STRATEGY – SINGAPORE

Alpha Picks: Portfolio Holds Steady Amid Market Weakness

In Jan 24, our Alpha Picks portfolio beat the STI by 2.7ppt and 0.7ppt on an equal- and market-weighted basis respectively, as the STI slipped into negative territory. Stocks began the year on a subdued note with the external environment remaining uncertain. For Feb 24, we add Yangzijiang Shipbuilding (YZJ) as we see dividend upside and potential earnings upgrades from its upcoming results and remove Seatrium (STM) as uncertainty over the size of its 2023 write-offs may weigh in the short term.

WHAT'S NEW

- **Market review.** Stocks were off to a bumpy start in Jan 24, as 10-year US Treasury bond yields ticked higher with potential delay in monetary easing weighing on sentiment. Higher-than-expected US retail sales numbers in Dec 23 reinforced such expectations. On top of this, Red Sea shipping disruptions continue to hit global manufacturing. As a result, the STI fell 2.7% mom in Jan 24.
- **Slightly outpacing the STI.** Our Alpha Picks portfolio beat the STI in Jan 24, remaining flat mom on an equal-weighted basis. On a market-cap weighted basis, our portfolio nevertheless outperformed the STI by 0.7ppt with a 2.0% mom fall.
- **Reviewing our picks in January.** Our portfolio performance was mainly dragged by STM (-15.3% mom) and Frencken (-3.7% mom). A S$250m contract cancellation and profit warning by STM led to its share price retreat, while Frencken followed the weakness in US technology stocks as profit-taking took place after Big Tech's earnings release. This was largely offset by Food Empire (FEH, +19.5% mom), which rallied in response to the company's proposed dual listing on the HKEX, and SembCorp Industries (SCI, +6.8% mom) with its continued news on acquisitions underlining its medium- and long-term growth potential.

ACTION

- **Adding YZJ and removing STM.** For Feb 24, we include YZJ in our portfolio with its 2023 results on 28 Feb 24 likely to see higher order win guidance, higher dividends and better shipbuilding margins. We remove Seatrium due to uncertainty over the size of its 2023 write-offs potentially weighing on its share price in the short term.

ANALYSTS' ALPHA* PICKS

Analyst	Company	Rec	Performance#	Catalyst
Adrian Loh	Sembcorp Ind	BUY	92.0	Re-rating prospects as a green energy play.
Adrian Loh	Yangzijiang Shipbuilding	BUY	-	Strong 2023 results, higher order win guidance.
Chong Lee Len	SingTel	BUY	1.3	Higher 2HFY24 dividend.
Heidi Mo	Marco Polo Marine	BUY	-1.9	Higher-than-expected utilisation and increased offshore activity.
Jacquelyn Yow	Bumitama	BUY	4.3	Margin expansion backed by CPO price uptrend.
John Cheong	Civmec	BUY	19.4	Strong orderbook and higher dividend.
John Cheong	Food Empire	BUY	22.7	Dual listing expected to improve valuation.
John Cheong	Frencken Group	BUY	25.0	Better-than-expected sequential earnings.
John Cheong	Valuetronics	BUY	9.0	Earnings recovery from new customers.
John Cheong	Venture Corp	BUY	4.6	Earnings recovery and higher-than-expected dividends.
Jonathan Koh	CapitaLand Ascott Trust	BUY	-3.0	A play on Singapore's recovery in the hospitality sector.
Jonathan Koh	Mapletree Industrial Trust	BUY	4.3	A play on the global growth in data centres.
Jonathan Koh	OCBC	BUY	3.8	Attractive dividend yield; less susceptible to NIM compression.
Llelleythan Tan	ComfortDelGro	BUY	11.1	Better sequential earnings.
Roy Chen	SATS	BUY	2.5	Sequential earnings recovery and potential upside from air cargo volume.

** 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$) 1 Feb	Price (S$) Target	Up/(down) to TP (%)
Bumitama	BUY	0.61	0.70	14.8
CapLand Ascott T	BUY	0.96	1.45	51.0
Civmec	BUY	0.77	1.23	59.7
ComfortDelGro	BUY	1.40	1.66	18.6
Food Empire	BUY	1.35	1.63	20.7
Frencken	BUY	1.30	1.23	(5.4)
MapletreeInd	BUY	2.40	2.98	24.2
MarcoPolo Marine	BUY	0.052	0.066	26.9
O C B C	BUY	12.84	17.00	32.4
SATS	BUY	2.82	3.22	14.2
Sembcorp Ind	BUY	5.65	7.20	27.4
SingTel	BUY	2.41	3.15	30.7
Valuetronics	BUY	0.605	0.72	19.0
Venture Corp	BUY	13.62	16.37	20.2
YZJ ShipBldg SGD	BUY	1.68	1.92	14.3

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

CHANGE IN SHARE PRICE

Company	Rec	Jan-24 (% mom)	To-date² (%)
Bumitama	BUY	1.7	4.3
CapLand Ascott T	BUY	(3.0)	(3.0)
Civmec	BUY	(0.6)	19.4
ComfortDelGro	BUY	0.0	11.1
Food Empire	BUY	19.5	22.7
Frencken	BUY	(3.7)	25.0
MapletreeInd	BUY	(2.4)	4.3
MarcoPolo Marine	BUY	0.0	(1.9)
O C B C	BUY	(0.8)	3.8
SATS	BUY	0.0	2.5
Sembcorp Ind	BUY	6.8	92.0
Seatrium	BUY	(15.3)	(16.0)
SingTel	BUY	(2.8)	1.3
Valuetronics	BUY	2.5	9.0
Venture Corp	BUY	(1.5)	4.6
FSSTI		(2.7)	
UOBKH Portfolio		0.0	

Source: UOB Kay Hian

PORTFOLIO RETURNS (%)

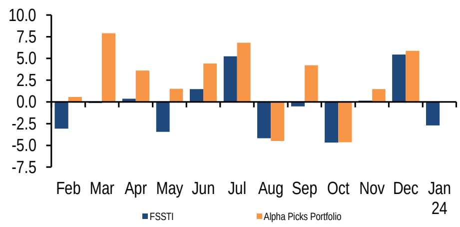
	1Q23	2Q23	3Q23	4Q23	Jan-24
FSSTI return	0.2	-1.6	0.4	0.7	-2.7
Alpha Picks Return					
- Price-weighted	5.5	10.1	-17.8	-0.4	0.1
- Marketcap-weighted	2.9	5.4	-4.6	-0.1	-2.0
- Equal-weighted	9.1	7.2	-0.6	2.2	0.0

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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Sembcorp Industries – BUY (Adrian Loh)

- **Further growth in renewables capacity.** As expected during its Investor Day on 6 Nov 23, SCI upgraded its target gross installed renewables capacity from its prior 10GW by 2023 (which it has easily achieved), and it is now targeting to grow this to 25GW by 2028. This implies a 22% CAGR over 2023-28 which is higher than its peers' average CAGR of 17% over the same period.
- **More solar with a more balanced geographic exposure.** Its 2023-28 plans involve incrementally growing its solar exposure relative to wind (wind:solar was 62:31 as at end-22). Geographically, SCI is ideally looking to increase exposure to India and Southeast Asia relative to China (China:India:Southeast Asia was 62:27:10 as at end-22).
- **Developments since its Investor Day.** Since 6 Nov 23, SCI has announced 673MW of acquisitions towards its target of 25GW by 2028 which involves both solar and wind in Vietnam, China and India. These three acquisitions will be completed by 1H24. Note that we are currently forecasting stable EPS growth in 2024 vs consensus' forecast of a 9% decline; hence, we expect positive earnings momentum in the next six months.
- **Maintain BUY with a target price of S$7.20** based on a target PE multiple of 13.6x. Our 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 to 2022's earnings. SCI, cognisant of its funding needs for growth, will likely keep its dividend payout ratio at 25%.

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.

Yangzijiang Shipbuilding – BUY (Adrian Loh)

- **Strong 2023 results expected on 28 Feb 24.** YZJ will report its 2023 results on 28 Feb 24 with the key items to look forward to being new guidance for higher order wins, better shipbuilding margins and freight rates (especially given the terrorist disruptions in the Red Sea) and higher yoy dividend.
- **Started off the year with a big order.** On 17 Jan 24, YZJ reported a new order for six 13,000TEU containerships which are methanol dual-fuelled vessels. No order size was given; however, using order compass from Asian yards, each vessel is likely to cost US$130-150m, implying a US$700-900m order win. Importantly, these six containerships will be delivered from 2027 onwards which underlines the company’s revenue visibility for 2027 and into 2028.
- **We have a BUY recommendation on the stock with a PE-based target price of S$1.92.** Our target PE multiple of 10.1x, applied to an aggregate of our 2023 and 2024 EPS forecast, is 1.5SD above YZJ’s past five-year average of 6.8x. We view this as fair given: a) the company’s earnings growth in 2023 and 2024, b) sustainability of its earnings due to its US$15b orderbook at present, and c) earnings visibility into 2027 and 2028.

Share Price Catalysts

- **Events:** a) Better capital management initiatives, b) new order win announcements, and c) safe and efficient execution of orderbook.
- **Timeline:** 3-6 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 centres (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 believe may lead to larger dividends towards the higher end of the group's new 70-90% of underlying PATMI dividend policy in 2HFY24.
- **Higher dividend policy.** Singtel adjusted its dividend policy higher to 70-90% of underlying net profit (60-80% of underlying net profit previously) which could potentially bring its full-year FY24 dividend to around 13.0 S cents/share, implying an ample annualised dividend of around 5.4%.
- **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 & John Cheong)

- **Strong earnings beat on favourable charter rate and high utilisation rate; dividend came as a positive surprise.** Marco Polo Marine (MPM) reported FY23 core earnings of S$25m (+83% yoy), a strong beat of more than 50% of our estimate of S$16m due to strong improvement of gross margin by 4.1ppt as a result of favourable charter rates for offshore support vessels (OSV) and utilisation rates. On the other hand, MPM declared a dividend of 0.1 S cents/share, supported by its strong net cash position, which increased by 21% yoy to S$61m (around 30% of market cap). This came as a positive as we did not expect any dividend and this is the first dividend payment since 2012.
- **Positive outlook and new penetration into the offshore wind sector.** MPM anticipates the utilisation rate of its OSVs to remain relatively robust amid positive demand-supply dynamics. Concurrently, charter rates for OSVs are still expected to appreciate in FY24, albeit at a more moderate pace compared to FY23. MPM's commissioning service operation vessel (CSOV) is currently 34% completed and is expected to be completed in 2H24. This will be MPM's stepping stone to penetrate the Taiwan offshore wind sector.
- **Construction of new dry dock to boost ship repair capacity.** MPM 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. As of 4QFY23, MPM's shipyard utilisation rate is at 95%. With completion expected in 1QFY25, it will likely contribute to higher earnings then.
- **MPM will continue to support the Taiwan offshore wind farm market via its ship chartering business.** It has established a strong foothold in this arena through its joint venture entity, Oceanic Crown Offshore Marine Services Ltd., and the acquisition of PKR Offshore Co. Ltd. last year. MPM recently announced that it has formalised the Vestas Framework Agreement. It will see its CSOV deployed over three years once the vessel is fully constructed. This will provide revenue visibility for MPM's ship chartering division over the medium term.

- **Maintain BUY with a target price of S$0.066.** We value MPM at 1.3x FY24F P/B, in line with +2SD of 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.

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 to the spot market. We expect margin expansion for 4Q23 and 2024 with production costs forecast to decline by 10-15% due to lower fertiliser costs.
- **High 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$0.70,** which is pegged to an undemanding 6.0x 2024F PE with dividend yield of 6-7%.

Share Price Catalysts

- **4Q23 results could outperform peers, supported by better-than-peers production growth.** Despite flattish ASP, operating margin is expected to see some improvement on the back of lower fertiliser cost.
- **CPO price uptrend.** BAL's earnings and share price are highly leveraged to the CPO price trend. We expect CPO price to trend higher in 1H24 on the back of tighter CPO supplies while demand remains stable.
- **Timeline:** 2-4 months.

Civmec – BUY (John Cheong)

- **Solid earnings growth for 1QFY24 and improved net cash position.** Civmec's 1QFY24 net profit of A$15.2m (+7.3% yoy) is in line with our expectations, accounting for 24% of our full-year estimate. Net margin remained flat yoy but improved qoq by 2.6ppt, driven by the delivery of higher-return projects and better cost management. On top of this, the group recorded an improved net cash position of A$43.9m (+215.8% qoq) from strong operating cash flows of A$40.1m during the quarter. We expect Civmec to continue delivering a strong set of results moving forward.
- **Positive outlook amid buoyant tendering activities.** Tendering activities saw continued 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; 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 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.

Food Empire – BUY (John Cheong & Heidi Mo)

- **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.
- **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$1.63 is based on 11x 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.

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) automobile: 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 track for a return 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 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.

Valuetronics – BUY (John Cheong)

- **Strong earnings beat in 1HFY24 results.** Valuetronics' (VALUE) 1HFY24 net profit of HK$82.1m (+42% yoy, +26.1% hoh) was above our expectations, making up 61% of our full-year estimate. Gross margin improved by 3.1ppt due to: a) lower material costs from component shortage relief as the group's supply chain visibility has improved, and b) lower labour costs in China, stemming from stabilisation in the labour supply as well as depreciation of the Renminbi. The surge in other income to HK$28.8m (+123% yoy), mainly from rising interest income as a result of the US Fed rate hikes, also led to net margin expansion to 9.2% (+3.7ppt yoy).
- **Positive outlook with four new customers contributing.** Upon VALUE's newly constructed Vietnam campus commencing operations, it consolidated its facilities into one campus site since Jun 22 to optimise operations and costs. VALUE has since acquired two new customers – a hardware provider customer for retail chain stores and a customer providing cooling solutions for high performance computing environments – and successfully commenced initial shipments at end-FY23. Full-year contribution is expected from the two new customers in FY24. More recently, VALUE has acquired another two new customers, including an electronic products supplier for a global entertainment conglomerate and a Canada-based customer providing network access solutions. Management expects to have shipments scheduled in 2HFY24 and production ramp-up in FY25.
- **Strong balance sheet, special dividend and share buybacks.** As of 1HFY24, VALUE had net cash of HK$1.1b (accounting for around 80% of its current market cap). It has also doubled its interim dividend in 1HFY24 via a special dividend and has started aggressive share buybacks after its 1HFY24 results, where it has bought back 2.5m shares vs only 0.5m shares before its 1HFY24 results announcement.
- **Maintain BUY with PE-based target price of S$0.72,** pegged to 10.6x PE for FY24. This is based on 1SD above VALUE's historical PE mean to account for potential strong demand from its four new customers. VALUE is currently trading at only 2x FY24 ex-cash PE and offers an attractive FY24 dividend yield of around 7.5%.

Share Price Catalysts

- **Events:** a) Winning more customers, b) higher-than-expected contributions of new customers, and c) higher-than-expected dividends and share buybacks.
- **Timeline:** 6-12 months.

Venture Corp – BUY (John Cheong)

- **Expect qoq recovery in earnings in 4Q23 and marginal earnings growth of 5% in 2024.** Venture Corporation (VMS) is expected to release its 2023 results on 22 Feb 24, after the close of trading. We expect VMS to report 4Q23 earnings of S$65m (-34% yoy/+3% qoq), its first qoq growth after three consecutive quarters of decline since 1Q23. In VMS' latest outlook, it expects the extent of decline in demand from customers to ease as inventory destocking is entering the final stages.
- **New share buyback plan and increased frequency of share buybacks are more positive signals.** On 30 Nov 23, VMS announced a share buyback plan to purchase up to 10m shares (around 3.4% of its total shares). VMS has since bought back shares more frequently, having repurchased 257,100 shares in two months alone from Dec 23 to Jan 24 at a price range of S$12.80-13.61 vs 500,000 at S$11.71-13.92 in six months from Jun-Nov 23. We believe this is a more positive signal from VMS on the outlook of the company.
- **Potential dividend increase in 2024.** Given VMS' strong cash balance of S$957m that is more than three years' equivalent of earnings as well as management's willingness to improve its capital management, evidenced in the recent 10m share buyback plan, we think there is an increased possibility of a dividend increase in 2024. Typically, VMS will raise its interim dividend by 5 S cents in its 1H results. Assuming a full-year dividend payout of 80 S cents in 2024, this will translate into a payout ratio of 83%, which is still a very comfortable level.
- **Maintain BUY with a 16% higher target price of S$16.37,** pegged to 0.5SD above its long-term mean PE of 17x 2024F earnings, up from its mean PE of 14.6x previously to capture the potential earnings recovery in 2024 and upcycle beyond that. Currently, VMS is trading at 13.9x 2024F PE (9x ex-cash 2024F PE), which is still below its long-term PE mean and offers an attractive dividend yield of 5.6%.

Share Price Catalysts

- **Events:** a) Positive earnings surprise, b) winning more customers, and c) higher-than-expected dividends and share buybacks.
- **Timeline:** 3-6 months.

CapitaLand Ascott Trust – BUY (Jonathan Koh)

- **Stability from geographical diversification.** The outlook is clouded by geopolitical uncertainties and a slowdown in global trade. CLAS' geographical diversification and balanced 46:54 mix of growth and stable income assets provides resiliency.
- **CLAS benefits from the recent expansion in longer-stay properties,** such as student accommodation and rental housing, which accounted for 19% of portfolio valuation.
- **CLAS has a resilient balance sheet with aggregate leverage at 35.2%** (39% post-completion of acquisition of Cavendish London, Temple Bar Hotel and Ascott Kuningan Jakarta), adjusted interest coverage ratio of 4.2x and weighted average debt to maturity of 3.7 years.

Share Price Catalysts

- **Events:** a) Expectations of lower interest rates and lower inflation, and b) normalisation of business and leisure travel.
- **Timeline:** 6-12 months.

Mapletree Industrial Trust – BUY (Jonathan Koh)

- **Portfolio occupancy stable at 92.6% in 3QFY24.** Occupancy for hi-tech buildings improved 2.8ppt qoq to 87.6% due to new leases secured at Mapletree Hi-Tech Park. Committed occupancy at Mapletree Hi-Tech Park improved 3.1ppt qoq to 51.3%. Occupancy for data centres eased 2.4ppt qoq to 91.0% due to non-renewal of a lease for a data centre at Brentwood, Tennessee. Management is in advanced negotiations with a potential replacement tenant from the healthcare industry.
- **Osaka data centre started contributing since 3QFY24; on the lookout for more data centre acquisitions.** MINT completed the acquisition of a data centre in Osaka, Japan at a purchase consideration of ¥52.0b on 28 Sep 23 (only three days of contributions in 2QFY24). The data centre is being fitted out over four phases and provides long WALE of 19 years. MINT has the right of first refusal from the sponsor Mapletree Investments to acquire the remaining 50% stake in their second data centre, JV Mapletree Rosewood Data Centre Trust (MRODCT), which owns 13 data centres in the US. It is also keen to acquire high-tech, R&D and life science properties.
- **Maintain BUY.** Our target price of S$2.98 is based on DDM (cost of equity: 6.75%, terminal growth: 2.2%).

Share Price Catalysts

- **Events:** a) Growth from data centres located in Singapore, North America and Japan, b) acquisition of the remaining 50% stake in portfolio of 13 data centres (second JV) from sponsor Mapletree Investments, and c) redevelopment projects in Singapore.
- **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.** OCBC had the highest CET-1 CAR of 14.8% in 3Q23. It 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$17.00 is based on 1.42x 2024F P/B, derived from the Gordon Growth Model (ROE: 12.8%, COE: 9.0%, growth: 0.0%).

Share Price Catalysts

- **Events:** a) Resiliency from high CET-1 CAR of 14.8%, and b) attractive 2023 dividend yield of 6.3% from commitment to new dividend payout ratio of 50%.
- **Timeline:** 6-12 months.

ComfortDelgro – BUY (Llelleythan Tan)

- **Public transport: Margin expansion to continue into 1H24.** With 30% of CD's UK bus contracts expected to undergo cost indexation within the next two quarters, we reckon that there would be margin expansion moving into 4Q23/1H24, boosting segmental profitability. Also, given increasingly rational competition post-COVID-19 in the UK, 10% of CD's UK bus contracts were renewed at healthier margins in 3Q23 and we expect the same for upcoming contract renewals in 4Q23. For 4Q23, we expect segmental revenue (+6.1% yoy, +5.3% qoq) and core operating profit (+142.5% yoy, +12.8% qoq) to surge higher, backed by favourable tailwinds.

- **Taxi: Strong growth ahead.** In response to higher operating costs, we understand that CD has increased its online- and phone-booked taxi ride commission rates from 5% to 7% starting 1 Jan 24. Based on our estimates, every 1% increase in CD's taxi commission rate would raise our 2024 annual taxi core operating profit by around 4-5% and our 2024 overall annual net profit estimates by 2-3%. For 2024, we expect taxi annual revenue and core operating profit of S$608m (+5.2% yoy) and S$134m (+28.6% yoy) respectively.
- **Maintain BUY with a lower PE-based target price of S$1.66 (S$1.69 previously),** pegged to the same 15x 2024F PE, CD's average long-term PE. With improving fundamentals, a decent 4.2% dividend yield and a robust balance sheet, we reckon that most negatives have already been priced in. Despite the recent strong share price performance, we opine that there is still much potential upside at current price levels. Backed by upcoming favourable tailwinds, we reckon that better sequential earnings improvement for CD for 4Q23/1Q24 would help support share price performance in 1H24.

Share Price Catalysts

- **Events:** a) Bus tender contract wins, b) earnings-accretive overseas acquisitions, and c) increase in taxi commission rates.
- **Timeline:** 6-12 months.

SATS – BUY (Roy Chen)

- **Earnings recovery to gain traction in 2024.** SATS has been a laggard in terms of earnings recovery compared to other Singapore aviation plays but we expect its recovery momentum to gain speed in 2024, driven by: a) the continued recovery of regional air traffic/flight activities, potentially driven by the return of Chinese tourists with Singapore's implementation of the visa-free scheme for the Chinese, and b) the reacceleration of air cargo growth (IATA is forecasting a 4.5% yoy growth in global air cargo volume for 2024). With a more or less stabilised headcount ramp-up, operating leverage should also kick in and help SATS' earnings recovery.
- **Expecting meaningful qoq improvement for upcoming 3QFY24 results driven by business volume growth, partly helped by strong seasonality.** We forecast SATS' 3QFY24 net profit (expected in Feb 24) at S$25m-35m, a meaningful qoq improvement from 2QFY24's headline net profit of S$22.1m (2QFY24 core net profit at S$6m) or 3QFY23's thin profit of S$0.5m. The qoq earnings improvement is expected to be driven by better business volume (IATA reported accelerating air cargo demand growth of 3.8%/8.3%/10.8% yoy in Oct/Nov/Dec 23), partly helped by the strong seasonality (year-end holiday travels and festive season consumptions).
- **The recent Red Sea attacks may provide some tailwinds air cargo volume.** Anecdotally, freight forwarders are seeing stronger demand for air freight due to the delays in ocean freight resulting from the Red Sea attacks. This may help SATS' air cargo handling volume in the seasonally weak 1Q24 (SATS's 4QFY24) thanks to SATS' strong air cargo handling exposure in Europe via WFS.
- **Maintain BUY with a target price of S$3.22.** Our target price for SATS is based on 16.8x FY26F PE, 1SD below SATS' historical mean PE of 19.9x.

Share Price Catalysts

- **Events:** a) organic earnings recovery gaining speed, and b) red sea crisis bolstering air cargo volume.
- **Timeline:** 3-6 months.

VALUATION

Company	Ticker	Rec*	Price 1 Feb 24 (S$)	Target Price (S$)	Upside To TP (%)	Last Year End	PE 2023E (x)	PE 2024E (x)	PE 2025E (x)	Yield 2024E (%)	ROE 2024E (%)	Market Cap. (S$m)	Price/ NAV ps (x)
Bumitama	BAL SP	BUY	0.61	0.70	14.8	12/22	5.3	5.2	6.6	7.7	16.3	1,057.8	1.0
CapLand Ascott T	CLAS SP	BUY	0.96	1.45	51.0	12/23	19.9	21.1	21.1	6.4	3.6	3,612.8	0.8
Civmec	CVL SP	BUY	0.77	1.23	59.7	6/23	7.3	7.1	6.6	5.7	14.1	390.8	1.0
ComfortDelGro	CD SP	BUY	1.40	1.66	18.6	12/22	16.6	13.0	11.4	5.7	8.8	3,032.0	1.2
Food Empire	FEH SP	BUY	1.35	1.63	20.7	12/22	9.9	9.2	8.7	3.2	17.4	712.8	2.0
Frencken	FRKN SP	BUY	1.30	1.23	(5.4)	12/22	21.6	13.4	12.1	2.2	9.9	555.1	1.4
MapletreeInd	MINT SP	BUY	2.40	2.98	24.2	3/23	18.1	17.3	16.8	5.7	7.1	6,800.1	1.3
MarcoPolo Marine	MPM SP	BUY	0.052	0.066	26.9	9/23	7.4	7.3	6.7	2.9	9.6	195.2	1.2
O C B C	OCBC SP	BUY	12.84	17.00	32.4	12/22	8.3	8.3	8.6	6.2	12.8	57,709.4	1.1
SATS	SATS SP	BUY	2.82	3.22	14.2	3/23	102.7	26.5	14.7	1.5	6.5	4,203.6	1.8
Sembcorp Ind	SCI SP	BUY	5.65	7.20	27.4	12/22	10.6	10.6	10.2	2.9	19.6	10,056.9	2.2
SingTel	ST SP	BUY	2.41	3.15	30.7	3/23	16.8	14.5	12.8	5.5	9.5	39,773.1	1.5
Valuetronics	VALUE SP	BUY	0.605	0.72	19.0	3/23	9.1	8.6	8.1	7.4	11.7	248.0	1.1
Venture Corp	VMS SP	BUY	13.62	16.37	20.2	12/22	14.7	14.1	13.6	5.5	9.6	3,953.3	1.4
YZJ ShipBldg SGD	YZJSGD SP	BUY	1.68	1.92	14.3	12/22	10.2	9.1	8.1	2.8	14.6	6,637.0	2.0

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

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