

### STRATEGY – SINGAPORE

## 2H23 Market Strategy

Still The Place To Be

In aggregate, our portfolio of key focus stocks outperformed the STI in 1H23 due largely to the industrials sector. While the STI's valuations are not stretched, with a 2023F PE of 10.7x, P/B of 1.0x and a yield of 4.5%, we have moderated our STI target to 3,240 due to potential economic headwinds. Nevertheless, we forecast 9% EPS growth for the large-cap stocks under our coverage due to the low-base effect from 2022 for key sectors.

### WHAT'S NEW

- Limited upside for the STI in 2H23.** While the Straits Times Index (STI) has done well vs its regional peers in 1H23, we have moderated our stance on its outlook for 2H23 given the persistent risk of recession. As a result, we forecast that the STI will reach 3,240 by year end using a top-down methodology and using target PE and P/B multiples of 12.5x and 1.3x respectively. These multiples are c.15% discount to the index's long-term average which we believe to be fair given moderating earnings growth into 2024 and potential recessionary risks to the economy and thus to our forecasts. The market remains a defensive one which should lead to relative outperformance in our view, and stock picking will remain key for investors in the short to medium term.
- 9% core net profit growth for 2023.** We forecast <1% EPS growth for the STI's constituents under our coverage which is broadly on par with consensus growth estimates. However this is meaningfully lower than the 9% core net profit growth forecasted for our overall large-cap coverage. Since Jan 23, we have raised our earnings forecasts for aviation, finance, land transport, REITs, telcos and consumer names while downgrading earnings for the technology sector.
- 2023 valuations for the STI appear inexpensive,** as it currently trades at a forecast 2023 PE and P/B of 10.7x and 1.0x respectively, as well as paying a yield of 4.5%. We highlight that these PE and P/B multiples are meaningful discounts to the STI's long-term averages, and its PE multiple is at the bottom of its 15 year PE trading range.
- In aggregate, our focus stocks rose 5.3% in 1H23, outperforming the STI which fell 1.4%.** While six of our 11 stocks beat the benchmark, it was notable that a large part of the outperformance was driven by two stocks - Sembcorp Industries and Keppel.
- UOB Global Economics & Markets Research (UOB GEMR) has retained its full-year 2023 GDP growth for Singapore at 0.7%,** ie at the bottom end of the Singapore Ministry of Trade and Industry's (MTI) forecast range, which reflects its more cautious external outlook. Two downside risks to the global economy highlighted by the MTI are: a) tightening of global financial conditions, and b) escalations in the Russia-Ukraine war and geopolitical tensions among major global powers.
- Our top large-cap picks** are CapitaLand Investment, Genting Singapore, Keppel Corp, Mapletree Logistics Trust, Sembcorp Industries, OCBC, SATS, Sea Ltd, Seatrium, Singapore Telecommunications, Wilmar International and Yangzijiang Shipbuilding.

### PEER COMPARISON

Company	Ticker	Rec	Price (S\$)		Upside to TP (%)	PE (x)			2023F (%)		M.cap S\$m	P/B (x) 2023F
			5 Jul	Target		2022	2023F	2024F	Yield	ROE		
CapitaLandInvest	CLI SP	BUY	3.32	4.27	28.6	19.8	16.4	15.8	3.7	6.8	17,004	1.1
Genting Singapore	GENS SP	BUY	0.94	1.25	33.0	33.3	15.5	14.5	4.3	9.0	11,348	1.4
Keppel Corp	KEP SP	BUY	6.67	9.09	36.3	12.8	12.8	12.5	3.2	8.2	11,754	1.0
Mapletree Log Trust	MLT SP	BUY	1.66	1.99	19.9	29.1	21.5	21.5	5.3	4.9	8,206	1.2
OCBC	OCBC SP	BUY	12.25	17.32	41.4	9.6	8.0	7.9	6.1	12.5	55,061	1.1
SATS	SATS SP	BUY	2.6	3.02	16.2	n.a.	58.8	15.7	0.7	2.8	3,867	1.7
Sea Ltd	SE US	BUY	57.74	94.34	63.4	n.a.	34.5	28.1	0.0	14.6	30,096	5.4
Seatrium	STM SP	BUY	0.127	0.17	33.9	n.a.	291.1	54.7	0.0	0.5	8,666	1.1
Singtel	ST SP	BUY	2.52	3.15	25.0	18.7	17.2	15.3	4.0	9.6	41,607	1.7
Wilmar	WIL SP	BUY	3.66	5.50	50.3	6.9	9.1	7.9	5.7	9.4	22,848	0.9
Yangzijiang Shipbldg	YZJSGD SP	BUY	1.47	1.65	12.2	10.6	9.2	8.1	2.8	15.8	5,807	1.7

Source: Bloomberg, UOB Kay Hian

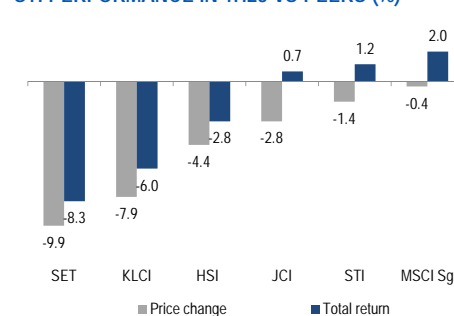
### STI 2023 YEAR-END TARGET: 3,240

### SECTOR PICKS

Company	Rec	Price (S\$)	
		5 Jul	Target
CapitaLandInvest	BUY	3.32	4.27
Genting Singapore	BUY	0.94	1.25
Keppel Corp	BUY	6.67	9.09
MapletreeLog	BUY	1.66	1.99
OCBC	BUY	12.25	17.32
SATS	BUY	2.60	3.02
Sea Ltd	BUY	57.74	94.34
Seatrium	BUY	0.127	0.17
Singtel	BUY	2.52	3.15
Wilmar	BUY	3.66	5.50
Yangzijiang Shipbldg	BUY	1.47	1.65
<b>Small caps</b>			
Civmec	BUY	0.74	1.23
CSE Global	BUY	0.405	0.42
LHN	BUY	0.39	0.55

Source: Bloomberg, UOB Kay Hian

### STI PERFORMANCE IN 1H23 VS PEERS (%)



Source: Bloomberg

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- Forecasting 9% earnings growth in 2023 for our universe of coverage.** The five key sectors that will contribute to the positive earnings growth in 2023 are the aviation, financials, land transport, telecommunications and “others” sectors (see table below), with aviation and land transport coming off a low base in 2022. We expect the healthcare, property and plantation sectors to be the sectors that will degrade the positive earnings growth, with the latter sector to be negatively impacted by weaker CPO prices. Note that the property sector’s EPS decline is due to City Development’s extraordinary gain from the sale of its Millenium Hilton in Seoul that was recognised in 2022.

### CORE EPS GROWTH BY SECTOR (% CHANGE YOY)

	2020	2021	2022	2023E	2024E
Aviation	n.a.	n.a.	n.a.	29.0	(37.0)
Finance	(29.6)	38.9	19.3	17.8	4.2
Healthcare	11.8	26.0	71.4	(5.6)	(16.4)
Land Transport	(62.4)	18.3	5.1	20.8	18.2
Plantation	21.5	28.7	38.8	(27.6)	14.0
Property	n.a.	n.a.	10.0	(28.8)	0.1
REITs	(20.3)	26.9	0.1	3.0	0.4
Shipyards	n.a.	n.a.	2.9	3.3	5.0
Technology	(18.4)	4.6	18.2	(13.5)	3.6
Telecommunications	(58.1)	94.0	(1.3)	21.7	13.6
Others*	(36.8)	9.9	15.7	28.5	9.1
<b>AGGREGATE GROWTH</b>	<b>(66.9)</b>	<b>154.6</b>	<b>25.4</b>	<b>9.3</b>	<b>1.6</b>

Note: Others comprise of Singpost, DFI Retail Group, Thai Beverage and Genting Singapore  
Source: UOB Kay Hian

- Timing will be key.** We highlight that our top picks only include one REIT, namely Mapletree Logistics Trust; however, with the US interest rate cycle potentially peaking in the latter part of 2023, we believe that the S-REIT sector could outperform in the medium term. Compared to 2022, the S-REIT sector saw a much higher representation within the top 20 share price outperformers in 1H23 with nine out of the top 20 (2022: three out of 20), albeit off a low base.
- In summary, while we are neutral on the STI, we believe that it should outperform its peers on a relative basis** due to the prevalence of quality, value and dividend stocks relative to its regional peers. Importantly, Singapore presents a lower risk vs other countries in the region, especially given the defensive nature of a number of its listed companies. In our view, careful stock picking will be the key to portfolio outperformance in 2H23 given the prevalence of risks, the key one being a global recession.

### ECONOMIC OUTLOOK

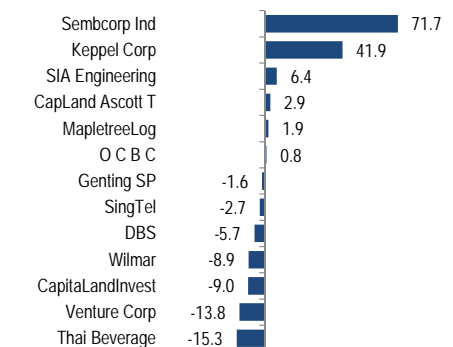
- Macro issues on our mind.** UOB GEMR expects Singapore’s manufacturing sector to contract by 5.4% in 2023 on the back of a 10% yoy decline in the non-oil domestic exports (NODX), with a slight improvement expected in late-23. While services has fared better in 2023, due to the continued recovery in leisure and business air travel as well as inbound tourism which has and will benefit in-person services sectors, the extent of services’ improvement may be curtailed by the potential weakness in global growth, banking sector issues and geopolitics. In the meantime, we point out that Singapore’s manufacturing and electronics PMI has been below the key 50.0 level for the past seven months, reflecting regional economic weakness, in our view.
- No change to expectations for elevated inflation.** We expect headline inflation to average 5.0% and core inflation at 4.0% in 2023. Excluding the 2023 GST impact (a questionable policy move in our view), headline and core inflation should average 4.0% and 3.0% respectively in 2023, both still above the “standard” 2% objective.

### SECTOR WEIGHTINGS

Weighting	Sectors and preferred stocks
<b>OVERWEIGHT</b>	<b>Financials:</b> OCBC over DBS <b>Property:</b> CapitaLand Investments <b>REITs:</b> Selected plays CDL Hospitality Trust and Mapletree Logistics Trust <b>Shipyards/Industrials:</b> Keppel Corporation, Sembcorp Industries, Seatrium. Yangzijiang Shipbuilding <b>Technology:</b> Sea Ltd <b>Telecommunications:</b> Singtel
<b>MARKET WEIGHT</b>	<b>Aviation:</b> ST Engineering and SATS <b>Consumer:</b> Thai Beverage <b>Gaming:</b> Genting Singapore <b>Land transport:</b> ComfortDelGro Corporation <b>Healthcare:</b> Raffles Medical <b>Plantations:</b> Wilmar International

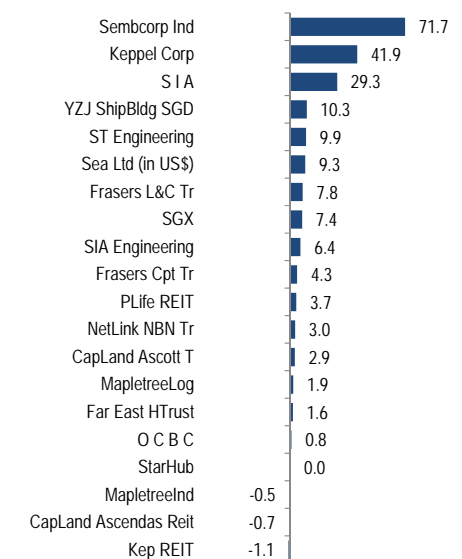
Source: UOB Kay Hian

### 1H23 PERFORMANCE OF OUR STOCK PICKS



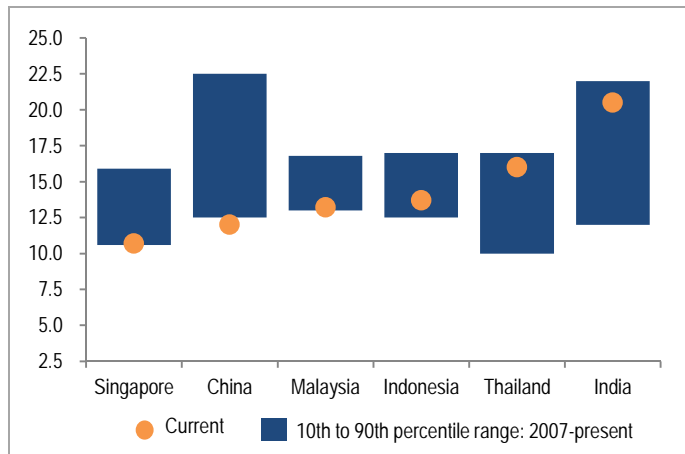
Source: Bloomberg

### 20 STOCKS THAT OUTPERFORMED IN 1H23



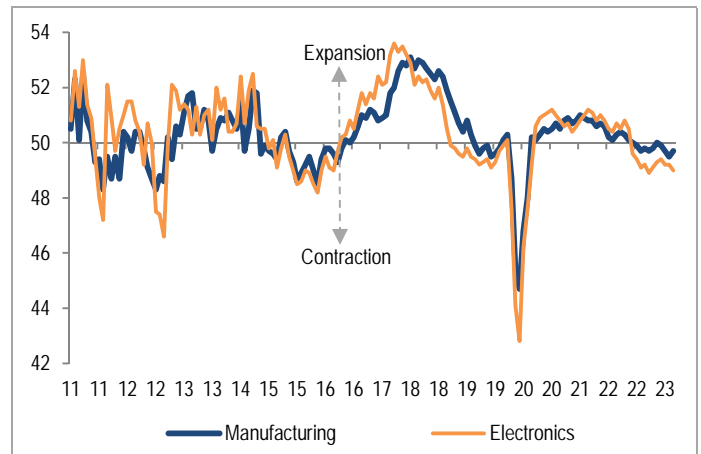
Source: Bloomberg

### REGIONAL MARKETS' 12-MONTH FORWARD PE



Note: Historical range represents 10<sup>th</sup> to 90<sup>th</sup> percentile from 2007 to present  
Source: Bloomberg

### SINGAPORE PMI: MANUFACTURING VS ELECTRONICS



Source: Bloomberg

### STRAITS TIMES INDEX: LONG-TERM P/B CHART



Source: Bloomberg

### STRAITS TIMES INDEX: LONG-TERM PE CHART



Source: Bloomberg

### FX, RATES AND ECONOMIC INDICATOR FORECASTS FOR SINGAPORE

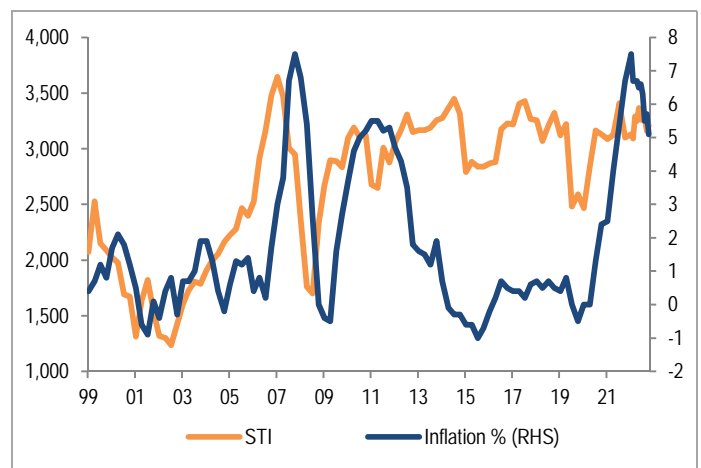
FX & Rates	3Q23F	4Q23F	1Q24F	2Q24F
USD/SGD	1.36	1.35	1.33	1.31
SGD 3M SORA (compounded)	3.86	4.03	3.88	3.48

Economic Indicator	2021	2022	2023F	2024F
GDP (%)	8.9	3.6	0.7	3.0
CPI (avg yoy %)	2.3	6.1	5.0	3.5
Unemployment Rate (%)	2.4	2.1	2.3	2.1
Current Account (% of GDP)	18.0	19.3	15.0	19.0
Fiscal Balance (% of GDP)	0.3	-0.3	-0.1	0.5

Source: UOB GEMR

### STI VS SINGAPORE CPI



Source: Bloomberg

COMMENTS ON SELECTED FOCUS STOCKS FOR 2H23

Company/Ticker	Rating/target price	Comments
Genting Singapore (GENS SP)	BUY S\$1.25	<ul style="list-style-type: none"> <li>GENS is creating value from the <b>premiumisation journey of RWS' offerings</b>, supported by sustained higher spending per head at the integrated resort. Expect significantly better yield management from the re-launched Festive Hotel, rejuvenation of the convention area, and makeover of the Forum F&amp;B area.</li> <li>We expect to see a steady <b>improvement in gaming volumes and non-gaming revenues</b> in the coming quarters, which will culminate in substantially stronger earnings in 2H23 vs 1H23. This could come from: a) gradual restoration of regional flight capacities, b) read-through from rival MBS' strong gaming results, and c) RWS' substantial room capacity increase and premiumisation strategy (eg Apr 23 soft opening of 'bleisure' Ora hotel, formerly the family-oriented Festive Hotel).</li> <li><b>Maintain BUY and target price of S\$1.25</b>, which implies 9.9x 2023F EV/EBITDA (10-year mean). GENS offers a 5% prospective dividend yield, backed by S\$0.27 net cash/share (29% of market cap).</li> </ul>
Keppel Corp (KEP SP)	BUY S\$9.09	<ul style="list-style-type: none"> <li><b>A busy 2Q23</b>. In 2Q23, KEP announced a spate of new contracts/businesses in its various segments. These include Memorandum of Understandings (MOU) or contracts for energy-as-a-service (EaaS), contracts for District Cooling Systems in Thailand and Singapore, plus further residential exposure in Vietnam, and renewables in Europe.</li> <li><b>Maintain BUY with pro forma SOTP-based target price of S\$9.09</b>. With the exit of its KOM segment, the company is moving towards a more asset-light and recurring earnings business model, with an achievable 15% ROE target in the medium term, in our view (2022 ROE: 8.1%). The company is on track to exceed its S\$5.0b target by end-23 and a new interim asset monetisation target could bolster earnings in 2023 and well into 2024 to 2026.</li> <li><b>Share price catalysts</b>: a) Resumption of normal business conditions in China, and b) continued success in its capital recycling programme.</li> </ul>
Mapletree Logistics Trust (MLT SP)	BUY S\$1.99	<ul style="list-style-type: none"> <li>MLT achieved <b>broad-based positive rental reversion</b> across most markets of +3.1% for 4QFY23 (Singapore: 5.0%, Malaysia: 4.5%, Vietnam: 4.4%, South Korea: 4.0%, Japan: 2.8%, Hong Kong: 1.2% and China: 0.6%).</li> <li><b>Benefits from reopening of Mainland China and Hong Kong</b>. Mainland China and Hong Kong accounted for 20.8% and 23.5% of MLT's portfolio valuation respectively as of Mar 23.</li> <li><b>MLT has a resilient balance sheet</b> with low aggregate leverage of 36.8% and long weight average debt maturity of 3.8 years.</li> <li><b>Maintain BUY</b>. Our target price of S\$1.99 is based on DDM (cost of equity: 7.0%, terminal growth: 2.8%).</li> <li><b>Share price catalysts</b>: a) Resiliency of DPU and balance sheet, and b) reopening of Mainland China and Hong Kong.</li> </ul>
OCBC (OCBC SP)	BUY S\$17.32	<ul style="list-style-type: none"> <li>Management <b>guided low- to mid-single-digit loan growth for 2023</b> (previous: mid-single digit) driven by: a) cross-border flows from China's reopening; and b) supporting network customers' overseas expansion in energy, utilities, accommodation and digital infrastructure.</li> <li>OCBC sees <b>strong momentum from sustainable finance</b> and is close to reaching its target of S\$50b by 2025. Credit costs are estimated to be 15-20bp (2022: 16bp). Management targets to achieve an ROE of "above 12%".</li> <li><b>Management guided NIM of 2.2% for 2023</b> (previous: 2.1%). Exit NIM was 2.31% in Mar 23. There is limited room to re-price loan yields higher although interest rates are expected to hold up in 2023. NIM is expected to ease in upcoming quarters due to a catch-up in the repricing of CASA to higher interest rates.</li> <li><b>Maintain BUY</b>. Our target price of S\$17.32 is based on 1.42x 2023F P/B, derived from GGM (ROE: 12.8%, COE: 9.0%, growth: 0.0%).</li> </ul>
Sea Ltd (SE US)	BUY US\$94.34	<ul style="list-style-type: none"> <li>SEA's 1Q23 results were <b>positive for the second consecutive quarter</b> after hitting its first positive net profit in 4Q22. Excluding one-off impairment of goodwill, core net profit met expectations, growing &gt;100% to US\$205m (or 21% of our 2023 forecast).</li> <li>We remain positive on SEA's achievements and <b>expect 2023 to be the first annual positive net profit</b> with improvement from all segments. Importantly, SEA also achieved positive free cash flow in 1Q23, with management continuing to focus on its long-term strategy of business opportunities in a profitable and sustainable way.</li> <li>We expect <b>2023 earnings to remain healthy</b> on the back of: a) more active users for Free Fire with new third-party games in the pipeline to be launched in 2H23; b) resilient e-commerce as margins stabilise and possible breakeven for Shopee Brazil; and c) continued growth at digital financial services by leveraging on Shopee and other new products like insurtech.</li> <li><b>We have a BUY rating on Sea</b> with an SOTP-based valuation of US\$94.34.</li> </ul>
Singapore Telecommunications (ST SP)	BUY S\$3.15	<ul style="list-style-type: none"> <li><b>Singapore</b>: We expect a robust recovery in data roaming revenue as the number of outbound tourists to China ramps up in 1QFY24 with further upside to data roaming recovery, currently at 60-70% of pre-pandemic levels.</li> <li><b>Optus</b>: After the cyberattack incident in FY23, Optus has seen positive subscriber net adds with postpaid subscribers plus also the gradual return of international students and tourists. Management noted that Optus plans to raise prices for its prepaid plans in FY24. Positive news from Australia also comes in the form of the ACCC blocking network sharing deal between Telstra and TPG which would have edged out Optus in terms of coverage.</li> <li><b>Regional data centre expansion</b>. Singtel plans to double its data centre capacity in Singapore in the next three years to around 155MW, up from its current 60MW capacity. For FY23, the group's regional data centres contributed S\$273m in annual revenue and S\$172m in EBITDA respectively.</li> <li><b>Maintain BUY with a DCF-based target price of S\$3.15</b> implying 14x FY23 EV/EBITDA (+1SD to its five-year mean).</li> </ul>
Yangzijiang Shipbuilding (YZJSGD SP)	BUY S\$1.65	<ul style="list-style-type: none"> <li><b>New order flows still a consistent share price driver</b>. YZJ's recent new order-win announcements have driven its share price up nearly 20% in the past four weeks. With revenue visibility now out to 2027, our bullish thesis on the company remains intact and we believe the company is well placed to win more orders for delivery between 2026-27. In 2Q23, YZJ won new orders for 46 vessels with a total contract value of US\$4.42b.</li> <li><b>Highest ever total outstanding orderbook value</b>. YZJ currently has 180 vessels in its orderbook totalling US\$14.6b which is its highest ever. Ytd, the company has US\$5.6b in new orders, exceeding its 2023 target of US\$3.0b. We expect management to revise this target up to at least US\$7.0b at its 1H23 results announcement in mid to late Aug 23.</li> <li><b>Potential upside in dividends for 2023</b>.</li> <li><b>Maintain BUY</b> with a PE-based target price of S\$1.65 (previously S\$1.58). Our target PE of 8.7x, applied to an aggregate of our 2023 and 2024 EPS forecast, is 1SD above YZJ's past five-year average of 6.5x.</li> </ul>

Source: UOB Kay Hian

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