

STRATEGY – SINGAPORE

Paying For Performance

Our analysis of compensation in Singapore suggests that for 2022, companies were generally fair in remunerating their CEOs and board of directors. Compared with their net profit, YZJ, SingTel and SIA generated the most “value” out of their CEOs, while based on ROE, SGX, Starhub, ST Engineering, SIA and YZJ performed well. Based on their respective 2022 share price performance, pay for the CEOs of Seatrrium, SCI and KEP appear to be well-justified.

WHAT'S NEW

- A mixed report card.** We have charted Singapore companies' CEO compensation in 2022 vs their respective ROE and share price performance for that year. While both showed positive correlations, it was notable that on a relative basis, compensation for CEOs of large-cap companies correlated more to share price performance vs small/mid-cap companies which showed the least correlation between CEO compensation and share price performance.
- “Fair compensation” relative to 2022 NPAT.** One way of looking at “fair compensation” was to view the company's 2022 NPAT as a multiple of the CEO's compensation. Simplistically, this tries to answer the question of whether a CEO has added value to their company and if this is reflected in their pay. Based on their respective 2022 NPAT, the companies that “generated the most value” out of their CEOs were Yangzijiang Shipbuilding (YZJ), Singapore Telecommunications (SingTel) and Singapore Airlines (SIA) – see chart on last page.
- CEO pay vs ROE.** Large-cap companies that notably recorded ROEs of >15% in 2022 such as SGX, Starhub, ST Engineering, SIA and YZJ appear to have paid their CEOs fairly. For small/mid-caps, the two standout companies in this respect were RH Petrogas (2022 ROE: 53%) and PropNex (48%).
- CEO pay vs share price performance.** With the industrials sector handily outperforming the STI in 2022, it is therefore fair to say that pay for the CEOs at Seatrrium, Sembcorp Industries (SCI) and Keppel (KEP) were well-justified. For the small/mid-caps, Marco Polo Marine was the standout with a share price gain of 52% in 2022 vs its CEO's pay of c.S\$750,000.
- Most underpaid CEO?** With 2022 compensation of S\$78,000, YZJ's CEO was the lowest paid on an absolute basis and significantly lower than the average CEO pay of S\$3.6m within our coverage universe. Notably, its 2022 NPAT was over 7000x higher than its CEO's pay. We also highlight that YZJ's top three management (excluding CEO) was paid less than S\$0.4m in total, while the total compensation of its board of directors was less than S\$0.3m. However, we also point out that YZJ's CEO received cS\$8.3m in dividends from the company in 2022.
- The most overpaid CEOs, relative to their companies' 2022 share price performance, were from UMS and Rex,** with pay of S\$7.4m and S\$4.1m respectively despite their share prices declining by 19% and 28% (although UMS saw an 85% yoy increase in its 2022 NPAT while Rex's fell 99.5%). While Sheng Siong's CEO pay of S\$5.8m was higher than that of Rex's, we note that its share price rose 18% in 2022 and it generated an ROE of 29.1%, which was 9-10ppt higher than that of UMS and Rex. We also note that Rex's board is one of the highest paid at S\$5.1m, which attracted the attention of a corporate governance expert at the National University of Singapore who questioned its payment of performance bonuses to its non-executive directors.
- Poor disclosure from some companies.** We highlight a few companies in our universe that have either not disclosed their respective CEOs' compensation (eg DFI, Food Empire) or provided such broad guidance so as to render it meaningless (eg RFMD). From a governance perspective, this could raise questions from the market about their governance standards, especially for DFI which has the second-highest paid board of directors in our coverage universe at just over S\$11m in 2022 (Sheng Siong at S\$17.9m had the highest paid board). For Food Empire, it has stated that it will start to disclose its CEO's compensation from FY24 onwards.

TOP BUYS

Company	Rec	Price (S\$/share)	
		21 Jun	Target
CapitaLandInvest	BUY	3.37	4.27
Keppel Corp	BUY	6.70	9.09
MapletreeLog	BUY	1.69	1.99
Lendlease REIT	BUY	0.665	0.87
O C B C	BUY	12.51	17.32
SATS	BUY	2.64	3.02
Sea Ltd (in US\$)	BUY	61.21	94.34
Seatrrium	BUY	0.129	0.17
SingTel	BUY	2.49	3.15
Wilmar	BUY	3.97	5.50
YZJ ShipBldg	BUY	1.32	1.58

Source: UOB Kay Hian

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- **Relatively fair pay for TLCs in our view.** Looking at the top 20 highest paid CEOs in our universe of coverage, the CEOs of Temasek-linked companies (TLCs) occupied seven of these slots, with DBS being the highest paid at S\$15.4m followed by KEP and CapitaLand Investment (CLI). However, we highlight that DBS had the highest ROE within the financials sector while both KEP and CLI demonstrated material share price performance in 2022, up 49% and 13% and easily outperforming the STI.

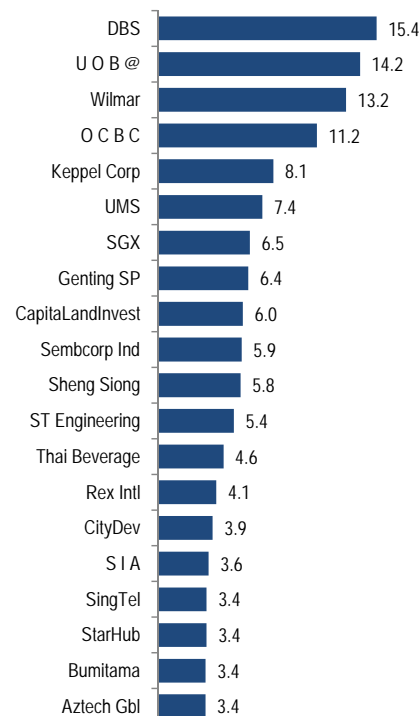
- **Top picks in the Singapore market.** Our top stock picks in the Singapore market are: CapitaLand Investment, Keppel Corp, Mapletree Logistics trust, Lendlease Global REIT, OCBC, SATS, Sea Ltd, Seatrium, Sembcorp Industries, SingTel, Wilmar and Yangzijiang Shipbuilding.

WHAT IS FAIR PAY?

- **Perceptions of fair pay can vary**, and the concept of fairness itself is subjective. Ultimately, the goal is to strike a balance between attracting and retaining top talent while ensuring that CEO compensation is reasonable, justifiable, and aligned with the long-term success of the organization. Ways in which a company can achieve a level of fairness is to benchmark CEO pay to industry peers and similar-sized companies, and putting in place performance-based incentives (eg financial metrics such as revenue growth, profitability, and stock price, or non-financial measures like market share, customer satisfaction, and employee engagement). In general we find that most Singaporean listed companies adhere to such standards, with disclosure lacking in some.

- **The board of directors plays a crucial role** in determining CEO compensation as it represents shareholders' interests. They establish a remuneration committee (RC) to review and approve executive pay packages as well as directors' fees, ensuring alignment with company goals and shareholder interests. However, in a recent isolated case in Singapore, a small-cap oil company's board allowed for performance bonuses for its non-executive directors which raised the issue of corporate governance – in this particular instance the key failure is a conflict of interest as it was the RC members who awarded themselves such performance bonuses.

TOP 20 HIGHEST PAID CEOs IN SINGAPORE IN 2022 (\$M)



Source: Companies

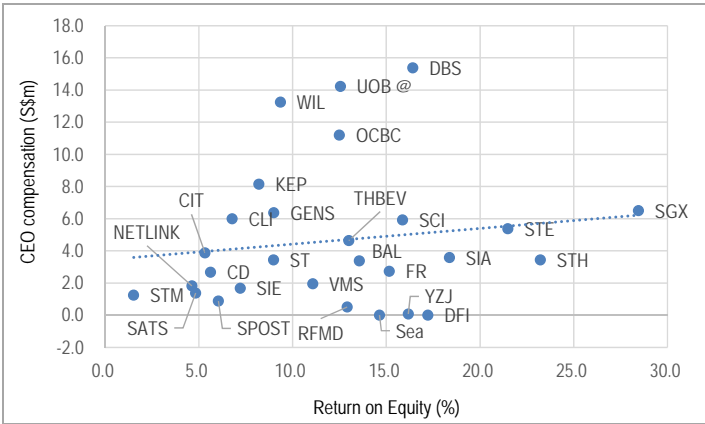
PEER COMPARISON

Company	Ticker	Rec	Price (\$S)		Upside to TP (%)	PE (x)			2023F (%)		M.cap \$Sm	P/B (x) 2023F
			21 Jun	Target		2022F	2023F	2024F	Yield	ROE		
DBS	DBS SP	BUY	31.35	41.00	30.8	10.0	8.6	8.2	5.4	16.4	80,854.5	1.5
O C B C	OCBC SP	BUY	12.51	17.32	38.4	9.9	8.2	8.0	6.0	12.5	56,229.6	1.1
U O B @	UOB SP	NR	27.99	n.a.	n.a.	10.4	8.4	7.9	5.7	12.6	46,891.8	1.2
SingTel	ST SP	BUY	2.49	3.15	26.5	18.5	17.0	15.1	4.0	9.6	41,111.3	1.6
Sea Ltd (in US\$)	SE US	BUY	61.21	94.34	54.1	n.a.	36.6	29.8	0.0	14.6	31,904.5	5.7
Wilmar	WIL SP	BUY	3.97	5.50	38.5	7.5	10.0	8.6	5.2	9.4	24,783.7	0.9
S I A	SIA SP	SELL	7.52	7.07	(6.0)	10.4	7.8	18.0	5.1	20.3	22,338.7	1.6
CapitaLandInvest	CLI SP	BUY	3.37	4.27	26.7	20.1	16.6	16.0	3.6	6.8	17,260.5	1.1
Thai Beverage	THBEV SP	BUY	0.57	0.75	31.6	11.9	12.7	11.8	3.9	13.8	14,321.1	2.0
Keppel Corp	KEP SP	BUY	6.70	9.09	35.7	12.9	12.9	12.5	3.1	8.2	11,806.7	1.1
Genting Singapore	GENS SP	BUY	0.955	1.25	30.9	33.9	15.8	14.7	4.2	9.0	11,528.8	1.4
ST Engineering	STE SP	BUY	3.66	4.00	9.3	21.3	21.8	19.4	4.4	21.8	11,412.0	4.8
SGX	SGX SP	HOLD	9.46	9.57	1.2	22.4	22.5	20.0	3.8	28.4	10,103.2	6.8
Sembcorp Ind	SCI SP	BUY	5.38	4.64	(13.8)	11.3	14.9	14.8	2.1	15.9	9,607.5	2.4
Seatrium	STM SP	BUY	0.129	0.17	31.8	n.a.	295.7	55.6	0.0	0.5	8,802.4	1.1
CityDev	CIT SP	BUY	6.86	8.00	16.6	4.9	12.8	13.8	1.6	5.3	6,221.3	0.7
YZJ ShipBldg SGD	YZJSGD SP	BUY	1.32	1.58	19.7	9.5	8.4	7.6	3.1	16.0	5,214.8	1.5
DFIRG USD	DFI SP	BUY	2.74	3.72	35.8	n.a.	22.1	14.8	2.7	17.3	4,985.6	3.9
Venture Corp	VMS SP	HOLD	15.20	16.99	11.8	12.0	13.8	13.3	5.3	11.1	4,423.4	1.6
SATS	SATS SP	BUY	2.64	3.02	14.4	n.a.	59.7	15.9	0.7	2.8	3,926.5	1.7
NetLink NBN Tr	NETLINK SP	BUY	0.86	1.05	22.1	30.7	28.1	25.5	6.2	4.6	3,351.4	1.3
SIA Engineering	SIE SP	BUY	2.43	2.67	9.9	41.1	22.6	15.7	3.7	7.2	2,726.4	1.6
ComfortDelGro	CD SP	HOLD	1.17	1.27	8.5	14.6	17.4	15.0	4.3	5.6	2,533.9	1.0
Raffles Medical	RFMD SP	BUY	1.32	1.9	43.9	17.1	18.1	21.6	2.7	12.9	2,455.5	2.4
FirstRes	FR SP	HOLD	1.52	1.55	2.0	5.3	8.7	8.4	8.1	15.2	2,381.3	1.4
StarHub	STH SP	BUY	1.01	1.37	35.6	32.6	13.7	9.7	5.0	23.2	1,744.7	5.3
SingPost	SPOST SP	HOLD	0.46	0.46	0.0	79.3	21.4	13.4	1.8	6.0	1,035.0	0.9
Bumitama	BAL SP	HOLD	0.555	0.55	(0.9)	3.7	6.2	5.9	6.4	13.5	962.4	0.9

Note: * 2022A: NR = Not Rated – using Bloomberg consensus numbers

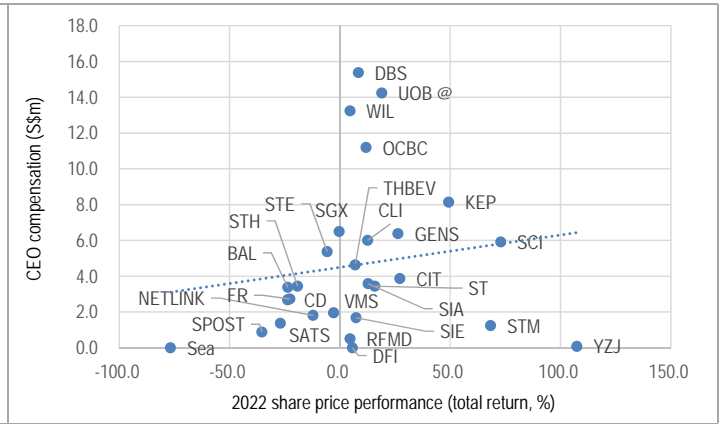
Source: Bloomberg, UOB Kay Hian

LARGE CAPS: CEO COMPENSATION VS ROE



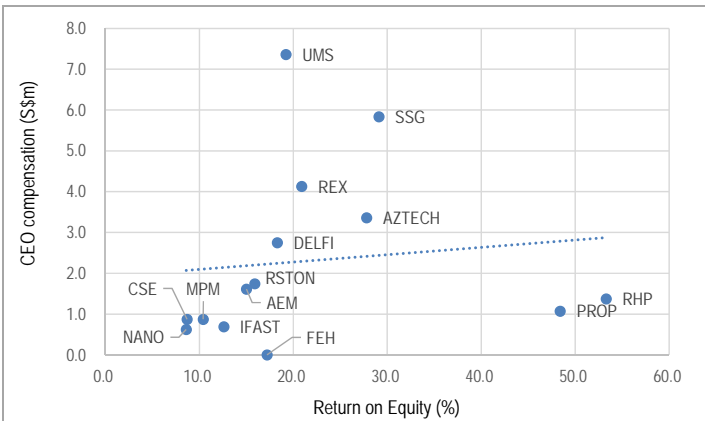
Source: Companies, UOB Kay Hian

LARGE CAPS: CEO COMPENSATION VS 2022 SHARE PRICE PERFORMANCE



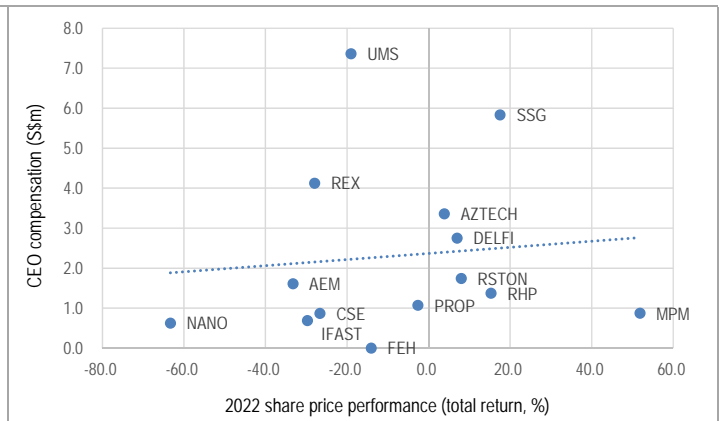
Source: Companies, UOB Kay Hian

SMALL/MID CAPS: CEO COMPENSATION VS ROE



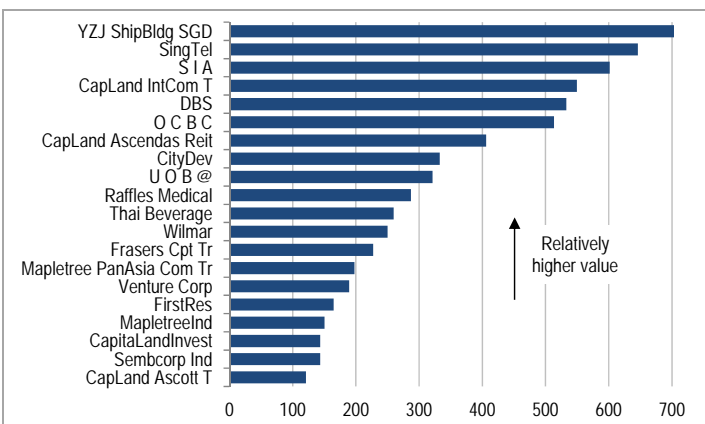
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SMALL/MID CAPS: CEO COMPENSATION VS 2022 SHARE PRICE PERFORMANCE



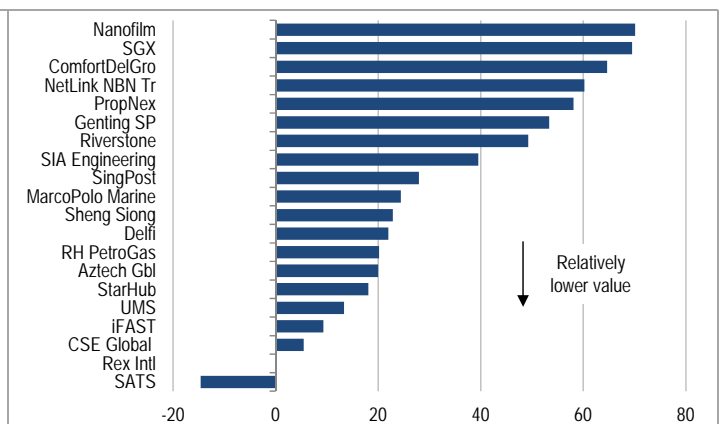
Source: Companies, UOB Kay Hian

LARGE CAPS: 2022 NPAT AS A % OF CEO COMPENSATION



Source: Companies, UOB Kay Hian

SMALL/MID CAPS: 2022 NPAT AS A % OF CEO COMPENSATION



Source: Companies, UOB Kay Hian

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