

STRATEGY – SINGAPORE

Searching For Golden Needles In The Haystack

While we forecast a modest 2.4% EPS growth for 2024, we nevertheless see a number of stocks within our universe that should deliver strong returns, backed by sustainable dividend yields. On a top-down basis, our 2024 year-end target of 3,290 for the STI implies 6% upside from current levels, with the index's current valuation looking inexpensive at 2024F PE and P/B of 9.9x and 1.0x respectively. Our top large-cap picks are CLI, CD, FR, GENS, MINT, OCBC, SATS, STM, SCI and VMS.

WHAT'S NEW

- Staying constructive for 1H24.** With a muted outlook next year given concerns over inflation and higher-for-longer interest rates, we nevertheless remain constructive on a number of stocks in the Singapore market (10 large caps and five small/mid-caps as seen in the chart on RHS) given the prevalence of quality, value and dividend stocks relative to its regional peers.
- 2.4% EPS growth for 2024.** We forecast an aggregate 2.4% EPS growth in 2024 for our coverage universe with growth coming from land transport, plantation, property, telecommunications and 'others' sectors. We expect the aviation, finance and healthcare sectors to be three key sectors that will degrade the positive earnings growth in 2024, while the REITs sector may see earnings curtailed by high interest rates. We highlight that for the STI component stocks, Bloomberg consensus forecasts 3.1% yoy EPS growth for 2024, while UOB Global Economics & Markets Research has forecast Singapore's 2024 GDP growth at 3.0% (2023F: 0.7%).
- We forecast the STI to reach 3,290 by end-24** using a top-down methodology, implying about 6% upside from current levels. Our 2024 STI target is based on 2.4% earnings growth, and target PE and P/B multiples of 12.5x and 1.04x respectively, both of which are at about a 15% discount to the index's long-term average. With modest 2024 earnings growth and potential recessionary risks to the economy and thus our forecasts, we view this target as fair.
- The STI appears inexpensive,** trading at a forecast 2024 PE and P/B of 9.9x and 1.0x respectively and paying a yield of 5.8%. We highlight that these multiples are meaningful discounts to the STI's long-term averages and vs its regional peers.
- Our top large-cap picks are** CapitaLand Investment, ComfortDelGro, First Resources, Genting Singapore, Mapletree Industrial Trust, OCBC, SATS, Seatrium, Sembcorp Industries and Venture Corp.

Click [here](#) for Blue Top dated 4 Dec 23

PEER COMPARISON

Company	Ticker	Rec	Price (S\$)		Upside to TP (%)	PE (x)			2024F (%)		M.cap S\$m	P/B (x)
			1 Dec	Target		2022	2023F	2024F	Yield	ROE		
Large-caps												
CapitaLandInvest	CLI SP	BUY	3.05	3.90	27.9	18.2	19.9	16.1	3.7	6.3	15,556.3	1.1
ComfortDelGro	CD SP	BUY	1.29	1.69	31.0	16.1	15.2	11.7	6.2	9.0	2,793.8	1.1
First Resources	FR SP	BUY	1.40	1.65	17.9	4.9	9.6	7.3	9.6	15.8	2,192.0	1.2
Genting Singapore	GENS SP	BUY	0.92	1.25	35.9	32.6	17.8	14.2	4.3	9.4	11,106.3	1.4
Mapletree Ind Tr	MINT SP	BUY	2.27	2.69	18.5	17.2	17.1	16.4	6.0	7.1	6,431.8	1.2
OCBC	OCBC SP	BUY	12.64	17.35	37.3	10.0	8.1	8.2	6.3	12.5	56,807.2	1.1
SATS	SATS SP	BUY	2.65	2.90	9.4	n.a.	96.5	24.9	1.6	6.5	3,950.2	1.7
Seatrium	STM SP	BUY	0.102	0.19	86.3	n.a.	n.a.	44.0	0.0	1.9	6,958.1	0.9
Semb Industries	SCI SP	BUY	5.20	7.20	38.5	10.9	9.8	9.8	3.1	19.6	9,251.9	2.1
Venture Corp	VMS SP	BUY	13.02	14.06	8.0	10.2	14.1	13.5	5.8	9.6	3,782.4	1.3
Small/mid-caps												
CDL Htrust	CDREIT SP	BUY	1.02	1.41	38.2	17.6	26.6	17.9	6.8	4.1	1,270.7	0.7
Far East HTrust	FEHT SP	BUY	0.66	0.76	15.2	26.5	15.8	19.8	6.6	3.7	1,321.7	0.7
Food Empire	FEH SP	BUY	1.09	1.63	49.5	7.0	8.0	7.4	4.0	17.4	574.7	1.6
Frencken	FRKN SP	BUY	1.19	1.23	3.4	9.8	19.8	12.2	2.5	9.9	508.2	1.3
Valuetronics	VALUE SP	BUY	0.555	0.72	29.7	10.9	8.4	7.9	8.0	11.7	227.9	1.0

Source: UOB Kay Hian

STI 2024 YEAR-END TARGET: 3,290

KEY FOCUS STOCKS

Company	Rec	Price (S\$)	
		1 Dec	Target
CapitaLandInvest*	BUY	3.05	3.90
ComfortDelGro	BUY	1.29	1.69
First Resources	BUY	1.40	1.65
Genting Singapore*	BUY	0.92	1.25
Mapletree Ind Tr*	BUY	2.27	2.69
OCBC*	BUY	12.64	17.35
SATS*	BUY	2.65	2.90
Seatrium*	BUY	0.102	0.19
Semb Industries*	BUY	5.20	7.20
Venture*	BUY	13.02	14.06
Small/mid-caps			
CDL Hosp Tr	BUY	1.02	1.41
Far East Hosp Tr	BUY	0.66	0.76
Food Empire	BUY	1.09	1.63
Frencken	BUY	1.19	1.23
Valuetronics	BUY	0.555	0.72

Note: * denotes stocks in the Straits Times Index
Source: Bloomberg, UOB Kay Hian

ANALYST(S)

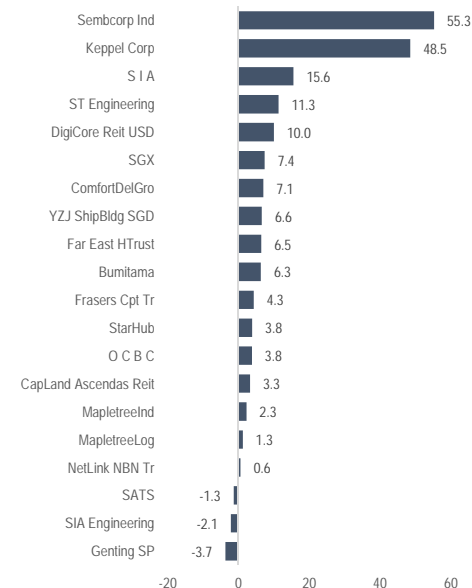
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ESSENTIALS

- In a show of defensive strength, the Singapore market was relatively stable throughout 2023**, down 0.2% on 1 Dec 23 (1H23: +1.1%) on a total returns basis. Looking ahead to 2024, we forecast a modest 2.4% yoy core EPS growth for 2024 within our UOB Kay Hian coverage universe. As a result, investors will need to be more selective and nimbler than ever before to seek out alpha picks given the various significant events and themes that will continue to play out regionally and globally. In contrast to our modest EPS growth assumptions, we highlight our focus list of 15 stocks which we believe will generate above-normal returns in 1H24. Our top-down forecast for the STI for end-24 is 3,290, implying an upside of around 6% from current levels.
- A safe harbour as predicted.** With a -0.2% total return in 2023 ytd, the Straits Times Index (STI) was one of the better performers in the Asia Pacific region. The STI also easily outperformed the MSCI Singapore Index (-1.5%), which was negatively impacted by the weakness in Sea Ltd.
- Outlook.** Looking forward, we believe that the STI will outperform on a relative basis due to the prevalence of quality, value and dividend stocks relative to its regional peers. Nevertheless, with nearly half of the STI comprising bank stocks and with potentially neutral to negative sentiment on the sector taking hold as interest rate cuts occur in 2024, the index may find it hard to outperform on an absolute basis.
- Globally significant events** such as the US presidential election, the Israel-Hamas and Russia-Ukraine wars, and the ongoing US-China political and economic rivalry could negatively affect the market in a myriad of ways. The increased recession risk and the slow response by the US Fed are likely to push implied volatility sharply higher in 2024 when compared to 2023.
- Strategy for 1H24, and key focus sectors and stocks.** We believe that investors should focus on stocks that have revenue certainty over the next 6-12 months and trade at reasonable valuations and look for yield protection. Invariably, quality companies like those listed below have strong business resilience that should enable them to withstand an economic downturn and yet be well placed to take advantage of a rebound post-recession. As a result, we believe that investors should focus on companies within the five broad "buckets" outlined below:
 - Revenue certainty:** CapitaLand Ascott Trust, ComfortDelGro, Genting Singapore, Mapletree Logistics Trust, OCBC, Sembcorp Industries, Yangzijiang Shipbuilding.
 - Technology focus:** AEM, Aztech, Frencken, UMS, Valuetronics.
 - Cashed-up companies:** Singapore Airlines (SIA), Genting Singapore, Yangzijiang Shipbuilding.
 - Laggard plays:** City Developments, REITs with foreign assets, Venture, Lendlease REIT, Thai Beverage, Seatrium.
 - Small/mid caps with earnings power:** CDL Hospitality Trust, Far East Hospitality Trust, Food Empire.
- Forecasting aggregate 2.4% earnings growth in 2024.** The four key sectors that will contribute to the positive earnings growth in UOB Kay Hian's coverage universe for 2024 are land transport, plantation, property, telecommunications and 'others' sectors (see table below). Note that for the plantation sector, the earnings growth will come from our forecast yoy increase in CPO prices in 2024 coupled with Wilmar's depressed earnings in 2023. Meanwhile, the property sector's apparent earnings growth in 2024 will be due to depressed numbers in 2023 caused by impairments.
- The sectors that will weigh on the STI.** We expect the aviation, finance and healthcare sectors to be three key sectors that will degrade the positive earnings growth in 2024, while the REITs sector may see earnings curtailed by high interest rates. We highlight that for the STI component stocks, Bloomberg consensus forecasts 3.1% yoy EPS growth for 2024.

20 BEST PERFORMING STOCKS IN OUR UOBKH COVERAGE UNIVERSE



Source: Bloomberg

STI PE TRADING BAND



Source: Bloomberg

STI P/B TRADING BAND



Source: Bloomberg

CORE EPS GROWTH BY SECTOR (YOY % CHANGE)

	2020	2021	2022	2023E	2024E
Aviation ¹	n.a.	n.a.	n.a.	26.2	(25.4)
Finance	(29.6)	38.9	19.3	23.0	(0.6)
Healthcare	11.8	26.0	71.4	(26.3)	(11.0)
Land Transport	(62.4)	18.3	5.1	34.0	29.9
Plantation	21.5	25.9	34.3	(50.0)	37.4
Property	n.a.	n.a.	10.0	(55.2)	49.8
REITs	(20.3)	26.9	0.1	(2.5)	0.4
Shipyard/Industrials	n.a.	n.a.	2.9	18.8	4.0
Technology	(18.4)	4.6	18.2	(27.3)	4.6
Telecommunications ¹	(58.1)	94.0	(1.3)	19.0	15.9
Others ²	(36.8)	9.9	15.7	27.7	14.6
AGGREGATE GROWTH	(64.4)	154.0	24.9	8.7	2.4

Note: ¹2023E reflects FY24; ²Others includes DFI Retail Group, Genting Singapore, Thai Beverage and SingPost
Source: UOB Kay Hian

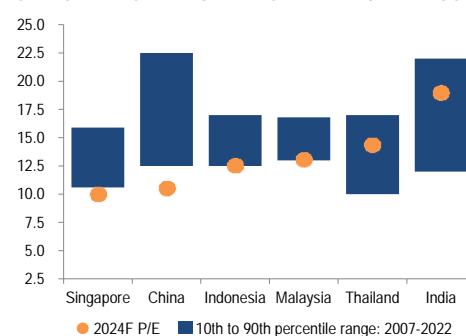
- **STI target for 2024.** We forecast the STI to reach 3,290 by end-24 using a top-down methodology, which implies about 6% upside from current levels.
- **Our 2024 STI target is based on 2.4% yoy earnings growth**, and target PE and P/B of 12.5x and 1.04x respectively. Both target multiples are a 15% discount to the long-term average for the index – this is higher than our historical 10% discount as Singapore's moderating earnings growth and potential risks to the regional and global economy are key overhangs.
- **As a sniff test**, we point out that Bloomberg consensus and a bottom-up methodology would equate to much higher end-24 STI targets of 3,680-3,900. In particular, the STI target on a bottom-up basis using our target prices is 3,865 while the resulting STI target using Bloomberg target prices is 3,680.
- **Trading well below long-term valuations.** In our view, the STI's valuations are not stretched at present, trading at 2024F PE and P/B of 9.9x and 1.0x respectively and paying a yield of about 5.8%. We highlight that these multiples are meaningful discounts to the STI's long-term averages, and also inexpensive vs its peers in the region and vs its own 10th to 90th percentile range.

SECTOR WEIGHTINGS

Weighting	Sectors	Preferred stocks
OVERWEIGHT	Consumer	Thai Beverage, Food Empire
	Financials	Oversea-Chinese Banking Corporation over DBS Group Holdings
	Land transport	ComfortDelGro Corporation
	REITs	Far East Hospitality Trust; Mapletree Industrial Trust
	Shipyards/Industrials	Seatrium, Sembcorp Industries
	Technology	Frencken
	Telecommunications	Singtel
	MARKET WEIGHT	Aviation
Gaming		Genting Singapore
Healthcare		Raffles Medical
Plantations		Bumitama, First Resources, Wilmar International
Property		CapitaLand Investments

Source: UOB Kay Hian

STI VS PEERS: 12-MONTH FORWARD P/E RATIOS



Source: Bloomberg

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