

# Invest ASEAN SG 2022

## Navigating growth & inflation

### Cautiously upbeat. Stay defensive

Of the 19 corporates presenting at our IA Singapore Week conference, a majority expects to deliver growth despite underlying macro headwinds. Some see opportunities for expansion through M&A, leveraging on robust balance sheets. Of course, rising interest rates, inflation, geopolitics as well as labour shortages are critical concerns. Strategies are focusing on limiting their impact. We maintain our defensive stock picks balancing strong earnings visibility and competitive moats (DBS, OCBC, SGX, CDREIT, CD) with those offering thematic growth (CLI, SingTel, ST Eng, Raffles Med, Venture).

### Still a lot of hope on growth...

79% of the presenting companies expect sequential growth opportunities driven by a combination of regional border re-openings, expanding order books, structural trends (such as digitalization, sustainability) and improving margins. The rest expect to maintain current activity levels, while none are forecasting retreating growth. Amongst those expecting the most material margin upside are the Banks (from rising NIMs from interest rates), Telcos (from cost savings and rising re-opening ARPUs) and Commodity traders from rising ASPs. Volume upsides are seen by Land Transport, Tech Manufacturing, Recruitment and Healthcare sectors. Separately, around 40% are looking for M&A opportunities and/or value unlocking and restructuring. Industrial and Logistics REITs, Commodity traders, Telcos, Land Transport and Non-bank Financials are the most on the lookout.

### ...but rising caution on operating conditions

Unsurprisingly, higher inflation, rising interest rates and geopolitical uncertainties are top-of-mind concerns for managements and strategies are being focused on limiting their impact. Interestingly, most corporates expect significant cost pass through, either from cost-plus pricing models (Defense, Tech Manufacturing), indexation (Land Transport) or contractual stipulations (REITs). Gearing levels are low, while debt is being rotated towards fixed-rate facilities from floating rates - especially REITs. Bottlenecks arising from lack of labour availability is another critical issue that is threatening low utilization rates in Tech Manufacturing. For Banks, higher labour costs are so far not exceeding guidance set during 1Q22.

### Stick with a Moats+Growth stock selection strategy

Until better macro clarity emerges, we adopt a defensive stock picking approach with stocks that offer near-term earnings visibility and strong competitive positioning for superior pricing (Moats), plus stocks offering growth acceleration due to medium-term themes such as EM consumption, policy support, ESG (Growth). Our top picks include: DBS, OCBC, SGX, CDREIT, CD (Moats), CLI, SingTel, ST Eng, Raffles Med, Venture (Growth).

### Analysts

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### Presenting companies

Company	Ticker	Price (LCY)	TP (LCY)	Rating
AEM Holdings	AEM SP	4.19	6.06	Buy
AREIT	AREIT SP	2.88	3.50	Buy
Bumitama Agri	BAL SP	0.67	0.98	Buy
China Aviation Oil	CAO SP	0.90	NA	NR
Civmec Ltd	CVL SP	0.60	1.00	Buy
ComfortDelgro	CD SP	1.39	1.76	Buy
DBS	DBS SP	30.15	41.22	Buy
ESR Logos REIT	ERIT SP	0.41	NA	NR
Frencken	FRKN SP	1.15	1.80	Buy
HRnet Group	HRNET SP	0.78	1.07	Buy
Keppel Infra Trust	KIT SP	0.57	NA	NR
Netlink	NETLINK SP	0.95	1.05	Buy
Olam Group	OLAM SP	1.55	NA	NR
Raffles Medical	RFMD SP	1.14	1.50	Buy
SGX	SGX SP	9.64	11.20	Buy
Starhub	STH SP	1.23	1.32	Hold
UMS Holdings	UMSH SP	1.14	1.50	Buy
UOB	UOB SP	26.49	34.62	Buy
Venture Corp	VMS SP	16.90	21.00	Buy

Source: FactSet, Maybank IBG Research

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## Presentation Highlights

### AEM Holdings Ltd (AEM SP, SGD4.19, BUY, TP: SGD6.06)

#### Speakers:

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

Write up: Samuel Tan ([samuel.tan@maybank.com](mailto:samuel.tan@maybank.com))

- Increasing complexity and focus away from nodes and towards advance packaging and chipsets driving greater demands on testing, especially thermal resiliency, resulting in testing becoming the bottleneck process in chip manufacturing.
- AEM's tests help the largest customer (Intel) save between 30% and 50% on the cost of tests.
- The tests required are 1) wafer sort (<5s), 2) Burn-in (1 - 48h), 3) Final test (<30s), 4) System Level Test (SLT) (2 - 15 min).
- Until 2 years ago, SLT was sample tests, now moving to population tests due to requirements of heterogenous packaging.
- AEM's test 2.0 vision aims to reduce cost of test using data analytics and automation, with an advantage vs competitors by combining the four tests together and customising to customers.
- AEM has moved beyond test handler into entire modular cells assembled into tester columns (like Lego blocks) with asynchronous parallel capability combining all four tests.

### Ascendas Real Estate Investment Trust (AREIT SP, SGD2.88, BUY, TP: SGD3.50)

#### Speakers:

Mr William Tay , CEO  
Ms Yeow Kit Peng, Head, Capital Markets & Investor Relations  
Ms Wylun Liu, AVP, Investor Relations

Write up: Chua Su Tye ([chuasutye@maybank.com](mailto:chuasutye@maybank.com))

- Largest industrial S-REIT at SGD17.7b AUM, with business space and industrial properties located in Singapore (at 60%), and across Australia, UK, and US (11-15%). Has been positioning portfolio towards asset classes, including business space and life science, logistics, and data centres, which cater to changing market and tenant needs arising from structural trends and changing consumption patterns (digitalization, e-commerce etc).
- Impact of rising utility costs is minimal, as maintenance expenses in Australia, Europe, and US all passed through to tenants, with most leases on triple-net and even for multi-tenanted suburban or offices in the US. In Singapore, costs are incurred only for common areas, where maintenance has risen in recent years due to tight labour supply, and margins have been fairly stable. Management expects utility costs to rise 50-60% this year due to the higher electricity rates, with impact to DPU (pro-forma basis) expected to be 1-2%. This could

be offset by positive rental reversion, high tenant retention and stable occupancy.

- Cap rates compressed strongly last year in Australia, easily by 100bps, while valuation of 3-4% may be considered to be at the top of market with opportunities for divestment into higher-yielding assets. Rental growth is strong, while occupancies have been pushed up. Management will focus on asset fundamentals, and may look to recycle those which are fully priced-in, into US properties yielding c.5%, with valuations also attractive in Singapore given the shorter leasehold land tenure.
- Tenant stress is not visible, and was more worrying during Covid, especially in Singapore, but rental arrears did not go up, and rent collection was above 90%. Demand is strong with growth driven by the semiconductor, electronics, and biomed sectors. UBIX obtained practical completion in Jan 2022, and is now 45% committed, a level usually achieved in 12 months. Rents are now SGD3.60-3.80 psfpm, 20% above expectation of SGD3.00 psfpm, vs SGD1.00-1.50 psfpm pre-redevelopment.
- While an EU recession remains a risk, and there are concerns on how the Ukraine war will pan out, management believes its asset classes there are resilient, as both data centres and warehouses will remain in need. Its properties serve last-mile delivery where tenants are sticky. They are not invested in big box logistics, a segment where supply is more lax, and demand which could be hit by changing consumption patterns.
- Interest rates have risen and it has previously swapped the HKD-denominated borrowings into SGD to secure better rates. It is the only other S-REIT (aside from CICT) with a A3 credit rating and could leverage this to refinance its short-term borrowings into longer tenure debt at lower rates. Its all-in debt cost fell to 2.1% in 1Q22 (vs 2.2% in 4Q21, and 2.5-2.6% at end-Dec 2020), but is expected to rise on the back of higher rates.
- Capital access has receded and bidding interest for assets have thinned out, while genuine sellers are looking to contract with credible parties. The due diligence process for SGD800-900m sized deals has been lengthened by the interest rate volatility and management does not expect a similar scale of acquisitions this year. They will eye smaller deals, with leasehold Singapore assets yielding 6-7%, and thus allowing for DPU accretion.
- Rental reversion improved to +4.6% in 1Q22 (vs +2.9% in 4Q21 and +3.0% in 1Q21), and could increase from better rental growth as a result of the higher inflation. Management may look to review and up the current low single-digit rental reversion guidance for 2022 perhaps in 1H22, to a mid-to-high single-digit reversion.
- Currently working on a few potential build-to-suit opportunities in Singapore due to demand driven by manufacturing sector FDIs, and will share more if these are firmed up. Pricing remains challenging, given the uncertainty on construction costs.

## Bumitama Agri Ltd (BAL SP, SGD0.67, BUY, TP: SGD0.98)

### Speakers:

Mrs Christina Lim, Executive Director

Mr Michael Kesuma, Head of IR

Write up: Ong Chee Ting ([ct.ong@maybank-ib.com](mailto:ct.ong@maybank-ib.com))

- BAL has a relatively younger oil palm tree age profile compared to peers, averaging 12 years as at 31 Mar 2022. Overall, BAL believes its group FFB output will only peak in the coming years.
- For 2022, it maintains its +5%-10% FFB growth guidance (despite a slow start to 1Q22 due to the high base at the start of 2021). BAL expects output to play catch up in 2H22 on normalised seasonal trend.
- BAL has long-term contracts with customers (sold at prevailing Indonesian market prices). Even during the period of export ban imposed by the Indonesian government, BAL continues with its committed delivery of palm oil. As such, its milling tanks are not “overflowing” but remains manageable throughout 2Q22.
- BAL does not export its palm oil and hence it has no domestic market obligations to adhere to. Nonetheless, domestic CPO price has come under pressure recently due to the build-up of stockpile in Indonesia as exports are still gaining momentum post the lifting of export ban in late May.
- It maintains an attractive dividend policy of up to 40% payout ratio. Dividend yields have averaged ~5% for the past two years.

## China Aviation Oil Singapore Corp (CAO SP, SGDO.90, NR)

### Speakers:

Mr Wang Yanjun, Chief Executive Officer/Executive Director

Mr Xu Guohong, Chief Financial Officer

Mr Guo Feng, Assistant to CEO/Head of Corporate Development and Investment

Ms Doreen Nah, Company Secretary/General Counsel cum Head of Legal & Compliance/Office of Board Secretary

Write up: Kelvin Tan ([kelvin.tan1@maybank.com](mailto:kelvin.tan1@maybank.com))

- Background: China Aviation Oil supplies jet fuel to foreign and domestic airlines flying through Chinese and international airports. The company also trades in other oil products, such as fuel oil and gas oil. Its state-owned parent is Asia-Pacific's largest physical jet fuel trader and sole supplier of imported jet fuel for China's civil aviation market.
- Financial Snapshot: Net profit fell by 28.2% YoY to USD40m, due to lower gross profit and other income partially offset by reduced expenses. Gross profit dropped 33% YoY to US 31 million, due mainly to the lower profits from jet fuel supply and trading business due to COVID 19 pandemic. Cash & cash equivalents of the Group rose 48.95% to USD400.84m in FY2021 which can be used to fund the Group's strategic and synergistic investments. The Group maintains a healthy financial position with zero net interest bearing debt. Contributions from the Group's associates eased 5% to USD23.6m in FY21 from USD24.8m in FY20.
- The Group will continue to explore opportunities to increase investments in oil-related assets and explore green energy business opportunities such as biofuels and carbon credit trading to provide customers with "low carbon emission" solutions. Overall, the Group maintains a cautiously positive outlook for its performance in FY22.
- Future plans: CAO actively seeks opportunities to expand its global presence through strategic investments, entering into new markets and undertaking new product offerings to grow its diversified international revenue base.
- Investment merits: 1) Group remained profitable amid COVID-19, 2) Gradual aviation traffic recovery, 3) Healthy cash position (USD400m) to allow CAO to seek expansion opportunity in Synergistic and strategic oil related businesses, 4) Consistent dividend payout 30% of net profit to shareholders and 5) Robust recovery in oil prices and demand

## Civmec Ltd (CVL SP, SGDO.60, BUY, TP: SGD1.00)

### Speakers:

Mr James Fitzgerald, Executive Chairman

Mr Kevin Deery, COO

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

- Tendering activity remains positive across all key sectors and Civmec is focusing on securing more projects and contract extensions that will allow the group to maintain its orderbook at over AUD1b as it heads into FY23.
- Civmec expects to sustain its blended GPM at 11% or more due to, among other things, the way its contracts are structured. Certain projects, for example, are under a cost-plus model, where contracts come with an escalation clause for raw materials and/or labour expenses, which are largely variable in nature.
- Management believes there will be ample opportunities for Civmec to be involved in the development of an AUD4.3b new dry dock and associated infrastructure in Western Australia. This dock will be constructed on the common user facility, the area of land directly adjacent to its Henderson facilities.
- Notwithstanding the recent change in Australian government, the group does not expect any major shift in the country's defence spending stance or specifically with regards to its naval shipbuilding programme.
- The next likely defence contract win could come from its recent alliance with Serco in joint pursuit of the LAND-8710 contract worth AUD800m to deliver the next generation in assured amphibious capabilities for the Australian military. Evaluations of competing designs will take place in 3Q22, and a contract award is expected in late 2023 or early 2024.

## ComfortDelgro Corp Ltd (CD SP, SGD1.39, BUY, TP: SGD1.76)

### Speakers:

Mr Derek Koh, Group Chief Financial Officer

Mr Chris White, Group Investor Relations

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

- Despite the elevated energy prices, CDG highlighted that fuel expenses in public bus contracts are typically indexed on a monthly basis, so the net impact on its bottom line is not significant. While there is some exposure of electricity costs for its local rail operations, the quantum is less than 20% out of the group's total fuel expenses. It also enters into some short-term hedging to manage the volatility from time to time.
- With the long-term trend moving towards ride hailing, management believes that both taxi and private hire vehicles (PHVs) are increasingly an integral part of its overall operations. Currently, CDG has about 1,800 PHV drivers (300 cars in its rental fleet) with around 25-33% making an average of 4-5 trips a day, excluding its own taxis of almost 9,000.
- To attract a new breed of younger drivers, CDG recently tweaked its taxi revenue model by introducing a 3-tier commission rates (i.e. 4% applicable to taxi drivers; 8% for PHV using CDG car or 10% if they use their own car) on the trip fare (vs 20% for Grab/Gojek) for all bookings via its mobile app wef 1 May. Taxi daily rental rebate of 15% has also been extended till end-Sep 2022 in order to lower the fixed costs and boost income for its full-time drivers.
- In line with maturing battery technologies and supporting infrastructure for electric vehicles (EVs), CDG is looking to accelerate the phasing out of the group's ICE vehicles in favour of hybrid or EVs. It aims to achieve 100% hybrid vehicles for its taxi fleet by the end of next year.
- CDG may revisit the idea of unlocking the value of its land transport business assets in Australia sometime next year. It could potentially seek an IPO on the ASX for its wholly-owned subsidiary, ComfortDelGro Corporation Australia to garner strong participation from the local investors.



## DBS Group Holdings Ltd (DBS SP, SGD30.15, BUY, TP: SGD41.22)

### Speakers:

Mr Michael Sia, Head of Investor Relations

Mr Benson Tay, Vice President

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

- NIMs could see significant upside as interest rates rise. 70% of the Group's SGD book is set to re-price within 1-year and the USD book re-pricing should also flow through quickly
- CASA is still growing despite rising rates. Partly this is driven by the private bank, where clients are increasing cash holdings given global uncertainty.
- Lockdowns in China is not affecting business volumes for the Group. It has very little domestic China exposure with most volumes driven by cross-border transactions. This is a segment that has been increasing since 2019 even before the border closures in HK and China
- Overall, loan growth guidance of mid-single digits should be achievable in 2022 with broad-based credit demand driven by regional re-opening.
- On fee income, wealth management may see some slowdown given rising rates and weaker global growth. However, Management is countering this with increasing exposure to retail wealth management. This is now contributing 15-20% to the segment from sub-10% before. Increasing investment in digital delivery and structuring more retail-focused products are part of the strategy to enhance volumes here.
- Asset quality needs to be watched, but not seeing any material sectorial weakness so far. Most of the loan book is skewed towards large corporates and MNCs.
- The SME book from a macro system standpoint carries higher risk. However, in the case of DBS, 80% of the global SME book is in Singapore and Hong Kong. Total exposure is 10% of loan book, which has been steadily decreasing. 80% of SMEs in Singapore are large SMEs and a majority are collateralized with property with LTVs in the range of 60-70%.
- In terms of provisions, further releases of GP buffers are unlikely with flat levels being maintained. As macro condition remain uncertain, Management could look to keep sufficient provision support
- Costs are expected to remain elevated - especially staff costs. However, this is built in to the 6-7% cost guidance. Cost-to-income is likely to be supported from rising NII.
- The strategy for overseas expansion is bolt-on acquisitions. However, given the integration of LVB in India and Citibank Taiwan is ongoing, it is unlikely more management bandwidth will be deployed for more M&A.
- In India, the old strategy of focusing on purely wholesale banking limited ROEs. This is because the business there still ran a full cost base, while for revenue it depended on limited customer base. This made earnings lumpy and the portfolio risk was high. The current strategy is to expand the customer base to retail as well, leveraging on the existing cost base. This should improve the CIR and also support the business to meet its cost of equity.
- Management could look at the possibility of higher dividends, given strong capital levels, when there is better clarity on how 2H22 pans out.

## ESR-Logos REIT (ERIT SP, SGDO.41, NR)

### Speakers:

Adrian Chui, CEO

Charlene-Jayne Chang, Head of Capital Markets & Investor Relations

Lynn Onn, Manager, Capital Markets & Investor Relations

Write up: Li Jialin ([jialin.li@maybank.com](mailto:jialin.li@maybank.com))

- ESR REIT has recently completed its merger with ARA LOGOS REIT. The combined ESR LOGOS REIT (EREIT) has a portfolio of 83 assets across Singapore (76.7% of AUM) and Australia (15.5% of AUM, including three property funds). Its current AUM stands at SGD5b, with new-economy assets accounting for 64% of the portfolio. EREIT has a diversified portfolio across four segments: business parks, logistics and warehouse, hi-spec space, and general industrial space. With a balanced lease structure, EREIT has c.75% of leases signed for under three years, and c.25% ranging between five to ten years, allowing it to capture potential upside rental revisions, while providing some downside protection. The addition of Australian assets into EREIT's renewed portfolio has increased its overall land lease to 38.2 years, up from 30.7 years in Dec 2021.
- The recent industrial developments in Singapore, prime logistics and industrial real estate assets are in good position to benefit from the influx of high-value manufacturers in terms of positive rental reversions. In Australia, prime industrial and logistics assets have been highly sought-after and the yield compression last year offers revaluation upside to the REIT. In 1Q22, EREIT has taken a hit of SGD4m because of rising utility costs. 60% of this comes from the precision engineering company AMS and data centre tenants at 7000 AMK, due to a discrepancy in cost recovery from tenants and outgoing expenses by the REIT. Management has addressed the issue by renewing contracts and expects to see SGD1m-1.5m in quarterly utility expenses for the remainder of 2022. Other programmes to counter inflation pressure include reviewing service charges for selected assets - which will kick off this year.
- In an effort to hedge the rising utility costs, EREIT is incorporating renewable energy into its portfolio. It is installing solar panels on multiple sites.
- On the capital management front, EREIT stands at 41% gearing level with 100% unencumbered debt, for which 65% is hedged against rising interest costs. Over the years, EREIT has seen improving cost of capital, with an enhanced credit standing and enlarged portfolio. EREIT intends to further strengthen its credibility by pursuing a credit rating. Upon successful implementation, EREIT will gain access to overseas bond markets and a larger pool of investors, which further supports its deal flow.
- EREIT is going through the post-merger consolidation stage, where divestment asset enhancement initiatives and acquisitions are key to its strategy. It is tapping into its general industrial asset pool to rebuild some of the assets into higher-yield, highly-sought-after hi-spec space. The yield-on-cost for EREIT's AEI projects currently stands at 6-8%. Meanwhile, with its strong asset pipeline from sponsor, ESR Group, it could venture beyond its current footprint. ESR has a track record of acquisition of 20% AUM in the past. With Australian assets seeing fast yield compression, Japan emerged as a likely destination.

## Frencken Group (FRKN SP, SGD1.15, BUY, TP: SGD1.80)

### Speakers:

Mr Dennis Au, Group President

Ms Lisa Heng, Investor Relations

Mr Herman Phua, Investor Relations

Ms Jaclyn Kuah, Corporate Development

Write up: Samuel Tan ([samuel.tan@maybank.com](mailto:samuel.tan@maybank.com))

- Frencken's history traces back to 1947 in the Netherlands when the Frencken brothers founded the company to support Phillips, still one of the largest customers currently.
- Other major customers include Dyson, Schneider Electric, Bentley, Continental (largest automotive customer), Volkswagen, Maserati, Robert Bosch, Magna, Thermo Fisher, Agilent, Danaher, NASA Jet Propulsion Labs, Applied Materials, ASML, Lam Research, KLA-Tencor.
- Geographically diversified, with 19 sites across the globe, but headquartered in Penang; Sectoral/cyclically diversified, across semiconductor, analytical life sciences, medical, healthcare, automotive, industrial, industrial automation and aerospace; Providing the full value chain from product conceptualization, product design, NPI to manufacturing and service and support.
- 1Q22 results demonstrate diversification in action, IMS business declined -7% YoY: Automotive business was negatively impacted (-11% YoY) and underutilised due to supply chain issues and Ukraine-Russia conflict impact on the automotive industry, such as shortages of palladium (for catalytic converters) and rare earth metals (for batteries); Mechatronics segment grew 12% YoY: driven by semiconductor demand, Analytical & Life sciences +17% YoY, Medical remains stable, Industrial Automation provided slight +9% YoY growth.
- Challenges to the business: supply chain disruptions and increased logistics costs; Increasing costs overall (e.g. electricity costs +400% YoY for May 2022 in the Netherlands).
- Supply chain and labour issues from China lockdowns expected to ease moving forward, demand looks robust but lost production in 1Q22 and 2Q22 unlikely to be caught up with. Logistics still facing challenges, especially transshipments from China to Europe, with Singapore to Europe shipments extending to 9 weeks from the usual 6, largely due to poor clearance and congestion.

## HRnet Group (HRNET SP, SGD0.78, BUY, TP: SGD1.07)

### Speakers:

Ms Jennifer Kang, Group Chief Financial Officer

Mr Fadzlin Rashid, Senior Communications Leader

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

- HRnet benefits strongly from the current tight labour market in Singapore with job vacancies at record high. It expects the professional recruitment segment to drive growth along with rising wages and placement volumes. Fee rates are stable at 18-25% of annual package amidst competition from other recruitment firms and leveraging on job portals such as LinkedIn.
- Flexible staffing (FS) business remains resilient due to the rising gig economy. Some organisations may also choose to obtain workers or even mid-level hires on a needs basis, instead of carrying permanent headcount that adds to their rising operating expenses. Management sees FS demand shifting from healthcare to other growing sectors such as IT and semiconductor.
- HRnet remains steadfast in its near 15% equity investment in UK-based Staffline Group, which has recently turned profitable. It is also actively engaged with the key managements of the company and is familiar with the new CEO, Albert Ellis.
- The newly-established SGD30m share buyback programme allows the Group to purchase up to 100.38m shares (or 10% of its total issued shares) when the stock may be undervalued due to market conditions. It intends to use the treasury shares for 1) M&A consideration; 2) employee share plans and 3) share swap with business leader Co-owners when they realise the valuation at their BU level.
- Since its IPO in Jun 2017, HRnet had a net increase of 15 Business Leader Co-owners from 22 to now 37 who personally invest in the business units that they operate, while 9 new business units has been set up. Management believes this will help to drive the group's organic growth going forward.

## Keppel Infrastructure Trust (KIT SP, SGDO.57, NR)

### Speakers:

Mr Jopy Chiang, CEO

Mr Eric Ng, CFO

Ms Lilian Goh, IR

Emmulin Wee, IR

Write up: Li Jialin ([jjalin.li@maybank.com](mailto:jjalin.li@maybank.com))

- KIT is the largest diversified infrastructure business trust listed in SGX, with a portfolio of nine businesses and assets valued at c. SGD4.5b globally. Key business lines are comprised of energy transition (37% of AUM), distribution and storage (35% of AUM) and environmental services (8% of AUM), providing essential services such as electricity and gas, waste management and water security, the manufacturing and distribution of essential chemicals, as well as storage of petroleum products. KIT serves a large and credible customer base represented by government agencies, MNCs, commercial and industrial enterprises, and retail consumers.
- KIT's 1Q22 EBITDA grew 5.5% YoY compared to 1Q21, largely contributed by IXOM's (subsidiary that accounts for 30% of AUM) growth. Operational cash flow fell c.4%-c.19% across all three business lines, mainly due to the one-time capex spending at City Energy and higher electricity cost for Keppel Seghers Ulu Pandan NEWater Plant. Management expects commercial and industrial consumption for City Energy to improve, backed by economic re-opening. On the capital management front, gearing is at 32.6%, up from 20.3% Dec 2021, following their Aramco transaction. Although not subject to the 50% gearing limit imposed on REITs, management expects to stay below 50% and currently hedges 82% of total loan book against rising interest costs.
- The overall AUM target for KIT is SGD18b for the next decade, which is likely to be realized by 2025 on the back of its accelerated acquisition deal flows. KIT has updated its investment strategy to adapt to the megatrend of decarbonisation and digitalization. It is investing in energy transition through both organic and inorganic growth. Existing assets such as City Energy see new demand emerging from IoT-enabled Home Solutions and electric vehicle charging services. Meanwhile, KIT has completed its maiden investment in the Middle East in February, with the USD33bn Aramco gas pipeline transaction in Saudi Arabia with BlackRock and Saudi-based Hassana Investment Company. It has also made a major move into renewables, with a MOU signed with Shanghai-based Jinko Power to enter into joint acquisitions in developed markets in APAC and EMEA within the next 12 months. Management expects KIT will continue its current funding practices of perpetual securities and medium-term loans.
- The ongoing IXOM strategic review is expected to conclude within the next 12 months by 1H23, which will potentially lead to capital recycling. Management claims there is a strong pipeline of assets with double-digit return profiles undergoing due diligence. The newly incorporated Aramco non-controlling stake will contribute payments backed by a minimum committed volume starting from 3Q22.
- KIT announced its ESG plans in 1Q22, committing to a renewable energy exposure target of 25% AUM. Its foray into renewable energy with Jinko Power aims to fulfil at least 5% of the AUM target. KIT is also actively pursuing waste management projects in South Korea.

## Netlink NBN Trust (NETLINK SP, SGD0.95, BUY, TP: SGD1.05)

### Speakers:

Mr Tong Yew Heng , CEO

Mr Lester Wong, CFO

Mr Victor Chan , Director, Corporate Planning and Communications

Ms Annabel Choo, Manager, Investor Relations & Corporate Communications

Write up: Kelvin Tan ([kelvin.tan1@maybank.com](mailto:kelvin.tan1@maybank.com))

- Overview: NetLink's nationwide network is the foundation of Singapore's Next Generation Nationwide Broadband Network ("Next Gen NBN"), over which ultra-high-speed internet access is delivered throughout mainland Singapore with over 90% residential penetration rate.
- Resilient Business Model: Main fibre connection concentrated in residential (63.8%) and non-residential (8.2%). NetLink and its subsidiaries design, build, own and operate the passive fibre network infrastructure comprising ducts & manholes (7.4%), fibre cables and Central Offices (4.3%). NetLink continued to grow its fibre connections (residential, non-residential and Non-Building Address Point (NBAP)) at 1% YoY to 1.519m. NBAP connections rose 20% YoY due to higher demand for point-to-point connections to support mobile network rollout, including 5G network in Singapore. This resulted in NBAP revenue rising 67% YoY in 4QFY22. In addition, diversion income also rose 69% YoY, attributable to more projects completed, in line with the reopening of more economic activities.
- Financial snapshot: FY21 improved 2.5% YoY to SGD377.6m mainly attributed to YoY growth in Non-building Address Points connection revenue (+46.4%) on the back of higher P2P connections with the rollout of 5G network. This is partially offset by lower Central Office revenue (-10% to SGD18m) due to decrease in rental spaces thus reducing rental income. Additionally residential connection remained stable, growing 1% YoY as connections rise to 1.46m (+1.2% YoY).
- Netlink remains cognizant of the company's profile as a high-yielding, safe-haven stock. Improving DPU (1% YoY), the company has higher distribution yield (5.6%) than other ETFs and Govt Bond Yield in the market.
- Future plans: Moving into FY23E, management has noted that the regulatory review of NetLink's services (including prices) offered under its Interconnection Offer with the IMDA is expected to be completed by early 2023.
- Management remains patient in looking for inorganic opportunities, and will also take into account the more volatile interest rate and macro environment going forward. Importantly, the company also expects CAPEX for FY23 to be in the ballpark of SGD70m (not too dissimilar from the regular run-rate), excluding the CAPEX required for the Central Office that it's going to build. This Central Office will be used to serve the northern part of Singapore and will count towards Netlink's Regulatory Asset Base.

## Olam Group Ltd (OLAM SP, SGD1.55, NR)

### Speakers:

N Muthukumar, Group CFO

Chow Hung Hoeng, General Manager, IR

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

- Management believes policy measures by some governments to tackle food inflation such as export bans and taxes are unlikely to provide more than short-term solutions. Food security issues are becoming more pronounced by de-globalisation
- The Russia-Ukraine conflict threatens to push many below the poverty line. In Africa, it could be as much as 800m people who depend on imports from this region.
- There needs to be urgent disintermediation of supply chains to solve for shortages. This is the opposite of protectionist measures that some governments are following.
- In terms of rising prices, for the product portfolio of OFI (the on-trend, plant based commodities such as coffee, cocoa, spices etc.), escalations have been largely flat. For OGA (which deals with staples such as rice, pulses etc.) there has been significant price increases since 2H21. This has increased working capital utilization, but the Group has comfortable levels of debt headroom. Most of these commodities are considered readily marketable inventories and thus excluded from leverage calculations.
- Despite rising prices, margins should be supported with some upside risks. For OGA, pricing is mostly cost-plus. For OFI, there is a component of private label manufacturing where, for large customers, the Group enters into 6-12 month contracts. Here, rising input costs are harder to pass through, but will be re-priced in the next cycles.
- The Group is seeing a number of smaller commodities players struggling in the current market environment with limited access to capital as well as containers. For Olam, these have not been roadblocks, so it is seeing significant market share opportunities.
- Management has a history of investing counter-cyclically as seen during the GFC, where it added almonds etc., so the Group will look for M&A opportunities in current conditions.
- Rising interest costs are notable, but management expects margins to also rise given the supply constraints globally.
- The Group has Russia and Ukraine exposure. It believes in staying true to its values and putting the welfare of its employees first - on both sides. It is not taking any political stances, but is adhering to all sanctions requirements on Russia.
- Of course, the Group has had to postpone its IPO of OFI in LSE due to global market conditions. To address Russian exposure concerns here it may look to house its Russian assets in a different part of Olam so as to not contaminate OFI's offering.
- Nevertheless, the primary motive of the OFI IPO is to unlock value and not raise growth capital. Therefore, management will bide its time as it does not need growth capital. For the IPO to go forward three conditions should be fulfilled - (1) the right valuation, (2) the right size - no downsizing of the offer and (3) the right investor base.
- The SPA the Group entered with Saudi Arabia's SALIC is an endorsement of the OGA strategy. This provides additional proof of the value of Olam's part vs. its whole. Apart from value unlocking, it also provides significant synergies to grow in Saudi Arabia and the GCC region. 75% of Saudi Arabia's food is imported and OGA could

have the ability to supply key commodities on a first right of refusal basis. These will be arm's length transactions, but will enhance the food security of the region.

- Olam's technology services division could be another longer-term pillar of growth. It is pivoting from providing captive technology services to the Group to providing digital services to clients. It is already generating SGD130m of revenue and a potential spin-off could further help the Group unlock value.

## Raffles Medical Group (RFMD SP, SGD1.14, BUY, TP: SGD1.50)

### Speakers:

Ms Sheila Ng, Chief Financial Officer

Ms Debbie Liew, Investor Relations

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

- Against the backdrop of China's strict Covid-zero policy, RFMD expects further delay in the EBITDA breakeven of its Chongqing and Shanghai hospitals by another 6-9 months to late 2023. Nevertheless, we note that their contributions to the group's overall revenue is not material at this juncture.
- With the easing of international borders restriction, the group is optimistic of pick-up in medical tourism (which accounts for c.30% of total volumes in pre-pandemic), as well as higher-margin elective procedures. That said, management is also aware of keen competition (coupled with strong SGD) coming from regional hospitals, especially in Malaysia and Thailand.
- RFMD regularly reviews its pricing and alignment with the market. To mitigate the impact of higher operating costs, it is looking at certain cost pass-through to consumers via higher ASPs amid the current inflationary environment.
- Despite the tapering of Covid-related revenues, RFMD is seeing higher patient loads at its GP clinics along with the gradual resumption of economic activity. The group views that its network of primary care clinics can complement the government's long-term fundamental shift towards primary care focus.
- The Emergency Care Collaboration programme with the Ministry of Health has been renewed for another 5 years. This places it in a unique position to step-up and take in A&E cases as well as additional patients to support public hospitals when the need arises.



## Singapore Exchange Ltd (SGX SP, SGD9.64, BUY, TP: SGD11.20)

### Speakers:

**Mr Dominic Lim, Head, Business Partnering and Investor Relations**

**Ms Joyce Koh, Associate Director, Business Partnering and Investor Relations**

**Write up: Thilan Wickramasinghe ([thilanw@maybank.com](mailto:thilanw@maybank.com))**

- The drop in treasury income seen in 1HFY22 has likely bottomed, and while rising interest rates should deliver a turnaround this would likely be towards the end of the calendar year taking maturity profiles in to account.
- Intensifying competition from regional exchanges cannot be ignored, but is also something the Group has been facing for the past 30-40 years operating a global derivative exchange.
- However, the critical success factor for derivative is liquidity. For many derivative contracts SGX offers the most liquid trading venue. Customers are drawn to the most liquid venue and this is hard to replicate for new entrants.
- The Group overlays this increasing client stickiness by offering pan Asian products (which other more domestic oriented regional exchanges find harder to replicate) and net margin requirements across a suite of products. This ensure SGX's competitiveness in the region for derivatives.
- On FICC, the Group is focusing on growth in the FX vertical. Investments in BidFX and MaxxTrader are important here as they offer complimentary synergies for clients in both the buy-side and the sell-side. SGX is also working on an electronic communication network that can open more possibilities for clients. These businesses have around half the EBITDA margins of the Group's core-business, but should offer strong volume growth.
- While the Group's de-listings are leading new-listings, the market cap and trading velocity impact are low. All exchanges experience de-listings. Some of the de-listings are due to not meeting listings criteria, so these contribute towards improving the quality of the market.
- On new-listings there is a growing interest in Singapore as a neutral venue. Also SGX offers strong comparables for specific sectors such as REITs.
- While there has been corporate governance issues with some listings (such as S-chips) in the past, the market has developed a lot since then. Plus SGX runs a 'buyer beware' market where the exchange creates a strong climate of transparency. Listing disclosure requirements are high. This is supported by a fully independent RegCo.
- On crypto-assets, offering physical products may not be synergistic for SGX. After all, it runs a 24x5 market, while crypto is a 24x7 market. However, there may be opportunities in the cash delivered/futures market. Nevertheless, this would require many factors to be viable.
- A rationale for the purchase of Scientific Beta was to benefit from the trend in passive investing. However, current market conditions may favour active investing. Nevertheless, there are other elements of factor-based investing that is growing - especially ESG. Scientific Beta has introduced a climate-tilted index. Also it helps to diversify the Group's revenue from transaction-related to fee-based revenue.

- Sustainability is a critical area of focus for SGX. All listed companies are required to produce a sustainability report at least once a year. This took about 3-4 years to implement with significant support given to listcos to be educated and improve reporting standards.
- The Group is now embarking on the next stage where it is introducing climate reporting to listcos. This will see them adopting TCFD standards over the next few years. Additionally, the board of directors have to be sustainability trained. On the investor side, SGX is making ESG data gathering and comparing more convenient with the introduction of a centralized database on climate statistics for all listcos.
- On establishing an ASEAN exchanges link, the Group believes there is a need to drive towards common benefits for all, which in the near term may be difficult given the different levels of development of regional peers.

## Starhub Ltd (STH SP, SGD1.23, BUY, TP: SGD1.32)

### Speakers:

Mr Nikhil Eapen, Chief Executive

Mr Dennis Chia, CFO

Miss Amelia Lee, Head, Investor Relations

Write up: Kelvin Tan ([kelvin.tan1@maybank.com](mailto:kelvin.tan1@maybank.com))

- Resilient Business Model: Starhub management suggests continued improvements across all segments. On the mobile front, prepaid competition remains rational while postpaid likely benefitted from the onset of 5G network rollout. In addition, Starhub's cross-products bundling strategy is expected to help create customers' stickiness as anecdotally, the Hub Bundle plan (integrated mobile, broadband, Netflix and Disney+) saw encouraging adoption.
- Financial snapshot: StarHub has a budget of SGD270m (capex and opex) over 2022-24 for digital platforms and 5G network rollout. Despite frontloading capex, Starhub remains committed to its 5 cent or 80% dividend payout policy, and is looking to grow in dividends with its profit growth.
- The group is targeting another SGD280m cost savings from 2022-26. The key savings identified include: a) workforce efficiency via streamlining processes and right sourcing, b) reduced physical stores and office space, c) lower commission cost with increased migration to online touchpoints, and d) continuously shifting its content cost structure from a fixed basis to a variable basis.
- Future plans: Starhub continues to look out for M&A opportunities to accelerate growth and create new revenue stream targeting companies that: a) complementary industry with strong growth track record; b) are financially accretive; and c) are at reasonable valuations.
- Roaming will provide an upside surprise in revenue. However, earnings will be bogged by higher cybersecurity staff costs and upfront investments in technology. The purchase of EPL will be an added fixed cost burden. Nevertheless, EPL could be the beach head to enhance its OTT offerings in gaming, entertainment and sports, all bundled into a "Super App".

## UMS Holdings Ltd (UMSH SP, SGD1.14, BUY, TP: SGD1.50)

### Speakers:

Mr Stanley Loh, Executive Director

Write up: Samuel Tan ([samuel.tan@maybank.com](mailto:samuel.tan@maybank.com))

- JEP, an aerospace precision engineering business, was consolidated into UMS in 2021 following an increase in stake to 72% through an MGO; aerospace revenue contributes 3.5% with the consolidation.
- The majority of UMS's manufacturing is conducted in Penang, Malaysia, with a plant of c.500k sq ft, with an expansion in the works.
- Shortage of chips resulting in an upsurge in global semiconductor capex - SEMI.org is forecasting an 18% increase in semiconductor equipment spending, while aviation recovery will benefit JEP.
- UMS has a long-time supplier relationship for the wafer transfer module of Applied Material's industry leading deposition machine, the Endura platform. Producing the module requires high capex in precision machines (SGD3m per machine), with high lead times (30 months) to acquire.
- Due to a labour shortage in Malaysia, machine utilisation is currently stagnating at 50-60%; UMS is looking at readjusting wages to be more competitive, Malaysia government reportedly considering approving more companies to bring in workers from Bangladesh.
- Lam Research has set up facilities in Malaysia; UMS clarified that there are no contractual clauses preventing the company from taking on business from Lam Research.

## United Overseas Bank Ltd (UOB SP, SGD26.49, BUY, TP: SGD34.62)

### Speakers:

Mr Stephen Lin, Head of Investor Relations

Mr Soh Yi Da, VP, Investor Relations

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

- The decline in trading income in 1Q22 is starting to improve. The jumps in interest rates drove the hedges on the Group's AT1 structures to losses, but this is now leveling off. Customer flows remain healthy.
- Mid-to-high single digit loan growth guidance unchanged with retail and wholesale pipelines robust. Seeing increases in short term and working capital borrowings as the region opens up. Mortgage drawdowns are expected to increase going forward.
- Growth for the Group is expected to be bolstered in 2H22 from SE Asia, while the developed markets segment may be relatively slower
- Not expecting demand destruction for higher rates just yet. Even for mortgages buyer considerations tend to be more longer term, so demand - especially in ASEAN - is expected to remain supported.
- In terms of Green and Sustainable funding the Group has deployed SGD18bn by 1Q22 and is on track to meet its SGD30bn by 2025 target
- In terms of asset quality, most moratorium loans have now been exited and without any corresponding increase in NPLs. Across the portfolio, not seeing any specific stress so far, but management is monitoring closely.
- While GP levels are high, it is unlikely these will be written-back given the global uncertainty. Management believes in adopting a prudent approach at this time.
- The outlook for NIMs is strong. With 70% of loans on floating rates expect re-pricing to take place dynamically. This should drive NIMs to see expansion
- On the other hand, CASA continues to grow and deposit flows are positive. So far, there are no signs of a deposit war. This should also support NIMs going forward.
- The Group is aware of the risks of potential regulatory actions for lapses in technology infrastructure. It has been investing heavily over the years on systems and cyber-security and have policies in place to ensure the integrity of their digital offerings.
- The integration of the Citibank deal is progressing well. Around 97% of the senior management team and more than 50% of relationship managers (RM) have agreed to stay back with a UOB franchise. Management is focusing on increasing the RM retention.
- Costs are seeing increases - especially labour. However, expecting to keep cost-to-income stable

## Venture Corp Ltd (VMS SP, SGD16.90, BUY, TP: SGD21.00)

### Speakers:

Mr William Ng, Chief Financial Officer

Ms Judy Tan, Head of Investor Relations and Corporate Communications

Ms Serene Chia, Manager

Ms Jessica Chee, Executive

Write up: Samuel Tan ([samuel.tan@maybank.com](mailto:samuel.tan@maybank.com))

- Low customer concentration risk; Over 100 customers and top 10 do not comprise more than 40-50% of revenue.
- Sectoral/cyclically diversified: Life sciences (double digit YoY, focusing on high-value products from SGD100k to millions), medical device, healthcare, instrumentation, payment systems and computing & industrial technology sectors all in growth. Only communications segment is flattish.
- Headwinds: recession, supply chain, component shortages (lead times as high as 52-80 weeks, resulting in just-in-case inventory build-up), semiconductor shortages, expected to extend to 2023.
- 1Q22 operating margin was 11.5% (1Q21: 10%), in spite of increase in labour costs due to minimum wage, energy costs, material costs from supply chain issues; Venture has been able to shift/share most costs to customers and high-margin products is a cushion. Freight costs, which have more than doubled, are also borne by customers.
- Venture highlighted their R&D capability to redesign products (e.g. substitute affected components) to alleviate shortage issues while bringing customer value.
- Working capital needs have increased (inventory days at 30-40 more than before); Just-in-case inventory (increased from SGD700m to SGD1.1b). Venture has been obtaining customer deposits to offset this.

## Top Picks

Stock	BBG Code	M.Cap USDm	Rec	Price LCY	TP LCY	Upside %	EPS gr. (%)		P/E (x)		ROE (%)		P/B (x)		Div Yield (%)	
							22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
<b>Large Caps (&gt;SGD5bn)</b>																
Singtel	ST SP	30,596	Buy	2.57	3.02	17.5	16.3	13.7	14.5	13.0	9.9	10.8	1.5	1.4	4.2	4.7
CLI	CLI SP	14,591	Buy	3.89	4.30	10.5	11.2	8.6	20.9	16.5	7.5	7.8	1.1	1.1	3.6	4.1
DBS	DBS SP	56,240	Buy	30.15	41.22	36.7	20.9	7.7	8.4	7.4	14.4	14.4	1.2	1.1	5.6	6.6
OCBC	OCBC SP	37,298	Buy	11.46	14.04	22.5	15.0	8.0	8.2	7.6	11.1	11.2	0.9	0.8	6.1	6.1
SGX	SGX SP	7,447	Buy	9.64	11.20	16.2	12.3	8.6	22.3	19.1	34.4	33.9	7.0	6.2	3.4	3.5
ST Engineering	STE SP	9,206	Buy	4.09	4.75	16.1	14.4	10.5	20.3	17.7	24.6	25.5	4.6	4.3	4.5	5.0
<b>Small &amp; Mid-Caps (&lt;SGD5bn)</b>																
CDREIT	CDREIT SP	1,166	Buy	1.31	1.40	6.9	26.5	17.3	17.5	14.7	5.2	6.0	1.0	1.0	5.3	6.6
Raffes Med	RFMD SP	1,541	Buy	1.14	1.50	31.6	11.5	11.8	26.5	24.8	7.3	7.9	2.0	1.9	1.9	2.1
Venture	VMS SP	3,555	Buy	16.90	21.00	24.3	6.9	5.0	12.7	11.7	12.6	12.5	1.6	1.5	4.4	4.4
Comfort	CD SP	2,172	Buy	1.39	1.76	26.6	9.3	6.3	14.3	13.4	9.2	9.6	1.1	1.1	4.9	5.3

Source: FactSet, Maybank IBG Research

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## APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

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