

STRATEGY – SINGAPORE

2H22 Market Strategy

As Singapore is a relatively defensive market, we believe the STI will perform well in 2H22 on the back of our 14% EPS growth forecast for this year. Our year-end 2022 target for the STI is 3,390 (3,500 previously), which implies a 10% upside from current levels. Importantly, the index's valuations are not stretched at present, trading at 2022F PE and P/B of 12.4x and 1.0x respectively, and paying a yield of 4.5%.

- **Staying constructive for 2H22.** While the post-COVID-19 economic recovery has been bumpy, newer concerns such as inflation and higher interest rates have come to dominate the market's attention. However, we believe inflation concerns should subside in the latter half of 2022 and the Straits Times Index (STI) should be able to perform due to the prevalence of quality, value and dividend stocks relative to its regional peers. Since there will no longer be a synchronous global cycle, country risk will return and our view is that Singapore presents a lower risk vs other countries in the region.
- **14% EPS growth for 2022.** We forecast an aggregate 14% EPS growth in 2022 for the Singapore market with most sectors, with the exception of aviation and healthcare, contributing to 2022 EPS growth. By our estimates, financials and telecommunications are the two largest contributors to this earnings growth, but it should be noted that the latter sector is coming off a low base in 2021.
- **We forecast the STI to reach 3,390 by end-22** using a top-down methodology, implying about 9% upside from current levels. We have lowered our target for the STI from 3,500 previously as we have moderated our EPS growth estimates for 2022. Our new 2022 STI target is based on 14% earnings growth for 2022, and target multiples of 13.5x and 1.3x respectively, both of which are at about a 10% discount to the past five-year average for the index. We believe this is fair given moderating earnings growth and potential risks to the economy and thus our forecasts.
- **2022 valuations for the STI appear inexpensive**, with the STI trading at a forecast 2022 PE and P/B of 12.4x and 1.0x respectively, and paying a yield of 4.5%. We highlight that these multiples are meaningful discounts to the STI's long-term averages.
- **Reasonably strong economic performance for Singapore in 2022.** UOB GEMR forecasts Singapore GDP growth of 3.5% yoy in 2022 after a solid rebound of 7.6% in 2021. Despite the relatively high base in 2021, we have seen that the export and manufacturing sectors have continued to do well this year, benefitting from the recovery of Singapore's key trading partners regionally and globally.
- **Our top large-cap picks** are CDL Hospitality Trust, ComfortDelGro Corporation, DBS Group Holdings, Genting Singapore, Keppel Corporation, Lendlease REIT, Sembcorp Industries, Sembcorp Marine, SIA Engineering, Venture Corporation and Yangzijiang Shipbuilding. Meanwhile, in the small/mid-cap sector, we highlight Civmec, Frencken Group and Singapore Medical Group.

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PEER COMPARISON

Company	Ticker	Rec	Price (\$)		Upside to TP (%)	PE (x)			2022F (%)		M.cap \$m	P/B (x)
			1 Jul	Target		2021	2022F	2023F	Yield	ROE		
CDL Hospitality Tr	CDREIT SP	BUY	1.26	1.42	12.7	65.0	35.4	21.9	4.0	2.7	1,556	0.9
ComfortDelGro	CD SP	BUY	1.40	1.73	23.6	23.3	13.3	11.1	5.0	8.3	3,034	1.1
DBS	DBS SP	BUY	29.49	38.78	31.5	11.3	11.6	10.0	4.9	11.6	75,894	1.4
Genting Singapore	GENS SP	BUY	0.725	1.08	49.0	47.7	24.3	12.6	3.4	4.5	8,752	1.1
Keppel Corp	KEP SP	BUY	6.52	10.11	55.1	11.6	13.9	12.9	2.9	7.1	11,546	1.0
Lendlease REIT	LREIT SP	BUY	0.785	0.95	21.0	45.3	35.8	26.3	4.2	2.8	2,492	1.4
Sembcorp Industries	SCI SP	BUY	2.86	3.59	25.5	18.3	11.8	10.3	2.6	11.3	5,107	1.4
Sembcorp Marine	SMM SP	BUY	0.107	0.156	45.8	n.a.	n.a.	78.4	0.0	(0.3)	3,359	0.8
SIA Engineering	SIE SP	BUY	2.42	2.90	19.8	40.2	29.5	19.0	2.5	5.6	2,717	1.7
Venture Corp	VMS SP	BUY	16.55	22.80	37.8	15.4	14.2	13.0	4.8	12.3	4,816	1.8
Yangzijiang Shipbldg	YZJSGD SP	BUY	0.945	1.16	22.8	4.7	5.4	4.4	4.7	12.8	3,733	0.5

Source: Bloomberg, UOB Kay Hian

STI 2022 YEAR-END TARGET: 3,390

SECTOR PICKS

Company	Rec	Price (\$)	
		1 Jul	Target
CDL Hosp Tr	BUY	1.26	1.42
ComfortDelGro	BUY	1.40	1.73
DBS	BUY	29.49	38.78
Genting Singapore	BUY	0.725	1.08
Keppel	BUY	6.52	10.11
Lendlease REIT	BUY	0.785	0.95
Sembcorp Industries	BUY	2.86	3.59
Sembcorp Marine	BUY	0.107	0.156
SIA Engineering	BUY	2.42	2.70
Venture	BUY	16.55	22.80
Yangzijiang	BUY	0.945	1.16

Small caps

Civmec	BUY	0.60	1.08
Frencken	BUY	1.11	1.63
Singapore Medical	BUY	0.305	0.53

Source: Bloomberg, UOB Kay Hian

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

Singapore Research Team
+65 6535 6868
Research@uobkayhian.com

- **Moderating our EPS growth estimates for 2022.** Compared with six months ago, we have moderated our 2022 growth forecast from 29% yoy to 14% yoy for our coverage universe of the Singapore market. This takes into account more realistic assumptions regarding the inflationary effects that will likely impact the market and the economy this year and thus we believe that our earnings estimates are not overly optimistic. All sectors, with the exception of aviation and healthcare, will contribute to the 14% yoy EPS growth in 2022, with financials and telecommunications being the two largest contributors (Figure 5). However, it should be noted that the latter sector is coming off a low base in 2021.
- **Potential downside risk in 2022 earnings** could arise if: a) Singapore and the broader Asian region experience a more deadly variant of COVID-19, b) higher-than-expected commodity prices, especially oil, throttle the nascent economic recovery, and c) the US Fed raises interest rates too aggressively to contain inflation and causes a recession as a result.

CORE EPS GROWTH BY SECTOR (% CHANGE YOY)

	2019	2020	2021E	2022E	2023E
Aviation	(60.4)	n.a.	n.a.	n.a.	(2.7)
Finance	10.9	(29.7)	39.0	3.1	11.4
Healthcare	(19.5)	11.8	26.0	(14.1)	(7.2)
Land Transport	(2.0)	(62.4)	18.2	68.2	19.7
Plantation	(7.2)	21.5	28.7	2.5	(0.4)
Property	(7.6)	n.a.	n.a.	6.6	12.1
REITs	4.5	(19.5)	29.7	4.2	3.9
Shipyards	10.1	(79.7)	593.0	3.4	16.0
Technology	(2.9)	(18.4)	5.0	8.8	8.6
Telecoms	(12.6)	(58.1)	95.5	25.7	7.4
AGGREGATE GROWTH	3.3	(59.4)	128.1	14.1	9.4

Source: UOB Kay Hian

- **Trading above long-term PE valuations.** In our view, the STI's valuations are not stretched at present, trading at 2022F PE and P/B of 12.4x and 1.0x respectively and paying a yield of about 4.5%. We highlight that these multiples are meaningful discounts to the STI's long-term averages.

STI VERSUS REGIONAL INDICES (AS AT 30 JUN 22)

	PE (x)		P/B (x)		Yield (%)		ROE (%)	
	2022E	2023E	2022E	2023E	2022E	2023E	2022E	2023E
STI	12.4	10.8	1.0	1.0	4.5	5.0	8.8	9.7
SET	16.1	14.6	1.6	1.5	2.9	3.2	8.3	8.9
HSI	11.3	9.8	1.2	1.1	3.2	3.5	11.2	11.2
JCI	15.5	14.5	2.0	1.9	2.3	2.9	9.5	9.5
KLCI	14.0	12.5	1.4	1.4	4.2	5.1	10.3	11.0

Source: Bloomberg

- **Interest rate increases – What does this mean for our stocks?** In general, we believe that the debt levels for the stocks under our coverage are manageable with only five companies exhibiting net debt/equity ratios above 100% for 2022 and 2023. For ST Engineering, we point out that while its high debt levels are high as a result of its recent acquisition of Transcore in the US, its interest cover remains high at over 10x for 2023 and thus is manageable in our view. For SCL, we highlight that 34% of its debt is project finance while another 21% consists of bonds and thus is safe in our view. Importantly, its sustainability-linked bonds have attracted significant demand in the past six months and thus we do not view refinancing as an issue.
- **For some S-REITs, we believe that the gradual easing of inflationary pressure provides some respite.** Real estate is a hedge against inflationary pressure, which could push rents higher. By our estimates, the downside for the S-REITs sector is limited to 13.6% if distribution yield spikes to 2SD above long-term mean.

STI PE TRADING BAND



Source: Bloomberg

STI P/B TRADING BAND



Source: Bloomberg

SECTOR WEIGHTINGS AND STOCK PREFERENCES

Weighting	Sectors and preferred stocks
OVERWEIGHT	Financials: DBS over OCBC Land transport: ComfortDelGro Property: CapitaLand Investments, PropNex REITs: Selected plays CDL Hospitality Trust and Lendlease Global REIT Shipyards/Industrials: Keppel, Sembcorp Industries, Sembcorp Marine and Yangzijiang Shipbuilding Technology: Venture
MARKET WEIGHT	Aviation: SIA Engineering Gaming: Genting Singapore Healthcare: Raffles Medical Plantations: Wilmar International Telecommunications: NetLink NBN Trust

Source: UOB Kay Hian

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