MARKET NEWS

US stocks were mixed on Tuesday, as gains in the materials, energy and financials sectors led shares higher and losses in the information technology, real estate and utilities sectors led shares lower. At the close of the NYSE, the DJIA rose 0.04% while the S&P 500 index was down 0.01%, and the NASDAQ Composite index slid 0.25%. Advancing stocks outnumbered falling ones on the NYSE by 1,685 to 1,203 and 94 ended unchanged; on the Nasdaq Stock Exchange, 2,414 advanced and 1,803 declined, while 219 ended unchanged. (Source: WSJ, Bloomberg)

During the last trading session, the FSSTI index rose 7.94pt to 3,171.83. Among the top active stocks were Yangzijiang Shipbuilding (-3.2%), Genting Singapore (-0.6%), Singtel (+0.4%), Rex International (+0.5%) and SIA (-0.8%). The FTSE ST Mid Cap index fell 0.4% while the FTSE ST Small Cap Index was down 0.2%. The broader market saw 287 gainers and 255 losers with total trading value of S$811.7m.

WHAT'S IN THE PACK

Singapore Sector Update:

Banking - 3Q23 results preview: Resilient NIM and stable asset quality

Banks' 3Q23 earnings were powered by healthy yoy growth in net interest income, modest qoq recovery in wealth management and disciplined cost containment…

Singapore Company Update:

Keppel REIT - 3Q23: Good progress in backfilling vacant space in Australia and Japan.

(KREIT SP/BUY/S$0.84/Target: S$1.06)

Portfolio occupancy improved 0.9ppt qoq to 97.9% in 3Q23 (same-store-basis). A new government tenant took up two additional floors at 8 Chifley Square in Sydney, improving occupancy…

Singapore Technical Analysis:

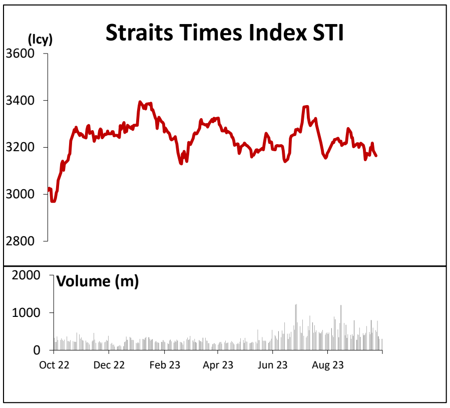
Best World International (BEST SP) - Trading BUY

Price is trading above the cloud, keeping the uptrend intact. Conversion and base lines remain in a bullish crossover, hinting at potential upside ahead…

Hongkong Land Holdings (HKL SP) - Trading BUY

Price could have formed a possible bottom at US$3.40. It is currently moving within a sideways consolidation zone. The RSI is rising above its neutral level…

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	34086.5	(1.5)	2.8
S&P 500	4385.9	(1.4)	14.2
FTSE 100	7675.2	(0.5)	3.0
AS30	7244.4	(2.5)	0.3
CSI 300	3639.4	(2.4)	(6.0)
FSSTI	3171.8	(2.8)	(2.4)
HSCEI	6092.6	(1.9)	(9.1)
HSI	17773.3	(0.9)	(10.2)
JCI	6939.6	0.1	1.3
KLCI	1444.1	(1.0)	(3.4)
KOSPI	2460.2	(4.4)	10.0
Nikkei 225	32040.3	(4.5)	22.8
SET	1433.4	(6.2)	(14.1)
TWSE	16642.6	(0.3)	17.7
BDI	2058	49.0	35.8
CPO (RM/mt)	3709	(0.5)	(8.4)
Brent Crude (US$/bbl)	89	(4.9)	4.0

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
DBS Group Holdings	33.45	0.0	101.0
Oversea-Chinese Banking Corp	13.07	0.5	65.8
United Overseas Bank	28.30	0.6	64.3
Yangzijiang Shipbuilding	1.53	(3.2)	42.9
Singapore Telecommunications	2.39	0.4	37.4

TOP GAINERS

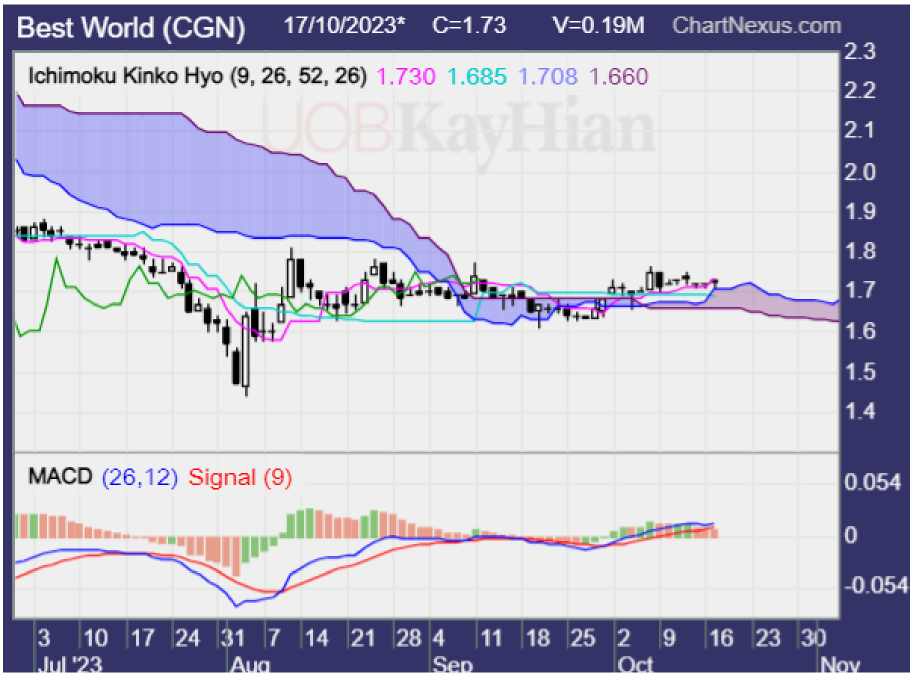
Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Top Glove Corp	0.22	4.8	0.3
Digital Core REIT Management	0.58	4.5	2.1
OUE Commercial REIT	0.24	2.2	0.7
ESR-LOGOS REIT	0.28	1.9	2.5
Hongkong Land Holdings	3.50	1.7	6.8

TOP LOSERS

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Keppel DC REIT	1.90	(5.5)	13.0
StarHub	1.04	(4.6)	0.7
Yangzijiang Shipbuilding	1.53	(3.2)	42.9
Mandarin Oriental	1.58	(2.5)	0.0
First Resources	1.48	(2.0)	1.0

**ADT: Average daily turnover*

TRADERS' CORNER



Best World International (BEST SP)

Trading Buy Range: S$1.72-1.73

Last price: S$1.73

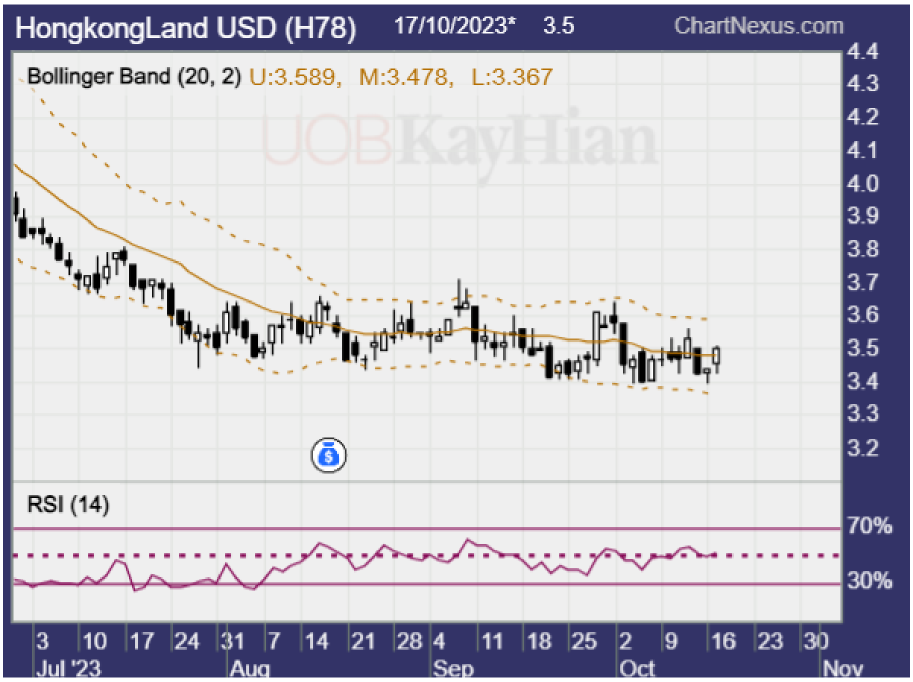
Target price: S$1.88

Protective stop: S$1.67

Price is trading above the cloud, keeping the uptrend intact. Conversion and base lines remain in a bullish crossover, hinting at potential upside ahead. MACD is bullish and is rising. These could increase chances of the stock price moving higher.

The potential upside target is S$1.88. Stop-loss could be placed at S$1.67.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)



Hongkong Land Holdings (HKL SP)

Trading Buy Range: US$3.49-3.50

Last price: US$3.50

Target price: US$3.85

Protective stop: US$3.38

Price could have formed a possible bottom at US$3.40. It is currently moving within a sideways consolidation zone. The RSI is rising above its neutral level. These could increase chances of the stock price breaking out the sideway zone to move higher.

The potential upside target is US$3.85. Stop-loss could be placed at US$3.38.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

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FROM THE REGIONAL MORNING NOTES...

Banking – Singapore

3Q23 Results Preview: Resilient NIM And Stable Asset Quality

Banks' 3Q23 earnings were powered by healthy yoy growth in net interest income, modest qoq recovery in wealth management and disciplined cost containment. Asset quality and credit costs remain benign. We forecast net profit of S$2,532m for DBS (+13% yoy but -4% qoq) and S$1,726m for OCBC (+7% yoy and +1% qoq). Our top picks are OCBC (BUY/Target: S$17.65), followed by DBS (BUY/Target: S$43.95). OCBC provides an attractive dividend yield of 6.2%. Maintain OVERWEIGHT.

WHAT'S NEW

- UOB will be announcing its 3Q23 results on 26 October, followed by DBS Group Holdings (DBS) on 6 November and Oversea-Chinese Banking Corporation (OCBC) on 10 November.

DBS Group Holdings (DBS SP/BUY/Target: S$43.95)

- We forecast net profit to grow 13% yoy but drop 4% qoq to S$2,532m in 3Q23. The sequential uptick in NIM and fees was offset by credit costs normalising higher.
- **Resiliency in NIM.** We expect muted loan growth of 0.2% qoq in 3Q23, which translates to a contraction of 2.9% yoy, driven by weakness in non-trade corporate loans. NIM expanded by 28bp yoy and 2bp qoq to 2.18%. NIM expansion was moderated by the outflow of CASA in Singapore and moderation of HIBOR in Hong Kong during August and September. We expect net interest income to grow 17% yoy in 3Q23.
- **Fees increased 16% yoy, accentuated by a low base in 3Q22.** Contribution from wealth management increased 21% yoy and 3% qoq to S$390m in 3Q23 as market sentiment improved, especially during the early part of the quarter. Contribution from cards increased 5% yoy due to continued recovery in business and leisure travel.
- **Delivering on cost discipline and efficiency.** Management guided for operating expenses to increase 9-10% and cost-to-income ratio to fall below 40% in 2023. We see DBS performing in line with guidance, with operating expenses increasing 7% yoy and cost-to-income ratio maintaining at 39.2% in 3Q23 (1H23: 38.2%).
- **Asset quality remains benign.** We expect NPL formation to remain benign and NPL ratio to be stable at 1.1%. DBS has accumulated ample management overlay for general provisions of S$2.1b set aside previously during the COVID-19 pandemic. We expect total provisions of S$180m and credit cost of 17bp in 3Q23 (2Q23: 7bp).
- We expect DBS to maintain its quarterly dividend at 48 S cents for 3Q23.
- Our target price of S$43.95 is based on 1.79x 2024F P/B, derived from Gordon Growth Model (ROE: 16.1%, COE: 9.0%, Growth: 0.0%).

Oversea-Chinese Banking Corporation (OCBC SP/BUY/Target: S$17.65)

- We forecast net profit to grow 7% yoy and 1% qoq to S$1,726m for 3Q23. On a yoy basis, healthy growth in net interest income was partially offset by lower contribution from insurance and higher credit costs.

PEER COMPARISON

Company	Ticker	Rec	Price @ 16 Oct 23 (S$)	Target Price (S$)	Market Cap (US$m)	FY	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	P/PPOP 2023F (x)	P/PPOP 2024F (x)	Yield 2023F (%)	Yield 2024F (%)	ROE 2023F (%)	ROE 2024F (%)
DBS	DBS SP	BUY	33.44	43.95	63,064	12/2022	8.6	8.7	1.47	1.36	7.2	7.1	5.6	6.0	17.2	15.7
OCBC	OCBC SP	BUY	13.00	17.65	42,722	12/2022	8.4	8.4	1.11	1.05	7.3	7.4	6.2	6.2	12.9	12.5
UOB#	UOB SP	NR	28.13	n.a.	34,400	12/2022	8.2	7.9	1.05	0.99	6.2	5.9	6.1	6.3	13.3	12.9
Average							8.4	8.4	1.21	1.13	6.9	6.8	5.9	6.2	14.5	13.7

#Based on consensus estimate
Source: Bloomberg, UOB Kay Hian

- **Resiliency in NIM.** We expect loan growth to be muted at 0.2% qoq in 3Q23, which translates to a contraction of 1.8% yoy, as corporate customers are cautious on business expansion and trade loans remain weak. We expect NIM to expand by 20bp yoy but remain flat qoq at 2.26%. Compounded SORA 3M inched marginally higher by 7bp to 3.71% in 3Q23 despite a 25bp hike in the Fed funds rate to 5.25% in Jul 23. Net interest income is expected to grow by a healthy 15% yoy in 3Q23.

- **Contribution from wealth management remains soft.** We expect fee income to be flat yoy but rebound 5% qoq to S$450m in 3Q23. Wealth management saw fragile recovery with contribution increasing 9% yoy and 8% qoq to S$195m. Loans and trade-related fees are expected to be stable.

- **Stable contribution from insurance without swings from mark-to-market.** The adoption of SFRS(I) 17 has moved mark-to-market for insurance assets and liabilities to fair value through other comprehensive income (direct to balance sheet). 10-year Singapore government bond yield rose 32bp to 3.40% in 3Q23. We expect contribution from the insurance business at a normalised level of S$200m in 3Q23 (-24% qoq). The negative impact from mark-to-market for its bond portfolio to OCBC's profit & loss was minimised after the adoption of SFRS(I) 17.

- **Asset quality remains stable.** We expect NPL ratio to be stable at 1.1%. OCBC is expected to review its macro-economic variable (MEV) model for general provisions due to heightened geopolitical tensions caused by conflict in the Middle East. We have factored in credit costs of 25bp in 3Q23, which is higher than management's guidance of 15-20bp for 2023.

- Our target price of S$17.65 is based on 1.42x 2024F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 9.0%, Growth: 0.0%).

ACTION

- **Higher interest rates for a longer timeframe.** The Fed hiked the fed funds rate by 25bp at the FOMC meeting on 26 Jul 23. The dot plot indicates another rate hike of 25bp to bring the fed funds rate to 5.50% by end-23. Fed chairman Jerome Powell said he does not anticipate core inflation to return to the Fed's target of 2% until 2025, which suggests interest rates are likely to stay higher for a longer timeframe.

- **Banks as proxy to growth in ASEAN countries.** ASEAN countries have a large combined population of 680m and account for about 8% of global exports. Many multinational companies have adopted the China+1 strategy and plan to set up alternative production facilities within the ASEAN region. Malaysia, Thailand, Indonesia and Vietnam are seeing growth in foreign direct investments. OCBC and UOB benefit from the reorientation of supply chains due to their extensive networks within ASEAN countries.

- **Stability in environment clouded by uncertainties.** Banks provide attractive value proposition with low P/B of 1.13x and a sustainably high dividend yield of 6.2% for 2024. Our top BUY pick is OCBC (Target: S$17.65) for its new dividend policy with payout ratio at 50%, focus on ASEAN and defensively low 2024F P/B of 1.05x. We like DBS (Target: S$43.95) due to its excellence in execution and consistency in delivering good results. Maintain OVERWEIGHT.

PROJECTED DPS AND DIVIDEND PAYOUT RATIOS

	---------------- DBS ----------------			-------------- OCBC --------------			-------------- UOB# --------------		
Price (S$)		33.44			13.00			28.13	
Year to 31 Dec	FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY24F
EPS (S ¢)	315	387	382	127	154	156	269	345	354
DPS (S ¢)	200	186	200	68	80	80	135	170	178
Payout Ratio (%)	63.5	48.1	52.3	53.5	51.8	51.4	50.1	49.4	50.3
Dividend Yield (%)	6.0	5.6	6.0	5.2	6.2	6.2	4.8	6.1	6.3

 # Based on consensus estimate
Source: UOB Kay Hian

ASSUMPTION CHANGES

- We forecast earnings growth of 22.9% for DBS in 2023.

KEY ASSUMPTIONS – DBS

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	9.9	1.3	1.5	4.9	4.9
NIM (%)	1.45	1.75	2.16	2.13	2.03
Fees, % Chg	15.2	(12.3)	12.5	12.1	7.5
NPL Ratio (%)	1.27	1.13	1.22	1.28	1.30
Credit Costs (bp)	0.6	5.4	13.7	22.1	22.1
Net Profit (S$m)	6,802	8,196	10,073	9,952	10,187
% Chg	44.1	20.5	22.9	(1.2)	2.4

Source: UOB Kay Hian

- We forecast earnings growth of 20.5% for OCBC in 2023.

KEY ASSUMPTIONS – OCBC

	2021	2022	2023F	2024F	2025F
Loan Growth (%)	8.6	1.8	1.9	4.4	4.9
NIM (%)	1.55	1.91	2.27	2.20	2.10
Fees, % Chg	12.0	(17.6)	(3.4)	5.9	6.1
NPL Ratio (%)	1.45	1.15	1.19	1.30	1.30
Credit Costs (bp)	31.3	20.0	24.0	22.5	23.3
Net Profit (S$m)	4,858	5,748	6,925	6,979	7,060
% Chg	35.4	18.3	20.5	0.8	1.2

Source: UOB Kay Hian

SECTOR CATALYSTS

- Economic recovery driven by the reopening and easing of COVID-19 restrictions, including the ongoing reopening in China.
- Banks reviewing their dividend policy and paying more dividends.

RISKS

- Escalation of the Russia-Ukraine war beyond Ukraine.
- Geopolitical tension and trade conflict between the US, EU and China.

FROM THE REGIONAL MORNING NOTES...

Keppel REIT (KREIT SP)

3Q23: Good Progress In Backfilling Vacant Space In Australia And Japan

Portfolio occupancy improved 0.9ppt qoq to 97.9% in 3Q23 (same-store-basis). A new government tenant took up two additional floors at 8 Chifley Square in Sydney, improving occupancy by 9.7ppt qoq to 97.1%. Occupancy at newly-acquired KR Ginza II in Tokyo improved by a massive 38.2ppt qoq to 74.5%. P/NAV at 0.64x is near the low of 0.61x during the onset of COVID-19 pandemic. KREIT provides 2023 distribution yield of 6.9% (CICT: 5.9% and Suntec: 6.8%). Maintain BUY. Target price: of S$1.06.

9M23 RESULTS

Year to 31 Dec (S$m)	9M23	yoy % chg	Remarks
Property Income	172.6	+5.0	Higher rentals and higher occupancies.
Net Property Income (Attributable)	120.4	+0.3	Higher property tax and utility costs.
Associates and JVs	78.4	-2.6	Higher contributions from MBFC, ORQ and 8 Chifley Square affected by
Distributable Income	163.6	-1.1	higher borrowing costs. Include anniversary distribution of S$15m.

Source: KREIT, UOB Kay Hian

RESULTS

- Keppel REIT (KREIT) reported distributable income of S$163.6m (-1.1% yoy) for 9M23, which was in line with expectations. Distributable income would have declined 10.1% yoy if we exclude anniversary distribution of S$15m (S$20m per year).
- **Hampered by high interest rates.** Property income increased 5% yoy to S$172.6m in 9M23 due to higher rentals and higher occupancies. Attributable NPI grew marginally by 0.3% yoy due to higher property tax and utility costs. Borrowing costs increased 20.3% yoy. Contributions from its Australia portfolio were weighted down as the Australian dollar depreciated 4.4% yoy against the Singapore dollar.
- **Well positioned in Singapore with vacant spaces already backfilled.** KREIT's portfolio occupancy improved 1.0ppt qoq to 95.9% in 3Q23 (improved 0.9ppt qoq to 97.9% if we exclude Blue & William). In Singapore, committed occupancies for Ocean Financial Centre (OFC), One Raffles Quay (ORQ), Marina Bay Financial Centre (MBFC) and Keppel Bay Tower were high at 100.0%, 99.7%, 98.6% and 98.2% respectively.
- **Benefitting from flight to quality in Australia.** In Sydney, a new government tenant took up two additional floors at 8 Chifley Square, which increased occupancy by 9.7ppt qoq to 97.1%. Newly-completed Blue & William's secured a third tenant, which further improved occupancy by 4.8ppt qoq to 42.5% (unlet space is covered by rental guarantee for three years). Occupancy for 9 Exhibition Street edged higher by 2.8ppt qoq to 97.2%.

KEY FINANCIALS

Year to 31 Dec (S$m)	2021	2022	2023F	2024F	2025F
Net turnover	217	219	236	243	246
EBITDA	110	112	127	133	135
Operating profit	110	112	127	133	135
Net profit (rep./act.)	232	405	137	138	139
Net profit (adj.)	149	137	137	138	139
EPU (S$ cent)	4.0	3.7	3.6	3.6	3.6
DPU (S$ cent)	5.8	5.9	5.8	5.7	5.7
PE (x)	20.7	22.7	23.2	23.4	23.5
P/B (x)	0.6	0.6	0.6	0.7	0.7
DPU Yld (%)	6.9	7.0	6.9	6.8	6.8
Net margin (%)	107.0	184.9	57.9	56.8	56.6
Net debt/(cash) to equity (%)	49.1	49.2	52.8	55.1	57.6
Interest cover (x)	3.1	3.5	2.6	2.0	2.0
ROE (%)	4.6	7.7	2.5	2.6	2.7
Consensus DPU (S$ cent)	n.a.	n.a.	5.9	5.8	5.9
UOBKH/Consensus (x)	-	-	0.98	0.99	0.96

Source: Keppel REIT, Bloomberg, UOB Kay Hian

- **Good progress for maiden acquisition in Japan.** Occupancy at newly-acquired KR Ginza II in Tokyo improved massively by 38.2ppt qoq to 74.5%. KREIT has fitted out two floors of office suites at KR Ginza II and attracted new tenants.
- **Positive reversions in both Singapore and Australia.** KREIT achieved positive rental reversion of 10.7% in 3Q23 (1H23: 8.1%). Average signing rent for Singapore office leases has increased from S$11.54psf pm in 2022 to S$12.43psf pm in 9M23. Portfolio WALE is high at 5.6 years (top 10 tenants: 10 years). Retention rate was high at 71.4%.
- **Prudent capital management.** Aggregate leverage was stable at 39.5% as of Sep 23. All-in interest rate was stable at 2.85% in 3Q23. It has hedged 76% of borrowings to a fixed rate. S$800m or 22% of its total borrowings are due for refinancing in 2024 (mostly in 2Q24). We conservatively estimate that average cost of debt would increase by 0.65ppt to 3.5% in 2024.

STOCK IMPACT

- **Stability from Singapore and recovery from Sydney.** KREIT is well positioned as it has backfilled vacant office spaces ahead of competition from new supply from IOI Central Boulevard Towers in 4Q23. Its properties in Sydney, 8 Chifley Square, Pinnacle Office Park and Blue & William, benefit from companies tightening on hybrid work arrangements.
- **Overhang from distribution in specie.** Keppel Corp has announced a proposed special dividend in specie of 352.4m units in KREIT representing 9.4% of KREIT's total issued and paid-up units. Keppel Corp's shareholders will receive one KREIT unit for every five Keppel Corp shares. Keppel Corp's stake in KREIT will drop from 46.5% to 37.1% after the distribution in specie. The proposed distribution in specie has to be approved by Keppel Corp's shareholders during the EGM on 18 Oct 23. Thereafter, KREIT units will be credited to Keppel Corp shareholders' accounts on 7 Nov 23.
- **P/NAV near historical low.** KREIT is trading at P/NAV of 0.64x (36% discount to NAV per unit of S$1.31), which is almost touching the low of 0.61x on 23 Mar 20 at the onset of the COVID-19 pandemic. The potential downside from Keppel Corp shareholders selling the KREIT units they received in specie could be limited due to KREIT's current depressed valuation. Fundamentally, Keppel Corp's distribution in specie of KREIT units has no impact on KREIT's DPU.
- **Rewarding unitholders with capital distributions.** Management set aside S$100m from accumulated capital gains to be distributed over the next five years to mark KREIT's 20th anniversary in 2026. Distributions would be made semi-annually from 2H22 to 1H27 (S$10m every six months).

EARNINGS REVISION

- We maintain our existing 2023 DPU forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY. Our target price of S$1.06** is based on DDM (cost of equity: 6.75% (previous: 6.5%), terminal growth: 1.5%).

SHARE PRICE CATALYST

- Resilient rents and capital values for office properties in Singapore.
- Contribution from Blue & William in Sydney kicking in from Apr 23.

KEY OPERATING METRICS

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy	qoq
DPU (S cents)	n.a.	2.95	n.a.	2.90	n.a.	n.a.	n.a.
Occupancy	96.8%	96.3%	96.3%	94.9%	95.9%	-0.9ppt	1ppt
Aggregate Leverage	38.4%	38.4%	38.7%	39.2%	39.5%	1.1ppt	0.3ppt
Average Cost of Debt	2.13%	2.29%	2.86%	2.84%	2.85%	0.72ppt	0.01ppt
% of Borrowings on Fixed Rates	72.0%	76.0%	75.0%	76.0%	76.0%	4ppt	0ppt
WALE by NLA (years)	6.1	6.0	5.8	5.7	5.6	-0.5yrs	-0.1yrs
Weighted Average Debt Maturity (years)	2.8	2.7	3.0	2.9	2.7	-0.1yrs	-0.2yrs
Rental Reversions	9.7%	19.3%	9.3%	8.1%	8.6%	-1.1%	0.5%
Tenant Retention Rate	82.0%	78.0%	98.0%	66.9%	71.4%	-10.6ppt	4.5ppt

Source: KREIT

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