STRATEGY – SINGAPORE

Alpha Picks: Add CLAS And SATS; Remove RHP, SIAEC And FEHT

The STI extended its rally in Dec 23 as encouraging economic data, cooling inflation and dovish comments from the US Fed raised hopes of an end to the rate-hike cycle. Our Alpha Picks portfolio responded accordingly, rising 5.9% mom in Dec 23, beating the STI by 0.5ppt on an equal-weighted basis. Impressively, our portfolio outperformed the STI by 9ppt in 2023. For Jan 24, we add CLAS and SATS and remove RHP, SIAEC and FEHT.

WHAT'S NEW

- **Market review.** Following its strong performance in Nov 23, the STI rose again by 5.4% in Dec 23, mirroring the overall bullish tone across global markets as positive economic data in the US, coupled with dovish statements from the US Fed continued to drive investor sentiment.
- **Outperformance for 4Q23 and 2023.** Our Alpha Picks portfolio outpaced the STI in 4Q23 and 2023, gaining 2.2% and 8.7% on an equal-weighted basis respectively vs the STI's 0.7% gain and 0.3% drop respectively. On a market-cap weighted basis, our portfolio rose 2.0% for 2023, surpassing the STI by 2.3ppt.
- **Strong end to 2023.** For Dec 23, our portfolio grew by 5.9% mom on an equal-weighted basis and beating the STI by 0.5ppt, primarily driven by Frencken (+17.4% mom), Seatrium (+12.4% mom) and Mapletree Industrial Trust (+10.1% mom). Frencken was driven by an improved outlook due to increased orders from key semiconductor customers while Seatrium increased on the back of better order win expectations and higher oil prices. Mapletree Industrial Trust rose on better S-REIT market sentiment. However, our portfolio's performance was partially offset by RH Petrogas (-2.4% mom) due to poor results from the company's drilling programme.
- **Adjusting for the new year.** For Jan 24, we add CapitaLand Ascott Trust as a play on Singapore's ongoing tourism recovery, and also add SATS as we expect strong earnings recovery in 2024. We remove: a) RHP due to a lack of share price catalysts; b) SIAEC due to upcoming expected translation losses, and c) FEHT after its strong performance since its addition to our portfolio.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jacquelyn Yow	Bumitama	BUY	3.4	Margin expansion backed by CPO price uptrend.
Roy Chen	SATS	BUY	-	Sequential earnings recovery and potential upside from air cargo volume.
John Cheong	Frencken Group	BUY	31.7	Better-than-expected sequential earnings.
John Cheong	Civmec	BUY	23.3	Strong orderbook and higher dividend.
John Cheong	Valuetronics	BUY	9.0	Earnings recovery from new customers.
John Cheong	Food Empire	BUY	2.7	Dual listing expected to improve valuation.
John Cheong	Venture Corp	BUY	7.1	Higher-than-expected dividends.
Jonathan Koh	CapitaLand Ascott Trust	BUY	-	A play on Singapore's recovery in the hospitality sector.
Jonathan Koh	OCBC	BUY	4.4	Attractive dividend yield; less susceptible to NIM compression.
Jonathan Koh	Mapletree Industrial Trust	BUY	8.7	A play on the global growth in data centres.
Adrian Loh	Sembcorp Ind	BUY	81.5	Re-rating prospects as a green energy play.
Adrian Loh	Seatrium	BUY	0.8	New order win momentum from oil & gas and renewables industry
Llelleythan Tan	ComfortDelgro	BUY	11.9	Removal of taxi rental rebates.
Chong Lee Len	SingTel	BUY	2.9	Higher 2HFY24 dividend.
Heidi Mo	Marco Polo Marine	BUY	-3.8	Higher-than-expected utilisation and increased offshore activity

** Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as Alpha Pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec*	----- Price (S$) ----- 2 Jan	Target	Up/(down) to TP (%)
Bumitama	BUY	0.605	0.70	15.7
CapLand Ascott T	BUY	0.99	1.40	41.4
Civmec	BUY	0.795	1.23	54.7
ComfortDelGro	BUY	1.41	1.69	19.9
Food Empire	BUY	1.13	1.63	44.2
Frencken	BUY	1.37	1.23	(10.2)
MapletreeInd	BUY	2.50	2.98	19.2
MarcoPolo Marine	BUY	0.051	0.066	29.4
O C B C	BUY	12.92	16.85	30.4
SATS	BUY	2.75	3.22	17.1
Seatrium	BUY	0.12	0.19	58.3
Sembcorp Ind	BUY	5.34	7.20	34.8
SingTel	BUY	2.45	3.15	28.6
Valuetronics	BUY	0.605	0.72	19.0
Venture Corp	BUY	13.94	14.06	0.9

** Rating may differ from UOB Kay Hian's fundamental view*
Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Dec 23[1] (% mom)	To-date[2] (%)
Bumitama	BUY	0.0	3.4
Civmec	BUY	3.3	23.3
ComfortDelGro	BUY	8.5	11.9
Far East HTrust	BUY	3.1	12.7
Food Empire	BUY	3.7	2.7
Frencken	BUY	17.4	31.7
MapletreeInd	BUY	10.1	8.7
MarcoPolo Marine	BUY	4.1	(3.8)
O C B C	BUY	3.7	4.4
RH PetroGas	BUY	(2.1)	(18.3)
Sembcorp Ind	BUY	3.3	81.5
Seatrium	BUY	12.4	0.8
SIA Engineering	BUY	3.9	3.9
SingTel	BUY	6.9	2.9
Valuetronics	BUY	7.2	9.0
Venture Corp	BUY	8.6	7.1
FSSTI		5.4	
UOBKH Portfolio		5.9	

Source: UOB Kay Hian

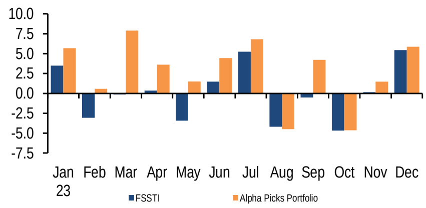
PORTFOLIO RETURNS (%)

	1Q23	2Q23	3Q23	4Q23	2023
FSSTI return	0.2	-1.6	0.4	0.7	-0.3
Alpha Picks Return					
- Price-weighted	5.5	10.1	-17.8	-0.4	-8.2
- Marketcap-weighted	2.9	5.4	-4.6	-0.1	2.0
- Equal-weighted	9.1	7.2	-0.6	2.2	8.7

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming same number of shares for each stock; a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting based on the market cap at inception date; higher market cap = higher weighting.*
3) *Equal-weighted: Assuming same investment amount for each stock; every stock will have the same weighting.*

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS
(WE OUTPERFORMED FSSTI 11 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

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Bumitama Agri - BUY (Jacquelyn Yow & Leow Huey Chuen)

- **Margin expansion coupled with CPO uptrend.** Bumitama Agri (Bumitama) has strong earnings sensitivity towards CPO prices compared with its Indonesian SGX-peers as it is a pure upstream player and sells 100% of its CPO into the spot market. We expect margin expansion for 4Q23 and 2024 with production costs forecast to decline by 10-15% due to lower fertiliser costs.
- **High dividend yield.** We expect an attractive dividend yield of 6-7% for 2023-24 due to its dividend payout policy of up to 40%.
- **Maintain BUY with a target price of S$0.70,** which is pegged to an undemanding 6.0x 2024F PE with dividend yield of 6-7%.

Share Price Catalysts

- 4Q23 results could outperform peers, supported by better-than-peers' production growth. Despite flattish ASP, operating margin is expected to see some improvement on the back of lower fertiliser cost.
- CPO price uptrend - Bumitama's earnings and share price are highly leveraged to CPO price trend. We expect CPO price to trend higher in 1H24 on the back of tighter CPO supplies while demand should remain stable.
- Timeline: 2-4 months.

SATS - BUY (Roy Chen)

- **Earnings recovery to gain traction in 2024.** SATS has been a laggard in terms of earnings recovery compared to other Singapore aviation plays, but we expect its recovery momentum to gain speed in 2024, driven by: a) the continued recovery of regional air traffic/flight activities (benefitting inflight catering and passenger/flight handling businesses), and b) the stabilisation and a potential reacceleration of air cargo growth (IATA is forecasting a 5% yoy growth in global air cargo volume for 2024). With a more or less stabilised headcount ramp-up, operating leverage should also kick in and help SATS' earnings recovery.
- **Expecting meaningful qoq improvement for upcoming 3QFY24 results, partly helped by strong seasonality.** We forecast SATS's 3QFY24 net profit (expected in Feb 24) at S$25m-35m, a meaningful qoq improvement from 2QFY24's headline net profit of S$22.1m (2QFY24 core net profit at S$6m) or 3QFY23's thin profit of S$0.5m. The qoq earnings improvement is expected to be driven by better business volume, but also partly helped by the strong seasonality (year-end holiday travels and festive season consumptions).
- **The recent Red Sea/Suez Canal crisis presents upside risks for air cargo volume.** Major shipping companies' re-routing to take the longer route via the Cape of Good Hope to transport cargo between Asia and Europe has led to at least 7-10 extra days of transit time for ocean freights. The longer transit time, together with the surge in ocean freight rates (spot rates up about 70% in the past three weeks), may lead to some more time-sensitive cargo being diverted to the air transportation mode. This could support air cargo volume between Asia and Europe, and SATS is likely to be a key beneficiary thanks to its strong air cargo handling exposure in Europe via WFS. We think the SATS' share price has yet to reflect this potential positive.
- **Maintain BUY with a target price of S$3.22.** Our target price for SATS is based on a 16.8x FY26F PE, 1SD below SATS' historical mean PE of 19.9x.

Share Price Catalysts

- **Events:** a) Organic earnings recovery gaining speed, b) Red Sea crisis bolstering air cargo volume.
- Timeline: 3-6 months.

Frencken - BUY (John Cheong)

- **Stable outlook for 2H23 indicate that earnings have already bottomed in 1H23** and there is potential for more new business in Asia. Frencken expects to post stable revenue in 2H23 vs 1H23. Frencken's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.

- **SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. 2024's fab equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The trend suggests the semiconductor industry is turning the corner and on a path back to growth.

- **Long-term growth supported by diversified segments and new programmes.** Backed by its diverse exposure to multiple market segments in the high technology industry and the strength of its balance sheet, Frencken is confident of weathering the current headwinds and will continue to focus on investments in programmes. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

- **Maintain BUY and target price of S$1.23, pegged to 12.6x 2024F PE,** based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

Share Price Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected factory utilisation, and c) winning of new customers.

- Timeline: 3-6 months.

Civmec - BUY (John Cheong)

- **Solid earnings growth for 1QFY24 and improved net cash position.** Civmec's 1QFY24 net profit of A$15.2m (+7.3% yoy) is in line with our expectations, accounting for 24% of our full-year estimate. Net margin remained flat yoy but improved qoq by 2.6ppt, driven by the delivery of higher-return projects and better cost management. On top of this, the group recorded an improved net cash position of A$43.9m (+215.8% qoq) from strong operating cash flows of A$40.1m during the quarter. We expect Civmec to continue to deliver a strong set of results moving forward.

- **Positive outlook amid buoyant tendering activities.** Tendering activities saw continued strong momentum across all sectors that Civmec has a presence in. Its orderbook stood at around A$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029.

- **Final dividend a positive surprise; company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec also turned into net cash position for the first time in FY23 (A$14m vs A$33m net debt in FY22).

- **Maintain BUY with a target price of S$1.23,** pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's Australian peers are trading at an average of 15x FY24F PE.

Share Price Catalysts

- **Events:** a) Earnings surprise due to higher-than-expected contract wins and margin, b) better-than-expected dividend, and c) takeover offer by strategic shareholders given the high entry barrier of the defence business.
- Timeline: 3-6 months.

Valuetronics - BUY (John Cheong)

- **Strong earnings beat in 1HFY24 results.** Valuetronics' (VALUE) 1HFY24 net profit of HK$82.1m (+42% yoy, +26.1% hoh) was above our expectations, making up 61% of our full-year estimate. Gross margin improved by 3.1ppt due to: a) lower material costs from component shortage relief as the group's supply chain visibility has improved, and b) lower labour costs in China, stemming from stabilisation in the labour supply as well as depreciation of the renminbi. The surge in other income to HK$28.8m (+123% yoy), mainly from rising interest income as a result of the US Fed rate hikes, also led to net margin expanding to 9.2% (+3.7ppt yoy).
- **Positive outlook with four new customers contributing.** Upon VALUE's newly-constructed Vietnam campus commencing operations, it has consolidated its facilities into one campus site since Jun 22 to optimise operations and costs. VALUE has since acquired two new customers - a hardware provider customer for retail chain stores and a customer providing cooling solutions for high performance computing environments - and successfully commenced initial shipments at end-FY23. Full-year contribution is expected from the two new customers in FY24. More recently, VALUE has acquired another two new customers, including an electronic products supplier for a global entertainment conglomerate and a Canada-based customer providing network access solutions. Management expects to have shipments scheduled in 2HFY24 and production ramp-up in FY25.
- **Strong balance sheet, special dividend and share buybacks**. As of 1HFY24, VALUE had net cash of HK$1.1b (accounting for around 80% of its current market cap). It has also doubled its interim dividend in 1HFY24 via a special dividend and has started aggressive share buybacks after its 1HFY24 results, where it has bought back 2.5m shares vs only 0.5m shares before its 1HFY24 results announcement.
- **Maintain BUY with PE-based target price of S$0.72, pegged to 10.6x PE for FY24.** This is based on 1SD above VALUE's historical PE mean to account for potential strong demand from its four new customers. VALUE is currently trading at only 2x FY24 ex-cash PE and offers an attractive FY24 dividend yield of around 7.5%.

Share Price Catalysts

- **Events:** a) Winning more customers, b) higher-than-expected contributions of new customers, c) higher-than-expected dividends and share buybacks.
- Timeline: 6-12 months.

Food Empire - BUY (John Cheong)

- **Potential dual listing on Hong Kong Stock Exchange to improve valuation.** Food Empire Holdings (FEH) recently announced that it is exploring a dual primary listing in Hong Kong. This will provide FEH with more avenues to raise capital and exposure to a broader investor base. If successful, we believe that it could mean better valuations for the stock. Trading at 8x 2024F PE vs Singapore peers' average of 11x and regional peers' average of 14x, its valuation is due for a re-rating, in our view.

- **Strong demand for consumer staple products.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. FEH's products in the coffee segment, such as the MacCoffee brand, continue to be affordable with mass appeal, leading to stronger demand in 2023.
- **Frequent share buybacks to date reflects confidence.** Ever since Apr 23, FEH has bought back 1.8m shares at up to S$1.11. This is close to the 52-week high share price of S$1.18, showing management's confidence in the future growth outlook.
- **Maintain BUY.** Our target price of S$1.63 is based on 11x 2024F EPS, or its long-term historical mean.

Share Price Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected ASPs and easing of key costs including freight and raw material costs, and c) successful dual listing on Hong Kong Stock Exchange.
- Timeline: 3-6 months.

Venture Corp - BUY (John Cheong)

- **Expect decline in revenue to ease.** VMS expects the extent of decline in demand from customers to ease as inventory destocking is entering the final stages. Also, VMS is hopeful that new product launches from customer and more relocation of manufacturing activities to ASEAN could improve demand for its manufacturing facilities.
- **VMS will continue to strengthen the relationships with its customers** and other business partners that it has forged over many years. It will deepen its strategic collaboration with customers, working with them to secure growth in market share. New product introductions (NPI) with both existing and new customers are on track to be rolled out this year. The adoption of VMS module solutions by its life science and industrial customers is also picking up pace, which will complement its core EMS++ business going forward.
- **Healthy balance sheet and consistent dividends.** As of end-3Q23, VMS had net cash of S$957m (accounting for around 25% of its current market cap) and led the pack of US-listed peers which were mostly in net debt positions. Also, VMS continues to issue the same amount of dividends or better than that of preceding years.
- **Maintain BUY with a target price of S$14.06, pegged to its long-term forward mean PE of 14.6x 2024F earnings.** We recently upgraded the stock to BUY as we think that VMS' share price correction of about 30% ytd has made its valuation more compelling. Currently, VMS is trading at 13x 2024F PE (9x ex-cash 2024 PE), that is around 0.5SD below its long-term PE mean and offers a decent dividend yield of around 6%

Share Price Catalysts

- **Events:** a) Positive earnings surprise, b) winning more customers, and c) higher-than-expected dividends and share buybacks.
- Timeline: 3-6 months.

CapitaLand Ascott Trust - BUY (Jonathan Koh)

- **Travel recovery.** Portfolio occupancy is expected to improve in 2H23 (1H23: 75%) and 2024 due to the recovery and normalisation in business and leisure travel.
- **CLAS benefits from the recent expansion in longer-stay properties,** such as student accommodation and rental housing, which accounted for 19% of portfolio valuation.
- CLAS has a resilient balance sheet with aggregate leverage at 35.2% (39% post-completion of acquisition of Cavendish London, Temple Bar Hotel and Ascott Kuningan

Jakarta), adjusted interest coverage ratio of 4.2x and weighted average debt to maturity of 3.7 years.

Share Price Catalysts

- **Events:** a) Expectations of lower interest rates and lower inflation, and b) normalisation of business and leisure travel.
- Timeline: 6-12 months.

Oversea-Chinese Banking Corp - BUY (Jonathan Koh)

- **Committed to new dividend policy.** Management intends to maintain dividend payout ratio at 50% going forward. Oversea-Chinese Banking Corp (OCBC) provides attractive dividend yield of 6.3% for 2023.
- **Capital management.** OCBC had the highest CET-1 CAR of 14.8% in 3Q23. It is comfortable with CET-1 CAR receding lower to 14.0% over the short to medium term (3-5 years). Management will consider all options for capital management, including special dividends.
- **Refreshed strategy to deliver incremental S$3b revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b.
- **Maintain BUY.** Our target price of S$17.35 is based on 1.42x 2024F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 9.0%, growth: 0.0%).

Share Price Catalysts

- **Events:** a) Resiliency from high CET-1 CAR of 14.8%, and b) attractive 2023 dividend yield of 6.3% from commitment to new dividend payout ratio of 50%.
- Timeline: 6-12 months.

Mapletree Industrial Trust - BUY (Jonathan Koh)

- **Strategic diversification to Japan's data centre market.** Mapletree Industrial Trust (MINT) is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S$507.9m). We expect MINT to continue to expand in Japan due to positive yield spread with cap rates of 3-4% and low funding cost in JPY.
- **Backfilling data centre at Brentwood, Tennessee.** MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf currently occupied by AT&T (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.
- **Maintain BUY.** Our target price of S$2.69 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

Share Price Catalysts

- **Events:** a) Growth from data centres located in North America and Japan, and b) acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.
- Timeline: 6-12 months.

Sembcorp Industries - BUY (Adrian Loh)

- **Further growth in renewables capacity.** As expected during its Investor Day on 6 Nov 23, SCI upgraded its target gross installed renewables capacity from its prior 10GW by

2023 (which it has easily achieved), and it is now targeting to grow this to 25GW by 2028. This implies a 22% CAGR over 2023-28 which is higher than its peers' average CAGR of 17% over the same period.

- **More solar, and a more balanced geographic exposure.** Its 2023-28 plans involve incrementally growing its solar exposure relative to wind (wind:solar was 62:31 as at end-22). Geographically, SCI is ideally looking to increase exposure to India and Southeast Asia relative to China (China:India:Southeast Asia was 62:27:10 as at end-22).

- **Developments since its Investor Day.** Since 6 Nov 23, SCI has announced 673MW of acquisitions towards its target of 25GW by 2028 which involves both solar and wind in Vietnam, China and India. These three acquisitions will be completed by 1H24. Note that UOBKH is currently forecasting stable EPS growth in 2024 vs consensus' forecast of 9% decline; hence, we expect positive earnings momentum in the next six months.

- **Maintain BUY with a target price of S$7.20 based on a target PE multiple of 13.6x.** Our target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's "normalised" earnings compared to 2022's earnings. SCI, cognisant of its funding needs for growth, will likely keep its dividend payout ratio at 25%.

Share Price Catalysts

- **Events:** a) Value-accretive acquisitions in the green energy space, and b) potential to increase targets for its gross renewables capacity.

- Timeline: 6+ months.

Seatrium - BUY (Adrian Loh)

- **A good start to 2024.** On 2 Jan 24, Seatrium (STM) announced that it had been awarded a contract to integrate the hull, topsides and living quarters of the Sparta semi-submersible Floating Production Unit that will be located in the Gulf of Mexico. This comes on the back of the Letter of Intent that STM and Shell had signed in late-Aug 23 and thus should not be a surprise to the market. Note that STM had also built Shell's Vito and Whale projects for the Gulf of Mexico so the existence of project synergies made sense for Shell to award Sparta to STM. While no contract value was disclosed, we estimate the project to be worth S$300m-400m to STM.

- **No impact from the wind industry's travails at present.** In our view, STM is affected by delays but not order cancellations that are buffeting the offshore wind industry at present, given that these issues are confined to the east coast of the US. In any case, the company's contracts are cashflow neutral given that it is paid based on milestones, and will not suffer in the event of a cancellation. In Europe, the offshore wind industry appears more stable given that STM's exposure is via national grid operators such as RWE and TenneT, which are very focused on energy transition.

- **Repairs & upgrades segment - kicking goals.** With a single yard attracting business instead of two entities competing for work, STM is understandably bullish about this segment's prospects. Looking out into 2024 and beyond, STM highlighted that it will start to move away from pure repair and instead facilitate energy transition via vessel upgrades (eg installation of decarbonisation technology due to new International Maritime Organisation regulations) and new technology deployment. In addition, this segment should see incremental demand for the reactivation of drilling rigs as utilisations exceed 90%.

- **Strategic review.** The company had completed its strategic review at end-23 with a Capital Markets Day to be held in 1H24.

- **We maintain our BUY rating on STM with a P/B-based target price of S$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x and is pegged to its 2024 book value of S$0.125.

Share Price Catalysts

- **Events:** a) New orders for rigs, offshore renewable installations or fabrication works, as well as b) repairs and upgrade works for cruise ships and other commercial vessels.
- Timeline: 6-12 months.

ComfortDelgro - BUY (Llelleythan Tan)

- **Public transport services:** Higher fares and cost indexation to boost profit. 3Q23 revenue (+3.4% yoy, +3.9% qoq) and core operating profit (+19.6% yoy, +13.8% qoq) outperformed, aided by improving rail ridership in Singapore and more importantly, UK bus contract renewals and indexation which have started to come through. We reckon that earnings from the public transport segment have bottomed out and are expected to continue the upward momentum moving into 2024, backed by favourable tailwinds and higher public transport fares starting late-4Q23.
- **Taxi: Higher commission rates for 2024.** ComfortDelgro (CD) raised its taxi commission rates for both its Zig app and phone-booked rides from 5% to 7%, effective 1 Jan 24. This is in line with our expectations given that peers such as GoJek and Grab continue to have higher commission rates despite recent cuts. With the higher commission rates, this is expected to boost CD's taxi segmental margins and our 2024 overall PATMI estimates by around 4%.
- **Maintain BUY with a PE-based target price of S$1.69,** pegged to 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.6% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

Share Price Catalysts

- **Events:** a) Bus tender contract wins; b) increase in taxi commission rates; c) complete removal of taxi rental rebates.
- Timeline: 6-12 months.

Singapore Telecommunications - BUY (Chong Lee Len & Llelleythan Tan)

- **Doubling down on revenue drivers.** Singapore Telecommunications (Singtel) maintains its strategic aim to grow overall group ROIC from 8% in FY23 to low double digits by FY26, driven by its growth engines (regional data centres (RDC) and NCS). Both RDC and NCS are still expected to contribute more than 20% of EBITDA by FY28, almost double FY23's 12%, which would offset telecom services' declining EBITDA. Cash proceeds from the sale would likely be utilised for further expansion for both RDC and NCS, coupled with returns to shareholders.
- **Unlocking shareholder value.** The group has about S$4b of capital recycling after the stake sale of its RDC business which we reckon would likely come from paring down its stakes in its regional associates (valued at around S$49b as of end-1QFY24). Singtel currently has S$2b-3b of excess cash which we believe may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.
- **Higher dividend policy.** Singtel adjusted its dividend policy higher to 70-90% of underlying net profit (60-80% of underlying net profit previously) which could potentially bring its full-year FY24 dividend to around 13.0 S cents/share, implying an ample annualised dividend of around 5.4%.
- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.

Share Price Catalysts

- **Events:** a) Successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.
- Timeline: 6-12 months.

Marco Polo Marine – BUY (Heidi Mo)

- **Strong earnings beat on favourable charter rate and high utilisation rate; dividend came as a positive surprise.** Marco Polo Marine (MPM) reported FY23 core earnings of S$25m (+83% yoy), a strong beat of more than 50% of our estimate of S$16m due to strong improvement of gross margin by 4.1ppt as a result of favourable charter rates for offshore support vessels (OSV) and utilisation rates. On the other hand, MPM declared a dividend of 0.1 S cents/share, supported by its strong net cash position, which increased by 21% yoy to S$61m (around 30% of market cap). This came as a positive as we did not expect any dividend and this is the first dividend payment since 2012.
- **Positive outlook and new penetration into the offshore wind sector.** MPM anticipates the utilisation rate of its OSVs to remain relatively robust amid positive demand-supply dynamics. Concurrently, charter rates for OSVs are still expected to appreciate in FY24, albeit at a more moderate pace compared to FY23. MPM's commissioning service operation vessel (CSOV) is currently 34% completed and is expected to be completed in 2H24. This will be MPM's stepping stone to penetrate the Taiwan offshore wind sector.
- **Construction of new dry dock to boost ship repair capacity.** MPM recently announced plans to build a 240m Dry Dock 4 in Nov 23, funded by a mix of operational cashflows and external bank financing. This will increase ship repair capacity by up to 25%, allowing MPM to capture growing demand for ship repairs. As of 4QFY23, MPM's shipyard utilisation rate stood at 95%. With completion expected to be in 1QFY25, it will likely contribute to higher earnings then.
- **MPM will continue to support the Taiwan offshore wind farm market via its ship chartering business.** It has established a strong foothold in this arena through its joint venture entity, Oceanic Crown Offshore Marine Services Ltd., and the acquisition of PKR Offshore Co. Ltd. last year. MPM recently announced that it has formalised the Vestas Framework Agreement. It will see its CSOV deployed over three years once the vessel is fully constructed. This will provide revenue visibility for MPM's ship chartering division over the medium term.
- **Maintain BUY with a target price of S$0.066.** We value MPM at 1.3x FY24F P/B, in line with +2SD of its historical five-year average on the back of improving charter rates and vessel utilisation rates.

Share Price Catalysts

- **Events:** a) Higher-than-expected charter rates and vessel utilisation, and b) new or higher value of ship repair projects.
- Timeline: 3-6 months.

VALUATION

Company	Ticker	Rec*	Price 31 Oct 23 (S$)	Target Price (S$)	Upside To TP (%)	Last Year End	PE 2022A (x)	PE 2023E (x)	PE 2024E (x)	Yield 2023E (%)	ROE 2023E (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Bumitama	BAL SP	BUY	0.605	0.70	15.7	12/22	4.0	5.2	5.1	7.8	16.3	1,049.2	0.9
CapLand Ascott T	CLAS SP	BUY	0.99	1.40	41.4	12/22	31.3	27.4	21.9	6.2	3.7	3,725.7	0.9
Civmec	CVL SP	BUY	0.795	1.23	54.7	6/23	8.0	7.6	7.1	5.7	14.3	403.5	1.1
ComfortDelGro	CD SP	BUY	1.41	1.69	19.9	12/22	17.6	16.7	12.8	5.7	9.0	3,053.7	1.2
Food Empire	FEH SP	BUY	1.13	1.63	44.2	12/22	7.3	8.4	7.8	3.8	17.4	594.4	1.7
Frencken	FRKN SP	BUY	1.37	1.23	(10.2)	12/22	11.3	22.8	14.1	2.1	9.9	585.0	1.5
MapletreeInd	MINT SP	BUY	2.50	2.98	19.2	3/23	18.9	18.8	18.1	5.5	7.1	7,083.5	1.3
MarcoPolo Marine	MPM SP	BUY	0.051	0.066	29.4	9/23	8.2	7.3	11.1	0.0	10.2	191.4	1.1
O C B C	OCBC SP	BUY	12.92	16.85	30.4	12/22	10.2	8.4	8.4	6.2	12.7	58,067.4	1.1
SATS	SATS SP	BUY	2.75	3.22	17.1	3/23	n.a.	100.2	25.9	1.5	6.5	4,099.2	1.8
Seatrium	STM SP	BUY	0.12	0.19	58.3	12/22	n.a.	n.a.	51.7	0.0	1.9	8,186.0	1.0
Sembcorp Ind	SCI SP	BUY	5.34	7.20	34.8	12/22	11.2	10.1	10.1	3.1	19.6	9,501.2	2.1
SingTel	ST SP	BUY	2.45	3.15	28.6	3/23	18.2	17.1	14.7	5.4	9.5	40,433.0	1.5
Valuetronics	VALUE SP	BUY	0.605	0.72	19.0	3/23	11.9	9.2	8.7	7.3	11.7	248.1	1.1
Venture Corp	VMS SP	BUY	13.94	14.06	0.9	12/22	11.0	15.1	14.4	5.4	9.6	4,048.6	1.4

** Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation*
Source: UOB Kay Hian

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