STRATEGY – SINGAPORE

Alpha Picks: Add SIE, ST, FEH, FEHT, FRKN; Remove SEA, KEP And CLAS

Poor investor sentiment in Oct 23 drove our Alpha Picks portfolio into negative territory; however, it nevertheless beat the STI by 0.1ppt on a market cap-weighted basis. As a result, our portfolio has outperformed the STI 18 out of past 20 months. For Nov 23, we add SIE, ST, FEH, FEHT AND FRKN, while removing SEA, KEP and CLAS.

WHAT'S NEW

- **Market review.** The fragile global investor sentiment deteriorated in mid-Oct 23 as strong US economic and job data, coupled with sticky inflation, reaffirmed the likelihood for "higher-for-longer" interest rates, driving 10-year US Treasury yields to multi-year highs. Also, a few high-profile disappointments from the US earnings season along with heightened geopolitical tensions in the Middle East further dented investor sentiment, resulting in the STI falling 4.7% mom in Oct 23.

- **Slight beat.** Our Alpha Picks portfolio underperformed in Oct 23 and was down 4.6% mom on a market-cap weighted basis. Nonetheless, our portfolio still bettered the STI by 0.1ppt. However, on an equal-weighted basis, our portfolio's performance was slightly softer at -6.3% mom, losing out to the STI by 1.6ppt.

- **General market weakness dragged performance of our Alpha Picks, offset slightly by our defensive picks,** primarily ComfortDelGro (+1.5% mom), Bumitama (+0.0% mom) and OCBC (-1.0% mom). ComfortDelGro's performance was driven by higher earnings expectations for the upcoming 3Q23 results while Bumitama benefitted from stronger CPO prices. We witnessed profit taking in the industrials sector, eg Seatrium (-16.4% mom) and CSE Global (-9.9% mom), while RH PetroGas (-17.8% mom) suffered from a poor exploration result.

- **Changes to our portfolio for Nov 23** include the addition of SIA Engineering as we expect higher earnings and dividend recovery, Singapore Telecommunications for its defensive and improving business fundamentals amid market volatility, Frencken as its earnings bottomed out in 1H23 and it is expected to improve sequentially, Food Empire from expected improved valuation from its upcoming dual listing, and Far East Hospitality Trust as a pure play on Singapore's recovering tourist arrivals. We remove SEA due to possible quarterly losses from its upcoming results, and Keppel and CapitaLand Ascott Trust due to their respective lack of near-term share price catalysts.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Jacquelyn Yow	Bumitama	BUY	-2.6	Margin expansion backed by CPO price uptrend.
Roy Chen	SIA Engineering	BUY	-	Earnings and dividend recovery.
John Cheong	Frencken Group	BUY	-	Better-than-expected sequential earnings.
John Cheong	Civmec	BUY	22.5	Strong order book and higher dividend.
John Cheong	CSE Global	BUY	5.1	Expect earnings growth with 8% dividend yield.
John Cheong	Food Empire	BUY	-	Dual listing expected to improve valuation.
Jonathan Koh	Far East Hosp Tr	BUY	-	Pure play on Singapore's hospitality sector.
Jonathan Koh	OCBC	BUY	2.5	Attractive dividend yield; less susceptible to NIM compression.
Jonathan Koh	Mapletree Industrial Trust	BUY	-6.5	A play on the global growth in data centers.
Adrian Loh	Sembcorp Ind	BUY	56.1	Re-rating prospects as a green energy play.
Adrian Loh	Seatrium	BUY	-5.9	New order win momentum from oil & gas and renewables industry
Adrian Loh	RH Petrogas	BUY	-17.8	Exploration catalysts in the near term
Llelleythan Tan	Thai Beverage	BUY	-3.6	Return of Chinese tourists to Vietnam.
Llelleythan Tan	ComfortDelgro	BUY	4.8	Inflection point as 2Q23 earnings bottom out.
Chong Lee Len	SingTel	BUY	-	Special/higher 1HFY24 dividend.
Heidi Mo	Marco Polo Marine	BUY	-3.8	Higher-than-expected utilisation and increased offshore activity

** Denotes a timeframe of 1-3 months and not UOB Kay Hian's usual 12-month investment horizon for stock recommendation*
 # Share price change since stock was selected as Alpha Pick
Source: UOB Kay Hian

KEY RECOMMENDATIONS

Company	Rec*	----- Price (S$) ----- 31 Oct	Target	Up/(down) to TP (%)
Bumitama	BUY	0.57	0.65	14.0
Civmec	BUY	0.79	1.23	55.7
ComfortDelGro	BUY	1.32	1.61	22.0
CSE Global	BUY	0.41	0.61	48.8
Far East HTrust	BUY	0.59	0.76	28.8
Food Empire	BUY	1.10	1.36	23.6
Frencken	BUY	1.04	1.23	18.3
MapletreeInd	BUY	2.15	2.69	25.1
MarcoPolo Marine	BUY	0.051	0.06	17.6
O C B C	BUY	12.68	17.65	39.2
RH PetroGas	BUY	0.189	0.238	25.9
Seatrium	BUY	0.112	0.19	69.6
Sembcorp Ind	BUY	4.59	7.2	56.9
SIA Engineering	BUY	2.29	2.67	16.6
SingTel	BUY	2.38	3.15	32.4
Thai Beverage	BUY	0.54	0.75	38.9

** Rating may differ from UOB Kay Hian's fundamental view*
Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Oct 23[1] (% mom)	To-date[2] (%)
Bumitama	BUY	0.0	(2.6)
CapLand Ascott T	BUY	(6.2)	(2.7)
Civmec	BUY	(1.9)	22.5
ComfortDelGro	BUY	1.5	4.8
CSE Global	BUY	(9.9)	5.1
Keppel Corp	BUY	(6.3)	37.9
MapletreeInd	BUY	(4.9)	(6.5)
MarcoPolo Marine	BUY	(3.8)	(3.8)
O C B C	BUY	(1.0)	2.5
RH PetroGas	BUY	(17.8)	(17.8)
Sea Ltd (in US$)	BUY	(5.7)	(32.8)
Sembcorp Ind	BUY	(9.8)	56.0
Seatrium	BUY	(16.4)	(5.9)
ThaiBev	BUY	(6.1)	(3.6)
FSSTI		(4.7)	
UOBKH Portfolio		(4.6)	

Source: UOB Kay Hian

PORTFOLIO RETURNS (%)

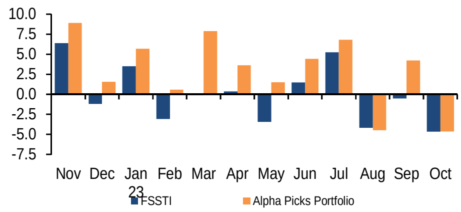
	1Q23	2Q23	3Q23	Sep 23	Oct 23
FSSTI return	0.2	-1.6	-0.4	-0.5	-4.7
Alpha Picks Return					
- Price-weighted	5.5	10.1	-18.8	8.4	-5.2
- Marketcap-weighted	2.9	5.4	-5.0	4.2	-4.6
- Equal-weighted	9.1	7.2	-0.7	-0.1	-6.3

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming same number of shares for each stock; a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting based on the market cap at inception date; higher market cap = higher weighting.*
3) *Equal-weighted: Assuming same investment amount for each stock; every stock will have the same weighting.*

Source: UOB Kay Hian

PORTFOLIO RETURNS IN THE PAST 12 MONTHS

(WE OUTPERFORMED FSSTI 11 OUT OF 12 MONTHS)



Source: Bloomberg, UOB Kay Hian

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Bumitama Agri - BUY (Jacquelyn Yow & Leow Huey Chuen)

- **Margin expansion coupled with CPO uptrend.** Bumitama Agri (Bumitama) has strong earnings sensitivity towards CPO prices compared with its Indonesian SGX-peers as it is a pure upstream player and sells 100% of its CPO into the spot market. We expect margin expansion for 2H23 and 2024 with production costs forecast to decline by 10-15% due to lower fertiliser costs.
- **Higher dividend yield.** We expect an attractive dividend yield of 6-7% for 2023-24 due to its dividend payout policy of up to 40%.
- **Maintain BUY with a target price of S$0.65** which is pegged to an undemanding 6.0x 2024F PE.

Share price catalyst

- **CPO price uptrend.** We forecast that CPO prices will increase from 3Q23-1H24. We anticipate that global palm-oil output during this period may fall below market expectations due to the impact of extreme weather changes. Moreover, there is a significant weather-related risk affecting other global oilseed crops, which could lead to deviations in global vegetable oil and oilseed oil production.
- Timeline: 3-6 months.

SIA Engineering – BUY (Roy Chen)

- **Riding the recovery of regional flight activities.** Aircraft movements at Changi Airport recovered to close to 90% of the pre-pandemic levels in Sep 23 and are expected to increase further as the regional air traffic continues to recover. SIA Engineering (SIE) is a key beneficiary of this trend given its 80% market share of Changi Airport's line maintenance service volume. Its maintenance, repair and overhaul (MRO) businesses for airframe, engine and component are also set to improve as regional flight activities pick up further.
- **Strong balance sheet with sizeable net cash position.** SIE had net cash of over S$600m as at end-1QFY24, equivalent to 24% of its current market cap. This sizeable net cash position earns SIE decent interest income (over S$20m by our estimate) in the high interest rate environment and allows the company to eye for potential acquisition opportunities to expand its regional network.
- **Undemanding valuation with further dividend recovery.** SIE currently trades at FY25F (normalised year) PE of 15.4x, or 11.1x only if excluding its net cash position. With the core profitability recovery, we expect the company to recover its dividend to 9/12 S cents in FY24/25, leading to a dividend yield of 3.9%/5.2%.

Share Price Catalysts

- **Events:** a) Organic earnings recovery, b) dividend recovery, and c) possible M&As.
- Timeline: 3 months.

Frencken – BUY (John Cheong)

- **Stable outlook for 2H23 indicates that earnings have already bottomed in 1H23** and there is potential for more new business in Asia. Frencken expects to post stable revenue in 2H23 vs 1H23. Frencken's outlooks for its various segments for 2H23 vs 1H23 are as follows: a) semiconductor: higher revenue, b) medical: stable revenue, c) analytical & life sciences: increasing revenue, d) industrial automation: decreasing revenue, and e) automotive: stable revenue. On the other hand, Frencken is seeing more new business opportunities in Asia than in Europe, especially in Malaysia.
- **SEMI expects global fab equipment spending to recover in 2023.** In the 12 Sep 23 quarterly World Fab Forecast Report by Semiconductor Equipment and Materials International (SEMI), global fab equipment spending for front-end facilities in 2023 is expected to decline 15% yoy before rebounding 15% yoy in 2024. Next year's fab

equipment spending recovery will be partly driven by the end of the semiconductor inventory correction in 2023 and strengthening demand for semiconductors in the high-performance computing (HPC) and memory segments. The trend suggests the semiconductor industry is turning the corner and on a path back to growth.

- **Long-term growth supported by diversified segments and new programmes.** Backed by its diverse exposure to multiple market segments in the high technology industry and the strength of its balance sheet, Frencken is confident of weathering the current headwinds and will continue to focus on investments in programmes. Frencken has continued strong new product introduction (NPI) and first article (FA) engagement with key customers under the oneMechatronics programme, which is a site-transferring programme that spans semiconductor, analytical/life sciences, medical and aerospace sectors and across operating sites.

- **Maintain BUY and target price of S$1.23, pegged to 12.6x 2024F PE,** based on 1SD above mean PE. The +1 SD in our PE multiple peg is to capture the Frencken's earnings cycle, which is approaching a trough, and improvement in earnings quality where the medical and analytical & life sciences segments could see more contributions. Also, we note that Frencken has a diverse stream of revenue sources, which could help the company remain resilient amid a volatile macro environment.

Share Price Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected factory utilisation, and c) winning of new customers.

- **Timeline:** 3-6 months.

Civmec – BUY (John Cheong)

- **Strong FY23 results with revenue growth across most sectors and strong net margin expansion.** Civmec recorded higher FY23 revenue and earnings of A$830.9m (+2.7% yoy) and A$57.7m (+13.7% yoy) respectively. Gross profit margins across all sectors improved, driving a 0.6ppt yoy increase in net margin to 6.9%. Strong improvement in net margin was driven by the delivery of higher return projects, better cost management and optimisation of productivity.

- **Positive outlook amid buoyant tendering activities.** Tendering activities continue its strong momentum across all sectors that Civmec has a presence in. Its orderbook stood at around A$1.15b (-3.4% qoq; +10.6% yoy) as at end-FY23, securing most of the revenue for the next 12 months with a portion extending up to 2029.

- **Final dividend a positive surprise and company turned into net cash position.** Given its robust cash generated from operations in FY23 (+239% yoy to A$123m), Civmec has declared a final dividend of 3.0 A cents (+50% yoy), bringing full-year dividend to 5.0 A cents (FY22: 4.0 A cents). This is above management's previous guidance of maintaining its final dividend and represents an attractive dividend yield of 6%. Civmec has also turned into net cash position for the first time in FY23 (A$14m vs A$33m net debt in FY22).

- **Maintain BUY with a target price of S$1.23,** pegged to 11x FY24F PE (based on 1SD below five-year mean). We think the current valuation of 8x FY24F PE is attractive, given its strong growth profile of 10% three-year EPS CAGR for FY22-25 and huge orderbook. Civmec's Australian peers are trading at an average of 15x FY24F PE.

Share Price Catalysts

- **Events:** a) Earnings surprise due to higher-than-expected contract wins and margin, b) better-than-expected dividend, and c) takeover offer by strategic shareholders given the high entry barrier of the defence business.

- Timeline: 3-6 months.

CSE Global – BUY (John Cheong)

- **Earnings above expectations due to strong improvement in net margin.** CSE Global's (CSE) 1H23 earnings of S$11m (+143% yoy) were above expectations. The beat was mainly due to strong improvement in net margin which grew 1.5ppt yoy to 3.2%. To recap, CSE was hit badly last year by delays in project delivery due to supply chain issues, which have eased significantly in 1H23.
- **Expect strong earnings recovery in 2023.** We expect CSE to achieve 338% yoy growth in 2023 earnings as it recovers from low base earnings of S$5m in 2022. As the supply chain disruptions ease, CSE will be able to deliver its contracts faster and enjoy margins recovery. Also, CSE's strong orderbook of S$522m as of 1H23 (+34% yoy) should ensure robust earnings in 2H23 and 2024.
- **Strong orderbook should drive better earnings in 2H23.** CSE's 1H23 orderbook reached an all-time high of S$522m (+34% yoy) due to strong order intake in the infrastructure and mining & minerals segments, which has grown 12% and 15% yoy respectively. This robust orderbook coupled with strong order flow should drive a better 2H23 earnings on a hoh basis
- **Stable financial performance in the infrastructure and mining & minerals sectors,** supported by a steady stream of projects arising from requirements in digitalisation, communications and enhancements in physical and cyber security globally, and from data centres and water utilities in the Americas and Asia Pacific region. CSE will expand its engineering capabilities and technology solutions to pursue new market opportunities and diversify into new markets brought about by the emerging trends towards urbanisation, electrification and decarbonisation.
- **Maintain BUY with a target price of S$0.61.** Our target price is pegged to 15x 2024F PE (based on +1SD above mean). Our target price implies a 2023 dividend yield of 4.5% as we expect CSE to maintain a full-year dividend of 2.75 S cents/share for 2023.

Share Price Catalysts

- **Events:** a) Large infrastructure project wins, and b) accretive acquisitions.
- **Timeline:** 3-6 months.

Food Empire – BUY (John Cheong)

- **Potential dual listing on Hong Kong Stock Exchange to improve valuation.** Food Empire Holdings (FEH) recently announced that it is exploring a dual primary listing in Hong Kong. This will provide FEH with more avenues to raise capital and exposure to a broader investor base. If successful, we believe that it could mean better valuations for the stock. Trading at 8x 2024F PE vs Singapore peers' average of 11x and regional peers' average of 14x, its valuation is due for a re-rating, in our view.
- **Strong demand for consumer staple products.** 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. FEH's products in the coffee segment, such as the MacCoffee brand, continue to be affordable with mass appeal, leading to stronger demand in 2023.
- **Higher earnings from volume growth and pricing adjustments.** FEH's 1H23 net profit of US$26.6m (-1.6% yoy) is in line with expectations, forming 54% of our full-year estimate. 1H23 revenue from its core markets recorded impressive double-digit growth due to higher volumes and pricing. Additionally, in light of the Russian ruble's rapid depreciation during the year (30% fall to-date), management has plans to implement price increases across its portfolio. This will help reduce the impact of the weaker currency on FEH's performance moving forward.
- **Frequent share buybacks to date reflects confidence.** From Apr 23, FEH has bought back 1.8m shares at up to S$1.11. This is close to the 52-week high share price of S$1.18, showing management's confidence in the future growth outlook.

- **Maintain BUY.** Our target price of S$1.36 is based on 10x 2024F EPS, or its long-term historical mean.

Share Price Catalysts

- **Events:** a) Better-than-expected earnings or dividend surprise, b) improving net margin from better-than-expected ASPs and easing of key costs including freight and raw material costs, and c) successful dual listing on Hong Kong Stock Exchange
- **Timeline:** 3-6 months.

Far East Hospitality Trust – BUY (Jonathan Koh)

- **Pure play on Singapore's hospitality sector**, which benefits from rising visitor arrivals increasing at 44.6% yoy in Sep 23. RevPAR for hotels increased 43.6% yoy to S$150 in 3Q23, returning to pre-pandemic levels. Occupancy improved 10.6ppt yoy to 86.7% while average daily rate (ADR) jumped 26.0% yoy to S$173.
- **Cushion from higher interest rates.** Management intends to utilise the incentive fee of S$18m from the divestment of Central Square to cushion the negative impact from higher interest rates.
- **Strong balance sheet.** Far East Hospitality Trust (FEHT) has a resilient balance sheet with aggregate leverage remaining low at 32.2% as of Sep 23.
- **Attractive dividend yield.** FEHT provides an attractive 2024 distribution yield of 7.6%. Its P/NAV of 0.63x is unwarranted given its good corporate governance and strong sponsor.
- **Maintain BUY.** Our target price of S$0.76 is based on DDM (cost of equity: 7.75%, terminal growth: 2.8%).

Share Price Catalysts

- **Events:** a) Recovery in occupancy, ADR and RevPAR in 2023 and 202; and b) downside protection from fixed rents embedded in its master leases with sponsor FEO, which owns 61% of FEHT.
- Timeline: 6-12 months.

Oversea-Chinese Banking Corp – BUY (Jonathan Koh)

- **Committed to new dividend policy.** Management intends to maintain dividend payout ratio at 50% going forward. Oversea-Chinese Banking Corp (OCBC) provides attractive dividend yield of 6.3% for 2023.
- **Capital management.** CET-1 CAR improved 0.5ppt yoy to 15.4% in 2Q23. OCBC is comfortable with CET-1 CAR receding lower to 14.0% over the short to medium term (3-5 years). Management will consider all options for capital management, including special dividends.
- **Refreshed strategy to deliver incremental S$3b revenue.** Management aims to deliver incremental revenue of S$3b cumulatively over 2023-25, driven by four growth pillars: a) Asian wealth, b) trade and investment flows, c) new economy, and d) sustainability. Management aims to deliver ROE of 12-13% with additional contribution of 1ppt from the incremental revenue of S$3b.
- **Maintain BUY.** Our target price of S$18.22 is based on 1.45x 2024F P/B, derived from the Gordon Growth Model (ROE: 13.1%, COE: 9.0%, growth: 0.0%).

Share Price Catalyst

- **Events:** a) Resiliency from high CET-1 CAR of 15.4%, and b) attractive 2023 dividend yield of 6.3% from commitment to new dividend payout ratio of 50%.
- Timeline: 6-12 months.

Mapletree Industrial Trust – BUY (Jonathan Koh)

- **Strategic diversification to Japan's data centre market.** Mapletree Industrial Trust (MINT) is acquiring an effective interest of 98.5% in a newly-built data centre in Osaka, Japan for ¥52.0b (S$507.9m). We expect MINT to continue to expand in Japan due to positive yield spread with cap rates of 3-4% and low funding cost in JPY.
- **Backfilling data centre at Brentwood, Tennessee.** MINT is in advanced negotiations with a potential replacement tenant for its data centre at Brentwood, Tennessee with NLA of 347,515sf currently occupied by AT&T (expiry: Nov 23). The new tenant intends to sign a long-term lease for the entire data centre with rental escalation.
- **Maintain BUY.** Our target price of S$2.69 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

Share Price Catalyst

- **Events:** a) Growth from data centres located in North America and Japan, and b) acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments.
- Timeline: 6-12 months.

Sembcorp Industries – BUY (Adrian Loh)

- **New gas contract ensures volume certainty for SCI.** The positive takeaway from Sembcorp Industries' (SCI) termsheet for gas supply from Conrad Asia Energy's (CRD AU, Not rated) Natuna Sea asset is the guaranteed volumes for SCI's new 600MW power plant that starts up in 2026. Delivery of gas via pipeline is steadier and more dependable which is important for a utility as pipeline gas is less prone to disruption vs seaborne LNG cargoes. Historically, pipeline gas has been priced at 11-12% slope to Brent oil, eg at a Brent oil price of US$100/bbl, the equivalent gas price would be US$11-12/mcf. With inflation and other factors however, we believe that this slope will naturally be higher for the new contract, and may be disclosed when the full gas sales agreement is signed.
- **Recent selldown an opportunity to accumulate.** In our view, SCI's share price weakness in Sep 23 after its inclusion into MSCI Singapore index has opened up a buying opportunity for investors. The lack of any major share price appreciation after the index inclusion disappointed some investors and this resulted in some profit-taking given that the company's share price had risen 24% in the three months leading up to the end-Aug 23 index inclusion date. With a 25% share price decline from its peak in early-Aug 23, we highlight that SCI's 2024F PE and EV/EBITDA of 8.7x and 7.1x respectively appear inexpensive, especially relative to its regional and global utilities peers.
- **Maintain BUY with a target price of S$7.20** based on a target PE multiple of 13.6x. This target PE multiple is 1.5SD above the company's past five-year average PE of 10.1x (excluding 2020 where the company reported impairment-related losses) and is applied to our 2024 EPS estimate which we believe is a better reflection of the company's 'normalised' earnings compared with 2022's earnings.

Share Price Catalysts

- **Events:** a) Value-accretive acquisitions in the green energy space, and b) potential to increase targets for its gross renewables capacity.
- Timeline: 6+ months.

Seatrium – BUY (Adrian Loh)

- **Outlook for new orders still remains strong.** Seatrium believes that there are numerous tenders in the market for production assets, floating LNG production and storage as well as renewables projects. While it has seen enquiries for drilling assets, given that day rates and utilisation rates for all types of assets have hit or are approaching multi-year highs, it said that these early enquiries are opportunistic in nature and thus it will be patient, conservative and selective in which orders it accepts.

- **It is not just oil and gas and renewables**. Seatrium's S$20b orderbook comprises 40% in the renewable energy space (with the remainder related to oil and gas projects), however its addressable market is arguably much larger when taking into account carbon capture usage and storage, floating LNG, and ammonia storage and transport which feeds into the hydrogen energy chain. At present, the company has 37 projects under execution with deliveries until 2030.
- **We maintain our BUY rating on Seatrium with a P/B-based target price of S$0.19.** Our target P/B multiple of 1.5x is 2SD above the company's five-year average of 1.0x (vs its current inexpensive valuation of 0.9x) and is pegged to its 2024 book value of S$0.125. Our positive view on the stock reflects our belief that the company will benefit from bullish trends in the offshore marine space. These include: a) the tailwinds from increased construction in the renewables space, and b) the current offshore marine upcycle. Risks include higher-than-expected provisions for 2023, negative news flow regarding its CPIB case and volatile oil prices.

Share Price Catalysts

- **Events:** New orders for rigs, offshore renewable installations or fabrication works as well as repairs and upgrade works for cruise ships and other commercial vessels.
- Timeline: 6-12 months.

RH Petrogas – BUY (Adrian Loh)

- **Positive newsflow in the near term**. While RH Petrogas' (RHP) recent announcement of a dry hole at Riam-1 was negative, we highlight that RHP is currently drilling its high-impact Karuka-1 gas well, targeting 1.8tcf (equivalent to 300mmboe) in unrisked gas resources, with results to be known in Jan 24. Clearly, the gas well would be material to a company of RHP's size. The company will drill Piarawi-1, targeting 6.6mmbbl of recoverable oil, after the completion of Karuka-1 which is expected in late-Dec 23.
- **Valuing the exploration upside for RHP.** Using recovery factors of 10-25% and risking the two remaining wells at 50-80% for both geological and commercial risks, we arrive at a total valuation of S$0.06/share. This represents potential upside of >32% based on RHP's 31 October closing price. Note that we have factored in much higher risking factors for these wells given that they are both deeper wells and are targeting new geological play types.
- **For exposure to upstream oil & gas in Singapore, we prefer RH Petrogas.** Compared with Rex International (REXI SP/SELL/Target: S$0.10), RH Petrogas is a more focused oil play as it has exposure only to onshore Indonesia, does not undertake interested party transactions, and more importantly has been able to demonstrate a higher level of operational excellence having increased production at its two mature onshore oil fields in the past five years. Relative to Rex, we believe that RHP's stronger oil production record will enable it to benefit from stronger oil prices heading into the Northern Hemisphere heating season.
- **We have a BUY rating on RHP and an SOTP-based target price of S$0.25.** Note that we have not valued the company's exploration upside within our SOTP.

Share price catalysts

- **Events:** We believe that newsflow surrounding the drilling results for these wells will be key share price drivers for RHP in the next 4-5 months. News on Karuka-1 is expected in Jan 24 after the requisite flow tests.
- Timeline: 4-5 months.

Thai Beverage – BUY (Llelleythan Tan)

- **Sturdy 9MFY23 above expectations.** For 9MFY23, Thai Beverage (THBEV) reported better-than-expected revenue and core EBITDA of Bt215.9b (+3.8% yoy) and Bt37.8b (-3.4% yoy) respectively. The outperformance was driven by a steady 3QFY23 whereby revenue grew (+4.0% yoy, +0.3% qoq) while core EBITDA softened (-2.4% yoy, -0.7% qoq) lesser than our initial expectations. We now expect THBEV's FY23 PATMI to grow by 6.2% yoy against our previous expectations of a 3.1% yoy drop.

- **Spirits: Stable performance aided by brown spirits.** Despite 9MFY23 sales volumes dropping 3.5% yoy, 9MFY23 revenue and EBITDA increased 3.3% yoy and 6.2% yoy respectively, in line with our expectations. 3QFY23 spirits revenue and EBITDA surged 12.0% yoy and 13.5% yoy respectively, backed by ASP hikes in 1QFY23 and improving tourist arrivals. Moving forward, we expect the spirits segment to continue its upward momentum, driven by expected ASP hikes for the brown spirits and a continually improving product sales mix.
- **Beer: Supported by better sequential performance.** On a sequential basis, 3QFY23 beer revenue (+8.8% qoq) and EBITDA (+11.8% qoq) improved on the back of higher sales volumes (+10.2% qoq). Also, EBITDA margins expanded slightly by 0.4ppt qoq, which we reckon came from better A&P spending efficiency. Moving forward, we expect beer sales volumes to stay muted till 1QFY24, supported by higher Chinese tourist arrivals to Vietnam. We also expect margins to stabilise from further cost savings and better efficiencies.
- **Maintain BUY with an SOTP-based target price of S$0.75.** We reckon that THBEV remains attractively priced at -2SD to its five-year mean PE, backed by an expected earnings recovery underpinned by favourable tailwinds and a decent 4% FY23 dividend yield. We opine that the recent share price weakness presents an attractive entry level.

Share Price Catalysts

- Events: Gaining market share in the beer segment; M&As/potential spinoff listing.
- Timeline: 6-12 months.

ComfortDelgro – BUY (Llelleythan Tan)

- **Public transport services: Higher fares to boost revenue.** 1H23 core operating profit (-34.5% yoy, +21.3% hoh) grew sequentially, backed by higher rail ridership, improved charter activities in Australia and tapering inflationary pressures. Similarly, 2Q23 segmental revenue (-0.7% yoy, +6.4% qoq) and core operating profit (-30.4% yoy, +25.7% hoh) were generally higher qoq. We reckon that earnings from the public transport segment have bottomed out in 2Q23, and are expected to continue the upward momentum moving forward, backed by favourable tailwinds and higher public transport fares starting late-4Q23.
- **Taxi: Inflection point.** Despite 2Q23 revenue growing marginally (+2.5% yoy, +2.7% qoq), core operating profit surged to S$26m (+104.8% yoy, +53.6% qoq), higher than our initial S$18m forecast. This was largely driven by the reduction of ComfortDelgro's (CD) daily taxi rental rebates. Recovery for CD's taxi operations in China remains muted but management noted that the group expects a stronger gradual recovery in 2H23.
- **Upcoming catalysts.** Starting 3Q23, CD implemented a platform fee of S$0.70 for every point-to-point online booking made through its Zig app. Based on our estimates, this would imply a S$11m-12m hoh increase in revenue for 2H23, which would most likely flow down to taxi segmental operating profit. Furthermore, we expect potential upward revisions for CD's 5% commission rate in 2H23, given that it is considerably lower when compared with major competitors Grab (20%) and GoJek (15%). According to our estimates, a 1% increase in commission rate would raise our 2024 full-year taxi operating profit by 4-5%.
- **Maintain BUY with a PE-based target price of S$1.61,** pegged to 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.7% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD would help support share price performance moving forward.

Share Price Catalysts

- Events: Bus tender contract wins; increase in taxi commission rates; complete removal of taxi rental rebates.
- Timeline: 6-12 months.

Singapore Telecommunications – BUY (Chong Lee Len & Llelleythan Tan)

- **Doubling down on revenue drivers.** Singapore Telecommunications (Singtel) maintains its strategic aim to grow overall group ROIC from 8% in FY23 to low double digits by FY26, driven by its growth engines (regional data centers (RDC) and NCS). Both RDC and NCS are still expected to contribute more than 20% of EBITDA by FY28, almost double FY23's 12%, which would offset telecom services' declining EBITDA. Cash proceeds from the sale would likely be utilised for further expansion for both RDC and NCS, coupled with returns to shareholders.
- **Unlocking shareholder value.** The group has about S$4b of capital recycling after the stake sale of its RDC business which we reckon would likely come from paring down its stakes in its regional associates (valued at around S$49b as of end-1QFY24). Singtel currently has S$2b-3b of excess cash which we reckon may lead to a special dividend and/or larger dividends towards the higher end of the group's 60-80% of underlying PATMI dividend policy in 1HFY24.
- **Maintain BUY with a DCF-based target price of S$3.15** (discount rate: 7%, growth rate: 2.0%). At our target price, the stock will trade at 15x FY24 EV/EBITDA. In our view, Singtel remains an attractive play against elevated market volatility, underpinned by improving business fundamentals.

Share Price Catalysts

- **Events:** a) Successful monetisation of 5G, b) monetisation of data centres and/or NCS, and c) market repair in Singapore and resumption of regional roaming revenue.
- Timeline: 6-12 months.

Marco Polo Marine – BUY (Heidi Mo)

- **Significant top-line growth in 3QFY23 from higher utilisation.** Marco Polo Marine (MPM) has reported a strong improvement in 3QFY23 revenue to S$36.8m (+28.9% yoy) due to an uptick in utilisation levels in both its core businesses, bringing 9MFY23 revenue up to S$92.7m (+65.1% yoy). For the ship chartering segment, vessel utilisation rates rose to 92% (+8% yoy) on the back of a better demand environment. MPM's shipyard also achieved high utilisation at 93% (+7% yoy), as a result of increased shipbuilding and ship repair activities.
- **Benefitting from minimal newbuilds and increased offshore activity.** Though the surge in demand should lead to newbuilding, vessel supply is set to remain constrained on the horizon. Securing financing remains challenging, resulting in a limited possibility of newbuilds. The APAC offshore windfarm market is also attracting increased investments in offshore wind projects. With its growing presence in the region such as recent partnerships into Japan and South Korea, MPM is placed in a favourable position.
- **Construction of new dry dock to boost ship repair capacity.** MPM has recently announced plans to build a 240m Dry Dock 4 in Nov 23, funded by a mix of operational cashflows and external bank financing. This will increase ship repair capacity by up to 25%, allowing MPM to capture growing demand for ship repairs. With completion expected to be in 1QFY25, it will likely contribute to higher earnings then.
- **New CSOV to boost ship chartering revenue.** MPM has announced plans to build and operate a new commissioning service operation vessel (CSOV) to support commissioning work for the construction and maintenance of offshore wind farms. This will provide charter services to support the Taiwan, Japan and South Korea markets. The CSOV's expected completion in 3QFY24 will be timely to meet the growing offshore windfarm industry in Asia.
- **Maintain BUY with a target price of S$0.060.** We value MPM at 1.3x FY24F P/B, in line with +2SD to its historical five-year average on the back of improving charter rates and vessel utilisation rates.

Share Price Catalysts

- **Events:** a) Higher-than-expected charter rates and vessel utilisation, and b) new or higher value of ship repair projects.
- **Timeline:** 3-6 months.

VALUATION

Company	Ticker	Rec*	Price 31 Oct 23 (S$)	Target Price (S$)	Upside To TP (%)	Last Year End	PE 2022A (x)	PE 2023E (x)	PE 2024E (x)	Yield 2023E (%)	ROE 2023E (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Bumitama	BAL SP	BUY	0.57	0.65	14.0	12/22	3.8	5.3	5.0	7.5	16.4	988.5	0.9
Civmec	CVL SP	BUY	0.79	1.23	55.7	6/23	7.9	7.5	7.3	5.5	14.4	400.9	1.1
ComfortDelGro	CD SP	BUY	1.32	1.61	22.0	12/22	16.5	14.6	12.6	4.5	7.5	2,858.7	1.1
CSE Global	CSE SP	BUY	0.41	0.61	48.8	12/22	46.1	12.1	10.1	6.7	9.7	252.1	1.2
Far East HTrust	FEHT SP	BUY	0.59	0.76	28.8	12/22	23.7	14.2	17.7	7.0	4.6	1,181.6	0.7
Food Empire	FEH SP	BUY	1.10	1.36	23.6	12/22	7.1	8.6	8.0	4.0	17.2	581.5	1.6
Frencken	FRKN SP	BUY	1.04	1.23	18.3	12/22	8.6	17.3	10.7	1.7	6.5	444.1	1.2
Mapletree Ind Tr	MINT SP	BUY	2.15	2.69	25.1	3/23	16.3	16.2	15.5	6.1	6.8	6,090.7	1.1
Marco Polo Marine	MPM SP	BUY	0.051	0.06	17.6	9/22	8.2	11.8	11.1	0.0	11.0	191.4	1.3
O C B C	OCBC SP	BUY	12.68	17.65	39.2	12/22	10.0	8.2	8.1	6.3	13.1	56,989.6	1.1
RH Petrogas	RHP SP	BUY	0.189	0.238	25.9	12/22	5.7	10.3	9.1	0.0	28.9	157.8	4.4
Seatrium	STM SP	BUY	0.112	0.19	69.6	12/22	n.a.	n.a.	48.3	0.0	(4.5)	7,640.3	0.9
Sembcorp Ind	SCI SP	BUY	4.59	7.20	56.9	12/22	9.6	8.6	8.6	3.6	22.8	8,171.9	1.8
SIA Engineering	SIE SP	BUY	2.29	2.67	16.6	3/23	38.7	21.3	14.8	3.9	7.2	2,573.1	1.5
SingTel	ST SP	BUY	2.38	3.15	32.4	3/23	17.7	16.6	14.4	4.2	8.8	39,295.9	1.6
Thai Beverage	THBEV SP	BUY	0.54	0.75	38.9	9/22	11.3	11.2	10.5	4.5	15.0	13,567.4	1.9

** Fundamental rating and not related to the relatively shorter term Alpha Picks recommendation*
Source: UOB Kay Hian

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