STRATEGY

Singapore

Invest ASEAN Singapore

Geared towards re-opening

Upbeat with a hint of caution

Of the ten companies presenting at MKE's IASG conference, a majority were upbeat on growth prospects in 2021-22E from rising demand catalysed by pandemic reopening and new opportunities. There was also increasing focus on business strategies that integrate sustainability as well as exploring adjacencies for existing products. Still, there was a measure of caution given regional uncertainty from resurging COVID infections and political instability. Nevertheless, rising vaccine rates and strong external demand should drive upside to growth in Singapore. Our top picks are: **AREIT, CD, CICT, DBS, FRKN, OCBC, QNM, ST, THBEV, UMS**.

Defensible margins, good growth visibility

70% of the companies expect improvements or defence of margins going forward led by a shift towards a higher value product mix and improving demand conditions. This is especially evident in the Technology sector where new generation test handlers are ramping up production for **AEM**, while **FRKN** is successfully passing on cost increases. At the same time, global supply chain disruptions do not seem to have had a material impact to operations, while chip shortages are a tailwind for wafer fabrication equipment (WFE) players such as **MMH**. Elsewhere, the Banks sector expects defensible NIMs as loan growth shifts liquidity to higher yielding assets together with a steeper yield curve. Overall, 90% of presenting companies expect stronger earnings momentum in 2021E.

Increasing focus on sustainability, new verticals

Nearly half the companies are integrating ESG into their business strategies. Banks are leading this with both **OCBC** and **UOB** investing in new Green products and capabilities, while **SGX** is launching new sustainable indexes. Similarly, **CD** is expanding its electric vehicle infrastructure while replacing its taxi fleet with hybrids. Separately, companies are focusing on capturing new growth avenues, leveraging product adjacencies. **NANO** is using its solutions to expand into automotive, optical lenses as well as FMCG, fuel cells, IoT and 5G. Similarly, **QNM** is expanding its COVID PCR testing segment, while aggressively opening new clinics in Singapore and Malaysia.

GDP upgraded to 6.8%. Maintain STI target of 3,537

There remains underlying caution, particularly from resurging COVID cases regionally as well as political uncertainty – especially for **YOMA** where disruptions in Myanmar may affect many of its business lines. Nevertheless, Singapore's vaccine rollout trajectory and a strong external sector has MKE's Macro team upgrading 2021E GDP to 6.8% (*c.* +6.2%) and 2022E to 3.5% (*c.* 2.5%). We maintain our STI target of 3,537, which offers 12% upside. Our strategy calls for a mix of value and growth stocks with POSITIVE sector weightings on Financials, Transport, Telcos, Consumer Cyclicals, Industrial & Commercial REITS.

Analysts

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IASG Presenting Companies

	Ticker	Price (LCY)	TP (LCY)	Rating
AEM	AEM SP	4.14	5.56	BUY
ComfortDelGro	CD SP	1.61	1.88	BUY
Frencken	FRKN SP	1.80	2.00	BUY
Micro-Mechanics	MMH SP	3.18	NA	NR
Nanofilm	NANO SP	5.86	NA	NR
OCBC	OCBC SP	12.15	14.17	BUY
Q&M Dental	QNM SP	0.81	0.87	BUY
SGX	SGX SP	11.40	11.48	BUY
UOB	UOB SP	26.27	29.34	BUY
Yoma Strategic	YOMA SP	0.14	NA	NY

Source: Factset, Maybank Kim Eng

Co. Reg No: 198700034E MICA (P) : 099/03/2012

Corporate Presentation Highlights

AEM (AEM SP, SGD4.14, BUY, TP: SGD5.56)

Speakers:

Chandran Nair, CEO
Leong Sook Han, CFO
Loke Wai San, Non-Executive Chairman

Write up: Lai Gene Lih, CFA (laigenelih@maybank.com)

- Through AEM's test solutions for semiconductor and electronics, it is leveraged to advanced computing, 5G and AI markets. AEM is a pioneer in system level test (SLT), and to-date, there are 35,000 of AEM's SLT sites in production.
- VLSI expects SLT spend to enjoy a 21.6% CAGR during 2019-24 to USD3.2b p.a. This is driven by advancement in packaging and assembly technologies, and the need for parts-per-billion reliability as machine-to-machine communications take place with 5G/IOT related applications.
- Management remains optimistic of growth prospects. Next generation test handlers are on track to undergo production ramp up in late 3Q22 and through FY22.
- The product roadmap is also strong. AEM has deep technical engagements with 10 out of the top-20 semiconductor manufacturers with potential volume ramping up in late 2022.
- Integration of CEI is ongoing, driving cost efficiency improvements and leveraging customer relationships to increase revenue opportunities.
- We observed that AEM appears not to struggle with material components shortages issues, which is currently affecting many technology hardware manufacturers globally. AEM credits this to strong planning by a highly competent in-house purchasing team.

ComfortDelGro (CD SP, SGD1.61, BUY, TP: SGD1.88)

Speakers:

Mr Derek Koh, Group Chief Financial Officer
Mr Christopher David White, Head, Group Investor Relations

- The overall outlook has been more stable in FY21 as compared to FY20.
- Despite Phase 2 (Heightened Alert) in Singapore during 2Q21, the Management is still targeting to reinstate its interim dividend in line with its payout ratio of at least 50%.
- CDG is positioning for the rolling out electric vehicle (EV) infrastructure. It is currently participating in a URA tender for 600 EV charging points across the island. This is a small-scale trial compared to what will be eventually deployed in Singapore under the Green Plan.
- On its ESG goals, CDG is on track to achieve its target of replacing its 100% of its diesel taxi fleet with hybrids by 2023. By 2030, CDG will increase hybrids for all other vehicles.
- The revision of financing framework of Downtown Line (DTL) is still ongoing.
- Discussion on how CDG will unlock value from its Australia assets is still at its preliminary stage. So far, there has been no target valuation or a targeted timeframe.
- Taxi fleet utilisation rate remains above 90% currently

Frencken (FRKN SP, SGD1.80, BUY, TP: SGD2.00)

Speakers:
Dennis Au, CEO

Write up: Lai Gene Lih, CFA (laigenelih@maybank.com)

- Frencken is well diversified across several sub-segments, i.e. automotive (12% of revenue), analytical and life sciences (18%), medical (14%), industrial and industrial automation (19%), and semiconductor (30%).
- While certain sub segments such as semiconductor and industrial are inherently cyclical, the medical and analytical sub segment tend to exhibit stable growth over time.
- One of the key drivers of growth is through wallet share gains with existing customers.
- Frencken has been steadily improving gross margins since 2015, and expects to continue doing so in 2021.
- In the automotive segment, eco-PVD is a beneficiary of plastic metallisation, and is leveraged to the electrification of vehicles and connected vehicles.
- Frencken likes to invest counter-cyclically to position for the eventual uptrend. For instance, Frencken invested during the 2019 semiconductor downturn on new products. The segment has been a bright spot in 2020-21.
- Frencken has so far been able to pass on increased costs. For the most part, Frencken has been able to manage its supply chains successfully.
- Where there are cases of delays, it tends to be because of customers delaying accepting products as they cannot complete final assembly due to shortages of other components.
- Current segmental demand outlook is largely unchanged from what was reported during the 1Q21 update.
- Frencken is building a new facility in Eindhoven. This new facility serves as capacity expansion, as well as to consolidate multiple sites into a single facility.

Micro-Mechanics (MMH SP, SGD3.18, Not Rated)

Speakers:
Christopher Borch, Founder and CEO

Write up: Lai Gene Lih, CFA (laigenelih@maybank.com)

- Micro-Mechanics manufactures high precision and process critical semiconductor parts and tools. It has over 600 active customers.
- Around 80% of revenue is derived from the back-end (assembly and test), while 20% of revenue is derived from the front-end (wafer fabrication equipment, WFE, parts).
- The front-end business is primarily based in the US, while the back-end business is primarily based in Asia.
- Products for front-end include parts that have critical impact on wafer processing. For the back-end, products are critical tools for die-attach and wire bonding. These tools have hole sizes or features as small as 0.05mm and 0.1mm.
- Over the long run, one of the key areas of growth is to expand the revenue pie from WFE markets.

- Drivers of the back-end include market growth (i.e. chip production volumes), base of installed die-attach/ wire bonding machines and the miniaturisation of chip packages.
- Meanwhile, drivers of the front-end business include WFE demand, advances in technology nodes and customer penetration rates.
- Gross margins are consistently above 50%. Management believes that over time, Micro-Mechanics may be among a handful of suppliers that are able to meet the increasingly stringent requirements for semiconductor equipment makers as device geometries shrink below 10nm.
- As the semiconductor business is inherently cyclical, Micro-Mechanics prefers to grow its business sustainably without debt.
- Further, Micro-Mechanics likes to reward long-term shareholders with dividends (pay-out ratio of 40%. FY19-1H21 pay-out ratio ranged between 92-114%).

Nanofilm Technologies (NANO SP, SGD5.86, Not Rated)

Speakers:
Kay Lim, CFO

Write up: Lai Gene Lih, CFA (laigenelih@maybank.com)

- Nanofilm is a leading provider of nanotechnology solutions in Asia. Its FCVA coating technology enables deposition at room temperatures, which allows coating new substrates such as plastics and rubber. This opens up markets that competitors cannot access.
- Growth avenues include i) capturing greater share in established end markets, which include the 3Cs (computer, communications and consumer electronics), printing and imaging and precision engineering; and ii) taking off in new markets (e.g. automotive and optical lenses).
- Further, Nanofilm sees avenues for vertical & horizontal integration to leverage available synergies. For instance, due to its position as a provider of mission critical offerings, an avenue for growth is to integrate assembly of products in automotive, fuel cell, optical sensors and FMCG markets.
- Over time, Nanofilm also sees opportunities to enter new markets with FMCG personal grooming, fuel cell, 5G antennas, biomedical and IoT optics.
- In the automotive business, Nanofilm's piston rings (JV with CYPR) meet or exceed current emission standards.
- In the long run, Nanofilm sees fuel cell technologies as an area of growth, as its advanced materials are ideal for the harsh environment presented by chemical reactions in a hydrogen fuel cell systems.
- To mark its entry into the hydrogen economy, Nanofilm intends to jointly invest in Sydrogen Energy with Temasek to leverage opportunities in this space.
- In terms of pricing for mission critical offerings where it is a sole provider, this tends to be determined based on customers' acceptance. Pricing has to be rational in order to enable proliferation of Nanofilm's offerings.
- On the current state of tightness in the supply chains, Nanofilm observes that the situation is getting better. One of the key reasons is because the bargaining positions of Nanofilm's customers, which helps them secure components

OCBC (OCBC SP, SGD12.15, BUY, TP: SGD14.17)

Speakers:

Mr. Collins Chin, Head of Investor Relations
Ms. Elyn Aw, VP, Investor Relations
Mr. Benjamin Ong, AVP, Investor Relations
Ms. Jasmine Loke, AVP, Investor Relations

Write up: Thilan Wickramasinghe (thilanw@maybank.com)

- The new CEO will be announcing her strategy later this year, but expect some of the broad themes to include capitalizing North-South supply chain flows, expanding wealth management, digitalization and growing sustainably
- In terms of asset quality, overall loans under moratorium makes up just 2% of the loan book. Singapore makes up just above half of this, but 97% of the exposure is secured. A quarter is in Malaysia where 86% is secured. The remainder is in Indonesia, HK and Macau.
- OCBC believes it has sufficient buffers including SGD400m of management overlay
- Nevertheless, most countries are not out of the pandemic yet, so OCBC will remain cautious on provisioning
- Loan growth looks promising, but will be weighted towards 2H21. Mortgage applications have seen strong growth and this should translate in to loan growth as drawdowns take place as housing projects complete. OCBC also sees opportunities in healthcare, infrastructiure, real estate and wealth driven lending
- The wealth business continues to see strong growth. The upside is coming not just from private banking but the mass-premium segment as well. OCBC has seen productivity improvements in their relationship managers. A larger proportion of AUM is originating from ASEAN followed by Greater China
- Trading income for OCBC is mostly mark-to-market from the insurance business. Apart from that a bulk of trading incomes comes from customer flows. OCBC does not have a large trading book like US banks, so the volatility of trading income should be lower
- A key area of growth will be Sustainability. OCBC has a dedicated ESG team that looks at all deals relating to ESG. These are subject matter experts in areas such as green financing. On an overall basis, ESG factors play a role in all parts of the credit assessment for OCBC

Q&M Dental (QNM SP, SGD0.81, BUY, TP: SGD0.87)

Speakers:

Dr Ng Ng Chin Siau, CEO

Write up: Eric Ong (ericong@maybank.com)

- QNM have already set up three new clinics in Singapore (Tampines Hub, Compassvale Crescent, and Orchard Central) and another two in Malaysia (Semenyih and Seremban) this year.
- It has also secured leases for three new dental outlets in Singapore (Bedok Reservoir, Jurong Yuhua, and Canberra), which are expected to commence operations soon. Management aims to open up to 10 new clinics by 1H21.

- Q&M wants to expand 30 new outlets annually (SG/MY: 20/10) over the next few years. The margins / payback period for Singapore clinics are generally better than Malaysian due to higher pricing.
- The Group expects its 51%-owned PCR testing business to be sustainable as the world learns to live an endemic COVID-19 the virus.
- That said margins could gradually decline from increasing competition as the government opens up to more healthcare institutions to conduct PCR swab tests.
- Its 43.4%-owned associate – Catalist-listed Aoxin – should see a turnaround operationally (excluding any one-off impairment) in FY21 on improved performance from key dental hospitals and polyclinics.
- Its holding company, Quan Min Holdings (QMH) recently transferred 9.75m shares at a discount to market price to Quan Min Plus following the signing of 10-year service agreement with the Group's nine next generation dentists in order to align their interests with shareholders.
- QMH may continue to undertake similar actions in the future to attract new talent and retain existing high performers.
- Currently, the Group's top 35 dentists contribute roughly about 65% of its overall revenue.

SGX (SGX SP, SGD11.40, BUY, TP: SGD11.48)

Speakers:

Mr. Dominic Lim, Head of Investor Relations
Ms. Joyce Koh, Associate Director, Investor Relations
Ms. Aranda Yong, Associate Director, Investor Relations

Write up: Thilan Wickramasinghe (thilanw@maybank.com)

- Index restructuring in Singapore offers opportunities across multiple business lines for SGX. It creates volatility in the underlying market, which should drive demand for risk management products and derivative volumes on SGX
- Also this may catalyse new product development on SGX's platform
- The rise of New Economy stock listings also offers opportunities. SGX has put in place a robust secondary listings framework since 2020, which allows the recognition of regulatory jurisdiction of popular New Economy listings destinations such as the US and UK
- This framework should allow companies to use SGX as a venue for secondary listings with minimal roadblocks
- SGX is also looking at introducing SPACs and currently it is in the public consultation stage. A key differentiation of the SGX SPACs will be from a governance perspective
- In terms of market velocity, SGX believes it will remain elevated vs. pre-Pandemic. There is increased retail participation and the Group has been expediting account openings for this category and also stepping up investor education
- From a regional perspective, SGX's competitive advantage is offering capital efficiency through margin offsets. This is different from other exchanges that focus mostly on their domestic markets
- The Group also offers deep liquidity on its derivative products. The recent shift of MSCI contracts to HK and the subsequent substitution of FTSE contracts did not diminish liquidity with SGX keeping 90% of volumes. This shows the resilience of the platform
- On opex, going forward SGX expects costs to go up and for margins to come in lower from current levels as discretionary costs such as marketing and travel pick up with economic reopening

- On sustainability, SGX plays a dual role as regulator and corporate. On regulatory, the Group is exploring how to improve the mandatory sustainability reports for listcos, while on the commercial side, SGX has launched four ESG indexs and partnered in forming a Carbon Exchange

UOB (UOB SP, SGD26.27, BUY, TP: SGD29.34)

Speakers:

Mr. Stephen Lin, Head of Investor Relations
Mr. Alfred Chan, SVP, Investor Relations
Mr. Soh Yi Da, VP, Investor Relations
Ms. Yeap Wan Leng VP, Investor Relations

Write up: Thilan Wickramasinghe (thilanw@maybank.com)

- Over the medium term, UOB is confident on ASEAN growth. They are investing in digital capabilities to expand their franchise and the supply chain realignment from China to SE Asia is also opening up opportunities
- UOB has the most comprehensive ASEAN franchise compared to peers with boots on the ground in more markets including Thailand and Vietnam. This helps in facilitating client conversations and bringing clients together
- In the near term, growth is set to come from developed markets and key gateway cities such as Singapore and Hong Kong.
- Loan growth in 1Q21 was good, but in 2Q21 it may be slower given new COVID lockdown measures in some markets. That said, the Group is seeing bullish demand from sectors such as data centres, healthcare and health-tech as well as large corporates in Singapore, HK, Australia, UK and US
- Large corporates are taking advantage of low interest rates and with asset prices also depressed, UOB is seeing more loan growth coming from this segment
- In term of asset quality, around 6% of the loan book is under moratoriums or reliefs. However, payments are increasing and some of the moratoriums exists only because of standard government relief measures.
- Based on bottom up assessments, UOB remains comfortable with the quality of the book and has sufficient provisions
- Trading income may likely see some slowdown in 2Q21 compared to the quarter before given market conditions. But this segment contributes less to total income than peers
- Sustainability is a key area where UOB is investing and have already built a track record with green bonds, increasing funding to renewable energy and putting sustainability frameworks in place

Yoma Strategic (YOMA SP, SGD0.14, Not Rated)

Speakers:

JR Ching, CFO

Jane Kwa, IR

Write up: Eric Ong (ericong@maybank.com)

- Yoma is currently working to complete the subscription of the second tranche placement shares of *c.* USD46m. To recap, Ayala Corporation said it would invest USD155m at SGD0.45/share for a 20% stake in Yoma via the issuance of primary shares in Nov 2019.

- The first tranche of USD109m of primary shares to Ayala was completed in Dec 2019.
- Its real estate segment appears relatively more resilient as customers are increasingly wary about holding cash due the disruption in banking system. This is leading to a willingness to purchase hard assets.
- Unrecognised revenue of USD19m for the sold units at StarCity and Pun Hlaing Estate is expected to be realised as construction progresses despite some delays in activities.
- While the recent slower economic activities and the disruption of the mobile network in Myanmar have impacted the business, Wave money remains profitable due to its scale
- Although the long-stop date has expired, Wave money is still talking to Ant Group on a potential strategic partnership, as well as exploring other available opportunities.
- Notwithstanding the challenges, management will seek on driving profitability in all of its businesses.
- This may include permanently or temporarily closing a third of its F&B restaurants if they can no longer be operate profitability.
- No one can tell exactly when the political crisis in Myanmar will end as the development continues to evolve and remains unclear at this stage.
- Hence, it is too early to ascertain the longer-term impact of the current political situation on Yoma's businesses.
- For now, it will focus on reducing the Group's operating costs and defer most capex to conserve cash and maintain liquidity.

Top Picks

Fig 1: Singapore market top picks

Stock	BBG	M.Cap	Rec	Price	TP	Upside	EPS gr. (%)		P/E (x)		ROE (%)		P/B (x)		Div Yield (%)	
	Code	USDm		LCY	LCY	%	21E	22E	21E	22E	21E	22E	21E	22E	21E	22E
Large Caps (>SGD5bn)																
Ascendas REIT	AREIT SP	9,386	Buy	3.05	3.65	19.7	41.8	6.1	19.3	18.3	6.8	6.9	1.3	1.3	5.2	5.5
Comfortdelgro	CD SP	2,578	Buy	1.61	1.88	16.8	222	24	18.5	14.4	7.3	8.5	1.2	1.2	3.2	5.6
DBS	DBS SP	57,976	Buy	30.33	33.71	11.1	39.7	7.5	11.7	10.5	12.1	12.1	1.4	1.3	3.6	4.6
OCBC	OCBC SP	40,522	Buy	12.15	14.17	16.6	41	7	11.0	10.1	10.0	10.1	1.1	1.0	4.1	4.9
SingTel	ST SP	27,937	Buy	2.29	2.81	22.7	359.9	18.2	14.7	12.4	9.6	11.3	1.4	1.4	5.1	6.0
ThaiBev	THBEV SP	12,339	Buy	0.67	0.99	48.9	9.1	7.1	14.4	13.3	17.4	17.3	2.6	2.3	3.3	3.6
CICT	CICT SP	10,238	Buy	2.14	2.55	19.2	100.0	7.7	19.5	18.3	5.2	5.5	1.0	1.0	5.1	5.5
Small & Mid-Caps (<SGD5bn)																
UMS	UMSH SP	626	Buy	1.58	1.80	13.9	62.2	13.6	13.2	11.8	21.7	21.1	2.9	2.5	2.5	2.5
Frencken	FRKN SP	568	Buy	1.80	2.00	11.1	27.8	9.0	12.9	11.3	15.3	14.8	2.0	1.8	2.0	2.2
Q&M Dental	QNM SP	479	Buy	0.81	0.87	8.1	79.3	5.8	20.6	17.1	29.0	30.3	5.3	5.2	3.7	4.3

Source: Maybank Kim Eng

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