

MARKET NEWS

US stocks were lower after the close on Tuesday, as losses in the utilities, energy and consumer staples sectors led shares lower. At the close of the NYSE, the DJIA fell 0.71% while the S&P 500 index was down by 0.30%, and the NASDAQ Composite index slid 0.10%. Falling stocks outnumbered advancing ones on the NYSE by 1,568 to 1,454 and 142 ended unchanged; on the Nasdaq Stock Exchange, 2,261 advanced and 2,196 declined, while 265 ended unchanged. (Source: WSJ, CNBC)

During the last trading session, the FSSTI index fell 0.61pt to 3,262.63. Among the top active stocks were Singtel (-0.4%), Genting Singapore (+1.0%), Yangzijiang Shipbuilding (-1.5%), UMS (-2.7%) and Rex International (-6.4%). The FTSE ST Mid Cap index rose 0.2% while the FTSE ST Small Cap Index was down 0.2%. The broader market saw 273 gainers and 279 losers with total trading value of S\$1.40b.

WHAT'S IN THE PACK

Singapore Results Updates:

Delfi - 2022: Results above expectations; expect a strong year ahead.

(DELFI SP/BUY/S\$0.995/Target: S\$1.71)

Delfi's 2022 net profit of S\$43.9m (+49.9% yoy) was above expectations, forming 125% of our full-year estimates. 2022 revenue increased 19.2% yoy as strong sales were recorded for both its business lines...

Food Empire - 2022: Record-high earnings and dividend; expect a strong performance ahead.

(FEH SP/BUY/S\$0.785/Target: S\$1.28)

FEH reported core earnings of US\$45m (+134% yoy), pulling off a record high and forming 125% of our estimates. Higher revenue across all but its South-East Asia segment and improved profitability...

Frencken Group - 2022: Earnings above expectation but outlook turning cautious; downgrade to HOLD.

(FRKN SP/HOLD/S\$1.03/Target: S\$1.08)

Frencken's 2022 earnings of S\$52m (-12% yoy) beat our estimate by 11%. 2023 revenue grew 2.5% yoy, with semiconductor (+5% yoy), medical (+7% yoy) and industrial automation segments (+5%) recording growths...

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Sembcorp Marine - 2022: Losses as expected, but the focus will be on new order wins and the integration of KOM in 2023.

(SMM SP/BUY/S\$0.127/Target: S\$0.156)

SMM reported losses that were slightly higher than our and consensus' estimates. However, free cash flow of over S\$1b for 2022 and a much stronger balance sheet put the company in a strong position for 2023...

Singapore Technical Analysis:

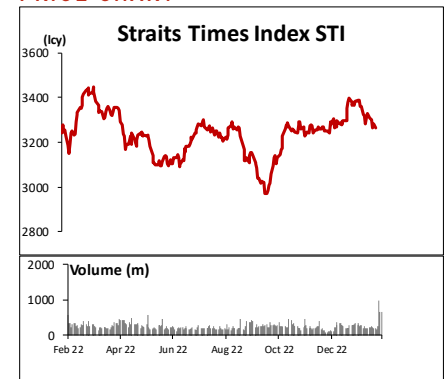
Singapore Tech Engineering (STE SP) - Trading BUY

The chart outlook remains bullish as price is trading above the cloud. The price decline appears to halt at the gap support zone created on 25 Jan 23...

Jardine Cycle & Carriage (JCNC SP) - Trading BUY

Price has been moving higher after being supported by the cloud support. There is a bullish conversion and base lines crossover that hints at potential upside ahead...

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	32656.7	(4.2)	(1.5)
S&P 500	3970.2	(2.6)	3.4
FTSE 100	7876.3	1.3	5.7
AS30	7458.0	(3.3)	3.3
CSI 300	4069.5	(3.0)	5.1
FSSTI	3262.6	(3.4)	0.3
HSCEI	6581.5	(12.9)	(1.8)
HSI	19785.9	(10.4)	0.0
JCI	6843.2	(0.3)	(0.1)
KLCI	1454.2	(2.1)	(2.8)
KOSPI	2412.9	(1.5)	7.9
Nikkei 225	27445.6	0.4	5.2
SET	1622.4	(3.8)	(2.8)
TWSE	15503.8	3.8	9.7

BDI	990	45.4	(34.7)
CPO (RM/mt)	4150	8.2	2.5
Brent Crude (US\$/bbl)	84	(0.7)	(2.4)

Source: Bloomberg

TOP VOLUME

Company	Price (\$)	Chg (%)	Volume ('000s)
Singapore Telecommunications	2.37	(0.4)	33,382
ESR-LOGOS REIT	0.34	3.1	29,764
Genting Singapore	1.02	1.0	25,381
CapitaLand Integrated Comm	1.94	0.5	21,475
Yangzijiang Shipbuilding	1.29	(1.5)	20,354

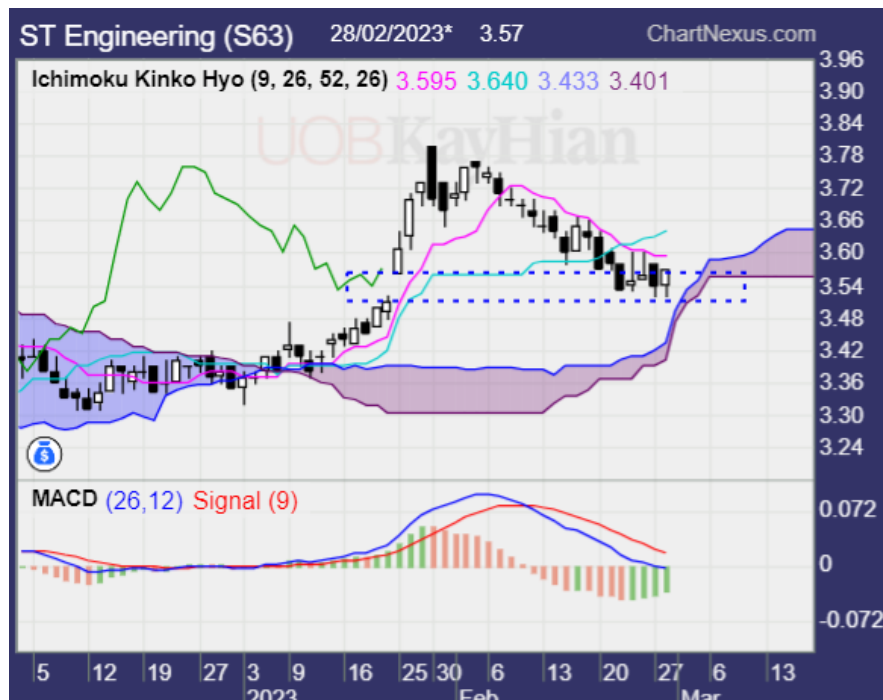
TOP GAINERS

Company	Price (\$)	Chg (%)	Volume ('000s)
Bumitama Agri	0.65	4.0	2,705
ParkwayLife REIT	4.30	3.4	1,087
ESR-LOGOS REIT	0.34	3.1	29,764
Cromwell REIT EUR	1.69	2.4	495
Frasers Logistics & Commercial	1.27	2.4	9,088

TOP LOSERS

Company	Price (\$)	Chg (%)	Volume ('000s)
AEM Holdings	2.18	(12.1)	1
Raffles Medical Group	1.39	(7.3)	8,727
AEM Holdings	2.88	(5.6)	6,942
Nio Inc	9.22	(3.5)	274
iFast Corp	4.98	(3.3)	431

TRADERS' CORNER



Singapore Tech Engineering (STE SP)

Trading Buy Range: S\$3.57-3.58

Last price: S\$3.57

Target price: S\$3.80

Protective stop: S\$3.48

The chart outlook remains bullish as price is trading above the cloud. The price decline appears to halt at the gap support zone created on 25 Jan 23. MACD remains bullish at the moment. These could increase chances of the stock price moving higher.

The potential upside target is S\$3.80. Stop-loss could be placed at S\$3.48.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S\$4.07.



Jardine Cycle & Carriage (JCNC SP)

Trading Buy Range: S\$29.70-29.75

Last price: S\$29.71

Target price: S\$32.10

Protective stop: S\$28.70

Price has been moving higher after being supported by the cloud support. There is a bullish conversion and base lines crossover that hints at potential upside ahead. MACD is bullish and is rising. These could increase chances of the stock price breaking above the cloud to move higher.

The potential upside target is S\$32.10. Stop-loss could be placed at S\$28.70.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

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FROM THE REGIONAL MORNING NOTES...

Delfi (DELFI SP)

2022: Results Above Expectations; Expect A Strong Year Ahead

Delfi's 2022 net profit of S\$43.9m (+49.9% yoy) was above expectations, forming 125% of our full-year estimates. 2022 revenue increased 19.2% yoy as strong sales were recorded for both its business lines during the year. At the same time, gross margin improved 1.2ppt to 30.7%, driven by good performance in the premium product category, higher sales volume and timely cost management. We expect steady earnings growth moving forward. Maintain BUY with a 20% higher target price of S\$1.71.

2022 RESULTS

Year to 31 Dec (US\$m)	2022	2021	yoy % chg
Disaggregation of revenue:			
Own Brands:			
- <i>Indonesia</i>	226.4	190.5	18.9
- <i>Regional Markets</i>	56.0	46.9	19.3
Agency Brands:			
- <i>Indonesia</i>	91.0	79.7	14.2
- <i>Regional Markets</i>	109.6	88.0	24.5
Total revenue	483.0	405.1	19.2
Gross profit	148.3	119.7	23.9
Gross margin (%)	30.7	29.5	1.2ppt
Net profit	43.9	29.3	49.9
Net margin (%)	9.1	7.2	1.9ppt

Source: Delfi, UOB Kay Hian

RESULTS

- Results above expectations.** Delfi reported 2022 earnings of US\$43.9m (+49.9% yoy), accounting for 125% of our full-year forecast. Excluding 2021 non-recurring items of US\$4.2m - mainly consisting of a reduction in liabilities for employee retirement defined benefit obligations - core profit grew 68.7% yoy from US\$26m. This was mainly driven by strong performance in Delfi's main operating market, Indonesia, which recorded 17.5% yoy growth in revenue from US\$270.2m to US\$317.4m. Gross profit margin also expanded by 1.2ppt to 30.7%, due to greater contributions from the premium product segment, higher sales volume, and management's timely cost control measures over both ingredients and packaging costs and operating costs.
- Strong double-digit growth across both business lines.** In 2022, we noted solid performance in Delfi's two business lines, Own Brands and Agency Brands, across all markets as per the table above. Overall, Own Brands and Agency Brands recorded respective increases in sales of 19.0% and 19.6% yoy. In particular, Indonesia's growth in revenue is attributable to Delfi's premium brands SilverQueen and Cha Cha, which both saw double-digit growths. New products, largely healthier snacks targeting Millennials and Gen-Zs, were also launched during the year, supporting the segment's revenue growth.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	405.1	483.0	518.0	555.7	597.0
EBITDA	58.9	75.6	83.1	87.9	93.1
Operating profit	45.3	63.8	72.9	78.0	83.4
Net profit (rep./act.)	29.3	43.9	47.0	50.3	53.9
Net profit (adj.)	29.3	43.9	47.0	50.3	53.9
EPS (S\$ cents)	4.8	7.2	7.7	8.2	8.8
PE (x)	15.4	10.3	9.6	9.0	8.4
P/B (x)	1.9	1.8	1.7	1.5	1.4
EV/EBITDA (x)	6.0	4.7	4.3	4.0	3.8
Dividend yield (%)	3.2	4.9	5.2	5.6	6.0
Net margin (%)	7.2	9.1	9.1	9.1	9.0
Net debt/(cash) to equity (%)	(31.8)	(23.6)	(35.6)	(38.7)	(40.7)
Interest cover (x)	55.7	120.0	79.5	84.1	89.0
ROE (%)	12.6	18.1	18.2	17.8	17.5
Consensus net profit	-	-	37	39	-
UOBKH/Consensus (x)	-	-	1.28	1.28	-

Source: Delfi, Bloomberg, UOB Kay Hian

STOCK IMPACT

- Healthy balance sheet and positive operating cash flow.** Having scaled down long-term borrowings since 2015, Delfi had zero long-term debt obligations as at end-22. The group does however have short-term borrowings that are mainly used for financing the working capital to purchase cocoa beans. Delfi's net cash position remains healthy at US\$58m, but lower than 2021's US\$76m due to management's heavy investment of US\$50.6m in inventories as they anticipate boosted sales in 2023. This was offset by Delfi's strong performance during the year. We think Delfi's healthy balance sheet and positive operating cash flow provide the group with a large enough cash buffer to weather any tough conditions.
- Consistent dividend payout provides decent dividend yield of around 5% for 2023.** Delfi has consistently maintained a dividend payout ratio of around 50% for many years, except for 2020 where its payout ratio increased to 84% due to Delfi's move to maintain its absolute dividend, amid a decline in EPS due to the impact of COVID-19. In the recent announcement, management proposed a final dividend 2 US cents/share and a special dividend of 0.72 US cents/share. Together with interim dividend of 1.58 US cents/share, total dividend of 4.3 US cents/share for 2022 is 51.9% higher than that of 2021, increasing the payout ratio to 60%. Given its strong net cash position of US\$58.1m, we expect payout ratio to be maintained at at least 50% in 2023-25.
- Sustained healthy growth forecast as Indonesia's consumers emerge stronger from the pandemic.** We expect Delfi's revenue from the Indonesia market to grow 10% in 2023-25 as Indonesia's economy and consumers emerge stronger after the pandemic. Bank Indonesia projects Indonesia's economy to grow 4.9% in 2023 and 5.1% in 2024. For 2022, Indonesia's economy grew 5.3%, a solid recovery from the pandemic years where the economy contracted by 2.1% in 2020 and grew by only 3.7% in 2021. Increasing health consciousness and a surge in disposable income are seen to be the growth drivers.

EARNINGS REVISION/RISK

- We lift our 2023/24 earnings estimates by 22%/18% to S\$47m/S\$50m,** up from S\$39m/S\$43m, while adding 2025 estimates. These figures reflect the strong performance recorded in 2022 and improving margins moving forward.

VALUATION/RECOMMENDATION

- Maintain BUY with a 20% higher PE-based target price of S\$1.71,** based on 17x 2023F PE, pegged to its long-term mean.

SHARE PRICE CATALYST

- Higher revenue contribution from Indonesia.
- Premiumisation of product offerings.

FROM THE REGIONAL MORNING NOTES...

Food Empire Holdings (FEH SP)

2022: Record-High Earnings And Dividend; Expect Strong Performance Ahead

FEH reported core earnings of US\$45m (+134% yoy), pulling off a record high and forming 125% of our estimates. Higher revenue across all but its South-East Asia segment and improved profitability contributed to the strong performance. In our view, the results are a testament to the group's strong brand equity, and earnings growth will continue as demand in all markets remains strong. We raise 2023 and 2024 core earnings by 33% and 41% respectively. Maintain BUY with a 64% higher target price of S\$1.28.

2022 RESULTS

Year to 31 Dec (US\$m)	2022	2021	yoy % chg
Revenue	398.4	320.1	24.5
Gross profit	118.8	93.7	26.9
Gross margin (%)	29.8	29.3	0.5ppt
Net profit	60.1	19.3	210.6
Net margin (%)	15.1	6.0	9.1ppt
Core net profit	45.1	19.3	133.7
Core net margin (%)	11.3	6.0	5.3ppt

Source: FEH, UOB Kay Hian

RESULTS

- **Record core earnings; above expectations.** Food Empire (FEH) reported net profit of US\$60.1m for 2022, pulling off a new record high. Excluding a one-off gain of US\$15m from the disposal of non-core assets, core net profit increased 133.7% yoy to US\$45.1m, outperforming our expectations and forming 125% of our estimates.
- **Cost control and higher revenue from most segments mitigated lower sales from the Southeast Asia market.** Revenue increased 24.5% yoy to US\$398.4m, which is above our expectations. Its largest market, Russia, reported revenue growth of 29.1% to US\$148.4m, mainly due to strong consumer demand, the appreciation of the Russian ruble against the US dollar, and higher ASP. Similarly, despite fluctuating currencies from geopolitical uncertainties, its Ukraine, Kazakhstan and Commonwealth of Independent States (CIS) segments achieved a 28.6% yoy revenue growth. However, we note that revenue from the Southeast Asia segment fell 4.2% to US\$92.7m, attributable to post-pandemic normalisation in Vietnam, but partially offset by improved contributions from Malaysia's non-dairy creamer and snacks manufacturing facilities. In 2022, selling and marketing expenses fell by 17.2% yoy due to lower advertising and promotion expenses, but partially offset by higher manpower costs, as seen by the 11.6% yoy increase in administrative expenses. With that, core net profit margin expanded a substantial 5.3ppt to 11.3% in 2022, indicating the group's successful cost-control measures and optimised operations.
- **Record dividend payout.** The group has proposed a record first and final dividend of 4.4 S cents per share, double that of 2021's dividend of 2.2 S cents per share. This translates to a dividend yield of 5.5% (2021: dividend yield of 2.8%).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	321	398	431	460	493
EBITDA	34	61	69	71	78
Operating profit	25	53	59	62	68
Net profit (rep./act.)	20	60	48	52	55
Net profit (adj.)	20	45	48	52	55
EPS (US\$ cent)	3.6	8.5	9.0	9.7	10.4
PE (x)	16.0	6.9	6.4	6.0	5.6
P/B (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.7	3.2	2.8	2.7	2.5
Dividend yield (%)	2.8	5.6	5.6	5.6	5.6
Net margin (%)	6.1	15.1	11.2	11.2	11.3
Net debt/(cash) to equity (%)	(4.7)	(31.6)	(37.7)	(43.2)	(48.1)
Interest cover (x)	28.7	50.0	60.4	n.a.	55.2
ROE (%)	8.7	23.8	16.5	15.9	15.4
Consensus net profit	-	-	41	43	-
UOBKH/Consensus (x)	-	-	1.17	1.20	-

Source: FEH, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Strong consumer demand across segments.** Despite rising inflationary pressures and ASPs, FEH does not see major changes in consumption patterns. Given the consumer-staple nature of FEH's products, demand is relatively price inelastic. For instance, the group's products in the coffee segment continue to be affordable enough for mass appeal, leading to sustainable or even stronger demand in 2022. Hence, we see that sales volumes are more sheltered from the market volatilities. With supply chain disruptions easing in some markets, we forecast higher earnings and improved margins moving forward.
- **Positive brand equity built.** Despite challenges in 2022, including geopolitical tensions in its core markets and rising inflation, the group has managed to generate record-level profits. Additionally, the group was once again recognised as the Top 100 "Most Valuable Singaporean Brands" by Brand Finance, for the twelfth consecutive year, with its estimated brand value increasing 17% yoy to US\$101m. We believe this is a testament to its strong brand equity.
- **Double-digit growth in top-line and improved margins lift earnings.** With the strong levels of demand sustained amid inflationary pressures and currency volatility from geopolitical uncertainties, our forecast incorporates a 32%/31% increase in 2023/24 revenue. Furthermore, management expects higher revenues from: a) India with freight costs normalising, and b) Vietnam, as the new capacity expansion of its non-dairy creamer facility is underway and expected to contribute in 4Q23.

EARNINGS REVISION/RISK

- **We raise our 2023/24 core earnings estimates by 33%/41% to US\$48m/US\$52m**, up from US\$36m/US\$33m, while adding 2025 estimates. These figures reflect the better-than-expected core earnings for 2022 and improving net margins.

VALUATION/RECOMMENDATION

- **Maintain BUY with a 64% higher PE-based target price of S\$1.28 (S\$0.78 previously)**, as we raise our PE peg to 10.5x 2023F EPS, its long-term historical mean. Previously, we valued FEH at 8.4x 2023F EPS, or 1SD below its long-term historical average. The raise in PE peg is to reflect the improved outlook given sustained strong consumer demand.

PEER COMPARISON

Company	Ticker	Trading Curr (lcy)	Price @ 28-Feb-22 (lcy)	Market Cap (US\$m)	PE			P/B			ROE 2022 (%)	Yield 2022 (%)	Net Gearing (%)
					2021 (x)	2022 (x)	2023 (x)	2021 (x)	2022 (x)	2023 (x)			
Food Empire Singapore	FEH SP	SGD	0.785	319	8.9	8.7	8.0	1.2	1.1	1.0	12.7	2.7	(0.4)
Thai Beverage	THBEV SP	SGD	0.645	12,030	14.0	13.9	13.0	2.0	1.9	1.8	14.1	3.7	64.5
Fraser And Neave	FNN SP	SGD	1.17	1,351	13.6	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.	18.9
Yeo Hiap Seng	YHS SP	SGD	0.685	307	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	(32.5)
Average					13.8	13.9	13.0	1.3	1.9	1.8	14.1	3.7	17.0
Regional													
Nestle (Malaysia)	NESZ MK	MYR	135.2	7,087	51.1	44.5	41.0	50.6	47.7	45.1	114.5	2.2	147.9
Fraser & Neave	FNH MK	MYR	27.18	2,228	26.0	22.9	20.9	3.3	3.1	2.9	14.1	2.5	4.7
Coca-Cola Conso	COKE US	USD	579.36	5,431	12.6	n.a.	n.a.	5.1	n.a.	n.a.	n.a.	n.a.	50.0
Dydo Group	2590 JP	JPY	4820	587	n.a.	86.7	70.2	0.9	0.9	0.9	n.a.	1.2	(16.6)
Power Root	PWRT MK	MYR	2.15	204	17.2	16.2	15.4	3.4	3.2	3.4	21.2	5.8	(21.4)
Tac Consumer	TACC TB	THB	6.15	107	15.8	13.8	12.6	n.a.	4.6	4.6	34.1	7.0	(22.3)
Average (Excl. NESZ MK)					17.9	34.9	29.8	3.2	3.0	2.9	23.1	3.7	23.7

Source: Bloomberg, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Frencken Group (FRKN SP)

2022: Earnings Above Expectation, But Outlook Turning Cautious; Downgrade To HOLD

Frencken's 2022 earnings of S\$52m (-12% yoy) beat our estimate by 11%. 2023 revenue grew 2.5% yoy, with semiconductor (+5% yoy), medical (+7% yoy) and industrial automation segments (+5%) recording growths, while automobile (-12% yoy) declined. Frencken expects 1H23 revenue to be softer than 2H22 due to a slowdown across most of its key segments on the challenging macroeconomic environment. We cut our 2023 earnings by 19%. Downgrade to HOLD with a 21% lower target price of S\$1.08.

2022 RESULTS

Year to 31 Dec (S\$m)	2022	2021	% chg (yoy)	4Q22	4Q21	% chg (yoy)
Revenue	786.1	767.1	+2.5	201.8	195.3	+3.3
Net Profit	51.9	58.7	(11.7)	14.8	12.6	+17.5
Gross margin (%)	15.1	16.8	(1.7ppt)	15.5	15.3	+0.2ppt
Net margin (%)	6.6	7.7	(1.1ppt)	7.3	6.5	+0.8ppt

Source: Frencken, UOB Kay Hian

RESULTS

- 2022 earnings of S\$52m (-12% yoy) beat our estimate by 11% on net margin recovery.** Frencken Group (Frencken) reported better-than-expected net margin in 4Q22, increasing 0.8ppt yoy to 7.3%. Gross margin also improved 0.2ppt to 15.5% in 4Q22. We believe these were due to normalising of energy costs in Europe and improving results of cost-sharing efforts undertaken by Frencken since the start of 2022.
- Marginal revenue growth with mixed performance across different segments.** Frencken's 2022 earnings growth of 2.5% yoy was led by growth from the semiconductor (+5% yoy), medical (+7% yoy) and automation (+5% yoy) segments. Growth in the semiconductor space was lifted by higher orders for front-end semiconductor equipment from customers in Europe and Asia. However, sales in the automobile (-12% yoy) sector was impacted by weak recovery of the global automobile industry amid supply chain disruptions. The analytical & life science segment's revenue was stable.
- Cautious outlook for 2023; 1H23 to weaken vs 2H22.** Given the challenging and uncertain macroeconomic backdrop, Frencken is adopting a cautious view for 2023. Based on current indicators and barring unforeseen circumstances, Frencken expects revenue in 1H23 to soften compared to 2H22 as present business visibility is hampered by volatile market conditions. Frencken's outlook for the various segments is as follows: a) semiconductor: lower revenue, b) medical: decreasing revenue, c) analytical & life sciences: higher revenue, d) industrial automation: decreasing revenue, and e) automobile: stable revenue.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	767	786	733	757	792
EBITDA	87	82	79	83	87
Operating profit	64	54	49	52	55
Net profit (rep./act.)	59	52	46	48	51
Net profit (adj.)	59	52	46	48	51
EPS (S\$ cents)	13.8	12.1	10.8	11.2	12.0
PE (x)	7.5	8.5	9.5	9.2	8.6
P/B (x)	1.2	1.1	1.0	1.0	0.9
EV/EBITDA (x)	3.7	4.0	4.1	3.9	3.8
Dividend yield (%)	4.0	3.5	3.1	3.3	3.5
Net margin (%)	7.7	6.6	6.3	6.3	6.4
Net debt/(cash) to equity (%)	(25.4)	(14.8)	(27.8)	(33.1)	(38.4)
Interest cover (x)	62.2	22.8	23.6	24.0	24.0
ROE (%)	16.5	13.5	11.3	10.9	10.7
Consensus net profit	-	-	56	60	-
UOBKH/Consensus (x)	-	-	0.82	0.80	-

Source: Frencken, Bloomberg, UOB Kay Hian

STOCK IMPACT

• Long-term growth supported by diversified segments and new programmes.

Frencken has built long-term customer relationships with multinational companies that are leaders in their own fields. For the semiconductor segment, Frencken serves several customers in the front-end and back-end capital equipment industry. While the semiconductor industry is currently in the midst of a cyclical slowdown, particularly for back-end equipment, the extent and outlook vary. Frencken is leveraging on its capacity expansion in Malaysia to support its key customer in Europe to build its presence in Asia. Frencken has also made inroads with a new USA customer by successfully building and delivering semiconductor vacuum transfer platforms for wafer processing equipment. With its global footprint, expanded capacity and capability to manufacture products with submicron accuracy, Frencken has successfully secured new programmes from a leading instrumentation company in the analytical & life sciences segment. It has also been winning new programmes from customers in the medical segment.

EARNINGS REVISION/RISK

- We reduce our 2023/24 earnings forecasts by 19%/21% after reducing our revenue estimates by 12%/15% to reflect the latest cautious outlook by Frencken due to the challenging and uncertain macroeconomic backdrop.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a 21% lower target price of S\$1.08**, pegged to 10x 2023F PE, based on mean PE. We note that Frencken has a diverse stream of revenue sources, which could help the company remain more resilient amid a volatile macro environment.

SHARE PRICE CATALYST

- Higher-than-expected factory utilisation rates and better cost management.

PEER COMPARISON

Company	Ticker	Trading Curr (TC)	Price @ 28 Feb 23 (TC)	Market Cap (USD)	----- PE -----		----- PB -----		----- EV/EBITDA -----		Yield 2023F (%)	Net Gearing (%)
					2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (x)	2024F (x)		
Frencken	FRKN SP	SGD	1.03	326	9.5	9.2	1.0	1.0	4.1	3.9	3.1	(18.0)
SGX-listed peers												
Venture	VMS SP	SGD	17.17	3,704	13.1	12.6	1.7	1.6	8.9	8.6	4.7	(25.1)
AEM	AEM SP	SGD	2.88	660	10.4	9.2	1.6	1.4	6.6	6.0	2.4	(17.6)
UMS	UMSH SP	SGD	1.08	537	7.9	7.0	1.8	1.5	6.1	5.5	4.6	(8.9)
Average					10.5	9.6	1.7	1.5	7.2	6.7	3.9	
Semiconductor (39% of Frencken's 2022 sales)												
Asml Hol	ASML NA	EUR	590.2	252,375	31.6	25.6	22.5	18.0	25.4	20.8	1.1	(43.8)
Intel Corp	INTC US	USD	24.9	103,011	53.7	13.9	1.0	1.0	9.2	6.3	5.2	7.9
Kulicke & Soffa	KLIC US	USD	53.11	3,011	29.2	17.3	n.a.	n.a.	19.0	12.1	n.a.	(63.6)
Benchmark Elec	BHE US	USD	23.74	835	10.8	9.2	n.a.	n.a.	0.0	0.0	n.a.	21.1
Average					31.3	16.5	11.8	9.5	13.4	9.8	3.2	
Industrial automation (16% of 2022 sales)												
Seagate Tech	STX US	USD	64.25	13,267	42.6	12.4	n.a.	n.a.	16.0	9.9	4.4	4,661.5
Western Digital	WDC US	USD	38.51	12,297	n.a.	29.5	1.1	1.2	30.6	9.5	0.0	45.3
Average					42.6	20.9	1.1	1.2	23.3	9.7	2.2	
Analytical & Medical (31% of 2022 sales)												
Thermo Fisher	TMO US	USD	541.35	208,653	22.8	20.3	4.3	3.9	19.8	17.9	0.2	62.4
Oxford Instruments	OXIG LN	GBp	2460	1,714	24.1	22.8	372.7	315.4	n.a.	n.a.	0.8	(20.8)
Koninklijke Philips	PHIA NA	EUR	15.608	14,723	15.3	11.6	1.1	1.1	8.9	7.3	5.5	52.8
Siemens Healthineers	SHL GR	EUR	49.58	59,321	24.2	20.6	2.7	2.6	16.4	14.2	1.9	78.5
Average					21.6	18.8	95.2	80.8	15.0	13.1	2.1	
Automotive peers (15% of 2022 sales)												
Valeo	FR FP	EUR	19.815	5,118	12.3	7.6	1.2	1.0	3.6	3.1	3.0	87.0
Visteon	VC US	USD	166.53	4,694	22.8	16.8	6.1	4.9	11.2	9.0	0.0	(5.6)
Thyssenkrupp	TKA GR	EUR	7.054	4,658	13.1	7.8	0.3	0.3	1.1	0.9	2.4	(20.6)
Bosch	BOS IN	INR	18030.15	6,433	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.0	(25.7)
Denso	6902 JP	JPY	7239	41,714	12.1	10.5	1.2	1.1	6.5	5.9	2.8	5.7
Johnson Contr	JCI US	USD	62.74	43,116	17.9	15.7	2.5	2.4	13.0	11.9	2.3	55.4
Average					15.6	11.7	2.2	1.9	7.1	6.2	1.9	
Blended average (Based on 2022 sales composition)					27.0	17.0	36.2	30.6	14.1	10.3	2.5	

Source: Bloomberg, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Sembcorp Marine (SMM SP)

2022: Losses As Expected, But The Focus Is On A Brighter Future

SMM reported losses that were slightly higher than our and consensus' estimates. However, free cash flow of over S\$1b for 2022 and a much stronger balance sheet put the company in a strong position for 2023, in our view. Importantly, SMM generated positive EBITDA in 2H22, potentially indicating that SMM has turned a corner. We believe market attention will be on its new order wins and the integration of KOM in the near to medium term. Maintain BUY. Target price: S\$0.156.

2022 RESULTS

Year to 31 Dec, S\$m	1H22	2H22	% HoH	2021	2022	% YoY
Revenue	1,095.0	852.2	-22.2%	1,862.2	1,947.2	4.6%
COGS	(1,187.9)	(891.5)	25.0%	(2,944.6)	(2,079.4)	29.4%
Gross profit/(loss)	(92.9)	(39.3)	57.7%	(1,082.4)	(132.2)	87.8%
Operating profit/(loss)	(115.1)	(91.4)	20.6%	(1,224.1)	(206.4)	83.1%
Financial expenses	(54.6)	(82.1)	-50.4%	(82.6)	(136.7)	-65.5%
Pre-tax loss	(134.3)	(105.5)	21.4%	(1,254.8)	(239.7)	80.9%
Tax credit/(expense)	(10.8)	(15.1)	39.8%	79.4	(25.8)	132.5%
Net loss	(142.9)	(118.3)	17.2%	(1,170.6)	(261.1)	77.7%

Source: Sembcorp Marine, UOB Kay Hian

2022 RESULTS

- **Losses for 2022 as expected.** Sembcorp Marine (SMM) reported a 5% yoy increase in 2022 revenue to S\$1.95b and a loss of S\$261m which the company had previously guided for. The two key positives from the result were: a) a turnaround at the EBITDA line from a loss of S\$19m in 1H22 to positive EBITDA of S\$12m in 2H22, and b) a major narrowing of losses at the bottom line to S\$261m in 2022 vs S\$1.17b loss in 2021. Free cash flow in 2022 was S\$1.01b vs 2021's free cash outflow of S\$545m, demonstrating the large amount of cash inflow due to the completion of 12 key projects during the year.
- **A much stronger balance sheet that will stand SMM in good stead in 2023.** As at end-22, the company's net debt of S\$998m (with cash and equivalents of c.S\$2.1b) was a significant improvement vs end-21's S\$1.97b. As a result, net debt/equity fell to 0.26x at end-22 vs 0.49x in the year-ago period. In our view, a strong balance sheet is important for an offshore & marine company given the large amounts of working capital needed, especially when tendering for large multi-billion dollar projects for the offshore industry.
- **Current net orderbook of S\$6.8b.** 93% of this comprises projects under execution, with another S\$0.44b in ongoing repairs and upgrading projects. The company noted that 37% of its total orderbook relates to greener solutions.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,862	1,947	2,297	2,720	2,705
EBITDA	(1,028)	(7)	305	345	413
Operating profit	(1,224)	(206)	106	146	213
Net profit (rep./act.)	(1,171)	(261)	58	87	138
Net profit (adj.)	(1,171)	(261)	58	87	137
EPS (S\$ cent)	(6.5)	(0.8)	0.2	0.3	0.4
PE (x)	n.m.	n.m.	68.8	45.6	28.9
P/B (x)	0.5	1.1	1.0	1.0	1.0
EV/EBITDA (x)	n.m.	n.m.	19.0	16.8	14.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(62.9)	(13.4)	2.5	3.2	5.1
Net debt/(cash) to equity (%)	45.8	26.5	46.6	47.1	37.2
Interest cover (x)	(14.8)	(1.5)	0.8	1.1	1.6
ROE (%)	n.a.	n.a.	1.5	2.3	3.5
Consensus net profit	-	-	(252)	(6)	75
UOBKH/Consensus (x)	-	-	n.m.	n.m.	1.83

Source: Sembcorp Marine Limited, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

STOCK IMPACT

- **Revenue to continue trending upwards, even without KOM.** During the results call, management stated that revenue will continue its positive momentum from 2022 with gross profit margins potentially normalising and heading above 10% in the medium to long term. SMM reiterated that it will continue to try to move up the value chain to capture more margins in a particular project.
- **Outlook for new order wins.** SMM disclosed that that current new-order enquiries encompass a wide range of assets, from cleaner and greener FPSO solutions to FLNG platforms, wind turbine installation vessels, cable lay vessels and floating wind farms, etc. For oil and gas exploration assets, SMM has clearly not received any enquiries for jackups, semi-submersibles or drillships; however, it highlighted that the strength seen in its ship repair & upgrading segment in 2H22 should continue in 2023 given the higher economic activity relative to the 2020-21 period. Thus, with more shipping activity, such vessels will need to catch-up on their regular maintenance schedule.
- **Cost issues that bedeviled SMM appear to be a thing of the past.** SMM highlighted that 2022's elevated worker costs have been dealt with as these expensive workers have been repatriated; thus, such costs should normalise in 2023. In addition, it noted that supply chain issues have moderated in the past 12 months and have incrementally improved. While management suggested that costs could increase at the margin as it has some fixed price contracts, all of its projects have costs locked in as much as possible (eg equipment, labour, forex, etc) before it commits to a price for a contract.
- **Integration of SMM and Keppel Offshore Marine (KOM).** During the results briefing, SMM stated that the integration between the two companies will start as soon as possible. However, it cautioned that this may take slightly longer than expected as the primary concern at present is to execute its current orderbook and meet delivery timelines for its clients. Management stated that both the SMM and KOM yards are currently busy, and that it will study where and how new orders will be executed, and thus will not look to consolidate all activities in SMM's Tuas yard immediately. At present, management was unable to provide any guidance on integration costs (eg yard restoration costs, impairments, etc).

EARNINGS REVISION/RISK

- **Mild earnings changes.** The changes to our 2023 and 2024 earnings estimates are <3%. We continue to expect SMM to make a small profit this year on the back of new project start-ups and higher yoy revenue recognition from its S\$6.8b orderbook.

VALUATION/RECOMMENDATION

- **We maintain our BUY rating on SMM with a P/B-based target price of S\$0.156.** While we acknowledge that there may be selling of SMM's stock by KEP shareholders, we highlight that in SMM's circular to its shareholders dated 31 Jan 23, the unaudited pro forma book value of the enlarged group was S\$8.402b (including S\$3.4b in goodwill) as at end-1H22, or S\$0.123/share. We believe that in an offshore marine upcycle, stocks like SMM should not trade <1.0x P/B but instead be between 1.2-1.5x P/B, which equates to S\$0.148-0.185/share.
- **SMM will need to start delivering profits in 1H23** in order to prove that it is able to reliably and profitably construct its projects, and continue its momentum of new-order wins from 2022. Our target book-value multiple for SMM of 1.3x reflects our confidence that it will garner such orders, thus leading to positive share price performance. In our view, the offshore construction cycle for both conventional oil and gas and renewables has room for growth in the next few years, especially given the lack of spending by the global oil and gas industry, thus constraining energy supply.

SHARE PRICE CATALYST

- New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.

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