Singapore Strategy

Navigating through murky waters

- We advocate a near-term defensive position in REITs and high dividend yield stocks. We remain upbeat on capital goods and construction laggards.
- Tech, banks and construction have mean-reverted. Going into 2H, we look for trough valuations and inflexion in pace of inflation and interest rate hikes.
- Keeping our end-2022 FSSTI target at 3,475. Top large-cap picks: ST, SCI, YZJSGD, VMS, OCBC, CICT, AREIT, LREIT, THBEV, STE.

Advocate keeping yield for near-term defensive strategy

1QCY22 results/update season was a relatively muted event with the number of beats outnumbering misses by a narrow margin. Inflationary cost pressures have dragged on operating margins across most sectors and led us to cut our earnings by 1.1-32.7% for FY22F and by 1.3-10.5% for FY23F. That said, we raised our projections for sectors that benefit from reopening and higher commodity prices, such as air transport and commodities on demand-led recovery, and banks on NIM upgrades. We expect the market to remain volatile with increased external risks. We advocate a near-term defensive position in REITs and high dividend yield stocks and remain constructive on capital goods.

We like domestic reopening plays, room for upside surprise

Despite rising external risks, the domestic economy has continued to hum along, aided by relaxation of safe management measures and reopening of borders that benefited the retail, land and air transport sectors. We like construction plays as a reopening laggard, as this sector has benefited from the easing of the labour crunch due to the reopening of travel borders. We believe building materials players (BRC Asia, Pan United) have room for earnings surprises this year in view of 1) steady recovery of construction activities in Singapore, and 2) faster-than-expected rise in building material prices. We also see potential upside surprises for recovery names (Thai Beverage, ComfortDelgro, SingPost) in view of the significant relaxation of Covid-19 measures post the Omicron wave.

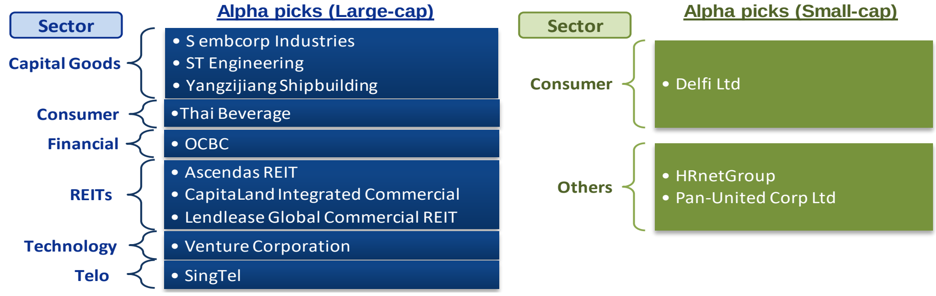
Keeping an eye out for value as we move into 2H

As we move into 2H22F and begin to focus on 2023F outlook and earnings, the market could start to look for inflexion points in inflation and interest rate trends and seek sectors with attractive valuations and robust earnings growth prospects. We note that the tech and bank sectors have reverted to mean valuations and priced in some of the slower growth expectations. While earnings may still have some downside risk and valuations are not at trough levels yet, we would keep an eye out for inflexion point indicators, such as 1) peaking of inflation outlook, which could provide improved visibility on costs, pricing strategy and margins particularly for manufacturers, and 2) assess demand outlook under a new normal of higher rates and inflation environment. For banks, a clearer interest rate outlook and improved economic activity could translate to better NIM or growth outlook.

We add OCBC and VMS to our top pick list

Going into 2H22F, our preferred picks are YZJSGD for yield, backed by high net cash positions, and ST for earnings recovery. We continue to like SCI for potential earnings upside surprise on the back of higher energy prices. We like OCBC as it offers attractive risk/reward profile at 1.04x P/BV. We also favour CICT and LREIT as reopening plays. We like THBEV for potential better than expected earnings while PanU is a construction sector laggard. Key downside risks remain slower consumption growth owing to purchasing power erosion and supply chain blockages that may need more time to sort out given China's zero-Covid strategy.

Figure 1: Alpha picks for 2022



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

Highlighted Companies

Lendlease Global Commercial REIT
ADD, TP S$1.05, S$0.80 close

We like LREIT for its resilient income backed by increased suburban retail exposure and the long lease structure in its Milan property while 313 is benefiting from reopening. The stock is trading at an attractive 6.1% FY6/22F yield.

Sembcorp Industries
ADD, TP S$2.96, S$2.85 close

SCI is a beneficiary of strong power prices in India (on the back of earlier-than-expected summer) and Singapore (high oil prices). Sembcorp Cogen (SCI's power arm) posted a turnaround in FY21 with a net profit of S$31.3m. We expect this trend to continue in 1H22F.

SingTel
ADD, TP S$3.30, S$2.73 close

We like Singtel for earnings recovery led by higher associate and Singapore roaming revenue. Digital banking, further asset monetisation and expansion into higher growth business areas may catalyse share price, in our view. Stock is trading at FY3/23F EV/EBITDA of 2.9x for Singtel Singapore and Optus (ex-associates' current market values), and offers FY22-24F yields of 3.3-5.1% p.a.

Most/Least preferred stocks

Sector	Most preferred	Least preferred
Financial	OCBC	UOB
Property	CIT, CLI	FPL
REITs	AREIT, CICT, LREIT	
Telcos	Singtel	
Transport	CD	SIA
Capital Goods	YZJSGD, STE	
Commodities	FR, WIL	GGR
Consumer/ Gaming	GENS, THBEV, DELFI	JUMBO
Manufacturing/ Gloves	AZTECH, RSTON	
Healthcare	QNM	

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Figure 2: Singapore Valuation

Prices as at BBG code	25-05-22 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
	Aviation																					
SIE SP	SIA Engineering	2.50	2.92	17%	Add	22%	2,038	Mar 22	1.69x	1.65x	1.61x	3.9%	5.1%	6.6%	44.6x	33.0x	24.6x	33.2%	-38%	-37%	1.5%	2.6%
SIA SP	Singapore Airlines	5.48	5.92	8%	Hold	40%	11,807	Mar 22	0.70x	0.68x	0.67x	0.9%	2.7%	2.1%	83.9x	26.0x	32.4x	na.	6%	8%	0.0%	0.0%
	Chemical																					
CSSC SP	China Sunsine Chemical H	0.44	0.67	52%	Add	35%	310	Dec 21	0.59x	0.53x	0.49x	13.5%	12.3%	11.4%	4.6x	4.5x	4.5x	-2.7%	-47%	-48%	4.4%	4.4%
JIUC SP	Jiutian Chemical Group Ltc	0.11	0.17	56%	Add	72%	157	Dec 21	0.96x	0.82x	0.71x	41.9%	23.8%	19.8%	2.6x	3.7x	3.8x	-3.9%	-86%	-86%	9.7%	9.0%
	Commodities																					
FR SP	First Resources Ltd	2.04	2.10	3%	Hold	20%	2,336	Dec 21	1.77x	1.68x	1.59x	18.9%	11.4%	10.9%	9.8x	15.1x	15.0x	2.9%	-2%	-6%	5.1%	3.3%
GGR SP	Golden Agri-Resources	0.28	0.30	7%	Hold	32%	2,578	Dec 21	0.52x	0.50x	0.48x	9.5%	4.3%	4.1%	5.5x	11.5x	11.6x	-21.8%	49%	39%	3.7%	1.8%
WIL SP	Wilmar International	4.10	5.69	39%	Add	31%	18,723	Dec 21	0.91x	0.87x	0.83x	8.8%	8.4%	8.7%	10.6x	10.6x	9.8x	1.9%	97%	86%	4.2%	4.2%
	Conglomerates																					
BOCS SP	Boustead Singapore Ltd	0.97	1.40	45%	Add	59%	338	Mar 21	1.09x	1.05x	na	8.8%	9.5%	na	12.4x	11.3x	na	na.	-70%	-74%	4.7%	4.7%
KEP SP	Keppel Corporation	6.75	7.20	7%	Add	60%	8,753	Dec 21	0.99x	0.96x	0.94x	7.0%	6.5%	6.2%	14.3x	14.9x	15.3x	-7.8%	70%	65%	3.9%	4.0%
SCI SP	Sembcorp Industries	2.81	2.96	5%	Add	50%	3,642	Dec 21	1.21x	1.08x	0.97x	10.8%	11.3%	10.6%	11.7x	10.2x	9.7x	22.9%	156%	148%	2.6%	3.0%
STE SP	ST Engineering	3.98	4.70	18%	Add	49%	9,008	Dec 21	4.96x	4.62x	4.23x	23.9%	26.5%	26.5%	21.2x	18.1x	16.6x	9.3%	175%	158%	4.0%	4.0%
	Construction and Materials																					
BOCJ SP	Boustead Projects Limited	0.94	1.40	50%	Add	29%	213	Mar 21	0.74x	0.72x	na	3.2%	3.5%	na	22.8x	20.7x	na	na.	-51%	-53%	1.0%	1.0%
BRC SP	BRC Asia Ltd	1.69	2.50	48%	Add	28%	337	Sep 21	1.20x	1.12x	na	19.2%	18.4%	na	6.5x	6.3x	na	na.	79%	71%	9.0%	9.5%
PAN SP	Pan-United Corp Ltd	0.40	0.56	40%	Add	26%	203	Dec 21	1.30x	1.24x	1.18x	11.6%	11.9%	11.8%	11.4x	10.7x	10.3x	13.4%	-14%	-21%	5.2%	5.6%
	Consumer Discretionary																					
DFI SP	Dairy Farm Int'l	2.69	2.90	8%	Hold	22%	3,640	Dec 21	2.83x	2.78x	2.72x	14.4%	19.2%	20.7%	19.8x	14.6x	13.3x	37.9%	82%	79%	4.6%	6.2%
SSG SP	Sheng Siong Group	1.55	1.60	3%	Hold	43%	1,692	Dec 21	5.22x	4.84x	4.50x	25.7%	25.0%	24.1%	21.1x	20.1x	19.4x	-3.3%	-49%	-51%	3.3%	3.5%
	Consumer Staples																					
DELFI SP	Delfi Ltd	0.75	1.09	46%	Add	43%	331	Dec 21	1.32x	1.25x	1.19x	10.6%	10.7%	10.6%	12.7x	12.0x	11.4x	3.6%	-27%	-31%	4.3%	4.3%
JAP SP	Japfa Ltd	0.60	0.81	36%	Add	19%	882	Dec 21	0.59x	0.54x	0.50x	6.6%	9.1%	8.8%	9.1x	6.2x	5.9x	4.0%	48%	47%	3.5%	3.5%
JUMBO SP	Jumbo Group Limited	0.27	0.30	11%	Hold	29%	126	Sep 21	4.23x	3.73x	na	-3.7%	21.8%	na	-112.1x	18.2x	na	na.	-2%	-11%	0.9%	4.0%
KMLY SP	Kimly Group	0.38	0.41	8%	Hold	48%	343	Sep 21	3.04x	2.72x	na	20.8%	20.3%	na	15.6x	14.2x	na	na.	-59%	-63%	3.9%	3.9%
THBEV SP	Thai Beverage	0.70	0.91	31%	Add	32%	12,676	Sep 21	2.30x	2.14x	na	15.7%	15.1%	na	15.2x	14.7x	na	na.	70%	56%	3.3%	3.4%
	Financial Services																					
CBA SP	Credit Bureau Asia Ltd	1.00	1.20	20%	Add	25%	167	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	30.50	40.20	32%	Add	71%	56,990	Dec 21	1.32x	1.20x	1.09x	13.9%	15.7%	15.2%	9.9x	8.0x	7.5x	15.3%	N.A>	N.A>	4.7%	4.7%
IFAST SP	iFAST Corporation Ltd	4.64	7.60	64%	Add	46%	987	Dec 21	9.78x	8.61x	6.98x	16.5%	24.6%	30.9%	58.2x	37.3x	24.9x	18.5%	-31%	-50%	0.9%	1.3%
OCBC SP	OCBC	11.56	14.20	23%	Add	80%	37,747	Dec 20	1.02x	0.95x	0.88x	10.9%	12.2%	12.5%	9.6x	8.1x	7.4x	13.3%	N.A>	N.A>	5.2%	5.2%
SGX SP	Singapore Exchange	9.76	10.40	7%	Add	72%	7,710	Jun 21	6.88x	6.42x	na	30.5%	29.0%	na	23.3x	22.9x	na	na.	-44%	-46%	3.3%	3.3%
UOB SP	United Overseas Bank	28.83	35.60	23%	Add	86%	35,053	Dec 21	1.07x	1.00x	0.92x	10.1%	11.3%	12.3%	10.9x	9.1x	7.8x	16.7%	N.A>	N.A>	4.3%	4.3%
	HealthCare																					
HYP SP	Hyphens Pharma Internatic	0.29	0.36	24%	Add	24%	65	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	0.49	0.73	51%	Add	31%	331	Dec 21	4.16x	3.74x	3.39x	28.1%	26.8%	26.0%	15.7x	14.7x	13.7x	8.6%	27%	20%	3.7%	4.1%
RFMD SP	Raffles Medical Group	1.14	1.33	17%	Hold	48%	1,537	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	0.73	1.00	37%	Add	24%	396	Dec 21	0.54x	0.51x	0.49x	6.5%	7.4%	7.5%	8.5x	7.1x	6.6x	18.4%	-13%	-18%	2.9%	3.5%
UGHC SP	UG Healthcare Corp Ltd	0.23	0.42	87%	Add	38%	102	Jun 21	0.58x	0.53x	na	14.2%	9.3%	na	4.3x	5.9x	na	na.	-54%	-61%	1.2%	0.8%
RSTON SP	Riverstone Holdings	0.76	1.10	46%	Add	33%	812	Dec 21	1.71x	1.61x	1.51x	15.3%	14.1%	12.7%	10.6x	11.7x	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	25-05-22	Closing	Target	% up /		Free Float	Market Cap	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.	(%)	(US$m)	end	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	CY22F	CY23F	CY24F	forward	FY22F	FY23F	CY22F	CY23F
	Land Transport																					
CD SP	ComfortDelGro	1.42	1.80	27%	Add	100%	2,234	Dec 21	1.10x	1.08x	1.06x	7.5%	8.1%	8.2%	15.0x	13.5x	13.0x	15.5%	-21%	-24%	5.3%	5.9%
SBUS SP	SBS Transit Ltd	2.86	3.40	19%	Add	26%	648	Dec 21	1.41x	1.32x	1.23x	11.0%	12.1%	12.5%	13.1x	11.3x	10.2x	9.0%	-46%	-61%	3.8%	4.4%
	Oil Equipment and Services																					
CSE SP	CSE Global	0.46	0.54	17%	Add	71%	171	Dec 21	1.21x	1.16x	1.09x	9.2%	11.6%	12.9%	13.2x	10.2x	8.7x	21.5%	20%	14%	6.0%	6.0%
SMM SP	Sembcorp Marine	0.11	0.09	-18%	Hold	45%	2,507	Dec 21	0.96x	0.98x	1.01x	-7.4%	-3.0%	-2.3%	-7.0x	-33x	-42.6x	-72.9%	61%	82%	0.0%	0.0%
YZJSGD SP	Yangzijiang Shipbuilding	0.90	1.63	81%	Add	61%	2,582	Dec 21	0.99x	0.90x	0.81x	14.7%	16.8%	16.9%	7.1x	5.7x	5.1x	16.0%	-28%	-33%	5.6%	7.2%
	Property																					
APAC SP	APAC Realty Ltd	0.59	0.93	58%	Add	27%	152	Dec 21	1.34x	1.23x	1.13x	18.4%	19.6%	20.0%	7.2x	6.5x	5.9x	0.3%	-11%	-20%	10.4%	11.5%
CLI SP	Capitaland Investment	3.84	4.59	20%	Add	48%	14,308	Dec 21	1.15x	1.10x	1.05x	5.7%	5.7%	6.0%	20.7x	19.7x	17.8x	-13.7%	47%	49%	1.7%	1.8%
CIT SP	City Developments	8.02	8.97	12%	Add	60%	5,281	Dec 21	0.72x	0.64x	0.60x	5.1%	6.9%	4.4%	15.6x	9.8x	14.2x	na.	71%	58%	2.5%	2.5%
FPL SP	Frasers Property Limited	1.08	1.41	31%	Add	12%	3,079	Sep 21	0.37x	0.35x	na	2.5%	2.4%	na	15.1x	15.2x	na	na.	72%	65%	3.0%	3.9%
HOBEE SP	Ho Bee Land	2.77	2.70	-2%	Add	25%	1,335	Dec 19	0.47x	na	na	3.9%	na	na	12.3x	na	na	na.	61%	N.A>	3.6%	na
HKL SP	Hongkong Land Holdings L	4.66	6.10	31%	Add	49%	10,876	Dec 21	0.31x	0.28x	0.26x	2.8%	2.7%	2.7%	10.9x	10.8x	10.3x	2.9%	17%	17%	4.7%	4.7%
PROP SP	Propnex Ltd	1.70	2.07	22%	Add	17%	457	Dec 21	5.63x	5.10x	4.64x	43.9%	42.9%	40.6%	12.9x	12.5x	12.0x	-4.1%	-134%	-129%	6.2%	6.4%
UOL SP	UOL Group	7.28	8.00	10%	Add	54%	4,464	Dec 21	0.59x	0.58x	0.58x	3.3%	3.2%	2.7%	18.4x	18.2x	21.8x	6.4%	23%	22%	2.4%	2.4%
WINGT SP	Wing Tai Holdings	1.75	1.98	13%	Add	50%	970	Jun 20	0.34x	na	na	2.0%	na	na	17.9x	na	na	na.	8%	6%	2.9%	na
	REITS																					
AREIT SP	Ascendas REIT	2.69	3.20	19%	Add	80%	8,199	Dec 21	1.09x	1.09x	1.09x	6.7%	6.9%	7.1%	16.5x	15.9x	15.4x	4.0%	55%	55%	6.1%	6.4%
ART SP	Ascott Residence Trust	1.13	1.24	10%	Add	60%	2,697	Dec 21	0.97x	0.99x	1.00x	1.9%	3.4%	4.7%	50.5x	28.4x	21.0x	53.9%	57%	59%	4.4%	5.7%
ALLT SP	ARA Logos Logistics Trus	0.85	0.92	8%	Add	89%	897	Dec 21	1.22x	1.23x	1.23x	4.8%	4.9%	5.1%	25.5x	24.7x	24.2x	3.0%	72%	72%	6.0%	6.1%
CICT SP	CapitaLand Integrated Cor	2.21	2.57	16%	Add	74%	10,638	Dec 21	1.12x	1.12x	1.12x	5.5%	5.8%	5.9%	19.9x	19.4x	18.9x	-1.6%	73%	73%	5.0%	5.1%
CDREIT SP	CDL Hospitality Trust	1.27	1.38	9%	Add	64%	1,139	Dec 21	0.98x	1.00x	1.02x	1.8%	3.3%	4.6%	54.9x	29.6x	21.9x	40.0%	67%	68%	4.0%	5.4%
ELITE SP	Elite Commercial REIT	0.65	0.76	18%	Add	76%	386	Dec 21	1.07x	0.92x	0.92x	8.1%	8.2%	7.7%	13.2x	12.1x	12.0x	-2.5%	70%	62%	7.8%	8.4%
EREIT SP	ESR-REIT	0.40	0.47	20%	Add	61%	1,914	Dec 21	1.01x	1.03x	1.04x	6.2%	6.5%	7.2%	15.4x	15.6x	14.3x	22.1%	71%	73%	7.3%	7.4%
FEHT SP	Far East Hospitality Trust	0.65	0.78	21%	Add	45%	929	Dec 21	0.78x	0.78x	0.78x	3.2%	4.2%	5.0%	24.6x	18.3x	15.5x	25.6%	41%	40%	4.4%	5.6%
FCT SP	Frasers Centrepoint Trust	2.32	2.75	19%	Add	59%	2,866	Sep 21	1.01x	1.01x	na	5.2%	5.3%	na	19.6x	19.3x	na	na.	45%	44%	5.4%	5.5%
FLT SP	Frasers Logistics & Comm	1.33	1.56	17%	Add	70%	3,564	Sep 21	1.03x	1.04x	na	6.2%	5.9%	na	17.0x	17.7x	na	na.	31%	31%	6.1%	6.0%
KDCREIT SI	Keppel DC REIT	1.95	2.62	34%	Add	76%	2,432	Dec 21	1.46x	1.46x	1.46x	7.5%	7.9%	8.1%	19.5x	18.4x	17.9x	-16.7%	49%	49%	5.2%	5.5%
KREIT SP	Keppel REIT	1.17	1.29	10%	Add	54%	3,162	Dec 21	0.90x	0.91x	0.92x	3.1%	3.4%	3.3%	28.6x	27.0x	27.6x	-2.7%	46%	47%	5.0%	5.1%
LREIT SP	Lendlease Global Commer	0.79	1.05	33%	Add	75%	1,306	Jun 21	0.79x	1.01x	na	5.1%	6.0%	na	15.3x	14.8x	na	na.	75%	76%	6.3%	6.7%
MUST SP	Manulife US REIT	0.59	0.86	46%	Add	94%	1,041	Dec 21	0.88x	0.89x	0.90x	7.7%	8.0%	8.3%	11.3x	11.0x	10.6x	59.7%	75%	75%	9.7%	10.4%
MCT SP	Mapletree Commercial Tru	1.76	2.18	24%	Add	66%	4,253	Mar 22	1.01x	1.02x	1.02x	5.9%	6.3%	6.4%	17.3x	16.1x	15.8x	10.4%	50%	51%	5.5%	5.6%
MAGIC SP	Mapletree North Asia Com	1.21	1.13	-6%	Hold	61%	3,110	Mar 22	0.99x	1.01x	1.02x	4.1%	4.7%	4.7%	24.0x	21.3x	21.7x	16.6%	69%	71%	6.2%	6.3%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Singapore Valuation - cont'd

Prices as at	25-05-22	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	2.42	3.08	27%	Add	73%	4,704	Mar 22	1.29x	1.29x	1.29x	7.4%	7.4%	7.7%	17.9x	17.3x	16.7x	3.5%	53%	54%	5.7%	5.9%
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	4.91	5.05	3%	Hold	64%	2,157	Dec 20	2.02x	1.69x	1.69x	6.1%	5.8%	5.2%	33.8x	31.7x	32.8x	1.0%	55%	49%	2.9%	2.9%
SASSR SP	Sasseur REIT	0.83	1.06	28%	Add	24%	737	Dec 21	0.84x	0.85x	0.85x	6.9%	7.3%	7.6%	12.1x	11.6x	11.1x	6.0%	28%	27%	8.9%	9.2%
SPHREIT SP	SPH REIT	0.94	0.95	1%	Hold	32%	1,915	Aug 21	1.04x	1.05x	na	5.8%	5.9%	na	18x	17.8x	na	na.	41%	41%	5.6%	5.6%
SGREIT SP	Starhill Global REIT	0.57	0.67	18%	Add	65%	927	Jun 21	0.68x	0.68x	na	4.5%	4.9%	na	15.2x	13.8x	na	na.	56%	56%	6.6%	7.2%
SUN SP	Suntec REIT	1.68	1.79	6%	Hold	92%	3,501	Dec 21	0.80x	0.81x	0.81x	4.1%	4.3%	4.2%	19.3x	18.7x	19.2x	5.2%	72%	72%	6.2%	6.3%
	Services																					
GKEC SP	GKE Corp Ltd	0.10	0.16	60%	Add	61%	56	May 21	0.78x	0.71x	na	11.0%	12.8%	na	7.3x	5.8x	na	na.	35%	24%	3.4%	4.3%
HRNET SP	HRnetGroup Limited	0.72	1.15	61%	Add	20%	521	Dec 21	1.81x	1.66x	na	17.4%	16.9%	31.7%	10.8x	10.2x	10.5x	1.6%	-87%	-88%	4.6%	4.9%
SPOST SP	Singapore Post Ltd	0.68	0.90	32%	Add	62%	1,111	Mar 22	1.15x	1.12x	1.08x	6.7%	7.9%	8.7%	16.8x	14.4x	12.6x	16.9%	20%	14%	3.0%	3.5%
	Technology																					
AEM SP	AEM Holdings Ltd	4.28	6.85	60%	Add	88%	961	Dec 21	2.70x	2.23x	1.90x	26.5%	25.0%	21.9%	11.2x	9.8x	9.4x	13.2%	-41%	-56%	2.2%	2.6%
AZTECH SP	Aztech Global Ltd	0.87	1.59	83%	Add	30%	488	Dec 21	1.99x	1.72x	1.51x	28.6%	28.2%	27.0%	7.4x	6.5x	5.9x	11.0%	-60%	-58%	6.7%	7.6%
FRKN SP	Frencken Group Ltd	1.15	1.77	54%	Add	76%	357	Dec 21	1.17x	1.05x	0.94x	14.8%	15.3%	15.0%	8.3x	7.2x	6.6x	7.7%	-26%	-32%	3.6%	4.1%
GVTL SP	Grand Venture Technology	0.80	1.29	61%	Add	41%	197	Dec 21	2.21x	1.81x	1.50x	19.8%	24.5%	23.6%	12.0x	8.1x	7.0x	23.3%	10%	-1%	1.7%	2.5%
ISDN SP	ISDN Holdings Ltd	0.55	0.96	76%	Add	54%	174	Dec 21	1.09x	0.97x	0.87x	14.4%	14.7%	14.7%	7.9x	7.0x	6.3x	14.3%	-17%	-24%	3.1%	3.6%
NANO SP	Nanofilm Technologies Int'	2.41	3.50	45%	Add	45%	1,151	Dec 21	3.24x	2.82x	2.44x	17.6%	18.8%	18.8%	19.7x	16.1x	13.9x	22.5%	-30%	-30%	1.3%	1.6%
SILV SP	Silverlake Axis Ltd	0.32	0.40	27%	Add	25%	612	Jun 21	2.24x	1.94x	na	17.4%	16.9%	na	13.5x	12.3x	na	na.	-67%	-70%	2.2%	2.4%
UMSH SP	UMS Holdings Ltd	1.14	1.63	43%	Add	83%	552	Dec 21	2.41x	2.13x	1.88x	24.5%	22.3%	21.0%	10.5x	10.1x	9.5x	14.5%	-10%	-20%	4.4%	4.4%
VMS SP	Venture Corporation	16.99	23.32	37%	Add	93%	3,586	Dec 21	1.73x	1.63x	1.53x	13.0%	13.3%	13.2%	13.7x	12.7x	12.0x	9.8%	-33%	-38%	4.4%	4.4%
VPS SP	Vicplas International Ltd	0.20	0.28	40%	Add	26%	74	Jul 21	1.22x	1.09x	na	14.5%	14.4%	na	8.9x	8.0x	na	na.	-2%	-7%	2.8%	3.1%
	Telecommunications																					
NETLINK SP	Netlink NBN Trust	0.99	1.10	11%	Add	75%	2,801	Mar 22	1.46x	1.52x	1.58x	3.9%	4.0%	4.3%	36.8x	37.1x	35.9x	1.8%	19%	19%	5.2%	5.3%
ST SP	SingTel	2.64	3.30	25%	Add	50%	31,642	Mar 21	1.54x	1.49x	1.44x	8.7%	10.0%	11.4%	18.1x	15.1x	12.8x	21.1%	27%	27%	4.2%	5.0%
STH SP	StarHub	1.23	1.40	14%	Hold	34%	1,546	Dec 21	3.7x	3.6x	3.5x	14%	17%	18%	26.8x	21.7x	19.7x	-9.9%	139%	129%	4.1%	4.1%
	Transport Infrastructure																					
SATS SP	SATS Ltd	4.48	4.77	6%	Add	56%	3,650	Mar 21	3.22x	3.13x	na	6.3%	13.2%	na	52.8x	24.6x	na	na.	3%	3%	2.0%	3.3%
	Travel and Leisure																					
GENS SP	Genting Singapore	0.78	0.92	18%	Add	47%	6,837	Dec 21	1.18x	1.16x	1.13x	3.1%	5.6%	6.1%	38.7x	20.7x	18.8x	52.3%	-37%	-34%	3.2%	3.2%
FSSTI		**3,180**																				

Note: Calendarized data unless otherwise stated

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Navigating through muddy waters

1QCY22 results/update season was a relatively muted event, although previously flagged pain points such as inflationary cost pressures have dragged on operating margins across most sectors. Overall, we cut our earnings by 1.1-32.7% for FY22F and by 1.3-10.5% for FY23F for the various sectors post results, but had raised our projections for sectors that would benefit from the reopening and higher commodity prices, such as air transport and commodities on demand-led recovery and banks on NIM upgrades.

That said, corporates flagged that they have started to pass on the higher input costs, such as Japfa, Sheng Siong and THBEV, although there will likely be a time lag before the costs are fully passed through while the quantum of pass through, all or in part, is yet to be seen.

Based on various management guidance, the one sentiment that keeps popping up amongst the different sectors is that demand has not been an issue and visibility for the rest of this year remains robust but disappointments may come from cost pressures and supply chain blockages. The only outlier in this scenario are Chinese companies, such as China Sunsine, JUIC and HLA, which have guided for a weaker demand outlook due to a slowdown and Covid lockdowns in China.

Rising external risks but domestic economy recovering

In its latest announcement, Singapore has revised its 1Q22 GDP growth higher to 3.7% yoy (vs. its advance estimate of +3.4% yoy) released in April. This translates to 0.7% qoq growth. Growth was underpinned by a robust manufacturing sector, led by electronics, transport engineering and general manufacturing, while construction and services also recorded expansion.

However, while the official estimate for Singapore's full-year GDP growth has been maintained at 3-5% for 2022F, the government now expects GDP growth to "likely come in at the lower half of the forecast range". In a release by the Ministry of Trade and Industry, the government highlighted that i) the Russia-Ukraine conflict, ii) global supply disruptions, iii) monetary policy tightening stance in the advanced economies and iv) Covid-19 risks, have weakened Singapore's economic outlook. That said, the re-opening of borders and relaxation of safe management measures have spurred a return to post-Covid normalcy and have had a positive impact on the domestic economy, while the easing of the labour crunch has also aided in the recovery of the construction, maritime and some manufacturing industries.

Meanwhile, Singapore's core consumer price index continued to rise for the month of April 2022 by 3.3%, up from 2.9% in Mar, on the back of higher cost of food and other goods as well as electricity and gas prices. This is the highest level since early 2012. Headline inflation came in at 5.4%, steady mom, as growth in private transport costs eased.

The Monetary Authority of Singapore (MAS) and Ministry of Trade and Industry (MTI) indicated that private transport and accommodation inflation are expected to stay firm in the near term. They reiterated that core inflation will be significantly above its historical average through the year and could continue to rise in the coming months before retreating towards year end. The official forecasts for Singapore is between 2.5-3.5% (core inflation) and 4.5-5.5% (headline inflation) for 2022F.

Against this backdrop of heightened inflation and interest rates as well as rising external risks, we would advocate investors to adopt a near-term defensive strategy, looking for shelter in yield stocks and REITs and focus on domestic plays as a beneficiary of the reopening economy.

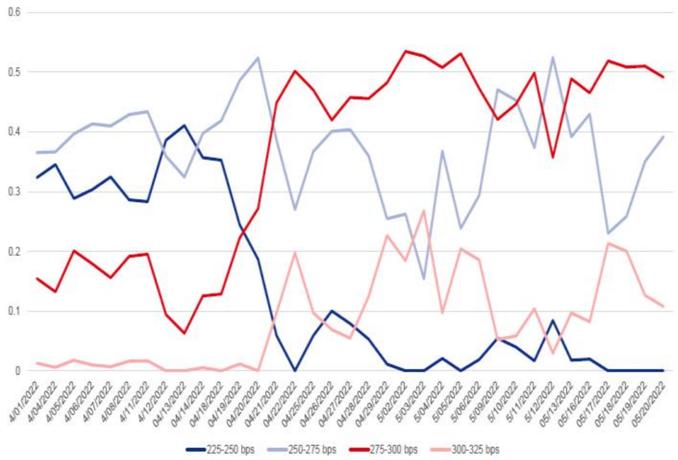
Staying defensive in 2Q

Mitigating inflation with high dividend yield stocks

In the near term, with inflation accelerating and interest rates rising, we believe investors would look for downside risk protection as well as for real returns. We believe companies with a historically high dividend yield and also those with a net cash position should be able to maintain or increase their dividend payout ratio. Share buybacks have also picked up. Furthermore, we believe companies are likely to adopt a cautious inorganic growth stance as M&A valuations remain opaque due to an uncertain outlook on cost and margins.

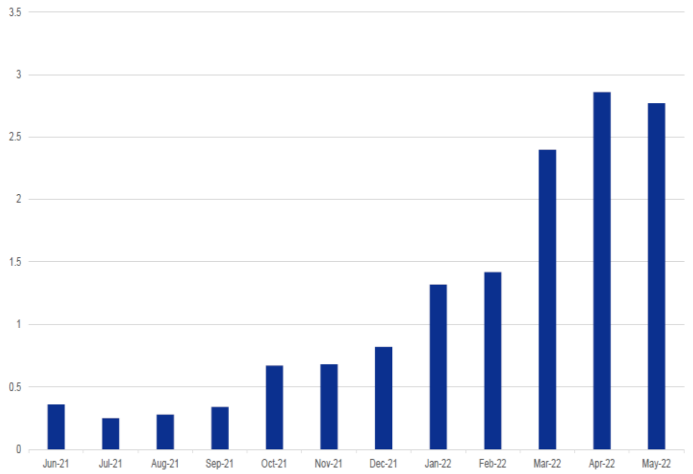
We also continue to like REITs. In addition, according to our Chief Investment Strategist, Lim Say Boon, the Fed Funds Futures market's pricing of rates probabilities by end-2022F has been drifting sideways over the recent week and this could mean that, near term, there may be a temporary peak in rates fears.

Figure 5: Fed Funds Futures Probability Pricing of Fed Rate by end-2022F



SOURCES: CGS-CIMB RESEARCH, CME Group

Figure 6: Fed Fund Rate Expected by market by end-2022F (%)

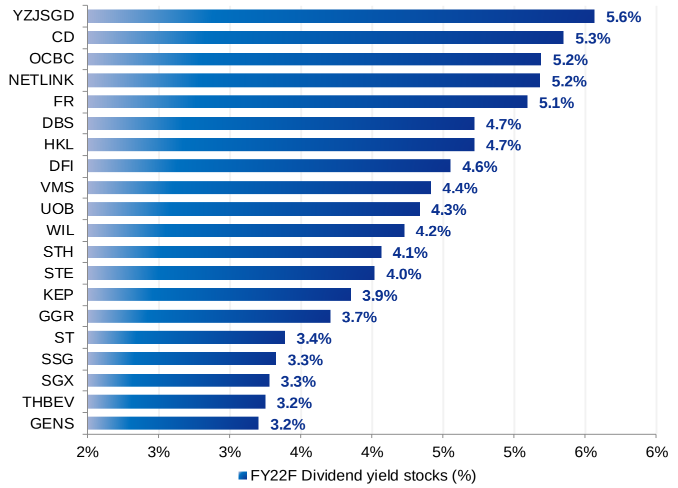


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

We screen our coverage universe and list stocks with a projected high FY22F dividend yield as well as those in a net cash position as at end-2021. The top 5 highest projected dividend yielding companies (excluding REITs) are YZJSGD, CD, OCBC, FR and HKL. Amongst these, YZJSGD's, CD's and FR's dividend yields are backed by net cash positions while VMS has the highest net cash/share.

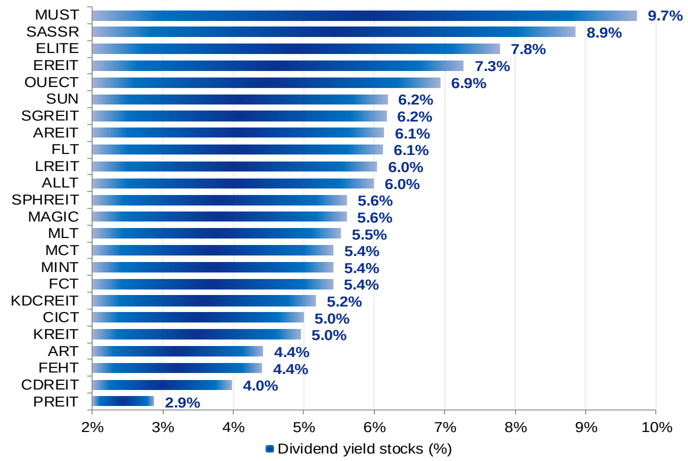
The REIT sector is currently trading at 5.5% FY22F DPU yield, above the STI's 4.2% yield. With the bond yield curve remaining flat and a strong S$, we believe SREITs would likely continue to hold up well. Furthermore, we project SREITs to deliver sector growth of c.6% in FY22F and a further 3% in FY23F, thanks to organic improvements and contributions from new acquisitions. Within the REITs space, our picks are CICT, AREIT and LREIT.

Figure 7: FY22F Top 20 dividend yield stocks (%) (Mkt Cap >US$1bn, excl. REITs)



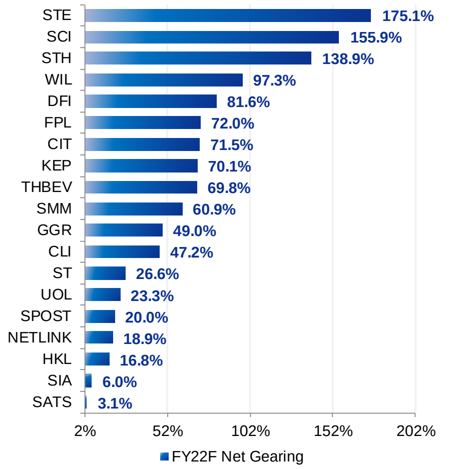
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS (as at 25 May 22)

Figure 8: FY22F REITs dividend yield stocks (%)



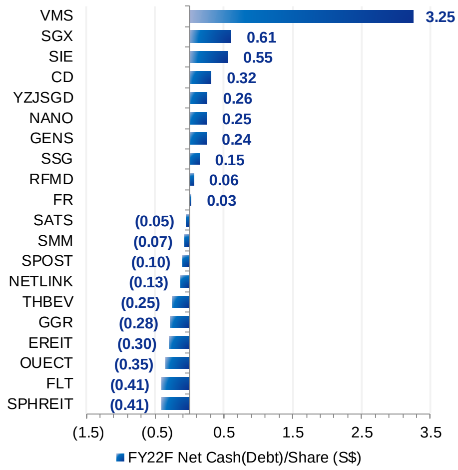
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS (as at 25 May 22)

Figure 9: FY22F Top Net Gearing (Mkt Cap >US$1bn, excl. REITs)



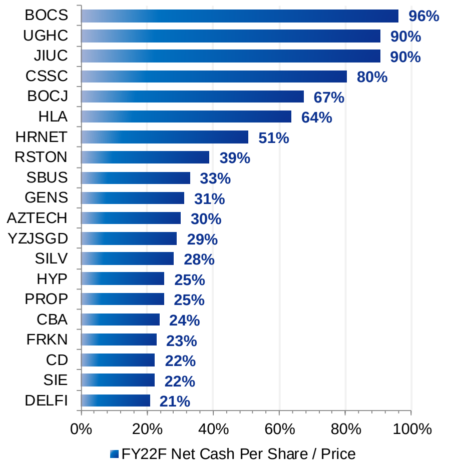
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS (as at 25 May 22)

Figure 10: FY22F Top 20 Net Cash(Debt)/Share (S$) (Mkt Cap >US$1bn)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS (as at 25 May 22)

Figure 11: FY22F Top 20 Net Cash Per Share / Price



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS (as at 25 May 22)

Any potential for earnings upside surprise?

Domestic plays could surprise on the upside

The post Covid recovery has been uneven among the different sectors. Relaxation of safe management measures has benefited domestic reopening plays such as retail and land transport, while the reopening of borders provided tailwinds to the air transport segment. At the same time, while some sectors such as construction have benefited from the easing of the labour crunch due to the reopening of travel borders, these remain laggards to date.

We believe building materials players (BRC Asia, Pan United) have room for net earnings surprise this year, in view of 1) steady recovery of construction activities in Singapore, and 2) faster-than-expected rise in building material prices. According to Building and Construction Authority, along with a recovery in construction activities, demand for steel rebar is expected to grow 11-33% yoy in 2022F, while demand for ready-mix concrete is expected to grow 7-20% yoy during the period. Currently, our revenue forecasts for BRC Asia and Pan United of 29% and 20% growth yoy for FY22F, respectively, reflect conservatism in view of the rapidly rising prices – steel rebar/ready-mix concrete rose 32%/19% yoy, respectively, in Apr 2022, according to Building and Construction Activity. In our view, the higher costs can be passed on, and if so, this would enable building materials players to sustain margins. Thus, we see upside risk to our earnings and consensus forecasts for FY22F.

We also see potential upside surprises for recovery names (Thai Beverage, ComfortDelgro, SingPost) in view of the significant relaxation of Covid measures post Omicron wave. Singapore's relaxation of Covid measures largely began in early Apr and hence, have not been reflected in the recent 1Q financial numbers/business updates. However, we note that multiple indicators saw a significant improvement in Apr. For example, public transport ridership recovered to 78% of pre-Covid levels in the last week of Apr 22 (first week of Jan: 67%), according to Land Transport Authority (LTA). ComfortDelgro also noted that taxi drivers' daily earnings have now exceeded pre-pandemic levels. Passenger traffic through Changi Airport has also recovered well, according to Transport Minister S. Iswaran, doubling in Apr to reach 40% of pre-pandemic levels, bringing Singapore near its target of 50% (a goal it had set out to reach by end-2022F). Meanwhile, Thai Beverage should also benefit from Thailand's relaxation of Covid policies. While Thailand has been rather conservative in its reopening stance (prior to the Songkran festival in Apr, fearing it could be a super-spreader event), Covid cases continued on a downtrend during the month, which enabled the government to act more decisively in reopening. On 20th May, it was announced that bars, pubs and karaoke clubs will be allowed to reopen in some regions from June onwards, ending more than a year-long shutdown, which should benefit THBEV's alcohol sales.

Figure 12: Top 15 CGS-CIMB EBIT Margin vs Consensus (x)

	CGS-CIMB EBIT Margin			Consensus EBIT MARGIN			CGS-CIMB/ Consensus (x)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
KEP SP	16.4%	15.7%	15.4%	11.8%	12.4%	10.8%	1.39	1.26	1.42
HLA SP	5.0%	5.5%	5.6%	3.6%	4.2%	4.8%	1.38	1.32	1.17
SIA SP	-9.8%	9.4%	8.2%	-7.8%	5.5%	7.8%	1.25	1.70	1.05
SBUS SP	5.7%	6.5%	7.4%	4.6%	5.4%	7.4%	1.25	1.20	1.00
SCI SP	12.3%	13.8%	14.1%	10.6%	11.3%	11.8%	1.16	1.22	1.19
WIL SP	4.6%	5.1%	5.4%	4.0%	4.1%	4.1%	1.13	1.24	1.33
THBEV SP	15.9%	15.5%	15.6%	14.5%	14.5%	14.5%	1.10	1.07	1.08
CD SP	8.6%	9.2%	9.6%	7.9%	8.8%	9.0%	1.08	1.05	1.07
BRC SP	5.9%	6.0%	6.1%	5.5%	5.7%	5.8%	1.08	1.06	1.04
CLI SP	65.5%	64.4%	68.8%	60.5%	61.6%	65.7%	1.08	1.05	1.05
CBA SP	47.7%	47.8%	47.8%	44.1%	44.2%	45.0%	1.08	1.08	1.06
GVTL SP	18.9%	22.6%	22.2%	17.6%	20.0%	21.9%	1.07	1.13	1.01
FRKN SP	8.6%	9.3%	9.6%	8.1%	8.6%	9.3%	1.06	1.08	1.03
PAN SP	4.7%	4.8%	4.9%	4.4%	4.4%	4.7%	1.05	1.10	1.06
SGX SP	49.5%	49.0%	48.6%	47.4%	52.2%	55.1%	1.04	0.94	0.88

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 13: Top 15 CGS-CIMB EBITDA Margin vs Consensus (x)

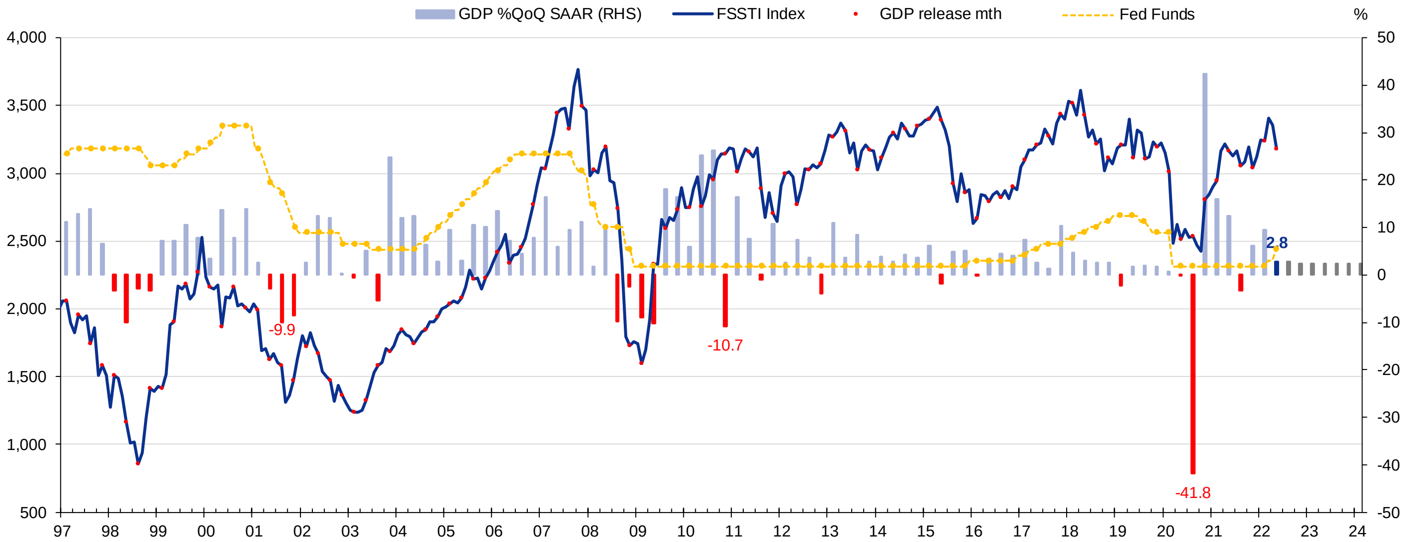
	CGS-CIMB EBITDA Margin			Consensus EBITDA MARGIN			CGS-CIMB/ Consensus (x)		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
SBUS SP	13.3%	14.0%	14.8%	8.5%	9.3%	14.8%	1.57	1.51	1.00
HLA SP	6.2%	6.7%	7.0%	4.6%	5.2%	7.0%	1.35	1.29	1.00
BRC SP	7.0%	6.9%	6.9%	5.9%	5.7%	6.4%	1.18	1.21	1.07
KMLY SP	27.2%	27.2%	27.6%	24.3%	23.8%	22.5%	1.12	1.14	1.23
KEP SP	16.9%	16.5%	15.9%	15.7%	16.1%	16.0%	1.08	1.02	1.00
CD SP	19.6%	20.1%	20.5%	18.5%	19.2%	18.5%	1.06	1.05	1.11
WIL SP	6.0%	6.7%	7.1%	5.7%	5.8%	5.8%	1.05	1.15	1.22
THBEV SP	18.2%	17.8%	17.8%	17.4%	17.1%	16.9%	1.05	1.04	1.06
UMSH SP	33.9%	32.5%	32.6%	32.7%	32.2%	31.5%	1.04	1.01	1.04
SCI SP	16.0%	17.0%	16.6%	15.6%	16.5%	17.5%	1.03	1.03	0.95
CSSC SP	20.6%	19.5%	19.1%	20.0%	18.8%	18.4%	1.03	1.04	1.04
DELFI SP	13.1%	13.1%	13.0%	12.9%	13.1%	13.0%	1.02	1.00	1.00
NANO SP	40.5%	41.0%	40.8%	39.7%	37.4%	36.3%	1.02	1.09	1.12
CBA SP	53.7%	53.6%	54.4%	52.7%	52.6%	54.5%	1.02	1.02	1.00
ST SP	25.3%	25.4%	26.0%	25.0%	25.2%	25.4%	1.01	1.01	1.02

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Keeping an eye out for value

The Singapore market has been relatively resilient, with the STI up 2.4% YTD, supported by earnings growth and strong S$, and market valuations are not excessive at 11.2x CY22F PE (midway between -1 s.d. and -1.5 s.d. from its mean) vs. net profit growth of 17% (12.2% ex-SIA), in our view. The near-term outlook is not great but neither is it all doom and gloom. Our base case currently assumes a no stagflation scenario, but a period of sub-par growth.

Figure 14: Singapore GDP %QOQ SAAR



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

The key question is how much of these concerns are built into current corporate profits and how much of the negatives have been factored into the share prices. While we have cut our earnings post 1Q22 results, we think there could still be a possibility of further earnings cuts as we move into 2Q/1H reporting season, which would provide greater granularity on numbers. That said, our analysts indicate that the risk of cuts in our current numbers remain on the lower end of our expectations at this juncture.

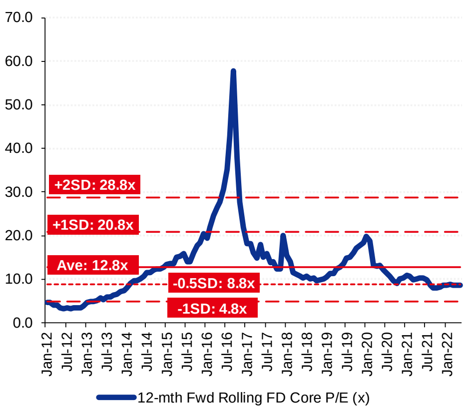
Going forward, as we move into 2H22 and begin to focus on the 2023F outlook and earnings, market could start to look for inflexion points in inflation and interest rate trends and seek sectors with attractive valuations with earnings growth prospects.

Mean-reverted but not quite there yet

Amongst the different sectors, we note that forward PE multiple valuations of the construction, tech and banks sectors have mean-reverted and are trading at -0.5 s.d. to below -1 s.d. levels while capital goods and gaming sectors are trading at +0.5-1 s.d. EV/EBITDA basis.

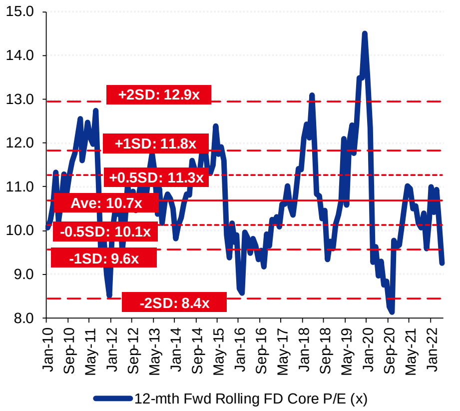
While valuations are not at trough levels, we would keep an eye out on inflexion point indicators such as peaking of inflation outlook that could provide improved visibility on costs, particularly for manufacturers and contractors and enable them to adopt an effective pricing strategy to preserve margins. For banks, a clearer interest rate outlook and improved economic activity could translate to a better loan growth outlook. The risk to this view is erosion of consumer purchasing power due to higher inflation and slower growth outlook.

Figure 15: Construction sector forward P/E chart



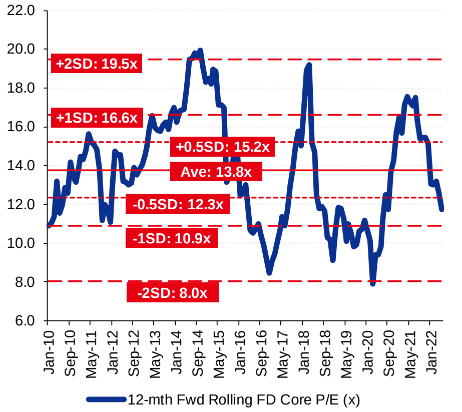
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: Banks' forward P/E chart



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 17: Tech sector forward P/E chart



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Stock picks

We continue to like stocks that i) offer attractive yields and/or are backed by a high net cash position; ii) companies that are exposed to the domestic reopening story; and iii) beneficiaries of higher energy prices.

SCI (Add, TP S$2.96) is a beneficiary of strong power prices in India (on the back of earlier-than-expected summer) and Singapore (high oil prices). Sembcorp Cogen (SCI's power arm) posted a turnaround in FY21 with a profit of S$31.3m vs. S$167m losses in FY20. We expect this trend to continue in 1H22F.

We believe **STE (Add, TP S$4.70)** is well positioned for further recovery in aviation activity as borders continue to reopen. We expect further ramp-up for engine & component MRO works and nacelle productions. Urban Solutions should continue to benefit from digitalization trends as well as contribution from newly acquired TransCore (revenue contribution will be seen from 2Q22F onwards). Order book is at an all-time record high of S$21.3b which we believe accords earnings visibility. Our blended TP is based on 20.7x FY23F P/E, DCF, and 4% dividend yield.

YZJ shipbuilding's (Add, TP S$1.63) value proposition is its strong shipbuilding execution, attractive valuations of 6x CY23F P/E, and potential higher dividend payout (dividend yield of 5.7%).

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 in Thailand. 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.14.4x FY22F (1.1 s.d. below its 10-year historical average), and below regional peers' 22.9x.

OCBC (Add, TP S$14.20) is our top pick in the banks sector given its relatively more attractive risk-reward profile. The bank has positioned itself to benefit from wealth and cross-border flows between Greater China and ASEAN, and its c.63% CASA ratio supports robust NIM expansion to come. That said, although its c.15% CET1 ratio allows for strategic M&A opportunities, clarity on its capital management plans remain an overhang on the stock. The bank trades at a c.30% discount (1.04x FY22F P/BV) to its peak valuation of 1.5x P/BV during the previous rate hike cycle.

We like **Singtel (ST SP, Add, TP: S$3.30)** for earnings recovery as we project its core EPS to rebound 30.0%/17.3% yoy in FY23F/24F, driven by higher associate earnings at Bharti and Telkomsel and a full-year impact of Singapore's roaming revenue recovery post-Covid-19. Singtel's digital banking licences in Singapore and Malaysia, coupled with its potential entry into the digital banking business in Indonesia, further asset monetisation at lucrative valuations, as well as expansion into higher growth business areas (e.g. regional data centres) may also stir up more investor interest, in our view. Its current share price implies an FY3/23F EV/EBITDA of just 2.9x for Singtel Singapore and Optus (after deducting the associates' current market values), and decent FY22-24F yields of 3.3-5.1% p.a.

Based on management's outlook statement, we think that **Venture Corp (VMS SP, Add, TP S$23.32)** could see qoq net profit growth in 2Q22F. Venture reported a net profit of S$75.1m for 2Q21 and S$84.0m for 1Q22. We note that if 2Q22F net profit is the same level as 1Q22, then Venture could potentially see a minimum of 11.85% yoy net profit growth for 2Q22F. In FY18-19, Venture reported a net profit of S$363-370m. If Venture's net profit for FY22F can revert to these levels (driven by the steady outlook across its various product segments for FY22F), net profit could potentially grow 16.34-18.58% yoy. Our current FY22F net profit is S$359.5m representing a potential 15.22% yoy net profit growth.

We believe that **CICT (Add, TP S$2.57)** 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. Rerating catalysts are more clarity on new acquisitions and asset enhancement/redevelopment plans. Meanwhile **AREIT's (Add, TP S$3.20)** valuations look attractive at a projected FY22F yield of 5.8%. With a gearing of 36.8% at end-1Q22, AREIT is well placed to pursue inorganic growth. Operating performance remains robust with high portfolio occupancy and a 4.6% positive rental reversion in 1Q22 and management maintained its guidance for a low single-digit positive reversion for the remainder of FY22F. We like **LREIT (Add, TP S$1.05)** for its resilient income backed by increased exposure to the suburban mall segment and the long-lease structure of Sky Complex, Milan. Despite the lack of foreign tourists, 313's tenant sales have been encouraging at 80% of pre-Covid 19 levels in 2021 and close to pre-Covid level in 4Q21. LREIT is currently trading at attractive 6.1% FY6/22F dividend yield.

We also like **DELFI (Add, TP S$1.09)**; we believe that it will continue to show yoy net profit growth in 1H22F on the back of economic reopening, enhance its sales mix through product premiumisation, and also capture a wider consumer base. Its current valuation is undemanding at 12.3x CY23F P/E (1 s.d. below historical mean), in our view.

With **PanU (Add, TP: S$0.56)** having c.40% market share in the Singapore ready-mix concrete (RMC) industry, we believe the group is well positioned to benefit from accelerated construction activities and rising RMC prices. We believe that CY22F margins should remain steady as PanU has strong pricing power (due to market incumbency), allowing better cost pass-through in our view. Our TP of S$0.56 is pegged to 6.6x CY23F EV/EBITDA, which is based on a c.10% discount to peers in view of the group's smaller market size. Dividend yield is decent at 5.2%.

Figure 18: Most/Least preferred stocks

Sector	Most preferred	Least preferred
Financial	OCBC	UOB
Property	CIT, CLI	FPL
REITs	AREIT, CICT, LREIT	
Telcos	Singtel	
Transport	CD	SIA
Capital Goods	YZJSGD, STE	
Commodities	FR, WIL	GGR
Consumer/ Gaming	GENS, THBEV, DELFI	JUMBO
Manufacturing/ Gloves	AZTECH, RSTON	
Healthcare	QNM	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: Sector ratings

OVERWEIGHT	NEUTRAL
Capital Goods	Gaming
Commodities	Gloves
Consumer	Technology
Constructions	
Financials	
Healthcare	
Property/ REITS	
Telco	
Transport	

SOURCE: CGS-CIMB RESEARCH

Figure 20: 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)												
Ascendas REIT	AREIT SP	Add	2.68	3.20	25.7%	8,168	16.4	15.8	3.4%	1.09	6.9%	6.4%
CapitaLand Integrated Comı	CICT SP	Add	2.21	2.57	21.4%	10,638	19.9	19.4	-1.7%	1.12	5.8%	5.1%
Lendlease Global Commerci	LREIT SP	Add	0.80	1.05	38.7%	1,314	15.4	14.8	na	1.01	6.2%	6.6%
OCBC	OCBC SP	Add	11.66	14.20	26.9%	38,073	9.7	8.2	12.1%	0.96	12.2%	5.1%
Sembcorp Industries	SCI SP	Add	2.85	2.96	6.7%	3,694	11.9	10.3	22.4%	1.10	11.3%	2.9%
SingTel	ST SP	Add	2.73	3.30	25.7%	32,721	18.7	15.6	20.9%	1.54	10.0%	4.8%
ST Engineering	STE SP	Add	4.00	4.70	21.5%	9,054	21.3	18.1	8.0%	4.64	26.5%	4.0%
Thai Beverage	THBEV SP	Add	0.69	0.91	35.3%	12,585	15.1	14.6	na	2.12	15.1%	3.4%
Venture Corporation	VMS SP	Add	17.19	23.32	40.0%	3,628	13.8	12.8	8.3%	1.65	13.2%	4.4%
Yangzijiang Shipbuilding	YZJSGD SP	Add	0.91	1.63	87.2%	2,596	7.0	5.6	15.5%	0.90	16.6%	7.1%
Average							**13.6**	**11.8**	**8.7%**	**1.28**	**11.1%**	**4.8%**
Alpha picks (Small-cap)												
Delfi Ltd	DELFI SP	Add	0.74	1.09	52.7%	326	12.5	11.8	3.6%	1.23	10.7%	4.4%
HRnetGroup Limited	HRNET SP	Add	0.73	1.15	63.4%	528	10.9	10.4	1.3%	1.68	16.9%	4.8%
Pan-United Corp Ltd	PAN SP	Add	0.42	0.56	38.7%	213	12.0	11.2	13.0%	1.30	11.9%	5.4%
Average							**11.6**	**10.9**	**4.0%**	**1.44**	**13.6%**	**4.8%**

note: * includes dividend yield

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

1Q22 beats outpace misses but ratio visibly lower qoq

Despite concerns over ongoing geopolitical tensions and weaker outlook from supply chain disruptions and inflationary cost pressures, the 1QCY22 results/ business update season ended with yet another quarter of beats exceeding misses, while most were in line, as companies continued to benefit from the tailwinds of increased economic activity in previous quarters. That said, the ratio of beats was visibly lower in 1QCY22 at 1.15:1, and the quantum of misses was higher, vs. the previous quarter.

The outperformers came from commodities on higher CPO prices, while consumer stocks, such as SSG and TBEV, enjoyed higher topline due to inflation and better performance across all segments. DBS and OCBC reported lower than expected loan loss ratios. Within manufacturing, AEM and UMS enjoyed higher revenue even as margins for AEM dipped. Selected REITs, such as FEHT, MINT and MLT, reported higher than expected earnings due to lower finance costs and better-than-expected operating performance. Other industrials, such as BRC, Juitian, and RSTON, also enjoyed higher volumes and ASPs.

Key recommendation changes this quarter were SIA, from Add to Hold, as we believe the current share price has factored in much of the reopening story and risk-reward appears more balanced. We also lowered our call on FR and GGR from Add to Hold as we believe there is downside risk to earnings if Indonesia's export ban lasts more than one month and CPO prices could trend down in 2H22F on rising output while operating costs could rise. Within the small cap space, we also downgraded our call to Hold on KMLY as we believe the demand tailwinds would subside post Covid economy reopening. Within the REIT sector, we lowered our rating on SPH REIT, SUN and PREIT on limited near-term upside as share prices had outperformed the sector and broader market.

Figure 21: Highlights of positive surprises and negative surprises for 1Q22

Above expectations

Sector	Company name	Remarks
Commodities	First Resources	Higher CPO prices
Commodities	Golden Agri-Resources	Higher CPO prices
Consumer	Sheng Siong Group	Stronger rev. due to Omicron and higher inflation
Consumer	Thai Beverage	Growth in all business segments
Finance	DBS Group	Lower-than-expected loan loss
Finance	OCBC	Lower-than-expected loan loss
Manufacturing	AEM Holdings	Higher rev and profit; margin dipped
Others	BRC Asia	Higher deliveries and steel prices
Others	Hyphens Pharma International	Growth across all business segments, better sales mix
Others	Jiutian Chemical Group Ltd	Higher ASPs despite sales volume declines
Others	Riverstone Holdings	Higher volumes; cleanroom segment offsets lower healthcare ASPs
Manufacturing	UMS Holdings	Rev above. Profit in-line
REITs (Hospitality)	Far East Hospitality Trust	Lower interest expense
REITs (Industrial)	Mapletree Industrial Trust	Acquisition of US data centre
REITs (Industrial)	Mapletree Logistics Trust	New acquisitions and lower tenant relief

Below expectations

Sector	Company name	Remarks
Capital Goods	SIA Engineering	Higher staff cost
Consumer	Jumbo Group Limited	Slower than expected recovery in Singapore due to Omicron
Finance	iFAST Corporation	Decline in revenue growth due to poor market conditions
Finance	United Overseas Bank	Higher tax expense
Gaming	Genting Singapore	Higher utilities cost, slower-than-expected business recovery
Healthcare	Q&M Dental Group	Lower core dental rev
Manufacturing	Aztech Global Ltd	Plant shutdown due to covid. Cost pressures
Manufacturing	Silverlake Axis	Staff costs and opex
REITs (Industrial)	ESR-REIT	Higher utilities cost
REITs (Industrial)	Keppel DC REIT	Provisions, weaker FX, and higher electricity costs
REITs (Industrial, Retail)	Frasers Log &Comm Trust	Lower Aus and Eur FX
REITs (Office)	OUE Commercial REIT	Deconsolidation of Bayfront, offset by lower rental rebates
REITs (Retail)	Suntec REIT	Dragged by Aus operations and FX

In line

Sector	Company name
Capital Goods	Keppel Corporation
Capital Goods	CSE Global
Capital Goods	ST Engineering
Manufacturing	Frencken Group
Others	Singapore Post
Property	Frasers Property Limited
REIT (Office)	Elite Commercial REIT
REIT (Retail)	Lendlease Global Commercial REIT
REITs (Healthcare)	Parkway Life REIT
REITs (Hospitality)	Manulife US REIT
REITs (Industrial)	Ascendas REIT
REITs (Office)	Keppel REIT
REITs (Office)	Mapletree Commercial Trust
REITs (Retail)	CapitaLand Integrated Comm
REITs (Retail)	Frasers Centrepoint Trust
REITs (Retail)	Mapletree NA Comm Trust
REITs (Retail)	Sasseur REIT
REITs (Retail)	SPH REIT
Telco	Netlink NBN Trust
Transport	ComfortDelGro
Transport	SBS Transit
Transport	Singapore Airlines

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Post the 1Q22 update, we raised our FY22F and FY23F market earnings by 1.7% and 1.5%, respectively, led mainly by banks' NIM upgrades and JUIC, but somewhat moderated by our 31.6%/7.3% reduction in FY22F/23F earnings for GENS. We also raise SIA's FY23F and FY24F reported net profits by 1,590% and 36% on improved operating metrics. This would translate to CY22F and CY23F market EPS growth of 17.7% and 14%, respectively.

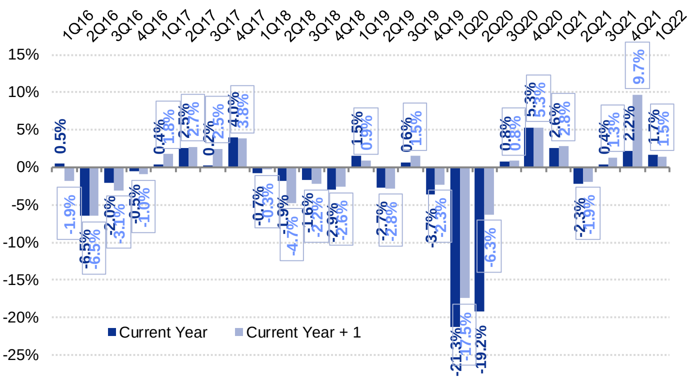
Key downside risks highlighted during the results season include inflationary cost pressures due to high input costs and margin erosion due to timing lag in passing through the impact, the China lockdown, and slower growth momentum.

Figure 22: Earnings forecast changes, by sector

Sector	Core Net Profit (US$m) (1Q22)		Core Net Profit (US$m) (4Q21)		Earnings Change QoQ		YOY Growth %	
	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Financials	13,359	15,868	13,080	15,254	2.1%	4.0%	12.1%	18.8%
Property	2,699	2,773	2,755	2,850	-2.1%	-2.7%	2.2%	2.8%
REITS	3,532	3,747	3,590	3,802	-1.6%	-1.4%	8.5%	6.1%
Telcos	1,896	2,249	1,917	2,279	-1.1%	-1.3%	19.6%	18.6%
Transport	416	837	(28)	572	1589.2%	46.3%	147.5%	101.5%
Capital Goods	1,524	1,923	1,548	1,952	-1.5%	-1.5%	136.8%	26.2%
Commodities	2,512	2,180	2,427	2,244	3.5%	-2.8%	1.9%	-13.2%
Gaming	178	327	264	365	-32.7%	-10.5%	68.4%	83.7%
Consumer	1,238	1,388	1,327	1,501	-6.7%	-7.5%	5.7%	12.1%
Tech/Manufacturing	671	741	691	765	-3.0%	-3.1%	18.7%	10.5%
Healthcare	76	80	79	83	-4.2%	-3.3%	-3.1%	5.5%
Others	513	510	479	487	7.0%	4.6%	-32.7%	-0.5%
Total	**28,613**	**32,625**	**28,129**	**32,154**	**1.7%**	**1.5%**	**17.7%**	**14.0%**

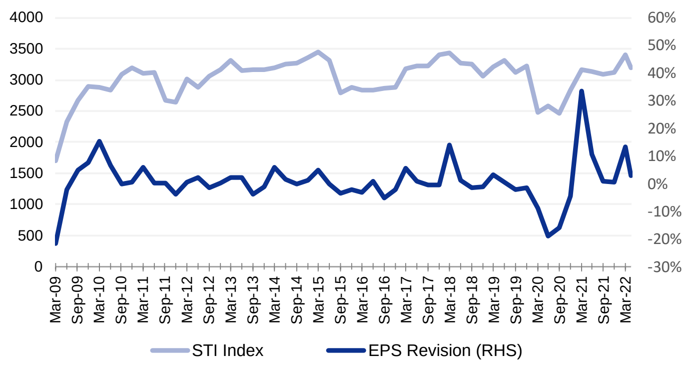
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 23: Earnings QoQ



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: STI EPS Revision



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Keeping our end-2022F STI target but 2Q22 likely to remain challenging

Despite the upward tweak to our FY22-23F projections, we keep our end-2022F STI target unchanged at 3,475 pts, which is mid-way between -1 s.d. to -1.5 s.d., given the increased market uncertainty over slower earnings growth due to geopolitical tensions and China's slower growth outlook due to its Covid-Zero policy and lockdowns.

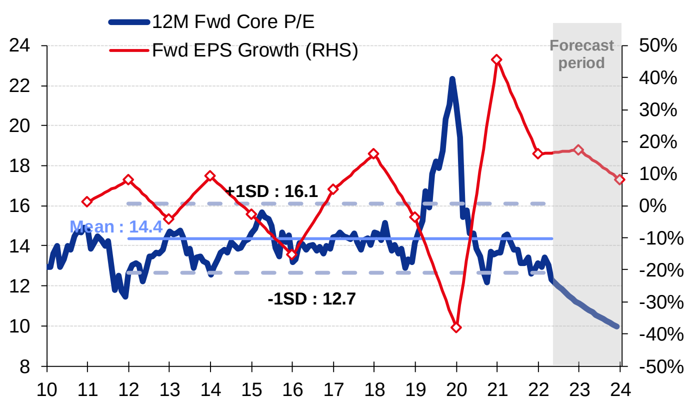
However, in the near term, we think the STI will trade rangebound as inflation is likely to continue to escalate and market sentiment is likely to be driven by expectations on the quantum of interest rates hikes.

Figure 25: FSSTI valuations

FSSTI Summary	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Core P/E (x)	13.7x	14.3x	13.9x	12.3x	14.5x	16.3x	12.7x	13.8x	19.7x	14.9x	13.0x	11.1x	9.9x
FD Core P/E (x)	13.7x	14.4x	13.3x	12.1x	14.5x	16.3x	12.7x	13.8x	19.3x	14.9x	13.1x	11.1x	9.9x
12-mth Fwd Core P/E (x)	14.3x	13.1x	14.3x	14.5x	13.8x	14.1x	13.2x	22.3x	13.5x	12.8x	11.1x	9.9x	-
Core EPS growth (%)	8.0%	-4.4%	9.1%	-2.7%	-15.5%	5.0%	16.2%	-3.8%	-38.0%	45.5%	16.1%	17.4%	8.1%
Core Net Profit Growth (%)	14.9%	-2.7%	10.6%	-3.3%	-8.6%	18.5%	13.3%	3.9%	-33.0%	45.8%	15.6%	17.5%	8.1%
P/BV (x)	1.5x	1.5x	1.4x	1.1x	1.2x	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%	3.7%	4.2%	4.6%	3.9%	3.1%	3.9%	4.2%	4.4%	4.6%
EV/EBITDA (x)	10.2x	11.0x	10.2x	10.2x	10.6x	9.8x	10.0x	12.6x	18.9x	13.3x	10.6x	9.6x	9.0x
P/FCF (x, equity)	18.1x	13.8x	15.5x	161.1x	23.2x	23.8x	20.4x	19.1x	31.7x	24.5x	20.7x	17.2x	17.9x
P/FCF (x, firm)	36.4x	19.8x	17.5x	263.6x	27.0x	21.6x	(33.8x)	89.3x	339.4x	32.9x	31.9x	13.5x	13.3x
Net gearing (%)	9.5%	8.8%	8.5%	13.2%	13.2%	14.5%	19.6%	23.4%	23.6%	21.8%	21.8%	20.4%	18.8%
ROE (%, recurring)	11.5%	10.4%	10.5%	9.3%	8.2%	8.7%	9.1%	9.1%	5.7%	7.7%	8.5%	9.5%	9.5%
FSSTI level	3,167	3,167	3,365	2,883	2,881	3,403	3,069	3,223	2,844	3,124	3,180	3,180	3,180
CIMB/consensus (x)											1.01	1.02	1.02

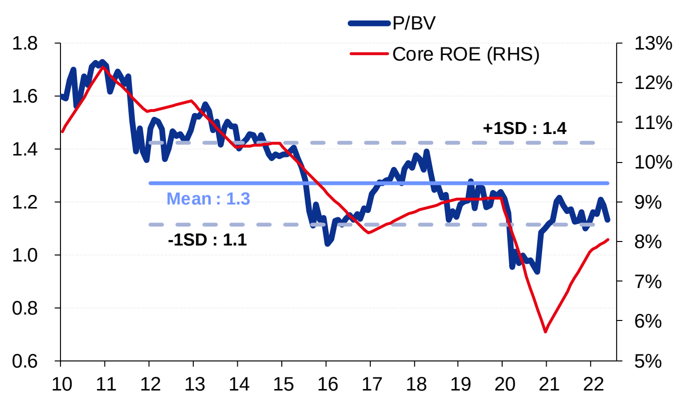
SOURCE: CGS-CIMB RESEARCH

Figure 26: FSSTI's 12M forward core P/E (x) vs. Fwd EPS Growth



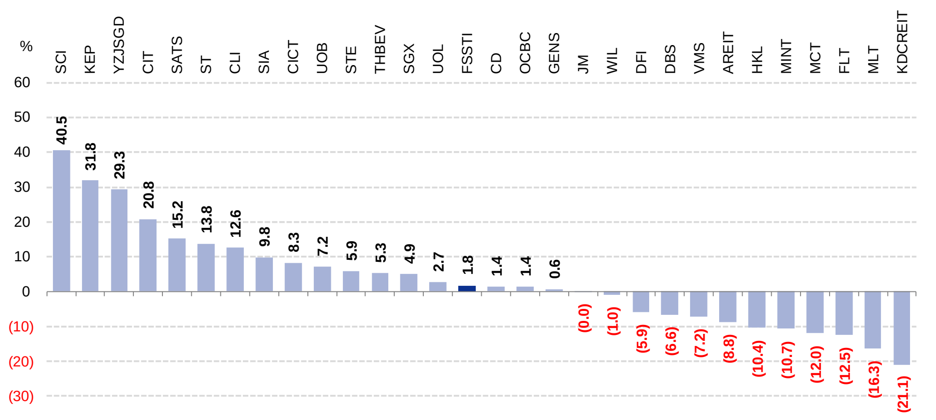
SOURCE: CGS-CIMB RESEARCH

Figure 27: FSSTI's P/BV (x) trading band vs ROE



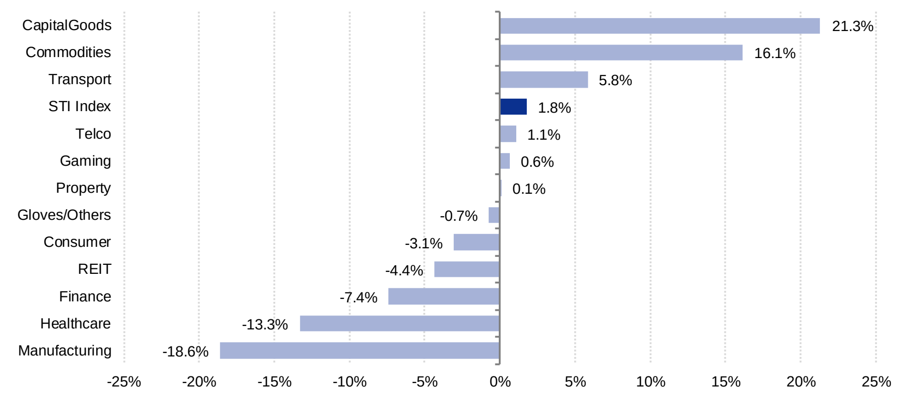
SOURCE: CGS-CIMB RESEARCH

Figure 28: YTD share price performance % (STI members)



SOURCE: BLOOMBERG (share price at 25 May 22)

Figure 29: Sector YTD average price performance (%)



SOURCE: BLOOMBERG (share price at 25 May 22)

Technical analysis

The STI has fallen by more than 8% since the start of Apr. While the index has rebounded from the lows of 3,166 support, the dominant trend of STI remains sideways between 3,166-3,440. The short-term upside is likely to return after the relative strength index has displayed an oversold signal and successfully closed above the 200-day exponential moving average. However, the upside will likely be capped at 3,309-3,385 resistance by the end of 2Q. Major support remains at the 3,112 level.

Figure 30: FSSTI valuations

SOURCE: CGS-CIMB RESEARCH

Sector outlook

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Capital Goods - Overweight

Restructured theme played out in 1Q22

SMM and KEP finally firmed up their definitive agreement and the ratio of merger, although the deal seemed to favour the latter. We estimate a combined order win for both SMM and KEP Offshore & Marine amounting to c.S$1bn (KEP: S$385m, SMM: c.S$600m). Separately, YZJ Shipbuilding also successfully spun off its debt to securities segment (YZJ Financial Holdings). However, orders have been quiet as the yard focused on executing its US$8.5bn order book.

For companies that reported in 1Q22, such as KEP and STE, revenues were in line with expectations. KEP said its profits were up yoy, while STE's revenue has returned to pre-Covid levels. SIE disappointed in its 2H22 earnings, as staff cost pressures mounted, an effect of the tapering off of government support and labour shortages. CSE Global's order win reached a record quarterly high of S$232m, from data centre, utility and renewable, as well as offshore facility projects.

Outlook

Among our coverage, we have tempered our margin expectations for STE, SIE and CSE during the quarter amid global uncertainties.

Figure 31: EBIT margin assumptions post-results

	Previous EBIT margin			New EBIT margin		
Company	**FY22F**	**FY23F**	**FY24F**	**FY22F**	**FY23F**	**FY24F**
STE	8.4%	9.4%	9.8%	8.4%	9.3%	9.6%
SIE	n.a.	0.2%	1.0%	n.a.	-0.5%	1.4%
CSE	5.9%	6.9%	7.6%	5.2%	6.4%	7.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

STE, especially, highlighted that the group was managing cost well via active product redesign, supply chain management and some cost pass-through to customers to mitigate inflationary pressure and chip shortages.

For SMM, as current orders are at the tail end of the execution phase, the group is relatively sheltered from supply chain challenges for long-lead equipment. Labour shortages prevail but border reopening has eased the subcontractors supply. The yard delivered 6 out of 12 projects targeted for delivery in 2022.

Steel cost normally constitutes c.35% of YZJ's shipbuilding costs, but we believe the YTD rise in steel prices could have been factored into its contract negotiations. YZJ secured US$7.41bn worth of contracts in FY21, recording a higher average contract value/TEU in 2H22 (c.US$10.48k) than 1H21 (c.US$7.50k), a rise of c.40%. This could have captured the c.10% rise in average steel prices in 2H21 to c.Rmb5,744/tonne vs. c.Rmb5,219/tonne in 1H21. Some of its contracts clinched in FY21 were based on steel costs assumption of Rmb6k-7k/tonne. Most of the orders secured in FY21 are scheduled for delivery in FY23-24, which means steel procurement could start in 2H22F. We have factored in GPM of 12.5%/16.5%/18% for FY22F/23F/24F (GPM averaged 19% in FY14-20).

KEP seems to be relatively sheltered from margin pressure, although we think home sales in China could have been affected by lockdowns.

Top picks

SCI (Add, TP S$2.96) and **YZJ shipbuilding (Add, TP S$1.63)** are our preferred picks in the sector. We see the strong power prices in India (on the back of earlier-than-expected summer) and Singapore (high oil prices) as benefitting SCI. Sembcorp Cogen (SCI's power arm) posted a turnaround in FY21 with a profit of S$31.3m vs. S$167m losses in FY20. We expect this trend to continue in 1H22F. YZJ's value proposition is its strong shipbuilding execution, attractive valuations of 6x CY23F P/E, and potential higher dividend payout (dividend yield of 5.7%).

Commodities - Overweight

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Wilmar 1QFY22 results were broadly in line with our and market expectations. Its 1Q22 core net profit fell 23% yoy and 39% qoq to US$328m due to weak crush margins (caused by sudden and sharp rise in soybean prices along with lower meal demand due to poor poultry and pig farming margins), as well as weaker demand for consumer pack oils following the recent increase in Covid-19 cases in China and the slowdown in the Chinese economy.

We do not expect the temporary palm oil export ban in Indonesia to significantly impact Wilmar's 2Q earnings. We stay positive on the group as we expect sequentially stronger 2Q core net profit (excluding one-off gains from AWL's listing). The stock offers a 28% upside to our SOP-based TP of S$5.68 (implied P/E of 15x). Wilmar is undervalued as the current market value of its 90% stake in Yihai Kerry Arawana and 44% stake in AWL of US$38.3bn is 89% higher than its market cap of US$20.1bn

First Resources (FR) posted a 739% yoy jump in 1Q22 net profit of US$73.6m, thanks to higher CPO price achieved. We project weaker qoq earnings in 2Q22F for FR as we expect lower sales volumes and higher operating costs. FR said Indonesia's 28 Apr move to impose a temporary export ban on crude palm oil, RBD palm oil, RBD olein and used cooking oil disrupted its ability to export c.75% of its refined palm products. As the stock has appreciated 38% YTD and there is downside risk to its earnings if Indonesia's export ban lasts more than one month, we downgraded our call to a Hold after its results. We see support from its 5% FY22F dividend yield.

GGR's 1Q22 core net profit was above our expectations due to higher CPO price achieved. The group revealed that it has reduced processing of third-party fruits following the export ban of palm oil by the Indonesian government and it has enough storage capacity to store its own palm oil production. However, the export ban on Indonesia's palm oil is likely to impact cash flows and raise logistic costs, if prolonged, due to the inability to export. We lower our TP to S$0.30 as we raise our discount to its SOP to 20%, from 10%, to reflect concerns over the ongoing palm oil export ban, as well as our view that CPO price could trend lower in 2H22F. We downgraded GGR from Add to Hold after the 1Q results due to concerns that the policy to control cooking oil prices in Indonesia will negatively impact profit margins for its estates.

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Consumer - Overweight

1Q22 results recap

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

THBEV reported a 2QFY9/22 net profit of THB8.1bn (+20% yoy), with 1H22 net profit forming 59% of both our and Bloomberg consensus FY22F numbers. 2Q revenue rose to THB65.8bn (+11% yoy) – all four segments recorded positive yoy growth, with Vietnam operations showing stronger recovery compared to Thai operations given the former's relatively faster pace of reopening. EBITDA rose to THB12.9bn (+14% yoy), led by margin expansion in the beer and food segments, while spirits and nonalcoholic beverages (NAB) segments saw margins contract slightly on a yoy basis.

In its business update, Delfi reported 1Q22 revenue of US$133.0m (+11.4% yoy; +23.6% qoq), indicating a return to pre-Covid levels of sales (1Q20: US$136.6m). The strong sales momentum can be partially attributed to higher seasonality due to the gift-giving season for Valentine's day during the quarter as well as preemptive sales ahead of the earlier-than-usual Lebaran this year. Regional markets recorded an all-time quarterly high revenue of US$40.2m since 1Q20 that likely benefitted from the rollout of Van Houten as a regional brand over 2H21. EBITDA grew 12.8% yoy to US$20.5m, forming 36.7% of our FY22F forecast and demonstrating better operating leverage with margins improving 0.3% pt in 1Q22.

Sheng Siong (SSG) announced a 1Q22 net profit of S$35.1m (+7.9% qoq, +13.9% yoy), slightly above expectations. The key positive was strong topline growth to S$358m (+5.3% qoq, +6.0% yoy), helped by the emergence of the Omicron variant locally, as well as higher inflation. GPM declined 0.7% pt yoy, mainly due to seasonality impact, but remained higher yoy (+1.1% pts) due to favourable changes in product mix. Opex remained very well handled, with OPM expanding both qoq and yoy.

In its interim statement, DFI noted multiple negative factors impacting its 1Q results. While both its Grocery Retail and Home Furnishing segments saw stronger sales during the period, margins were impacted due to 1) higher pandemic-related store expenses, 2) supply chain disruptions, and 3) higher electricity costs, which led to flattish profits for both segments. Meanwhile, Convenience Store segment, as well as associates Maxims and Yonghui were impacted negatively by the fifth wave of Covid-19 in Hong Kong. The only segment that saw stronger profits during the period was the Health and Beauty segment, but profits remain lower vs. pre-pandemic levels due to the continued closure of the HK-Mainland China border.

Japfa's 1Q22 was in line with our expectations but below consensus. Revenue rose 13% yoy to US$1.25bn in 1Q22, led by growing sales volume across all business segments. However, profitability continued to suffer, with core net profit declining 70% yoy to US$22.7m. Operating margin remained suppressed at 6.5%, compared to 13.6% in 1Q21, as a result of higher raw material prices and logistics costs that were extenuated by the Russia-Ukraine conflict. However, JAP has started to gradually pass on some of the higher costs after business conditions in key operating regions like Indonesia and Vietnam began to recover from the Covid-19 situation that worsened in 3Q21.

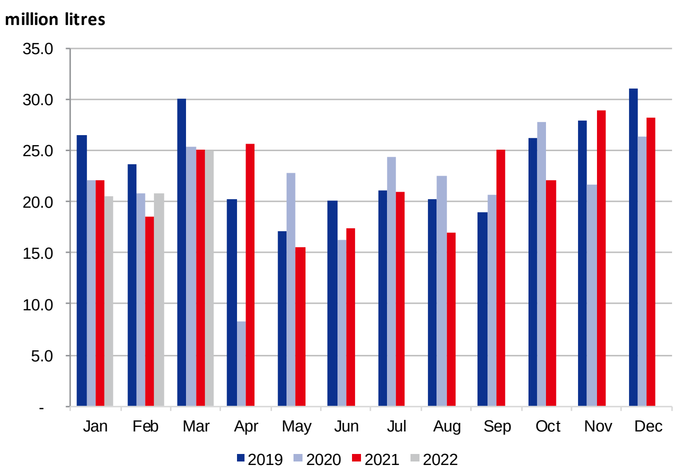
For F&B companies under our coverage, Kimly's net profit was in line with our expectations, while Jumbo's was slightly below. Both companies saw yoy revenue growth on the back of easing dine-in restrictions.

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.

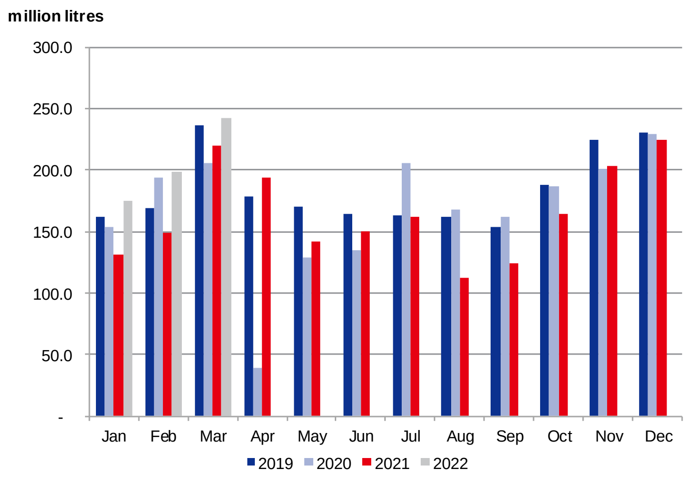
Both THBEV and DELFI have seen sequential demand recovery amid the easing of social mobility restrictions, and we expect the trend to continue in coming quarters. Both have observed initial demand recovery as measures eased; THBEV has also taken the opportunity to hike prices to cover its increased costs. More discussion on cost hikes/margin pressure is covered in the section below.

Figure 32: Thailand's domestic liquor sales



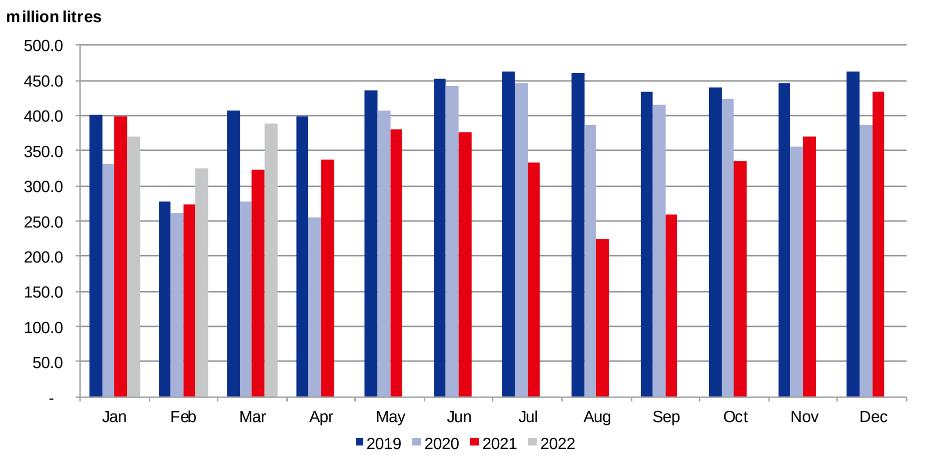
SOURCES: CGS-CIMB RESEARCH, OFFICE OF INDUSTRIAL ECONOMICS

Figure 33: Thailand's domestic beer sales



SOURCES: CGS-CIMB RESEARCH, OFFICE OF INDUSTRIAL ECONOMICS

Figure 34: 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, though this could be cushioned partially by rising inflation, which may cause downtrading among consumers. While it has secured three new store leases in 4Q21, new store openings will take time to materialise and ramp up to optimal levels. Meanwhile for Dairy Farm, FY22F is expected to be a year of investments. DFI guided for full year reported results to be weaker on a yoy basis due to 1) high level of uncertainty with respect to pandemic-related restrictions in HK and Mainland China, 2) additional planned investments in digital capacity, and 3) continued supply chain disruptions.

For JAP, 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. JAP is also looking to gradually pass on costs to manage its margins arising from rising raw material prices. A resurgence of African Swine Fever in Vietnam will also continue to weigh on margins for its Animal Protein – Other (APO) business due to biosecurity enhancements across its farming operations.

For F&B operators under our coverage, we see tailwinds subsiding for Kimly given Singapore's faster-than-expected reopening and downgrade the stock to a Hold. For Jumbo, while the group is expected to benefit from larger dine-in sizes in Singapore, outlets in China continue to be impacted by ongoing Covid-19 restrictions imposed in Shanghai and Beijing, and we maintain our Hold rating. We have also lowered our margin assumptions for both companies in view of rising cost pressures.

Cost pressure/margin outlook

We believe the current macro environment may put pressure on margins of consumer companies.

THBEV. Despite continued cost pressures, we believe THBEV can still achieve EBITDA margin expansion for FY22F. THBEV has been actively raising product pricing over the past 2 quarters – white spirits in Nov 21/Feb 22 depending on SKUs, Thai beer in Mar 22, Vietnam beer twice in Dec 21 and Apr 22. We think the beer segment (32% EBITDA contribution in 1H22) is likely to see higher cost pressures due to a surge in international barley prices amid the Russia-Ukraine conflict, though this will only become more visible in FY23F with forward buying contracts in place. Meanwhile, the spirits segment (60% EBITDA contribution) could see less pressure with 1) molasses prices trending lower, and 2) likely product mix shift towards brown spirits as entertainment venues reopen.

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 but ripple effects of supply chain bottlenecks could continue to drive inflation of raw materials which would weigh on Delfi's margins. We expect Delfi's move towards product premiumisation as well as upkeep of its forward hedging policy to help minimise the impact of cost pressures. Delfi's stable GP margin in 1Q22 (0.2% pt yoy) amidst a rising cost environment is testament of its ability to mitigate cost pressures.

JAPFA. Feed margins have been compressed as key feed ingredients continue to experience inflationary pressures exacerbated by the Ukraine-Russia conflict. However, JAP has shared that they have been able to pass on some of the cost increases, albeit at a lagged rate, but is looking to further pass on costs to manage its margins. The margin compression has also impacted its APO segment as selling prices remained weak for poultry and swine in Vietnam. However, the Indonesia poultry business have turned around from the weakness in 2H21, while the China dairy business has remained buoyant all through the past year with the persistent demand-supply gap of dairy products in China.

Top picks – THBEV and DELFI

Within the consumer staples segment, we continue to 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. In Thailand, we have seen progressive easing of Covid-restrictions YTD with more provinces redesignated from "orange zones" (where alcohol consumption at eateries is disallowed) to "yellow" or "blue" zones (which do not have such restrictions). Allowed hours for alcohol consumption at eateries have also been extended through midnight nationwide from 1 May onwards, and news media reported that the government is exploring reopening of entertainment venues in three major tourist hotspots soon. 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.14.4x FY22F, (1.1 s.d. below its 10-year historical average) and below regional peers' 22.9x.

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. The execution of its 'Better-for-You' campaign, including the relaunch of the Van Houten brand into regional markets, will help enhance sales mix through product premiumisation, and also capture a wider consumer base. We believe the improvement in sales momentum across regional markets has been founded on a successful campaign thus far and could continue to propel Delfi's growth in the near term. Its current valuation is undemanding at 12.3x CY23F P/E (1 s.d. below historical mean), in our view.

Construction - Overweight

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Results recap

BRC Asia, which was the only company under our coverage to report results this quarter, achieved a strong beat. BRC's 1H22 net profit rose to S$39.8m (+108% yoy), above expectations at 77% of our FY22F. Revenue grew 61% yoy to S$793.3m on the back of higher deliveries and higher steel prices (+40% yoy). Meanwhile, 1H22 gross margins also expanded 0.6% pts yoy to 8.7%, due to a net reversal of S$1.8m provision for onerous contracts during the period (1H21: provision of S$28.9m). BRC proposed an interim dividend of 6 Scts (1H21: 4 Scts), representing a 3.6% dividend yield.

1H22F outlook

We continue to 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:

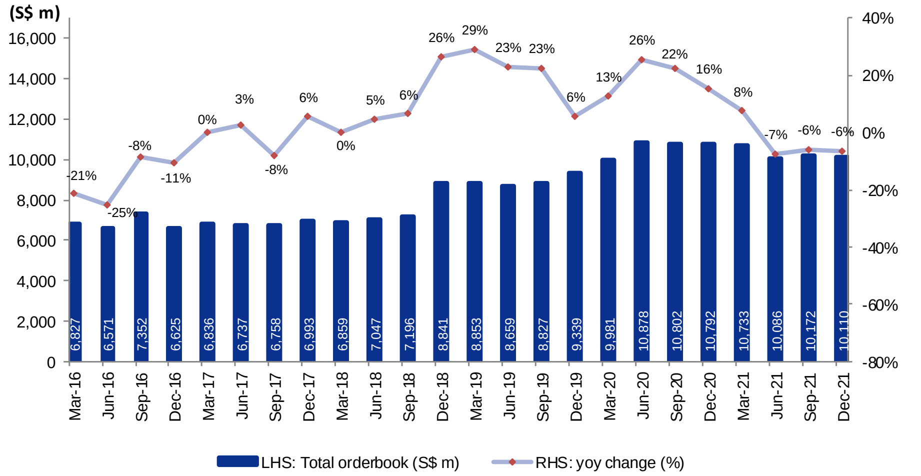
According to the Ministry of Manpower, helped by the progressive lifting of border restrictions, non-resident employment (foreign workers) picked up pace in 1QCY22. The ministry expects this trend to continue in 2QCY22, helping to alleviate labour market tightness, especially in sectors such as construction which have had to deal with scarce labour and delayed projects. We believe this will enable construction companies to further accelerate their work activities to catch up on elevated backlogs in coming quarters.

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.

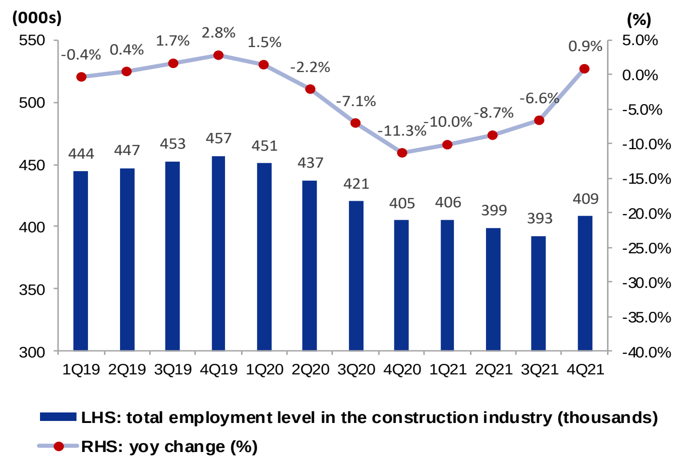
We believe the recovery in construction activities will boost the demand for building materials. BCA projects demand for building materials to increase correspondingly – steel rebar demand to grow to 1.0m-1.2m tonnes in 2022F (11-33% growth from 2021's 0.9m tonnes). BCA also projects demand for ready-mixed 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 35: Backlogs of construction firms remain 13% above pre-Covid levels, based on the combined order books of 19 Singapore-listed construction firms



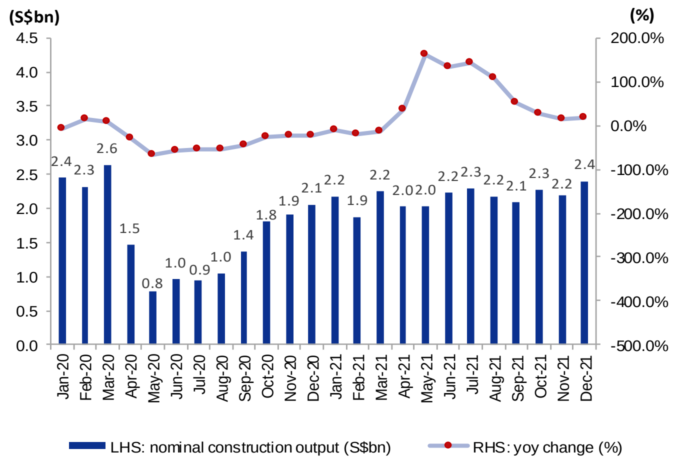
SOURCES: CGS-CIMB RESEARCH estimates

Figure 36: Construction employment recovered strongly in 4Q21, indicating gradual improvement in the labour crunch



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

Figure 37: Construction output still not back to pre-Covid levels; expect further recovery in 2022F



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

Cost pressure/margin outlook

In our panel discussion with building material players earlier this month, we understand that while higher commodity, freight and energy costs have led to higher input costs for building material players YTD, they have generally been able to pass on the higher costs.

We believe BRC and PanU have stronger pricing power due to their market leadership positions in the respective sub-segments, enabling them to better pass on the higher costs and uphold margins, in our view. Building material players also have risk management policies in place to manage exposures amid volatile prices – for example, BRC dynamically hedges its orderbook on a pooled basis to secure margins.

Overall, we believe building materials players can maintain flattish/slight expansion in their margin levels in CY22F. We now forecast BRC/PanU to achieve 48%/31% net profit growth for FY22F.

Top picks

BRC Asia (Add, TP: S$2.50)

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 5.9-6.0% (vs. FY21: 5.2%), and forecast BRC to achieve a 48% net profit growth for FY22F.

Our TP of S$2.50 is based on 1.53x CY22F P/BV (GGM: ROE 14.6%, cost of equity 9.7%, terminal growth 0.5%). FY22F dividend yield is strong at c.9% (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.

Pan United (Add, TP: S$0.56)

With PanU having c.40% market share in the Singapore ready-mix concrete (RMC) industry, we believe the group is well positioned to benefit from 1) accelerated construction activities, and 2) rising RMC prices. Backlogs of construction firms remain elevated due to delays caused by the pandemic, which should support RMC demand in the near term. Resumption of Changi Airport Terminal 5 works is also a key positive as PanU is typically involved in large infrastructure projects (e.g. Cross Island MRT Line, Jurong Island). While the group is facing cost pressures, we believe that CY22F margins should remain steady as PanU has strong pricing power (due to market incumbency), allowing better cost pass-through in our view.

Our TP of S$0.56 is pegged to 6.6x CY23F EV/EBITDA, which is based on a c.10% discount to peers in view of the group's smaller market size. Dividend yield is decent at 5.2%, which we believe is sustainable given the group's strong cash-generating capabilities and net cash position. Potential re-rating catalysts include faster-than-expected pace of recovery in Singapore construction activities. Downside risks include counterparty credit risks.

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Financials - Overweight

1Q22 earnings wrap-up

Singapore banks' 1Q22 earnings were decent despite some risk-off sentiment amid sustained market volatility which put a dampener on wealth management income and treasury flows. The bright spots of the quarter were the c.2-3bp qoq NIM expansion – a glimpse of further expansion to come as Fed rate hikes get priced into S$ rates – and benign credit costs amid elevated macroeconomic headwinds of rising inflation and the Russia-Ukraine war. The banks have also been disciplined on cost control, with CTI ratios holding steady at c.44-46% in 1Q22. While the rising rate environment may place some pressure on asset quality, the banks have retained c.S$400m-1.5bn in management overlays (general provisions) as an additional buffer against any rise in NPLs. DBS's total general provisions to performing loans ratio stood at 0.9% in 1Q22, OCBC's at 0.7% and UOB's at 0.9%.

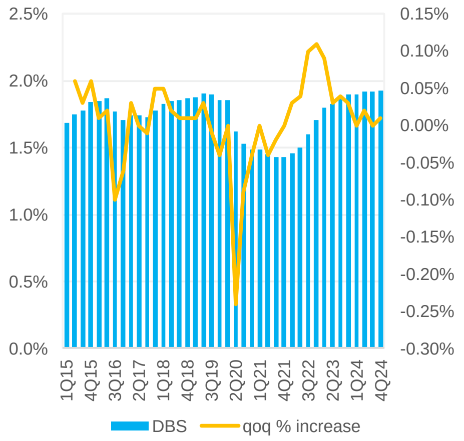
Outlook

Rising interest rates are a key tailwind for the sector. To this end, we have factored in 7 Fed rate hikes (25bp each) in FY22F into our assumptions (from 6 hikes over FY22-23F), translating into c.31-47bp NIM expansion over FY22-24F. Although a c.6 month time lag is to be expected for these hikes to be translated into NIMs (time taken to transmit into SGD rates, and for loans to be repriced), the expedited rate hike timeline brings forward a larger portion of the NII rise into FY22-23F (vs. FY23-24F previously), underpinning our expectations of c.18-24% yoy net profit growth in FY23F. We expect the largest quantum of the NIM expansion to set in in c.1Q23 – about 4 quarters after the first rate hike in Mar 22.

That said, we highlight that a scenario of rising rates (higher borrowing costs) amid stagnant economic growth (eg. slowing GDP growth in China) may soften investment appetite and therefore overall fee income. The banks have highlighted mixed credit growth outlooks in 2H22F, with DBS cautioning for possibly slower growth, while OCBC and UOB portray a more optimistic stance amid recovering growth prospects in ASEAN. Deposit competition (and therefore significantly higher funding costs) remains at bay for the moment, which we believe is due to ample liquidity conditions in the system – shielding margin growth to an extent. The banks have not observed significant outflows from fixed deposits into CASA yet.

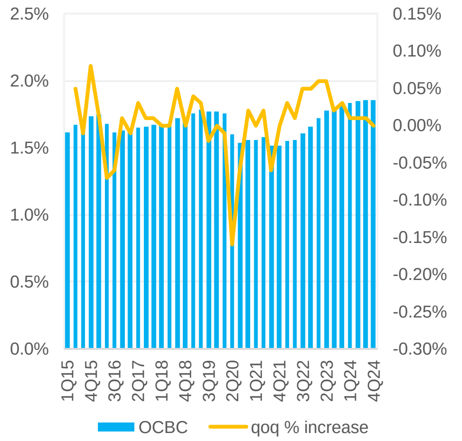
Although revenue-related opex and wage inflation (to retain talent and largely for tech-related headcount) may creep up, we expect CTI ratios to remain rather stable over FY22F as higher interest rates feed into asset yields. As a whole, the banks expressed that there were no imminent asset quality pressures on the horizon, whether from China or Russia-Ukraine exposures, and retained their individual credit cost guidance for FY22F (DBS: up to S$100m, UOB & OCBC: c.20-25bp). While NPLs may arise from the seasoning of loans post-moratoriums, we expect the potential rise in credit costs to be moderated by the banks' buffers of management overlays. Capitalisation remained robust across the sector, with CET1 ratios trending at c.13-15% in 1Q22.

Figure 38: We expect NIMs to rise the most in c.1Q23F – c.4 quarters after the first Fed rate hike of the current cycle in 1Q22



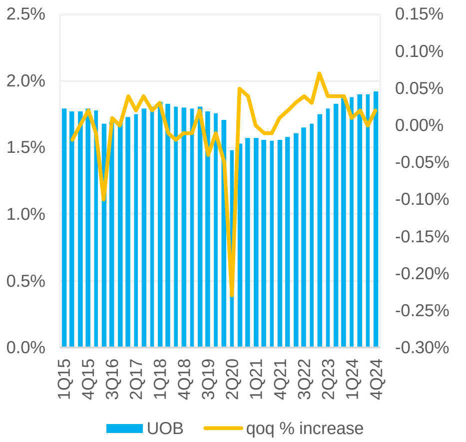
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 39: OCBC NIM expectations



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 40: UOB NIM expectations

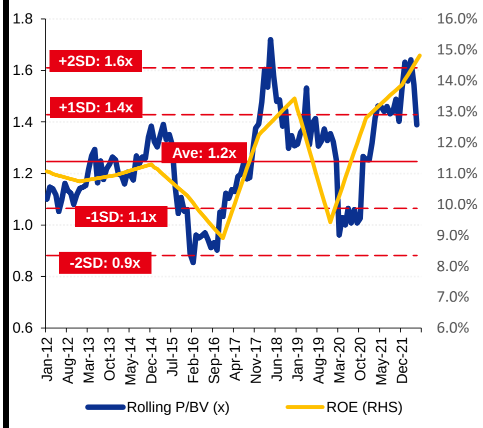


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Top pick: OCBC

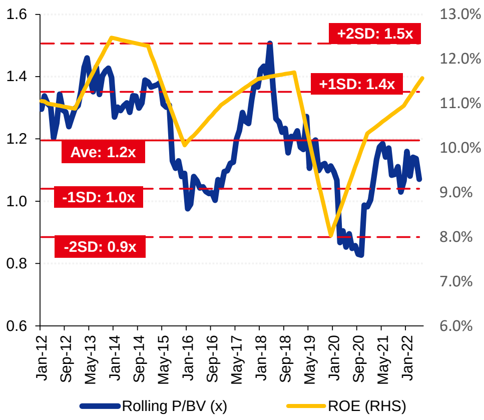
We keep Add ratings on all banks, with OCBC as our top pick given its relatively more attractive risk-reward profile. The bank has positioned itself to benefit from wealth and cross-border flows between Greater China and ASEAN, and its c.63% CASA ratio supports robust NIM expansion to come. That said, although its c.15% CET1 ratio allows for strategic M&A opportunities, clarity on its capital management plans remain an overhang on the stock. The bank trades at a c.30% discount (1.04x FY22F P/BV) to its peak valuation of 1.5x P/BV during the previous rate hike cycle.

Figure 41: DBS P/BV(x) vs. fwd. ROE



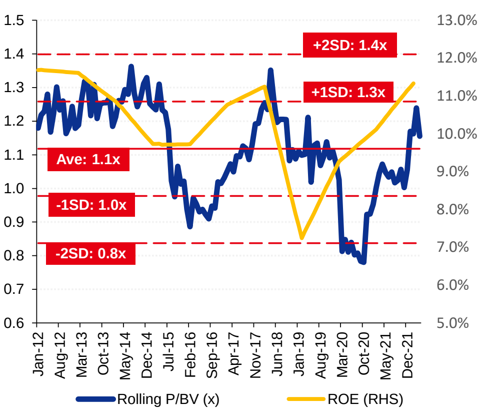
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 42: OCBC P/BV(x) vs. fwd. ROE



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 43: UOB P/BV(x) vs. fwd. ROE



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Healthcare - Overweight

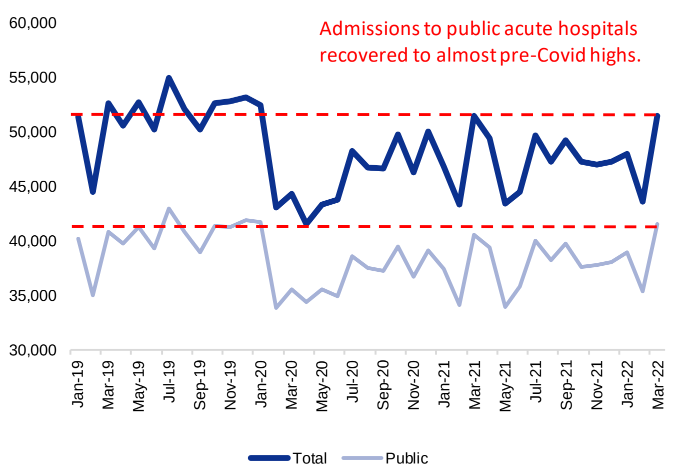
Results wrap-up

Among the stocks within our healthcare sector coverage, only QNM and HYP announced interim results for the first quarter. The results were mixed, with net profit from QNM coming in below our expectations (19.4% of our FY22F estimates) while HYP's beat our expectations (39.3% of our FY22F estimates). Nevertheless, both QNM and HYP reported yoy improvements in net profit, suggesting a better business environment, as the healthcare system decreased Covid-induced activities to usher in the return of pre-Covid business-as-usual (BAU) treatments. Pharmaceutical and consumer healthcare group HYP benefitted from the resumption of BAU as well as contributions from newly-acquired Novem. QNM had a comparatively muted quarter, offset by its 17-clinic expansion yoy, as extensive border reopening within the region meant that patients can seek cheaper dental overseas.

Outlook

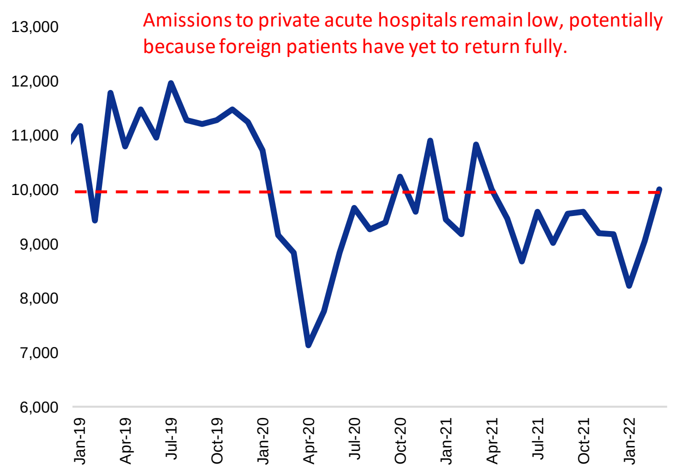
Normalisation of demand. Healthcare services is likely to continue recovering back to pre-Covid-19 levels. In particular, public hospital admissions have essentially recovered to pre-Covid-19 levels (Fig 2), coinciding with the Ministry of Health's anecdotal accounts of a return of BAU cases, which have had their treatments and electives deferred over the past two years due to the pandemic. HYP, with its timely acquisition of Novem in Dec 2021, looks poised to benefit from the return of patients given an estimated 60-70% of Novem's being derived through public hospitals. Although admissions to private hospitals and visits to specialist outpatient clinics (Fig 3 and Fig 4) have lagged in recovery, we think that the chief reason is because foreign patients have yet to return in full. Nevertheless, we think that a recovery is on the table in FY22F as caseload cascades from public hospitals into the private healthcare sector through referrals.

Figure 44: Acute Hospital Admissions



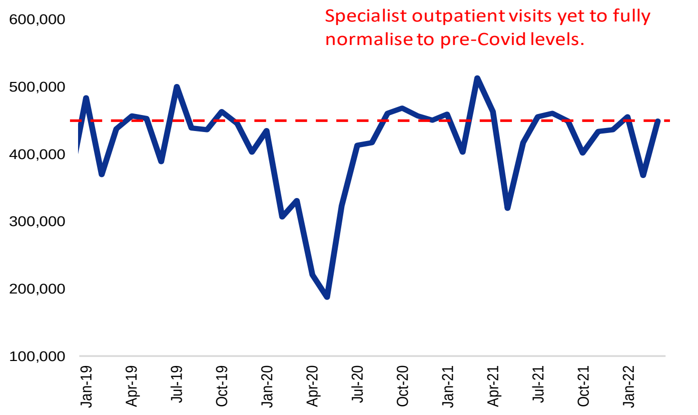
SOURCES: CGS-CIMB RESEARCH, SINGAPORE DEPARTMENT OF STATISTICS

Figure 45: Acute Hospital Admissions (Non-Public)



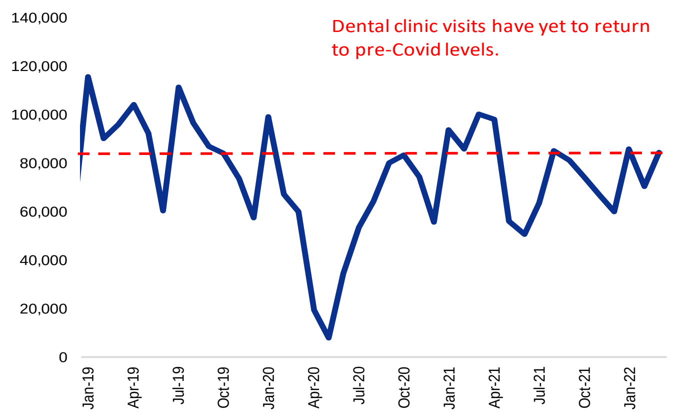
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 46: Specialist Outpatient Clinic Visits



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 47: Dental Clinic Visits



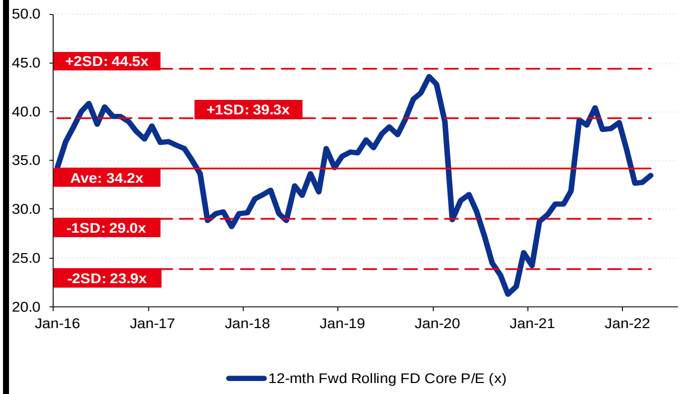
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Labour shortage could squeeze margins and impact pace of recovery. A ChannelNewsAsia article dated 28 Apr 2022 explored reasons why healthcare workers have called it quits – including manpower shortage, lack of protected time and recognition as well as more competitive salaries overseas. We expect healthcare players to adjust staff costs to remain competitive within the labour market, which will partially contribute to an EBITDA margin compression by 1.6% and 2.8% pts for RFMD and QNM respectively. Clinic growth expansion plans by QNM will also be contingent on the company's ability to attract workers in the tight labour market.

Valuations looking past Covid-19 contributions. Healthcare players contributed extensively to Singapore's fight against the pandemic over the past two years. However, as Singapore heads out to a post-Covid society, earnings profile of healthcare service providers, especially for RFMD and QNM, will normalise moving forward. We think that their current valuations suggest that the market has priced in negligible contribution from Covid-19-related services. Ex-our estimated contribution from Covid-19-related services for FY22F, RFMD is trading at 38.2x forward P/E, similar to pre-Covid levels between FY16-19 (Fig 6), while QNM looks attractive, trading at 17.9x 12-mth forward P/E, that is more than 1 s.d. below its 5-year historical mean (Fig 7).

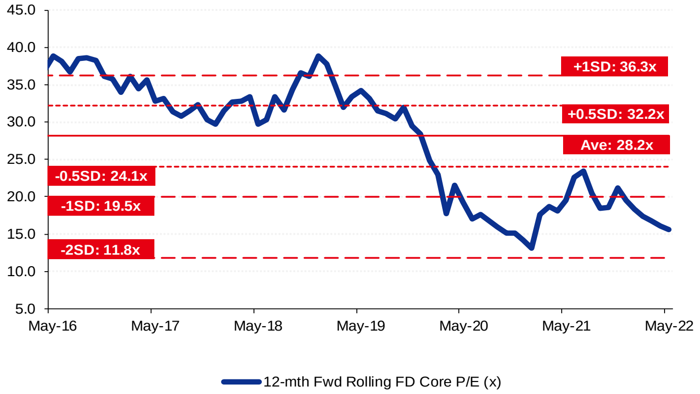
QNM as top pick with attractive valuation; TP: S$0.73. We maintain QNM as our top pick of the healthcare sector on attractive valuations. The company's goal to open 30 dental clinics per year across Singapore and Malaysia over the next 10 years should support double-digit EPS growth for its core dental business over the next few years. Our TP is pegged to 22x FY23F net profit, roughly 0.5 s.d. below its 5-year historical mean.

Figure 48: RFMD 12-mth Fwd Rolling FD Core P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 49: QNM 12-mth Fwd Rolling FD Core P/E (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

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Property - Overweight

Physical market remains healthy

Apr 22 monthly home sales came in at 839 units or 653 units (excluding ECs), down 48.2% yoy and flat mom, as availability of new launch units remained limited during the month. The bulk of sales were in Rest of Central Region (RCR) projects while Core Central Region (CCR) projects made up another 32%. New home sales for the first four months of 2022 amounted to 2,533 units, 47% lower than the same period last year. In the resale market, according to Singapore Real Estate Exchange (SRX) data, private resale transactions declined 2.2% mom (-31.3% yoy) while HDB resale volume was flat mom (-2.9% yoy), in Apr 2022.

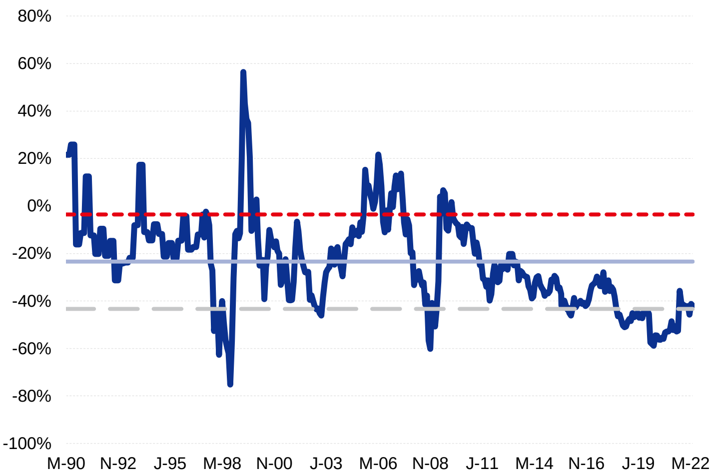
Meanwhile, URA property price index recorded a 0.7% qoq improvement for 1Q22, supported by a 2.2% price hike for OCR properties while HDB resale prices rose 2.4% qoq in the same period.

Outlook

Despite 4M22 sales totalling only 25% of our full year primary home sales volume projection of 10,000 units in 2022F, we believe May 2022 could see an uptick, with the launch of Piccadilly Grand, to a 77% sell-through rate on the first weekend of launch and the upcoming roll-out of Liv@MB. Hence, we retain our home sale transaction volumes at 10,000. In terms of prices, we retain our expectation for private home prices to rise by 0-5% in 2022F, broadly in tandem with GDP growth projections.

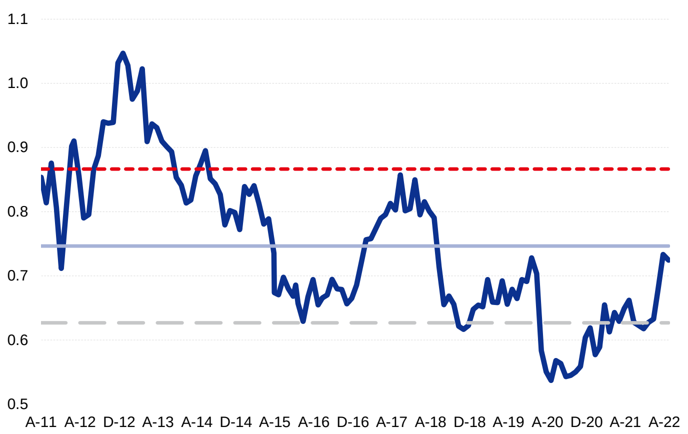
Developers' valuations still look inexpensive to us, trading at a 42% discount to RNAV, close to 1 s.d. below the long-term mean discount. We prefer developers with visible residential pipelines and strong balance sheets that would enable them to tap into any opportunities during this slower cycle. Our preferred picks are CIT and CLI. Sector re-rating catalysts: good sell-through rates for new launches. Downside risks: faster-than-expected interest rate hikes, slower economic outlook and property cooling measures that could dampen demand for housing.

Figure 50: Singapore developers discount to RNAV trend



SOURCE: CGS-CIMB RESEARCH

Figure 51: Singapore developers P/BV trend



SOURCE: CGS-CIMB RESEARCH

Top picks

City Developments (CIT SP, Add, TP S$8.97)

Despite the share price uptrend in recent months, we like CIT for its attractive 50% discount to RNAV. We see catalysts coming from a sustained recovery in hospitality earnings and asset value unlocking. Apart from the recent divestment of Millennium Seoul Hilton which netted a S$528m gain, the group had also monetised its stakes in Tanglin Shopping Centre and Golden Mile Complex, both of which had undergone a successful collective sales process. The deconsolidation of CDLHT post its distribution in specie (DIS), should improve balance sheet metrics such as lower net debt to equity ratio and boost book NAV. The stock is trading below its target price of S$8.97, based on a 45% discount to RNAV of S$16.30.

Capitaland Investments (CLI SP, Add, TP S$4.59)

We like CLI for its clearer earnings visibility, post restructuring, underpinned by recurring rental and fee income. We forecast a 16% CAGR in operating PATMI (before portfolio gains and revaluations) over FY21-24F, driven by growth in funds under management (FUM) and fee income, efficient capital deployment, and improved operating performance of its investment and lodging properties as borders reopen. We think CLI would be able to reach its FUM target of S$100bn by 2024F from S$86bn as at end-1Q22, underpinned by accelerated third-party fund raising and a visible recycling pipeline of S$10bn worth of directly held investment properties, which are mainly operational, that could serve as a pipeline of assets for its fund vehicles over the next 2-3 years. In the longer run, we believe that as the group i) lightens its balance sheet by recycling its assets to realise the value of its properties, ii) improves its capital efficiency by moving towards a more asset light model, and iii) accelerates the growth of its private funds business to boost its fund-fee rate, its ROE and P/BV multiples will rise in the longer run and the valuation and RNAV gap will narrow. Its share price is trading at a 24% discount to RNAV of S$5.10. Our TP of S$4.59, is pegged to a 10% discount to RNAV.

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REITs - Overweight

Key takeaways from 1QCY22 results

Rental reversions continued to be positive amid high portfolio occupancy rate, across all REIT sub-sectors, with office REITs posting the strongest reversions of the mid to high single digits, while industrial REITs continued to sustain low single digit rents on renewal. Retail REITs enjoyed improvements, showing low single digit rental reversions. In terms of tenant sales, suburban malls exceeded pre Covid tenant sales while downtown malls are still about 80% of pre-Covid levels. Meanwhile, hospitality trusts saw RevPAR momentum building on a qoq basis, partly offset by loss of quarantine business.

SREITS guided that utilities costs have risen, in tandem with higher energy prices. Utilities make up 8-10% of SREITs' opex. However, the impact of higher utilities costs on SREITs earnings will likely be uneven, depending on the duration of existing utilities contracts and when they are due to be re-contracted. We believe some of these higher costs could be defrayed as other income such as carpark and other ancillary income rise on the back of the relaxation of safe management measures in Singapore.

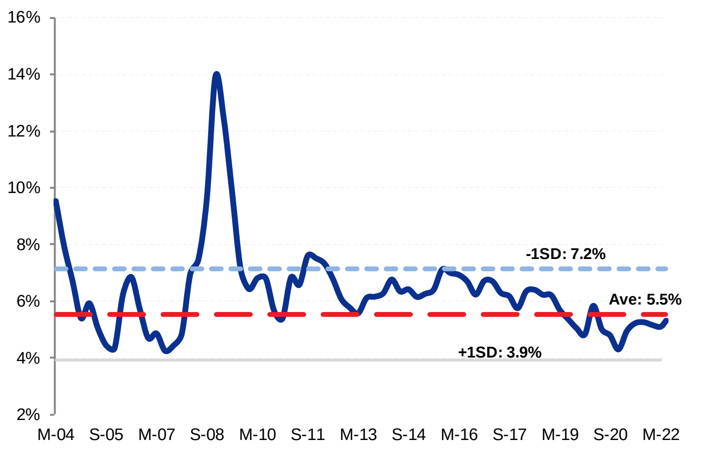
REITs guided that the rising interest rate trend is likely to result in a pick-up in average funding cost in CY22. That said, with SREITs hedging c.75% of their debt into fixed rates, the impact of higher interest rates is likely to remain muted in the near term. SREIT guided that every 1% rise in average funding cost could erode DPU by 1-4%.

Outlook

Most REITs continued to maintain their previous guidance on rental reversion and outlook with the exception of office REITs which were more upbeat due to improving demand and rising rents.

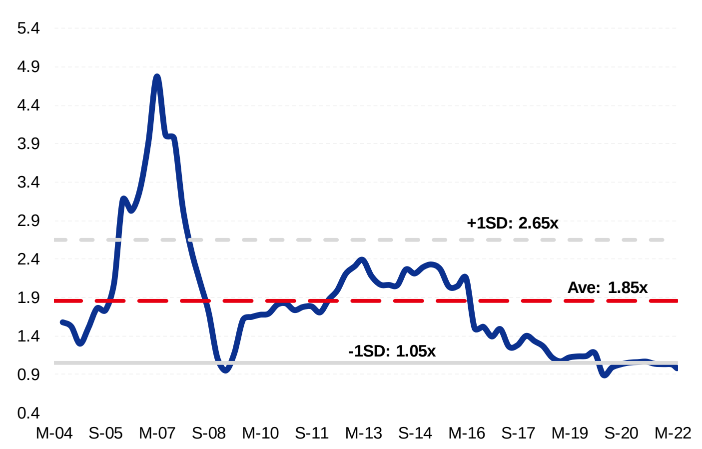
After the decline in share prices, SREITs are currently trading at an average projected sector FY22F dividend yield of 5.5%. While the Fed is signaling the possibility of 7 FFR hikes for 2020F, i.e. 175bp increase (50bp announced YTD), the 2-year-10-year yield curve has continued to flattened and a strong S$ is providing some support for SREITs. Outlook for SREITs remains robust, with topline still growing.

Figure 52: S-REIT yield



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 53: S-REIT PBV



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Top picks

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 **LREIT (Add, TP S$1.05)** is our small cap pick. The REITs are trading at undemanding valuations, with yield spreads back to their 5-year or 10-year yield spreads. 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. Rerating catalysts are more clarity on new acquisitions and asset enhancement/ redevelopment plans.

Ascendas REIT (AREIT SP, 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 36.8% at end-1Q22, AREIT is well placed to pursue inorganic growth. Operating performance remains robust with high portfolio occupancy and a 4.6% positive rental reversion in 1Q22 and management maintained guidance for a low single-digit positive reversion fore rest of FY22F. Potential re-rating catalysts include faster-than-expected global recovery and accretive new acquisitions. Downside risks include a protracted economic downturn.

Lendlease Global Commercial REIT (LREIT SP, Add, TP: S$1.05)

We like LREIT for its resilient income backed by increased exposure to the suburban mall segment, post acquisition of Jem, and the long-lease structure (until 2032 with break lease option in 2026) of Sky Complex, Milan. We believe LREIT is also a beneficiary of both easing Covid-19 measures locally and borders reopening. Despite Covid-19 restrictions and the lack of foreign tourists, 313's tenant sales have been encouraging at 80% of pre-Covid 19 levels in 2021 and close to pre-Covid level in 4Q21. Rental reversion also improved from double-digit decline in FY21 to high positive single digits in 1HFY22. LREIT's visible DPU growth will be underpinned by in-built annual rental escalations in a majority of its mall's NLA, the long lease at Sky Complex, the redevelopment of Grange Road carpark, as well as the full impact of contributions from Jem. LREIT is currently trading at attractive 6.1% FY6/22F dividend yield. Re-rating catalysts/downside risks include accretive acquisitions/weaker rental reversion.

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Telco - Overweight

1QCY22 results review

Singtel will release its 2HFY3/22 results on 27 May. Based on its associates' reported results and our estimates for its Singapore and Optus operations, we believe its 2HFY22F core net profit came in at S$970m-980m, up 8-9% yoy (steady hoh), due to Bharti's earnings turnaround (continued growth in mobile subs, average revenue per user and EBITDA margin), and to a smaller extent, higher earnings from Singapore (higher consumer service revenue, plus lower depreciation and net finance cost) and Optus (take-up of higher-margin Optus Choice postpaid plans, more rational competition, lower marketing and cost of sales). Overall, FY22F core net profit may have risen 12-13% yoy to S$1.95bn-1.96bn, meeting our forecast.

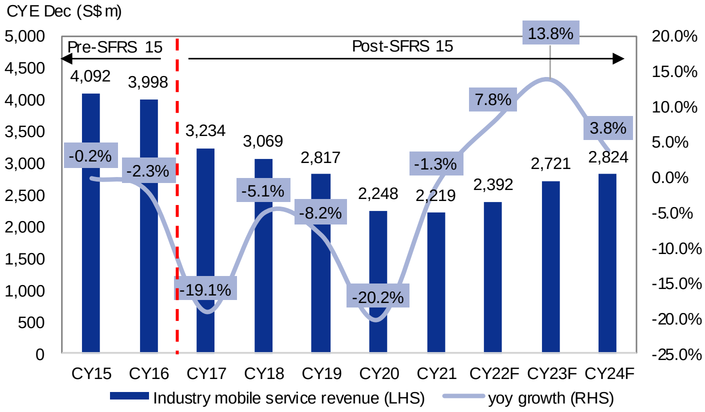
StarHub's 1Q22 core EPS dipped 0.6% yoy (-24.5% qoq) as higher service revenue, lower depreciation, net interest cost and tax was more than offset by lower EBITDA margin (-6.2% pts yoy) due to higher opex (including initial IT transformation cost). 1Q22 mobile service revenue rose 3.9% yoy (-0.7% qoq), driven by postpaid. Postpaid ARPU was stable qoq, as some roaming recovery and rise in 5G subs offset dilution from rising take-up of SIM-only plans. Prepaid ARPU (-20.0% qoq) was dragged by tighter competition, particularly from low-end SIM-only offers.

Outlook for rest of CY22F

After seven consecutive years of declines, we see industry mobile service revenue finally rebounding 7.8%/13.8% in CY22F/23F (CY20/21: -20.2%/-1.3% yoy), driven by some average revenue per user (ARPU) uplift from a) subs progressively upgrading to 5G for an extra S$10-15/month, and b) roaming revenue (19%/12% of Singtel/StarHub's CY19 mobile service revenue) recovering from 2HCY22F. Even without the latter, industry mobile service revenue may still grow 5.1%/7.5% yoy in CY22F/23F. Lastly, we think competition will have less 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.

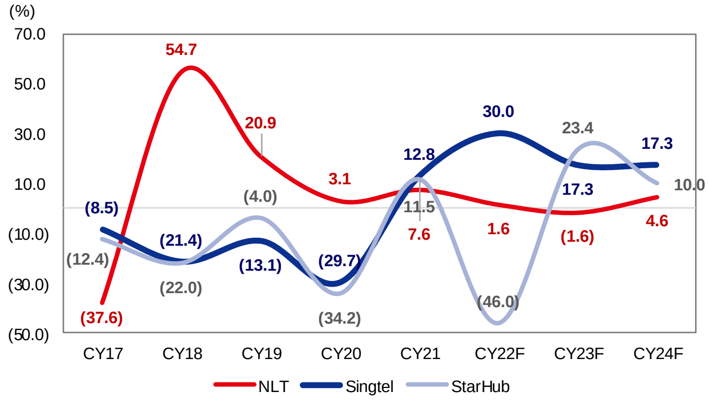
Meanwhile, the enterprise business should continue to see decent growth in CY22F, helped by the government's S$3.8bn ICT spend (up 9% yoy; public sector accounted for 20-30% of Singtel and StarHub's CY21 enterprise revenue), as well as private sector demand as the economy rebounds. StarHub's FY22F enterprise revenue should also be boosted by the acquisition of JOS Singapore and Malaysia (completed at end-2021).

Figure 54: Singapore industry mobile service revenue trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 55: Singapore telcos' core EPS growth trend



Note: Singtel's & NLT's FYE is 31 Mar, hence CY22F refers to FY3/23F
SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

For FY3/23F, we project Singtel's core EPS to further recover by 30.0% yoy (FY22F: +12.8%), driven mainly by a substantial jump in share of earnings from Bharti, and to a lesser extent, a resumption in earnings growth at Telkomsel and gradual roaming revenue recovery for the Singapore operations from 2HCY22F.

Meanwhile, we expect StarHub's service EBITDA margin to contract in the remaining quarters on a pick-up in IT transformation (after some timing delays in 1Q22) and power cost. Consequently, we are projecting StarHub's core EPS to decline by a sharp 46% yoy in FY22F.

Top pick

Our top sector pick is **Singtel (ST SP, Add, TP: S$3.30)** as we project its core EPS to rebound 30.0%/17.3% yoy in FY23F/24F, driven by a) higher associate earnings (led by Bharti and Telkomsel) due to a more favourable competitive landscape, and b) the full-year impact of Singapore's roaming revenue recovery post-Covid-19. Singtel's digital banking licences in Singapore and Malaysia, coupled with its potential entry into the digital banking business in Indonesia, further asset monetisation at lucrative valuations, as well as expansion into higher growth business areas (e.g. regional data centres) may also stir up more investor interest, in our view. Its current share price implies an FY3/23F EV/EBITDA of just 2.9x for Singtel Singapore and Optus (after deducting the associates' current market values), and decent FY22-24F yields of 3.3-5.1% p.a.

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Transport - Overweight

Air Transport and Airport Services

Recent 1QCY22F results

Singapore Airlines:

SIA reported a core net loss of S$268m in 2HFY3/22, which is 44% narrower yoy and 69% narrower hoh, mainly due to stronger cargo profits. For the whole FY22, SIA halved its core net loss to S$1.1bn, contributed entirely by a doubling of cargo profits. By contrast, the passenger airline business remained in losses for the third consecutive year, and we estimate that the passenger airlines' core operating losses widened 20% yoy in FY22. However, the outlook for the passenger airline business has improved since Apr 2022.

SATS:

SATS is due to report its 4QFY3/22 on 30 May after market trading hours. We are forecasting a core net profit of S$2.4m to turn SATS profitable in FY22 with S$22.3m, from S$78.9m in net losses a year ago. The gradual reopening of aviation industry and ongoing government support has been key in the turnaround, but we are expecting margins to remain tight, as SATS weans off government relief schemes and a ramp-up in hiring ahead of return in demand for the aviation industry.

Outlook for rest of 2022F

Singapore Airlines:

The forward revenue outlook for SIA is positive. Singapore reopened its borders to quarantine-free travel from 1 Apr 2022 and all testing requirements were removed from 26 Apr. This triggered a 49% mom jump in SIA's Revenue Passenger Kilometer (RPK) demand in Apr, with passenger load factor (PLF) rising from Mar's 54.5% to Apr's 72.7%. Anecdotally, we believe that average ticket prices have risen a lot, with SIA noting that forward sales in Jun-Aug are "approaching pre-Covid-19 levels". Separately, cargo volumes may pick up qoq in the Apr-Jun 2022F quarter with the upcoming lifting of the Shanghai lockdown from 1 Jun. Upside risks include stronger-than-expected yield outcomes for the passenger airline business.

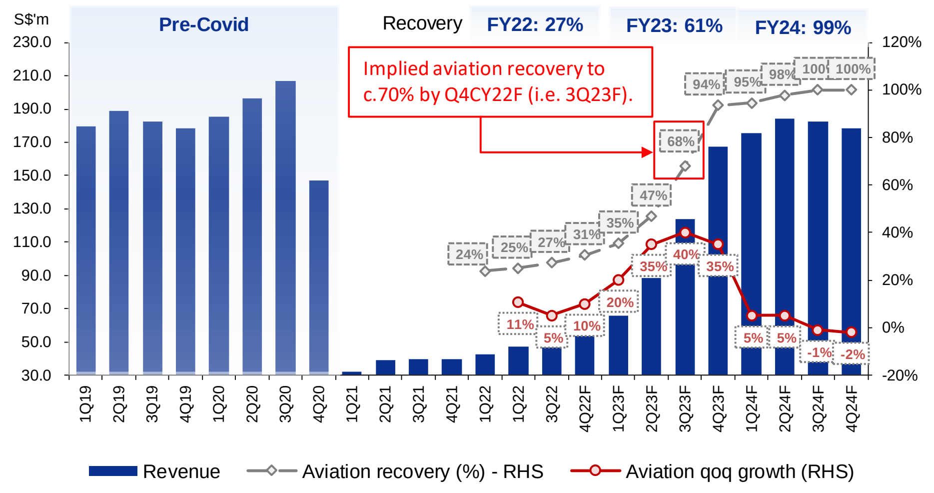
Conversely, the significant oil price increases pose the largest downside risk for SIA. SIA is only 40% hedged at an average Brent strike price of US$60/bbl from Apr 2022 to Jun 2023F, beyond which SIA is unhedged. At the time of writing, Brent crude is trading at US$110/bbl, which is a multi-year high. SIA has also committed to restoring pilot salaries fully by 31 Dec 2022F and to replacing cabin crew members that have resigned. Meanwhile, the Singapore government may also reduce cost support for SIA's operations sometime this year.

Everything considered, we forecast SIA to report a core net profit of S$631m in FY3/23F, vs. a core net loss of S$1.1bn in FY22.

SATS:

With the continued recovery of the aviation sector, we believe SATS will improve its profitability in FY23, although the pace of recovery remains suspect. Our forecasts implies the aviation industry to return to c.70% of pre-Covid-19 levels by 4QCY22, while factoring travel in CY23 comparable to pre-Covid-19 levels. The hiring efforts in the short term in preparation will weigh on margins, although we have yet to have visibility of how much SATS could benefit from the S$500m package announced in Mar 2022, beyond eligibility for a S$60m quantum for the entire industry as part of rebuilding the sector's workforce. Although the return in demand for travel as exceeded expectations with latest figures suggesting a passenger traffic in Singapore achieving a 50% recovery to pre-Covid-19 levels in May, the hiring crunch could impede SATS's ability to ramp up operations in the near term.

Figure 56: Pace of recovery for in-flight meals



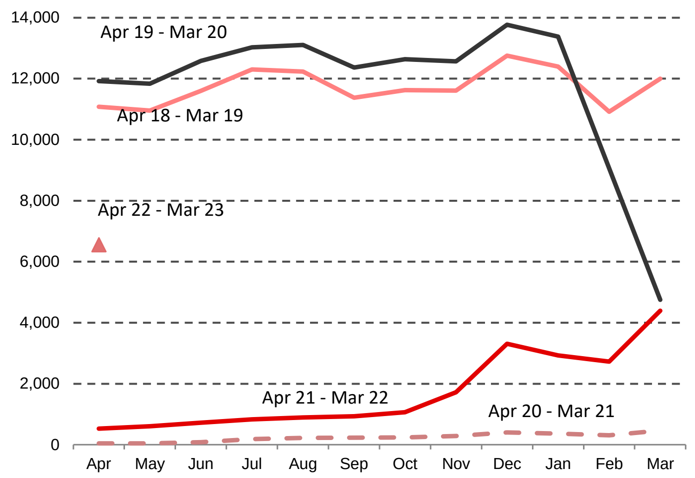
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Top picks

During the recent results announcement, we downgraded SIA to a Hold rating (from Add previously) with a target price of S$5.92, using FY23F P/BV of 0.98x (+0.5 s.d. from the mean since 2011) vs. 1.06x previously (+1 s.d.). While SIA is well-positioned to benefit from the reopening of Singapore's borders, SIA's share price has already rerated 60% from its 2020 lows and we think that a Hold call is appropriate as the stock's risk and reward appear balanced at this stage.

SATS has seen a 15% share price movement since Mar 2022 vs a 2.1% decline in the STI over the same period. At the current price, SATS is trading c.5% below our DCF-derived TP of S$4.77. However, we retain our Add rating as we believe the positive sentiment on global travel recovery would likely underpin share price performance.

Figure 57: SIA group's passenger traffic in RPK (m)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 58: SIA group passenger 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 3/22	68,570	215.7%	38.7%
FY 3/23F	131,023	91.1%	74.0%
FY 3/24F	168,212	28.4%	95.0%
FY 3/25F	177,066	5.3%	100.0%
FY 3/26F	191,231	8.0%	108.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Land Transport

1Q22 results recap

Both ComfortDelgro (CD) and SBS Transit (SBUS) reported 1Q22 results that were in line with expectations, showing sequential earnings recovery.

CD posted a 1Q22 net profit of S$76.7m (+30.4%), helped by S$37.9m gain on asset disposal. Excluding government grants and exceptional items, CD's 1Q22 core EBIT came in at S$64.6m (+20.5% qoq, +25.7% yoy), helped by improving economic activity levels in Singapore and the UK with easing Covid restrictions.

SBS Transit (SBUS) announced a 1Q22 net profit of S$15.5m (-33.5% yoy). Excluding government relief and exceptional items, 1Q22 core operating profit improved to S$19.4m (+109% qoq, +206% yoy). Despite flattish ridership trends on a yoy basis, 1Q22's profit growth was driven by 1) changes in Downtown Line rail financing framework, 2) fare increase of 2.2% since 26 Dec 2021, and 3) higher fuel indexation which allowed SBUS to pass on higher fuel costs to LTA.

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 0.6%. CD's relatively strong net 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, in our view. It was also less reliant on government relief such as job support scheme (JSS) in FY21 to sustain earnings.

Most of CD and SBUS's operating geographies have eased Covid-related restrictions YTD. We expect economic and social activities to pick up, which should aid CD's ridership recovery. In Singapore, after most of the pandemic restrictions were dropped (with all employees allowed to return to the workplace and group size limits removed), public transport ridership have recovered to 78% of pre-Covid levels in the last week of Apr 22 (first week of Jan: 67%), according to Land Transport Authority (LTA). In Australia and the UK, public bus schedules have returned to full service levels, and CD is seeing improvement in charter business activity levels. China is the only country which remains affected, though its contribution remains limited (3.5% of revenue in FY21).

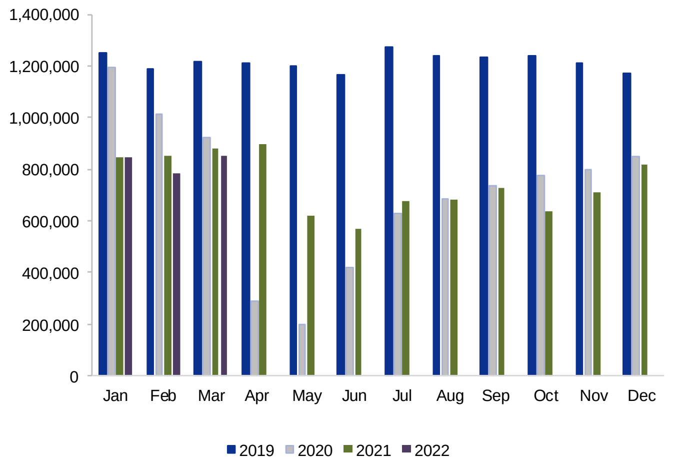
CD has also tweaked its taxi segment revenue model to better compete against PHV peers as mobility recovers. With the easing of restrictions, CD has seen an increase in daily taxi bookings. Together with recent fare revisions, average daily net earnings of its taxi drivers are currently higher than the pre-Covid days. To compete better against private hire vehicle (PHV) platforms, CD announced that it will extend its taxi rental rebate through Sep 22 (to lower fixed cost for cabbies and narrowing rental gap vs. PHVs). Meanwhile, from May 22 onwards, it has started charging a 4% commission fee for bookings through its mobile app (c.45% of taxi rides are currently initiated through its app bookings). CD also plans to onboard more PHV drivers onto its booking platform to mitigate the continued decline in taxi fleet.

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 continue to 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.

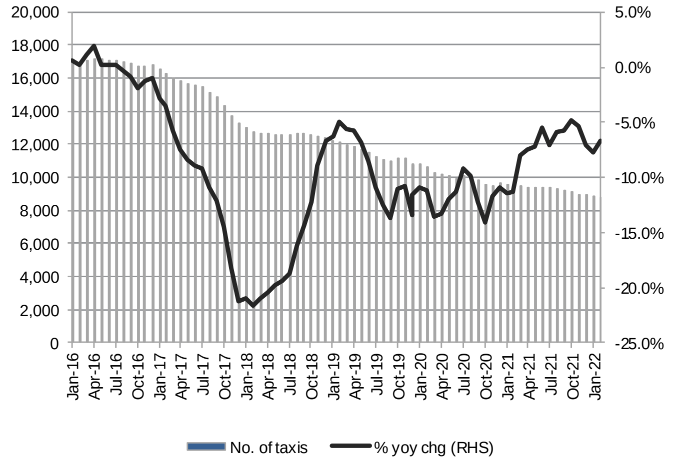
In terms of valuation, SBUS is trading at a lower CY23F P/E of 11.3x, compared with CD's 13.4x. Our TP for SBUS is S$3.40 and for CD is S$1.80.

Figure 59: Average daily rail ridership of SBS Transit



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 60: CD's taxi fleet in Singapore



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Cost pressure/margin outlook

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.

Electricity costs have risen by more than 40% yoy in 1Q22. While both CD and SBUS's Singapore rail operations are likely to suffer from higher electricity costs, the scale of rail operations is significantly smaller than buses', and is unlikely to derail margin recovery for CD. SBUS however might be slightly more sensitive to higher electricity costs given its less diversified exposure. We lowered our FY22-24F EPS forecasts by 1.2-4.6% for SBUS accordingly.

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Gaming - Neutral

Results wrap-up

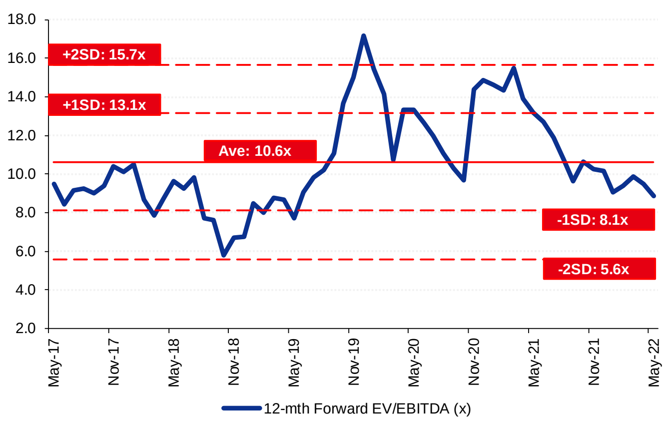
In its 1Q22 business update, GENS showed a set of comparable financial performance from a year ago despite waning government support and higher utilities expenses, with adjusted EBITDA and core net profit declining marginally by 2.5% and 2.1% to S$124.8m and S$43.5m respectively. We reduced our FY22F adjusted EBITDA and net profit by 17.9% and 31.4% respectively as we defer recovery to FY23F from 2H22 previously. FY23-24F adjusted EBITDA/net profit was adjusted downwards marginally by 4.3%/2.2% and 7.0%/3.7% respectively to take into account higher utilities expenses.

Outlook

We think that the recovery of GENS is missing its last leg of runway with North Asia (i.e. China and Japan), that used to make up a third of its pre-Covid-19 footfalls in both gaming and non-gaming facilities, remaining under strict cross-border travel regime. Nevertheless, the release of capacity restrictions for events and facilities with more than 1,000 pax capacity means that more business activities could resume in a more comprehensive manner. The construction of Resorts World Sentosa 2.0 (RWS 2.0) commencing in 2H22 will be conducted in a phased approach to minimise disruptions to operations. Reiterate Add on

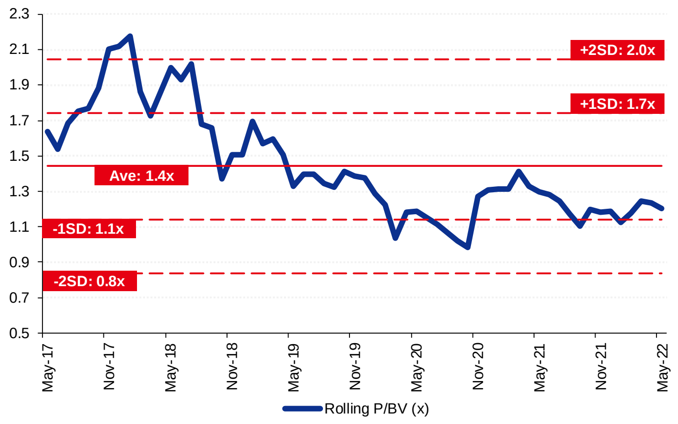
GENS with a TP of S$0.92, pegged to 9x FY23F EV/EBITDA, as recovery to pre-Covid operations remain on the table, albeit at a slower pace pending the return of tourists from key source markets.

Figure 61: GENS 12-mth Fwd Rolling EV/EBITDA (x)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 62: Genting Singapore P/BV (x)



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Gloves - Neutral

1Q22 results recap

Riverstone Holding's (RSTON) 1Q22 results came in slightly above expectations, while UGHC's were in line.

RSTON) reported a 1Q22 NP of RM108.7m (-1.8% qoq, -79.2% yoy); the qoq flattish NP showed its stronger earnings resiliency vs. peers amid the continued decline in healthcare glove ASPs. 1Q22 revenue of RM402.3m was stable on a qoq basis (-1.9% qoq, -61% yoy), as weaker healthcare ASPs were offset by higher volumes; cleanroom segment's ASP and volumes remained firm in 1Q22. Due to lower input costs and higher utilisation rates during the quarter, margins were stable qoq.

UGHC reported a 3QFY6/22 net profit of S$10.7m (+0.3% qoq, -69% yoy), representing three quarters of stable profits despite intensified pricing competition in the glove industry. While ASPs continued to trend downwards, UGHC's revenue rose 12% qoq in 3Q22 helped by higher sales volume of c.15% qoq during the quarter. This was mainly due to recovery of its manufacturing operations to optimal utilisation level (previously impacted by Covid-related shutdowns and lower mandated workforce capacity). Gross margins compressed on a qoq basis due to lower ASPs, leading to flattish net profit on a sequential basis.

1H22F outlook

While the general glove industry is facing a 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 compared to Malaysia-listed glove makers.

Healthcare gloves, the main focus of key Malaysia-listed glove names, have likely seen ASPs bottom in 2QCY22F. While selling prices continued on a normalisation trend in early-CY22 to c.US$25/carton in Apr (1Q22: c.US$30-US$32), we understand that the recent increase in industry operating costs (higher labour costs due to minimum wage hike in Malaysia, higher utility costs due to rising electricity and natural gas tariffs) have enabled RSTON to raise prices in May by c.4%.

Both Singapore-listed glove makers have taken steps to minimise impacts from industry price competition for healthcare gloves. For example, RSTON prioritises working with distributors on customised products that offer higher ASPs and margins. Similarly, UGHC has been focusing on production of gloves with higher margins (i.e. niche/premium nitrile gloves, latex gloves), while outsourcing generic nitrile glove products (which is seeing stronger price competition) from other manufacturers.

Currently, both companies are operating at healthy utilisation levels, though commissioning of new lines will be more challenging with labour shortages plaguing the industry.

Top pick

Riverstone Holdings (Add, TP: S$1.10)

The cleanroom segment remains the key earnings contributor, accounting for 60% of RSTON's gross profit in 1Q22. Demand for cleanroom gloves remains strong, and management expects the segment volume to grow 10% yoy in FY22F (back-loaded due to 1H festive seasons and ongoing capacity expansion). Cleanroom glove pricing remains high at US$100-US$110/carton in 2Q22F, and we expect it to remain sticky with quarterly/semi-annual pricing reviews.

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 7.8x CY23F ex-cash P/E. Re-rating catalyst include continued uptrend in selling prices; downside risks include further ASP declines for healthcare gloves.

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Technology - Neutral

Relatively neutral 1Q22

1Q22 was a relatively neutral quarter for the manufacturing sector. Seven companies (AEM, Aztech, Frencken, Grand Venture, Nanofilm, UMS and Venture Corp) provided an update for 1Q22. Of these seven companies, Nanofilm did not provide any financials for its update, UMS provided full financial details, while the rest provided selected financial highlights. Of the six companies that provided financials, one-third had in line results, one-third achieved better-than-expected results, while the remaining one-third reported below-than-expected results. Only Frencken reported a yoy decline in net profit in 1Q22. As a sector, revenue grew 40.3% yoy, net profit grew 39.6% yoy and net profit margin fell 0.05% pts yoy to 10.97% in 1Q22.

None of the companies under our coverage reported any signs of a slowdown in demand based on their 1Q22 performance. All of them reported a yoy revenue increase in 1Q22 and those involved in the semicon industry continued to see strong demand from their customers.

However, inflationary cost pressures were evident in 1Q22 results with higher raw material and utility costs cited as obvious examples. Such cost pressures explain the yoy margin erosion experienced by the companies in 1Q22 (Figures 2-4). To combat these cost pressures, companies have committed to further automate their processes and manage efficiency and productivity more diligently. Some companies were able to partially pass on the higher costs while some had to wait to price in the higher costs when new orders are received from customers. Higher taxation was also a feature in the recent results with one company guiding for a higher tax rate as Singapore moved towards conforming with the proposed Global Minimum Tax.

Based on their 1Q22 updates, we had cut our earnings forecasts for 4 of the 6 companies we cover and reduced our TP for 2 of the 6 companies we cover, during the recent results season.

Figure 63: 1Q22 yoy revenue performance

(S$m)	1Q21	1Q22	yoy growth
AEM	80.2	261.9	226.4%
Aztech	115.9	128.0	10.4%
Frencken	181.5	198.4	9.3%
GVT	23.0	32.5	41.0%
UMS	49.6	84.7	70.8%
Venture	686.7	889.3	29.5%
Total	**1,137.0**	**1,594.7**	**40.3%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 64: 1Q22 yoy net profit performance

(S$m)	1Q21	1Q22	yoy growth
AEM	**13.3**	**40.8**	**205.6%**
Aztech	13.2	13.9	5.3%
Frencken	14.7	12.8	-12.6%
GVT	3.3	3.6	8.9%
UMS	15.4	19.7	28.4%
Venture	65.3	84.0	28.6%
Total	**125.2**	**174.9**	**39.6%**

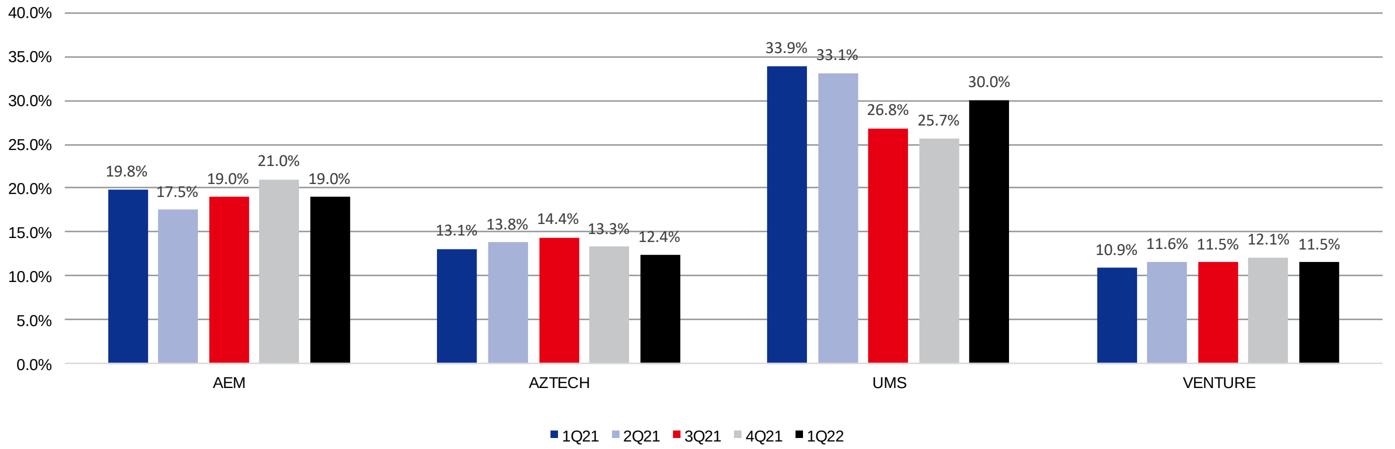
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 65: 1Q22 earnings and TP changes

Company	Earnings cut	TP change
AEM	Yes	No
Aztech	No	No
Frencken	Yes	Yes
Grand Venture	Yes	Yes
UMS	Yes	No
Venture	No	No

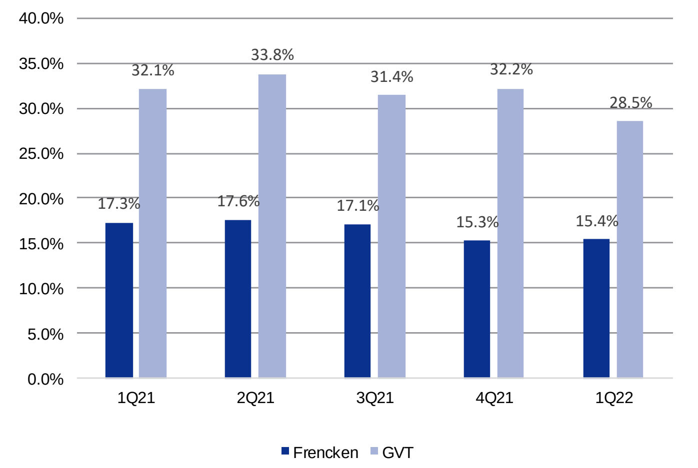
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 66: Pre-tax profit margin trend



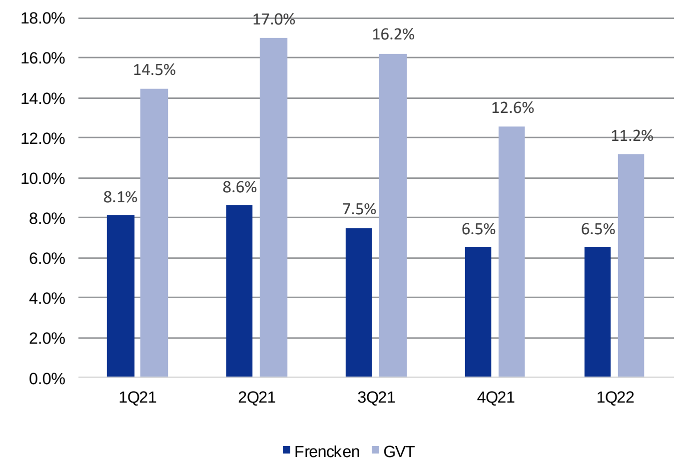
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 67: Gross profit margin trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 68: Net profit margin trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Where does mean reversion bring us?

As the demand outlook for the manufacturing companies remain strong for FY22F, the earnings risks are a) ability to manage the rising cost pressure and b) further supply chain disruption as China adheres to its zero Covid-19 policy. On the macro front, with rising US interest rates, sentiment towards manufacturing stocks have weakened. In Figure 69 below, we present target price scenarios based on mean reversion to the average forward P/E multiple.

Based on mean reversion, AEM's share price could face a potential 20.7% de-rating if the market ignores the company's current fundamentals and decides that the appropriate P/E multiple is the average level of 7.80x.

Figure 69: Scenario analysis - TP based on mean reversion for P/E multiple

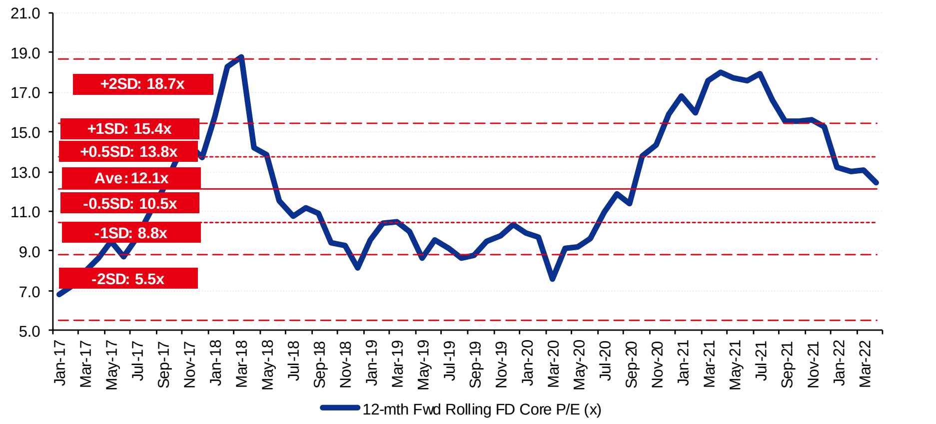
Company	A Average P/E (x)	Period	B CGS-CIMB FY23F EPS forecast	C = A x B Scenario TP (S$)	D Closing price on 24 May 2022	E = (D/C-1) Upside/Downside from scenario TP
AEM	7.80	Jan-17 to Apr-22	0.4384	3.42	4.31	-20.7%
Frencken	7.90	Jan-17 to Apr-22	0.1578	1.25	1.08	15.4%
Grand Venture	9.50	Jan-17 to Apr-22	0.0984	0.94	0.83	13.3%
UMS	10.80	Jan-17 to Apr-22	0.1125	1.22	1.14	6.6%
Venture	14.80	Jan-17 to Apr-22	1.3412	19.85	17.17	15.6%
Aztech	9.40	Mar-21 to Apr-22	0.1329	1.25	0.86	45.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sector has mean-reverted

As a sector, the manufacturing sector's P/E valuation has mean-reverted to close to its average forward P/E multiple (over Jan-17 to Apr-22) of 12.1x. The next 2 downside P/E valuations are 10.5x (-0.5 s.d.) and 8.8x (-1.0 s.d.).

Figure 70: Manufacturing sector P/E valuation (Jan-17 to Apr-22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

2Q22F stock picks

For 2Q22F, we prefer companies that could turn in better qoq and yoy performance. In our view, this could be Venture Corp (VMS SP, Add, TP S$23.32) in the big cap space and UMS Holdings (UMSH SP, Add, TP S$1.63) in the small cap space.

Based on management's outlook statement, we think that Venture could see qoq net profit growth in 2Q22F. Venture reported a net profit of S$75.1m for 2Q21 and S$84.0m for 1Q22. We note that if 2Q22F net profit is the same level as 1Q22, then Venture could potentially see a minimum of 11.85% yoy net profit growth for 2Q22F. In FY18-19, Venture reported a net profit of S$363-370m. If Venture's net profit for FY22F can revert to these levels (driven by the steady outlook across its various product segments for FY22F), net profit could potentially grow 16.34-18.58% yoy. Our current FY22F net profit is S$359.5m representing a potential 15.22% yoy net profit growth.

UMS also guided that orders from customers remain strong and that its new 300,000 square feet plant remains on track for completion by end-2022. This plant will service new customers (which we think will likely still be in the semicon space) and will help UMS diversify its customer base. Post its 1Q22 results announcement, we have modelled in a higher effective tax rate of 18.6%. UMS has engaged a tax consultant to help resolve the tax issue (inability to meet pioneer tax incentive condition) with the Malaysian authorities. A re-rating catalyst could be a positive resolution of this tax matter which could lead to a potential tax provision write-back and allow us to remodel in lower tax rates. Although UMS is seeing strong demand, we note that its main customer is also facing component shortage on their end which may have some potential impact on product delivery and revenue recognition for UMS.

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- Ascott Residence Trust
- ARA LOGOS Logistics Trust
- CapitaLand Integrated Commercial
- CDL Hospitality Trust
- Elite Commercial REIT
- ESR-REIT
- Far East Hospitality Trust
- Frasers Centrepoint Trust
- Frasers Logistics & Commercial Trust
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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)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

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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