Singapore Market Focus

2024 Outlook and Strategy

DBS Group Research . Equity

4 Jan 2024

Outperforming in a slow-growth environment

- End-2024 STI target of 3485
- Eight REITs to benefit from the Fed pivot
- Position for earnings recovery, turnaround, and stability

A stable macro backdrop. The Singapore economy is set to grow +2.2% y-o-y in 2024 while the US skirts a recession, China aims for a 4.5% y-o-y GDP growth, and ASEAN-5 growth picks up. A more balanced recovery between the manufacturing and service sectors will be seen with the electronics export cycle bottoming and travel and tourism continuing recovery. Average headline and core inflation should ease to 3.5% (4.7% in 2023) and 3.1% (4% in 2023), respectively, but remain above pre-pandemic levels.

Mixed outcome from Fed pivot. The Fed's pivot spells relief for REITs, property, and technology, but NIM compression for index heavyweight banks. STI's FY24F earnings growth will be affected by flat growth forecast for banks, offsetting recovery for technology, consumer staples, and several industrial names. Our end-2024 target for the STI is 3485, conservatively pegged between a 10.8X (-2SD) and 11.5X (-1.5SD) FY25F PE. We see limited downside; an attractive 5.4% FY24F benchmark yield and multi-year low PE and P/BV valuations offset low-single-digit EPS growth.

REITs are key Fed pivot beneficiaries. We expect REITs to outperform the STI. This is evident from the past 2 periods of rate pauses – 2006-2007 and 2019. The same has held true thus far in the current pause. Our REITs team prefers "value" over "safety" in the current cycle and selects these 8 REITs for 2024: (1) Retail REITs FCT and LREIT for resilience, (2) diversified REITs MPACT and KREIT for deep value wider-than-average yields, (3) CLAS among the hospitality REITs, and (4) Industrial REITs FLT, MLT, and DCREIT for their relative earnings resilience.

Earnings recovery, turnaround, and stability. FY24F earnings growth will be a key focus among investors as the STI heads into a year of slow earnings growth. Our picks are Seatrium, SATS, and DFI Retail for earnings turnaround and UMS, Venture Corp and ComfortDelGro for their meaningful recovery against an improving sectoral outlook or backdrop. Companies that have a stable or resilient outlook will continue to hold a place in an equity portfolio considering the global soft-landing scenario. Our picks in the changing interest rate environment are ST Engineering, SingTel and Netlink NBN Trust.

STI: 3,199.44

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Key Indices

	Current	% Chng
FS STI Index	3,199.44	-1.3%
FS Small Cap Index	246.05	-0.1%
SGD Curncy	1.33	0.4%
Daily Volume (m)	1,207	
Daily Turnover (S$m)	882	
Daily Turnover (US$m)	665	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2023E	11.9	5.4
2024F	3.7	5.5
2025F	4.6	5.5

(x)	PER	EV/EBITDA
2023E	11.3	14.4
2024F	10.9	13.4
2025F	10.4	12.6

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3-mth	12-mth	Rating
Keppel REIT	0.94	2,649	1.15	9.4	2.8	BUY
Mapletree Pan Asia Commercial Trust	1.54	5,049	2.00	10.0	(7.8)	BUY
Frasers Logistics & Commercial Trust	1.15	3,225	1.44	6.5	(1.7)	BUY
Capitaland Ascott Trust	0.98	2,430	1.20	5.3	(5.7)	BUY
LendLease Global Commercial REIT	0.64	1,113	0.90	23.1	(9.2)	BUY
Seatrium Limited	0.10	5,302	0.18	N.A	N.A	BUY
UMS Holdings	1.30	658	1.55	1.5	12.7	BUY
ComfortDelGro	1.40	2,288	1.67	10.2	14.6	BUY
ST Engineering	3.82	8,986	4.50	0.0	16.1	BUY
Singtel	2.43	30,255	3.39	0.8	(4.7)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 3 Jan 2024

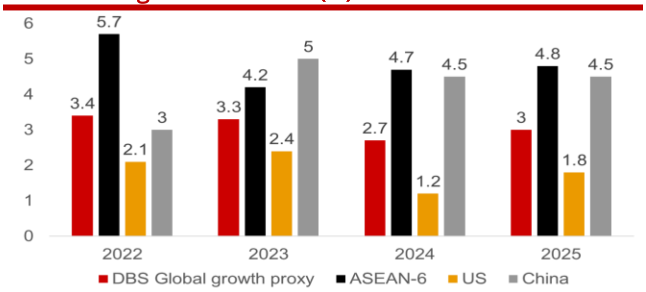
ed: PJ/ sa: JC, AS, PY, CS

Macro Outlook

Global soft-landing a stable backdrop for Singapore

The global soft-landing has set up a stable backdrop for Singapore's small open economy. While global GDP is set to moderate due to declining growth in the US, a recession will likely be avoided. A stable contribution from China is equally important, with a soft rebound and GDP growth of +4.5% expected in 2024. Against this backdrop, DBS Economists see an extended FED pause at 5.25-5.5% till 1H24, followed by measured 2x50bps rate cuts in 2H24 (50bps cut in 3Q/4Q24 each).

Global GDP growth forecast (%)



Source: DBS Bank, CEIC

The strength of ASEAN growth in 2024 is another key source of support to Singapore. As Singapore's largest trading partner, we expect a positive spill-over effect on Singapore's exports and/or demand from the 50bps pick-up in the annual real GDP growth of ASEAN-5 economies. This will be driven by the electronics export cycle bottoming and continued recovery in travel and tourism; both sectors being key to Singapore's growth and recovery.

More balanced growth for Singapore

Our economist sees a more even recovery between the key manufacturing vs. services in 2024, with GDP growth heading higher to +2.2% y-o-y (vs. +0.9% in 2023). Growth will likely be led by a gradual pickup of the manufacturing sector due to a 1) favourable base effect from 4Q23, and 2) the gradual recovery of external demand and global electronics industry.

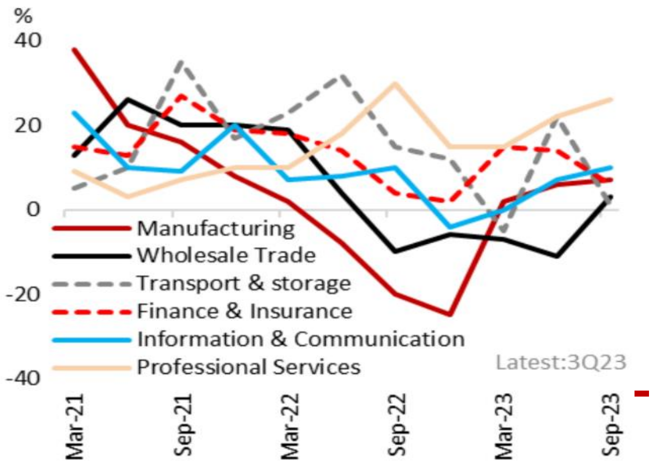
2024: Growth recovery, falling inflation, stable SGD

	2022	2023F	2024F	2025F
Growth, yoy%	3.6	0.9	2.2	2.5
Inflation, yoy%, ave	6.1	4.7	3.5	2.4
Core inflation, yoy%, ave	4.1	4.0	3.1	1.8
SGD per USD, eop	1.34	1.33	1.32	1.31
10-year yield, %, eop	3.09	3.20	2.70	2.70

Source: DBS Bank

Firms within the transport engineering cluster have the most optimistic outlook for the next six months, with more aircraft engine repair jobs in aerospace (ST Engineering, SIA Engineering) and higher level of shipyard activities in marine and offshore segments (Seatrium). Electronics PMI returned to expansion (50.1) in Nov '23, affirming a recovery for the technology sector, corroborating the improvements in business sentiments over the past two quarters (Q323: +23 vs. Q1/Q2: +7/+11).

6-month forward expectations looking up

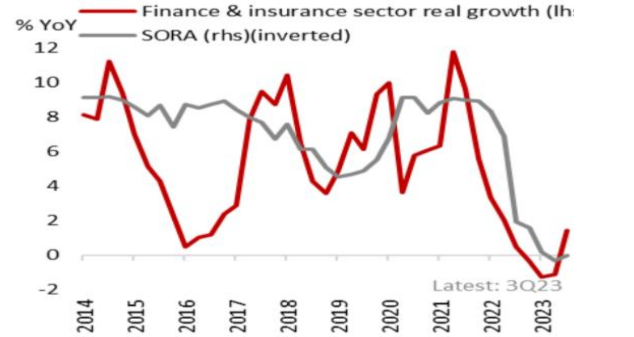


Source: DBS Bank, CEIC, Singstat

The services sector has held the fort over the past year on reopening tailwinds. We expect this situation to continue amid the anticipated Chinese tourists influx into Singapore-Malaysia-Thailand with the waiver of visa requirements for short-term visits. Albeit positive, a repeat of double-digit growth in the travel-related services is less likely as international visitor arrivals head towards the final leg of complete recovery in 2024.

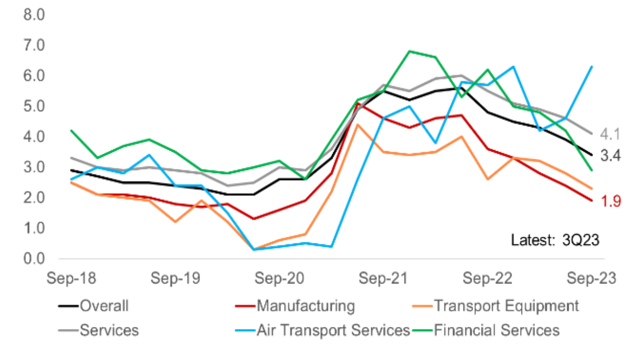
Conversely, the wholesale trade and finance & insurance sectors should recover after signs of bottoming out from 3Q23. The expectation for a pickup in financial activities should spell for strong non-interest income (NII) growth for banks, which would help alleviate the impact of stabilising/declining net interest income.

Recovery in sight for the financial sector



Source: DBS Bank, CEIC, Bloomberg Finance L.P.

Job vacancies moderating from their peaks (%)



Source: DBS Bank, Ministry of Manpower

Note: Based on MOM Q323 job vacancy rate by industry and occupational group (in % terms)

FDI inflow

Singapore should see a steady and forthcoming fixed asset/direct investments (FAI/FDI) in 2024 on the unfolding of trade diversification and "China+1" strategy. AI-chips bellwether Nvidia's potential AI-investment, on the heels of authorities' plan to make Singapore a regional AI-hub, affirm Singapore as an attractive FAI/FDI destination along the semiconductor value chain. Coupled with the government's AI-ambitions, this should have positive spill-over to service providers within the AI-ecosystem, including data centre players (e.g., Keppel DC REIT) and telcos like Singtel and StarHub.

Committed/Announced FAI by global semiconductor companies in Singapore

Company	Remarks
Applied Materials	Worth S$600m, the 700k sq. ft. plant is slated for completion in 2024
Global-Foundries	US$4bn fab to increase fab capacity by a third to 1.5mil 300mm wafers/year
Micron	Three fab plants in Singapore; with US$150bn CAPEX plan over the decade
Soitec	Doubling silicon wafer plant with €400m investment; 2m 300mm wafers by 2026
UMC	US$5bn investment for 30k monthly capacity of 22/28nm chips
Nvidia	Potential investment, backing an iconic AI site, building a larger supercomputer

Source: DBS Bank
Note: List is non-exhaustive

Labour market softening

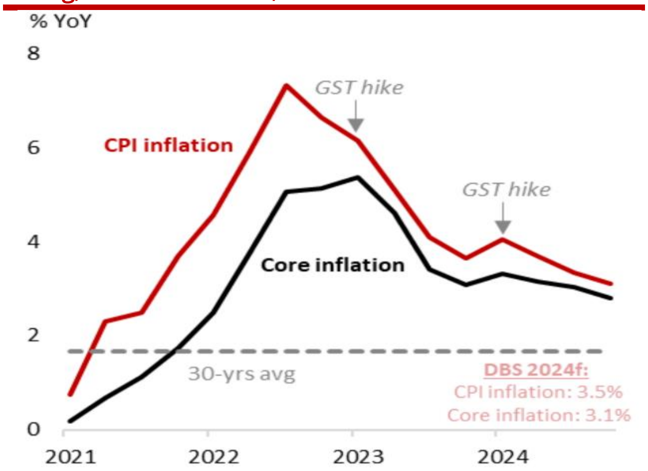
A softer labour market is a reprieve for labour-intensive industries – including aviation (SIA Eng, SATS), offshore & marine (Seatrium) and financial services sectors. Job vacancies for most industries have fallen from their COVID-induced peaks and should now trend towards its pre-pandemic levels. All else equal, companies' bottom-lines should improve as wage growth and staff costs ease further.

Inflation bumpy moderation

Inflation should fall from 2023 levels but remain above the pre-pandemic averages. Our Singapore economist sees an average 2024 headline inflation of 3.5% (4.7% in 2023) and core inflation of 3.1% (4% in 2023). This remains above the respective pre-pandemic 2010-2019 averages of 1.7% and 1.5%, respectively.

While imported inflation (alongside food/oil prices) are likely to be kept in check, domestic inflation may be stubborn on sticky service inflation, 1ppt GST hike, and increases in utility and public transport fares. Under the impact of prolonged/cumulative inflation, domestic consumption may gravitate towards necessity spending, aided by the government's recent Cost-of-Living Support handouts. All these paints a stable outlook for sub-urban retail REITs (Frasers Centrepoint, LendLease REIT), consumer staples Sheng Siong, and public transport operator ComfortDelGro.

Falling, but still-elevated, inflation in 2024



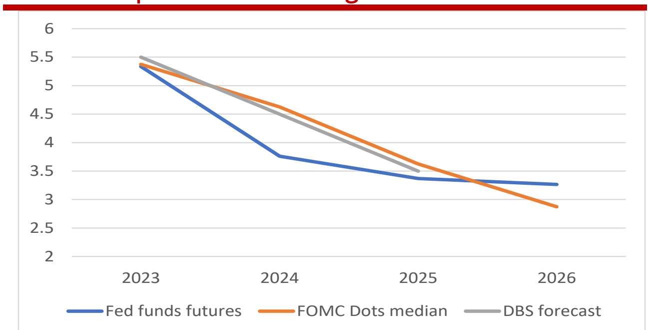
Source: DBS Bank, CEIC

Equity Outlook and Valuation

From higher-for-longer to lower-sooner

Powell's dovish comments and the refreshed dot plot that points to 3x25bps cuts in 2024 followed by another 4x25bps cuts in 2025 at the December 2023 FOMC meeting has set the path for lower rates going forward. DBS Economics Research sees a 100bps cut in Fed funds rate in 2H24, followed by another 100bps in 2025. The more volatile Fed funds futures is currently pricing in the first cut as early as March and six cuts by year-end. The interest rate narrative is transiting from higher-for-longer to lower-sooner.

Forecast/implied Fed funds target rate

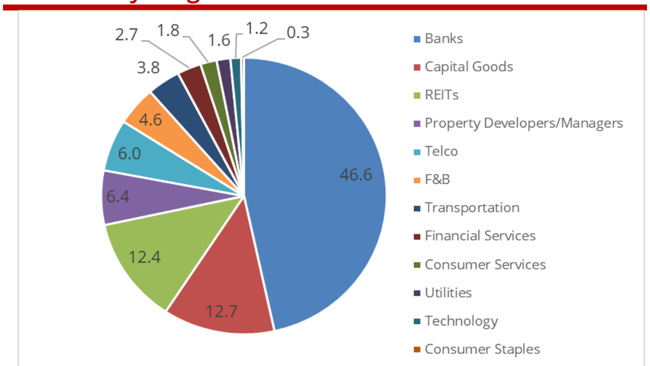


Source: DBS Bank

Mixed outcome from Fed pivot

The Fed's pivot has a mixed outcome on the benchmark Straits Times Index (STI). *Ceteris paribus*, it spells relief to sectors that were negatively affected by rising interest rates such as **REITs**, **property,** and **technology,** as well as companies with a higher debt ratio. But interest rate downtrend spells a period of NIM compression for banks. Banks take a massive 46.6% weight within the benchmark STI. REITs (12.4%), property (6.4%), and technology (1.2%) stocks chalk up a much lower combined 20% weight.

STI is heavily weighted on banks



Source: DBS Bank

Muted earnings growth for the benchmark

Stocks under our coverage and the STI are anticipated to deliver low-single-digit EPS growths of 3.7% and 3.5% y-o-y, respectively, for 2024. This is a steep moderation from the double-digit EPS growth for FY23, pulled down by the flat earnings growth forecast for **banks** as the Fed pivots.

Sector valuation

	Earnings Growth (%)			PER (X)			Dividend Yield (%)		
	23F	24F	25F	23F	24F	25F	23F	24F	25F
Banks	22.7	0.0	3.6	8.0	8.0	7.7	6.1	6.3	6.4
Comm. Svcs.	18.0	8.4	5.9	16.4	15.1	14.2	6.5	6.6	6.6
Cons. Disc.	24.2	3.7	4.4	13.7	12.8	12.3	4.3	4.9	5.2
Cons. Staps.	-37.6	37.3	0.9	13.6	9.9	9.8	3.4	4.3	4.8
Financial	8.7	12.5	10.4	24.7	22.0	19.9	3.0	3.2	3.3
Health Care	14.0	-5.8	12.2	32.0	34.0	30.3	1.5	1.5	1.5
Industrials	18.3	-4.5	8.6	12.5	13.1	12.1	4.2	4.1	3.6
Info Tech	-32.3	27.3	14.0	14.7	11.6	10.1	4.0	4.4	4.7
Real Estate	23.6	13.9	6.6	12.9	11.3	10.6	4.3	4.3	4.2
REITs	-0.9	1.3	2.5	15.0	14.8	14.5	6.6	6.6	6.8
Utilities	28.5	6.2	-1.0	26.5	24.9	25.2	14.0	9.6	9.6
DBS Coverage	11.9	3.7	4.6	11.4	11.0	10.5	5.3	5.5	5.5
STI DBS forecast	19.6	3.5	3.7	10.5	10.1	9.8	5.2	5.4	5.4

Source: DBS Bank

On a positive note, the **technology** sector should deliver a strong 27.3% y-o-y earnings recovery this year, reversing the 32.3% earnings decline of FY23F. Our preferred technology picks are **UMS Holdings** and **Venture Corp**.

The **consumer staples** sector is expected to deliver a 37.3% y-o-y earnings recovery for FY24F, driven by plantation stocks **Wilmar International**, **First Resources,** and **Bumiputra Agri** on an anticipated recovery in CPO price as well as **DFI Retail** on Chinese tourists' arrival recovery.

The **industrial** sector is a mixed bag. Recovery momentum is led by **Seatrium**, aviation/aerospace stocks **SATS**, **SIA Engineering,** and **ST Engineering,** as well as transport operator **ComfortDelGro**. However, sector growth is affected by the anticipated double-digit earnings decline for heavyweight **SIA** as passenger yields normalise, air cargo rates and load factors stay under pressure, and loss-making Air India becomes an associate. Earnings for **SembCorp Industries** will also be seen moderating c.7% in 2024.

The **healthcare** sector is the only one that will suffer an earnings slowdown this year as **Raffles Medical**'s earnings continues to normalize.

Sector performance and stocks

Company	Price 3 Jan 2024	12-mth Target Price	12-mth Target Return	Mkt Cap (S$m)	Rcmd	PER 24 (x)	PER 25 (x)	EPS Growth 24 (%)	EPS Growth 25 (%)	Div Yield 24 (%)	Div Yield 25 (%)	Net Debt / Equity 24
Flat to low single digit FY24F earnings growth for banks												
UOB	28.21	30.30	7%	47,259	HOLD	7.9	7.6	3.9	5.2	6.3	6.6	0.0
OCBC	12.82	13.70	7%	57,610	HOLD	8.1	7.7	0.4	5.0	6.3	6.5	0.0
Consumer staples with strong double-digit earnings growth for FY24F												
DFI Retail Group (US$)	2.27	3.80	67%	4,073	BUY	9.5	9.1	84.3	5.1	6.6	9.3	0.7
Wilmar International	3.51	4.30	23%	21,911	BUY	9.8	9.3	34.9	5.6	4.1	4.3	1.1
First Resources	1.44	2.00	39%	2,258	BUY	9.3	8.3	28.8	11.0	2.1	2.6	cash
Bumitama Agri	0.60	0.90	50%	1,040	BUY	6.0	5.4	27.8	10.8	5.5	5.5	cash
Mixed bag for industrials with strong double digit FY24F earnings growth drag down by SIA and SCI												
Seatrium Ltd	0.10	0.18	75%	7,028	BUY	32.3	12.5	nm	159.1	1.0	3.4	0.1
SATS Ltd	2.73	3.40	25%	4,060	BUY	17.6	13.1	204.3	34.7	2.2	5.5	1.3
SIA Engineering	2.36	2.80	19%	2,648	BUY	17.8	13.9	70.9	38.8	5.1	5.1	cash
ComfortDelgro	1.40	1.67	19%	3,032	BUY	14.3	13.3	21.4	8.0	5.6	6.0	cash
ST Engineering	3.82	4.50	18%	11,912	BUY	17.4	15.0	19.6	16.1	4.2	4.7	1.9
SembCorp Industries	5.34	7.15	34%	9,536	BUY	10.5	10.2	-6.5	2.5	2.4	2.4	0.8
Singapore Airlines	6.42	6.80	6%	19,071	HOLD	12.9	15.6	-35.4	-17.2	4.1	3.4	0.3
Technology enjoys a broad based FY24 earnings recovery												
Nanofilm Technologies	0.92	0.83	-9%	598	FULLY VALUED	22.0	15.3	461.3	43.9	0.9	1.3	cash
AEM Holdings Ltd	3.40	3.00	-12%	1,050	HOLD	14.2	10.1	83.4	41.2	1.8	2.5	cash
Grand Venture Technology Ltd	0.54	0.60	12%	182	BUY	16.3	11.8	76.9	38.0	1.2	1.7	0.1
Frencken Group Limited	1.31	1.60	22%	559	BUY	12.8	11.0	68.5	16.4	2.3	2.7	cash
UMS Holdings	1.30	1.55	19%	872	BUY	10.9	10.0	32.8	9.4	3.8	3.8	cash
Aztech Global	0.92	1.25	36%	710	BUY	6.2	5.6	14.2	9.8	8.1	8.9	cash
Venture Corporation	13.64	15.10	11%	3,969	BUY	12.9	12.0	13.7	7.6	5.5	5.5	cash
Earnings slowdown for healthcare in FY24												
Raffles Medical	1.08	1.00	-7%	2,009	HOLD	27.0	25.7	-15.4	4.9	3.5	3.5	cash

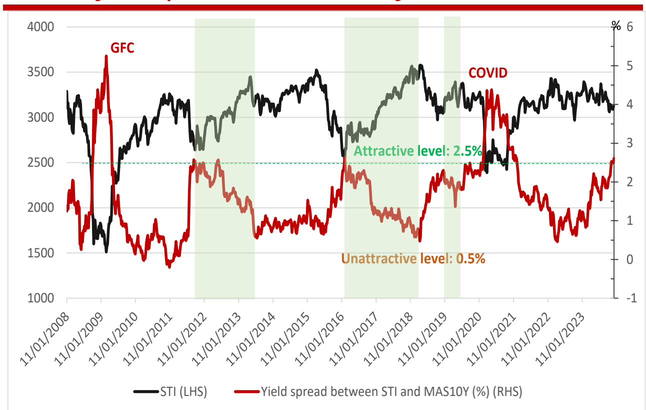
Source: DBS Bank, Bloomberg Finance L.P.

Counterbalanced by strong yield, attractive valuation

We see limited downside for the benchmark despite a much slower earnings growth for FY24F for two reasons:

1. Attractive yield – STI trades at FY24F yield of 5.4% while the MAS 10-year yield recently retreated to a low of 2.75%. The spread between the STI and the MAS 10-year yield had widened to slightly above 2.5%, a level that had coincided with a major reversal to the upside for the benchmark in 2012 and 2016. Exceptions to this observation during black swan events (GFC and COVID) do not apply, considering the global soft-landing scenario ahead.

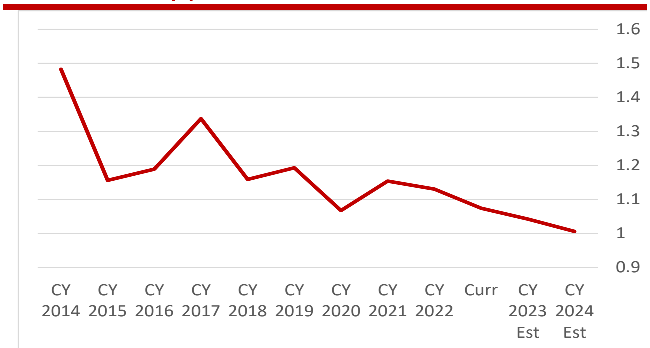
STI and yield spread with MAS 10Y yield



Source: DBS Bank, Bloomberg Finance L.P.

Attractive PE and P/B valuation – STI trades not far above a 10.2X (-2.5SD) FY24F PE and P/BV of just 1.07X. Both PE and P/BV valuations are at multi-year lows, suggesting that 2023's concerns about a US recession, China slowdown, and high-for-longer rates environment have been priced in. With our view for a global soft-landing rather than recession, a 2.2% y-o-y GDP uptick for Singapore in 2024, and Fed narrative swing to rate cuts, we believe reward-risk is favourable for the STI at current level.

STI Price/Book (X)



Source: DBS Bank, Bloomberg Finance L.P.

STI's 2024 year-end target 3485

We predict the STI will end 2024 at 3485, conservatively pegged between 10.8X (-2SD) and 11.5X (-1.5SD) FY25F PE. STI's seasonal trend, which held up well in 2023, should continue to do so this year, with the first four months of the year better than the next six.

- While the Fed pivot and its impact on net-interest margin have weighed on bank stocks as of late, the bottom line is that banks trade at attractive FY23F and FY24F yields of 6.4% and 6.7% respectively. This should underpin the benchmark STI heading into the ex-dividend periods for FY23 final and FY24 interim in end-Apr/May and August respectively.
- The ex-dividend market selloffs and political noise ahead of the US presidential election in early November should see a period of side-ways volatility from May to October.
- A post-US election relief rally could set upon US equity markets in the final two months of 2024, in line with past seasonal trend during the US presidential election years.

Straits Times Index (Daily)

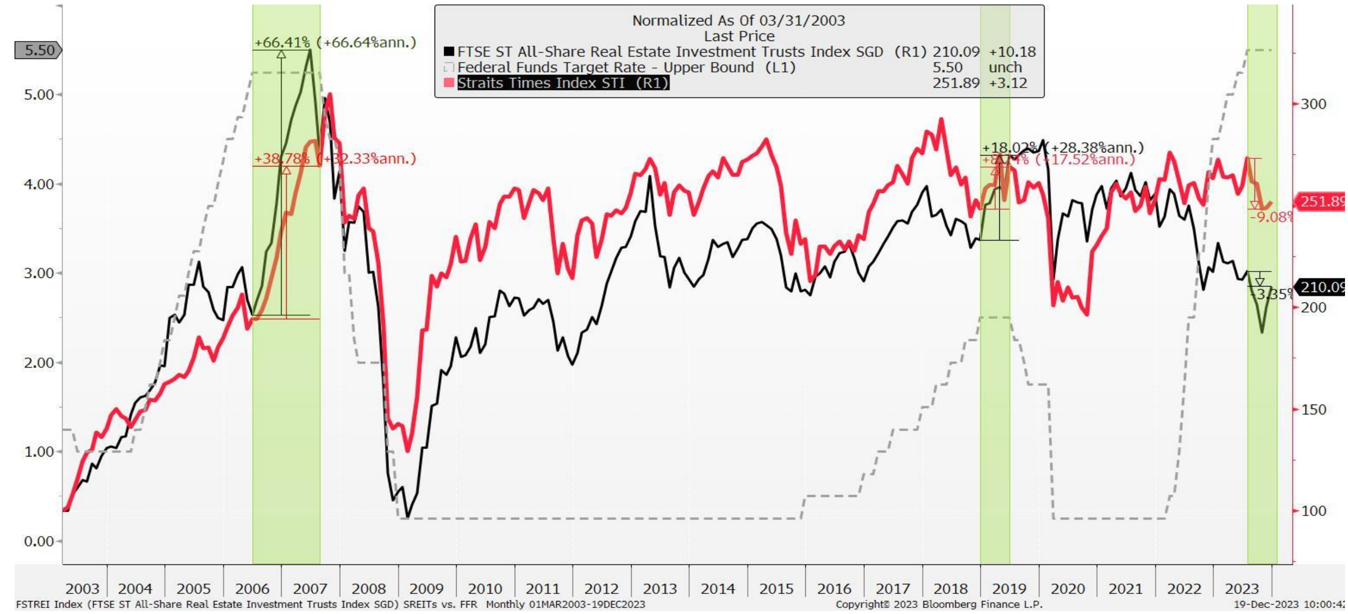
Source: DBS Bank

Themes for 2024

REITs as prime Fed pivot beneficiaries

Having borne the brunt of rising interest rates for nearly two years, we expect REITs to outperform the benchmark next year as the Fed pauses rate hikes. This is evident from the past two periods of rate pauses – in 2006-2007 and 2019. The same has been true thus far in this pause, with the FTSE ST REITs Index outperforming the STI by 5.7% (as of 19 Dec 2023) since the Fed funds rate peaked in July 2023.

REITs vs. STI (normalized, Apr03 =100) and Fed funds rate



Source: DBS Bank

With interest rates still elevated compared to history ranges, our REITs team prefers "value" over "safety" in the current cycle. Trading below the historical -1SD levels for both P/BV and yields, value can be found among office, retail, China retail, and hotels.

Our REITs team picked out eight REITs to position into for 2024:

- We like retail REITs for their resilience, with Frasers Centrepoint Trust (FCT) enjoying tenant sales at c.20% above pre-COVID levels and Lendlease Global REIT (LREIT) boasts an attractive yield plus good balance of suburban and central retail asset exposure.
- We also prefer diversified REITs Mapletree Pan Asia Commercial Trust (MPACT) and Keppel REIT (KREIT) for their deep value with yields still wider-than-average. Both KREIT's and MPACT's FY24F yields are at 6.3% and 5.7%, or +1SD of their respective historical range. On adjusted P/BV, KREIT is trading at 0.7x P/BV while MPACT is trading at 0.9x P/BV, which are at -1SD of their trading range. In addition, both KREIT's and MPACT's FY24F DPUs are estimated to be stable y-o-y and poised to rise from FY25F.
- Among hospitality REITs, CapitaLand Ascott Trust (CLAS) has an attractive FY24F forward yield of 6.1% sustained from past acquisitions, double-digit growth from master lease renewals, and AEI completions.
- Within industrials, our picks are Frasers Logistics and Commercial Trust (FLT), Mapletree Logistics Trust (MLT), and Digital Core REIT (DCREIT) for their relative earnings resiliency. FLT, with its ample debt headroom, appears primed to seize accretive acquisition opportunities. MLT's substantial and geographically diversified portfolio positions it well to recalibrate its assets and leverage on its sponsor's pipeline to enhance growth prospects. DCREIT is back on track to deliver resilient earnings and potentially pursue further growth strategies following the resolution with its second largest tenant.

Stock picks

Company	Price 3 Jan 2024	12-mth Target Price	12-mth Target Return	Mkt Cap (S$m)	Rcmd	Div Yield 24 (%)	Div Yield 25 (%)	Net Debt / Equity 24	P/BV 23 (x)
Mapletree Logistics Trust	1.69	1.88	11%	8,139	BUY	5.1	5.2	0.4	1.2
Mapletree Pan Asia Commercial Trust	1.54	2.00	30%	6,694	BUY	5.8	6.0	0.4	0.9
Frasers Logistics & Commercial Trust	1.15	1.44	25%	4,275	BUY	6.2	6.2	0.3	1.0
Frasers Centrepoint Trust	2.25	2.60	16%	3,841	BUY	5.3	5.4	0.4	1.0
Keppel REIT	0.94	1.15	23%	3,511	BUY	6.2	6.4	0.4	0.7
Capitaland Ascott Trust	0.98	1.20	22%	3,221	BUY	6.1	6.2	0.4	0.8
LendLease Global Commercial REIT	0.64	0.90	41%	1,476	BUY	7.1	7.2	0.4	0.8
Digital Core REIT	0.67	0.90	34%	752	BUY	7.4	7.5	0.5	0.6

Source: DBS Bank, Bloomberg Finance L.P.

Earnings recovery and turnaround

FY24F earnings growth will be a key focal point amongst investors as the benchmark Straits Times Index (STI) heads into a year of slower earnings growth (3.5% y-o-y). We seek out stocks that (1) are at the cusp of an earnings turnaround or 2) see meaningful recovery against an improving sectoral outlook and/or backdrop.

Margin improvement can be gleaned from moderating input costs which come from:

1. Moderating food and oil prices. This should hold into 2024 barring any escalations in El Nino or Middle East Conflict effects.
2. Lower staff costs on softening labour market.
3. Better cost efficiency post-recent corporate actions.
4. Tapering one-off expenses aiding further moderation in 2024.

The Fed pivot also sets a positive backdrop, with lower borrowing costs for companies (1) due for debt refinancing from 2H24, and (2) require funding for expansion plans that drives growth.

We screened out stocks under our coverage that feature two or more of the following characteristics: i) strong earnings growth, ii) moderating costs, and/or iii) being a beneficiary of lower interest rate environment. Opportunities are found among industrials, technology, and consumer groups.

Stock picks

Stock	FY24F earnings trend/outlook	Improving margins / Moderating costs	Beneficiary of lower rates
ComfortDelGro	Recovery	Y	Y
Seatrium	Turnaround	Y	
SATS	Turnaround	Y	
UMS Holdings	Recovery	Y	Y
Venture	Recovery		Y
DFI Retail	Turnaround		Y

Source: DBS Bank

Among industrial stocks, public transport operator ComfortDelGro checks all three boxes – earnings recovery alongside improving ridership and transport fare hike, being a beneficiary of falling oil price, and strong dividend yield on robust net cash position bodes well for the stock in 2024.

Seatrium (STM) and SATS are earnings turnaround plays in 2024, with scope for positive surprises from moderating costs. The stars are also aligned for STM to turn profitable in FY24F given its robust order pipeline, positive merger synergies, post-merger streamlining of costs and operational improvements. SATS' earnings momentum is expected to accelerate on continued volume and margin recovery, further aided by the smooth integration of Worldwide Flight Services (WFS).

Earnings recovery for technology stocks UMSH and Venture (VMS) found support from the ongoing industry recovery; with UMSH's recent margin improvements on renewal of key customer's contract and VMS' strong net cash position/attractive dividend yields seen as further icing on the cake.

We pick **DFI Retail** for the consumer sector despite a weaker-than-expected earnings recovery for FY23F, as we expect the normalisation of tourist arrivals to Hong Kong to drive growth momentum in FY24F. Higher sales going forward should also contribute to margin improvement.

Stock picks

Company	Price 3 Jan 2024	12-mth Target Price	12-mth Target Return	Mkt Cap (S$m)	Rcmd	PER 24 (x)	PER 25 (x)	EPS Growth 24 (%)	EPS Growth 25 (%)	Div Yield 24 (%)	Div Yield 25 (%)	Net Debt / Equity 24
Turnaround												
SATS Ltd	2.73	3.40	25%	4,060	BUY	17.6	13.1	204.3	34.7	2.2	5.5	1.3
Seatrium Ltd	0.10	0.18	75%	7,028	BUY	32.3	12.5	nm	159.1	1.0	3.4	0.1
DFI Retail Group (US$)	2.27	3.80	67%	4,073	BUY	9.5	9.1	84.3	5.1	6.6	9.3	0.7
Recovery												
ComfortDelgro	1.40	1.67	19%	3,032	BUY	14.3	13.3	21.4	8.0	5.6	6.0	cash
UMS Holdings	1.30	1.55	19%	872	BUY	10.9	10.0	32.8	9.4	3.8	3.8	cash
Venture Corporation	13.64	15.10	11%	3,969	BUY	12.9	12.0	13.7	7.6	5.5	5.5	cash

Source: DBS Bank, Bloomberg Finance L.P.

Stability and resilience

Companies that have a stable or resilient outlook will continue to hold a place in an equity portfolio considering global soft-landing. For 2024, we prefer stocks that have yet to rise well above pre-COVID 2019 levels.

Dividend-paying stocks are also likely to regain their lustre as the risk-free rate falls, our interest rate strategist sees MAS 10-year yield falling to 2.7% in 2024F.

We are positive on telecom services companies **SingTel** and **Netlink Trust** for their income generating abilities and low debt levels. Both stocks offer at least 6% yields for FY24F and FY25F and net debt/equity ratios of 0.2x to 0.3x. SingTel is deeply undervalued considering that the market value of its associates is already at S$3.00/share, much higher than Singtel's share price. We like Netlink for its higher yield compared to industrial REITs despite the former's longer asset life.

We also pick **ST Engineering** for double digit earnings growth, unpinned by organic and inorganic (i.e., TransCore) sources of growth, with scope for positive surprises through dividend increases and lower borrowing costs

.

Stock picks

Company	Price 3 Jan 2024	12-mth Target Price	12-mth Target Return	Mkt Cap (S$m)	Rcmd	PER 24 (x)	PER 25 (x)	EPS Growth 24 (%)	EPS Growth 25 (%)	Div Yield 24 (%)	Div Yield 25 (%)	Net Debt / Equity 24
SingTel	2.43	3.39	40%	40,106	BUY	15.7	14.8	8.9	5.9	6.1	6.1	0.3
ST Engineering	3.82	4.50	18%	11,912	BUY	17.4	15.0	19.6	16.1	4.2	4.7	1.9
NetLink NBN Trust	0.85	0.98	15%	3,312	BUY	30.9	30.3	1.2	1.8	6.4	6.4	0.2

Source: DBS Bank, Bloomberg Finance L.P.

Sector recommendations

Sector	Rating	Our views	Stock picks
Banks	Neutral	OCBC and UOB's share prices continue be supported by undemanding valuations of c.1x FY24F and high dividend yields of c.6%. While we do not see any immediate catalysts to its share prices as NII nears peak, we prefer OCBC to UOB, as the former has more headroom to lift dividends, alongside a higher provision coverage ratio of 139% vs. UOB's 102%.	Prefer OCBC over UOB
Real Estate	Neutral	Overall, residential prices are expected to slow in 2024, weighed down by higher supply and an expected decline in the rental market. With high tax rates deterring foreigner purchases, especially for the luxury end, we believe demand will largely be dependent on upgraders, which will form the base of the market. Overall, we look at flattish new sales of 7,500-8,000 units with the overall property price index to remain fairly stable at +1% to +3% in 2024 but the luxury end to see a downside of up to 5%.	CityDev, CLI, GuocoLand
Industrial REITs	Neutral	Industrial S-REITs continue to remain resilient, supported by stable rental reversions (rental gap of 10% to 15%) which will help drive organic growth profile. Logistics outlook remains robust as demand outpaces supply, while we see a slowdown in factories (supply) and business parks (office growth tapering off). Acquisitions, a kicker for growth, will likely feature selectively with Japan and Europe as key overseas markets for larger-cap S-REITs to acquire.	MLT, FLT, CLINT
Retail REITs	Positive	Retail REITs remain in a sweet spot with strong tenant sales achieved for suburban portfolios (>20% above pre-COVID) and rents at c.95% of pre-COVID levels, providing a good base for landlords to raise rents in the medium term. Plays that focus on Orchard Road (discretionary spending) will be dependent on the recovery of tourists' numbers (including China), with room to also see "catch-up" in rents (<90% of pre-COVID levels).	FCT, LREIT
Hospitality REITs	Positive	Hospitality S-REITs remain on a growth path in 2024 with an expected growth in RevPAR in 2024 at 5% to 10%, albeit at a slower rate compared to 2023. With rates already above pre-COVID levels, growth is occupancy-led with expected normalisation to drive overall performance higher. While exposure is global, Singapore hospitality outlook (c.65% of exposures overall) will be key; a strong pipeline of concerts, MICE events should mean robust demand for rooms with the recovery of China tourists.	CLAS, CDL HT
Office REITs	Positive	Negatives are largely priced in (especially diversified commercial landlords) as they trade below -1SD of its historical P/BV range and above-average forward yields. Despite a close correlation between office and GDP, expectations of an improving economic outlook (i.e., Singapore) should drive demand for space. While concerns about hybrid work that impacts demand for space remains, the return-to-office trend in Asia Pacific and Singapore remains high; implying lower risks compared to office markets in the US and the UK, where hybrid work and a lower return-to-office ratio means a potential vacancy risk. Expected resilience office valuations for Singapore will lift investors' concerns that office S-REITs valuations should be stable and overall gearing level should not exceed 45%.	KREIT, MPACT, CICT

Source: DBS Bank

Sector	Rating	Our views	Stock picks
Technology	Positive	The semiconductor industry is on the road to recovery. Global semiconductor shipments in Sep '23 showed further improvement from the low in Feb '23. We expect this segment to register strong growth in 2024 and 2025, after a weak 2023. Semiconductor revenue is expected to dip 10.9% y-o-y in 2023 after a flat 2022 and recover with a strong gain of 16.8% in 2024 and 15.5% in 2025, according to Gartner. SEMI expects the rebound in 2024 to continue through 2026. However, there is no straight path out of the woods. Memory segment, being the worst hit during the 2022 downturn, is expected to lead the recovery for the semiconductor sector. Further down the technology value chain, such as the backend semiconductor like OSAT players and downstream plays including the EMS division, we could see a more meaningful recovery from 2H24 onwards.	UMS, VMS, FRKN
Energy & Industrials	Neutral	Oil prices will be under pressure from weaker global economic growth and surge in non-OPEC supplies, and commodity price environment will be softer than we saw in 2023 unless there is resurgence of geopolitical risks. However, given that oil and gas prices will still remain vastly higher than pre-COVID levels, capex momentum should sustain on the back of record upstream cash flows over the past two years. This should benefit Seatrium in particular. On the other hand, power utilities will see less volatility going forward, with commodity prices moderating as effects of supply chain disruptions and wars fade out.	STM, YZGSGD, SCI, KEP
Consumer Staples	Positive	For plantation universe, we prefer integrated company to capture recovering consumer product demand especially in China, followed by improving oilseeds and grains processing margin improvement. Grocery retail in Singapore is expected to be see muted growth next year due to slow release of HDB supermarket tenders in 2023, with Sheng Siong opening only two stores this year. Meanwhile, DFI's grocery business in Singapore continues to struggle with competition. Nonetheless, we prefer DFI for continued earnings recovery in its Hong Kong Health & Beauty business with the normalisation of China tourist arrivals.	DFI, WIL
Transport	Positive	Macroeconomic indicators remain largely supportive for air travel demand, marked by low unemployment rates and rising real wages, with the desire for travel continuing to be strong. Although airlines might face challenges from falling passenger yields, continued recovery in passenger traffic across Asia Pacific is poised to drive earnings growth within the aviation sector. MRO providers like STE and SIAEC stand to gain from enhanced pricing power, thanks to favourable supply-demand conditions; SATS's cargo division is likely to see solid growth on anticipated stabilisation of the global air cargo market.	CD, STE, SATS

Source: DBS Bank

Sector	Rating	Our views	Stock picks
Telecom Svcs	Positive	There is a general focus on growing enterprise business while cutting costs in Singapore. High-margin, mobile roaming revenue has recovered to over 80% of pre-pandemic level with some room to recover on the rise in tourism. Overall, mobile sector competition is quite intense, led by SIMBA and M1. For Singtel, there are concerns about recovery in Optus Australia after the early November outage. The market value of associates itself is S\$3.00 per share compared to Singtel's share price of S\$2.30, implying a negative value for Singtel's core businesses in Singapore & Australia. Key catalysts should be capital divestments and capital management with FY24F (March) results on top of 4.9% yield. StarHub offers an earnings CAGR of 9% over FY23-25F, led by a (i) decline in transformation costs, and (ii) lower depreciation & financing costs due to a switch to low-capex model in the last three years. StarHub also offers a 6.2%/6.7% dividend yield based on an 80% pay-out ratio.	Prefer STH over the near term (3-6 months); Singtel in the medium term (6-12 months)
Consumer Discretionary	Neutral	Save for players with higher inputs of cocoa and sugar, we expect F&B players to see the effects of lower commodity prices in 2024, as forward purchases and hedges of higher price contracts wear down. This should bode well for margins.	THBEV
Healthcare	Negative	FY23 was a year of normalisation post-COVID, where we saw hospital players that benefitted from COVID-19 related services showing a normalisation of earnings from the tapering off of COVID-19-related services. In addition, the government continued to add beds to ease the bed crunch at public hospitals. As such, we expect private hospital operations to return to business as usual and normalised earnings growth during pre-COVID levels.	IHH Healthcare

Source: DBS Bank

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
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**Share price appreciation + dividends*

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