

## STRATEGY – SINGAPORE

### An Unexpected Singles' Day Present

China unexpectedly delivered a Singles' Day present in announcing an adjustment to its COVID-19 pandemic control measures. While the measures may be small at present, it is important that the Chinese government is signalling that it is taking preliminary steps to re-open the economy. This could have medium- to long-term positive ramifications on Singapore-listed stocks. Stocks with meaningful exposure to China include CLAS, CLI, DFI, KEP, RFMD, SASSR, SCI, SIA, WIL and YZJSGD.

#### WHAT'S NEW

- **Light at the end of the tunnel in 2023?** China updated its "scientific and accurate pandemic control policies" on 11 Nov 22, making adjustments to 20 measures related to COVID-19. While the Chinese authorities have explicitly emphasised that these adjustments do not mean opening up, or any material change to the "Dynamic Zero COVID-19" overarching goal, we view these developments as a positive signal that the Chinese government is working towards an eventual re-opening.
- **Further progress needs to be made in three key areas.** In our view, three pre-conditions need to be satisfied for China to fully re-open its economy. These include: a) increase in domestic vaccine coverage, b) increased coverage of the broad community with medical resources, and c) shift in the Chinese government's tone towards COVID-19 to reduce citizens' fears towards the virus.
- **Within our coverage universe, a number of stocks have material exposure to China,** either from ownership of assets and/or derive a meaningful proportion of their profits from China. These stocks include CapitaLand Investment, DFI Retail Group, Keppel Corp, Raffles Medical, Sasseur REIT, Sembcorp Industries, SIA, Wilmar and Yangzijiang Shipbuilding. Within the small/mid-cap sector, tech stocks such as Aztech, Frencken and Nanofilm either have clients or manufacturing facilities in China, while companies such as China Sunline and Jiutian Chemical derive the majority of their profits from China.
- **6% EPS growth for 2023.** We forecast an aggregate 6% EPS growth in 2023 for the Singapore market with financials and land transports leading the way (see table overleaf). While we continue to expect the aviation sector to see yoy earnings decline in 2023, earlier-than-expected expansion of air travel into China could see a re-rating of the sector although actual earnings uplift may take time to eventuate.
- **2023 valuations for the STI remain inexpensive,** with the STI trading at a forecast 2023 PE and P/B of 12.0x and 1.1x respectively, and paying a yield of 4.5%. We highlight that these multiples are meaningful discounts to the STI's long-term averages.
- **Our top large-cap picks** are CapitaLand Ascott Trust, DBS, Genting Singapore, Keppel Corp, Lendlease REIT, Sembcorp Industries, Singapore Telecommunications, SIA Engineering, Thai Beverage, Venture Corp, Wilmar and Yangzijiang Shipbuilding.

#### PEER COMPARISON

Company	Ticker	Rec	Price (S\$)		Upside to TP (%)	PE (x)			2023F (%)		M.cap S\$m	P/B (x)
			11 Nov	Target		2022F	2023F	2024F	Yield	ROE		
CapLand Ascott T	CLAS SP	BUY	0.97	1.27	30.9	34.2	22.1	20.4	6.4	3.5	3,342	0.8
CapitaLandInvest	CLI SP	BUY	3.56	4.13	16.0	10.8	10.1	9.1	2.5	7.7	18,206	1.2
DFIRG USD	DFI SP	HOLD	2.49	2.96	18.9	39.1	19.4	13.0	6.6	13.2	4,644	3.3
Keppel Corp	KEP SP	BUY	7.24	10.11	39.6	15.5	14.4	13.1	2.8	7.2	12,684	1.1
Raffles Medical	RFMD SP	BUY	1.38	1.58	14.5	19.3	21.1	22.7	1.8	11.3	2,558	2.7
Sasseur Reit	SASSR SP	BUY	0.76	1.12	47.4	9.2	8.5	8.2	10.1	0.0	933	0.8
Sembcorp Ind	SCI SP	BUY	3.04	4.1	34.9	7.6	10.2	9.9	3.0	12.1	5,407	1.3
SIA	SIA SP	HOLD	5.37	5.18	(3.5)	6.9	11.6	16.5	3.7	10.0	15,952	1.2
Wilmar	WIL SP	BUY	4.01	5.50	37.2	8.3	10.1	8.6	5.2	8.6	25,028	0.9
Yangzijiang Shipbldg	YZJSGD SP	BUY	1.38	1.44	4.3	10.0	8.4	7.6	3.0	17.8	5,452	1.6

Source: Bloomberg, UOB Kay Hian

STI 2022 YEAR-END TARGET: 3,390

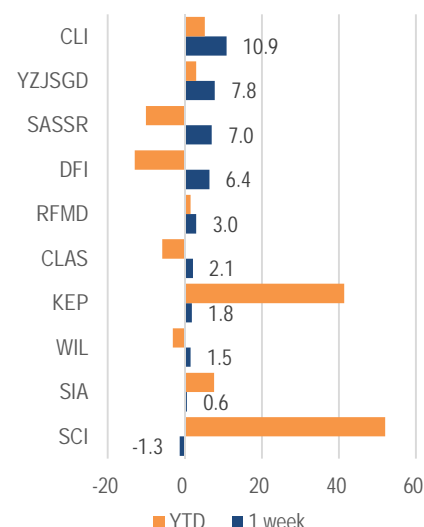
#### SECTOR PICKS

Company	Rec	Price (S\$)	
		11 Nov	Target
CapLand Ascott Trust	BUY	0.97	1.27
CapitaLand Invest	BUY	3.56	4.13
DFIRG USD	HOLD	2.49*	2.96*
Keppel Corp	BUY	7.24	10.11
Raffles Medical	BUY	1.38	1.58
Sasseur Reit	BUY	0.76	1.12
Sembcorp Ind	BUY	3.04	4.1
SIA	HOLD	5.37	5.18
Wilmar	BUY	4.01	5.50
Yangzijiang Shipbldg	BUY	1.38	1.44

Note: \* USD

Source: Bloomberg, UOB Kay Hian

#### SHARE PRICE PERFORMANCE OF CHINA-RELATED STOCKS



Source: Bloomberg

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- **EPS growth moderated for 2022 and 2023.** Compared to six months ago, we have moderated our 2022 growth forecast from 22% yoy to 18% yoy for our coverage universe of the Singapore market, and for 2023 we have lowered it from 9% yoy to 6% yoy. 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.
- **Potential downside risk in 2023 earnings could arise if:** a) higher-than-expected commodity prices, especially oil, throttle the nascent economic recovery, and b) the US Fed raises interest rates too aggressively to contain inflation and cause a recession as a result – we note that probability forecasts for recession risks have risen significantly in the US and EU which will negatively affect Singapore (see chart below).

### CORE EPS GROWTH BY SECTOR (% CHANGE YOY)

	2020	2021	2022E	2023E	2024E
Aviation	n.a.	n.a.	n.a.	(10.5)	(9.3)
Finance	(29.6)	38.9	15.1	16.2	7.9
Healthcare	11.8	26.0	29.0	(19.8)	(13.5)
Land Transport	(62.4)	18.2	75.3	11.2	9.5
Plantation	21.5	28.7	5.9	(3.5)	8.4
Property	n.a.	n.a.	76.1	(30.0)	4.8
REITs	(20.3)	26.9	5.8	(2.8)	1.1
Shipyards/Industrials	n.a.	n.a.	37.1	2.3	10.2
Technology	(18.4)	4.6	12.3	6.3	9.1
Telecommunications	(58.1)	94.0	27.3	7.4	6.3
Others*	(36.8)	9.9	21.1	29.0	7.3
<b>AGGREGATE GROWTH</b>	<b>(66.9)</b>	<b>137.8</b>	<b>18.4</b>	<b>6.2</b>	<b>6.1</b>

Source: UOB Kay Hian

### STI PE TRADING BAND



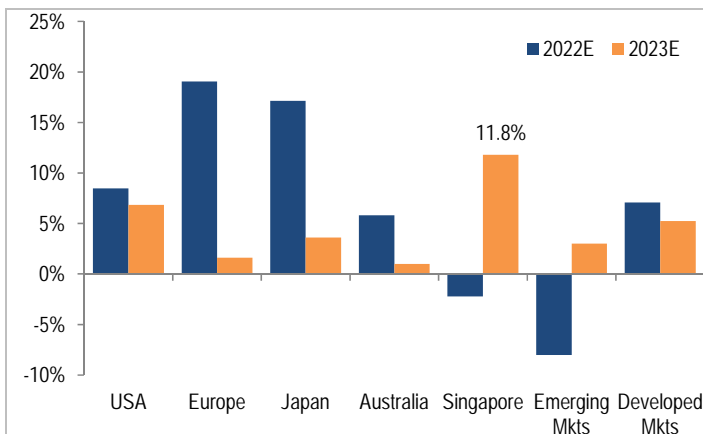
Source: Bloomberg

### STI P/B TRADING BAND



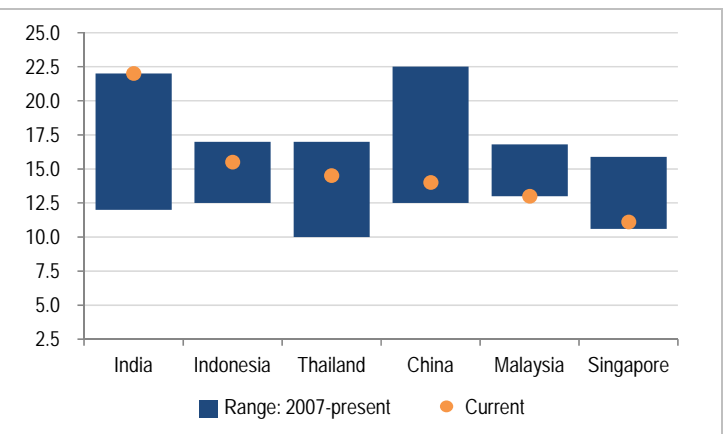
Source: Bloomberg

### BLOOMBERG CONSENSUS EPS GROWTH ESTIMATES



Source: Bloomberg

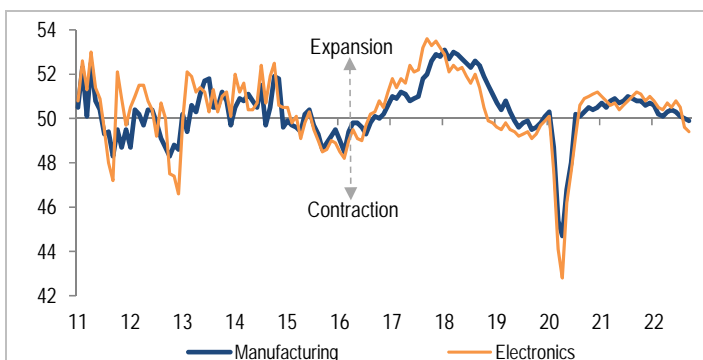
### 12-MONTH FORWARD PE RATIO



Note: 10th to 90th percentile range from 2007 to present

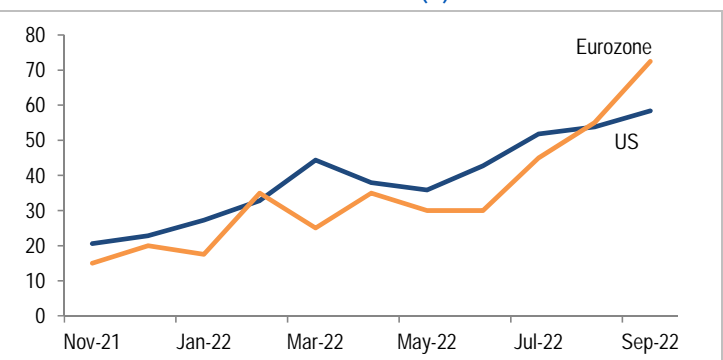
Source: Bloomberg

### SINGAPORE MANUFACTURING AND ELECTRONICS PMI



Source: Bloomberg

### PROBABILITY OF RECESSION IN EU AND US (%)



Note: Eurozone probability forecast vs US recession probability based on yield curve spread (2Y vs 10Y) within 12 months

Source: Bloomberg

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