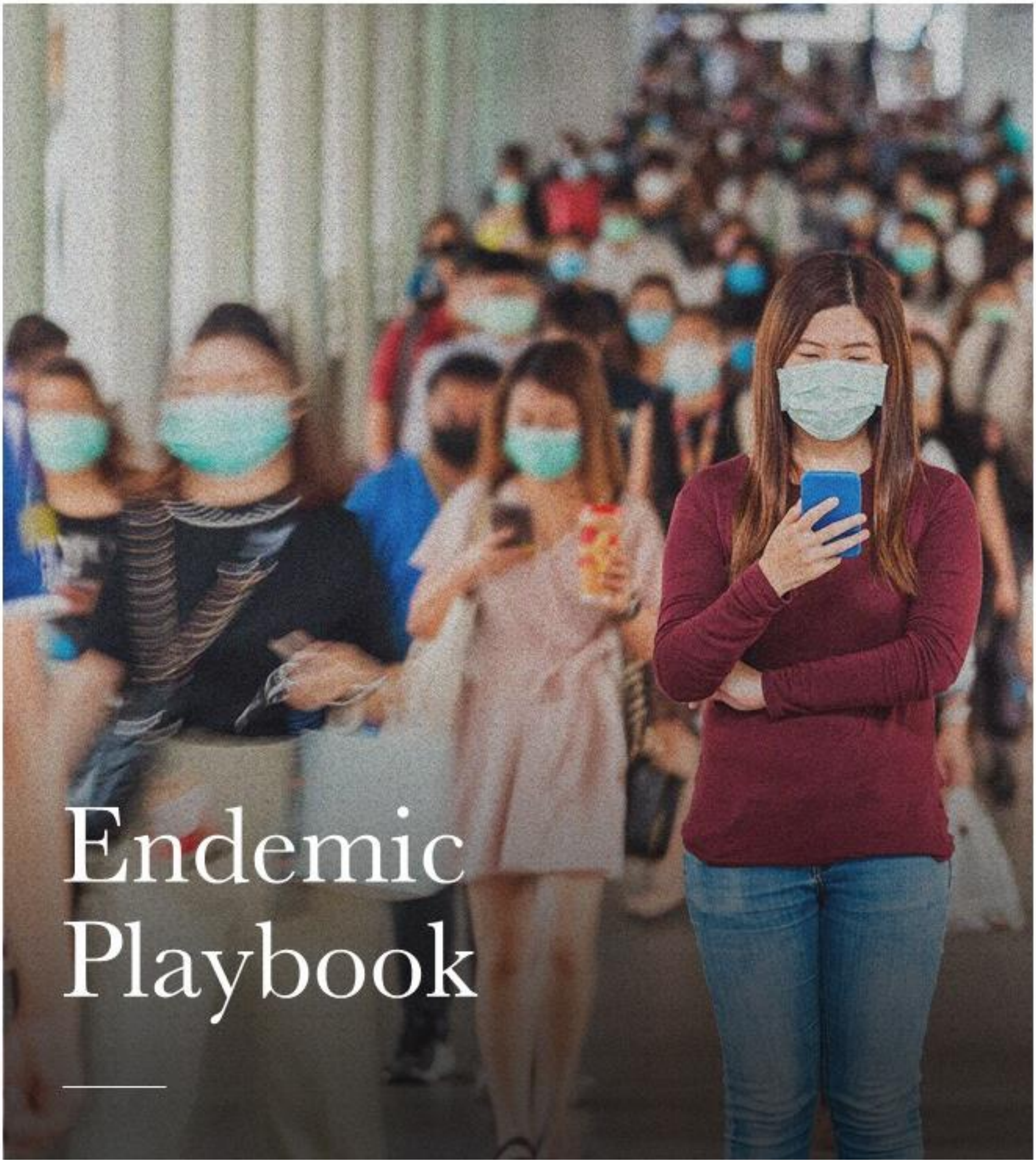
SGSTRATEGY



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SEE PAGE 50 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Singapore Market

Endemic playbook

We see multiple catalysts for Singapore's re-rating

We think Singapore is in a sweet spot in a Covid-endemic 2022 as its 'old world', value oriented sectors benefit from rising rates and a clear path to economic re-opening. At the same time, structural and policy shifts are pointing the economy towards sustainability and new economy sectors through M&A and restructuring. This should fortify Singapore's investment case regionally. We think banks, consumer, industrials, transport and technology sectors could see the strongest benefit from these forces. Our preferred picks: **BAL, CD, CICT, DBS, FRKN, OCBC, ST, THBEV, UOB, and WIL**.

Balance sheets strong, valuations reasonable

Singapore's underperformance vs. global equities is now worse than during the *Asian Financial Crisis*. Yet, balance sheets are much stronger than then. Net gearing is at 9% (vs. 18% 10-years ago), which should temper the impact of rising rates, in our view. Value stocks have led the bulk of underperformance. The PE discount of growth to value stocks is the narrowest in 4-years (4% vs. 16%). We think with markets increasingly weighing in higher costs to risk, Singapore's value offering is compelling.

Cyclical & structural drivers set to deliver growth

Singapore's high vaccination rate (46% on booster dose) gives it the clearest path to re-opening. The government's pragmatic stance in the face of rising Omicron cases, instead of triggering lockdowns, further points to commitment towards treating Covid as endemic. This should improve earnings visibility and operating leverage for domestic re-opening plays ahead of regional peers. Separately, deal volumes are now the highest since 4Q19 with robust valuation premiums. Structural drivers such as responding to permanently altered operating environments, greater focus on ESG should accelerate the pace of M&A and restructuring. USD27bn of deals are pending at the start of 2022. Equally, a renewed policy push towards transforming Singapore's market from 'old world' domination to 'new economy' is likely to enhance its relevance for higher investment weightings regionally.

Opportunities in re-opening, restructuring & rates

The troika of (a) rising rates, (b) re-opening and (c) restructuring puts Singapore in a sweet spot to snap out of its trend of underperformance, in our view. We are most positive on Banks, Consumer, Transport, Technology Manufacturing, which are the most geared towards the troika. Our top picks are: BAL, CD, CICT, DBS, FRKN, OCBC, ST, THBEV, UOB, and WIL. Our updated 12-month STI target is 3,629 (*c.* 3,650), offering 12% upside.

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Singapore Top Picks

Stock	BBG Code	M.Cap (USDm)	Rec	Price LCY	TP LCY
Bumitama Agri	BAL SP	719	Buy	0.56	0.93
CICT	CICT SP	9,645	Buy	1.98	2.55
Comfortdelgro	CD SP	2,141	Buy	1.34	1.88
DBS	DBS SP	66,889	Buy	35.07	37.03
Frencken	FRKN SP	570	Buy	1.81	2.50
OCBC	OCBC SP	40,266	Buy	12.10	14.67
SingTel	ST SP	28,362	Buy	2.33	2.83
Thaibev	THBEV SP	12,220	Buy	0.66	0.99
UOB	UOB SP	36,236	Buy	29.16	31.15
Wilmar	WIL SP	20,295	Buy	4.30	5.80

Source: Factset, Bloomberg, Maybank IBG Research

1. Balance sheets strong, valuations reasonable

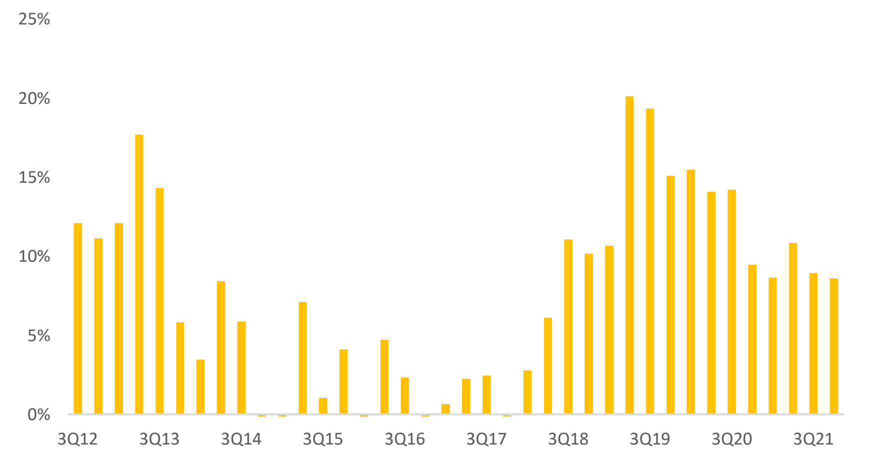
Singapore has chronically underperformed global equities since the GFC. Higher growth neighbours, lack of a hinterland, limited representation of 'new economy' names have all contributed to the lag, in our view. Some of these handicaps are reversing. Yet, since the start of the pandemic, Singapore's underperformance is worse than during the Asian Financial Crisis (AFC) nearly a quarter century ago.

Fig 1:MSCI Singapore vs. MSCI World index (x)

Source: Bloomberg, Maybank IBG Research

We think the market is at an inflection point. Corporate balance sheets are significantly stronger compared to the AFC. Strategically, a wave of restructuring - especially across the GLCs and conglomerates -aims to increase corporate resilience and strengthen business models (we will discuss this in more detail in Section 2).

Fig 2: STI net gearing (%)



Source: Bloomberg, Maybank IBG Research

From a pure balance sheet perspective, the STI's net gearing is at 9% vs. 18% even 10-years ago. This is especially important in a backdrop of rising interest rates.

The lower gearing levels and higher cash reserves puts Singapore's corporates in a stronger position to temper the negative impacts of higher rates.

Fig 3: Policy rates (% year-end)

	2019	2020	2021E	2022E	2023E
US	1.63	0.13	0.13	0.38	1.13
Indonesia	5.00	3.75	3.50	3.75	4.25
Malaysia	3.00	1.75	1.75	2.00	2.50
Philippines	4.00	2.00	2.00	2.25	2.75
Singapore	1.77	0.41	0.45	0.62	1.10
Thailand	1.25	0.50	0.50	0.50	1.00
Vietnam	6.00	4.00	4.00	4.25	4.50

Source: CEIC, Maybank IBG Research

Indeed, Maybank IBG's Macro Team expects Singapore's policy rates to increase 17bps YoY in 2022E. This is still less than half of where policy rates were prior to the pandemic. Coupled with lower gearing levels, rising rates are unlikely to have a significant impact to earnings momentum in the near-term, in our view.

A closer examination of Singapore's recent underperformance highlights that Value stocks have led the bulk of underperformance.

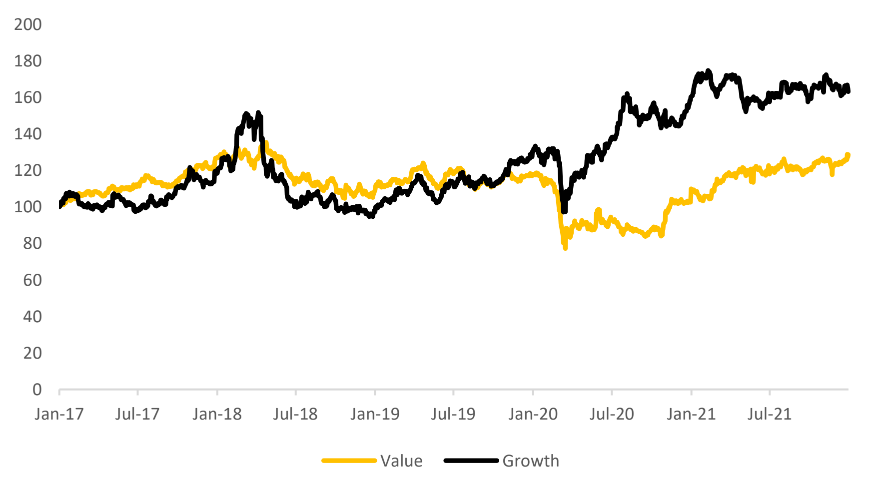
Fig 4: 'Value' and 'Growth' bellwether baskets

Value		Growth	
Ticker	**Stock**	**Ticker**	**Stock**
DBS SP	DBS Group	KDCREIT SP	Keppel DC REIT
OCBC SP	OCBC	VMS SP	Venture Corp
ST SP	SingTel	WIL SP	Wilmar International
SATS SP	SATS	NANO SP	Nanofilm Technologies
CLI SP	CapitaLand Investments	AEM SP	AEM Holdings
CIT SP	City Developments	UMSH SP	UMS Holdings
THBEV SP	Thai Beverage	FRKN SP	Frencken Group
YZJSGD SP	Yangzijiang Shipbuilding	JAP SP	Japfa
SIA SP	Singapore Airlines	QNM SP	Q&M Dental
CD SP	ComfortDelGro	KOUFU SP	Koufu Group

Source: Maybank IBG Research

We compare the performance of a basket of bellwether Value stocks vs. Growth stocks in Singapore. Our selected stocks are members of either the STI or STI Mid Cap index and have been categorized based on their key sectoral activities as well as business model characteristics.

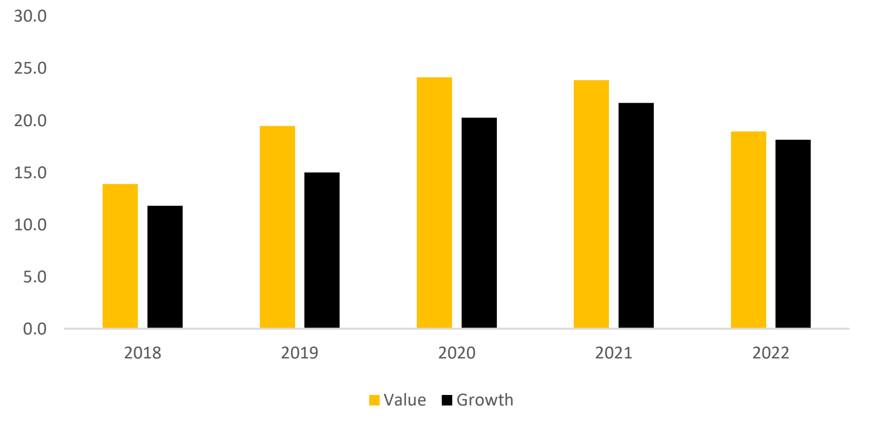
Fig 5: 'Value' vs. 'Growth' baskets indexed performance



Source: Bloomberg, Maybank IBG Research

The PE discount of growth to value stocks is at its narrowest in 4-years (4% vs. 16%).

Fig 6: Average PE: Growth vs. Value basket



Source: Bloomberg, Maybank IBG Research

We think with markets weighing in higher costs to risk, Singapore's value offering is compelling.

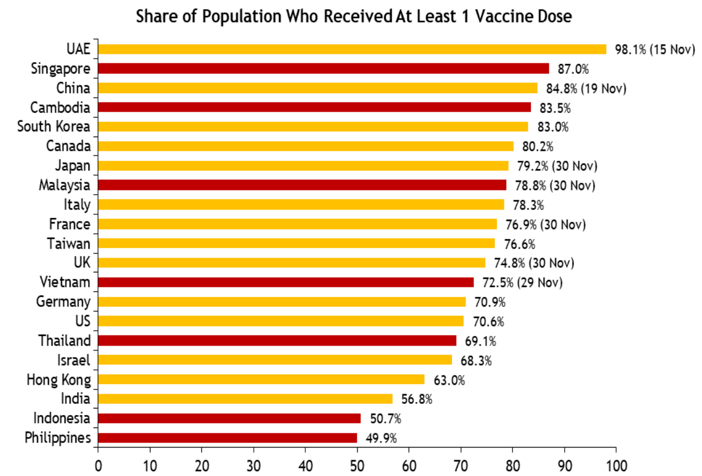
2. Cyclical and structural drivers set to deliver

New Covid variants, uncertainty on the ultimate landing of Fed policy and China's swing inwards could heighten market volatility in the near-term. Nevertheless, this does not take away from the critical medium-term shifts Singapore is undergoing. We think these should enable Singapore to see multiple expansion and improved liquidity.

Clear path to re-opening

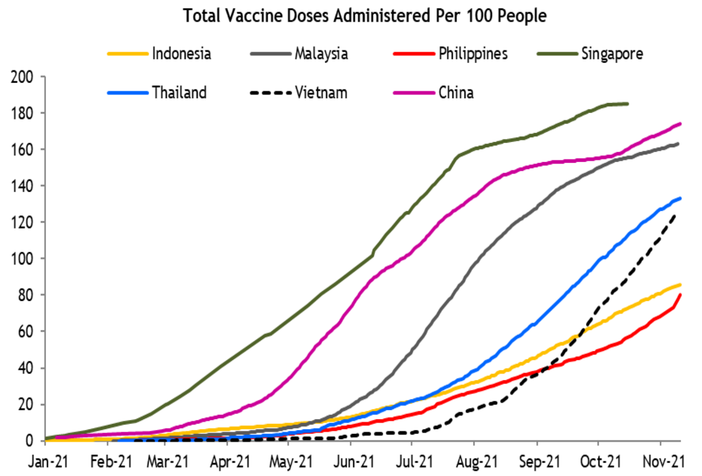
90% of Singapore's eligible population is now fully vaccinated and 46% on a booster dose for better protection against the Omicron variant. The country is rolling out paediatric vaccinations currently for the 5-12 year age group.

Fig 7: ASEAN vaccination rates



Note: Updated as of 1 Dec 2021 unless otherwise stated in the parenthesis.
Source: Our World in Data, MOH Singapore, Maybank IBG Research

Fig 8: Pace of vaccinations in ASEAN + China



Note: Updated as of 1 Dec 2021, except Singapore (as of 5 Nov).
Source: Our World in Data, Maybank IBG Research

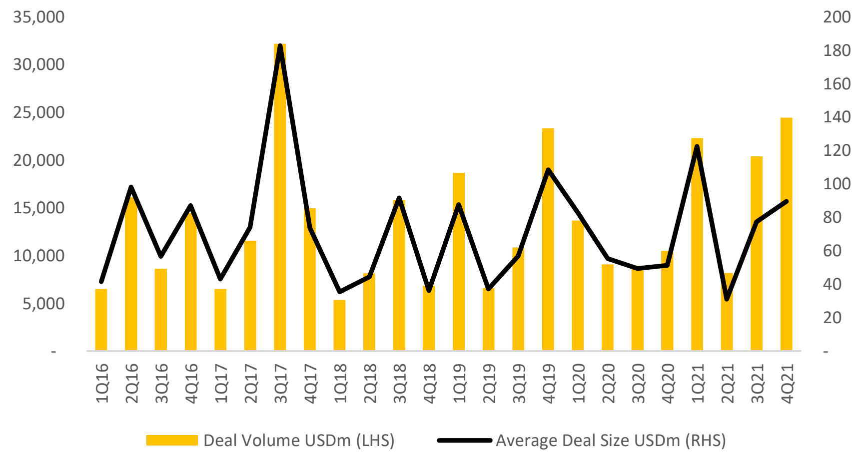
While the pace of vaccinations is rising rapidly in the rest of ASEAN, Singapore continues to display a dominant pace. We believe this gives it the clearest path to re-opening. The government is taking a pragmatic stance in the face of rising Omicron cases rather than triggering lockdowns. Following lockdowns during the Delta-variant wave in mid-2021 in order to not overwhelm healthcare system, Singapore has increased ICU capacity to 350 beds together with a further 6,000 patient isolation and community treatment capacity. This further points to commitment towards treating Covid as an endemic disease. This contrasts with other regional financial centres such as Hong Kong, which are pursuing Covid zero strategies.

This should improve earnings visibility and operating leverage for domestic re-opening plays ahead of regional peers.

Rising deal volumes and M&A

Singapore has seen a flurry of M&A, restructurings and privatisations in 2021 (*Singapore Market: Shaken and stirred, 24 Sep 2021*). Deal volumes in 4Q21 were the highest since 4Q19 with robust valuation premiums.

Fig 9: Announced M&A deal volumes and average deal size Singapore



Source: Bloomberg, Maybank IBG Research

Newsflow associated with restructuring, particularly amongst the Temasek-linked conglomerates, is also intensifying. Capitaland's privatization of its property development segment while keeping its REITs and asset management unit listed is an example. SingTel has announced that it may look to unlock value from its latent infrastructure assets globally.

We expect this trend to accelerate given three critical factors that may catalyse transactions in the near-to-medium term.

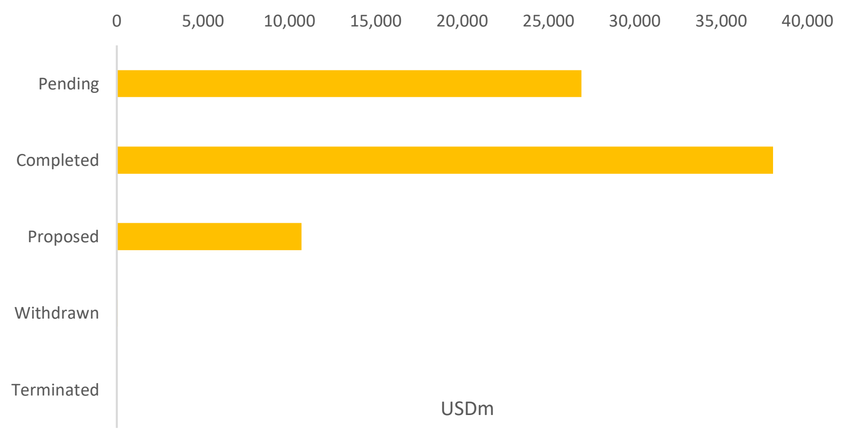
1. **Pandemic-acceleration.** Movement restrictions and lockdowns due to Covid-19 accelerated the pace of digitalisation. According to Temasek & Bain, South-East Asia saw 40m new internet users in 2021 and 8 out of 10 internet users have become digital consumers. Separately, the prevalence of hybrid-work options and stricter protocols on health and safety have increased. These changes are affecting traditional business models and service delivery. This should drive corporates to pivot to new strategies and develop fresh capabilities that address these circumstances. They will need to either restructure internally or buy any gaps in capabilities, we believe. The investments in digital banking by SingTel and the merger of CMT and CCT in the face of growing e-commerce competition are examples.

2. **Sustainability and impact.** The need to achieve the Paris Climate Agreement goals and the risks and costs associated with failure is increasingly becoming clearer (see *Singapore ESG compendium, 5 July 2021*). A survey by EIU shows that 76% of institutional investors expect the inflows to sustainable investments to accelerate because of the pandemic. Access to funding, whether through capital markets or bank lending is increasingly dependent on companies de-risking their ESG exposures. This could drive companies to re-look at their business strategies and growth assumptions. Gaps could catalyse restructuring or M&A, in our view. The announcement by Keppel O&M to increase contribution from alternative energy projects as well as SingTel's strategy of incorporating sustainability to its new strategic thrusts are examples.

3. **Distress and strategy changes.** The pandemic and changes to business conditions have caused certain assets to underperform. The collapse of shipping company Hin Leong and the sale of hotel assets by Eagle Hospitality Trust are examples. Similarly, Citibank exiting its consumer banking business in 13-markets including China, India, Indonesia is an example of a strategy change. This may present opportunities for corporates to acquire assets that could enhance their own value propositions. UOB's and DBS's announcements that they are actively looking at Citibank's assets in the markets that they operate is an example.

So far in 2022, nearly USD27bn of deals are pending, while a further USD11bn are proposed. We expect these figures to be revised upwards as the year progresses.

Fig 10: Deal status by value since Jan 2021 - Singapore (USDm)



Source: Bloomberg, Maybank IBG Research

Fig 11: Top 10 largest deals in Singapore since Jan 2021

Deal Type	Announced Date	Target Name	Acquirer Name	Announced Total Value (USDm)	Deal Status
M&A	22-Mar-21	CapitaLand Ltd	CLA Real Estate Holdings Pte Ltd	7,680	Completed
SPIN	26-Mar-21	CapitaLand Integrated Commercial Trust	Shareholders	7,487	Completed
M&A	31-Dec-21	Mapletree North Asia Commercial Trust	Mapletree Commercial Trust	5,554	Pending
M&A	4-Aug-21	ARA Asset Management Ltd	ESR Cayman Ltd	4,827	Pending
M&A	29-Oct-21	Singapore Press Holdings Ltd	Hotel Properties Ltd,Mapletree Investments Pte Ltd,CLA Real Estate Holdings Pte Ltd	4,425	Proposed
M&A	2-Aug-21	Singapore Press Holdings Ltd	Keppel Corp Ltd	4,342	Pending
M&A	15-Oct-21	ARA LOGOS Logistics Trust	ESR-REIT	1,599	Pending
M&A	12-Oct-21	Infrastructure assets/Puma Energy Holdings Pte Ltd	IFM Investors Pty Ltd	1,500	Proposed
M&A	24-Aug-21	Interplex Holdings Pte Ltd	Blackstone Inc	1,000	Proposed
M&A	21-Feb-21	OUE Bayfront OUE tower and OUE Link	BPH Propco LLP	957	Completed

Source: Bloomberg, Maybank IBG Research

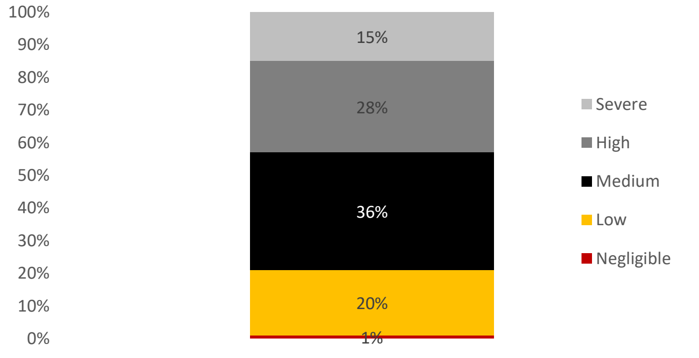
Policy push

77% of STI's market cap is 'old world' financials, real estate, and industrials. We believe these could benefit from the current cyclical forces of rising rates and economic re-opening. Nevertheless, from a long-term policy standpoint, Singapore needs to increase the relevance of its market regionally as well as against financial centres such as Hong Kong by reflecting forward growth drivers such as 'new economy', precision manufacturing and sustainable investments.

Following the introduction of the SPAC framework in September 2021, state-backed Vertex ventures is set to debut a blank cheque company in January 2022. There are several more in the pipeline, we understand. Additionally, the government through various agencies including Temasek and EDBI have set up SGD2bn of funds to attract 'new economy' listings to Singapore.

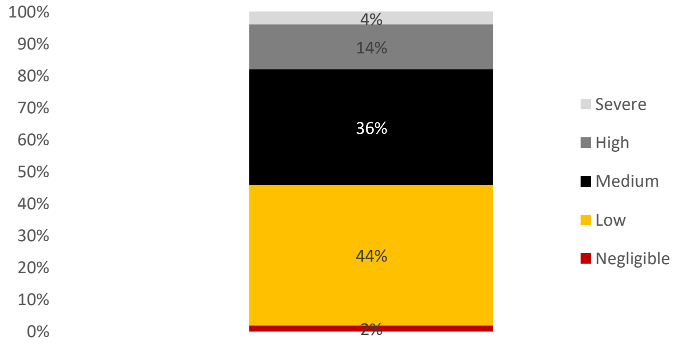
Separately, the government is investing in building a sustainable financing eco-system under the Singapore Green plan. As ESG investing becomes an over-arching theme globally with governments and investors increasingly committing to achieving net zero emissions, Singapore could be a key beneficiary of such investments.

Fig 12: Sustainalytics: risk categories - global coverage



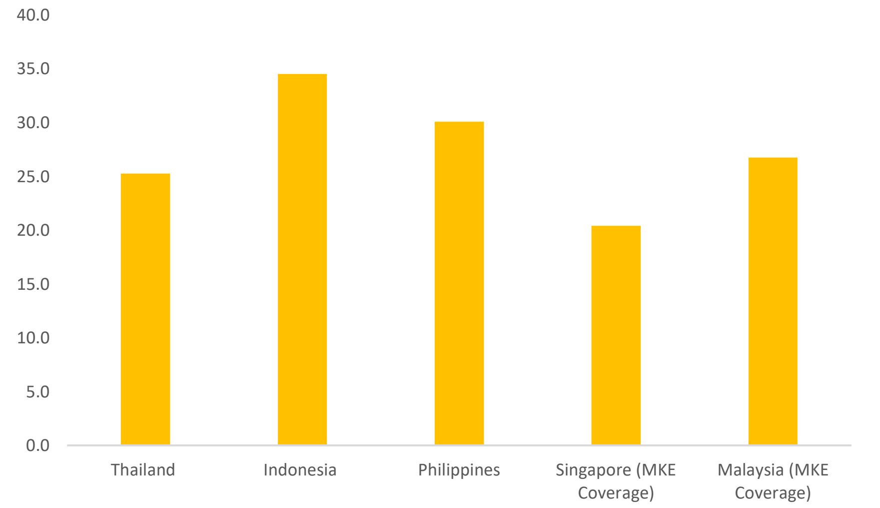
Source: Sustainalytics, Maybank IBG Research

Fig 13: Sustainalytics: risk categories - Maybank IBG SG coverage



Source: Sustainalytics, Maybank IBG Research

Fig 14: ASEAN: Sustainalytics average risk score of Top 30 stocks by market capitalization



*** For Singapore and Malaysia, Risk Scores of all companies with Tear Sheets displayed*

Source: Maybank IBG Research

Singapore's listings tend to display lower ESG risks compared with Sustainalytics' global coverage universe. The higher prevalence of REITs, developers and technology and a lower representation of brown industries such as plantations, metals & mining, petrochemicals likely underpin this differential.

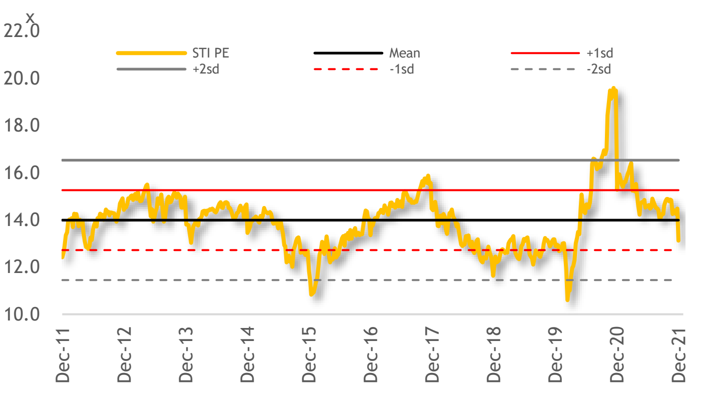
Similarly, compared across ASEAN, Singapore's coverage universe represents a lower risk distribution. This may prove to be a catalyst in terms of attracting regional liquidity flow seeking lower ESG risks.

3. Opportunities in re-opening, restructuring & rates

The troika of (a) rising rates, (b) re-opening and (c) restructuring & M&A puts Singapore in a sweet spot to snap out of its trend of underperformance, in our view.

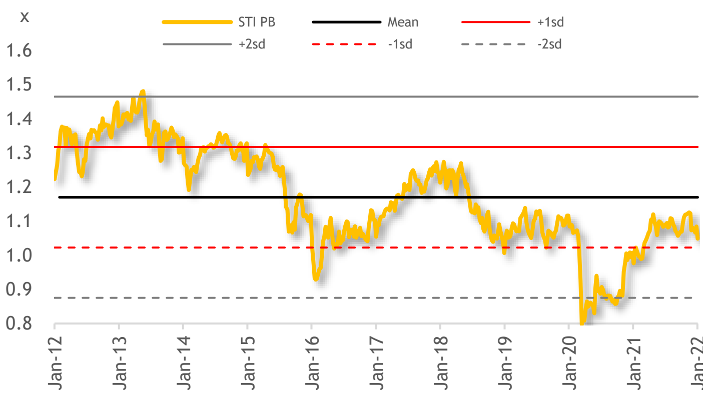
Valuations are un-stretched with 12-month forward PE at 13.1x, which is 6ppt below the long-term mean. Similarly, on a PB basis, the market is trading at 1x comparted to 1.2x historically.

Fig 15: STI 12-month fwd PE (x)



Source: Bloomberg, Maybank IBG Research

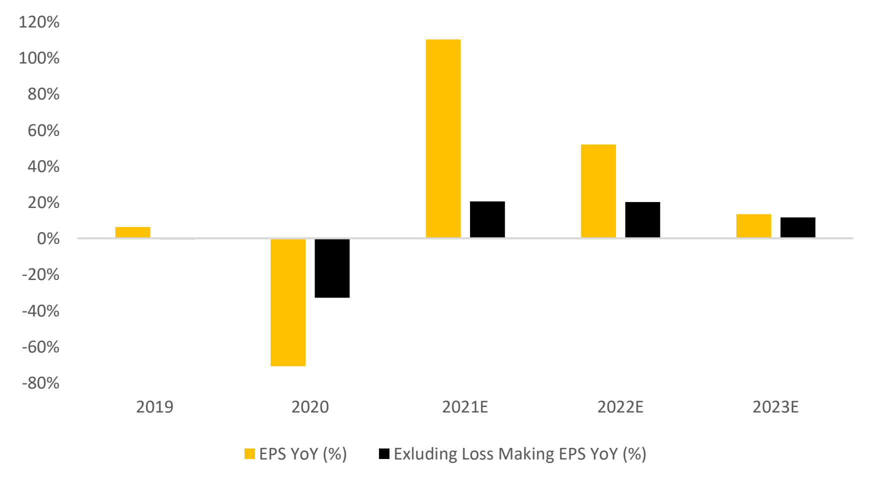
Fig 16: STI 12-month fwd PB (x)



Source: Bloomberg, Maybank IBG Research

Earnings are set to continue to rebound in 2022E with STI EPS projected to rise 52% YoY following a 110% YoY turnaround in 2021E.. As Singapore and regional re-opening continue to play out, we believe earnings risks in 2022E is to the upside.

Fig 17: STI consensus EPS growth YoY (%)

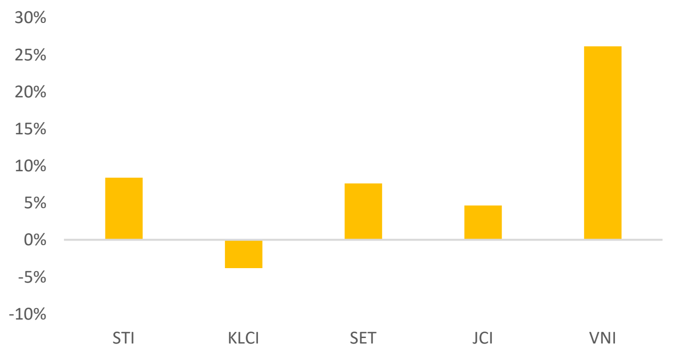


Source: Bloomberg, Maybank IBG Research

In the past 12-months, the STI has been one of the better performing indices in ASEAN, rising +8% - ahead of the KLCI (-4%) and the JCI (+5%). Most of the growth was due to strong re-ratings in Financials (+18%), Technology (+24%) and Utilities (+10%).

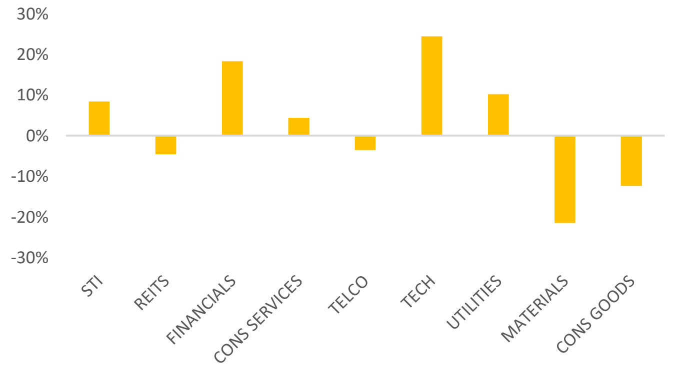
We think this momentum is set to continue. The catalysts of rising rates should support Financials, while restructuring and re-opening should support a wider range of sectors including Consumer, Utilities, and Materials.

Fig 18: 12-month STI performance vs. regional indexes



Source: Bloomberg, Maybank IBG Research

Fig 19: 12-month STI sub-index performance



Source: Bloomberg, Maybank IBG Research

Setting 12-month STI target at 3,629; 17% upside

Based on our earnings outlook, continued availability of liquidity and updating for latest target prices we update our 12-month STI target to 3,629 (from 3,650). Our STI-targeting methodology is unchanged incorporating a weighted average of base, bear and bull-case scenarios. It takes into account the present backdrop of liquidity and market volatility.

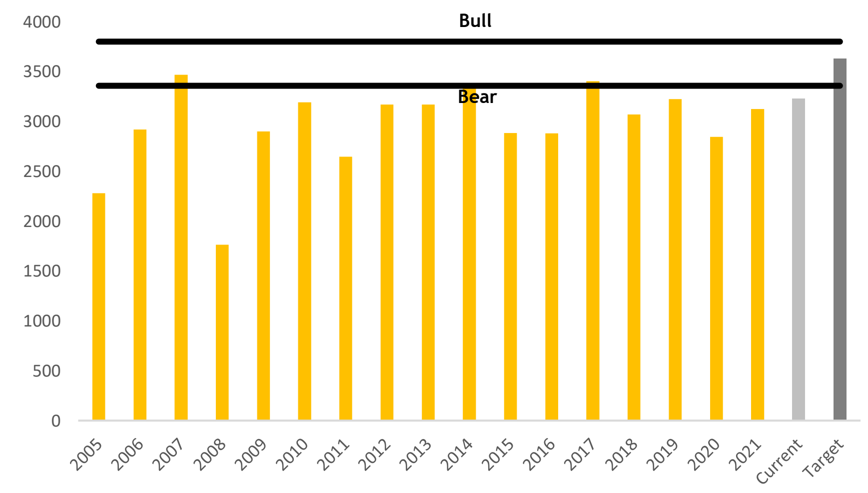
We assign a 50% weighting to our base case bottom-up valuation derived from Maybank IBG and consensus-derived target prices of component stocks. We assign equal weights to top down PE and PB pegs that reflect liquidity.

Fig 20: Maybank IBG STI Target Setting

	Target	Weighting	Comments
Maybank IBG/Consensus TP Derived Index Level (Bottom Up)	3,799	50%	Fundamental value driven upside
10-year Mean Forward PE 13.9x (Top Down)	3,357	25%	Traded up to +2SD following GFC, O&M crisis
10-year Mean Forward PB 1.2x (Top Down)	3,560	25%	Traded up to +2SD following GFC, O&M crisis
Weighted 12-month Fwd Target	**3,629**		
Current Index	3,227		
Upside	**12%**		

Source: FactSet, Bloomberg, Maybank IBG Research

Fig 21: Maybank IBG STI target and bull and bear-case scenarios

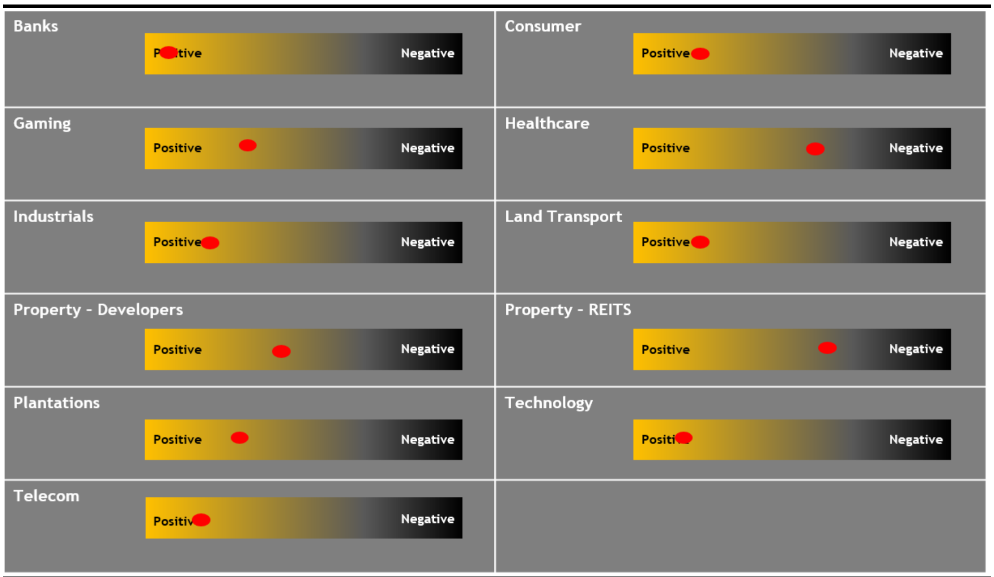


Source: Bloomberg, Maybank IBG Research

4. Sector and stock outlook

We are most positive on Banks, Consumer, Industrials, Transport, Technology Manufacturing, which are the most geared towards rising rates, restructuring and re-opening.

Fig 22: Sector weightings



Source: Maybank IBG Research

Our top picks are based on strong gearing to the troika of drivers.

1. Rising Rates: **DBS, UOB, OCBC** should see increasing PPOP revisions from rising rates both from higher loan yields and gapping income. Potential for higher trading income and allowance write-backs are further upside drivers
2. Re-opening: **ComfortDelGro, Frencken, Thaibev, CICT** should benefit from increasing demand from return to office, higher social and F&B demand as well as increased capacity additions to counter supply-chain bottlenecks
3. Restructuring: **Bumitama Agri, SingTel** and **Wilmar** are key candidates for strategic restructuring as managements look to unlock value as well as re-focus strategies to take advantage of the Covid endemic new normal

Fig 23: Singapore Top Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	Upside %	EPS gr. (%) 22E	EPS gr. (%) 23E	P/E (x) 22E	P/E (x) 23E	ROE (%) 22E	ROE (%) 23E	P/B (x) 22E	P/B (x) 23E	Div Yield (%) 22E	Div Yield (%) 23E	Comments
Large Caps (>SGD5bn)																	
CICT	CICT SP	9,645	BUY	1.98	2.55	28.8	11.8	3.3	17.1	16.6	5.5	5.6	0.9	0.9	5.9	6.0	We see favourable growth fundamentals, as its AUM rises to SGD22.9b, with overseas assets growing to 9%, even as it maintains a Singapore core. We see near-term catalyst from DPU recovery i and medium-term earnings upside as it leverages added development capacities in value-accretive AEIs and redevelopment opportunities.
DBS	DBS SP	66,889	BUY	35.07	37.03	5.6	4.3	9.8	12.1	10.6	12.4	12.7	1.5	1.4	4.0	4.6	Potential uplift to fee income as North Asia and ASEAN economic activity picks up. Excess reserves points to EPS upgrades from reserve write-backs. Investments in digital, AI and retail wealth could create new pathways for higher medium-term ROEs.
OCBC	OCBC SP	40,266	BUY	12.10	14.67	21.2	8.0	10.1	10.1	8.6	10.3	10.8	1.0	1.0	5.0	5.8	Strong platform to leverage on North-South supply chains, rising Asian wealth and increasing demand for sustainable finance. Potential EPS upgrades from higher NIMs, trading income and reserve write-backs
SingTel	ST SP	28,362	BUY	2.33	2.83	21.5	(2.4)	18.5	12.7	10.9	9.5	10.9	1.4	1.3	5.9	6.9	Singtel should see earnings recovery on i) gradual ARPU recovery post-COVID ii) 5G ARPU uplift iii) associates set for ARPU uptrend. We see deep value as market is ascribing almost zero value to its core operations in Singapore and Australia.
Thaibev	THBEV SP	12,220	BUY	0.66	0.99	50.0	6.2	5.9	13.0	13.9	16.3	15.5	2.2	2.1	3.4	3.7	Its portfolio of top mass-market brands remains well positioned to capture post-Covid recovery, driven by easing restrictions of on premise consumption. Valuation is also undemanding compared to other consumer brands in the region
UOB	UOB SP	36,236	BUY	29.16	31.15	6.8	11.4	12.5	10.8	9.7	10.2	10.8	1.1	1.0	4.8	5.1	Strong regional integration and ASEAN focus should drive earnings momentum from regional re-opening. Potential EPS upgrades from higher NIMs, trading income and reserve write-backs
Wilmar	WIL SP	20,295	BUY	4.30	5.80	34.9	1.9	4.5	12.5	12.1	7.6	7.6	0.9	0.8	5.0	5.2	Structurally, WIL should be a beneficiary of China's common prosperity drive, while regional re-opening could boost volumes. Potential restructuring, special dividends and share buybacks are catalysts going forward
Small & Mid-Caps (<SGD5bn)																	
Bumitama Agri	BAL SP	719	BUY	0.56	0.93	67.6	13.7	(9.4)	6.6	6.2	16.8	13.9	1.0	0.9	6.1	6.4	We like BAL as it is undervalued, trading at single-digit PER, and provides attractive dividend yields of ~6% (on 40% dividend payout assumption). Its undervaluation makes it a potential privatization target too.
Comfortdelgro	CD SP	2,141	BUY	1.34	1.88	40.3	27.6	3.7	12.0	10.9	8.4	8.4	1.0	1.0	6.7	7.4	With its share price hovering near all-time low, we think that the market is pricing in further tightening of social distancing restrictions in its operating countries. Better-than-expected Omicron severity scenario could be a re-rating catalyst. At the current price, this offers a favourable risk-reward ratio.
Frencken	FRKN SP	570	BUY	1.81	2.50	38.1	15.4	11.0	11.2	10.0	17.4	17.1	1.8	1.6	2.7	3.0	We like Frencken for its long-term margin expansion story through increasing value-add. Margin expansion may be slower in the near term as rising costs may not be adequately passed through. However, we believe risk reward is attractive at 12x FY22E P/E for 18% EPS growth.

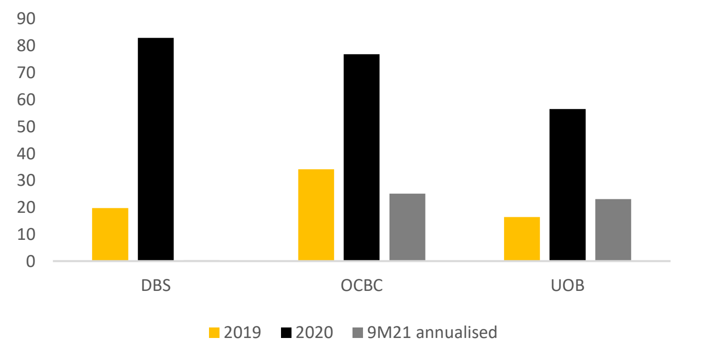
Source: Factset, Bloomberg, Maybank IBG Research

4.1 Banks and Financials

Better-than-expected asset quality

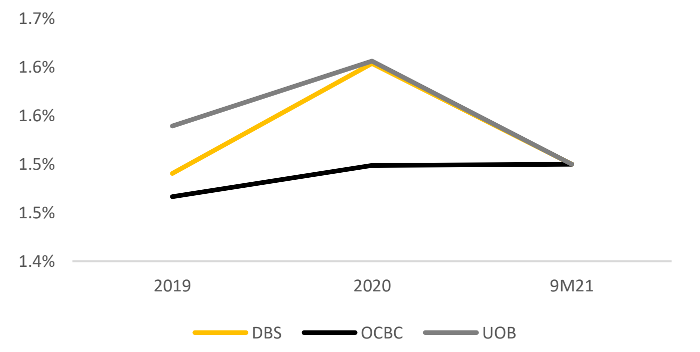
The worse did not happen. In fact, compared to the beginning of 2021, sector EPS expectations have been upgraded by 39% for 2021E and 17% for 2022E. In part, this is due to anticipated credit risks not materializing helped by massive fiscal and monetary stimulus in Singapore and regionally. NPLs, which saw a marginal increase in 2020, are now trending similar to pre-pandemic levels.

Fig 24: Credit charges (bps)



Source: Maybank IBG Research

Fig 25: Gross NPLs (%)

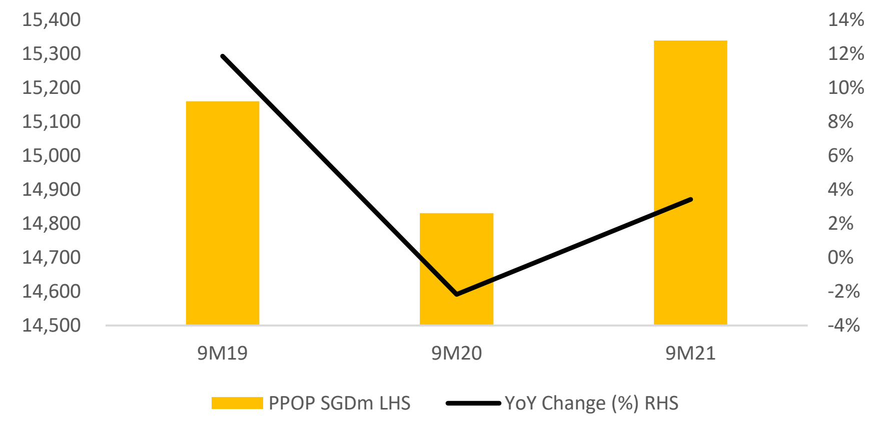


Source: Maybank IBG Research

As a result, credit charges saw a sharp 78% YoY decline. This included some releases of General Provisions taken during the height of the pandemic, especially by DBS.

The financial sector's earnings upgrades were also supported by improving operating conditions. Pre-provision operating profits (PPOP) for 9M21 have already surpassed pre-pandemic levels following a 2% YoY contraction in 9M20. Strong support from trading income in 1H21 from buoyant markets helped, but structural improvements in fee income was also seen - especially from wealth management, transaction fees, IB&A as well as a revival in credit cards. Interest income was weaker given low interest rates, but some of the downside was offset by better-than-expected loan growth, particularly in Singapore and North Asia.

Fig 26: Sector pre-provision operating profits



Source: Maybank IBG Research

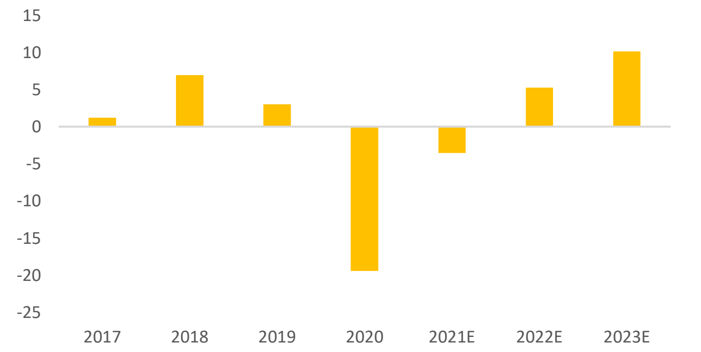
The sector also saw significant investments in digital infrastructure, especially in delivering mass-market wealth management, customer acquisitions in under-banked markets as well as new business platforms such as crypto currency.

All three banks have made announcements in terms of sustainability lending targets as well as new products and services that focus on responsible investing.

Expect PPOP upgrades from rising rates

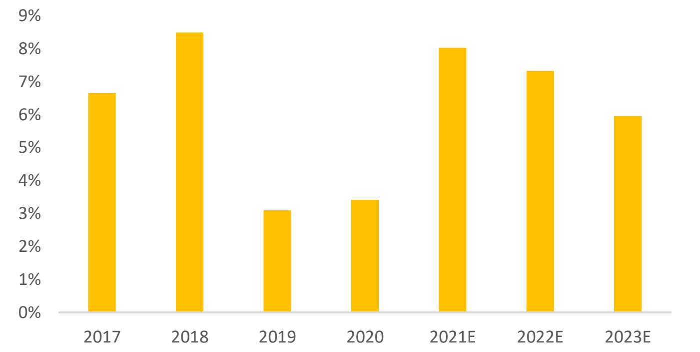
We estimate sector earnings to rise 7% YoY in 2022E off a higher base. This positive momentum should see stronger support from net interest income, which struggled in 2021 due to low interest rates. In Singapore, policy rates are expected to rise 17bps YoY in 2022E, and in ASEAN by 17 to 25bps. This should allow NIMs to finally expand following two years of contraction. We expect NIMs to see 5bps YoY growth in 2022E and a stronger 10bps YoY rise in 2023E as excess liquidity is shifted to higher yielding loans from lower yielding government & investment securities.

Fig 27: Sector NIM change YoY (bps)



Source: Maybank IBG Research

Fig 28: Sector loan growth YoY (%)



Source: Maybank IBG Research

Low loan-to-deposits ratios (87% in 2021E) should support competitive market share gains – especially given strong USD liquidity – as supply chains shift from North Asia to ASEAN. Significant investments in cross-border integration is a further positive, in our view.

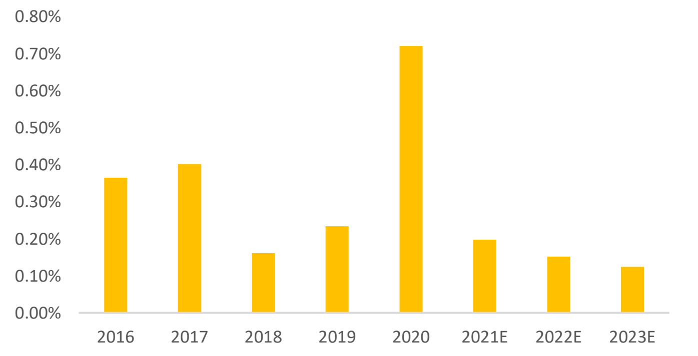
We expect increased market share opportunities in green and sustainable lending and products. All three banks have developed sustainable lending frameworks and have announced responsible lending targets. Given the focus on Singapore's green financing eco-system under the government's Green Plan, we expect material participation from the sector in driving transactions.

A steepening yield curve as interest rates rise could open opportunities for higher trading and gapping income. Fee income should also see support as economic activities increase from border re-openings and travel especially in loan fees, transaction fees, credit cards and IB&A. Wealth management should also continue to see upside as the sector pursues hyper-individualized product offerings in the mass market wealth segments. These should all increase the probability of earnings surprises.

Concurrently, we expect the sector to close 2021E with a provisioning cover of 102% - significantly higher than the average 87% seen in the 3 years leading up to the pandemic. NPLs should see a downtrend (from 1.6% in 2021E to 1.5% in 2022E) from rising loan growth and improved economic outlook, which may catalyse provision write-backs to accelerate. This could support earnings upgrades going forward as well as potential for higher dividends.

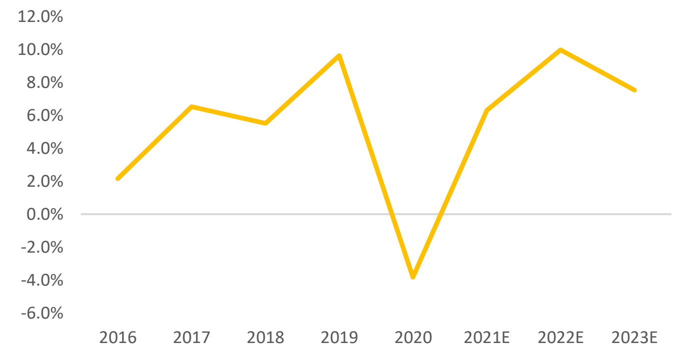
We see potential downside risks from higher opex going forward. Tight labour conditions as well as operating environments normalizing while business activities pick up, could, we believe, see employee costs revised higher. Concurrently, technology costs could are likely to remain elevated as the sector continues to digitalise and invest in delivering hyper-personalised services. As a result, we estimate opex could expand at 10% YoY in 2022E – the fastest pace since 2015.

Fig 29: Sector credit charges (%)



Source: Maybank IBG Research

Fig 30: Sector opex growth YoY (%)



Source: Maybank IBG Research

The sector is sitting on strong CET1 levels (the highest since post-GFC recapitalizations). This could catalyse the potential for M&A and deals regionally, especially in growth segments and markets in line with group strategies. For DBS and OCBC, this could be increased investments in North Asia and India (for DBS), while for UOB this could lead to more deals in South-East Asia, in our view.

Overall, we think the troika of rising rates, economic re-opening and reserve write-backs should set the sector up for potential upward earnings revisions.

Risks

New Covid variant driven regional lockdowns and fresh loan moratoriums may increase asset quality risks. Tight labour conditions could drive higher operating costs as well as key person risks in fee income generating businesses. The expected launch of digital banks may drive some pricing competition for deposits. However, given the strong regulatory environment governing digital banks, this may not be material, in our view.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
DBS	DBS SP	66,889	Buy	35.07	37.03	4.3	9.8	10.6	1.4	4.6	Potential uplift to fee income as North Asia and ASEAN economic activity picks up. Excess reserves points to EPS upgrades from reserve write-backs. Investments in digital, AI and retail wealth could create new pathways for higher medium-term ROEs.
OCBC	OCBC SP	40,266	Buy	12.10	14.67	8.0	10.1	8.6	1.0	5.8	Strong platform to leverage on North-South supply chains, rising Asian wealth and increasing demand for sustainable finance. Potential EPS upgrades from higher NIMs, trading income and reserve write-backs
UOB	UOB SP	36,236	Buy	29.16	31.15	11.4	12.5	9.7	1.0	5.1	Strong regional integration and ASEAN focus should drive earnings momentum from regional re-opening. Potential EPS upgrades from higher NIMs, trading income and reserve write-backs

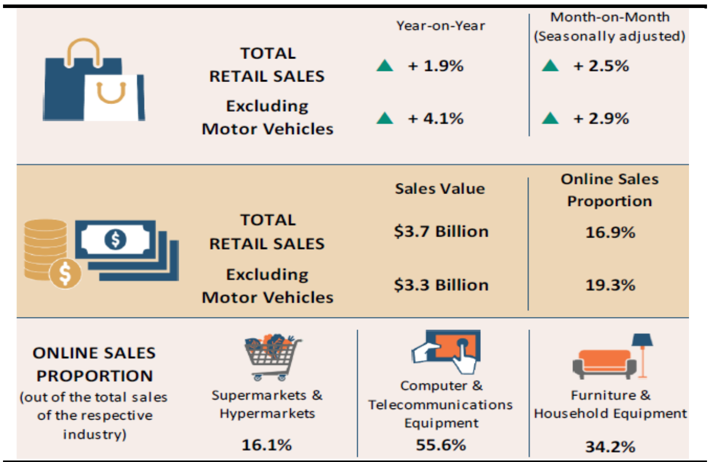
Source: Bloomberg, Maybank IBG Research

4.2 Consumer

A challenging 2021…

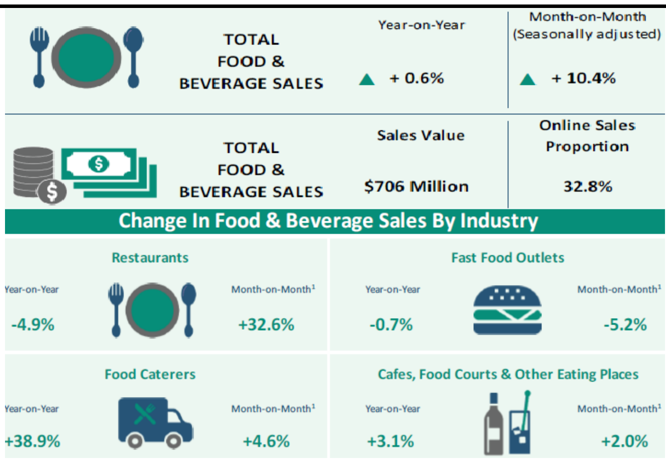
With the exception of supermarket operators, the external environment has been fraught with challenges for retail and F&B players due to the changing Covid-19 safe management measures and the default work-from-home directives. While most have turned to online platforms, such efforts may not be sufficient to make up for the lost sales. Nevertheless, we note that government support such as rental rebates, wage subsidies, etc. have gone a long way to mitigate the adverse impact.

Fig 31: Singapore retail sales index Nov 2021



Source: Department of Statistics

Fig 32: Singapore F&B services index Nov 2021



Source: Department of Statistics

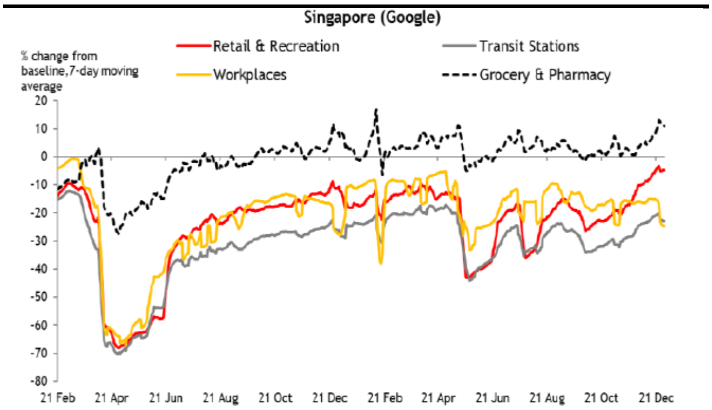
…giving way to green shoots

We believe that reopening remains a key catalyst for the sector as Singapore gradually relaxes its Covid-19 restrictions and extends vaccinated travel lanes (VTLs) to more countries. This should continue to drive earnings recovery this year but we need to keep a close watch on potential margin pressure, especially due to higher energy and commodity costs. In addition, rising wage expenses from a tighter labour market, as well as expansion of the Progressive Wage Model to more sectors (retail in 2022, F&B in 2023) and introduction of the Local Qualifying Salary (LQS) of SGD1,400 in Sep 2022 could also hurt profitability in the consumer segment.

Fig 33: Change in retail sales by industry Nov 2021

Source: Department of Statistics

Fig 34: Movements normalizing in retail and recreation venues



Source: Google Mobility Index

Risks

Downside risks include: 1) Rapid spread of Omicron variant which leads to further tightening of safety measures and/or even reverse the reopening plan, 2) rising operating costs with persistent inflationary pressure, as well as 3) fading government supports such as JSS and implementation of GST.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
Thai Beverage	THBEV SP	12,219.6	Buy	0.66	0.99	6.2	5.9	13.0	2.2	3.4	Its portfolio of top mass-market brands remains well positioned to capture post-Covid recovery, driven by easing restrictions of on premise consumption. Valuation is also undemanding compared to other consumer brands in the region
Koufu Group	KOUFU SP	310.9	Buy	0.76	0.78	19.4	19.6	17.0	3.5	3.0	The founding shareholders have recently made an offer at SGD0.77/share to privatize the company. We believe the offer price is fair, which implies almost 18x FY22E P/E. Given the stock's low trading liquidity, this provides short-term shareholders a clean cash exit opportunity to realise their investment entirely.
Kimly Ltd	KMLY SP	NR	NR	0.42	NR	10.0	10.0	13.0	2.9	4.5	In the near-term, Kimly should benefit from the fear of Omicron variant spreading and current hybrid WFH arrangements as it has the highest mass market presence in the heartland areas. Its acquisition of 75% stake in Tenderfresh business will also start contributing to earnings in 2022.
The Hour Glass	HG SP	NR	NR	2.00	NR	NA	NA	12.4	2.1	2.9	Continued travel restrictions due to the Omicron variant should help support demand for watches. Even with slow tourism recovery, this does not appear to hurt the group's sales as seen from its strong results. The government's recent moves to cool the local property market may also indirectly benefit the timepieces industry.

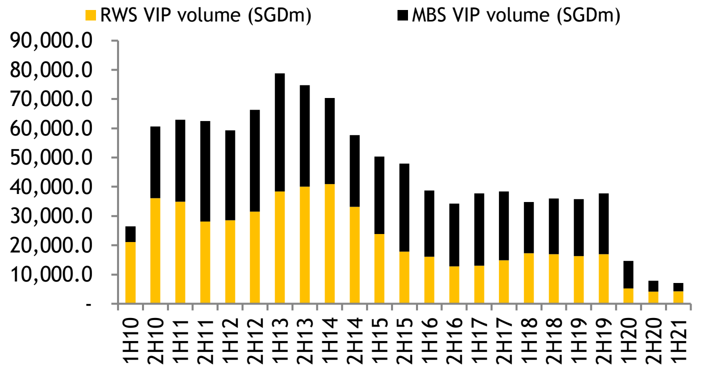
Source: Bloomberg, Maybank IBG Research

4.3 Gaming

A largely uneventful 2021

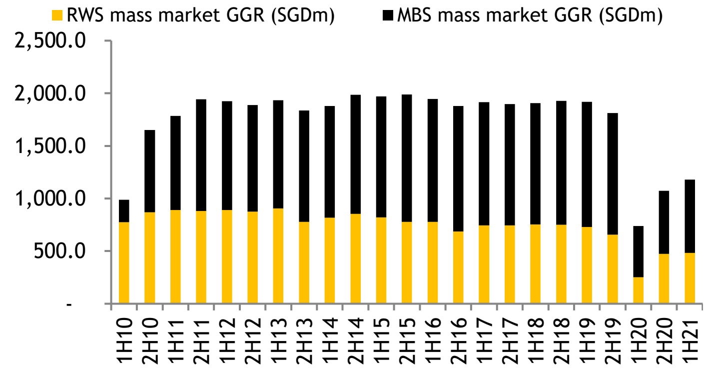
In 2020, the IRs were closed from 6 Apr (Resorts World Sentosa) and 7 Apr (Marina Bay Sands) until 30 Jun 2020. In 2021, Resorts World Sentosa (RWS) was open throughout, but at varying capacity limits while Marina Bay Sands (MBS) was open throughout save for two weeks (17 May to 18 May and 22 Jul to 4 Aug). Despite Singapore's borders being still largely closed, both IRs generated EBITDAs in 9M21 (RWS: SGD379m, MBS: USD271m) on the domestic market alone (VIP: c.20% of pre-Covid levels, mass market: c.60% of pre-Covid levels). For RWS, the results were largely within our expectations. On corporate developments, RWS' parent, Genting Singapore (GENS), had its Japanese expansion plans dashed when an anti-IR mayor was elected in Yokohama on 22 Aug 2021.

Figure 35: Estimated Singapore VIP volume (SGDb)



Source: Las Vegas Sands, GENS, Maybank Investment Banking Group

Figure 36: Estimated mass market GGR (SGDm)



Source: Las Vegas Sands, GENS, Maybank Investment Banking Group

Expect slow recovery

History tells us that casinos are susceptible to pandemics as casinos are enclosed areas. Even assuming that the Omicron variant does not rampage across South East Asia, we remain NEUTRAL on gaming. We were positive on the vaccinated travel lane (VTL) between Malaysia and Singapore, which was launched on 29 Nov 2021. We estimate that Malaysians contribute 20-30% to RWS' VIP volume and 30-40% to RWS' mass-market gross gaming revenue (GGR) pre-Covid when c.250k Malaysians crossed the Causeway to Singapore daily. That said we were taken aback when the VTL was suspended on 23 Dec 2021. With no guarantee that the VTL will resume on 20 Jan 2022; and even if it does, the quota will be reduced from an already paltry 1,440 travellers each way daily, we fear that not many Malaysians will cross the Causeway to gamble at the IRs by Chinese New Year (commencing 1 Feb 2022).

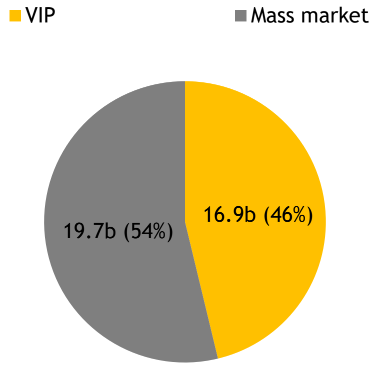
While we maintain our view that the gaming industry in Singapore will eventually recover as Singapore's borders gradually reopen, we fear that they may not recover to pre-Covid levels. On the VIP market, c.25% of it is likely gone forever due to China passing an amendment to the criminal code outlawing the organisation or solicitation of cross-border gambling punishable by up to 10 years' imprisonment that came into effect in Mar 2021. We have already assumed that RWS' VIP volume will recover to 75% of pre-Covid levels at maximum. Yet, we fear that there could also be downside risk to the higher margin mass market.

In late Nov 2021, Macau's junket 'king', Alvin Chau, was arrested by Chinese authorities. Mr. Chau's Suncity Group was the largest junket group in the world and dominated the VIP markets of Macau, Philippines and Cambodia.

With his arrest, industry observers have called time on the VIP markets of the aforementioned countries. To be sure, we do not believe that the IRs in Macau, Philippines and Cambodia will target the VIPs that frequently gamble in Singapore successfully. First, the VIPs that frequently gamble in Singapore have substantial ties to Singapore (e.g. residential status, properties, children attending school) with little, if any, ties to Macau, Philippines and Cambodia. Second, the money channels that facilitate the VIP market in Singapore (e.g. private banking) are very different from those especially in Macau (e.g. junkets, China UnionPay transactions, money changers).

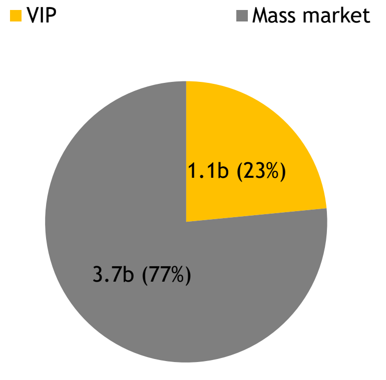
That said, we fear that the IRs in Macau, Philippines and Cambodia will target the premium mass gamblers that frequently gamble in Singapore. These IRs will have to fill the large gap left by the junkets-driven VIP market. We estimate that this gap could be as large as a whopping USD19.3b. We have already heard that the Macau IRs are duking it out to attract Chinese premium mass gamblers and will target South East Asian premium mass gamblers who frequent Singapore IRs when borders reopen. We have heard the same from the Philippine and Cambodian IRs. Thus, there is a risk that RWS' mass market may not recover to 100% of pre-Covid levels in the long run as we expect.

Figure 37: 2019 Macau GGR mix (USD36.6b)



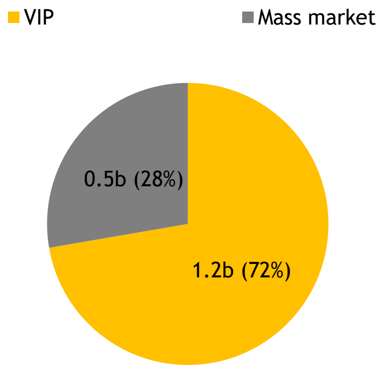
Source: Gaming Inspection & Coordination Bureau

Figure 38: 2019 Philippines GGR mix (USD4.8b)



Source: Philippine Amusement & Gaming Corporation

Figure 39: 2019 NagaWorld (Cambodia) GGR mix (USD1.7b)



Source: NagaCorp

Another headwind in 2022 is a higher gaming tax and Goods & Services Tax (GST) rates. Recall that gaming tax rates will be raised by 3ppts each to 8% for VIP GGR and 18% for mass market GGR in March 2022. The Singapore government is also expected to announce when it will hike the GST rate by 2ppts to 9% during Budget 2022. All else being equal, margins will be compressed by 5ppts in the long run. This will moderate any earnings recovery the IRs may experience despite Covid cases in Singapore and the immediate region subsiding. We have imputed the higher gaming tax rates into our GENS FY22E estimates and assume that the GST rate hike will take effect in FY23E.

Risks

(i) Third/fourth wave of Covid infections precluding domestic gamblers from visiting the IRs; (ii) Borders remaining closed precluding international gamblers from visiting the IRs; and (iii) higher gaming taxes and/or smoking bans in Singapore.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
Genting SG	GENS SP	6,864.0	Hold	0.77	0.86	157.9	25.0	14.3	1.1	5.2	Growth could surprise on the downside given limited entry of Malaysian mass market and increased competition regionally

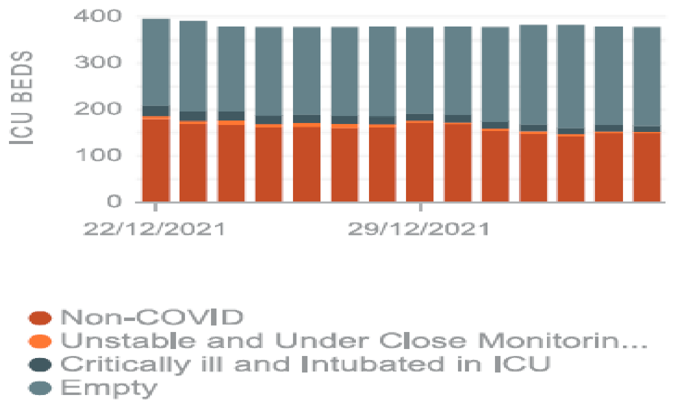
Source: Bloomberg, Maybank IBG Research

4.4 Healthcare

A key Covid beneficiary

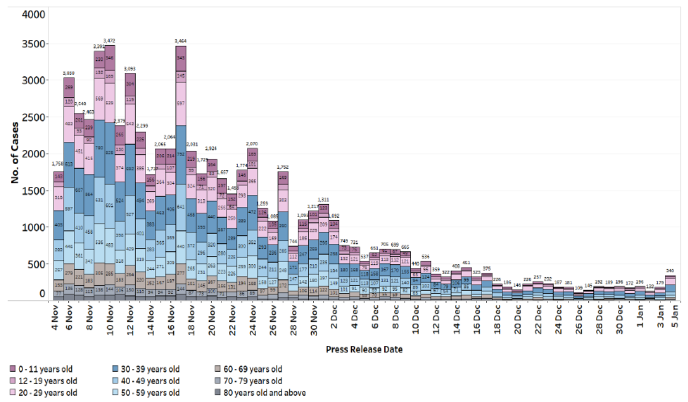
The sector has been one of the biggest beneficiaries from prolonged Covid as private healthcare players continue to support the government in its vaccination drive and PCR swab test for airport / front-line workers and unwell patients. For Raffles Medical, it also launched an Emergency Care Collaboration programme with the Ministry of Health that enables the group to step up and take in additional patients, who require emergency care, in order to support public hospitals when they face constrained beds capacity.

Figure 1: Daily adult ICU bed utilisation



Source: Ministry of Health

Figure 2: Number of local cases by age (as of 4 Jan 2022)

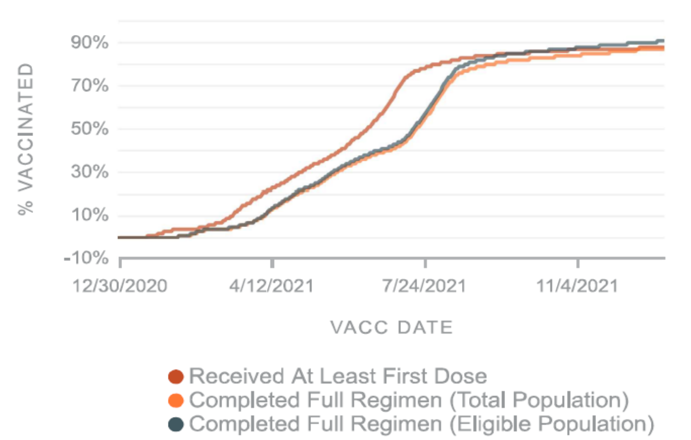


Source: Ministry of Health

Increasing visibility for electives, medical tourism

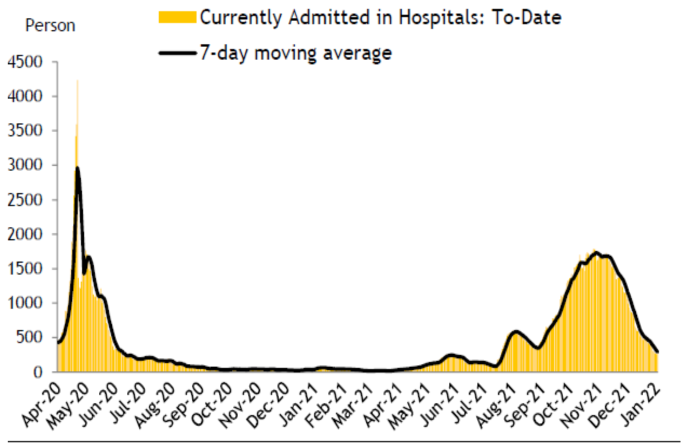
While the Covid situation remains evolving across the world with new variants constantly emerging, we are optimistic that with mass vaccination, borders will progressively reopen, and international travel may resume in the near future. This would boost medical tourism, recovery of foreign patient load and pent-up demand for elective procedures. On the flipside, we forecast that Covid-related revenues may decline as countries learn to live with the endemic. As such, we are expecting any earnings growth in 2022 to be mostly driven by their respective core businesses.

Figure 3: Vaccination rate in Singapore



Source: Ministry of Health

Figure 4: Hospitalization has fallen since peaking in Nov 2021



Source: CEIC, Ministry of Health

Risks

Downside risks include i) overestimation of growth for overseas markets, ii) heightened competition for core healthcare businesses, as well as iii) margins compression due to lower Covid-related revenues and increasing staff costs.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
Raffles Medical	RFMD SP	1,833.9	Buy	1.33	1.58	13.8	9.8	28.9	2.5	1.9	RFMD is a beneficiary of i) subsidized patients as the government focuses public hospital capacity to tackle the new variant; ii) higher testing volumes with more VTL; and iii) return of foreign patients.
Q&M Dental	QNM SP	427.2	Buy	0.60	0.78	0.5	6.3	15.4	7.2	6.7	Q&M's earnings growth will be mostly driven by expansion of its dental outlets in Singapore and Malaysia. The Group is also looking to develop a panel of new PCR tests and distributing ART self-test kits.
IHH Healthcare	IHH SP	13,827.0	Buy	2.20	2.43	7.6	14.7	36.9	2.4	0.8	We expect the occupancy rate to improve on easing travel restrictions, while ongoing cost savings plan and diversification into EU markets to drive IHHs ROE enhancement going forward.

Source: Bloomberg, Maybank IBG Research

4.5 Industrials

A bumpy ride

Aviation Services

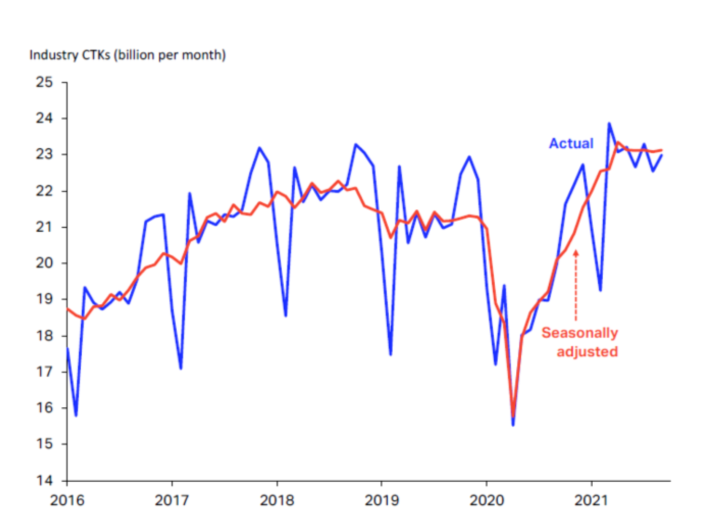
Aviation services companies are showing signs of recovery, although the pace is slow. The number of flights handled by SIAEC in 1HFY22 rose 84%, but this represented only 25% of pre-pandemic workload. According to IATA, air cargo has already exceeded pre-Covid levels, and SATS' cargo associates were mostly profitable in 2QFY22. SATS and SIAEC are positioning for the recovery in flight activities. For instance, SIAEC is now rolling back earlier measures to manage manpower cost in phases to position for the recovery. SATS has also continued to expand non-travel related revenue, which grew 15% in 1HFY22 to account for 47% of total.

Order win momentum for ST Engineering remained robust at 3Q21 (SGD1.82b), resulting in order book of SGD18.2bn. At ST Engineering's investor day, the updated on its ambitions set in 2018. ST Engineering is on target to achieve two-thirds of revenue growth from global markets by 2022. However, the goal for smart city revenue to more than double by 2022 is delayed by a year. ST Engineering is now targeting annual revenue to grow at 2-3x global GDP growth rate to >SGD11b by 2026 (delayed by 1 year), and for net profits to grow in tandem with revenue (delayed by 1-2 years).

Offshore & Marine

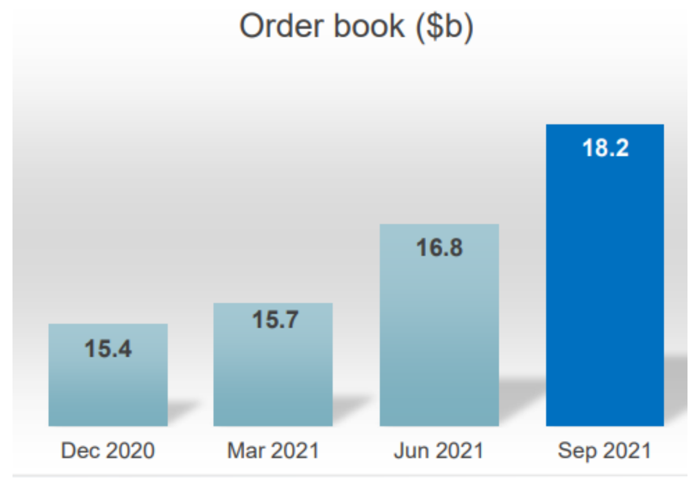
Performance in the O&M segment appeared mixed. Keppel O&M was profitable during 9M21, reversing losses a year earlier, and have observed signs of improvement in the jackup rig market alongside rising oil prices. However, Sembcorp Marine is guiding for significant losses to continue into 2H21. Sembcorp Marine continued to face Covid supply chain constraints and shortages of skilled workers, which seriously affected its 16 projects under execution. During the year, Sembcorp Marine undertook an USD1.5bn rights issue to shore up its balance sheet to navigate the current downturn. According to Keppel, the proposed combination of Keppel O&M and Sembcorp Marine is progressing steadily, and Keppel believes that the combined entity will be better positioned to capitalise on the energy transition including areas such as offshore wind and address opportunities and challenges in the consolidating O&M industry.

Figure 40: Cargo is already at pre-Covid levels



Source: IATA, SATS

Figure 41: ST Engineering order book



Source: ST Engineering

Border openings plus sustainability focus should drive growth

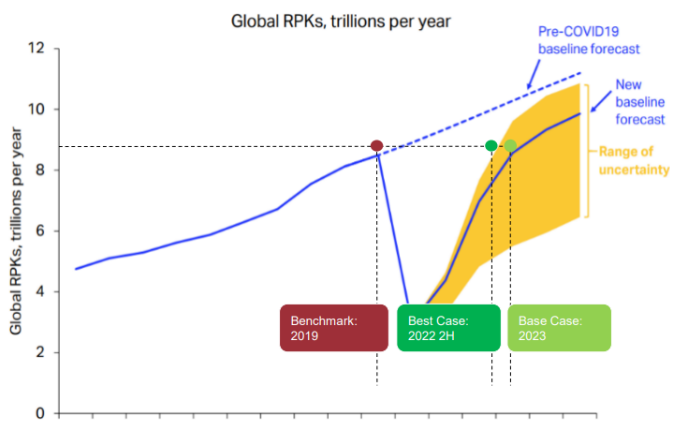
Singapore and several countries established vaccinated travel lanes towards the end of 2021. Continued recovery in air travel should take place if new Covid variants are less dangerous than previous ones. That said, the emergence of new variants could result in a bumpy recovery path, as governments tweak border measures to adapt to local Covid situation (e.g. Singapore halted new ticket sales of VTL flights and buses from 22-Dec-21 to 20-Jan-22). IATA expects APAC travel to reach pre-Covid levels by 2024.

Sembcorp Marine expects that of 16 projects under execution, five have suffered further delays of 1-3 months, and are likely to incur material cost overruns. The magnitude of these losses will depend on Covid and other exogenous impacts, as well as negotiations with counterparties. Sembcorp Marine expects significant growth in the renewables and other clean energy segments over the next decade, and aims to gain further traction in this segment to win greater share.

Keppel updated that it is on track to achieve in excess of SGD5bn in project orders by the end of 2023, which would surpass its aim of SGD3-5bn. The capital unlocked will be deployed in renewables and decarbonisation solutions. ST Engineering aims to expand sustainability-enabled solutions as part of driving Smart City growth amid a rising trend of buildings and infrastructure aiming for net zero. Other examples of sustainability efforts include extending aircraft useful life via P2F conversions and smarter nacelles, which are lighter, quieter and more efficient. Sembcorp Industries aims to have 70% of net profit from sustainable solutions by 2025, from 40% in 2020.

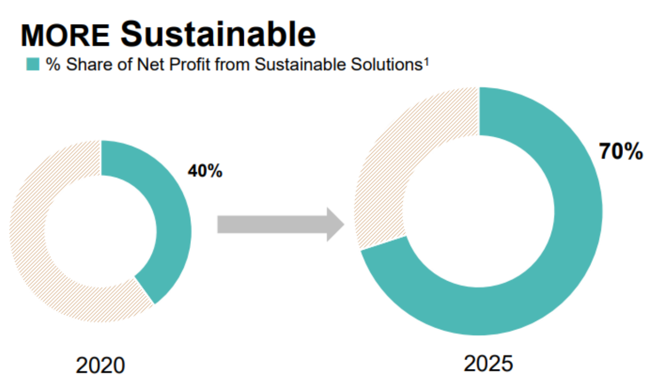
In terms of GHG emissions reduction, ST Engineering and Sembcorp Marine are targeting 50% reduction by 2030 from 2010, while SATS is aiming for a 50% reduction in carbon emissions by 2030 from 2018.

Figure 42: APAC travel expected to hit pre-Covid levels by 2024



Source: IATA, SATS

Figure 43: Sembcorp Industries is targeting 70% of net profit from sustainable solutions by 2025



Source: Sembcorp Industries

Risks

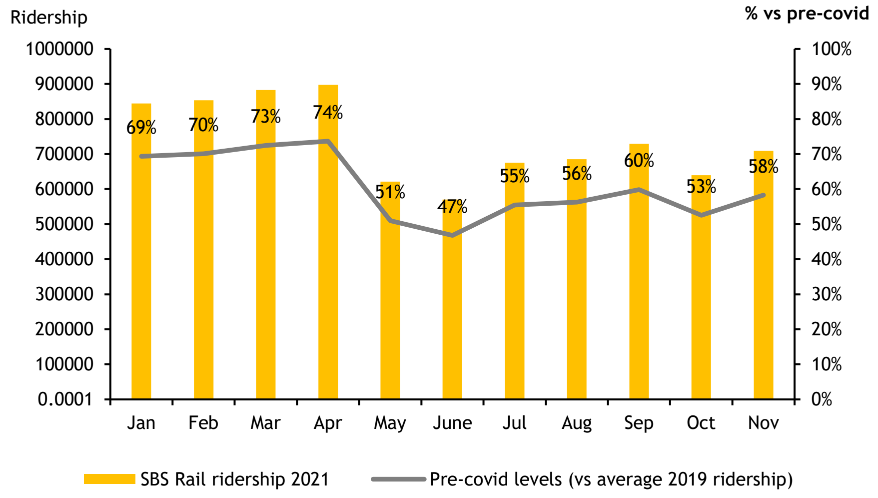
In our view, the top risk for the sector is uncertainty posed by Covid. For instance, the spread of Covid could result in border closures, which would impact the rate of recovery for aviation services companies. At the same time, complications caused by the pandemic could worsen availability of components and labour for industrial manufacturing.

4.6 Land Transport

Hit by movement restrictions

The land transport sector started 2021 on a positive note, with easing of social distancing measures across the region. However, the sector was subsequently hit by tightening of social distancing measures caused by the Delta variant in May and is bracing for the impending Omicron variant. This has resulted in a 16% fall in railway ridership for SBS Transit (SBUS SP, SGD2.96, Not Rated).

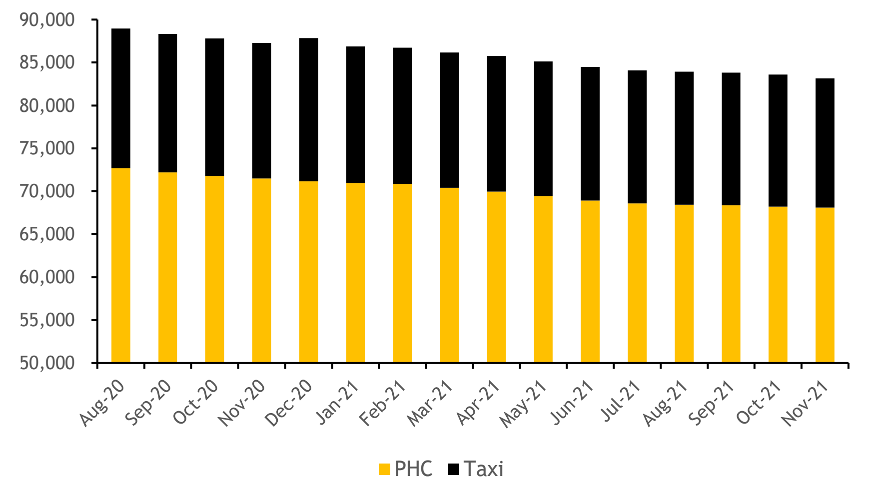
Figure 44: Rail ridership 2021



Source: SBS Transit

Concurrently, the taxi and private hire cars (PHC) sectors were also badly impacted by Covid restrictions and working from home arrangements. Evidently, total average daily number of street and ride-hail trips has fallen 8% from its peak in Apr 2021. Likewise, both fleet populations continued their downtrend, with the taxi sector facing hit slightly harder (-5.3%) than PHC (-4%).

Figure 45: Singapore taxi and PHC population mix



Source: LTA

Specifically for ComfortDelGro, its recent Downtown Line's(DTL) transition to New Rail Financing Framework 2 (NRFF2) came in below our expectation. Nonetheless, this will result in a net SGD15m savings but the downside protection of earnings from the framework was lower than envisaged. Another negative surprise to the market was new bus contracts where competition may drive down future service fees earned by SGD34m. Separately, the planned listing of the Australian subsidiary has been halted due to challenging market conditions.

On the ESG front, CDG and ENGIE South East Asia has formed a strategic partnership in Renewable Energy as part of ComfortDelGro's journey towards carbon neutrality. The intention of the partnership is to support the electrification of CDG's fleet with renewable power and offer fast charging solutions to EV users. Additionally, the JV has also pledged to play a major role in the deployment of 60,000 EV chargers targeted by the Land Transport Authority as part of the SG Green Plan 2030. Here it plans to offer EV charging stations powered by Renewable Energy.

While the new ventures are unlikely to contribute any meaningful EPS impact in the short to mid-term, we view this positively as it builds supply chain resilience from any energy disruptions.

Clear proxy to re-opening

With the severity of illness and potency of current vaccines against Omicron remaining largely unknown, the land transport sector is set for a tougher ride back to normalcy as compared to the start of 2021.

That said, CDG remains a proxy to the reopening of economy and easing of social distancing restrictions in Singapore. With its share price hovering near all-time lows, we think that the market is pricing in further tightening of social distancing restrictions in its operating countries. Better-than-expected Omicron severity scenario could be a re-rating catalyst. At the current price, this offers a favourable risk-reward ratio.

Looking forward, CDG is likely to seek growth through overseas acquisitions, contract renewals and new contract tenders. With the recent divestment of its Vietnam business, we think CDG is likely to focus its acquisitions in better-performing countries such as Australia and the UK.

CDG has paused IPO plans for its Australian unit due to challenging market condition amidst Covid. However, we think the unlocking of value for its Australia assets could still in the card in the mid/long-term, when Covid situation stabilizes.

Risks

Key risks include worse-than-expected Omicron severity, further tightening of social distancing measures, structural change to work from office setting.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
ComfortDelGro	CD SP	2,140.8	Buy	1.34	1.88	27.6	3.7	10.9	1.0	7.4	With its share price hovering near all-time low, we think that the market is pricing in further tightening of social distancing restrictions in its operating countries. Better-than-expected Omicron severity scenario could be a re-rating catalyst. At the current price, this offers a favourable risk-reward ratio.

Source: Bloomberg, Maybank IBG Research

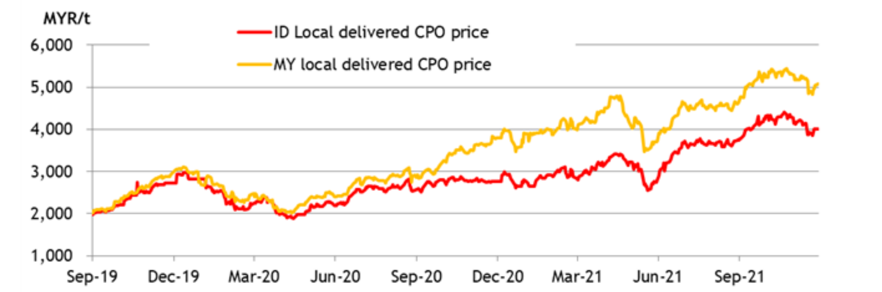
4.7 Plantations

Unexpected supply crunch

At the start of 2021, the market was anticipating a recovery in global supplies of oil, especially palm oil. However, as the year unfolded, the market experienced unexpected palm oil supply crunch due to unfavourable weather (ie excessive rainfall), lack of fertilizing activities in 2018-19 due to low CPO prices back then, acute shortage of labour (especially harvesters) in Malaysia, and disrupted operations at selected mills and/or estates due Covid infections and restrictions around the region. Similar tightness in supplies was also felt in other vegetable oils and oilseeds due to unfavourable weather (especially in Canada, the USA, and South America).

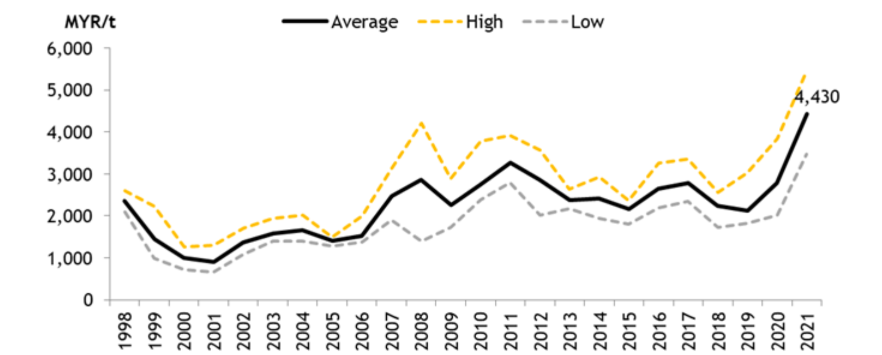
On the demand side, the revamped Indonesia export tax structure to a progressive rate (from fixed rate) in December 2020 was a game changer as it helped ensure sufficient CPO Fund to implement its B30 mandate successfully. With higher CPO Fund collected, Indonesia was anticipated to blend ~7.5mt palm biodiesel in 2021; drawing down inventories and in turn, boosted CPO price. In addition, Biden's green agenda also help lifted overall market sentiment on higher biofuel prospects in the US. Overall, CPO spot price averaged MYR4,430/t (+59% YoY), a new record while 3M FCFO also averaged higher YoY at MYR4,147/t (+54% YoY). The elevated prices were also buoyed by similarly lofty prices of other major vegetable oils and oilseeds, and a surge in energy prices in 2H21.

Figure 46: Domestic CPO spot prices in Malaysia and Indonesia (converted into MYR/t)



Source: Bloomberg, GAPKI

Figure 47: Malaysia's annual CPO spot prices since 1998 (MYR/t)



Source: Bloomberg

2022: A year of two halves

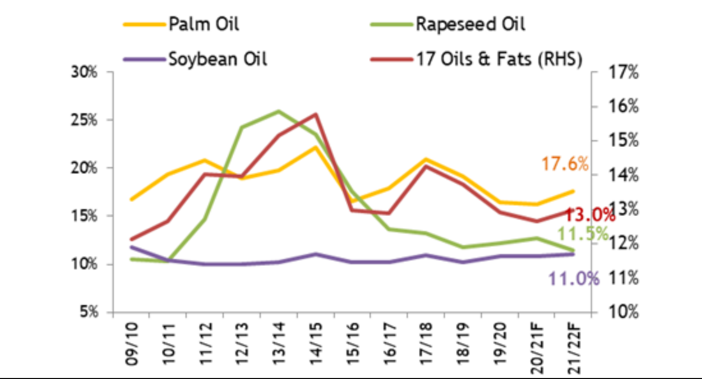
A year of supply recovery? Similar to last year, the market (including us) is again anticipating a recovery in global supplies of oils on the assumption of favourable weather. *Oil World,* in its latest forecast, is expecting global palm oil output to grow by 3.5mt to 79.1mt in Oct/Sept 2021/22F marketing year (2020/21F: +1.5mt) under the lead of Indonesia (+1.6mt to 46.7mt), followed by Malaysia (+1.0mt to 18.9mt) and the rest of world (+0.9mt to 13.5mt). The stock-to-usage ratio (SUR) projection for palm oil is set to rise to 17.6% for 2021/22F (from 16.3% in 2020/21F); although still below past 10-year average of 18.9%. Meanwhile, the global 17 oils and fats' SUR will also inch higher to 13.0% (from 12.6% a year ago). As for global 10 oilseeds' SUR, it is projected to recover to 19.5% in Oct/Sept 2021/22F marketing year (2020/21F: 19.0%); but remains higher than 10-year average of 18.3%, implying ample supply of oilseeds (at least on paper) by the end of 2021/22F marketing year if weather permits.

Figure 48: 17 Oils & Fats - World Balance (million tonnes) - Oct/Sep year end

	17/18	18/19	19/20	20/21F	21/22F
Opening stocks	28.3	32.6	32.7	30.9	30.4
Production	234.5	239.1	237.5	239.7	248.2
Change	6.40%	2.00%	-0.60%	0.90%	3.50%
Imports	89.4	97	96.1	95.7	98.2
Exports	90.4	97.6	96.5	95.2	98.7
Consumption	229.1	238.4	239	240.7	246.2
Change	4.70%	4.00%	0.30%	0.70%	2.30%
Ending stocks	32.6	32.7	30.9	30.4	31.9
Stocks-to-usage ratio	14.20%	13.70%	12.90%	12.60%	13.00%

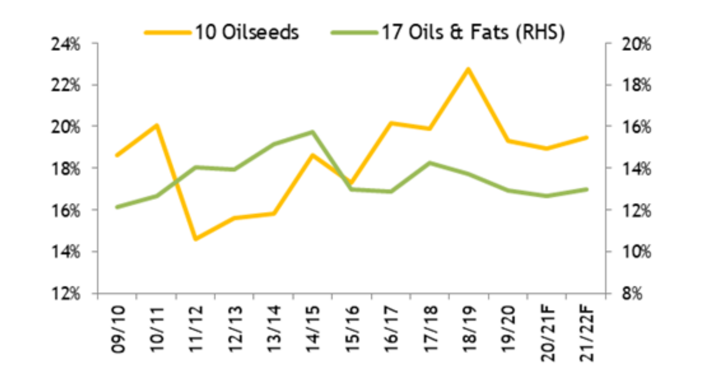
Source: Oil World

Figure 49: Stock-to-usage ratio (SUR) of selected major oils



Source: Oil World

Figure 50: SUR of 10 Global Oilseeds & 17 Oils & Fats



Source: Oil World

Supply recovery assumption fraught with uncertainty and challenges. Record CPO ASP achieved in 2021 is unlikely to be repeated in 2022 if the anticipated recovery in global supplies of 17 oils and fats materialises. However, there is much uncertainty as to whether the projected recovery (especially for palm oil) will happen on several factors: (i) ***La Nina* is here.** It is unclear how it will ultimately affect the ongoing South American oilseeds crop yield, and if it will continue to disrupt oil palm operations in Malaysia (with sporadic flood) in 1Q22; (ii) **disruption to global fertilizer supplies** following export restrictions imposed by Russia and China till June 2022, and US sanctions on Belarus (which controls a fifth of global potash market) is presently affecting the availability of fertilizers in the market. In recent briefing updates, some planters highlighted the challenges in securing sufficient fertilisers for the next 6 to 12 months (since 3Q21), while wet weather condition was partly to be blamed for the lower-than-usual fertilizing activities in 3Q21. In the case of Malaysia, the situation was compounded by labour shortages as planters have prioritised harvesting over maintenance (including fertilizing) activities since the start of the pandemic. With present rainy season expected to last till Mar 2022, planters are likely to miss their 2021's full-year fertilizing targets while unsure if they are able to secure sufficient fertilisers for 2022; (iii) **Fertilizer prices have more than doubled or even tripled YoY recently**. This may cause some planters (especially smallholders) to defer or reduce fertilizer applications in 2022. Likewise, farmers of other oilseed crops are also facing the same predicament; (iv) elevated high CPO prices throughout 2021 has led planters to postpone the replanting of old oil palm trees (to enjoy the high prices) but this cannot be deferred indefinitely. Resumption of replanting in 2022 may result in lower-than-expected output; and (v) the Omicron variant may cause countries to tighten borders again which may result in possible delay in the arrival of the much needed ~32,000 foreign workers into Malaysia. Without the much desperately needed workforce, palm oil yield may again be below potential in 2022.

2022 price outlook. CPO price trend will likely be a year of two halves if the anticipated palm oil output recovery happens in 2H22. Prices will remain lofty in the near term as the industry enters into seasonally low production cycle in 1Q22 compounded with weather risk. At the same time, there is also a lack of options until South American harvests hit the market towards Mar-Apr 2022 period. By 2H22, good weather in North America during the upcoming planting season (Apr-Sept 2021) plus no hiccups in the anticipated seasonal output recovery in Malaysia and Indonesia should help alleviate the overall tightness in global oils supply, pressuring CPO price on the downside. This hypothesis, however, remains to be challenged given the lack of fertilizer availability now and weather risk.

Our CPO ASP forecast for 2022E is MYR3,200/t (2021A: MYR4,430/t). We doubt the anticipated palm oil supply recovery in 2022 will compensate for our lower YoY CPO ASP forecast. But the market has never deemed current CPO spot price of >MYR5,000/t to be sustainable. In general, stock valuations have lagged CPO price throughout 2021 due to: (i) a number of growers (including FR and BAL) did not fully benefit from the high CPO prices in 9M21 due to earlier forward sales locked in at lower prices; (ii) Indonesia's revamped export tax structures was rather punitive on growers as the net CPO ASP was capped at ~MYR3,000/t in 1H21. But mid-year revision to Indonesia's export taxes were more price friendly to growers since July 2021; (iii) lack of organic growth as new planting almost came to a halt in this region; (iv) concerns over high incidences of Covid infection rates in the region; and (iv) ESG considerations.

Risks

The present risk to our 2022 CPO ASP forecasts is on the upside if (i) palm oil output fails to live up to expectation of a good recovery, (ii) weather anomalies resulting in lower-than-expected palm oil and other vegetable oils output growth, and (iii) crude oil prices stage a rebound rally closer to USD100/bbl.

Other key risks to the sector and companies are: (i) lower-than-expected CPO price achieved due to forward sales engaged earlier; (ii) negative policies imposed by importing countries; (iii) unfriendly government policies at producing countries; (iv) sharp reversal of crude oil prices; (v) weaker competing oil prices (especially soybean oil, rapeseed oil, and sunflower oil); and (vi) demand destruction due to high global commodity prices and Covid pandemic.

Sector Picks

At our MYR3,200/t CPO ASP forecast for 2022, the industry will still be able to deliver healthy, sustainable returns. Investors will also be rewarded with decent dividends on improved cash positions. We maintain our POSITIVE sector call. Our preferred BUYs are Wilmar (WIL SP, BUY, TP SGD5.80) and Bumitama Agri (BAL SP, BUY, TP: SGD0.93). We like BAL as it is undervalued, trading at single-digit PER, and provides attractive dividend yield of ~6% (on 40% dividend payout assumption). Its undervaluation makes it a potential privatization target too.

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%)		PE (x)	PB (x)	Div Yield (%)	Comments
						21E	22E	22E	22E	22E	
Bumitama Agri	BAL SP	719.0	Buy	0.6	0.9	13.7	-9.4	6.2	0.9	6.4	We like BAL as it is undervalued, trading at single-digit PER, and provides attractive dividend yields of ~6% (on 40% dividend payout assumption). Its undervaluation makes it a potential privatization target too.
Wilmar	WIL SP	20,295.3	Buy	4.3	5.8	1.9	4.5	12.1	0.8	5.2	Structurally, WIL should be a beneficiary of China's common prosperity drive, while regional re-opening could boost volumes. Potential restructuring, special dividends and share buybacks are catalysts going forward

Source: Bloomberg, Maybank IBG Research

4.8 Property – Developers

Dominated by restructurings and divestments

2021 was an eventful year for Singapore's real estate market, marked by CapitaLand's corporate restructuring, increased capital recycling activity, and competition for SPH's non-media platform. Developer stocks which had risen 8% against a backdrop of buoyant residential demand, rising property prices, and an awakening en-bloc sales market, eased after pre-emptive property cooling measures that were announced on 15 Dec.

CapitaLand forges a new growth path post-restructuring

CapitaLand announced restructuring plans, which saw the privatization of its development arm, and subsequent listing of its investment management and hospitality business as CapitaLand Investment (CLI), as it eyes SGD100b in funds-under-management (FUM) by 2024 and c.160k lodging units under management by 2023, up from SGD78b and 123k, respectively, in 2020, and higher valuations from a sharpened asset-light business model. We think its fund management execution remains on track, with FUM fees up +34% YoY in 9M21, underpinned by +9% YoY growth in FUM to SGD84.2b.

CDL's Sincere write-off clears overhang; Seoul divestment unlocks value

CDL cut its losses in China with a USD1 sale of its Sincere Property exposure accompanied by a SGD1.8b write down of its investment. In Dec, CDL announced the SGD1.26b sale of Millennium Hilton Seoul at 3.2x NAV, its fourth and largest hotel divestment after the privatization of Millennium & Copthorne (M&C) in 2019. We think the proceeds will be deployed towards its Singapore CBD redevelopment projects, including a rejuvenation of the Singapore River precinct.

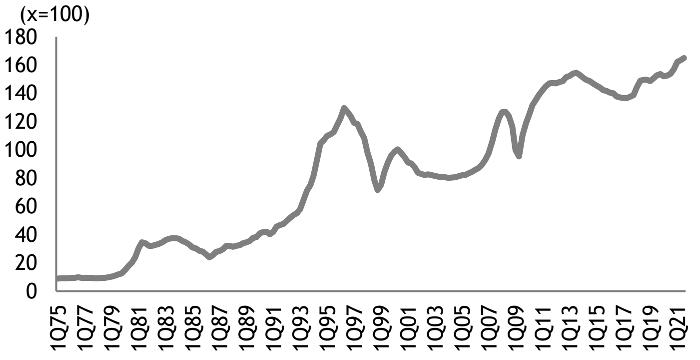
Bidding war for SPH and its non-media related assets

Keppel Corp launched a privatization bid for SPH on 2 Aug, after the latter's announcement in May to hive off its media-related business into a not-for-profit entity in the form of a public company limited by guarantee. A competing offer with improved terms that surfaced from Cuscaden Peak on 9 Nov, ignited a bidding war for SPH's REIT management platform at SGD5.5b and pipeline properties, as well as purpose-built student accommodation (PBSA) assets in the UK and Germany valued at SGD1.4b.

Property cooling measures placed brake to rising home prices

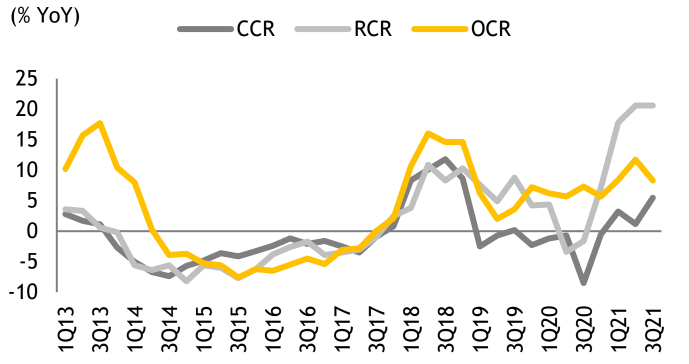
The government announced new property cooling measures effective 16 Dec, including increasing additional buyer stamp duty (ABSD) rates by 5-15ppt (except for first-time buyers who are citizens or permanent residents), tightening the total debt servicing ratio (TDSR) threshold from 60% to 55%, and lowering the loan-to-value (LTV) limit for HDB mortgages granted for public housing HDB flats from 90% to 85% (with private bank mortgage LTV cap remains at 75%). The government will also be ramping up the supply for both private and public housing.

Figure 51: Private home prices rose at +5.0% QoQ in 4Q21, from +1.1% QoQ in 3Q21



Source: URA

Figure 52: Growth was driven by demand in the RCR



Source: URA

Expect some easing with cooling measures

We think the new cooling measures will dampen housing demand, and weigh on developer share prices in the near term. Developer stocks are down c.2% from 15 Dec 2021, and we note they fell as much as c.18% in the wake of the last round of cooling measures announced in 2018. We see support from depressed valuations, decreased NAV exposure to Singapore residential, and opportunities for capital recycling and redevelopments, amid expectations of slower residential volumes.

Demand set to fall from higher acquisition costs

Sales volumes which ended 2021 on a high at c.14,000 units, against an average of 9,000-10,000 in recent years, could moderate to 7,000-9,000 in 2022, with support from owner-occupier demand. Foreign demand (at c4% of total transactions versus an average of c.10% p.a.) that was expected to pick up with the reopening of borders will likely be subdued, together with investment demand from locals, on the back of higher acquisition costs.

En-bloc momentum short-lived, on a pause

We expect higher upfront costs and tighter financing conditions to shrink developers' appetites in replenishing landbank, especially in the en-bloc market, given the more punitive stamp duties and increased supply from government land sales. En-bloc sales which had picked up pace in 2H 2021 after a quiet 2019 and 2020, will likely be protracted, and we expect potential candidates to lower pricing expectations for deal closures.

Prices expected to ease to +1-2% YoY

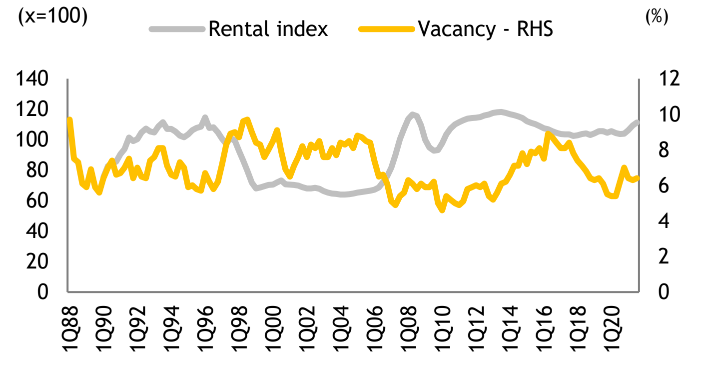
Residential prices accelerated to +5.0% QoQ in 4Q21 (based on the URA flash estimates), from +1.1% QoQ in 3Q21, and was +10.6% YoY for 2021, versus +2.2% in 2020. We do not see a sharp correction in prices, given low levels of unsold inventory, a limited pipeline of launches in 2022 and 2023 as well as low interest rates for at least 1H22. Home prices fell 1.1% in 2018 for 1-2 quarters before recovering gradually, and we expect private residential prices to ease to +1-2% YoY in 2022, and to normalize in the medium term.

Rental market to remain buoyant

The number of lease commencements increased at 11.9% QoQ and 8.2% YoY in 3Q21 with the return of both foreigners and Singaporeans following the relaxation of border controls. Rental demand remained stable with tenants extending leases as a result of the lengthened project completion timelines for their new homes. As observed by strong resale market activity, owners who recently cashed out of their properties, will likely turn renters while waiting for the opportune time to re-enter the market.

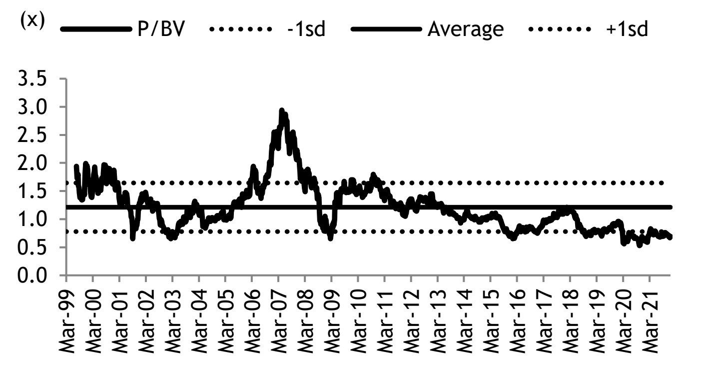
Focus on income, overseas diversification
With dismal development returns amid elevated construction costs, and challenging land acquisitions in Singapore, we see increasing cross-border investment activity in 2022, as developers prioritise growth from overseas projects, ramp up their funds-under-management (FUM), and drive cashflows from commercial and hospitality recurring income streams.

Figure 53: Rental market to remain buoyant, from rising lease commitments with the reopening of borders



Source: CBRE

Figure 54: CDL trades at c.0.7x P/B, more than -1sd below its historical mean



Source: Bloomberg

Risks

Upside risks include: (i) sharper-than-expected increase in residential prices following recent cooling measures, (ii) stronger-than-expected leasing and rental reversions for commercial portfolios, (iii) earlier-than-anticipated recovery for the hospitality sector, (iv) faster-than-expected growth in FUM, and (v) stronger-than-expected capital recycling activity.

4.9 Property – REITS

Expanded mandates and capital recycling

S-REITs targeted growth in 2021 against a backdrop of prolonged pandemic-related uncertainties, backed by expanded investment mandates, (well-timed) capital recycling initiatives, acquisitions, and M&A. ESG priorities were reaffirmed with higher YoY green/sustainability debt representations. The sector underperformed the market ahead of headwinds from rising interest rates, even as DPU recovery gained traction with lower rent waivers, resilient occupancies, and contributions from accretive deals.

Office REITs ramped up capital recycling efforts

SUN's push into longer WALE UK Grade A assets with the c.SGD667m Minister Building acquisition (at 4.5% NPI yield), together with sales of Suntec office units and 9 Penang Road (at 3.1-3.3% exit yield), resulted in a 3.6% DPU accretion and helped de-gearing efforts. CICT recycled its Singapore One George Street divestment proceeds (at 3.17% exit yield) into three Australian Grade A office/integrated development assets for c.SGD730m at a 5.1% NPI yield, to deliver 2.8% DPU accretion. KREIT deepened its Australian footprint with a c.SGD322m acquisition of Blue & William, a Grade-A office North Sydney asset under development till mid-2023, with sales proceeds from its 275 George Street Brisbane (at 3.6% exit yield).

Expanded mandates to grow resilient income

CLCT, ART, and CDLHT expanded their investment mandates to include non-retail properties, purpose-built student accommodation (PBSA) assets, and alternative lodging segments respectively, to increase income stability from longer WALE. CLCT's new logistics and business park assets rose to c.21% of AUM, while ART added c.4,400 beds in the US (at 4.5-6.2% EBITDA yield), which with three Japan rental housing properties, pushed its stable income base to 16% of AUM. Meanwhile, CDLHT's c.SGD136m forward-purchase of a build-to-rent (BTR) residential asset in Manchester, UK (at 5.1% stabilised NPI yield) is supported by favourable growth fundamentals, in our view.

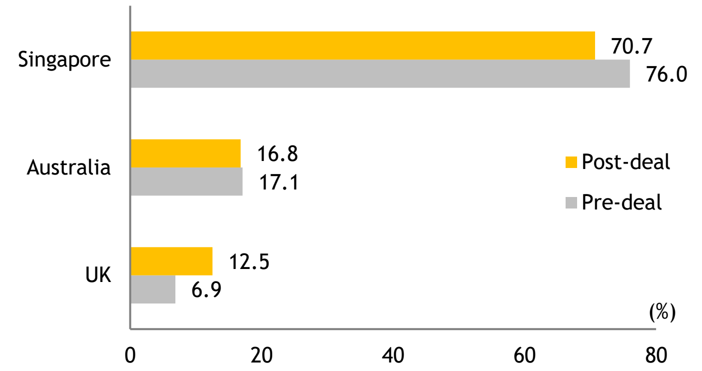
M&A for scale and diversification

Following ESR Cayman's announcement to buy ARA Asset Management, ESR-REIT and ARA Logos Logistics proposal to merge via a SGD1.4b trust scheme of arrangement to place within the top ten S-REITs, with a SGD2.5b free-float market cap and SGD5.4b AUM. Similarly, the proposed SGD4.2b merger of MCT and MNACT announced at end-Dec aims to create the 7th largest Pan Asian REIT, and 3rd largest S-REIT, with a SGD10.5b market cap and a SGD17.1b AUM across Singapore, China, HK, Japan and South Korea. Beyond the strong financial accretion, we see strategic merits from increased AUM diversification, stronger DPU growth, and potentially lower cost of capital.

Sector growth from new REIT listings, liquidity boost for small-caps

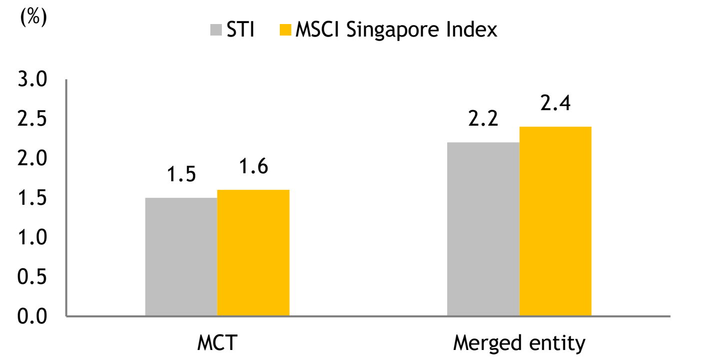
11 small-cap S-REITs joined the FTSE EPRA Nareit Global Real Estate Index during the Sep quarterly review, after a lowering of the investable market cap threshold (from 0.3% to 0.1%) that was announced in Jun. The year welcomed two new S-REIT listings - Daiwa House Logistics Trust (DHLT) and Digital Core Reit (DCREIT), both backed by strong sponsors with sizeable ROFR pipelines. Their AUMs remain a play into structural new economy growth drivers of warehouses and data centres. While DHLT has traded sideways, DCREIT has returned +35% since its 3 Dec IPO.

Figure 55: SUN's UK contribution rises to 12.5% with its Minister Building deal



Source: Company data

Figure 56: MCT's weighting in key indices to increase after MNACT merger



Source: Company data

Rental increases to offset some inflationary pressure

The sector trades at 6.0% DPU yield and 4.0% spread above the 10-year gov't bond (in-line to its historical average), and should see support from a c.8% 2-year DPU CAGR. We favour selective reopening trades ahead of further easing in 2022, and industrial names, with DPU visibility from structural growth drivers. With rents on a rise, we see DPUs largely cushioned from inflationary pressures, which will likely ease in 2H22. We see catalysts from rental recovery to support marginal NPI expansion in 2023, and accelerating acquisition growth momentum, to provide upside to DPUs. A successful privatization of SPH, could potentially trigger a chain offer by Cuscaden for SPHREIT, and hasten its capital recycling activities.

Reopening trades to gain from further easing

Singapore's office fundamentals look set to strengthen with improving occupier demand, underpinned by expansion from tech, non-financial sector tenancies, and supply constraints, with average annual supply for 2021–24 at 1.1m sf p.a. c.30% below the 10-year historical average completions of 1.7m sf. We expect vacancies to tighten by 1-1.5ppt YoY, and forecast Grade A rents to accelerate, as it rises 7% YoY to SGD11.50 psf by end 2022, from +3% YoY last year. We prefer mixed commercial REITs, which are trading at 5.0-5.5%, and could deliver c.8-10% 2-year DPU CAGR. Overseas diversification initiatives, mostly into more resilient longer WALE Grade A assets, will continue to offer upside to DPUs.

Entrenching further in new economy AUM

We expect acquisition momentum to accelerate for industrial REITs as they continue to add growth from new economy assets, even as tight cap rates and heightened competition will likely temper accretion upside. MLT's DPU base has expanded from more sizeable deals, and we expect it to eye higher yielding new developments and/or emerging market assets, which could lift its risk profile, and potentially deliver stronger DPU growth. MINT boasts stronger fundamentals with improved DPU visibility from its rising data centre tenancies, and it trades at attractive valuations versus KDCREIT and DCREIT, while aiming to deepen its data centre core to 50-67% of AUM.

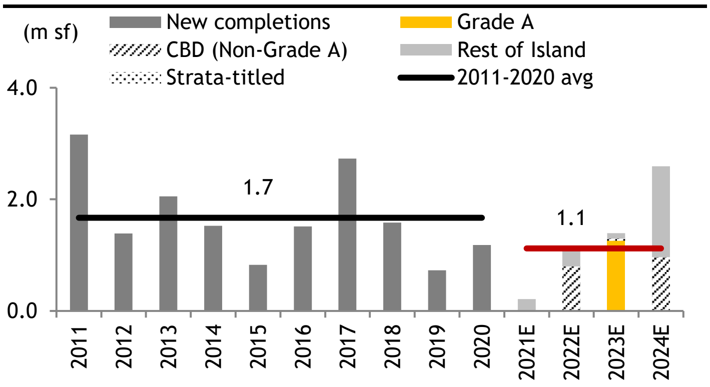
RevPARs on a mend, staying with long-stays

RevPAR improvement is underway with reopening borders, but visibility is poor; we expect tourism recovery will be sluggish and projected to be still 75% below pre-pandemic levels by end 2022. As such, REITs will continue to eye resilient income from longer-stay rental housing and PBSA properties, and we expect ART to further its acquisition growth momentum here. FEHT's c.SGD313m divestment of Central Square (at c.1.8% exit yield) has lowered gearing from 41.3% to 33.5% and increases scope for capital distribution and growth options from its sponsor.

DPUs well-cushioned from rising rates

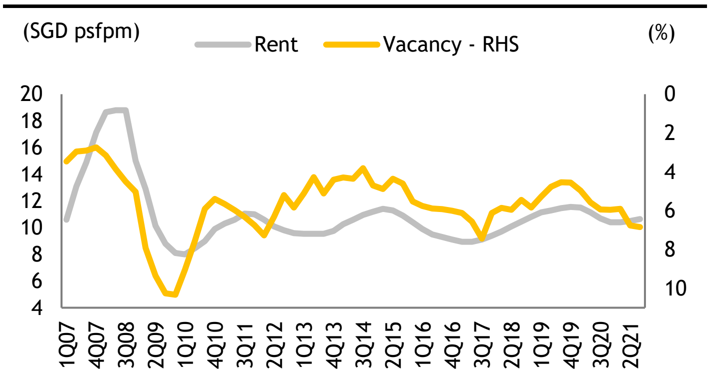
Balance sheets are strong, and sector gearing remains manageable at c.37% on average as at end-Sep 2021, with improving interest cover. We see low near-term refinancing risk, and expect borrowing costs to rise in tandem with higher interest rates. Our sensitivity analysis suggest that every 50bps change in refinancing costs would impact our DPUs by 1-6%, while similar changes in risk-free rate assumption leads to a 3-12% change in valuations.

Figure 57: Singapore office supply tapers off in 2021-23E



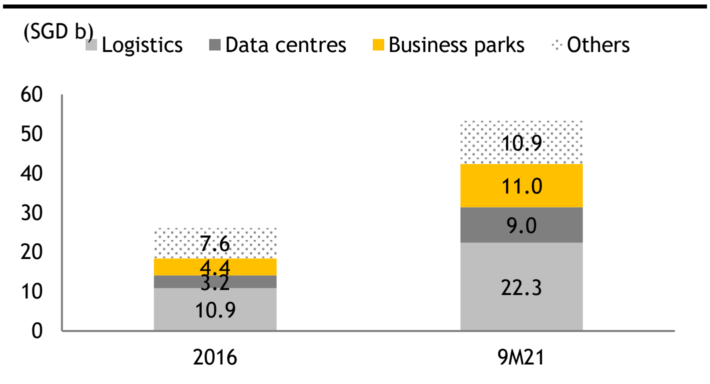
Source: URA, CBRE

Figure 58: Rental recovery to strengthen on tight vacancy



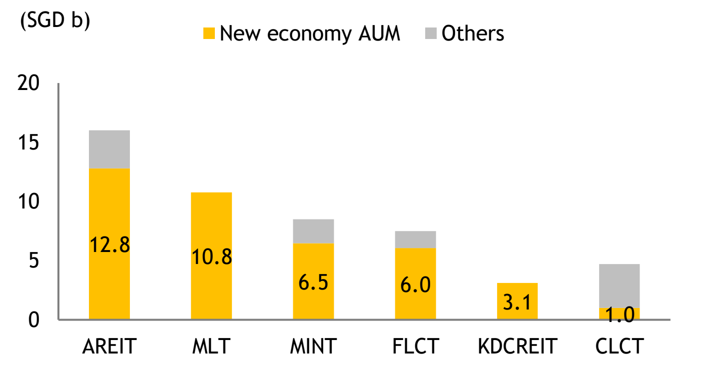
Source: URA, CBRE

Figure 58: New economy assets rose over 5 years from c.70% to c.79% of industrial REITs' AUM, and expected to grow



Source: Company data, *Maybank IBG Research*

Figure 59: AREIT owns the largest new economy AUM among the S-REITs



Source: Company data, *Maybank IBG Research*

Risks

The key risks to our thesis include (i) slower-than-expected economic recovery, translating into lower-than-expected occupancies and rents, (ii) greater-than-expected impact from tenant downsizing with the adoption of hybrid working arrangements, (iii) potential pre-termination or renegotiation of long-term leases contributing to weaker portfolio tenant retention rate, (iv) overpaying for acquisitions resulting in lower DPU-accretion, and (v) faster-than-expected rise in 10-year bond yield resulting in higher risk-free rate assumption, and thus lower valuations.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
Mapletree Industrial Trust	MINT SP	5,098	Buy	2.60	3.35	9.9	4.1	17.8	1.3	5.5	MINT boasts stronger fundamentals with improved DPU visibility from its rising data centre tenancies. Its balance sheet is strong and we see further DPU-accretive deals, as management advances diversification efforts to deepen data centre concentration to 50-67% of AUM. Recovery in occupancies and rents for its Singapore portfolio remain in sight, and should gain traction in FY23, against the stronger macro backdrop.
CapitaLand Integrated Commercial Trust	CICT SP	9,645	Buy	1.98	2.55	11.8	3.3	16.6	0.9	6.0	CICT is now past the peak of rental waivers and should benefit from the completion of various office AEIs and lower borrowing costs. We expect negative rental reversions to moderate as Covid-induced measures continue to ease, with retail recovery gaining traction in FY22. It has recycled divestment proceeds from One George Street in Singapore (at a 3.17% exit NPI yield) and diversified into Australia with three Grade A office/integrated development assets in Sydney at c.SG773m (at 5.1% NPI yield) for a +2.8% DPU accretion. We see favourable growth fundamentals, as its AUM rises to SGD22.9b, with overseas assets growing to 9%, even as it maintains a Singapore core. We see near-term catalyst from DPU recovery in 2021 and medium-term earnings upside as it leverages added development capacities in value-accretive AEIs and redevelopment opportunities.

Source: Bloomberg, Maybank IBG Research

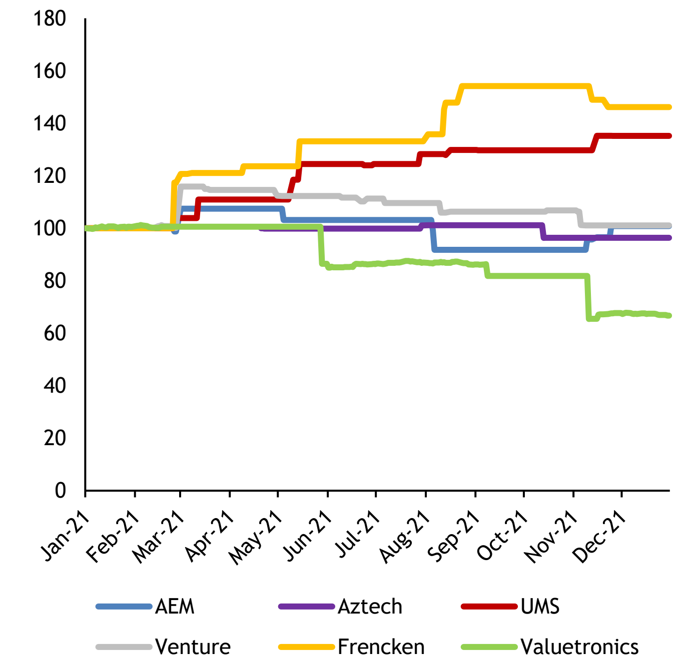
4.10 Technology

Strong re-ratings in 2021

Technology hardware
In 2021, the key factors driving technology hardware stock returns was whether the company was a beneficiary and/or resilient to components shortages or a victim of it. Upstream players saw strong returns, while downstream players were largely lacklustre as the components shortage situation worsened. In 2H21, signs of inflation began to show as some companies saw margin compression as they could not pass on rising costs quickly enough through the supply chain.

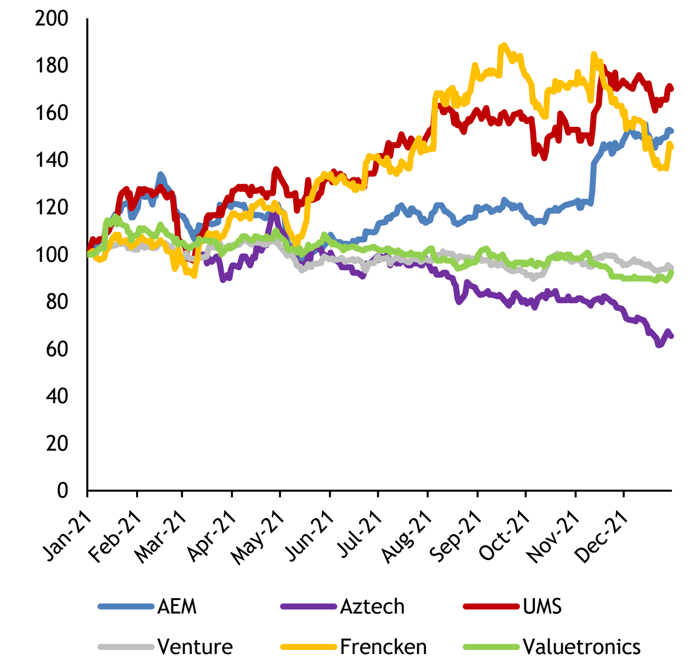
Incidentally, upstream companies saw various forms of corporate activity. AEM bought contract manufacturer CEI to expand its manufacturing capabilities for testers, a broader suite of consumables and rapid prototyping. Temasek also took a 9% stake in AEM during the year. UMS consolidated JEP to become a 72%-owned subsidiary, increasing its stake from 40.7%. The consolidation allowed UMS access to JEP's facilities, which came in handy to reduce the impact of worker capacity limits in Malaysia as the government sought to control the spread of Covid. Frencken bought its supplier Avimac to accelerate the expansion of capacity to support customers' new programmes, particularly in semicon.

Figure 60: FY1 EPS (AEM: FY2) revisions through 2021



Source: Maybank IBG Research

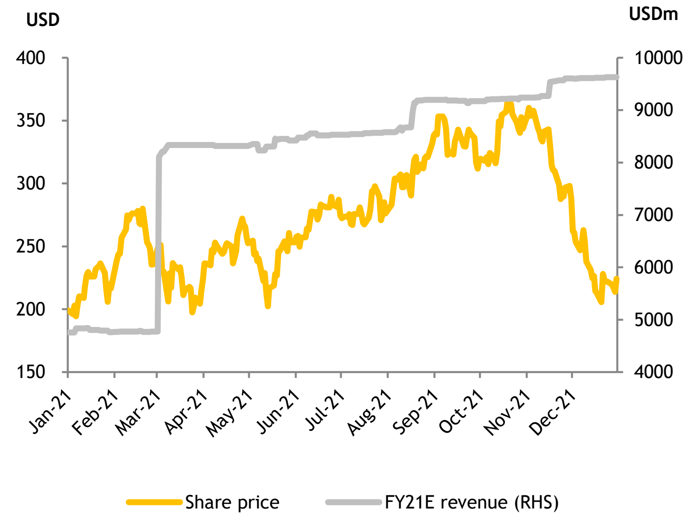
Figure 61: Share price performance



Source: Maybank IBG Research

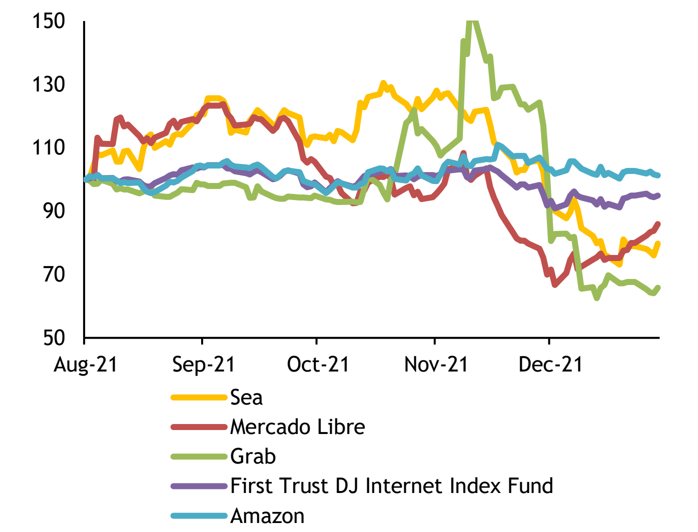
Internet
Sea saw strong revenue growth in 9M21 (+140% YoY) across all segments. From January to October, positive surprises in revenue growth was rewarded with share price returns (+93% at its 2021 peak). Sea's share price trajectory turned south in November, due to i) concerns of Garena's slowing down; and ii) a more hawkish monetary environment – which led to outflows from growth stocks that are perceived to be long duration. Grab (merged with Altimeter on 2 Dec), also loss-making, opened at USD13.06, but ended the year at USD7.13, likely also due to sector outflows amid a more hawkish monetary environment.

Figure 62: Sea's FY21E revenue vs. share price



Source: Maybank IBG Research

Figure 63: Sea (and peer Mercado Libre), as well as Grab, all loss-making, have underperformed the broader sector and profitable peers (e.g. Amazon) since Nov.



Source: Maybank IBG Research

Potential for positive earnings revisions for Tech Hardware

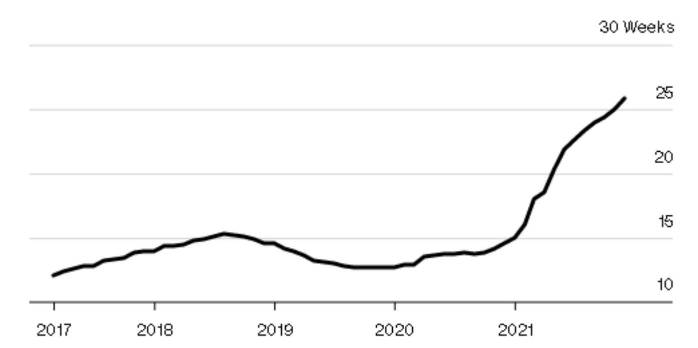
Technology hardware

Our key picks in 2022 are AEM and UMS, as we see room for positive earnings revisions from company specific upside drivers. For AEM, upside drivers are i) our potential underestimation of Intel's demand for HDBI (high-density burn-in) and HST (HDMT system test) handlers, ii) Intel's capacity expansion plans in Penang and Costa Rica, and iii) accretive M&A, in our view. As for UMS, we believe that upside drivers are i) possibility of allocation gains from existing key customer for FY22E, and ii) potential for new customers' contributions in FY23E, which may cushion earnings cyclicality as the semiconductor equipment cycle matures.

Our conviction towards downstream names are less strong as chip shortages are still widely expected to persist into 2H22. At the same time, we think some downstream players (especially EMS) may see margin erosion from inflation. However, we are vigilant to watch out for a changing environment that could favour downstream companies' outperformance. Signposts that we are looking for include i) marked improvement in components shortages, ii) negative impacts of Covid getting more muted; iii) inflation peaking out; and/ or iv) relative attractiveness of earnings and valuation risk-reward vis-à-vis upstream companies. As our tech hardware coverage is perceived to be short duration and have robust balance sheets, we believe interest rate movements will have less impact than abovementioned drivers.

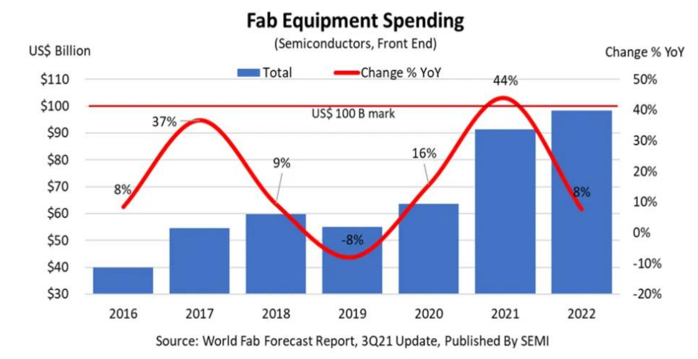
On M&A, we believe AEM could be active in 2022 as it puts the capital raised (SGD103m) from Temasek to work. We believe areas of interest include wafer test, data analytics and software, and certain hardware technologies (e.g. for consumables and/ or enhancing present hardware capabilities).

Figure 64: Chip wait times are still lengthening (Dec'21: 25.8 weeks).
In our view, this poses higher risks to downstream than upstream companies in our coverage



Source: Susquehanna Financial Group

Figure 65: WFE poised to grow in 2022 on the back of robust demand from both logic and memory



Source: SEMI

Internet

Sea remains optimistic of Shopee's growth potential in key markets of ASEAN, Taiwan and Brazil. In addition, Shopee is now testing waters in Poland, France, Spain and India – although these may take time for meaningful contributions to materialize. Sea remains confident of Free Fire's growth potential in coming years, and we think that marginal upside from the game could come from Free Fire MAX from more developed countries (Free Fire is already a top grossing mobile battle royale game in ASEAN, LatAm, India, and US). Shopee's take rate was 8.7% 3Q21, which Sea attributed to strong monetization momentum. Sea believes that high single digit to low teens of take rate is an achievable objective over the medium term. Meanwhile, Grab is optimistic that rising vaccination rates and the gradual reopening of economies will provide tailwinds to its business.

On 4 Jan, Tencent announced that it would cut its stake in Sea from 21.3% to 18.7%, but intends to retain the majority of its stake for the long term. According to Tencent, the sale was to free up capital for its other growth initiatives. In response to the news, Sea's share price fell 11.4% to USD197.84 in the following trading session. This may be perceived as a dampener to sentiment in the near term and may result in Sea's share price being lackluster, especially on the back of a hawkish interest rate environment. However, we remain positive towards Sea's longer term prospects as it is a regional champion in its domains with substantial growth potential and competitive advantages.

Figure 66: ASEAN e-commerce web visits in 3Q21. Shopee was top ranked in all countries except Indonesia

Indonesia		Singapore		Malaysia		Thailand		Philippines		Vietnam	
Tokopedia	158,137,700	Shopee	14,420,000	Shopee	57,566,700	Shopee TH	61,250,000	Shopee	73,650,000	Shopee Vietnam	77,826,700
Shopee	134,383,300	Lazada	8,650,000	Lazada	14,290,000	Lazada TH	37,923,300	Lazada	39,430,000	The Gioi Di Dong	50,923,300
Bukalapak	30,126,700	Amazon	4,703,300	PGMall	6,976,700	Central Online	2,580,000	Zalora	1,520,000	Dien May Xanh	27,043,300
Lazada	27,953,300	Qoo10	3,576,700	Zalora	1,100,000	HomePro	2,523,300	eBay	469,300	Lazada VN	21,413,300
Blibli	16,326,700	Castlery	1,286,700	GoShop	425,600	Advice	2,516,700	Beauty MNL	409,200	Tiki	17,500,000

Source: iPrice

Figure 67: Free Fire continued to the a top 10 mobile game by worldwide revenue in November 2021

Source: Sensor Tower

Risks

For technology hardware, we believe key short term risks include persisting supply-side constraints, including components shortages as well as cost-push inflation that could cap earnings in the near term. For upstream companies exposed to wafer fab equipment supply chains like UMS and Frencken, a semiconductor oversupply situation in FY23 could result in slower earnings or earnings decline. For AEM, longer horizon factors to consider include ability to diversify revenue base as well as continued ability to integrate and leverage on acquisitions to introduce a broader suite of offerings.

For internet, we believe a more hawkish than expected interest rate environment remains the key risk for share prices over the next 12 months, as both Singapore based companies, Sea and Grab are forecasted to remain lossmaking in FY22E. Operationally, slower than expected growth (e.g. Garena for Sea; ride-hailing for Grab) could also dent sentiment for these stocks.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
AEM	AEM SP	1,145.9	Buy	5.0	6.2	36.6	9.9	10.8	2.7	2.1	AEM has just begun a new earnings cycle, driven by i) new generations of test handling equipment for Intel, as test requirements increase and ii) contributions from new customers. We see upside from Intel's capacity expansion in key assembly and test sites in Penang and Costa Rica, as well as from accretive M&A.
UMS	UMSH SP	701.8	Buy	1.4	1.7	14.3	5.9	11.2	2.3	4.2	We continue to favour UMS as a beneficiary of the ongoing WFE upcycle. Additionally, we see UMS' growth outpacing overall WFE growth in 2022 - which is likely coming from geographical share gains. The potential win of a new customer may moderate cyclical effects in 2023.
Frencken	FRKN SP	569.7	Buy	1.8	2.5	15.4	11.0	10.0	1.6	3.0	We like Frencken for its long-term margin expansion story through increasing value-add. Margin expansion may be slower in the near term as rising costs may not be adequately passed through. However, we believe risk reward is attractive at 12x FY22E P/E for 18% EPS growth.

Source: Bloomberg, Maybank IBG Research

4.11 Telecom

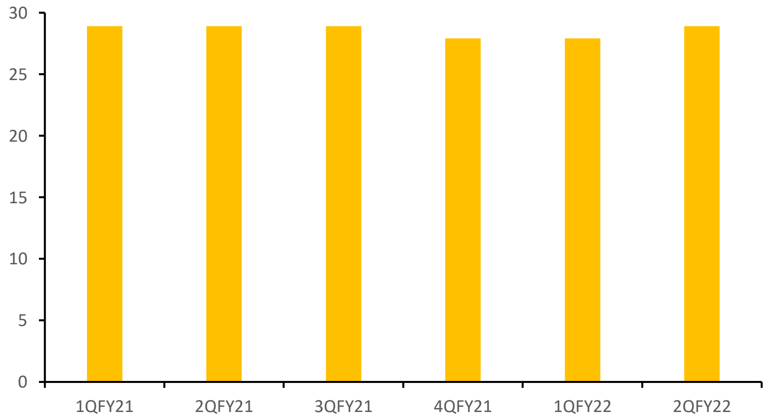
Transformation momentum rising

Singapore telcos have faced another rough year amid the Covid pandemic, as its roaming revenue continued to be challenged due to travel restrictions.

That being said, green shoots are starting to emerge on encouraging 5G uptake and the telco operators are starting to focus on enterprise growth.

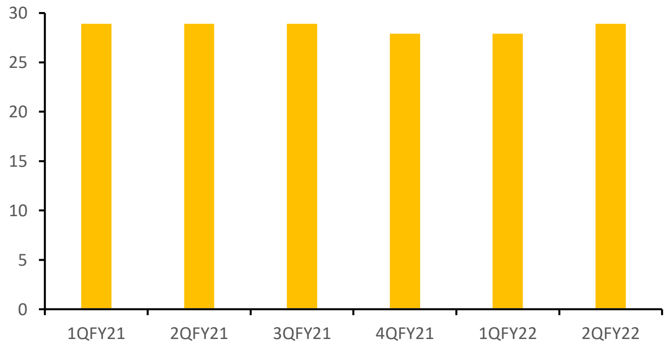
On 5G, the incumbents continued to be on track to meet InfoComm Media Development Authority's target of 50% by end-2022. Both Singtel and StarHub have noted higher-than-expected adoption rate via bundled packages. This has led to APRU uplift and has helped to offset the dilution arising from 4G SIM-only plans.

Figure 68: Singtel postpaid ARPU (SGD/month)



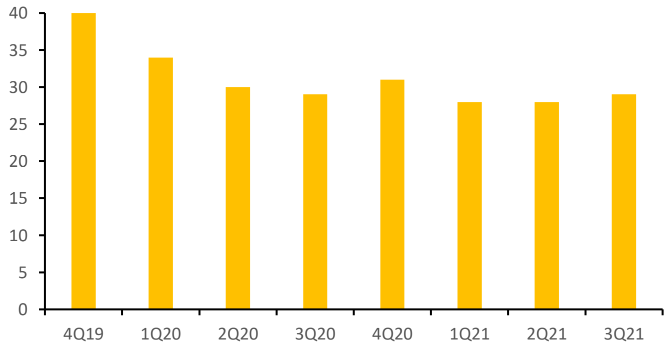
Source: Singtel

Figure 69: Singtel postpaid ARPU (SGD/month)



Source: Company data

Figure 70: Starhub postpaid ARPU (SGD/month)

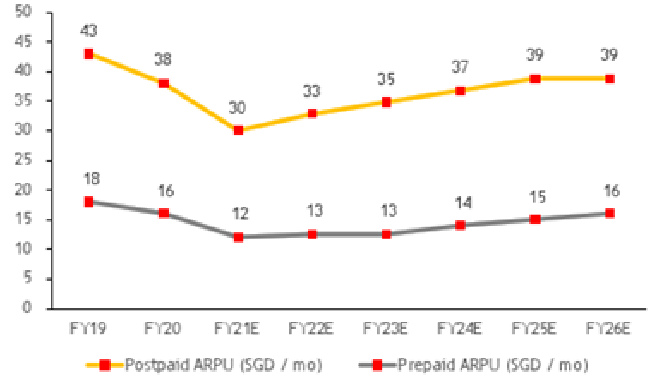


Source: Company data

According to GlobalData, 5G subscriptions are likely to hit 58% of the market share by 2025. With the current 9-40% price hike on new plans offered by the current telco players, we continued to be bullish on a gradual ARPU recovery post-pandemic.

This would provide post-paid ARPU uplift of 1.9-2.8% from FY22-25E, we estimate.

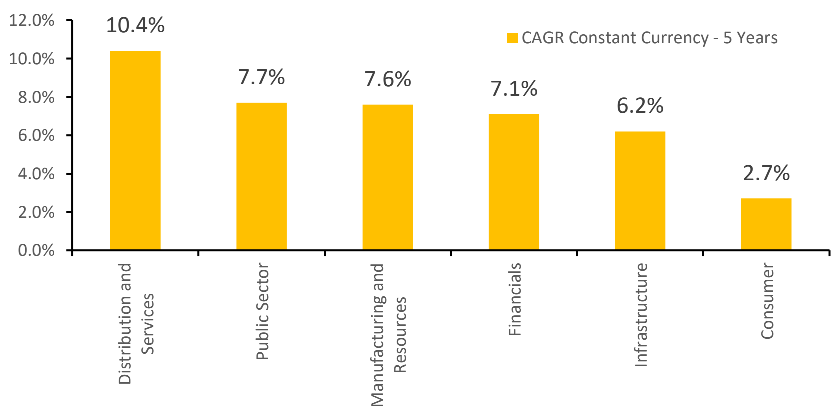
Fig 71: Quarterly post-paid ARPU for SingTel and Starhub (SGD/month)



Source: Company data

On enterprise, Covid pandemic has accelerated the digitalization trend by Asia enterprises, with ICT spending growing by 7.1% to USD950b in 2021 and is expected to grow at a CAGR significantly to reach SGD1.1t by 2025. This is aided by multiple sectors beginning to upgrade its infrastructure as business models changed throughout the year.

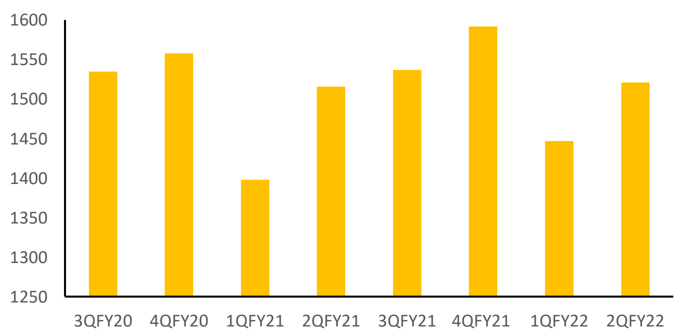
Fig 72: IDC Asia Pacific enterprise ICT spending growth Asia Pac (2020-25)



Source: IDC

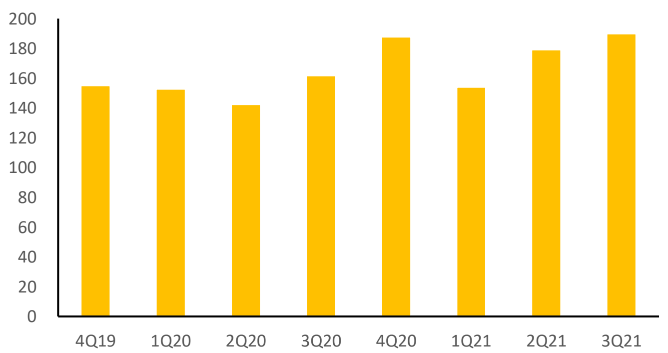
The increase in digital capex by businesses are reflected in both Singtel's and StarHub's growth in enterprise business revenue.

Fig 73: Singtel enterprise revenue (SGDm)



Source: Company data

Fig 74: Starhub enterprise revenue (SGDm)



Source: Company data

With the robust outlook for the ICT sector, we expect the telcos' enterprise businesses to provide support to their overall group earnings.

2022: Expanding into the region

We expect telco's enterprise businesses to continue to take the lead in earnings growth in 2022 on the back of regional ICT expansion. Both Singtel (through NCS) and StarHub (through Ensign and Strateq) are intending to accelerate its Enterprise growth by deepening its capabilities within Singapore and across the region.

Specifically, NCS has unveiled its plans to acquire three technology providers across Singapore, Australia and Hong Kong, expanding its digital capabilities with a specific focus on data analytics and cloud. The acquisitions are intended for its acceleration for expansion into high-growth markets such as Singapore, Greater China and Australia.
Meanwhile, StarHub is embarking on its 2nd transformation plan, laser focusing on growth in all areas, with further tightening in operating costs through digitalization and migration from legacy systems. Business acceleration is also underway through its presence in cybersecurity and regional ICT. On top of this, StarHub has also proposed the acquisitions of MyRepublic Broadband and HKBN JOS business in Singapore and Malaysia, thus further boosting its enterprise play.

On restructuring play, we remain neutral on any potential special dividend arising on the disposal of infrastructure assets for both telcos, given their aggressive regional expansion. Meanwhile we have noted that Singtel is likely to benefit from across-the-board improvement across its core markets in Singapore and Australia, as well as regional associates' earnings improvement from India and Indonesia.

Risks

Key risks include worse-than-expected Omicron severity, further tightening of social distancing measures, prolonged drag from Covid, further cuts to dividend, stronger-than-expected competition in Singapore and/ or operating countries.

Sector Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	EPS gr. (%) 21E	EPS gr. (%) 22E	PE (x) 22E	PB (x) 22E	Div Yield (%) 22E	Comments
Singtel	ST SP	28,362.3	Buy	2.33	2.83	400.0	20.6	10.9	1.3	6.9	Singtel should see earnings recovery on i) gradual ARPU recovery post-COVID ii) 5G ARPU uplift iii) associates set for ARPU uptrend. We see deep value as market is ascribing almost zero value to its core operations in Singapore and Australia.
NetLink NBN Trust	NETLINK SP	2,843.7	Buy	0.99	1.13	2.4	-0.7	35.4	1.5	5.7	We continue to like NetLink Trust as its 5.7% FY22E yield offers dividend visibility given its business nature. Given its strong balance sheet, NetLink has the potential to explore overseas acquisitions within the telco infrastructure sector, thus giving rise to potential dividend growth.

Source: Bloomberg, Maybank IBG Research

Appendix A: Regional Macro Overview

ASEAN-6 Key Macro Indicators

	Real GDP growth (%)					Headline Inflation (%, average)					Policy Rate (%, year-end)				
	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E
Global	2.8	-3.2	6.0	4.5	3.1	2.8	2.3	3.6	3.0	3.0	-				
US	2.3	-3.4	5.8	4.2	2.4	1.8	1.2	3.9	2.7	2.5	1.625	0.125	0.125	0.375	1.125
Indonesia	5.0	-2.1	3.9	5.4	5.2	3.0	2.0	1.6	3.2	3.0	5.00	3.75	3.50	3.75	4.25
Malaysia	4.3	-5.6	3.8	6.0	5.0	0.7	-1.2	2.5	2.5	2.5	3.00	1.75	1.75	2.00	2.50
Philippines	6.1	-9.6	5.5	7.0	6.2	2.5	2.6	4.4	2.8	3.0	4.00	2.00	2.00	2.25	2.75
Singapore	1.3	-5.4	7.1	3.8	2.5	0.6	-0.2	2.2	2.6	1.2	1.77	0.41	0.45	0.62	1.10
Thailand	2.3	-6.1	1.6	4.0	3.5	0.7	-0.8	1.1	1.8	0.9	1.25	0.50	0.50	0.50	1.00
Vietnam	7.0	2.9	1.0	6.7	6.6	2.8	3.2	2.0	3.8	3.5	6.00	4.00	4.00	4.25	4.50

	Exports of Goods & Services (%)					Gross Fixed Capital Formation (%)					Private Consumption (%)				
	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E
Indonesia	-0.9	-7.7	22.9	6.0	6.0	4.5	-4.9	4.2	5.2	7.5	5.0	-2.6	1.9	6.2	5.5
Malaysia	-1.1	-8.9	15.5	10.1	5.0	-2.1	-14.5	1.3	7.3	5.5	7.6	-4.3	2.8	7.5	6.3
Philippines	2.6	-16.3	10.0	9.7	10.0	3.9	-27.5	13.7	12.8	12.7	5.9	-7.9	4.0	6.3	6.4
Singapore	0.1	-4.3	6.0	4.4	4.0	1.2	-13.7	14.2	5.2	6.0	3.3	-14.1	4.9	3.6	2.5
Thailand	-3.0	-19.4	9.8	11.5	7.5	2.0	-4.8	4.7	5.1	3.4	4.0	-1.0	1.4	4.5	3.0
Vietnam	6.7	5.0	15.0	12.2	11.8	8.3	4.1	4.1	8.5	8.5	7.4	0.6	0.6	6.5	6.5

Source: CEIC, Maybank IBG Research

Singapore - Key Macroeconomic Indicators

	2018	2019	2020	2021E	2022E	2023E
Real GDP (%)	3.5	1.3	-5.4	7.1	3.8	2.5
Private Consumption (%)	4	3.3	-14.1	4.9	3.6	2.5
Government Consumption (%)	3.2	3.4	12.6	3.7	3.5	3
Gross Fixed Capital Formation (%)	-4.3	1.2	-13.7	14.2	5.2	6
Exports of Goods & Services (%)	7.7	0.1	-4.3	6	4.4	4
Imports of Goods & Services (%)	7.5	0.2	-7.1	6.4	4.9	4.6
Current Account Balance (% of GDP)	15.4	14.3	17.6	20	18	17
Fiscal Balance (% of GDP)	0.7	0.2	-13.9	-2.2	-0.5	1
Inflation Rate (%)	0.4	0.6	-0.2	2.2	2.6	1.2
Unemployment Rate (%)	2.1	2.3	3	2.7	2.4	2.3
Exchange Rate (per USD, end-period)	1.36	1.35	1.32	1.35	1.32	1.3
10-Year Government Bond Yield (%, end-period)	2.03	1.73	0.83	1.75	1.9	2.2
3M SIBOR (% p.a., end-period)	1.89	1.77	0.41	0.45	0.62	1.1

Appendix B: Singapore Coverage Universe

Stock	BBG Code	M.Cap SGDm	Rec	Price SGD	TP SGD	Upside %	EPS gr. (%) CY21E	EPS gr. (%) CY22E	P/E (x) CY21E	P/E (x) CY22E	ROE (%) CY21E	ROE (%) CY22E	P/B (x) CY21E	P/B (x) CY22E	Div Yield (%) CY21E	Div Yield (%) CY22E
DBS	DBS SP	66,889	Buy	35.07	37.03	5.6	4.3	9.8	12.1	10.6	12.4	12.7	1.5	1.4	4.0	4.6
OCBC	OCBC SP	40,266	Buy	12.10	14.67	21.2	8.0	10.1	10.1	8.6	10.3	10.8	1.0	1.0	5.0	5.8
UOB	UOB SP	36,236	Buy	29.16	31.15	6.8	11.4	12.5	10.8	9.7	10.2	10.8	1.1	1.0	4.8	5.1
SGX	SGX SP	7,622	Hold	9.65	12.27	27.2	7.4	3.5	21.5	18.4	32.5	30.7	6.7	6.0	3.5	3.8
Financials		151,013					**7.1**	**10.2**	**11.7**	**10.3**	**12.3**	**12.7**	**1.5**	**1.4**	**4.4**	**5.0**
Singtel	ST SP	28,362	Buy	2.33	2.83	21.5	(32.6)	53.9	12.7	10.9	6.2	9.5	1.4	1.3	5.9	6.9
StarHub	STH SP	1,736	Hold	1.36	1.25	(8.1)	9.5	15.8	16.8	14.2	22.2	24.2	3.4	3.2	4.8	4.8
Netlink NBN	NETLINK SP	2,844	Buy	0.99	1.13	14.1	2.4	(0.7)	36.7	35.4	3.8	3.9	1.5	1.5	5.6	5.7
Telecoms		2,844					**(27.4)**	**47.2**	**15.0**	**13.2**	**6.8**	**9.8**	**1.5**	**1.4**	**5.8**	**6.7**
AEM	AEM SP	1,146	Buy	4.99	6.23	24.8	36.6	9.9	12.8	10.8	28.0	24.9	3.3	2.7	1.8	2.1
UMS	UMSH SP	702	Buy	1.42	1.71	20.4	14.3	5.9	12.5	11.2	21.1	19.8	2.6	2.3	4.2	4.2
Frencken	FRKN SP	570	Buy	1.81	2.50	38.1	15.4	11.0	11.2	10.0	17.4	17.1	1.8	1.6	2.7	3.0
Venture	VMS SP	3,868	Hold	18.00	19.18	6.6	7.4	4.0	16.3	14.9	12.1	12.0	1.9	1.8	4.2	4.2
Aztech	AZTECH SP	508	Buy	0.89	1.26	41.6	27.5	19.5	7.1	5.9	29.7	28.6	2.9	2.3	4.3	5.1
Valuetronics	VALUE SP	177	Sell	0.55	0.60	8.9	16.2	16.7	11.3	9.6	8.4	9.3	0.9	0.9	2.5	5.1
Technology		6,286					**14.2**	**5.9**	**14.8**	**13.3**	**16.5**	**15.7**	**2.2**	**2.0**	**3.6**	**3.7**
CDREIT	CDREIT SP	1,043	Hold	1.15	1.20	4.3	61.5	34.3	23.5	17.7	3.8	5.0	0.9	0.8	4.8	5.6
Far East Hosp.	FEHT SP	866	Buy	0.60	0.70	17.6	11.3	28.9	24.8	22.9	3.3	4.0	0.8	0.7	4.0	4.4
Hospitality REITs		1,909					**38.7**	**31.8**	**24.1**	**20.0**	**3.6**	**4.5**	**0.8**	**0.8**	**4.4**	**5.0**
AAREIT	AAREIT SP	744	Buy	1.42	1.65	16.2	15.6	2.5	13.9	13.8	8.7	8.6	1.0	0.9	7.2	7.3
ESR REIT	EREIT SP	1,411	Buy	0.48	0.55	15.8	6.0	1.5	14.4	14.0	7.3	7.3	1.1	1.0	6.5	6.7
Ascendas REIT	AREIT SP	8,911	Buy	2.88	3.65	26.7	6.7	2.8	18.1	17.6	6.5	6.5	1.2	1.1	5.7	5.9
ARA LOGOS	K2LU SP	947	Buy	0.89	0.95	7.3	13.0	3.9	14.8	14.0	6.5	6.8	1.0	1.0	6.3	6.7
Mapletree Ind.	MINT SP	5,098	Buy	2.60	3.35	28.8	9.9	4.1	18.1	17.8	7.7	7.8	1.4	1.3	5.4	5.5
Mapletree Log.	MLT SP	6,130	Buy	1.78	2.35	31.8	8.5	2.1	20.5	20.3	6.4	6.5	1.3	1.3	5.0	5.0
Industrial REITs		23,242					**8.4**	2.8	18.2	17.8	6.9	6.9	1.2	1.2	5.6	5.7
CapitaLand Malls	CT SP	9,645	Buy	1.98	2.55	28.8	11.8	3.3	17.1	16.6	5.5	5.6	0.9	0.9	5.9	6.0
Frasers Ct.pt.	FCT SP	2,806	Buy	2.24	2.90	29.5	2.5	1.5	17.5	16.8	5.1	5.0	0.9	0.9	5.7	5.9
Mapletree Comm	MCT SP	4,481	Buy	1.83	2.35	28.4	6.9	2.5	18.9	18.5	5.7	5.8	1.1	1.1	5.3	5.4
SPH REIT	SPHREIT SP	1,983	Hold	0.97	0.95	(1.6)	3.1	1.1	16.1	15.3	5.7	5.6	1.0	0.9	5.8	6.0
Sasseur REIT	SASSR SP	749	Buy	0.84	1.05	25.7	5.2	6.8	10.8	10.6	7.1	7.5	0.9	0.9	8.7	9.0
Retail REITs		19,664					**8.2**	**2.8**	**17.2**	**16.7**	**5.6**	**5.6**	**1.0**	**1.0**	**5.8**	**6.0**
Manulife US	MUST SP	1,175	Buy	0.67	1.00	49.3	14.4	(0.7)	12.9	12.6	8.1	7.8	1.0	1.0	8.5	8.7
Office REITs		1,175					**14.4**	**(0.7)**	**12.9**	**12.6**	**8.1**	**7.8**	**1.0**	**1.0**	**8.5**	**8.7**
Sarine Technologies	Sarine SP	155	Buy	0.59	0.94	59.3	7.5	5.8	8.9	8.4	24.1	23.5	2.1	1.9	6.9	8.1
ComfortDelgro	CD SP	2,141	Buy	1.34	1.88	40.3	27.6	3.7	12.0	10.9	8.4	8.4	1.0	1.0	6.7	7.4
Industrials & Transport		2,295					**26.3**	**3.8**	**11.8**	**10.7**	**9.4**	**9.4**	**1.1**	**1.0**	**6.7**	**7.4**
Genting SG	GENS SP	6,864	Hold	0.77	0.86	11.7	157.9	25.0	26.6	14.3	5.7	7.0	1.2	1.1	2.6	5.2
Gaming		6,864					**157.9**	**25.0**	**26.6**	**14.3**	**5.7**	**7.0**	**1.2**	**1.1**	**2.6**	**5.2**
Raffles Med	RFMD SP	1,834	Buy	1.33	1.58	18.8	11.9	4.7	30.9	28.9	8.3	8.4	2.6	2.5	1.9	1.9
Q&M Dental	QNM SP	427	Buy	0.60	0.78	30.0	0.5	6.3	17.1	15.4	34.1	43.3	5.9	7.2	6.7	6.7
Healthcare		2,261					**9.7**	**5.0**	**28.3**	**26.4**	**13.2**	**15.0**	**3.2**	**3.4**	**2.8**	**2.8**
Bumitama Agri	BAL SP	719	Buy	0.56	0.93	67.6	13.7	(9.4)	6.6	6.2	16.8	13.9	1.0	0.9	6.1	6.4
First Res.	FR SP	1,868	Hold	1.60	1.68	5.0	21.6	(4.3)	12.3	11.8	14.6	13.1	1.5	1.4	4.1	4.2
Wilmar	WIL SP	20,295	Buy	4.30	5.80	34.9	1.9	4.5	12.5	12.1	7.6	7.6	0.9	0.8	5.0	5.2
Plantations		22,882					**3.8**	**3.3**	**12.3**	**11.9**	**8.5**	**8.3**	**0.9**	**0.9**	**5.0**	**5.2**
Sheng Siong	SSG SP	1,618	Sell	1.46	1.33	(8.9)	(8.4)	4.3	21.5	21.5	25.3	25.1	5.0	4.9	3.6	3.6
ThaiBev	THBEV SP	12,220	Buy	0.66	0.99	50.0	6.2	5.9	13.0	13.9	16.3	15.5	2.2	2.1	3.7	3.7
Consumer		13,838					**4.5**	**5.7**	**14.0**	**14.8**	**17.4**	**16.6**	**2.5**	**2.4**	**3.7**	**3.7**

Source: Maybank IBG Research, Factset

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