

STRATEGY – SINGAPORE

1H23 Market Strategy

A Safe Harbour In A Stormy Sea

While the China reopening story may see a short-term bullish reaction in the market, we believe that recessionary risks persist nonetheless. For 2023, we forecast 6% EPS growth for the large-cap stocks under our coverage, and from a top-down basis, our 2023 year-end target of 3,520 for the STI implies 8% upside from current levels. Importantly, the index's valuations are not stretched at present, trading at 2023F PE and P/B of 10.7x and 1.0x respectively, and paying a yield of 4.5%.

WHAT'S NEW?

- **Staying constructive for 1H23.** While the post-COVID-19 global economic recovery has been bumpy, with concerns such as inflation and higher interest rates dominating the market's attention, the Straits Times Index (STI) nevertheless managed a total return of 6.6% in 2022. In our view, this outperformance should continue due to the defensive nature of the STI given 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.
- **6% EPS growth for 2023.** We forecast an aggregate 6% EPS growth in 2023 for the Singapore market with the aviation, financial, and telecommunications sectors leading the way, followed by the consumer and gaming sectors. Somewhat offsetting this are the healthcare, land transport, plantation, property and REITs sectors which are expected to show earnings declines in 2023.
- **We forecast the STI to reach 3,520 by end-23** using a top-down methodology, implying about 8% upside from current levels. Our 2023 STI target is based on 6% earnings growth for 2023, and target PE and P/B of 12.9x and 1.3x respectively, both of which are at about a 15% discount to the index's long-term average. We believe this is fair given moderating earnings growth and potential recessionary risks to the economy and thus our forecasts.
- **2023 valuations for the STI appear inexpensive**, with the STI trading at a forecast 2023 PE and P/B of 10.8x and 1.0x respectively, and paying a yield of 4.9%. We highlight that these multiples are meaningful discounts to the STI's long-term averages.
- **A tough year for Singapore in 2023.** UOB GEMR forecasts Singapore GDP growth of 0.7% yoy in 2023 after the reasonably solid 3.5% growth in 2022. Near-term non-oil domestic export data and PMIs have been weak with the export and manufacturing sectors negatively impacted by slowing demand from China and the US.
- **Our top large-cap picks** are CapitaLand Ascott Trust, CapitaLand Investment, DBS Group, Genting Singapore, Keppel Corp, Mapletree Logistics Trust, Sembcorp Industries, Singapore Telecommunications, SIA Engineering, Thai Beverage, Venture Corp and Wilmar International.

Click [here](#) for Blue Top dated 03 Jan 23

PEER COMPARISON

Company	Ticker	Rec	Price (\$S)		Upside to TP (%)	PE (x)		2023F (%)		M.cap S\$m	P/B (x)
			30 Dec	Target		2022F	2023F	Yield	ROE		
CapitaLandInvest	CLI SP	BUY	3.70	4.13	11.6	11.2	10.5	2.4	7.7	18,922.4	1.2
CapLand Ascott T	CLAS SP	BUY	1.05	1.27	21.0	37.0	23.9	5.9	3.5	3,617.9	0.9
DBS	DBS SP	BUY	33.92	45.0	32.7	11.1	9.5	5.2	15.3	87,298.6	1.6
Genting SP	GENS SP	BUY	0.955	1.08	13.1	32.1	16.6	3.7	8.6	11,528.8	1.5
Keppel Corp	KEP SP	BUY	7.26	10.11	39.3	15.5	14.4	2.8	7.2	12,719.2	1.1
MapletreeLog	MLT SP	BUY	1.59	1.87	17.6	18.7	20.6	5.5	4.9	7,647.1	1.1
OCBC	OCBC SP	BUY	12.18	18.28	50.1	9.2	8.2	4.9	11.8	54,747.2	1.1
Sembcorp Ind	SCI SP	BUY	3.38	4.10	21.3	8.4	11.4	2.7	12.1	6,005.2	1.4
SIA Engineering	SIE SP	BUY	2.34	2.60	11.1	31.4	20.2	3.8	7.6	2,626.8	1.6
Singtel	ST SP	BUY	2.57	3.15	22.6	17.5	16.2	4.9	9.1	42,415.6	1.6
Venture Corp	VMS SP	BUY	17.06	20.06	17.6	13.6	13.0	4.7	13.0	4,964.5	1.8
Wilmar	WIL SP	BUY	4.17	5.50	31.9	8.9	10.8	4.9	8.6	26,031.1	0.9

Source: Bloomberg, UOB Kay Hian

STI 2023 YEAR-END TARGET: 3,520

SECTOR PICKS

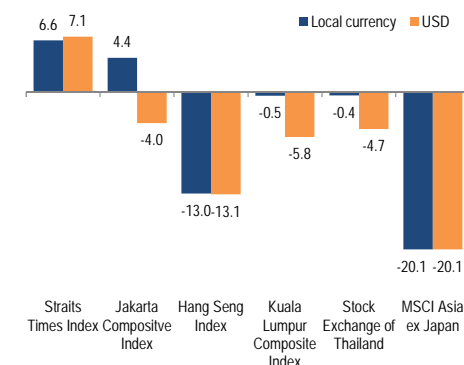
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Keppel Corp	BUY	7.26	10.11
MapletreeLog	BUY	1.59	1.87
OCBC	BUY	12.18	18.28
Sembcorp Ind	BUY	3.38	4.1
SIA Engineering	BUY	2.34	2.60
Singtel	BUY	2.57	3.15
Venture Corp	BUY	17.06	20.06
Wilmar	BUY	4.17	5.50

Small caps

Civmec	BUY	0.575	1.18
Food Empire	BUY	0.635	0.78
UMS	BUY	1.18	1.38

Source: Bloomberg, UOB Kay Hian

STI PERFORMANCE VS REGIONAL PEERS



Source: Bloomberg

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- **A more uncertain 2023 after a firm 2022.** While improved fundamentals have allowed ASEAN markets to withstand the financial market volatility in 2022, the year ahead is expected to remain uncertain and challenging amid looming risks with economic recessions in the US and Europe, tightening financial conditions, further straining of US-China relations and the Russia-Ukraine conflict, among others. In particular, for an open economy like Singapore's, the possibility of spillovers from these risk factors cannot be ignored.
- **STI performed strongly in 2022.** Our call to remain invested in the Singapore market at the beginning of 2022, which we reiterated at the start of 2H22, proved to be correct, with the STI's total return of 6.6% ytd outperforming all of its peers (see chart on RHS). Given the defensive characteristics of the Singapore market, we believe that investors should remain invested. We highlight that we are forecasting 6% yoy EPS growth for 2023 within our UOB Kay Hian coverage universe. As a result, our top-down forecast for the STI for end-22 is 3,520, implying an upside of around 8% from current levels.
- **Singapore has recovered well.** The above risks are somewhat offset by the ongoing recovery in domestic activities, the relaxation of COVID-19 pandemic restrictions and reopening of cross border movements, which will benefit domestic-oriented sectors such as retail, food & beverage, transport and accommodation, among others. We have already seen the positive effect of this on the aviation sector and with China now reopening its borders, Singapore's tourism sector should be well-placed to benefit from this.
- **We believe that the Singapore market will outperform** 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, especially given the defensive nature of a number of its listed companies. The clear risk for the market is a global recession which, given Singapore's open economy, would negatively affect it.
- **Forecasting 6% earnings growth in 2023.** The four key sectors that will contribute to the positive earnings growth in 2023 are the aviation, financials, telecommunications and "others" sectors (see table below), with aviation coming off a low base in 2022. We expect the healthcare, land transport, property and plantation sectors to be four key sectors that will degrade the positive earnings growth, with the latter sector to be negatively impacted by weaker CPO prices. Note that the property sector's EPS decline is due to City Development's extraordinary gain from the sale of its Millenium Hilton in Seoul that will be recognised in 2022.

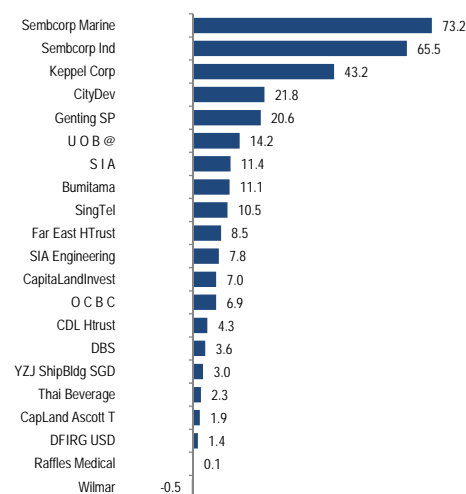
CORE EPS GROWTH BY SECTOR (% CHANGE YOY)

	2020	2021	2022E	2023E	2024E
Aviation	n.a.	n.a.	n.a.	18.7	(44.0)
Finance	(29.6)	38.9	19.1	15.6	7.5
Healthcare	11.8	26.0	58.3	(8.4)	(7.2)
Land Transport	(62.4)	18.2	50.0	(4.6)	9.1
Plantation	21.5	28.7	26.3	(20.4)	13.4
Property	n.a.	n.a.	78.3	(31.6)	4.6
REITs	(20.3)	26.9	4.7	(2.7)	1.1
Shipyards	n.a.	n.a.	34.8	2.0	10.2
Technology	(18.4)	4.6	16.6	4.4	9.1
Telecommunications	(58.1)	94.0	18.2	8.6	8.4
Others*	(36.8)	9.9	21.2	16.7	8.1
AGGREGATE GROWTH	(66.9)	137.8	22.6	5.6	3.2

Note: Others comprise of Singpost, DFI Retail Group, Thai Beverage and Genting Singapore
Source: UOB Kay Hian

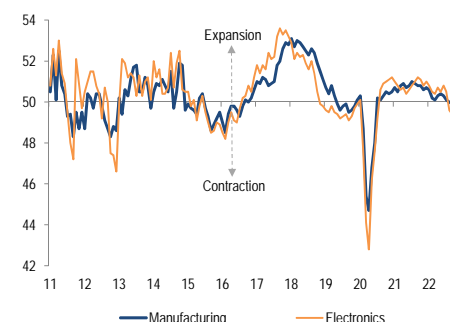
- **Playing the laggards.** For those playing the laggard theme, stocks that could see a rebound in 1H23 include SATS, Starhub and ST Engineering; we have left out any REITs from this shortlist as it appears that the US Fed will likely continue raising rates in the near term. We note that in 2H22, three of the five laggards that we highlighted – DBS, SMM, and Genting Singapore – outperformed the STI by an average of 18.3ppt.

BEST PERFORMING STOCKS IN 2022



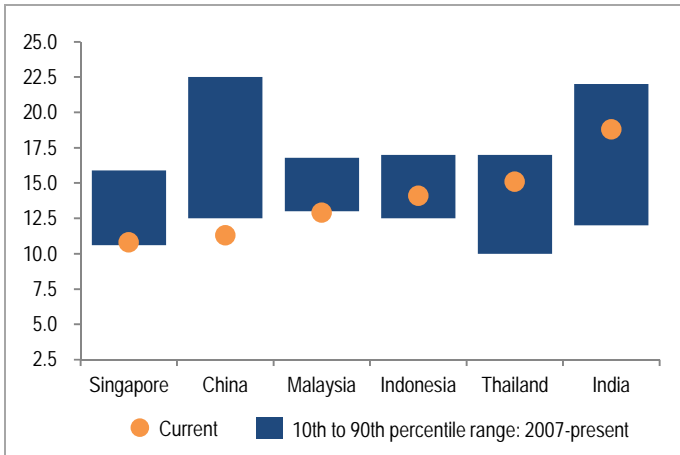
Source: Bloomberg

SINGAPORE PMI



Source: Bloomberg

REGIONAL MARKETS' 12-MONTH FORWARD PE



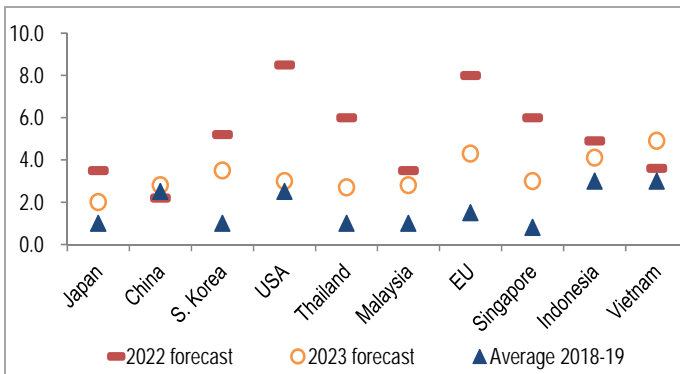
Note: Historical range represents 10th to 90th percentile from 2007 to present
Source: Bloomberg

STRAITS TIMES INDEX: LONG TERM PE CHART



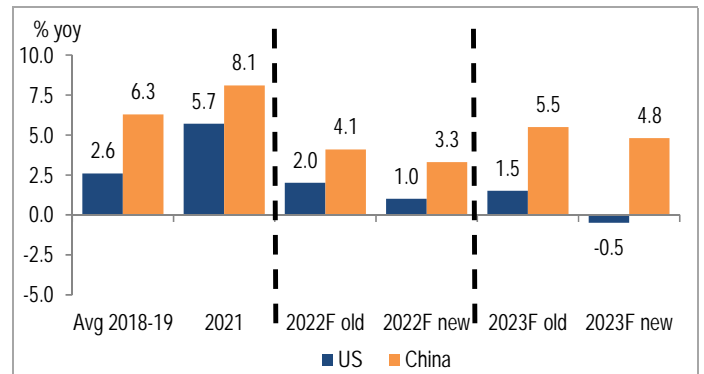
Source: Bloomberg

CONSUMER PRICE INDEX - % CHANGE YOY



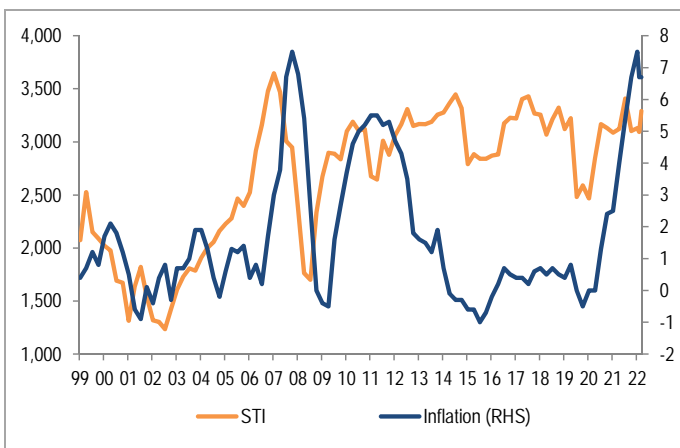
Source: Bloomberg

DOWNWARD REVISION TO CONSENSUS GDP GROWTH FORECASTS



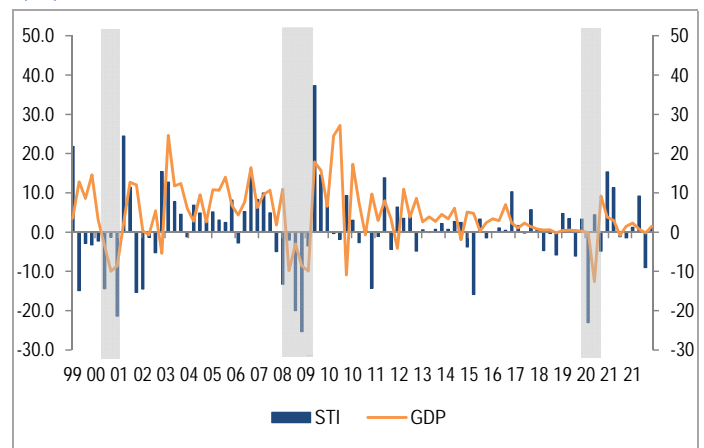
Source: Bloomberg

STI VS CONSUMER PRICE INDEX



Source: Bloomberg

QOQ % CHANGE - STI VS SINGAPORE GDP



Note: Shaded areas represent recessions
Source: Bloomberg

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