

STRATEGY – SINGAPORE

Impact Of China's Resurgent COVID-19 Situation

While there are eight Singapore companies under our coverage with >70% revenue exposure to China, we have not made any changes to our 2022 earnings estimates yet. The downside risk involves the Chinese government clamping down harder on the economy in furtherance of its zero-COVID strategy. Despite being the region's best performing index, the STI's current valuations remain undemanding, trading at a 2022 PE and P/B of 13.5x and 1.1x, with the highest yield in the region at 4.1%.

- Sustained COVID-19 outbreaks testing China.** With sustained outbreaks in two-thirds of the country's provinces, China's zero-tolerance policy towards COVID-19 is now facing its toughest test yet since the coronavirus first emerged more than two years ago in Wuhan. The contrast is especially stark in relation to much of the rest of the world which is progressing towards easing restrictions or in the case of Singapore, "streamlining" COVID-19 measures.
- Uncertainty leads to share price underperformance.** As in prior periods of market uncertainty, investors tend to "sell first and ask questions later", especially in an environment where newsflow appears to be overwhelmingly negative: the Russian invasion of Ukraine, inflation concerns for both soft and hard commodities, Fed rate increases, and increased policy risks in the Chinese technology sector, to name a few.
- Eight companies with >70% of revenue derived in China.** In the table overleaf, we have detailed the companies under our coverage that have meaningful exposure to China and thus could see their 2022 profitability come under pressure should the country's zero-COVID policy result in business stoppage or interruption. Companies with >70% of revenue derived from China include China Sunshine, Jiutian Chemical, Sasseur REIT, Trans-China Automotive, Yangzijiang, Innotek, Dairy Farm and Nanofilm.
- No changes to our 2022 EPS forecasts yet.** At this early stage, we have not made any changes to our earnings forecasts as we believe that the impact at present would be mild. For 2022, we forecast 10.7% yoy earnings growth for the combined large cap and REITs sectors, excluding the aviation sector (under review). Downside risks to our earnings estimates include new variants of the coronavirus which are more lethal and infectious than expected.
- Strong economic data from China, but a cloudy outlook.** China's Jan-Feb data (released on 15 Mar 22) was surprisingly strong, which suggests that the policy easing measures are working. However, the Russia-Ukraine conflict and the worsening domestic pandemic may warrant a more cautious outlook as the country's "dynamic zero-COVID" policy will impose significant costs to the economy. The question is now the extent of lockdown in terms of the number of cities and duration of the lockdown.

STI YEAR-END TARGET (2022): 3,500

FOCUS STOCKS

Company	Rec	Price (S\$)		Upside/Downside (%)
		21 Mar	Target	
Ascott Trust	BUY	1.06	1.29	21.7
CapitaLand Inv	BUY	3.85	4.13	7.3
Genting SP	BUY	0.78	1.08	38.5
MapletreeInd	BUY	2.67	3.72	39.3
O C B C	BUY	12.16	15.00	24.2
SingTel	BUY	2.61	2.95	13.0
Sembcorp Ind	BUY	2.59	2.90	12.0
Thai Beverage	BUY	0.69	0.90	30.4
Venture Corp	BUY	16.82	22.80	35.6
Wilmar	BUY	4.69	5.50	17.3
Yangzijiang	BUY	1.38	1.95	41.3

Source: UOB Kay Hian

STI: PRICE/EARNINGS



Source: Bloomberg, UOB Kay Hian

STOCK PICKS

Company	Ticker	Rec.	Price (S\$)		Year end	PE (x)			Yield (%)	ROE (%)	Mkt. cap \$m	Price/NAV (x)
			21 Mar	Target		2021A	2022E	2023E				
Ascott Trust	ART SP	BUY	1.06	1.29	12/21	45.3	37.5	24.1	5.1	2.2	3,481	0.9
CapitaLandInv	CLI SP	BUY	3.85	4.13	12/21	10.1	12.6	11.2	3.1	6.7	19,823	1.2
Genting SP	GENS SP	BUY	0.78	1.08	12/21	51.3	26.2	13.6	3.2	4.5	9,416	1.2
MapletreeInd	MINT SP	BUY	2.67	3.72	3/21	18.5	17.6	17.0	5.6	8.5	7,146	1.5
O C B C	OCBC SP	BUY	12.16	15.00	12/21	11.4	10.9	9.8	4.6	9.3	54,621	1.1
SingTel	SCI SP	BUY	2.61	2.95	12/21	16.7	11.9	10.0	2.6	10.3	4,647	1.2
Sembcorp Ind	ST SP	BUY	2.59	2.90	3/21	21.1	16.7	15.1	4.3	9.3	42,755	1.6
Thai Beverage	THBEV SP	BUY	0.69	0.90	9/21	16.4	16.6	16.3	3.0	14.5	17,333	2.5
Venture Corp	VMS SP	BUY	16.82	22.80	12/21	15.6	14.4	13.2	4.8	12.3	4,887	1.8
Wilmar	WIL SP	BUY	4.69	5.50	12/21	11.5	12.4	12.2	3.2	8.8	29,545	1.1
Yangzijiang	YZJSGD SP	BUY	1.38	1.95	12/21	6.8	6.3	5.0	4.9	10.4	5,401	0.7

Source: UOB Kay Hian

ANALYSTS

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

Singapore Research Team
+65 6535 6868
research@uobkayhian.com

- **Our top large-cap picks** for the Singapore market are Ascott Trust, Capitaland Investment, Genting Singapore, Mapletree Industrial Trust, OCBC, Singtel, Sembcorp Industries, Thai Beverage, Venture Corp, Wilmar and Yangzijiang.
- **China growth forecasts lowered.** We highlight that the Russia-Ukraine conflict and worsening domestic pandemic issues has led the UOB Global Economics and Markets Research (GEMR) team to lower its growth forecast for China to 4.9% for 2022 from its previous forecast of 5.2%. It expects the impact of the lockdowns and higher commodity prices to affect 1H22 GDP and thus is forecasting 4.5% yoy growth for 1H22 before picking up to 5.2% yoy growth in 2H22.
- **Despite being the region's best performing index, the STI's current valuations remain undemanding,** trading at a 2022 PE and P/B of 13.5x and 1.1x respectively, while paying the region's highest yield at 4.1%. As can be seen from the charts on the prior page, the STI is trading at 0.5x below its long-term average PE while on a P/B basis, it is 1.0SD below the long-term average.

REGIONAL VALUATIONS

	YTD performance	PE (x)		P/B (x)		Yield (%)		ROE (%)	
		2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
STI	+4.7%	13.5	11.8	1.1	1.1	4.1	4.5	8.4	9.4
SET	+0.5%	17.8	15.7	1.7	1.6	2.7	3.0	8.2	8.8
HSI	-8.1%	10.2	9.0	1.1	1.0	3.4	3.8	11.1	11.1
JCI	+3.9%	8.6	6.3	0.5	0.4	2.2	2.5	14.4	15.3
KLCI	+3.2%	15.0	13.9	1.5	1.4	4.0	4.2	10.3	11

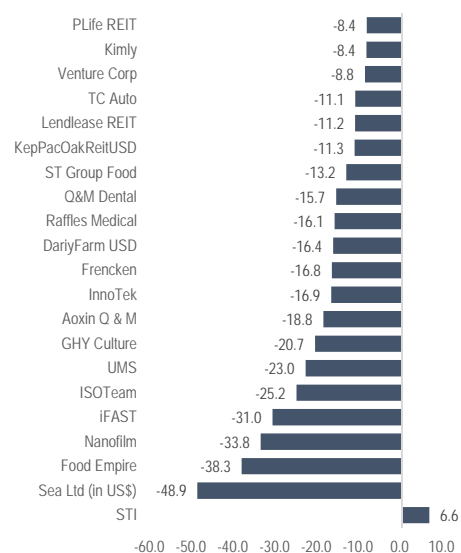
Source: Bloomberg

STI: PRICE/BOOK



Source: Bloomberg, UOB Kay Hian

STI STOCKS WITH THE LARGEST SHARE PRICE DECLINES IN 2022 YTD



Source: Bloomberg

SINGAPORE COMPANIES' EXPOSURE TO CHINA

Company	Trough P/B 2020 (x)	2022 P/B (x)	China Exposure*	Comment
China SunSine Chemical	0.5	0.7	100%	China SunSine's manufacturing facilities are located in China, and 70% of sales are derived domestically. Production facilities are located at Shanxian, Weifang and Dingtao in Shandong Province, and are not currently impacted by the recent lockdown.
Jiutian Chemical	0.2	0.9	100%	Operations for Jiutian Chemical are primarily situated in Henan, Zhengzhou, where there are currently no lockdown measures in place. Jiutian's customer base stems mainly from Henan, the surrounding provinces adjacent to Henan, namely Hebei, Shaanxi, Shanxi, Hubei, Shandong, and Anhui, and provinces in the Yangtze Delta Region, namely, Jiangsu and Zhejiang.
Sasseur REIT	0.6	0.8	100%	SASSR owns four outlet malls in China located at Liangjiang and Bishan in Chongqing, Hefei and Kunming. At the moment, it is business as usual at the four outlet malls.
Trans-China Automotive	NA	2.0	100%	In our view, automobiles are discretionary items where buyers will delay or push back their orders until the shops are open. Specific to store and dealership locations, TCA has four main BMW stores across China. At present, only the Shenzhen (30% of 2022 sales) store has been shut down due to the lockdown measures in place. Other stores not currently impacted are: Foshan (36%), Guangzhou (20%), and Chongqing (18%).
Yangzijiang	0.4	0.7	100%	YZJ's shipyard assets are entirely located in China and should COVID-19 movement restrictions increase in scope and intensity, shipyard operations will be affected and thus negatively impact the company's ability to deliver on the 60 ships that it has planned in 2022. This would negatively impact YZJ's profitability as milestone payments would then be delayed.
Innotek	0.4	0.8	98%	Majority of the production facilities of Innotek are located in China across three facilities: Dongguan, Wuhan and Suzhou. It has also two facilities in Thailand and Vietnam.
Dairy Farm	3.6	2.6	93%	DFI only reports geographic segment on a "North Asia" and "South Asia" basis thus impeding any meaningful analysis of its exposure to any single country. Apart from China and Hong Kong, the company is also active in Taiwan via Ikea however we believe that this business is not meaningful on a North Asia basis. Given DFI's high exposure to China and Hong Kong's zero-COVID strategy, the company could continue to suffer should China persist with this strategy.

Nanofilm	4.2	3.9	77%	All the production facilities of Nanofilm are located in Shanghai, China, and if there is an extended period of lockdowns, this would negatively impact the company's profitability in 2022.
Wilmar International	0.7	1.1	35-55%	Wilmar's China operations were its largest earnings contributor (with the exception of 2021 due to the weakness of China consumer packs and soybean crushing margins). A lockdown of big cities in China could negatively affect its food products segment. Food products contributed about 25% of 2021 PBT (vs 50% for 2020 PBT).
CapitaLand Inv	NA	1.2	28%	CLI has multiple areas of exposure to China, from logistics assets to China-focused PE funds, and >39,000 units across 180 properties in 40 cities within its lodging management business. Arguably the largest impact on the company could come from impairment losses on its assets – we highlight that its assets in China was the only segment that witnessed a fair value loss in 2021 while other geographies saw fair value gains.
Valuetronics	0.8	1.0	27%	Almost the entire production facilities of Valuetronics are located in Huizhou, China. It has a small production facility in Vietnam.
Mapletree Logistics Trust	0.9	1.4	19%	MLT owns 42 logistics properties in China, which accounts for 16.2% of AUM as of Dec 21. Its tenants provide essential services and operations at its logistics properties, and it is business as usual at present. China accounted for 18.8% of MLT's revenue in 9MFY22.
Keppel Corp	0.7	1.0	18%	KEP's exposure to China is via its property segment and it is the company's largest exposure from a geographical standpoint with 43% and 34% of its residential and commercial portfolio located in China. As at end-21, the company had >18,000 residential units remaining for sale (or 2.1m sq metres). In 2022, it has over 3,200 units that will be launched across Shanghai, Wuxi, Tianjin, Nanjing and Kunming.
City Developments	0.7	0.8	13%	CDL's exposure to China comes mainly from its property development (mostly sold), business park (65% stake in Tusincere tech park in Shenzhen) and hospitality (new M Social in Suzhou). Around 9% of its landbank is in China. The company has stated that at this early stage, its Shenzhen tech park is unaffected.
DBS	0.8	1.6	9%	DBS China currently has a network of 12 branches and 23 sub-branches in Mainland China. It has also invested Rmb5.3b (S\$1.1b) to acquire a 13% stake in Shenzhen Rural Commercial Bank (SZRCB) in Apr 21, thus becoming its largest shareholder. Greater China (including Taiwan but excluding Hong Kong) accounted for 8.6% of total income in 2021 and 14.3% of total loans as of Dec 21. Loans denominated in Chinese Yuan accounted for 4.6% of total loans as of Dec 21.
Ascott Residence Trust	0.5	0.9	6%	ART divested Somerset Xu Hui Shanghai for Rmb1,050m (S\$217m) in Jun 21. Its remaining five properties located at Dalian, Shenyang, Suzhou, Tianjin and Wuhan were not affected by lockdowns. China accounted for 5.8% of ART's revenue in 2H21.
Raffles Medical Group	1.5	2.2	6%	RFMD's exposure to China is historically small at 6-7% of total annual revenue. However, the lockdown is expected to negatively impact RFMD's ramp up in bed utilisation for its Chinese hospitals as patients and doctors are unable to travel to the hospitals. We estimate that the EBITDA breakeven dates for RFMD's Chongqing and Shanghai hospitals could be pushed back by 5-6 months, depending on the duration of the lockdown.
Venture Corp	1.4	1.8	5%	Venture has historically not disclosed the revenue from China, however we note that manufacturing floor space in China made up only 5% of the group's total floor area.
Sembcorp Ind	0.5	1.2	3%	While SCI's exposure to China appears small at present, the company has recently acquired a meaningful position in renewables assets in China. Should COVID-19 lockdowns lead to lower energy demand, this could negatively affect the company's profitability. We highlight that at least two-thirds of the company's forecasted earnings growth of 19% in 2022 will come from these new acquisitions and thus its EPS growth this year could be at risk if the lockdowns expand in duration and scope.
Aztech Global	NA	2.4	3%	Although Aztech only derived 3% of revenue from China in 2021, its manufacturing floor space in Dongguan, China made up about 84% of the group's floor area.
Riverstone	2.3	2.1	5%	Riverstone's exposure to China in the past three years has been consistent at roughly 5-6% of annual revenue. As Chinese factories temporarily shut down due to the lockdown, Riverstone may see a slight uplift in revenue driven by spill-over demand redirected from China.
SATS	1.8	2.8	c.4%	Overall revenue exposure to mainland China is about 4%, mainly from central-kitchen businesses in a few 2nd and 3rd tier cities and the inflight catering and ground handling associates at the Beijing Airport.
ComfortDelGro	1.1	1.1	3%	Revenue exposure to China has historically been around 3-4% of total annual revenue, driven by its taxi operations. 70-75% of its taxi fleet is in Beijing which has escaped any major impacts from the lockdowns but smaller taxi fleets in Jilin and Shanghai may see a drop in taxi ridership levels. We expect CD's overall operating profit to soften slightly by 2-3% due to China's lockdown.
Singapore Airlines	0.6	0.7	c.3%	In our view, SIA is less affected by local lockdowns in China but could be relatively more affected by the strict air-travel restrictions and border controls that have been in place since the start of the pandemic. Mainland Chinese passengers comprised <3% of Changi airport's total arrivals over the past three months, compared to >10% before the COVID-19 pandemic.
ST Engineering	3.8	5.3	Not disclosed	STE's exposure to China is through various smart city-related projects in China as well as JVs that operate aerospace hangars in Shanghai, Guangzhou and Xiamen. According to STE, the company is currently unaffected by the lockdowns. STE noted that its China operations were not materially affected at the height of COVID-19 when China went into full lockdown in 2020.

Note: * of revenue or earnings from China in 2021
Source: UOB Kay Hian

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited (“UOBKH”), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report (“Information”) has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the “Subject Business”); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc (“UOBKHUS”), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W