STRATEGY – SINGAPORE

2H24 Strategy: Looking For Turning Points

Given our slightly more bullish earnings expectation of a 5.6% growth for 2024 (vs 2.4% six months ago), we have upgraded our 2024 year-end target for the STI to 3,380. The index's current valuation remains inexpensive at 2024F PE and P/B of 10.5x and 1.1x respectively. Our top picks for 2H24 are CLI, GENS, KEP, MINT, OCBC, SCI, STE, VMS and YZJSGD, with CSE, FEHT, FRKN, MPM and VALUE rounding up the small/mid-caps sector.

WHAT'S NEW

- **Reviewing 1H24.** 1H24 was not an easy time to invest with the STI only starting to deliver positive returns from mid-April as it became clearer that the US Fed would be more reticent to cut interest rates given the strong US economy and its sticky inflation numbers. This benefitted Singapore bank stocks which were clear outperformers, particularly in 2Q, helping the STI to return 3.8% in 2Q vs only 0.9% in 1Q, resulting in a total return of 4.9% for 1H24.
- **5.6% earnings growth for 2024.** We currently forecast a 3% earnings growth for STI-related stocks, and 5.6% for Singapore stocks under our coverage. We highlight that this is more positive versus our forecast of 2.4% made six months ago, with earnings upgrades in aviation, financials and property while healthcare, land transport, plantation, REITs, industrials and telecommunications have seen mild downgrades. Some of the more obvious sectors that have seen earnings downgrades include REITs which would incrementally feel the pain from higher interest cost. We highlight that for the STI component stocks, Bloomberg consensus forecasts around 6.1% yoy EPS growth for 2024, while UOB Global Economics & Markets Research has forecast Singapore's 2024 GDP growth at 2.9% (2023: 1.1%).
- **We forecast the STI to reach 3,380 by end-24** using a top-down methodology, based on 5.6% earnings growth, and target PE and P/B multiples of 13.0x and 1.2x respectively. Both these multiples are around a 10% discount to the index's long-term average.
- **The STI remains inexpensive,** trading at a 2024F PE and P/B of 10.6x and 1.1x respectively and paying a yield of 5.5%. 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, Genting Singapore, Keppel Ltd, Mapletree Industrial Trust, Oversea-Chinese Banking Corporation, Sembcorp Industries, Singapore Telecommunications, ST Engineering, Venture Corporation and Yangzijiang Shipbuilding. Small/mid-cap stocks that we like are CSE Global, Far East Hospitality Trust, Frencken Group and Valuetronics Holdings.

Click here for Blue Top dated 03 Jul 24

STI 2024 YEAR-END TARGET: 3,380

KEY FOCUS STOCKS

Company	Rec	Price (S$) 2 Jul	Price (S$) Target
CapitaLandInvest*	BUY	2.64	4.04
Genting Sg*	BUY	0.83	1.25
Keppel Ltd*	BUY	6.36	8.89
Mapletree Ind Tr*	BUY	2.11	2.78
OCBC*	BUY	14.8	18.35
Semb Industries*	BUY	4.65	7.49
SingTel*	BUY	2.78	3.05
ST Engineering*	BUY	4.26	4.50
Venture*	BUY	14.26	16.37
Yangzijiang*	BUY	2.44	2.86
Small/mid-caps			
CSE Global	BUY	0.39	0.56
Far East Hosp Tr	BUY	0.62	0.77
Frencken	BUY	1.61	1.74
Marco Polo Marine	BUY	0.058	0.086
Valuetronics	BUY	0.64	0.78

** Stocks in the Straits Times Index*
Source: Bloomberg, UOB Kay Hian

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PEER COMPARISON

Company	Ticker	Rec	Price (S$) 2 Jul	Price (S$) Target	Upside to TP (%)	PE (x) 2023	PE (x) 2024E	PE (x) 2025E	2024F (%) Yield	2024F (%) ROE	M.cap S$m	P/B (x)
Large-caps												
CapitaLandInvest	CLI SP	BUY	2.64	4.04	53.0	74.6	18.8	16.9	3.2	5.2	13,225	1.0
Genting Sg	GENS SP	BUY	0.83	1.25	50.6	16.4	12.8	12.5	4.8	9.3	10,020	1.2
Keppel Ltd	KEP SP	BUY	6.36	8.89	39.8	2.8	11.7	11.2	5.2	9.3	11,486	1.1
Mapletree Ind Tr	MINT SP	BUY	2.11	2.78	31.8	15.9	15.8	15.8	6.4	7.2	5,983	1.2
OCBC	OCBC SP	BUY	14.8	18.35	24.0	9.5	9.1	9.2	5.8	13.2	66,518	1.3
Semb Industries	SCI SP	BUY	4.65	7.49	61.1	8.8	8.6	8.2	2.8	20.0	8,290	1.8
SingTel	ST SP	BUY	2.78	3.05	9.7	57.7	18.5	16.6	5.9	10.0	45,907	1.9
ST Engineering	STE SP	BUY	4.26	4.50	5.6	22.6	20.8	19.1	3.8	25.3	13,286	5.4
Venture	VMS SP	BUY	14.26	16.37	14.8	15.4	14.8	14.3	5.3	9.8	4,137	1.5
Yangzijiang S'bldg	YZJSGD SP	BUY	2.44	2.86	17.2	12.4	10.3	8.6	2.9	21.2	9,639	2.5
Small/mid-caps												
CSE Global	CSE SP	BUY	0.39	0.56	43.6	10.7	10.5	9.5	7.1	10.8	270	1.1
Far East Hosp Tr	FEHT SP	BUY	0.62	0.77	24.2	19.0	19.8	19.1	6.6	3.4	1,247	0.7
Frencken	FRKN SP	BUY	1.61	1.74	8.1	21.2	15.7	14.4	1.9	10.4	688	1.7
Marco Polo Marine	MPM SP	BUY	0.058	0.086	48.3	8.3	7.4	7.0	2.6	14.2	218	1.2
Valuetronics	VALUE SP	BUY	0.64	0.78	21.9	9.6	8.9	8.4	7.1	11.9	262	1.1

Source: UOB Kay Hian

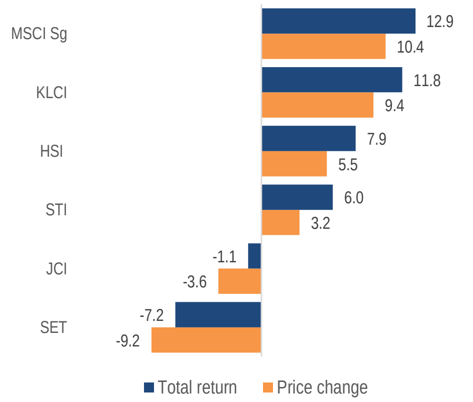
OUTLOOK FOR 2H24

- **The Singapore market proved to be resilient in 1H24,** with the STI up 4.9% ytd on a total returns basis with bank stocks being the key outperformers. We forecast a 5.6% yoy core earnings growth for 2024 within our UOB Kay Hian coverage universe and have raised our end-24 target for the STI to 3,380 (from 3,290 previously). For 2H24, we have identified 10 large-cap stocks and five small/mid-cap stocks that we believe will be able to outperform the market in aggregate. Given our belief that the US Fed will only cut interest rates in earnest in 2025, investors could look to buy into large-cap REITs only in 4Q24.
- **Limited breadth of performers in 1H24.** Although the STI garnered a 4.9% total return in 1H24, we note that ex-dividends the return was only 2.1%. Importantly, there was a low breadth of outperforming stocks with only 12 of our large-cap stocks registering a positive share price return in 1H24. The MSCI Singapore Index, helped by strength in Sea Ltd, rose 10.4% and 12.9% on a price change and total return basis respectively.
- **Outlook.** Looking forward, we believe that the STI may not outperform on a relative basis as nearly half of the weight of the STI comprises bank stocks, and with potentially neutral to negative sentiment on the sector taking hold as interest rate cuts heave into view in 2025, the index may find it hard to rally. Nevertheless, investors have a number of companies to choose from given the prevalence of quality blue-chip stocks in Singapore with strong balance sheets and material cash generation ability.
- **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 increase volatility in the market in a myriad of ways. While Singapore may add to the surfeit of elections occurring in 2024, leadership change does not tend to move the Singapore stock market, in our view.
- **Strategy for 2H24, and key focus sectors and stocks.** We believe that investors should remain invested in stocks that have revenue certainty over the next 6-12 months and given that most of our companies trade at reasonable valuations, investors should also 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 post-recession rebound. As a result, we believe that investors should focus on companies within the five broad "buckets" outlined below:
- **Revenue certainty:** Mapletree Industrial Trust (MINT), Oversea-Chinese Banking Corporation (OCBC), Sembcorp Industries (SCI), Yangzijiang Shipbuilding (YZJ).
- **Technology focus:** Frencken Group (Frencken), Valuetronics Holdings (Valuetronics), Venture Corporation (Venture).
- **Cashed-up companies:** Genting Singapore (GENS), Singapore Airlines (SIA), Venture, YZJ.
- **Laggard plays:** CapitaLand Investment, large-cap REITs, Seatrium, Thai Beverage.
- **Small/mid-caps with earnings power:** Centurion Corp (Centurion), Far East Hospitality Trust, Frencken, Riverstone Holdings (Riverstone).

EPS GROWTH IN 2024

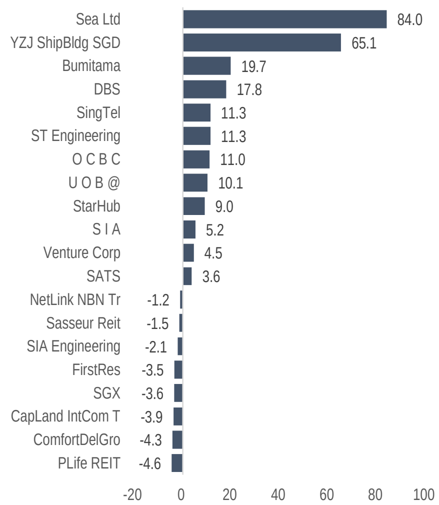
- **Forecasting aggregate 5.6% earnings growth in 2024.** We currently forecast 5.6% earnings growth for 2024 for our universe of stocks compared with a more benign forecast of 2.4% yoy growth in Dec 23. Where we have made earnings upgrades are in the aviation, financials and property sectors while healthcare, land transport, plantation, REITs, industrials and telcos have seen mild downgrades. For aviation, the strength in earnings has been better than expected while pushing out rate cuts to 2025 has led to earnings growth for banks in 2024 vs our prior expectations for an earnings decline. Property meanwhile was affected by impairments in 2023, thus leading to what appears to be outsized growth in 2024.
- We note that overall the earnings downgrades have been mild. Some of the more obvious sectors that have seen earnings downgrades include REITs which would incrementally feel the pain from higher interest costs.

STI'S PERFORMANCE IN 1H24 VS REGIONAL INDICES (%)



Source: Bloomberg

20 BEST PERFORMING STOCKS IN 1H24 (%)



Source: Bloomberg

SECTOR WEIGHTINGS

Weighting	Sectors	Preferred stocks
OVERWEIGHT	Consumer	Thai Beverage, Sheng Siong Group
	Financials	Oversea-Chinese Banking Corporation over DBS Group Holdings
	REITs	Far East Hospitality Trust; Mapletree Industrial Trust
	Shipyards/ Industrials	Keppel Ltd, Sembcorp Industries, Yangzijiang Shipbuilding
	Technology	Frencken Group
	Telecoms	Singapore Telecommunicaitons
MARKET WEIGHT	Aviation	ST Engineering, SATS
	Gaming	Genting Singapore
	Healthcare	Raffles Medical
	Land Transport	ComfortDelGro Corp
	Plantations	Bumitama Agri, First Resources, Wilmar International
	Property	CapitaLand Investments, PropNex, Centurion Corp

Source: UOB Kay Hian

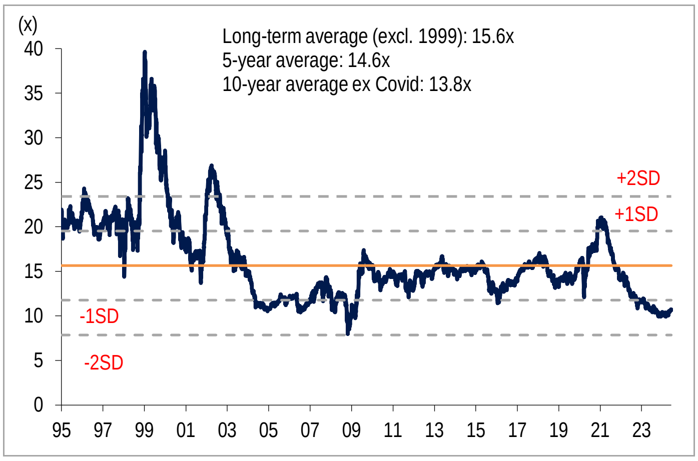
- We highlight that for the STI component stocks, Bloomberg consensus forecasts around 6.1% yoy EPS growth for 2024.

STI TARGET AND MARKET VALUATIONS

- **Our forecast STI target of 3,380 by end-24** uses a top-down methodology and is based on 5.6% yoy earnings growth, and target PE and P/B of 13.0x and 1.2x respectively. Both of these target multiples are a 10% discount to the long-term average for the index as near-term macroeconomic data and our slightly better earnings outlook have given us more confidence in the market's prospects in 2H24. We note that UOB has upgraded its GDP outlook for China from 4.8% to 5.1% for 2024 and the regional growth outlook appears stronger compared with six months ago.

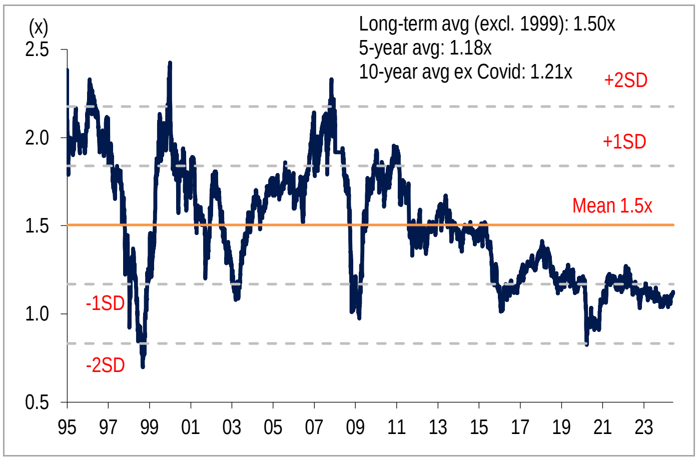
- **Higher STI target if we use a bottom-up methodology.** As a "sniff test", we point out that Bloomberg consensus and a bottom-up methodology would equate to much higher end-24 STI targets of 3,800-3,900. We note that the STI's all-time high was 3,831 in 2007.

STI PE TRADING BAND



Source: Bloomberg

STI P/B TRADING BAND



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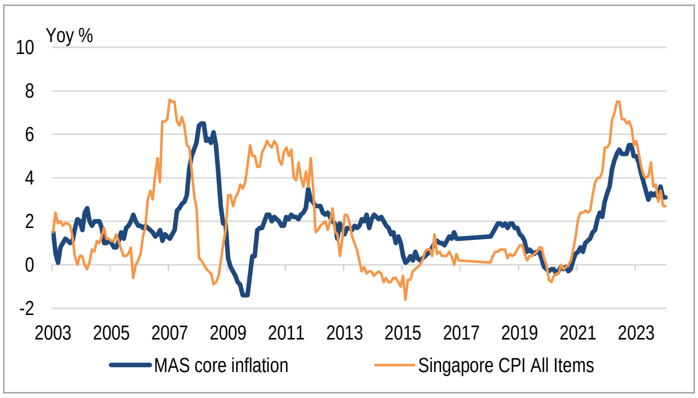
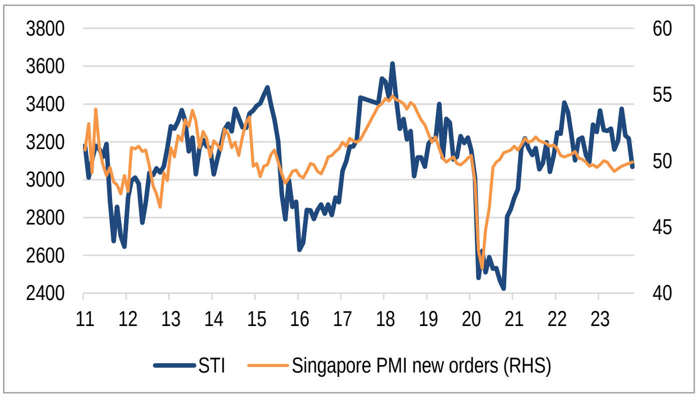
MAS CORE INFLATION VS CPI ALL ITEMS



Source: Bloomberg

STI VS SINGAPORE PMI NEW ORDERS



Source: Bloomberg

CORE EPS GROWTH BY SECTOR (YOY % CHANGE)

	2021	2022	2023	2024E	2025E
Aviation[1]	n.a.	n.a.	1.6	3.5	73.3
Finance	38.9	19.3	22.6	1.4	(1.9)
Healthcare	26.0	71.4	(37.3)	(15.1)	7.5
Land Transport	18.3	5.1	27.2	18.5	14.9
Plantation	25.6	34.5	(34.6)	14.5	13.1
Property	n.a.	10.0	(76.3)	128.9	4.0
REITs	23.3	2.1	(0.9)	(2.2)	5.0
Shipyard/Industrials	n.a.	(1.2)	37.4	(0.9)	6.0
Technology	4.6	18.2	(27.0)	3.6	3.6
Telecommunications[1]	94.0	(1.3)	14.0	10.2	11.5
Others[2]	8.3	20.2	8.8	10.2	8.0
AGGREGATE GROWTH	148.0	25.5	5.9	5.6	6.2

[1] 2023 reflects FY24

[2] "Others" includes DFI Retail Group, Genting Singapore, Thai Beverage and SingPost

Source: UOB Kay Hian

REAL GDP GROWTH RATE (ANNUAL)

	2020	2021	2022	2023	2024E	2025E
Asia						
China	2.0	8.8	3.0	5.2	5.1	4.7
India	-6.8	8.7	7.2	7.0	8.2	6.7
Indonesia	-2.0	3.7	5.4	5.1	5.2	5.3
Japan	-4.3	1.6	1.0	1.9	1.0	1.9
Malaysia	-5.6	3.1	8.7	3.6	4.6	4.7
Philippines	-9.3	5.5	7.6	5.5	6.0	6.5
Singapore	-4.1	7.6	3.6	1.1	2.9	3.2
South Korea	-0.7	4.1	2.6	1.4	2.8	2.4
Thailand	-6.3	1.6	2.6	1.9	2.8	3.1
Vietnam	2.8	2.6	8.0	5.0	3.0	6.4
Global						
Australia	-1.8	5.0	3.7	2.1	1.2	2.2
Eurozone	-6.3	5.5	3.5	0.4	08	1.4
United Kingdom	-11.0	8.2	4.3	0.1	0.7	1.3
United States (qoq SAAR)	-3.4	5.9	2.1	2.5	1.2	2.5

Source: Macrobond, UOB Global Economics & Markets Research

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