6%	-7.6%
Gaming	106	264	365	161	322	340	-18.0%	7.3%	150.3%	38.1%
Consumer	1,196	1,346	1,523	1,221	1,356	594	-0.7%	156.6%	12.6%	13.1%
Tech/Manufacturing	566	691	765	571	677	747	2.1%	2.3%	22.1%	10.7%
Healthcare	79	79	83	88	95	95	-16.3%	-12.2%	1.2%	4.5%
Others	857	592	606	851	594	569	-0.3%	6.5%	-30.9%	2.4%
Total	**23,790**	**27,731**	**31,835**	**23,941**	**27,141**	**29,020**	**2.2%**	**9.7%**	**16.6%**	**14.8%**

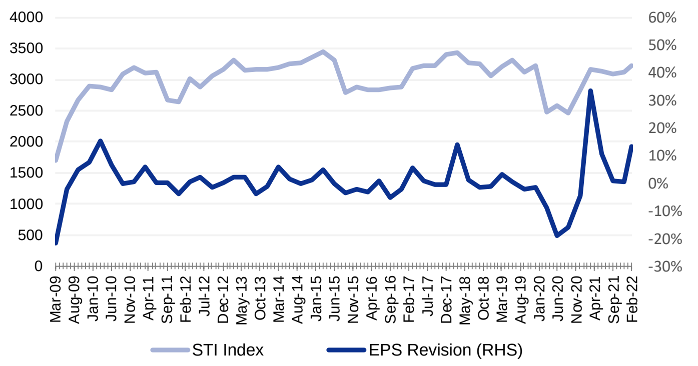
SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 15: Singapore Coverage Earnings qoq



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: STI's EPS revision



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

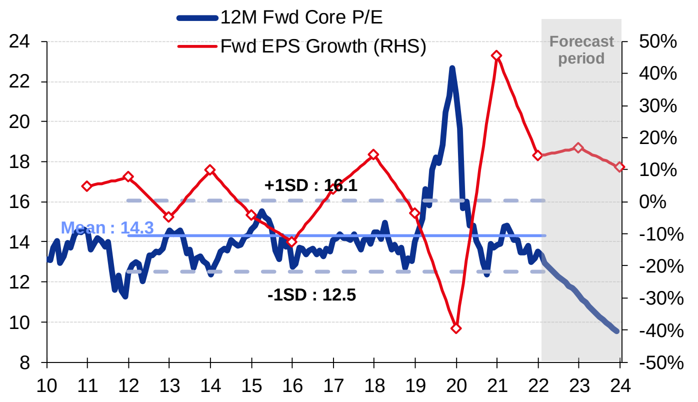
Despite the upward tweak to our FY22-23F projections post-results, we lower our end-2022F STI target unchanged at 3,475 pts, based on 12.5x FY22F core earnings, or at -1 s.d. (vs. -0.5 s.d. previously) given the increased market uncertainty due to geo-political tensions. This represents an 9% upside potential from here. While we acknowledge that the market will remain choppy in the near term, we believe continued earnings growth of key stocks in the index could likely propel the index higher over the course of this year.

Figure 17: FSSTI valuations

FSSTI Summary	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Core P/E (x)	13.5x	14.2x	13.7x	12.3x	14.0x	16.0x	12.5x	13.7x	20.0x	15.1x	13.5x	11.5x	9.4x
FD Core P/E (x)	13.5x	14.2x	13.1x	12.1x	14.0x	16.0x	12.6x	13.7x	19.7x	15.1x	13.5x	11.5x	9.4x
12-mth Fwd Core P/E (x)	14.2x	12.9x	14.3x	14.0x	13.5x	13.9x	13.0x	22.7x	13.7x	13.2x	11.5x	9.5x	-
Core EPS growth (%)	7.6%	-4.9%	9.9%	-4.4%	-12.5%	3.9%	14.7%	-3.6%	-39.7%	45.6%	14.3%	16.8%	10.6%
Core Net Profit Growth (%)	13.6%	-3.2%	10.9%	-4.7%	-10.4%	17.8%	12.6%	2.8%	-35.1%	42.9%	14.0%	16.9%	10.6%
P/BV (x)	1.5x	1.5x	1.4x	1.1x	1.1x	1.3x	1.1x	1.2x	1.1x	1.1x	1.1x	1.0x	0.9x
Dividend yield (%)	3.7%	3.7%	3.5%	4.1%	3.8%	4.2%	4.6%	4.0%	3.1%	3.9%	4.3%	4.4%	4.7%
EV/EBITDA (x)	9.9x	10.7x	10.0x	9.9x	9.7x	9.4x	9.6x	12.0x	19.3x	13.1x	10.5x	9.2x	9.0x
P/FCF (x, equity)	18.2x	14.2x	15.2x	74.8x	21.1x	24.6x	19.5x	16.3x	45.2x	27.9x	22.6x	16.6x	11.3x
P/FCF (x, firm)	33.7x	25.4x	14.3x	70.2x	23.3x	17.9x	(258.8x)	90.1x	(85.3x)	28.1x	40.2x	12.9x	8.7x
Net gearing (%)	10.2%	10.1%	9.0%	13.4%	13.3%	14.0%	18.0%	21.8%	22.6%	20.3%	21.0%	19.9%	16.0%
ROE (%, recurring)	11.8%	10.6%	10.7%	9.3%	8.1%	8.6%	8.9%	8.8%	5.4%	7.3%	8.0%	9.0%	10.7%
FSSTI level	3,167	3,167	3,365	2,883	2,881	3,403	3,069	3,223	2,844	3,124	3,188	3,188	3,188
CIMB/consensus (x)											0.99	0.99	1.00

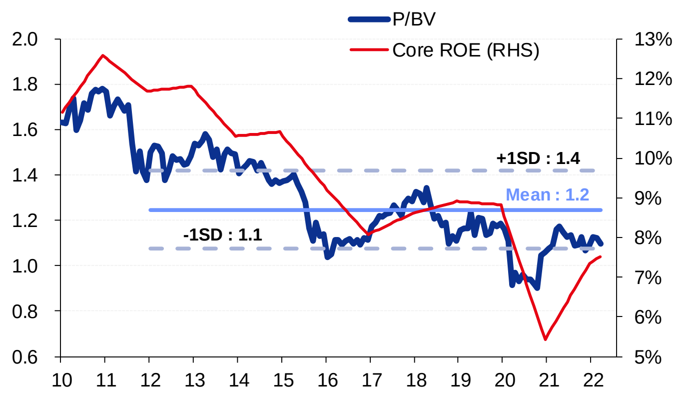
SOURCE: CGS-CIMB RESEARCH estimates

Figure 18: FSSTI's 12M forward core P/E (x) vs. fwd EPS growth trend



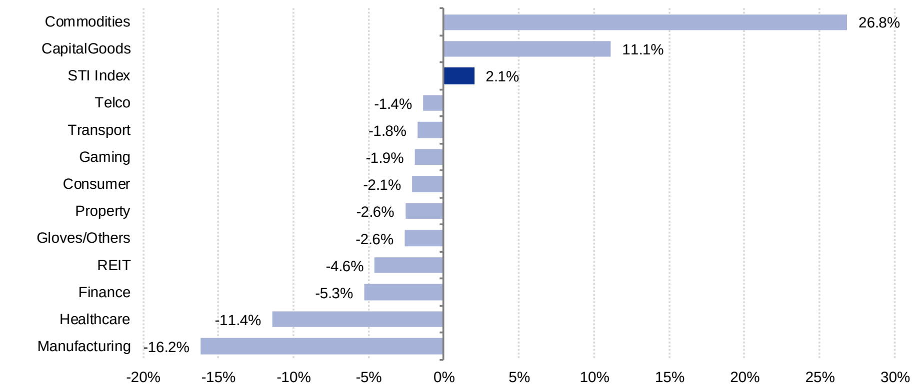
SOURCE: CGS-CIMB RESEARCH estimates

Figure 19: FSSTI's P/BV (x) trading band vs. ROE trend



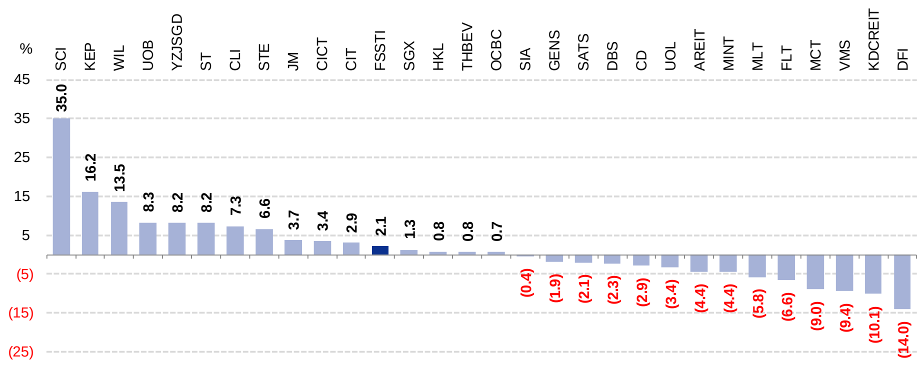
SOURCE: CGS-CIMB RESEARCH estimates

Figure 20: Sector YTD average price performance (%)



SOURCE: BLOOMBERG (share price at 7 Mar 22)

Figure 21: YTD share price performance % (STI members)



SOURCE: BLOOMBERG (share price at 7 Mar 22)

Sector outlook

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Capital goods - Overweight

Implication of rising geopolitical tension- STE, YZJ and CSE may see persistent margin pressure; SCI, KEP relatively sheltered

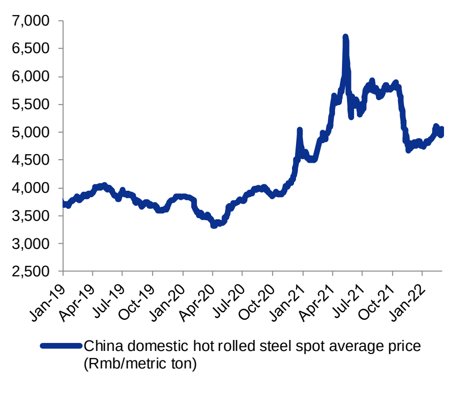
In 2H21, supply chain tightness impacted the raw material and logistics costs of STE's urban solutions and commercial aerospace units, as well as caused delays to CSE's energy projects. The supply chain pressure is likely to persist in 1H22F with the current rising political tension, impacting mainly logistic costs and equipment supplies.

For STE, this pressure could be countered with the consolidation of Transcore, which has a significantly higher EBITDA margin of 25% vs. 9% for its urban solutions and 13.7% overall for the group in FY21. Meanwhile, YZJ's steel inventory for 2022 delivery was procured at c.Rmb 5.5k-6k/tonne, hence its margins are being preserved. However, we think prolonged military tension could impact global iron ore supply and push up China steel prices if supply is tightened.

Rising prices for feedstock (coal, gas) may have positive implications on SCI. Power plants that are fuelled by gas and on cost-plus terms, such as its Singapore cogen plant, could see higher absolute profits. Its Indian coal plants which have secured long-term power purchase agreements (PPAs) for c.80% of their combined capacity, are allocated local coal (>200% cheaper than international coal). Spot contracts based on international coal prices are reflected on the Indian Energy Exchange spot market. We note that IEX has risen 30% mom from Jan to Feb-22.

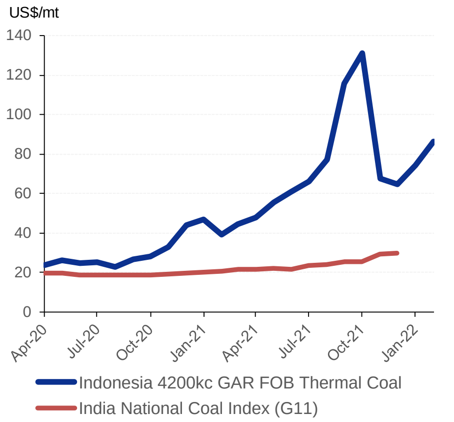
As for KEP, in 1H21, it did not see significant margin pressure arising from supply chain tightness other than Covid-related restrictions that resulted in some impact on the construction of environmental projects. We project KEP's group EBIT margin to expand from 10% in FY21 to 12% in 1H22F with the absence of KrisEnergy impairment and easing of labour shortage in its marine unit.

Figure 22: Steel prices came off from the peak of Rmb6k/tonne and remain steady at c.Rmb5k/tonne



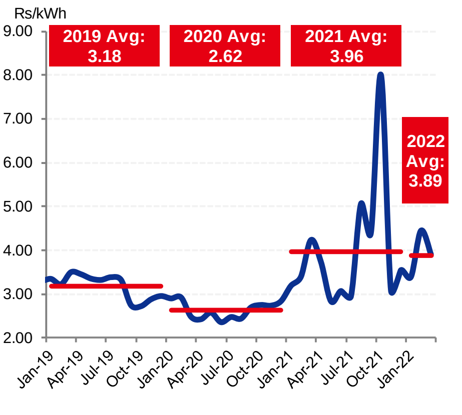
SOURCE: BLOOMBERG

Figure 23: Indonesia 4200kc GAR FOB Thermal Coal vs. India National Coal Index (G11)



SOURCE: BLOOMBERG

Figure 24: IEX power prices in India climbed 30% YTD



SOURCES: CGS-CIMB RESEARCH, INDIAN ENERGY EXCHANGE

1H22F outlook

Restructuring theme continues. By end-1H22F, **YZJ**'s spinoff of its debt investment division via dividend in specie would have been completed (by May). The merger between **KEP and SMM** would have progressed further (target completion: by 1Q22). **STE** would also have completed its acquisition of Transcore by 1Q22. We have conservatively assumed 1H22F EBIT of S$21m from Transcore? (including transaction costs of S$36m and front-loaded integration costs of c.S$27m), with a more meaningful contribution from 2H22F. Meanwhile, there is still hope for **SCI** to divest or reduce its stake in its two coal power plants in India, in our view. That the plants have secured long-term PPAs for c.80% of their capacity makes it easier for corporate action, in our view.

Executing strong order book for YZJ and STE, stronger order win for SMM. Sustained high oil prices are likely to result in some contracts being awarded to SMM. To recap, SMM's management seems optimistic of clinching some floating production storage and offloading (FPSO), specialised vessel and renewable projects by 1H22F with contract sizes ranging from S$500m to S$1bn. On the other hand, we expect some normalisation of order momentum for YZJ's shipbuilding arm after having clinched a record US$7.5bn of orders in 2021 with its yard filled till 2024/2025. STE's commercial aerospace segment has also benefited from the rising demand for cargo transport, hence we expect strong order wins of passenger-to-freighter (PTF) jobs in 2022. The group is gradually ramping up capacity to cope with the orders.

Top pick

We keep YZJ as our top pick as we see the spin-off of its debt investment as a near-term re-rating catalyst. Its strong shipbuilding order book (US$8.5bn as at end-Dec 2021) amid a tight shipping market could lead to a re-rating in the value of its shipbuilding segment. The spun-off debt investment company could also see a re-rating on the back of its strategic investor and management track record – the segment has successfully delivered c.10% ROE p.a. over the years. STE remains another of our top sector pick, a choice for defensiveness, thanks to its diversified business. We think contribution from Transcore and committed DPS of S$0.04/quarter should keep investor interest strong.

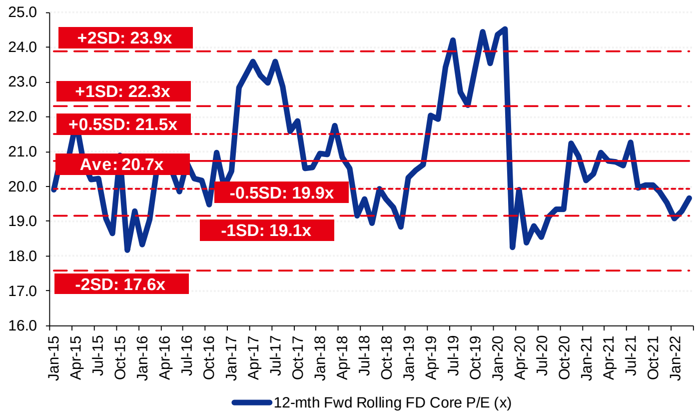
SCI is also our top pick, riding on strong High Sulphur Fuel Oil (HSFO) prices that are benchmarked against crude oil prices. Cost plus model allows SCI to reap higher spark spread from natural gas fired cogeneration plants in Singapore. Persistent tight energy market could see earnings upside as we have conservatively assumed a 15% yoy decline in SCI's conventional energy profits.

Figure 25: YZJ, sum of parts valuations

Sum of parts	Basis	Value (Rmb'm)	Per share (S$)
CY22F Debt investment book value	1x P/BV in line with c.10% ROE	20,000	0.88
CY22F Shipbuilding book value	1.1x P/BV, +2 sd of 6-year ave	20,453	0.90
		40,453	**1.78**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 26: ST Engineering 12-mth fwd rolling FD core P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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Consumer - Overweight

FY21 results recap

Three out of 4 consumer stocks (Thai Beverage, Delfi, and Sheng Siong) under our coverage beat expectations. Dairy Farm came in line with our expectations, while Japfa missed.

Thai Beverage's (THBEV) 1QFY9/22 revenue rose to THB77.1bn (+59.4% qoq, +7.4% yoy), reflecting a strong recovery as its key operating geographies Thailand and Vietnam emerged from lockdowns. All its four segments recorded positive revenue growth both on a qoq and yoy basis, with the alcoholic segments (spirits and beer) surpassing their pre-Covid-19 (1QFY20) sales performance. 1QFY22 EBITDA rose to THB14.7bn (+93.6% qoq, +1.6% yoy), led by margin improvements in the non-alcoholic beverages (NAB) and food segments, while spirits and beer segments saw margins contract slightly on a yoy basis.

Delfi's core net profit in 2HFY21 rose 112% yoy to US$14.0m, reflecting general sales recovery across its operating markets (i.e. Indonesia, the Philippines, Singapore and Malaysia), and continued cost discipline in 2H21. 2H21/FY21 GP margins improved 3.3% pts/0.9% pt yoy, despite cost pressures from high raw material and transportation costs, exhibiting Delfi's success in its cost control measures through hedging, and continued optimisation of product mix.

Sheng Siong Group (SSG) reported 4Q21 net profit of S$32.5m (-5.3% qoq, +1.4% yoy), as elevated demand tapered off slightly in Dec 21 with the easing of mobility restrictions. FY21 net profit of S$132.8m (-4.2% yoy) came in slightly above expectations. Key positive was another record GPM of 29.4% (+0.4% pt qoq, +2.1% pts yoy), supported by higher sales mix of fresh food and private label products, which have higher margin profiles.

Dairy Farm (DFI) reported a 2H21 core net profit of US$72.5m (+120% hoh, -55% yoy), bringing FY21 core net profit to US$104.6m (-62% yoy), in line with our expectations but some 14% below Bloomberg consensus. Key drag for the year was the higher losses from associate Yonghui. DFI's subsidiaries showed sequential improvements in operating profit (excl. govt grants) in 2H21 to US$135m (1H21: US$125m; 2H20: US$58.2m).

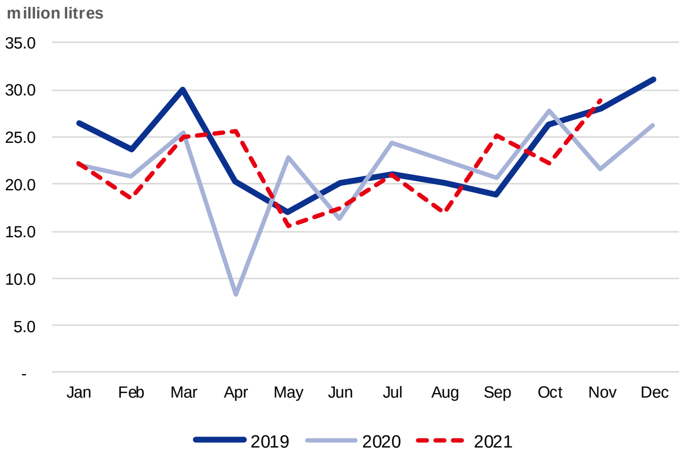
Japfa's (JAP) FY21 core net profit of US$132.7m (-32.1% yoy) missed expectations. JAP saw margin compression across its business units due to rising prices for its raw materials (e.g. soybean meal, alfalfa and corn) as well as higher logistics costs from extended supply chain disruptions. Its animal protein others (APO) segment saw EBIT loss widen to US$21.1m with an EBIT margin of -8.5% in 4Q21, from US$14.8m and -6.4% margin in 3Q21, while China Dairy segment saw EBIT margin ease from 20.3% to 19.0% over the same period. Indonesian Poultry turned around in 4Q21, posting positive US$59.4m EBIT from US$25.3m in EBIT losses in 3Q21 as Indonesia exited lockdowns. Nevertheless, the Indonesian Poultry segment's EBIT margin of 7.0% was still below the 13.5%/10.5% in the preceding quarters of 1Q21/2Q21 due to the steeper-than-expected rise in raw material prices, which resulted in a poorer ability to pass on the cost increases.

1H22F outlook – still prefer consumer brands over retailers

We continue to prefer consumer brands (THBEV and DELFI) over retailers (SSG and DFI) within the consumer staples segment.

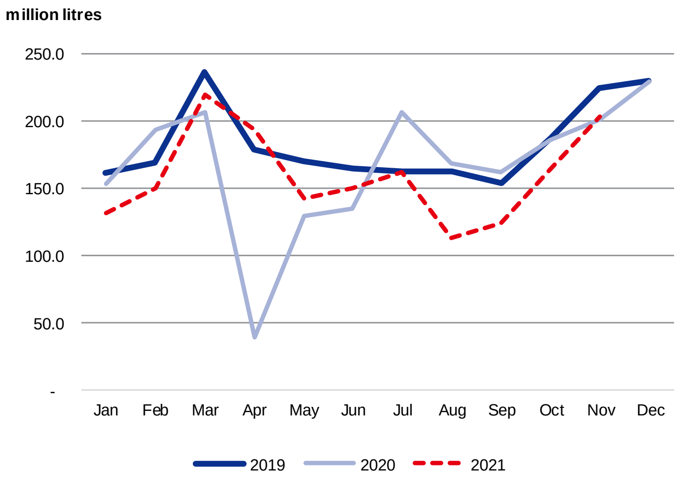
Both THBEV and DELFI have seen sequential demand recovery from 4QCY21 onwards amid the easing of social mobility restrictions, and we expect the trend to continue into CY22F. Both have observed initial demand recovery as measures ease; THBEV has also taken the opportunity to hike prices to cover its increased costs. We think both THBEV and DELFI could see sequential GPM expansion in 1QCY22F: THBEV from price hike impact fully kicking in to help offset cost elevation and DELFI from continued product mix optimisation. Both companies are taking a prudent approach to cost management – they have entered forward contracts to lock in prices of raw materials early. THBEV is further mitigating the increase in its packaging cost by increasing the recycling rate of its bottles.

Figure 27: Thailand's domestic liquor sales



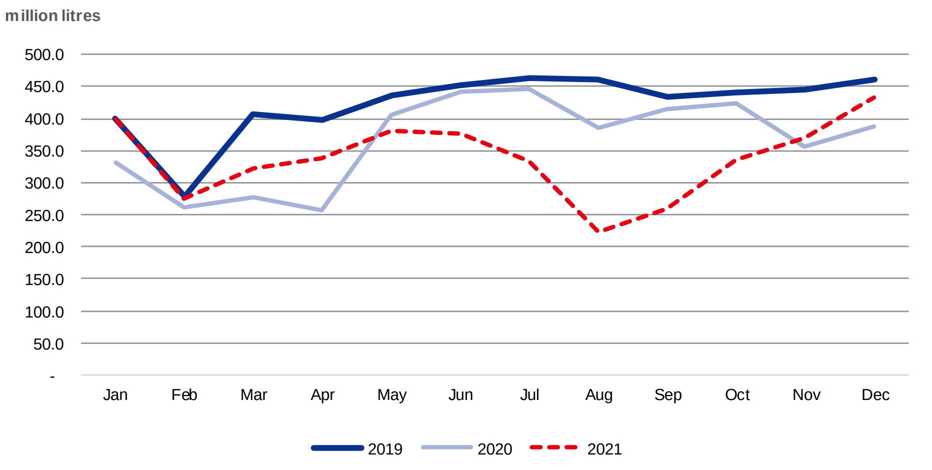
SOURCES: CGS-CIMB RESEARCH, OFFICE OF INDUSTRIAL ECONOMICS

Figure 28: Thailand's domestic beer sales



SOURCES: CGS-CIMB RESEARCH, OFFICE OF INDUSTRIAL ECONOMICS

Figure 29: Vietnam's domestic beer production



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Meanwhile, we are less optimistic on the outlook for retailers in 1H22F. We expect SSG to see weaker earnings in FY22F as the elevated demand for groceries tapers off. While it has secured three new store leases in 4Q21, new store openings will take time to materialise and ramp up to optimal levels. There is also potentially intensifying competition from online grocery channels. Meanwhile, DFI's earnings recovery hinges on the pace of Mainland China-HK border reopening, which has been continuously delayed, especially with the latest wave of Covid infections in Hong Kong which is triggering another round of tightened restrictions. While the latest round of tightened restrictions has helped to boost footfall for DFI's HK supermarkets and pharmacies, it has negatively impacted its convenience stores and restaurants. Operational challenges have also increased significantly, given a stretched supply chain, manpower shortages and elevated Covid-19-related costs.

For Japfa, while we expect progressive easing of Covid-related restrictions to drive better demand dynamics in coming quarters, we remain cautious on its near-term margin outlook with extenuating market conditions potentially adding to near term cost pressures. Resurgence of African Swine Fever in Vietnam will also compound margin pressures for its Animal Protein – Other (APO) business.

For F&B operators under our coverage (Jumbo and Kimly), we expect sequential hoh earnings recovery on the back of easing distancing measures introduced in early Nov 21. Recall that dine-in measures whipsawed in 2HCY21; banned during 16 May-20 Jun 2021 and 22 Jul-18 Aug 2021, 2-pax cap from 27 Sep – 9 Nov 2021. Currently, up to five fully vaccinated individuals from different households are allowed to dine-in at F&B outlets. For coffee shops, only outlets with vaccinated-differentiated safe management measures (VDS) in place benefit from the 5-pax cap; 2-pax otherwise.

We believe that Kimly should benefit from greater outlet footfall and continued strength in food delivery services in 1HFY9/22F. Continued work-from-home initiatives should support outlet sales, as Kimly's outlets are mostly located in the heartlands of Singapore. New contribution from the recently acquired Tenderfresh should also be a key earnings driver. For Jumbo, we believe that restaurant spending is slowly recovering as dine-in measures eased. However, we believe that tourist contribution has been low due to slower-than-expected ramp up in vaccinated travel lanes (VTLs). With Singapore reinstating daily passenger quotas (by 4 Mar 2022) and introducing new VTLs, we remain cautiously optimistic of increased tourist footfall. We only expect Jumbo to return to profitability in 2HFY9/22F.

Potential spillover effect from Russia-Ukraine conflict

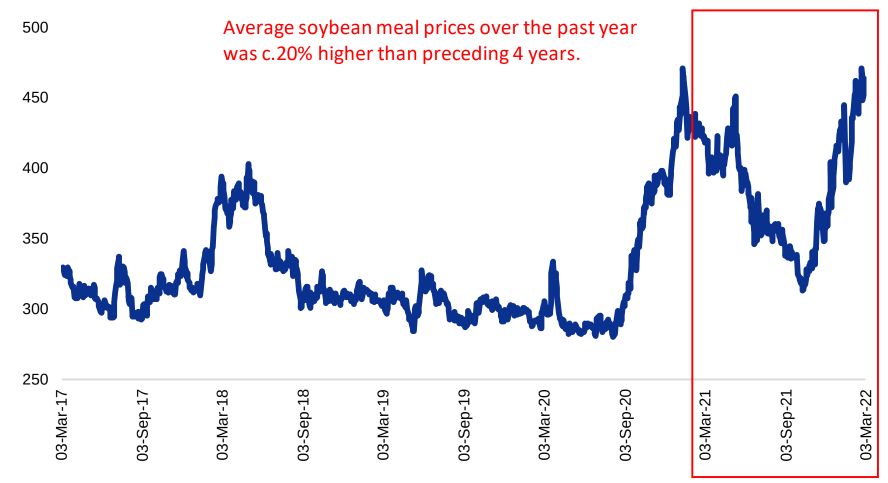
We believe that the conflict may add further pressure on soft commodity prices, which may pressure margins of consumer companies.

THBEV. We understand that key raw materials required by THBEV include molasses, malt, hops, and water; while key packaging materials include glass bottles and aluminum cans. Breaking down the cost structure of THBEV, raw material costs is equivalent to 6.4%/19.2% of spirits/beer segment revenue respectively, while packaging costs is equivalent to 6.3%/10.3% of spirits/beer segment revenue for FY9/21, according to management. We do expect cost to be affected by higher barley prices, while THBEV expects cost of molasses in the upcoming season to be lower yoy in its latest quarterly business update in Feb 22. On the packaging materials front, THBEV is actively managing the cost increases by continuing to drive the recycling rate of its bottles. Overall, we believe that the cost pressures for THBEV are manageable and that there is room for further price increments to pass on higher prices (in Thailand beer segment, which has not raised prices recently) if necessary.

DELFI. Key ingredients for raw materials include cocoa beans, milk solids and sugar. From our understanding, sourcing of its key ingredients are from regions detached from the Russia-Ukraine crisis and has no direct bearing on Delfi's margins. Delfi had also been able to internalise cost increases through its forward hedging policy of up to six months in advance for raw materials, which allow the business to manoeuvre rising costs through price adjustments and repackaging. Delfi had been able to improve GP margins in FY21 by 0.9% pts yoy despite a rising cost environment is testament of its ability to mitigate cost pressures.

JAPFA. Key feed ingredients such as soybean meal saw sharp increases over the past year, and cost pass-through had been weaker during the fourth quarter. Profitability had been held down as a result, with operating margins falling across all business segments. The escalation of the UKR-RUS conflict could exacerbate cost pressures on feed ingredients and logistics disruptions in the near term.

Figure 30: Soybean Meal Prices (US$/MT)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Top picks – THBEV and DELFI

Within the consumer staples segment, we prefer **THBEV (Add, TP: S$0.91)** as we expect an earnings recovery in FY9/22F supported by demand recovery as social mobility restrictions ease. Given THBEV's mass-market positioning in beer (and 90% market share in spirits), we believe that it is also resilient against any potential down-trading behaviour. We believe the price hikes that are being rolled out can also help THBEV effectively counteract the higher costs; a successful spin-off could also help deleverage THBEV's balance sheet and potentially unlock value for shareholders. Meanwhile, the share price is currently trading at an attractive forward P/E of c.13.7x FY22F, (1.4 s.d. below its 10-year historical average) and below regional peers' 27.5x.

We also like **DELFI**; we believe that it will continue to show yoy net profit growth in 1H22F with the economic reopening aiding consumption recovery. Delfi continues to execute its business strategy to rejuvenate its portfolio, such as further launches of its 'Better-for-You' product line to capture a wider consumer base, while deepening relationships with channel partners to ensure product availability across sales channels. We also understand that Delfi's relaunch of the Van Houten brand into the market has been met with positive initial traction. Current valuation is undemanding at 12.3x CY23F P/E (1 s.d. below historical mean), in our view.

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Constructions - Overweight

1H22F outlook

We believe the Singapore construction industry is set for a strong recovery in 2022F. The Building and Construction Authority (BCA) forecasts 2022F total nominal construction output (progress payment) to increase to S$29bn-32bn, representing a 12-23% yoy increase from S$26bn in 2021, driven by steady construction demand and clearing of mounting backlogs of jobs delayed by the pandemic. This is the highest level of construction output since 2016. We expect the sector to benefit from three key tailwinds: 1) elevated backlogs due to delays caused by the pandemic, 2) easing foreign labour shortage (which could allow contractors to catch up on lost time), and 3) steady construction demand.

Elevated backlogs due to delays caused by the pandemic:

Based on the order backlogs of the 19 Singapore-listed construction companies, we understand that outstanding orders remain elevated, at a combined c.S$10bn, 13% higher than the pre-Covid average in 2019. Order executions were adversely impacted in 2020 due to strict distancing measures imposed and lower worker availability, resulting in a buildup of orders that were delayed. While the Covid-19 situation improved in 2021, foreign worker shortages were still apparent due to tight border measures implemented, and Malaysia's movement control order (MCO) also disrupted supply chain temporarily in 2Q/3QCY21. As conditions improve in 2022F, we expect to see an accelerated pace of construction works as contractors rush to clear their mounting backlogs whilst executing new orders.

Easing foreign labour shortage:

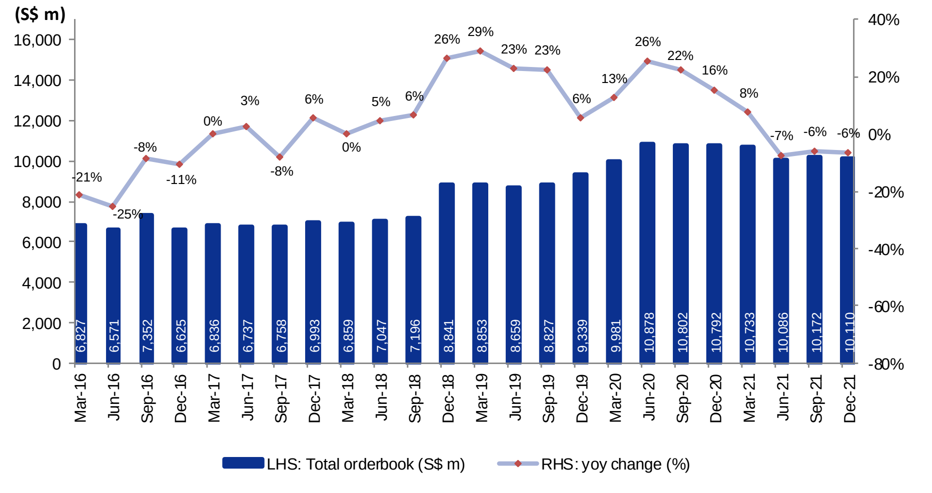
As announced by the Ministry of Manpower on 28 Jan 2022, Singapore's non-resident workforce grew in 4Q21 for the first time in two years. This was largely driven by a rebound in the construction sector workforce as border restrictions continued to ease. The Singapore Budget 2022 further reaffirmed this, with the government aiming to ramp up inflow of new and existing workers in the near term. We believe this will enable construction companies to accelerate their work activities to catch up on elevated backlogs.

Steady construction demand:

For 2022F, Building Construction Authority (BCA) forecasts total construction demand at S$27bn-32bn (vs. 2021: S$30bn), with the public/private sectors contributing c.60%/40%. On the residential front, the Housing and Development Board (HDB) will ramp up its supply of new flats to 23k flats p.a. (+35% yoy) from 2022-23. BCA expects infrastructure projects to be another key driver of construction demand, supported by major infrastructure projects such as the Cross Island MRT line and the Sengkang-Punggol LRT Depot expansion.

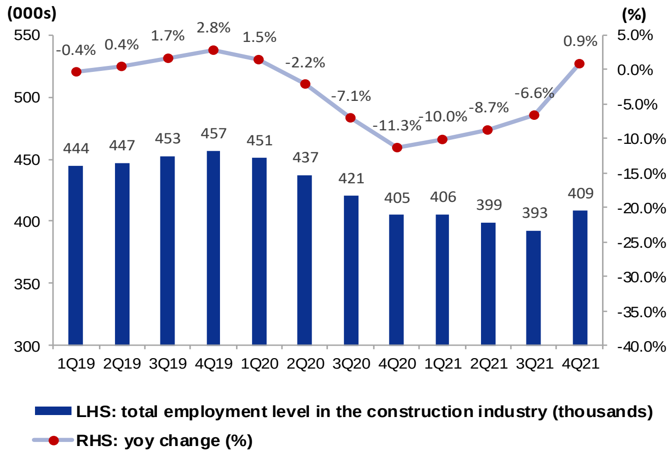
We believe the recovery in construction activities will boost the demand for building materials. BCA projects demand for building materials to increase correspondingly – steel rebar demand to grow to 1.0m-1.2m tonnes in 2022F (11-33% growth from 2021's 0.9m tonnes). BCA also projects demand for ready-mixed concrete to grow to 12.5-14.0 million m^3 in 2022F (2021: 11.6 million m^3), and demand for precast concrete to grow to 1.1-1.8 million m3 in 2022F (2021: 1.1 million m^3). We note that the ASPs of key building materials have been on an uptrend since May 2021, driven by disrupted supply chains and rising demand, in our view. In Jan 2022, prices of cement and ready-mix concrete (RMC) rose 14% and 10% yoy respectively, while steel bar prices rose 21% yoy.

Figure 31: Backlogs of construction firms remain 13% above pre-Covid levels, based on the combined order books of 19 Singapore-listed construction firms



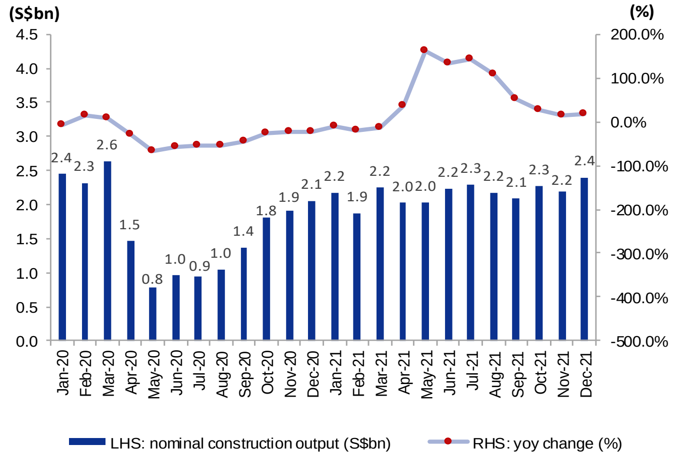
SOURCES: CGS-CIMB RESEARCH estimates

Figure 32: Construction employment recovered strongly in 4Q21, indicating gradual improvement in the labour crunch



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MINISTRY OF MANPOWER

Figure 33: Construction output still not back to pre-Covid levels; expect further recovery in 2022F



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, CEIC DATA

Potential impact from Russia-Ukraine conflict

The recent spike in iron ore prices have also translated to steel rebars' futures price trending up, returning to Oct 2021 levels but still some 10-15% away from its recent peak recorded in Jul 2021. Higher steel prices could lead to higher provision for onerous contracts for BRC Asia in the near term, similar to what has happened for FY9/21 (could potentially be reversed when contracts are fulfilled or when market prices of steel rebars decline).

While BRC Asia hedges its steel raw material exposure of the sales order book on an overall tonnage basis, steel raw materials drawn down could not be earmarked to specific projects, and are utilised as a pool (for both fixed price and provisional pricing projects), accounted for on a weighted average costs basis. The duration of the projects in the sales order book could range up to 5 years, and the actual deliveries of the contracts may not be in the same chronological sequence as the contracts were entered into. In addition, when steel prices are rising, sales contracts delivered at provisional prices (current market prices) utilising weighted average inventory costs would result in excessively high margins in the current period; on the other hand, as weighted average inventory costs increase in tandem with rising steel prices, there may be potential loss when certain fixed price contracts are actually delivered in the periods going forward. Provision for onerous contracts are made for such foreseeable losses and these provisions are reversed when contractual obligations are met or no longer exist or when the costs to meet the obligations no longer exceed the sales value (mostly when steel prices soften).

Top picks

BRC Asia (Add, TP: S$2.10)

Our top pick for the construction sector is BRC Asia (BRC). As BRC is an industry incumbent with a c.60% share in the reinforced steel market, we believe it is well positioned to ride the 1) acceleration in Singapore construction activities, and 2) elevated steel bar prices. Given the above, coupled with easing labour expenses, we forecast a higher FY22-24F OPM of 6.0-6.3% (vs. FY21: 5.2%). Accordingly, we conservatively assume c.10% net profit growth for FY22F.

Our TP of S$2.10 is based on 1.53x CY22F P/BV (GGM: ROE 14.6%, cost of equity 9.7%, terminal growth 0.5%), translating to a c.25% upside potential from current price of S$1.68. FY22F dividend yield is strong at c.7% (assuming 60% payout ratio), which should be sustainable in view of the group's strong free cashflow generation. Potential re-rating catalysts include a faster-than-expected pace of recovery in Singapore construction activities. Downside risks include counterparty credit risks.

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Financials - Overweight

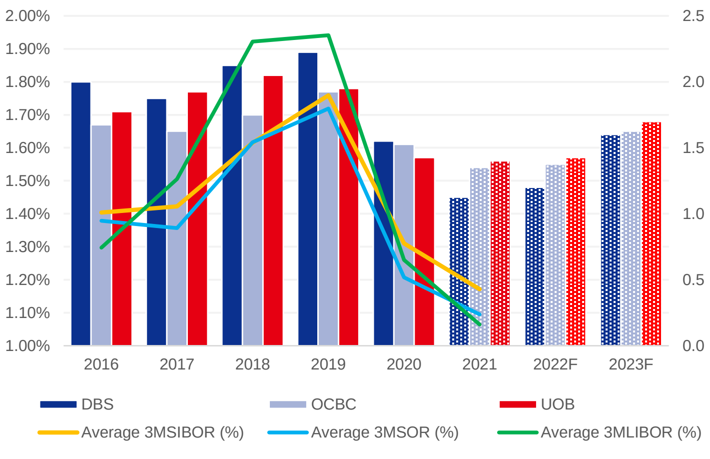
1H22F outlook

Singapore banks' earnings have largely normalised in 2H21, following volatile credit cost performance as weaker credit profiles post-loan moratoriums get washed out as the banks aggressively built up precautionary impairment buffers in the form of management overlays; these came up to c.S$400m-1.5bn in 4Q21. As NIMs stabilised amid flattish movement in benchmark rates, there was still some NII growth as loan drawdowns picked up. All in, the NII weakness in FY21 was compensated by a rise in wealth management and treasury income, although trading income faltered towards the end of the year due to softer market sentiment.

We believe the worst of Covid-19-induced asset quality pressures have passed, paving the way for potential earnings outperformance from a larger magnitude of US federal fund rate (FFR) hikes to come. We have factored in six FFR hikes (25bp each) over 2022-23F, and consequently, c.22-34bp NIM expansion over 2022-24F. Notably, we expect most of the margin expansion to be backloaded towards 2024F given the time taken for transmission from FFR to other benchmark rates, and subsequently for assets to be repriced, which could take c.6 months. Though we expect an uptick in 3M LIBOR from Feb 2022F onwards, we expect NIMs to remain flattish in 1H22F given the transmission time lag. In the meantime, we expect sequential fee income improvement as regional economies progressively reopen. We believe wealth management income should sustain on the back of financial market volatility.

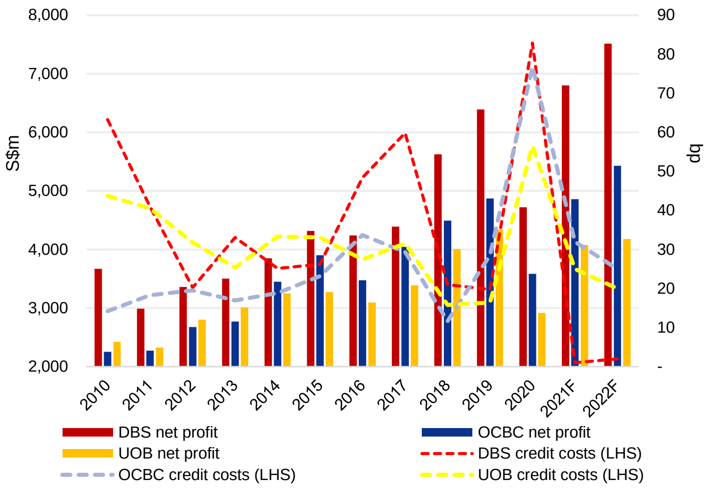
On asset quality, we understand that Singapore banks' exposure to Russia/Ukraine is minimal. As such, we do not expect material weakening in its asset quality, if any. The banks have communicated that they will likely hold on to their management overlays – taking a conservative view that current regulatory expected credit loss (ECL) requirements are insufficient in providing an adequate cushion for cyclical credit downturns. As such, banks will likely keep most of their management overlays as precautionary buffers, and not write them back as we initially expected. In any case, the banks' overlays and strong CET-1 ratios of c.13.5-15.5% in 4Q21 provide clear dividend visibility for 2022F. We expect FY22F DPS of S$1.44 for DBS (47% payout), S$0.60 for OCBC (49% payout), and S$1.25 for UOB (50% payout).

Figure 34: Singapore banks' NIM trends



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 35: Singapore banks' credit cost and net profit trends



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

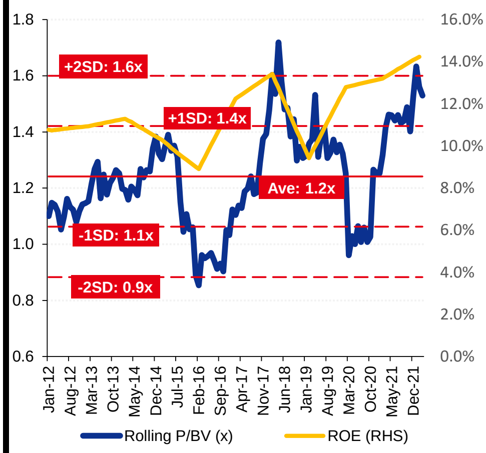
Top pick: UOB (Add, TP S$35.40)

With Singapore banks trading at c.1.1-1.5x FY22F P/BV, we think a re-rating cycle is under way as investors price in an accelerated pace of FFR hikes. From the previous FFR hike cycle, we note that valuations of Singapore banks peaked c.2 quarters before the FFR did (at 2.5% in Dec 2018). With the FFR hikes in the upcoming cycle yet to begin, we see share price upside beyond the banks' peak valuations (DBS: 1.7x P/BV, OCBC: 1.5x P/BV, UOB 1.4x P/BV) seen during the previous rate hike cycle, underpinned by a superior funding position (higher CASA and lower LDR) this time around.

We believe that management overlays ranging between S$400m-1.5bn, for each of the 3 Singapore banks, set aside over FY20-21F will pave the way for relatively benign credit costs in FY22-23F, therefore making a way for ROEs to rise above the c.11-13% peaks seen across the sector during the last rate hike cycle.

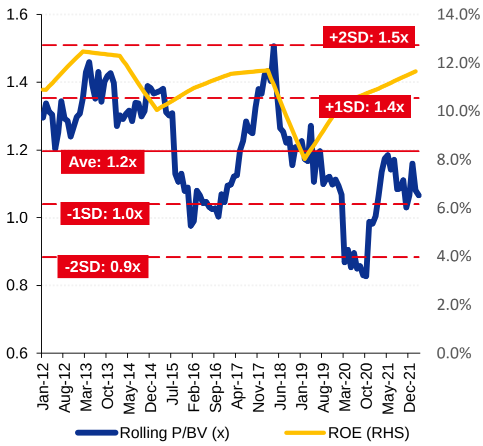
While DBS is a key beneficiary of the hikes given its edge in low-cost CASA funding, UOB remains our top pick for the sector given its better risk-return. UOB trades at 1.1x FY22F P/BV – below its peak valuation of 1.4x in Apr 2018 during the previous rate hike cycle.

Figure 36: DBS Group P/BV trend (x)



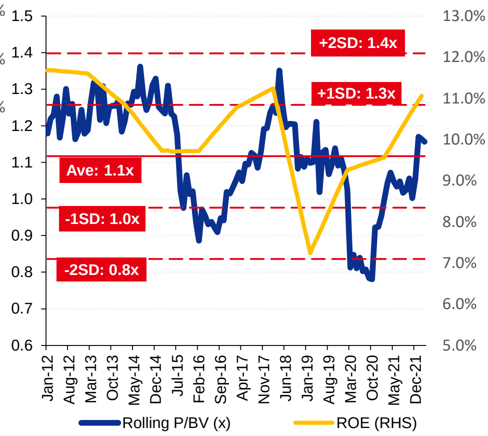
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 37: OCBC P/BV trend (x)



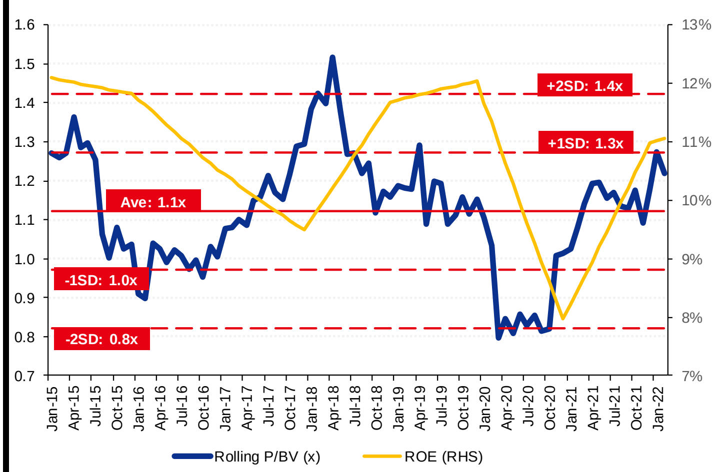
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 38: UOB P/BV trend (x)



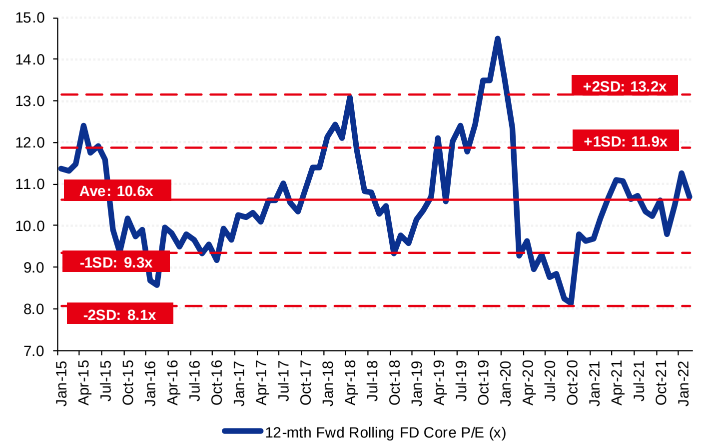
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 39: Singapore banks' P/BV (x) vs ROE trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 40: Singapore banks' 12-mth fwd rolling FD core P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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Healthcare - Overweight

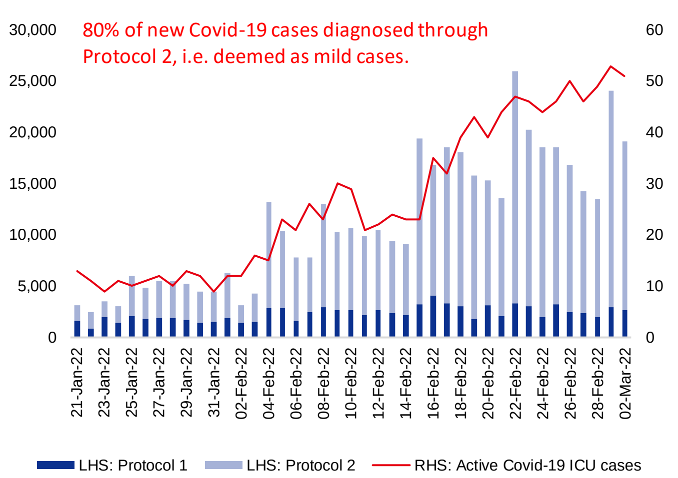
1H22F outlook

Tapering Covid-19 contributions. Singapore is weathering the latest spike in Covid-19 cases induced by the Omicron variant better than it had the Delta wave. High vaccination rates have seen lower incidence of serious illnesses despite record high infection rates (Fig 40), and among those who require closer monitoring or hospitalisations, ICU utilisation rates have remained at more manageable levels compared to the Delta wave (Fig 41). As a result, Singapore has moved ahead with its reopening plans, and healthcare services such as Covid-19 testing, border screening operations, and management of vaccination centres/quarantine facilities are likely to ease in intensity given the relaxation of rules over the next two quarters.

We have thus forecasted a reduction in revenue contributions from Covid-19-related services to Raffles Medical and Q&M Dental by 70%/60% respectively in FY22F. As Covid-19-related services taper off over 1H22F, we think that there could be some earnings weakness, as the potential offset from higher patient loads are likely to see a slower recovery as capacity restrictions remain at our borders, preventing a swifter return of foreign patients, which typically make up 20-30% of patient load in private hospitals. Nevertheless, the sequential reopening could see more robust business momentum entering 2H22F.

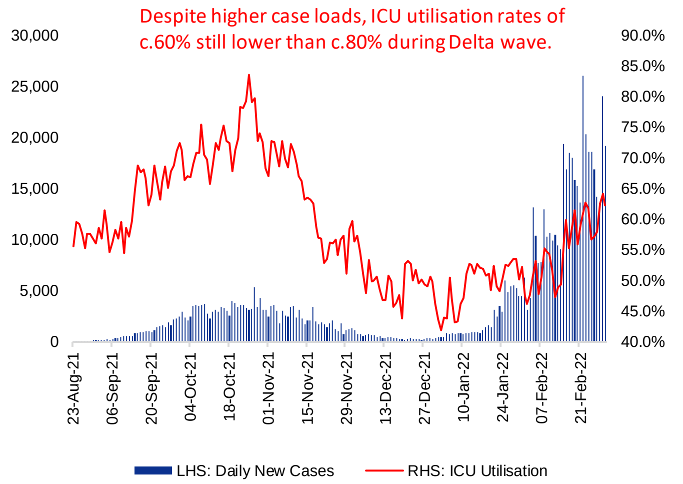
Normalisation of movement restrictions could also benefit pharmaceutical distributor HYP, as more patients return to clinics and specialists for electives that were deferred over the course of the pandemic since 2020. HYP was not a beneficiary of Covid-19 as the Health Sciences Authority (HSA) of Singapore took over the procurement and distribution of critical supplies such as Covid-19 test kits, as well as vaccination on behalf of the nation.

Figure 41: Majority of new Covid-19 cases have mild symptoms*



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 42: ICU utilisation remains manageable



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Impact from UKR-RUS conflict

There is negligible impact on healthcare service providers such as RFMD and QNM as a result of the UKR-RUS conflict that is currently unfolding as both operators do not have direct operations in either countries. Nevertheless, we understand that RFMD maintains a network in RUS for referral of foreign patients to its hospitals. However, given the lack of medical tourist over the past two years, we do not think that the conflict will extenuate the negligible foreign patient volumes in RFMD's hospitals.

The impact of the conflict on HYP is also limited, given that HYP does not have products originating from either countries. However, the potential aggravation of the conflict to involve the rest of Europe could disrupt shipping routes, impacting HYP's supply of Specialty Pharmaceutical products from Europe.

Top picks

We continue to like **QNM (Add, TP S$0.79)** as our top pick within the healthcare sector due to the presence of organic growth opportunities as intensity from Covid-19-related services trails off in the short term. The aggressive growth plans to open 20 new dental clinics in Singapore per year over the next 10 years will support a double-digit revenue and net profit growth of its dental core business, which will help mitigate lower Covid-19-related services. We have an Add call with a TP of S$0.79 based on 22x FY23F P/E. The stock is trading at an attractive valuation of 15x forward P/E, more than 1.s.d. below its 5-year historical average of 27.2x. Our forecasted dividend payout of 3.0 Scts for FY22F, while lower than the 4.0 Scts declared in FY21, still represents an attractive dividend yield in excess of 5% while reflecting a more sustainable payout ratio of c.85%.

Property - Overweight

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1H22F outlook

Developers posted a mixed bag of 2H21 results with the more traditional builders like CIT and UOL coming in below expectations. Meanwhile, the fee-related asset and investment managers such as CLI delivered a 12.1% yoy growth in its inaugural FY21 operating PATMI to S$497m. CLI also proposed a final DPS of 15 Scts, representing a payout of 70% of cash PATMI. In addition to a total final and special DPS of 9 Scts (FY21: 12 Scts), CIT proposed a dividend in specie (DIS) of 0.159 CDLHT units for every 1 CIT share, valued at 0.19 Scts/CIT share (based on a CDLHT share price of S$1.20). Post DIS, CIT's proforma net debt to equity ratio could be reduced by 6% pts while its proforma BV/share could improve by 4.1% to S$9.66. Meanwhile, property brokers such as APAC and PROP recorded a strong yoy PATMI growth of 115%/106% for FY21, thanks to buoyant transaction volumes across all property segments.

We expect primary market volume transactions to decline to 9,000-10,000 units in 2022F, from a high of 13,047 units in 2021, moderated by the property cooling measures announced in Dec 21 and limited new launch supply. According to the property brokers, the private resale market volume could decline by 15-20% yoy while the HDB resale segment could remain relatively stable. That said, average selling prices should remain elevated, rising 2-8% in 2022F as a lack of new launch inventory underpins price strength.

Key concerns highlighted by developers include elevated construction costs due to rising raw material prices and tight labour market. We believe that high construction and land cost would mean higher overall development cost, which in turn could underpin selling prices, particularly with dwindling new launch inventory.

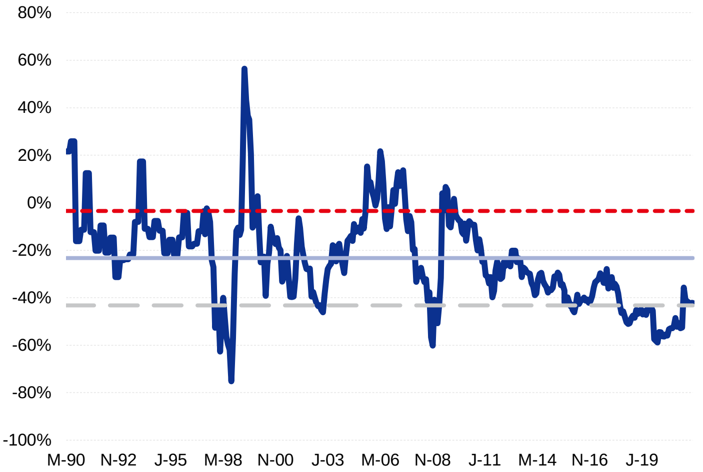
Developers are currently trading at 42% discount to RNAV, or at -1 s.d. discount to RNAV. We believe that much of the expected lower volume transaction in FY22 is reflected in the share prices. We retain our Overweight stance on the sector as we believe that reopening of borders or establishment of more VTLs could lead to a turnaround in hospitality contributions for CIT and UOL while RNAV robustness is likely to be underpinned by still higher residential and office values.

Top pick

Our top pick in the sector is **CIT (Add, TP S$8.97)** given it is trading at an attractive 48% discount to RNAV with catalysts coming from a potential recovery in hospitality earnings and asset value unlocking. The recent divestment of

Millennium Seoul Hilton netted a S$528m gain, to be booked into FY22F, while the deconsolidation of CDLHT post its DIS, should improve balance sheet metrics such as lower net debt to equity ratio and boost book NAV. The stock is trading steeply below its target price of S$8.97, based on a 45% discount to RNAV of S$16.30.

Figure 43: Developers' sector discount to RNAV trend



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

Figure 44: Developers' sector P/BV trend

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

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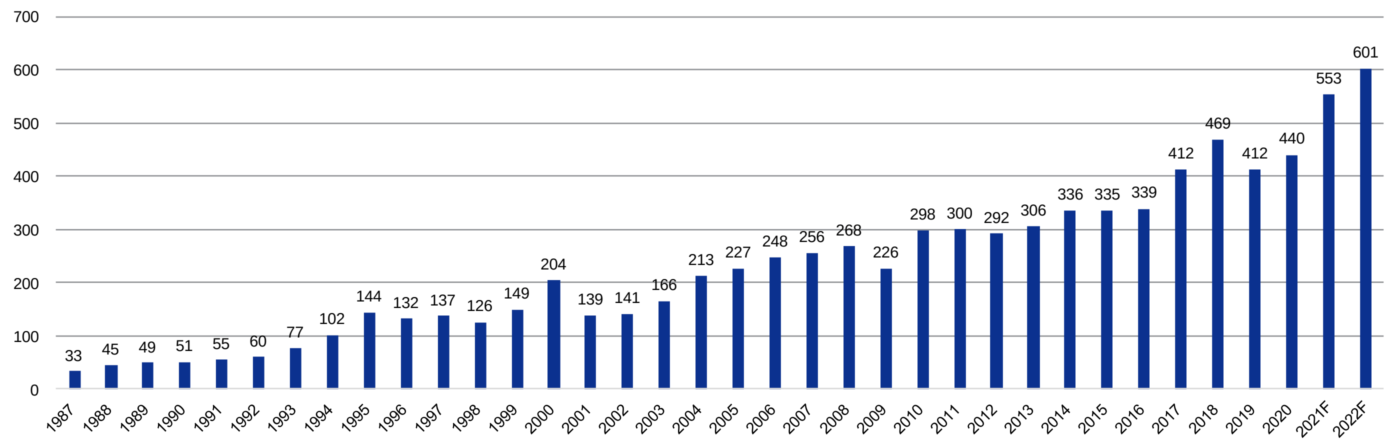
Technology - Neutral

1H22F outlook

For FY21, tech manufacturing companies under our coverage reported revenue and net profit figures that were in line with our forecasts as factory operations normalised in 4Q21. The key concerns in FY21 were supply chain disruptions caused by the Covid-19 pandemic and component shortages. For FY22F, companies remain concerned over inflationary cost pressure and disruptions due to the ongoing Covid-19 pandemic. On the component shortage situation, companies are sensing an incrementally better component availability (though still unsatisfactory) and believe that inflationary cost pressure can be managed through automation and productivity gains.

Global semicon sales expectations remain a good gauge of the demand outlook for tech companies under our coverage. For 2022F, World Semiconductor Trade Statistics (WSTS) in its 30 Nov 2021 press release forecasted global semicon sales growth of 25.6% yoy in 2021 (2020: +6.8% yoy) to US$553bn as the overall semiconductor market overall has not been negatively impacted by the Covid-19 pandemic. WSTS expects growth to continue in 2022F with global semicon sales rising 8.8% yoy to US$601bn. Another industry forecaster, IC Insights (6 Jan 2022) expects global semiconductor sales in 2022 to grow 11% and reach a record-high US$680.6bn after climbing 25% in 2021.

Figure 45: Global semicon sales (US$ bn)



SOURCES: STATISTA, WSTS

Impact from Ukraine-Russia conflict

So far, there is no direct impact as yet from the Ukraine-Russia tension. However, the longer this drags on the higher the possibility of unforeseen events unfolding that may have an impact. In general, inflationary pressures will not be good news as suppliers will eventually have to share the cost increase with customers. Higher oil prices will also lead to higher energy costs for manufacturers and energy availability could be a bigger concern than higher energy price. Oil price will affect plastic resin price as they are oil derivatives. This will generally affect contract manufacturers (Aztech, Venture) more as they are users of plastics in the manufacturing process. For semicon-related suppliers (Frencken, UMS, Grand Venture, AEM), there will be concern on Aluminium price and availability as these suppliers need Aluminium to produce the goods for their customers and Russia is a large Aluminimum producer.

Top picks

Our top pick is **AEM Holdings Ltd (AEM SP, Add, TP S$6.85)** as we think the company will be able to achieve the high end its FY22F revenue guide of S$670m-720m. At S$720m revenue for FY22F, yoy growth will be 27.3%. The other revenue driver will be growth in system level testing for both its key customer and new customers. We think new customers for its system level testing solutions could account for 10% of its FY22F sales.

In terms of risks, general risks for AEM are the state of the global economy and the ongoing Covoid-19 pandemic. A company-specific risk is a confidential arbitration that AEM and two if its subsidiaries have been named in.

We reiterate our Add call with S$6.85 TP based on 15.62x [10% premium (given our FY21-24F EPS CAGR expectation of 15.4%) to AEM's 2 s.d. above its FY17-21 historical average (7.4x) forward P/E multiple of 14.2x] FY23F EPS of S$0.4384.

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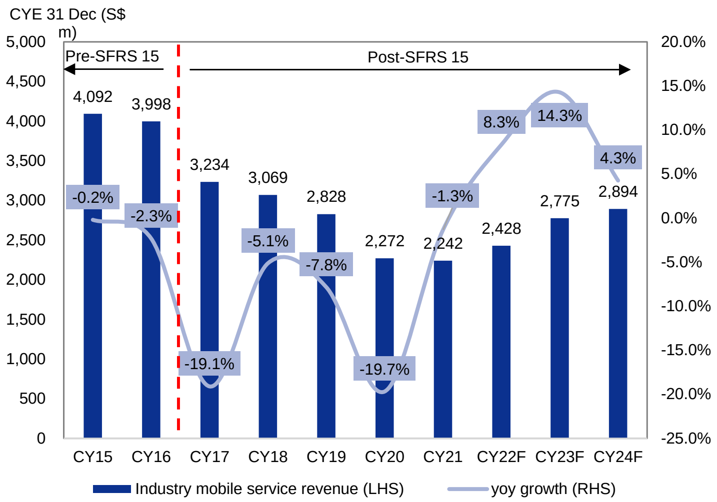
Telco - Overweight

1HCY22F outlook

While we see a partial recovery in roaming/prepaid SIM sales only from 2HCY22F, we expect mobile revenue to recover hoh and yoy in 1HCY22F, driven by some average revenue per user (ARPU) uplift from subs upgrading to 5G. Our in-depth look at market offers found telcos driving subs to sign up for 5G plans for an extra S$10-15/month (e.g. previous 4G plans now ineligible for re-contracting/device subsidy). 10-20% of postpaid subs are already on 5G plans, 16 months after service launch (South Korea: 28% in 2.5 years). We also think competition will have a less severe dilutive effect on future ARPU as: i) data quotas are currently already very generous for entry-level plans, relative to subs' data usage levels, ii) the Big 3 telcos have lost minimal subs to TPG, and iii) network tests show the Big 3's lead vs. TPG is widening.

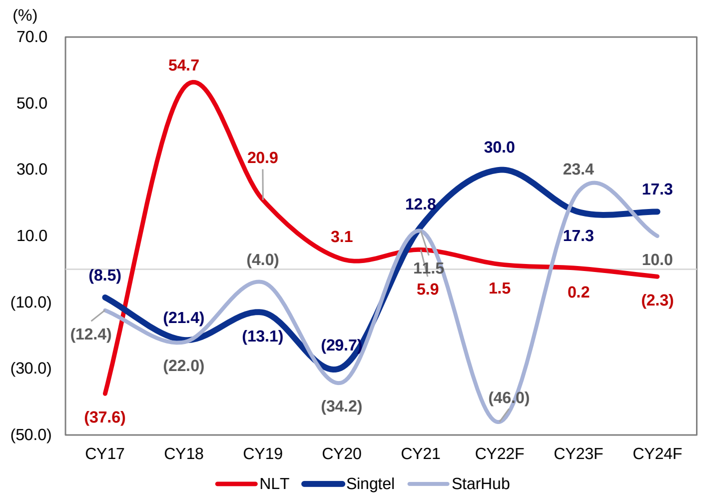
The gap in network quality between TPG and the incumbents may further widen as incumbents progressively roll out 5G standalone (SA) services (using their 2.1GHz and 3.5GHz spectrum). TPG will not be able to offer full-speed 5G services until/unless it enters into a wholesale agreement with the incumbents, given its relatively small 2.1/2.3GHz bandwidth, in our view. We also think there may be less significant ARPU drag from the decline in excess data usage revenue in 1HCY22F. Meanwhile, the enterprise business should continue to see decent growth in 1HCY22F, helped by the government's S$3.8bn ICT spend (up 9% yoy; public sector accounted for 20-30% of Singtel and StarHub's CY21 enterprise revenue), as well as private sector demand as the economy rebounds.

Figure 46: Singapore industry mobile service revenue trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 47: Singapore telcos' core EPS growth trend



Note: Singtel's & NLT's FYE is 31 Mar, hence CY21 refers to FY3/22F
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We expect minimal impact on Singapore telcos from the escalating Ukraine-Russia tensions as the former have negligible direct exposure to the conflict. The key downside risk arising from this to Singtel would be forex volatility. We estimate that every 1% depreciation across the A$ and all of Singtel's regional associates' currencies against the S$ will hit its FY3/23F core EPS and SOP-based fair value by 0.8% and 0.9%, respectively.

Top pick

Our top sector pick is **Singtel (ST SP, Add, TP: S$3.30)** as we project its core EPS to rebound 13% yoy in FY3/22F, driven by a) higher associate earnings (led by Bharti) due to a more favourable competitive landscape, b) Singapore's roaming revenue recovery post-Covid-19, and c) higher Optus earnings on the back of more rational competition and cost-saving initiatives. Singtel's potential entry into the digital banking businesses in Malaysia and Indonesia (in addition to its licence in Singapore) and further asset monetisation at lucrative valuations may also stir up more investor interest, in our view. Its current share price implies an FY3/23F EV/EBITDA of just 2.6x for Singtel Singapore and Optus (after deducting the associates' current market values), and decent FY22-24F yields of 3.6-5.4% p.a.

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Transport - Overweight

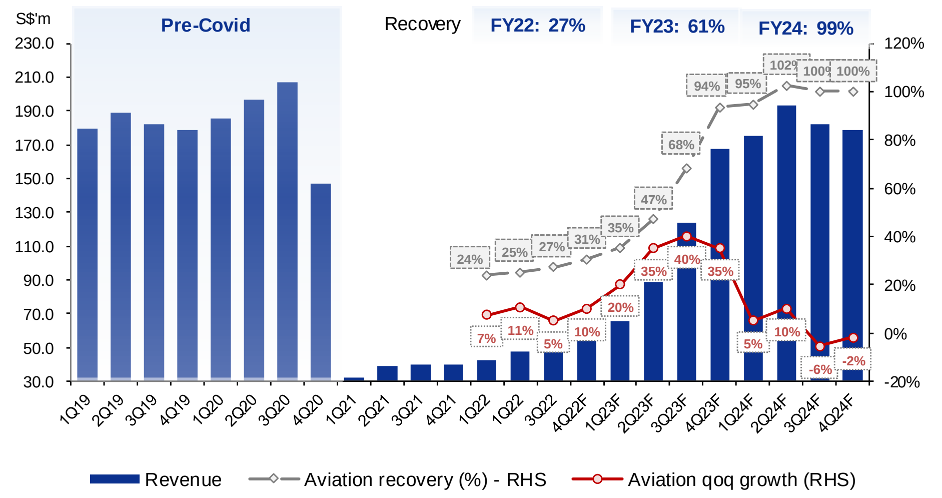
Air Transport and Airport Services

1H22F outlook

The 1H22F outlook for the aviation industry is positive. The Singapore government on 16 Feb 2022 announced a series of measures to open up its borders further, including reinstating 100% of the Vaccinated Travel Lane (VTL) capacity of 15,000 daily passengers, expanding the list of VTL countries from which travellers arriving into Singapore do not need to be quarantined on arrival to Saudi Arabia, Qatar and the UAE, to the Philippines and Israel, and to all cities in Thailand rather than only Bangkok. The VTL arrangement with Malaysia may also be extended beyond Kuala Lumpur to include Penang and Kota Kinabalu. Furthermore, the cost of travel under the VTL scheme will be reduced as the on-arrival PCR test will be replaced with a cheaper test. The end-game is to open up quarantine-free travel to fully vaccinated travellers from all countries, essentially extending the VTLs to all countries, which we expect to happen by mid-2022F.

For SATS, we expect to see a seasonally weaker cargo handling volume in 4Q3/FY22F (period of Jan-Mar). However continual strong demand from ecommerce, heightened by potential disruption from political tension on cargo volume could still see gateway revenue to remain strong. As of 9MFY3/22, gateway revenue accounted c.65% of pre-Covid revenue in FY3/19. This should also see gateway related associates potentially returning to its pre-Covid earnings level of S$12m / quarter. We expect flights handled to grow in tandem with the introduction of more VTLs into/out of Singapore. However demand for inflight catering may still take time to recover. As of 9MFY3/22, food solutions revenue were only at 25% of pre-Covid in FY3/19. We expect this to gradually pick up to c.35% in the next two quarters.

Figure 48: Pace of recovery for in-flight meals

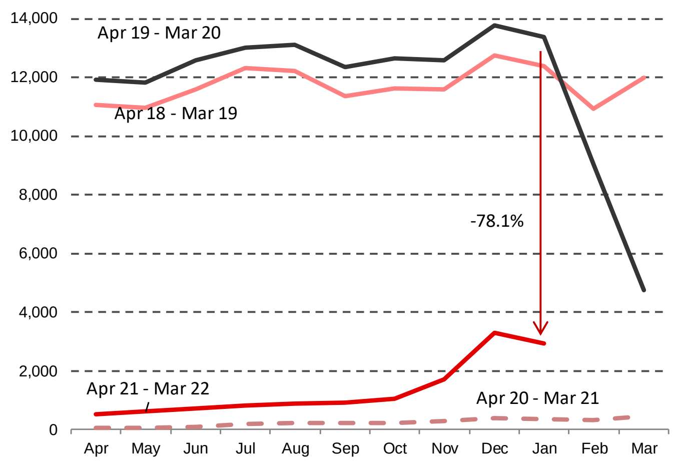


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Top picks

We have an **Add** rating on **Singapore Airlines** (SIA) with a target price of **S$5.88**, still based on FY23F P/BV of 1.06x (+1 s.d. from the mean since 2011) on our adjusted BVPS. SIA is well-positioned to benefit from the reopening of Singapore's borders, and it managed to report a small core net profit of S$28m in 3QFY22 (Oct-Dec 2021), which is a large S$463m positive swing from the S$435m core net loss in the immediately-preceding 2QFY22, on the back of strong airfreight demand and rates. The ongoing Russia-Ukraine conflict has the potential to increase airfreight rates even higher, as European carriers have been banned from flying over Russian airspace in Siberia, and Russian carriers have been banned from flying into Europe. This may disrupt movements of air cargo between Europe and Northeast Asia, and force flight diversions that could tighten the supply of airfreight capacity. The key downside risk to our Add call on SIA is higher oil prices, as SIA is only hedged for 40% of its consumption in FY23F and it is unlikely to be able to pass-on the higher fuel costs when its passenger load factors remain low.

Figure 49: SIA group's passenger traffic in revenue passenger kilometres (RPK) (m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 50: SIA group passenger available seat kilometres (ASK) capacity - medium-term estimates

	ASK capacity (m)	Yoy change	As a percentage of the CY19 base
CY 2019	177,066		
FY 3/20	171,211		96.7%
FY 3/21	21,721	-87.3%	12.3%
FY 3/22F	65,240	200.4%	36.8%
FY 3/23F	131,023	100.8%	74.0%
FY 3/24F	168,212	28.4%	95.0%
FY 3/25F	177,066	5.3%	100.0%

SOURCES: CGS-CIMB RESEARCH estimates

Land Transport

FY21 results recap

Reversing one-off expenses, SBUS's core net profit came in above expectations while CD's core net profit came in below. Nevertheless, we view SBUS's results as a low-quality beat, given key surprise was higher than expected relief granted by the government. Underlying trend remains healthy however, with both companies' core EBIT (excluding government relief and non-recurring items) showing sequential recovery across key segments, as major operating markets gradually relaxed restrictions in 4Q21. Both companies also reverted to their pre-Covid dividend payout ratio, with CD at 70% dividend payout ratio (DPR) and SBUS at 50% DPR given the core earnings recovery on a full year basis.

1H22F outlook, CD the preferred pick in land transport

We believe that a recovery in ridership will continue to underpin the earnings recovery of both ComfortDelgro (CD) and SBS Transit (SBUS) in CY22F as Singapore treats Covid-19 as endemic.

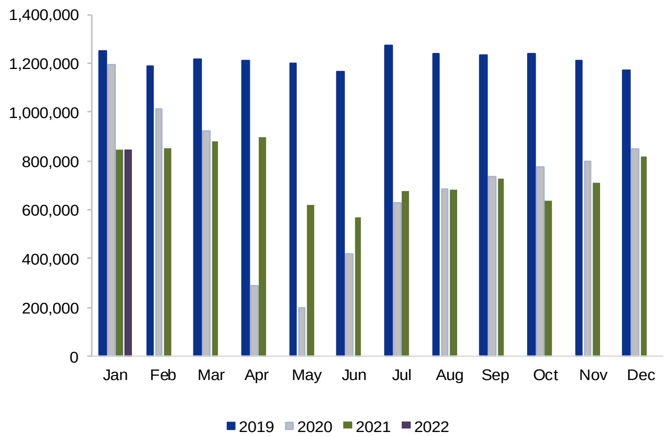
Between the two, we prefer **CD (Add, TP S$1.80)** over SBUS as CD has potential for stronger earnings recovery in FY22F – we forecast CD to record 43.5% yoy net profit growth vs. SBUS's 5.4%. CD's relatively strong earnings recovery is expected to be driven by 1) lower taxi rebates, 2) higher rail ridership in Singapore, and 3) increased charter activities in the UK/Australia as tourism recovers. It was also less reliant on government relief such as job support scheme (JSS) in FY21 to sustain earnings.

We also like SBUS for its strong potential to be a high dividend yield stock. With SBUS now having a strong net cash position on its balance sheet while possessing a highly cash generative business model, we see room for its dividend payout ratio to be adjusted upwards in FY22F, from the current 50%.

However, we caution investors about potential structural changes such as the hybrid work arrangement becoming a new norm (thus impacting public transport ridership). Should this persist, ridership may not return to pre-Covid-19 levels, which will negatively impact both land transport operators. It could also imply that their rail business in Singapore remains loss-making for longer (rail operators currently bear fare revenue risk, unlike bus operations where the government bears revenue risk and pays operators based on mileage operated). This could be slightly offset by the latest framework agreement between SBUS and the Land Transport Authority (LTA), which lowers the commercial risk. We forecast SBUS's rail ridership to recover to 85% of pre-Covid levels by end-FY22F (Jan 22: 68%), and 90%/92% of pre-Covid levels by FY23F/24F.

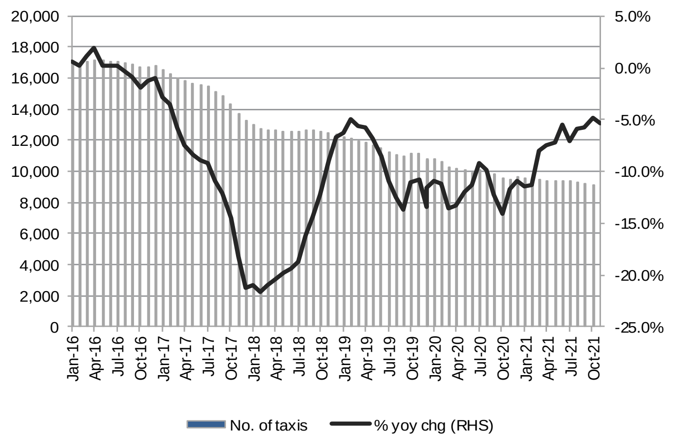
In terms of valuation, SBUS is trading at a lower CY23F P/E of 11.2x, compared with CD's 12.8x. Our TP for SBUS is S$3.40 and for CD is S$1.80.

Figure 51: Average daily rail ridership of SBS Transit



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 52: CD's taxi fleet in Singapore



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Potential impact from Russia-Ukraine conflict

We see minimal impact on CD's and SBUS's financials from the recent surge in international crude prices. Both players' public bus packages have fuel indexation and other cost factors built into the compensation formula. We understand that fuel indexation is typically adjusted on a monthly basis, allowing them to pass on the higher costs. While their Singapore rail operations are likely to suffer from higher electricity costs should the conflict persist, the scale of rail operations is significantly smaller than buses'.

SIA hedged 30% of its jet fuel needs up to 31 March 2022F at an average US$57/bbl Brent strike price, and 40% of its jet fuel needs for 15 months from 1 April 2022F to 30 June 2023F at an average US$60/bbl Brent strike price. We currently assumed an average Brent price of US$83/bbl for FY3/23F, but if we raise that to today's price of US$130/bbl, then SIA's core net loss will increase from our current estimate of S$190m to a core net loss of S$1.7bn for FY23F, which is even higher than the S$1.1bn core net loss estimated for FY22F, assuming all else remains unchanged. It is unlikely that SIA will be able to pass on these higher fuel costs to passengers, as it is still focusing on raising its load factors.

Having said that, we believe that SIA has an unpublicised arrangement with the Singapore government to fund its cash losses from operating its flights. The Singapore government has an interest in maintaining Singapore's air connectivity, which is why SIA has been deploying non-VTL flights which typically see load factors of below 20%. Hence, the Singapore government will probably absorb the rising losses of SIA's flights to a great extent, and SIA's losses will not likely balloon up to the level that we earlier described. For instance, after adding back non-cash depreciation of S$2.1bn, and deduct the deferred tax income of about S$200m to our FY22F core net loss forecast of S$1.1bn, we estimate that SIA would have made positive cash profits of S$800m thereabouts, despite average load factor of just about 25-30%.

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REITs - Overweight

1H22F outlook

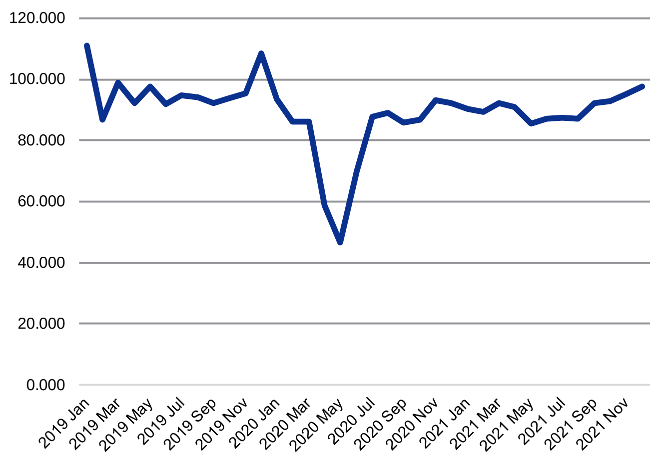
➢ **Retail REITs**

In 2021, retail REITs' committed occupancy rate remained stable qoq at 97-100%. Rental reversions were mostly still in the negative range but has been improving on a qoq basis since 1Q2021. As expected, suburban malls delivered stronger rental reversion vs. the downtown malls. Generally, suburban malls delivered low single-digit negative rental reversions while downtown malls' rental reversions declined double-digits in the range of 10-15% in 2021. Retail REITs' tenant sales improved yoy in 2021 with suburban malls achieving tenant sales near or above pre-Covid-19 levels while downtown malls achieved 70-90% of pre-Covid levels. Overall Singapore retail sales have also shown encouraging recovery despite the lack of tourist spending. Retail sales in Sep-Dec 2021 have recovered close to pre-Covid-19 level, driven by all categories except department store, food and alcohol, cosmetics and apparel and footwear.

Singapore has shifted its approach to live with Covid-19. Given its eagerness to reopen the economy, the less severe symptoms caused by current Covid-19 variants, and the availability of Covid-19 vaccines and pills, we believe the operating environment for retailers is now more stable vs. last year. 2H2022 operating metrics should be better than 1H2022, driven by year-end holidays as more restriction measures ease. Although new daily Covid-19 cases have been rising recently, ICU occupancy rate, which is one of the key metrics the authorities monitor to decide on the approach in implementing Covid-19 measures, has declined from the peak of c.90% in Oct 2021 to 55-60% recently. With less changes to Covid-19 approach, we think the pressure on rental reversion would bottom out in 1H2022F and improve in 2H2022F as tenants slowly gain more confidence that the situation is stabilising. As such, we assume flat-to-low positive rental reversion in our FY22 forecasts vs. single- to double-digit negative rental reversion delivered by the retail REITs in 2021.

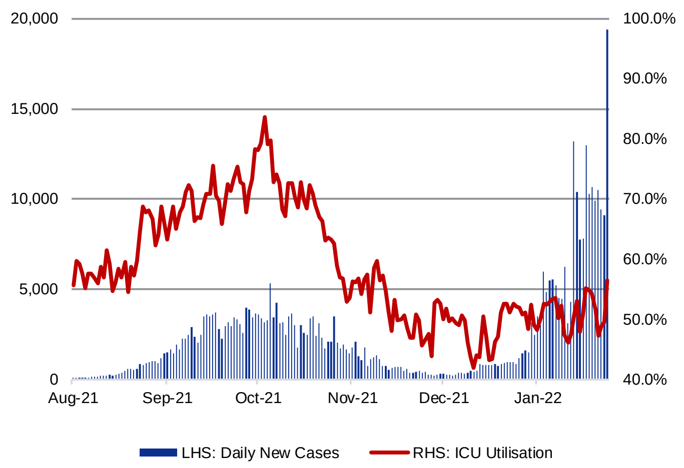
Our top pick for the sector is Capitaland Integrated Commercial Trust (CICT, Add, TP: S$2.57). We believe CICT is well placed to benefit from a macro recovery given its diversified and stable earnings profile. Shopper traffic at its malls has recovered, particularly at its suburban malls, while its rental reversions are stabilising on a yoy basis. We also anticipate a better 2H22F for offices with new contributions from the WeWork lease at 21 Collyer Quay and completion of the asset enhancement initiative (AEI) at 6 Battery Rd. CICT's balance sheet is robust, with its divestment of S$1.07bn worth of assets in Singapore and acquisition of S$1bn worth of assets in Australia in 4Q21. It is also on the lookout for new accretive acquisitions, particularly in Singapore. Potential re-rating catalysts are more clarity on new acquisitions and asset enhancement or redevelopment plans.

Figure 53: Singapore retail sales recovered to near pre-Covid 19 levels



SOURCES: CGS-CIMB RESEARCH, SINGSTATS

Figure 54: ICU utilisation rate remain relatively low despite the surge in Covid-19 cases



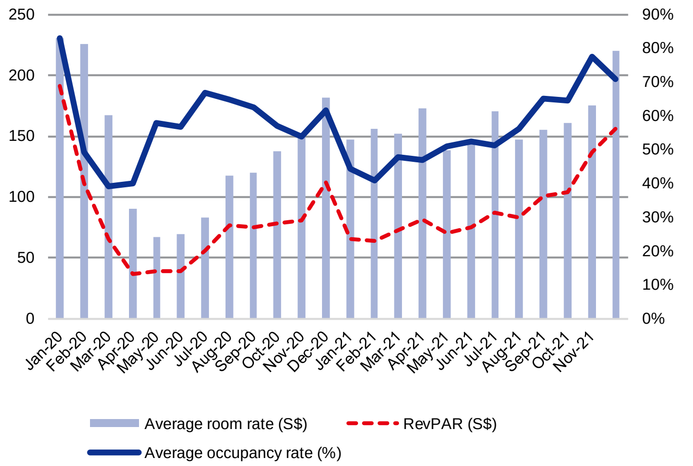
SOURCES: CGS-CIMB RESEARCH, MOH

➢ **Hospitality REITs**

The hospitality REITs saw encouraging yoy improvement in revenue per available room (RevPAR) and revenue per available unit (RevPAU) in 2HFY21 for most of the markets they are in, largely driven by the easing of domestic travel and border restrictions in 2H21. ART's portfolio RevPAU continued its upward trajectory, rising for the sixth consecutive quarter in 4Q2021, and it posted its strongest qoq RevPAU increase (+24%). CDLHT has also delivered stronger RevPAR in 3Q-4Q2021 vs. 1Q2021 in most of its markets. Similarly, FEHT posted much stronger hotel RevPAU and serviced residence RevPAU in 4Q2021 vs. the previous quarters of the year.

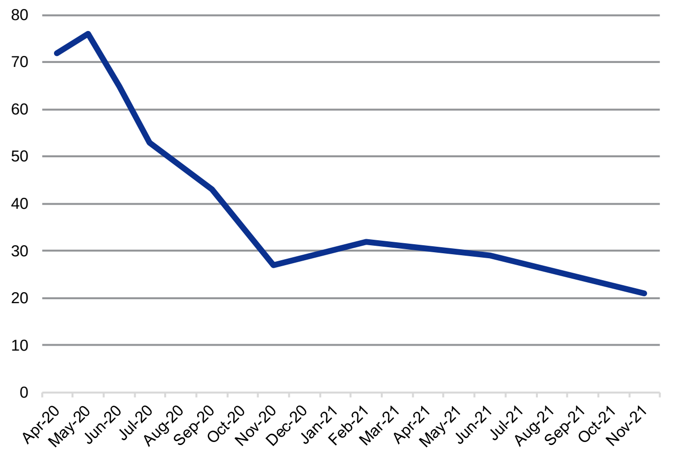
The recent spikes in Covid-19 cases globally delayed the recovery of the tourism industry, but we remain optimistic that the industry will rebound as data such as flight and hotel bookings as well as Google travel searches showed a strong desire to travel. We see greater demand for both international and domestic travel as we expect fewer domestic tightening and international border restriction measures this year compared with last year. In Singapore, we note that the government has started reducing its utilisation of hotels as Covid-19 quarantine centres. This, however, should not have a material financial impact on the REITs as Singapore hotels are supported by master lease income. We expect the RevPAR of Singapore hotels under REITs to deliver faster growth rates of 20-25% yoy in 2022F with an acceleration in 2H2022F, driven mainly by vaccinated travel lane (VTL) launches, and staycation demand to a lesser extent. We will not be surprised if Singapore almost fully reopens its borders by end-2022F, considering the swift pace of its border reopening. Simplified border testing and quarantine measures announced recently would make travelling less challenging and costly; this should help to attract more travellers. The hospitality REITs are trading below NAV at 0.8-0.9x FY21 BV. We see potential for further re-rating on the back of RevPAR improvement. We continue to like **ART (Add, TP S$ 1.21)** due to its higher exposure to domestic travel demand which we think will recover faster and be more resilient vs. international travel.

Figure 55: Singapore RevPAR in Dec 2021 highest since the Covid-19 pandemic broke



SOURCES: CGS-CIMB RESEARCH, STAN

Figure 56: World travel restrictions (% of border closed)



SOURCES: CGS-CIMB RESEARCH, UNWTO

Figure 57: VTL arrangements boosted arrivals by 2-8x in Sep to Dec 2021; expect larger impact when Singapore sets up VTLs with major countries for arrivals.

		Number of arrivals					Increase in arrivals after the launch of VTL (x)	% of total arrivals in 2019
	VTL launch date	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21		
Germany	08-Sep-21	139	769				5.5	2.0%
Canada	19-Oct-21	-	-	121	229		1.9	0.7%
Denmark	19-Oct-21	-	-	74	188		2.5	0.2%
France	19-Oct-21	-	-	423	799		1.9	1.1%
Italy	19-Oct-21	-	-	98	239		2.4	0.5%
Netherlands	19-Oct-21	-	-	208	432		2.1	0.5%
Spain	19-Oct-21	-	-	95	198		2.1	0.3%
UK	19-Oct-21	-	-	964	2,114		2.2	3.2%
US	19-Oct-21	-	-	840	1,888		2.2	3.8%
Australia	08-Nov-21	-	-	263	1,621		6.2	6.0%
Switzerland	08-Nov-21	-	-	78	238		3.1	0.5%
Finland	29-Nov-21				19	157	8.3	0.20%
India	29-Nov-21				7,482	27,672	3.7	7.40%
Indonesia	29-Nov-21				5,753	11,176	1.9	16.30%
Malaysia	29-Nov-21				2,535	10,939	4.3	6.40%
Sweden	29-Nov-21				42	211	5.0	0.30%
Thailand	14-Dec-21				361	1,421	3.9	2.80%

SOURCES: CGS-CIMB RESEARCH, SINGSTATS

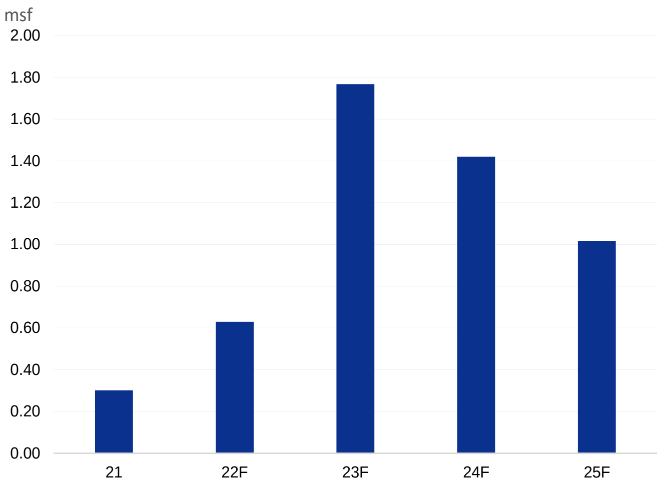
➢ Office REITs

Portfolio occupancy of office REITs was weaker qoq in 4Q21, with some downsizing activities. However, most office landlords said leasing demand seemed to have improved, with a pick-up in enquiries and progressive backfilling of spaces, particularly in 4Q21. This was evidenced by an uptick in the Urban Redevelopment Authority's (URA) Central Region rental index, which showed a

0.9% qoq increase in 4Q21 after a qoq decline in 3Q21, and up 1.9% yoy for the whole of 2021. In addition, REITs have been active in deploying capital into new acquisitions in 4Q21; for instance, CICT made purchases in Australia and continues to be on the lookout for accretive buys, in our view.

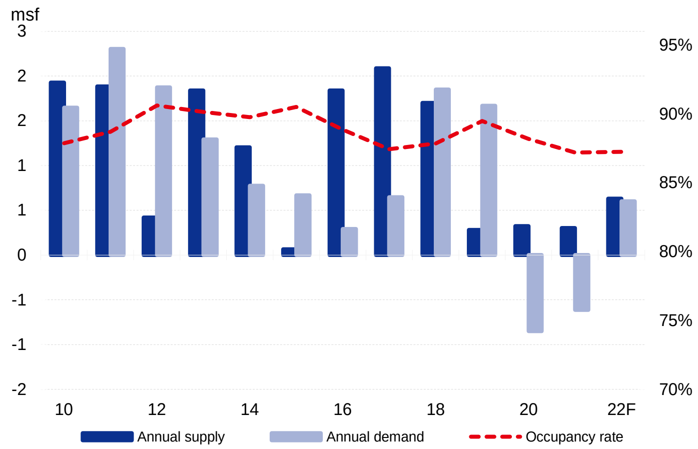
We think office rents should continue to improve, by a further 5% in 2022F, on the back of improved demand due to continued economic expansion and moderating new incoming supply. We believe physical occupancy should increase due to 1) the relaxation in the requirement for safe-distancing in mask-on settings such as the workplace, 2) 50% of those who can work from home being allowed to return to the office, and 3) no restrictions on cross-deployment across workplaces. Most office REITs are guiding for single-digit positive rental reversion in 2022F, with confidence in backfilling vacated spaces. CICT has highlighted that it could be looking to redeploy its proceeds into Singapore. CICT divested One George St and JCube for S$1.07bn and acquired S$1.1bn worth of Australia commercial assets in 4Q21.

Figure 58: Projected new office supply in 2022-25F



SOURCES: CGS-CIMB RESEARCH, URBAN REDEVELOPMENT AUTHORITY

Figure 59: Annual demand, supply and occupancy of office space



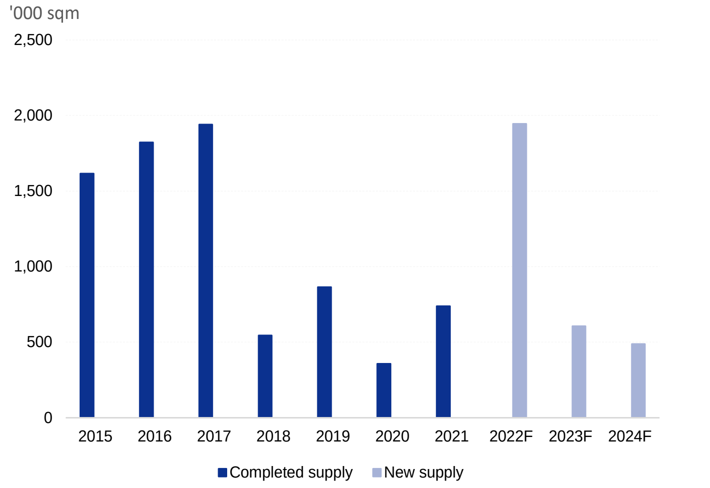
SOURCES: CGS-CIMB RESEARCH, URBAN REDEVELOPMENT AUTHORITY

➢ Industrial REITs

Operating metrics for industrial REITs were stronger in 4Q21 vs. a year ago, with MLT delivering rental reversions of +2.5% and AREIT +4.5% while MINT's rental renewals remained relatively stable. Portfolio occupancy also continued to improve on a qoq basis. Industrial assets, particularly in Australia, continued to enjoy cap rate compression. With tighter yields, industrial REITs are signalling a slower acquisition pace whilst looking for better returns from pre-stabilised assets, redevelopment/AEI opportunities, and potential divestment opportunities.

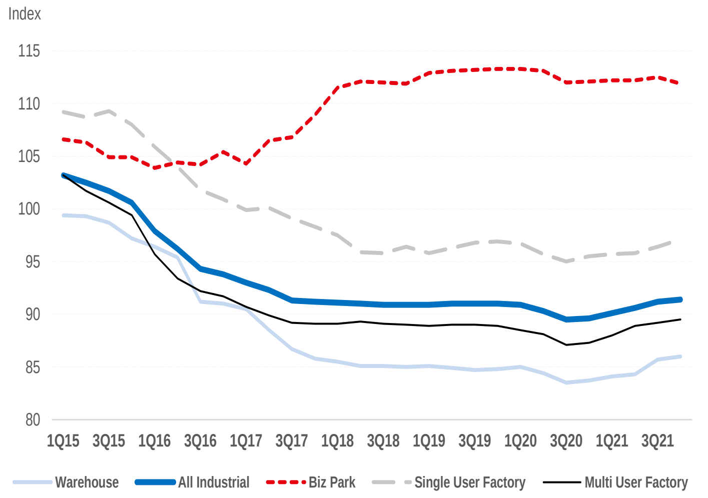
Incoming new supply in 2022F remains high – we estimate c.1.9m sq m of new completions, mainly from single and multi-user factory space. Hence, we anticipate improvements in industrial rents and occupancy to continue to be gradual. That said, this sub-sector remains focused on delivering inorganic growth through new acquisitions and AEIs. FLCT which we estimate would have a proforma gearing of 29.8% post completion of its divestment of Cross Street Exchange, is well placed to redeploy capital into logistics & industrial assets. Meanwhile, AREIT also signalled that it continues to be on the lookout for acquisitions, although it is unlikely to repeat the sizeable S$2bn purchase quantum achieved in 2021.

Figure 60: Total supply of industrial space by year



SOURCES: CGS-CIMB RESEARCH, JTC CORPORATION

Figure 61: Rental trend of various industrial segments

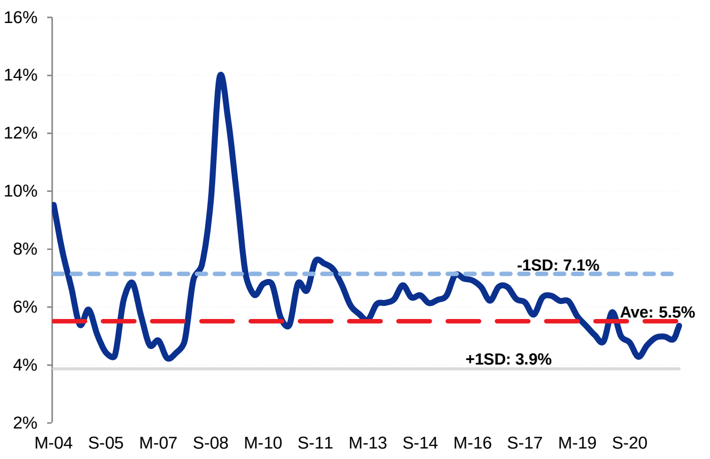


SOURCES: CGS-CIMB RESEARCH, JTC CORPORATION

Top pick

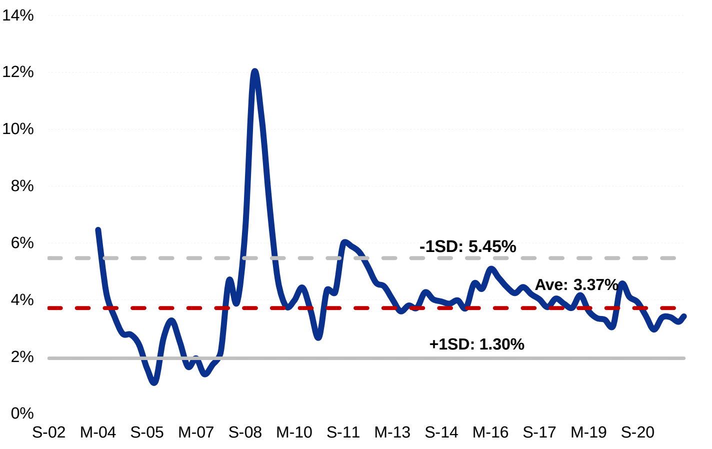
After the decline in share prices, SREITs sector is currently trading at our projected FY22F dividend yield of 5.4% compared to the 4.9% dividend yield it was trading at end-Dec 21. This indicates that the market could have priced in a 50bp interest rate hike, in our view. At the current level, the spread between SREIT dividend yield and the 10-year Singapore government bond yield is at c.360bp, or back to the long-term average yield spread.

Figure 62: SREIT forward dividend yield



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 63: SREIT dividend yield spread



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

We reiterate our Overweight call on SREITs. Sector re-rating catalysts include lower than projected quantum of rate hikes and active inorganic growth outlook. Downside risks include elevated inflation and higher and faster than projected interest rate hikes, which would impact our DDM target prices adversely.

In terms of stock picks, we update our preferred picks to **CICT (Add, TP S$2.57)** and **AREIT (Add, TP S$3.20)** while **EREIT (Add, TP S$0.50)** is our small cap pick. The REITs are trading at undemanding valuations, with yield spreads back to its 5-year or 10-year yield spread. In our view, this indicates that much of the rising rate outlook has been baked into the current share prices.

CICT (CICT SP, Add, TP: S$2.57)

We believe that CICT is well placed to benefit from a macro recovery given its diversified and stable earnings profile. Shopper traffic at its malls has recovered, particularly at its suburban malls, while rental reversions are stabilising on a yoy basis. We also anticipate a better 2H22F for offices with new contributions from the WeWork lease at 21 Collyer Quay and completion of AEI at 6 Battery Rd. Balance sheet is robust with divestment of S$1.07bn worth of assets in Singapore and acquisition of S$1bn worth of assets in Australia in 4Q21. It is also on the lookout for new accretive acquisitions, particularly in Singapore. Re-rating catalysts are more clarity on new acquisitions and asset enhancement/redevelopment plans.

AREIT (AREIT SP, Add, TP: S$3.20)

We like AREIT on valuation grounds as the REIT is trading at a projected FY22F yield of 5.8%. AREIT's size and scale will likely enable the REIT to continue to pursue acquisition growth and continue to pivot into more new economy assets. With a gearing of 35.9% at end-FY21, AREIT has potential debt headroom of S$4.8bn to pursue inorganic growth. Operating performance remains robust with high portfolio occupancy and a 4.5% positive rental reversion in FY21 and management guidance for a low single-digit positive reversion in FY22F. Potential re-rating catalysts include faster-than-expected global recovery and accretive new acquisitions. Downside risks include a protracted economic downturn.

EREIT (EREIT SP, Add, TP: S$0.50)

We also like EREIT for its attractive valuation and stable income. Being a diversified REIT with exposure in different industrial segments, we expect EREIT to deliver stable income and DPU yield of 6-7% in FY22-24 which is above the average sector yield (excluding overseas REITs) of 4% to 5.5%. The successful merger with ALOG would provide further price upside from potential acceleration in inorganic growth on lower funding cost and large sponsor pipeline. The merger will create the 9th largest REIT by free float in Singapore and 13th largest SREIT by AUM (from 17th for EREIT and 25th for ALOG on a standalone basis). To further grow the portfolio and create a flagship New Economy REIT, it aims to recycle a portfolio of non-core assets in the next 18-24 months. We think its current valuation has not factored in the merger with ALOG. On a standalone basis, EREIT's current yield spread of 5.6% is also not demanding vs. its 5-year historical DPU yield spread of 4.7%.

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Commodities - Overweight

1H22F outlook

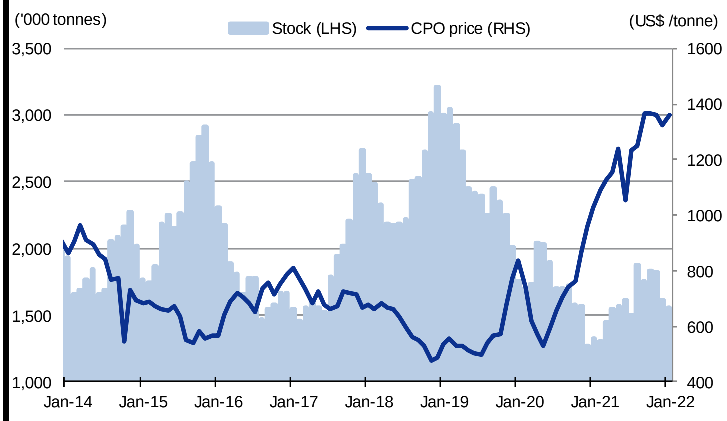
The final core net profits of Wilmar, First Resources and Golden Agri were above our expectations due to higher-than-expected CPO price achieved and better palm processing margins. The final dividends were also ahead of our expectations as all three players raised their dividend payment in line with better profitability. The key concerns in FY21 were the higher export tax and levy imposed by the Indonesian government, and weaker-than-expected production due to weather disruptions. These concerns were more than offset by stronger-than-expected CPO prices in 4Q21 due to tight global edible oil supplies.

For FY22F, the commodities players were positive on CPO prices in the near term due to tight global edible oil supplies, and disruption to sunoil exports from Ukraine will further strain the supply constraints. We expect the higher selling prices to be partly offset by higher fertiliser prices and the recent decision by Indonesia to implement Domestic Market Obligation for exports of palm oil.

Top picks

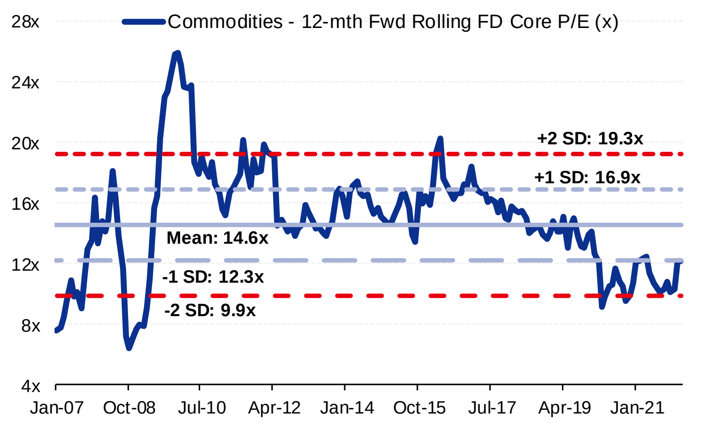
We keep our **Add call on Wilmar and First Resources** and raised our rating for **Golden Agri to Add from Hold**. In the short term, we prefer upstream palm oil players, which offer higher earnings leverage to rising CPO prices with potential earnings surprise in 1QFY22 on the back of stronger-than-expected CPO prices. We continue to like Wilmar for the medium term as we believe the company is undervalued by the market and we expect the profit margin from its food products segment to improve when commodities prices subside.

Figure 64: Historical CPO price and inventory in Malaysia



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 65: Historical P/E valuations for commodities sector under our coverage



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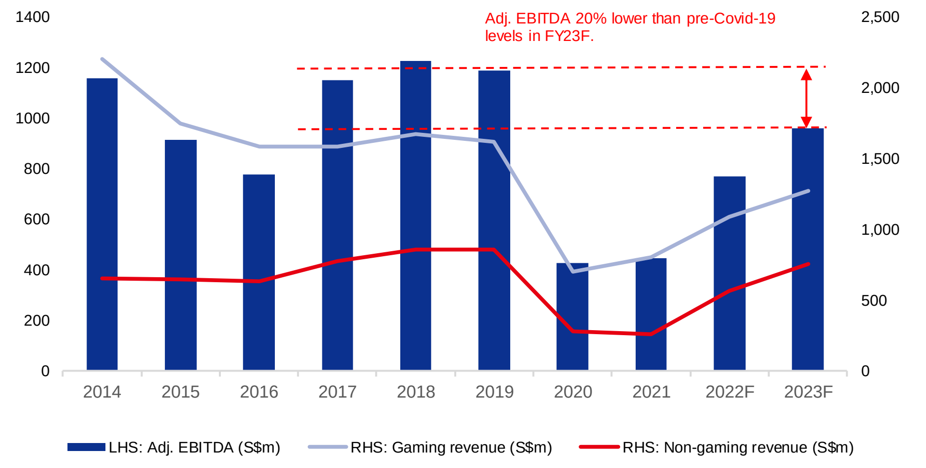
Gaming - Neutral

1H22F outlook

Setting sights on reopening. GENS will likely be a key beneficiary as Singapore borders look set to continue opening in 1H22F. There are hopes of easing capacity restrictions which could boost footfalls to its facilities, especially given the preliminary guidance that safe distancing measures could be lifted for mask-on activities once Singapore tides through the Omicron wave of Covid-19 infections. The pace, however, might be slower-than-desired due to strict Covid-19 restrictions that continue to be in place in North Asia, which typically make up a third of Resorts World Sentosa's (RWS) visitors.

Rationalising financial position. With near term visibility to capex commitments arising from its S$4.5bn RWS 2.0 project, there is a potential for GENS to rationalise its strong cash position of S$3.3bn as at end FY21. The management has expressed the intention to communicate a clearer dividend policy moving forward as well. GENS have spent S$900m to acquire the land for the RWS 2.0 project in FY21, and indicated a capex of c.S$400m in FY22F in relation to the RWS 2.0, while the remaining sum of S$3.2bn will be staggered between FY23F-25F.

Figure 66: Recovery to pre-Covid-19



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

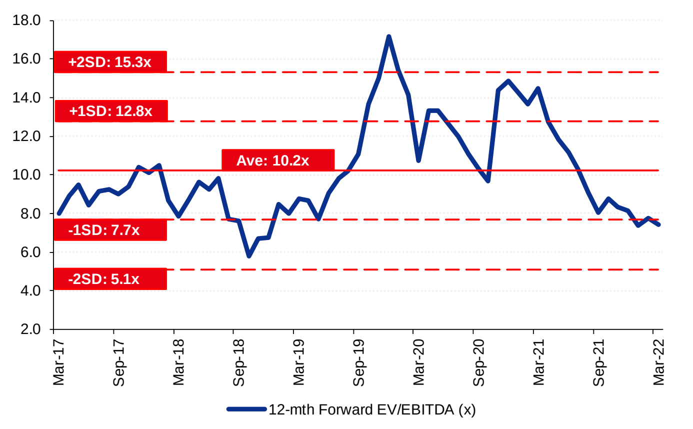
Impact from UKR-RUS conflict

We do not see any impact on GENS' business arising from the UKR-RUS conflict due to a local operational presence through RWS.

Valuation

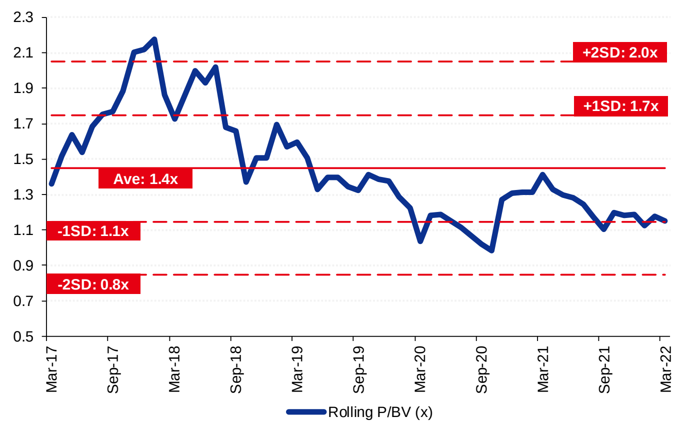
We maintain an Add call on GENS with a TP of S$0.96 that is pegged to 9x FY23F EV/EBITDA, where we assume an 80% recovery to pre-Covid-19 (i.e. FY19) level in terms of adjusted EBITDA levels. The stock is currently trading at 8x EV/EBITDA, 1 s.d. below its historical 6-year mean of 10.2x but we recognise the lack of a catalyst of a new operating market in Yokohama as opposed to his past valuations.

Figure 67: Genting Singapore 12-mth Fwd Rolling EV/EBITDA (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 68: Genting Singapore P/BV (x)



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Gloves - Neutral

1H22F outlook

While the general glove industry is facing steep earnings decline in 2022F on the back of 1) lower ASPs, 2) lower utilisation of production capacity, and 3) tough comparison base from 2021, we believe Singapore-listed glove makers are relatively well positioned, and should see a more resilient earnings profile vs. the Malaysia-listed glove makers.

Healthcare gloves, the main focus of key Malaysia-listed glove names, have seen ASP declines continuing into CY22, due to higher industry supply and lower raw material prices. We expect ex-factory pricing levels for healthcare gloves to return to pre-Covid levels by 2Q22F. Another common industry woe is the lack of foreign labour, which hampered the companies' ability to operate at a higher utilisation rate.

Riverstone stands out among peers with its cleanroom segment operations. Despite accounting for only 19% of 4Q21 volumes, its cleanroom segment's GP contribution surged to 62% during the quarter (3Q21: 30%), given the segment's relatively resilient ASP and margins vs. healthcare gloves. RSTON continues to see robust orders on the back of strong downstream demand (tech manufacturing, pharmaceutical), and has shifted its dipping line capacity to increase cleanroom production. Cleanroom glove pricing remains high at c.US$110/carton in 1Q22F, and should remain sticky with quarterly/semi-annual pricing review, in our view. We believe RSTON is reaping the benefits of prioritising the cleanroom segment during the pandemic, which allowed it to greatly expand its customer base. With further capacity additions, RSTON aims for its cleanroom segment to account for 25% of its volume mix by end-FY22F (pre-Covid19: 15%). We forecast cleanroom segment to account for 76% of its gross profit in FY22F.

We believe UG Healthcare, with its strong downstream distribution network, is also able to fare better vs. other OEM glove manufacturers which currently face pricing pressure amid the expanded industry supply – UG Healthcare can choose to outsource more orders of generic SKUs to take advantage of lower ex-factory prices while focusing its production on niche products. For 3QFY22F (1QCY22F), we expect higher sales volume to once again offset the impact of declining ASP trend, and forecast flattish qoq earnings.

Top pick

Riverstone Holdings (Add, TP: S$1.10)

With RSTON's prioritisation of cleanroom segment bearing fruit, its earnings are more resilient vs. peers in the current environment, in our view. Our TP of S$1.10 is based on 17x CY23F P/E (RSTON's 5-year mean).

Valuation looks attractive at 7.2x CY23F ex-cash P/E. RSTON also recently announced back-loaded dividends for FY21, with final DPS and special DPS amounting to 38sen/share (equivalent to c.15% yield, payable in Apr and May 2022). Downside risks include further ASP decline for healthcare gloves.

Analysts Coverage – latest report link

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021 619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** –

Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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