

STRATEGY – SINGAPORE

Higher-for-a-lot-longer Interest Rates

Some Companies To Suffer, Some To Benefit

Recent comments by US Fed officials raise the spectre of zero interest rate cuts should the US economy remain robust. We view Singapore corporates' debt levels as manageable across the companies we cover, with free cash flow generation forecast to remain strong in 2024. Nevertheless, some companies' profit margins could erode in 2024 should interest rate cuts be deferred into 2025, eg WIL, CDL, CLI, SCI and KEP. Companies with high cash piles (eg VALUE, GENS and YZJ) could benefit.

- Potentially higher for a lot longer?** Although the US Federal Reserve's latest dot plot in Mar 24 is for three 25bp rate cuts for 2024, we highlight a recent US Fed official's comment that interest-rate cuts may not be needed this year if progress on lowering inflation stalls, especially if the US economy remains robust. This robustness was underlined by the US jobs report on 5 Apr 24 which was stronger than expected, which puts into stark relief other Fed officials' comments that they are in no rush to cut rates. Even with three rate cuts in 2024 and 2025, the Fed's key benchmark borrowing rate would stay at the highest level since 2007, which could impact Singapore companies.
- Manageable debt levels.** While companies like ST Engineering (STE), Starhub (STH), Sembcorp Industries (SCI) and Wilmar (WIL) have the highest net debt/equity ratios in our large-cap universe of stocks, we believe that their debt is manageable. For example, Wilmar's total debt of US\$31b is short term in nature and tied to its working capital requirements that fluctuates in accordance with agricultural commodities prices and business volumes. Nevertheless, interest expenses could be higher than expected in 2024 for a number of companies, thus mildly eroding profit margins.
- Companies with high cash piles to benefit.** On the other hand, companies with net cash positions as their interest income could help their bottom line in 2024. The five companies with the largest cash piles vs their market capitalisation are Valuetronics (VALUE), China SunSine (CSSC), RH Petrogas (RHP), Genting Singapore (GENS) and Yangzijiang Shipbuilding (YZJ) (see chart overleaf). While GENS and YZJ both increased their respective dividends on a yoy basis when announcing their financial results for 2023, VALUE and CSSC chose to embark on aggressive share buybacks while RHP has retained its cash for its 2H24 drilling programme.
- Our top large-cap picks** are Bumitama, CapitalLand Investment, ComfortDelGro Corp, Genting Singapore, Mapletree Industrial Trust, OCBC, SATS, Seatrium, Sembcorp Industries, and Venture Corp. Small/mid-cap stocks that we like include CDL Hospitality Trust, Far East Hospitality Trust, Food Empire, Frencken Group and Valuetronics Holdings.

KEY FOCUS STOCKS

Company	Rec	Price (S\$/share)	
		5 Apr	Target
Bumitama	BUY	0.73	0.7
CapitalLandInvest	BUY	2.72	4.04
ComfortDelGro	BUY	1.47	1.66
Genting Singapore	BUY	0.895	1.25
Mapletree Ind Tr	BUY	2.32	2.98
OCBC	BUY	13.74	17.22
SATS	BUY	2.56	3.22
Semb Industries	BUY	5.52	7.49
Seatrium	BUY	0.084	0.151
Venture Corp	BUY	14.35	16.37

Small caps

CDL HTrust	BUY	0.99	1.48
Far East HTrust	BUY	0.635	0.82
Food Empire	BUY	1.4	1.69
Frencken	BUY	1.62	1.74
Valuetronics	BUY	0.59	0.72

Source: Bloomberg, UOB Kay Hian

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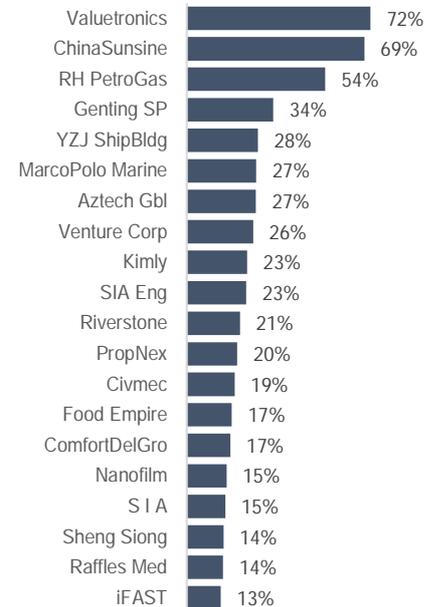
KEY FOCUS STOCKS

Company	Ticker	Rec	Price (S\$)		Upside to TP (%)	PE (x)			2024F (%)		M.cap S\$m	P/B (x)
			5 Apr	Target		2023	2024F	2025F	Yield	ROE		
<b>Large-caps</b>												
Bumitama	BAL SP	BUY	0.73	0.7	(4.1)	5.9	6.3	6.7	6.3	16.8	1,266	1.1
CapitalLandInvest	CLI SP	BUY	2.72	4.04	48.5	76.8	19.4	17.4	3.1	5.2	13,812	1.0
ComfortDelGro	CD SP	BUY	1.47	1.66	12.9	17.6	13.7	12.7	5.5	8.9	3,184	1.2
Genting Singapore	GENS SP	BUY	0.895	1.25	39.7	17.7	13.9	13.5	4.5	9.3	10,804	1.3
Mapletree Ind Tr	MINT SP	BUY	2.32	2.98	28.4	17.5	16.8	16.2	5.9	7.1	6,575	1.3
OCBC	OCBC SP	BUY	13.74	17.22	25.3	8.9	8.8	9.1	6.1	12.8	61,754	1.2
SATS	SATS SP	BUY	2.56	3.22	25.8	93.3	24.1	13.4	1.7	6.5	3,816	1.6
Semb Industries	SCI SP	BUY	5.52	7.49	35.7	10.4	10.2	9.8	2.4	20.0	9,840	2.1
Seatrium	STM SP	BUY	0.084	0.151	79.8	n.a.	39.5	17.3	0.0	2.2	5,730	0.9
Venture Corp	VMS SP	BUY	14.35	16.37	14.1	15.5	14.9	14.4	5.2	9.8	4,163	1.5
<b>Small/mid-caps</b>												
CDL HTrust	CDREIT SP	BUY	0.99	1.48	49.5	80.5	19.2	18.9	6.5	3.5	1,235	0.7
Far East HTrust	FEHT SP	BUY	0.635	0.82	29.1	19.4	20.3	19.6	6.4	3.4	1,273	0.7
Food Empire	FEH SP	BUY	1.4	1.69	20.7	9.7	9.1	8.5	7.1	19.7	743	2.0
Frencken	FRKN SP	BUY	1.62	1.74	7.4	21.3	15.8	14.4	1.9	10.4	692	1.7
Valuetronics	VALUE SP	BUY	0.59	0.72	22.0	8.8	8.3	7.8	7.6	11.7	242	1.1

Source: Bloomberg, UOB Kay Hian

• **What do increases in interest rates mean for our stocks?** In general, we believe that the debt levels for the stocks under our coverage are manageable with only five companies with debt/equity ratios above 1x as at end-23. They are:

**NET CASH AS A PERCENTAGE OF MARKET CAPITALISATION (AS AT 28 MAR 24)**



Source: UOB Kay Hian

**COMPANIES WITH HIGHEST INTEREST EXPENSE IN 2023**

Company	----- \$m -----		yoy
	FY22	FY23	
Wilmar	872	1,252	43.5%
City Developments	285	492	72.7%
CapitaLand Investment	432	448	3.7%
Sembcorp Industries	310	409	31.9%
Keppel	146	328	124.4%
CapitaLand Int Comm Trust	242	322	32.8%
CapitaLand Ascendas REIT	188	257	36.7%
Singtel <sup>1</sup>	207	213	3.0%
Mapletree PanAsia Comm Tr <sup>2</sup>	112	171	52.3%
Thai Beverage (THB) <sup>3</sup>	6,227	6,728	8.0%

Notes: <sup>1</sup>Half year to 20 Sep 23; <sup>2</sup>9M to 30 Sep 23;

<sup>3</sup>Fiscal year ending 30 Sep 23.

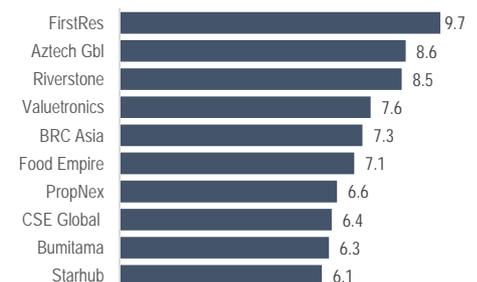
Source: Respective companies, UOB Kay Hian

**SENSITIVITY TO A 100BP DECLINE IN INTEREST RATES IN 2023 (\$\$M)**

Company	2023 net profit	Change in net profit
Wilmar (US\$)	1,658	+106
City Dev	349	+55
CapitaLand Inv	333	+44
Sembcorp Industries	970	+16
Keppel	924	+40

Source: Respective companies, UOB Kay Hian

**10 NON-REIT STOCKS WITH THE HIGHEST YIELD**



Source: UOB Kay Hian

- **ST Engineering.** Over 62% of its loans as at end-23 were at fixed rates, with maturity of mostly 3-5 years, and 2024 average borrowing costs stand at a low to mid-3% range. Although the current net gearing figure (measured against book value of equity) appears high, STE's net debt over market cap, which is a fairer measure for STE's gearing adequacy in our view, was at only 40-45%, quite a comfortable level. STE continues to enjoy strong credit ratings of Aaa/stable by Moody's and AA+/stable by S&P. According to management, STE's interest cost would stay competitive at mid-3% in 2024 (2023: 3.3%) even if the US Fed keeps the benchmark interest at the current elevated levels.

- **Starhub.** About 43% of its debt is in medium-term notes in SGD terms with interest rates ranging from 2.48-3.55% (90% of its debt in fixed rates). In addition, the company has a well-managed net debt/EBITDA ratio of 1.36x with no refinancing required until 2025, a strong balance sheet with free cash flow of S\$186m in 2023 and a forecast free cash flow of S\$248m in 2024.

- **Sembcorp Industries.** Over 72% of its S\$7.3b gross debt in 2023 was at fixed rates, of which 17% is project finance, 43% green loans, and 40% other corporate debts. More than 39% of its loans are due after five years with the rest evenly spread out over 2024-26, with weighted average cost of debt at 4.5%. Note that the group's free cash flow in 2023 was S\$2.0b (2022: S\$1.7b) which led to an improvement in net debt/EBITDA from 3.7x in 2022 to 3.2x in 2023.

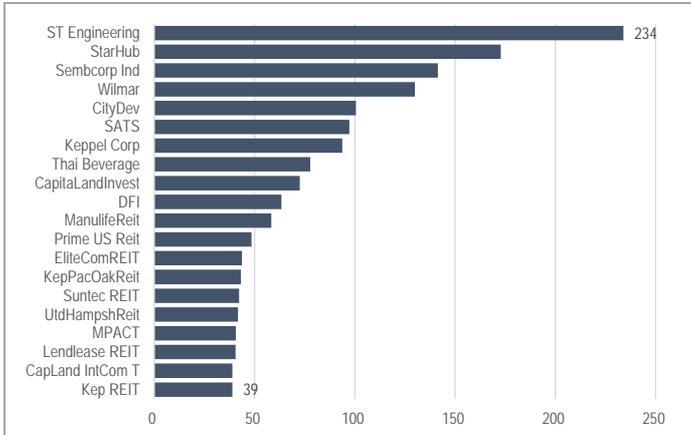
- **Wilmar.** More than 72% of WIL's total debt of US\$30.7b as at end-23 was short term in nature due to its need for working capital for its commodities trading business. Thus, excluding the company's liquid working capital (ie inventories and trade receivables less current liabilities) results in a more meaningful net debt/equity of 0.37x as at end-23. About 99% of WIL's non-current loans are bank loans due in 2023-29.

- **City Developments (CDL).** While CDL deems its end-23 gearing of 61% as high (with 70% being its threshold), it believes that its planned S\$1b in capital recycling in 2024 will be able to bring its net debt levels down, with some potential to refinance at lower rates in 2H24. As at end-Feb 24, the company had refinanced its debt due in 1H24 with its 2H24 refinancing exercise ongoing.

• **REITS – A medium-term play for a turn in the interest-rate cycle.** Many S-REITs sector saw a material reflation in their share prices in late-4Q23 as expectations of early interest rate cuts by the US Fed rose. However in 1Q24, the sector saw a sell-off as these expectations proved entirely too optimistic. On a fundamental basis, we would focus on blue-chip S-REITs with resilient balance sheets to weather external uncertainties. Hospitality REITs: BUY CLAS (Target: S\$1.45) and FEHT (Target: S\$0.82). Retail REITs: BUY FCT (Target: S\$2.73) and LREIT (Target: S\$0.93). S-REITs with high proportion of Euro-denominated borrowings: BUY FLT (Target: S\$1.52) and KDCREIT (Target: S\$2.10).

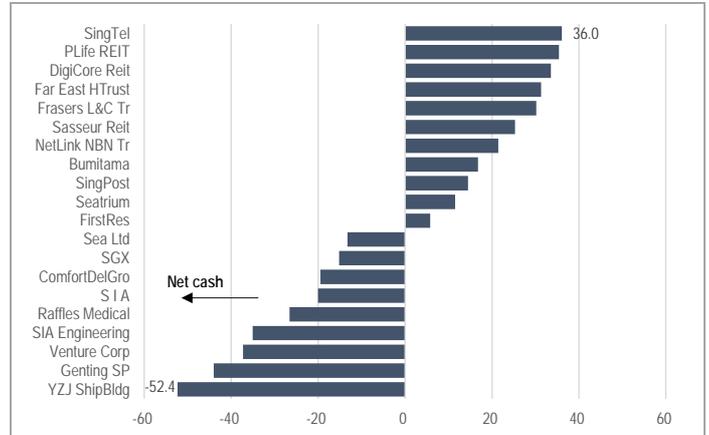
• **For those desirous of yield, but nervous about REITs.** Given the interest rate sensitivity of the sector, investors with a "higher-for-a-lot-longer" interest rate view may understandably be wary of REITs. The 10 non-REIT stocks – most of which are small/mid-caps – with the highest yields in Singapore are shown on the chart on the RHS. Outside of these, we highlight other large-cap stocks with high yields for 2024 including: SIA (5.8%), ComfortDelGro (5.5%), SIA Engineering (5.3%), Venture (5.2%) and Singtel (5.2%).

### STOCKS WITH THE HIGHEST NET DEBT/EQUITY (% , END-DEC 23)



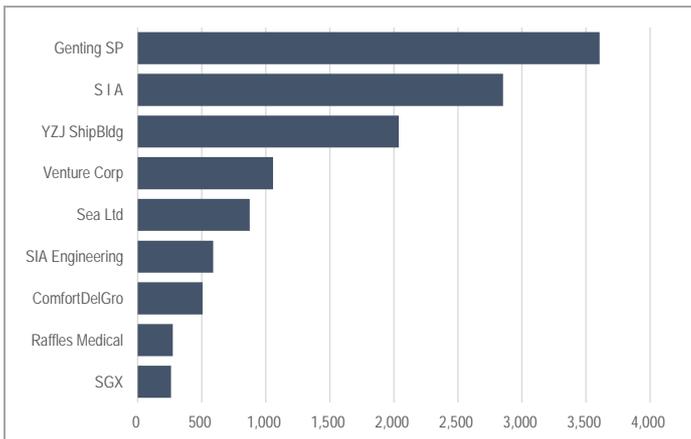
Note: Debt-to-asset ratio for REITs  
Source: Respective companies, UOB Kay Hian

### STOCKS WITH THE LOWEST NET DEBT/EQUITY (% , END-DEC 23)



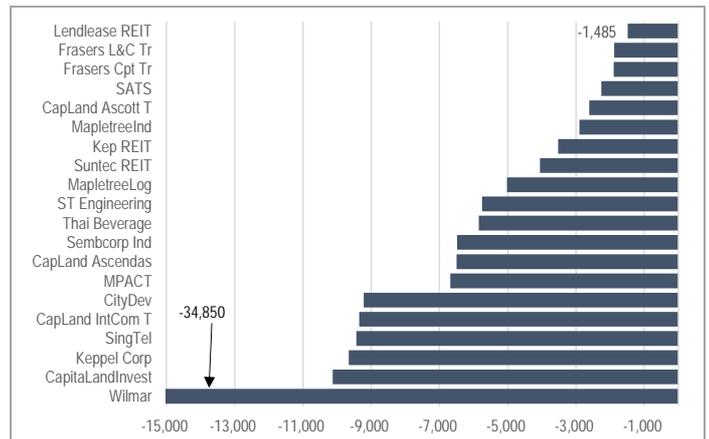
Note: Debt-to-asset ratio for REITs  
Source: Respective companies, UOB Kay Hian

### LARGE CAP STOCKS WITH NET CASH (\$\$M, END-DEC 23)



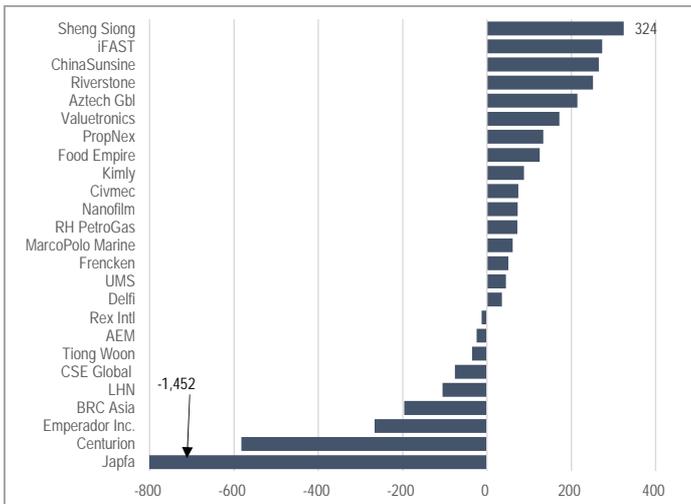
Source: UOB Kay Hian

### STOCKS WITH THE HIGHEST NET DEBT (\$\$M, END-DEC 23)



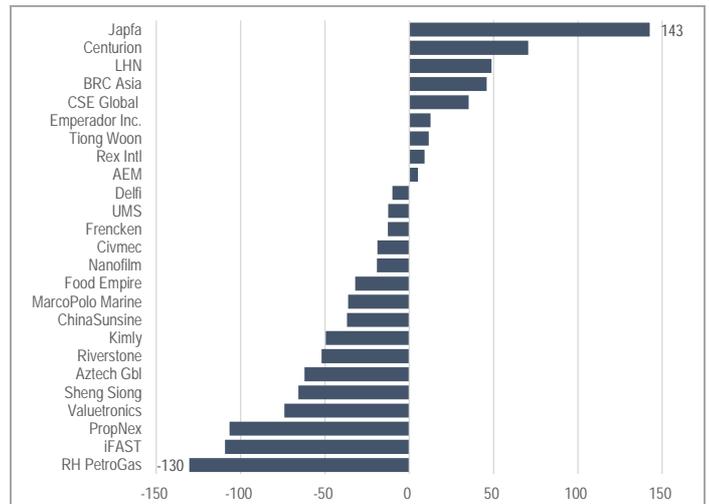
Note: Debt-to-asset ratio for REITs  
Source: Respective companies, UOB Kay Hian

### SMALL/MID-CAP STOCKS: NET CASH/(DEBT) (\$\$M, END DEC 23)



Source: UOB Kay Hian

### SMALL/MID-CAP STOCKS: NET DEBT/EQUITY (\$\$M, END DEC 23)



Source: UOB Kay Hian

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