STRATEGY

Singapore

November 29, 2023

Singapore Strategy

Reflections 2023

This year's big themes are key opportunities for SG

2023 is the year experts got wrong. Forecasts on interest rates, inflation and valuations underwent big gyrations throughout the year. Yet amidst these macro deviations, we saw major thematic developments that could influence medium-term earnings and valuations across sectors. Key amongst these is the accelerated adoption of GenAI, coupled with rising demand for 5G and IoT. Separately, China's economic re-opening was worse than expected. Yet it has created positive spill-overs for Singapore. Concurrently, armed with strong balance sheets, local corporates are fast expanding their regional footprints. Taken together, we think these developments could introduce new income streams and drive better efficiencies. Key winners: **CD, DBS, FRKN, RFMD, SCI, Singtel, STE, VMS.**

Tech convergence, regional M&A, slower China notable themes this year

The rapid adoption of GenAI across broad sectors this year has no historical comparison. Concurrently, high-speed, low latency networks powered by 5G technologies also experienced a boom in demand from wide ranging applications. Wider commercial adoption of IoT was a key catalyst. Yet the tech manufacturing sector struggled, hobbled by excessive inventories and a slow China recovery. This cycle seems to be gradually turning, with semiconductor demand starting to gain traction. Although China's weakness was a disappointment, Singapore was a relative winner with private banking AUM and supply chain reorganization investments flowing in. This also catalysed local corporates to seek growth in regional markets through M&A given their ability to leverage strong balance sheets and take advantage of low SE Asian valuations.

Banks, Industrials, Tech, Telcos key beneficiaries

GenAI is set to improve efficiencies and potentially drive new revenue streams across almost all sectors. Banks are likely the earliest beneficiaries given their already sizable investments in AI and systems integration. This could result in material use cases in middle-and-back office functions as well as new income sources through hyper-personalisation and cross-selling. Accelerated development of cloud computing, analytics and robotics ecosystems should drive demand for 5G and ICT services for Telcos. New production capacity coming on-stream regionally and new product launches are set to drive upside to margins and volumes for technology manufacturing. Strategies focusing on regional growth, increasing alternative energy exposure combined with strong balance sheets should drive more overseas M&A, especially for healthcare, transport, technology manufacturing and industrials, in our view.

Our sector winners

We filter for stocks that have the strongest medium-term gearing towards these emerging developments and those that can deliver potential upside surprises to ROEs. These picks are **ComfortDelGro, DBS, Frencken, Raffles Medical, Sembcorp Industries, Singtel, ST Eng, and Venture.**

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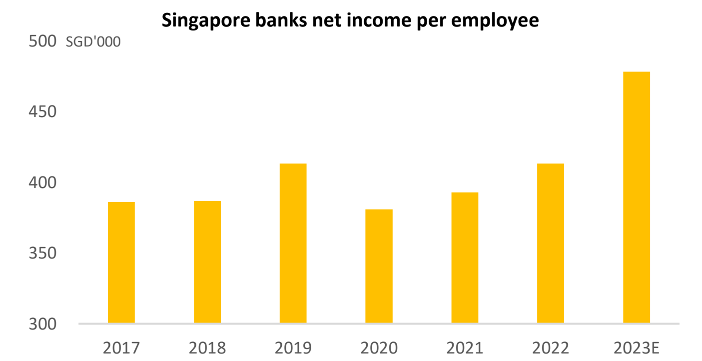
Fig 1: Top picks

Stock	BBG Code	M.Cap USDm	Rec	Price SGD	TP SGD
DBS	DBS SP	61,449	Buy	31.63	37.81
ComfortDelgro	CD SP	2,164	Buy	1.33	1.55
Frencken	FRKN SP	362	Buy	1.13	1.39
Raffles Med	RFMD SP	1,499	Hold	1.06	1.30
Sembcorp Ind.	SCI SP	6,777	Buy	5.07	6.30
Singtel	ST SP	28,269	Buy	2.28	3.10
ST Engineering	STE SP	8,697	Buy	3.71	4.20
Venture	VMS SP	2,784	Buy	12.70	15.40

Source: Maybank IBG Research

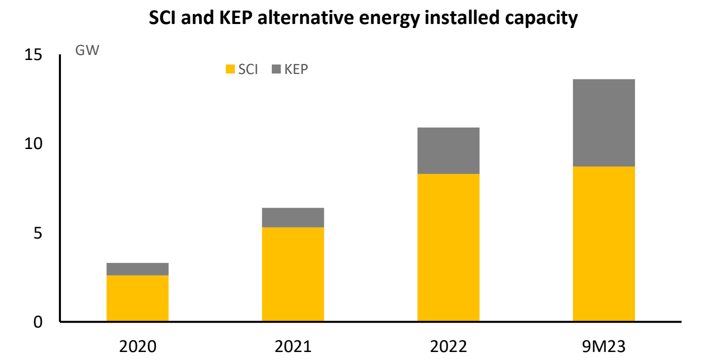
1. 2023 in Charts

Fig 2: Productivity for SG banks is increasing, partially as a result of investment in tech. GenAI could accelerate this



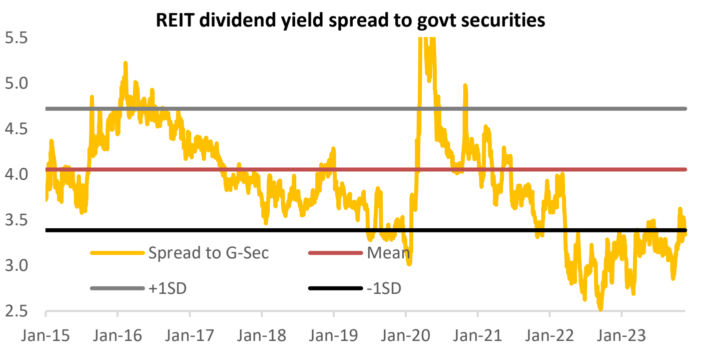
Source: Company data, Maybank IBG Research

Fig 3: Investments in alternative energy as a transition strategy by SG utilities is speeding up



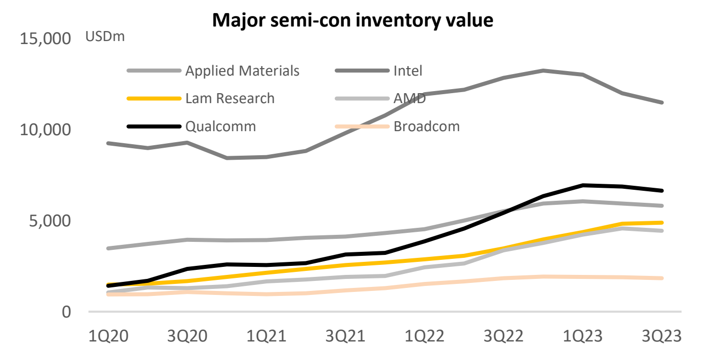
Source: Company data, Maybank IBG Research

Fig 4: REIT yield spreads remained tight as rate hikes progressed, leaving little room for re-rating in 2023



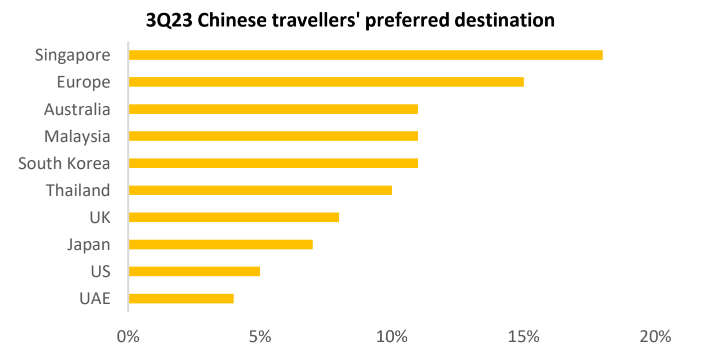
Source: Factset, Maybank IBG Research

Fig 5: Inventory levels of global semi-con players were falling in 2023, setting up for a restocking cycle for SG tech



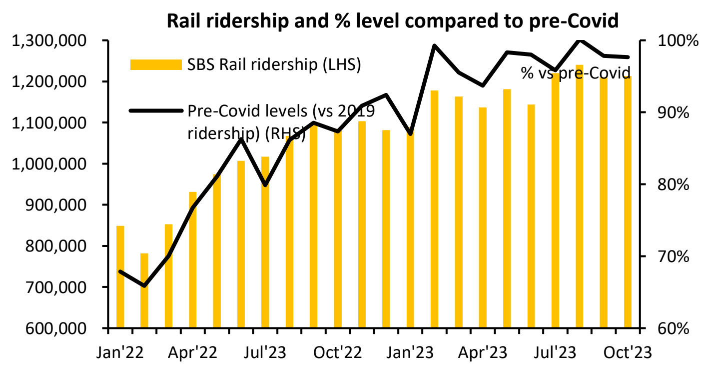
Source: Company data, Maybank IBG Research

Fig 6: Despite slower than expected China re-opening, Singapore is seeing positive spill-over from tourism and FDI



Source: China Trading Desk, Maybank IBG Research

Fig 7:Public transport ridership reached normalised levels in 2023 after Covid. Inbound tourism should be positive catalyst



Source: SBS, Maybank IBG Research

2. Banks

- **Digital-challenger banks have not made as much of a dent to the incumbents as initially expected. Flight to safety and strong in-house digital offerings may slow the advance of challengers**
- **Large investment in AI and data integration, together with a regionally leading regulatory framework on AI-risk management, gives the sector a strong competitive advantage in GenAI**
- **Revenue uplifts as well as improved operational efficiencies and costs savings flowing from GenAI should benefit all three banks from a regional standpoint, in our view**

2.1 The challenge from digital challengers was less than anticipated

Since their launch in 4Q22, Singapore's digital-challenger banks are yet to make material inroads in banking sector market share in Singapore. Despite promotional interest rates and ease of account opening offered by the contenders, the domestic incumbents – DBS, OCBC, UOB – held 64.9% of market share of system SGD deposits in 1H23. This is just -20bps lower than 2H22. The US banking crisis in 1Q23 and the collapse of Credit Suisse drove flight to safety towards well-capitalized banks with strong liquidity. The Singapore banks were key beneficiaries with average CET1s of 14.2%. The sector has spent 15% of opex on technology on average in the past 5 years. This has allowed them to offer sophisticated digital platforms to customers. While we expect digital challengers to continue investing to grow their footprint, major market share dislocation from the incumbent domestic banks are unlikely in the near term, in our view.

2.2 GenAI use cases set to drive efficiencies, lower costs

The advent of OpenAI's ChatGPT generative AI model in 4Q22 was a boost to the domestic banks. Significant investments have already been made in system integration, AI and hyper-personalisation by the sector. As a result, AI already makes 4m decisions per day on risk management, customer service and sales at OCBC, according to the Straits Times. In 2022, AI delivered SGD130m of economic value to DBS, according to management. The Group's 600 AI/Machine learning models and 300 use cases are expected to deliver SGD700m of economic value over the next 5years. These foundations should enable faster deployment of new GenAI tools for additional revenue opportunities as well as cost rationalization. Indeed, OCBC launched OCBC GPT in Oct 2023 giving all its employees access to AI support for writing, research and ideation, according to *Straits Times*. Pilot trials reported employees being able to complete tasks in half the time needed than before. From a policy perspective, MAS completed phase one of developing a risk framework for GenAI for the financial sector in Nov 2023. A clear regulatory framework dealing with AI safety and responsibility – amongst the earliest in the region – should provide a competitive advantage for the Singapore financial sector as it deploys GenAI use cases. We see significant opportunities for the sector to lead not just in creating new revenue streams, but also driving productivity and cost savings in back and middle-office functions, such as compliance, risk management, fraud and cyber-security, credit scoring and management, marketing, strategy and training & development.

2.3 Long-term positive upside for the whole sector

Given the sector's early investments in technology and data integration, we believe DBS (DBS SP, SGD31.63, BUY, TP: SGD37.81), OCBC (OCBC SP, SGD12.62, HOLD, TP: SGD13.83) and UOB (UOB SP, SGD27.20, HOLD, TP: SGD30.86) should all have clear competitive advantages in defending market share from digital challengers and expanding their addressable markets through GenAI. For DBS and OCBC, advantages may be skewed towards wealth management through more sophisticated cross-selling of product offerings leveraging their private banking franchises, while for UOB GenAI may provide better opportunities in integrating its regional wholesale footprint and scaling their newly-acquired Citi retail franchise. Our top sector pick is DBS given its strong funding franchise, and higher ROE profile.

3. Healthcare

- **Strong SGD dampened medical tourism despite full reopening. "Healthier SG" policy began rolling out in Jul 2023**
- **Private healthcare operators are actively turning to M&A in the region to seek new growth drivers**
- **We see bright spots in 2H24, notwithstanding the near-term headwinds**

3.1 A transitional year

Since Singapore reopened its borders in Apr 2022, medical tourism has recovered, but not as fast as what we initially expected. As the majority of patients come from Indonesia, followed by China and Indochina, foreign patients are still below pre-Covid levels given the relative strength of the SGD. Coupled with already high medical bills as well as elevated hotel and transport expenses, this has dampened demand for high-end healthcare services in Singapore. As such, we see some price-sensitive foreign patients turning to cheaper destinations such as Malaysia and Thailand for treatment. Meanwhile, healthcare players also experienced lower pandemic-related revenues as Singapore successfully transitioned to living with Covid. From Jul 2023, a major public policy reform - "Healthier SG" - is being implemented in phases. This is a national initiative by the Ministry of Health (MOH) focusing on preventive health. At this stage, its main feature is the enrolment of individual residents with GPs of their choice and the creation of personalised health plans for each enrolled resident. GPs will be compensated by the MOH for their expanded work scope (based on enrolment).

3.2 Embarking on more regional expansion

Given the mature domestic market, private healthcare operators are actively seeking to expand overseas either via M&A and/or JVs. Raffles Medical (RFMD SP, SGD1.06, HOLD, TP:SGD1.30) recently proposed to acquire a majority interest in American International Hospital (AIH) in Ho Chi Minh City for up to USD45.6m. This will be funded by internal resources. AIH is a purpose-built and fully equipped 120-bed tertiary hospital. AIH has five operating theatres and offers a full range of specialist and essential diagnostic capabilities. In July this year, another SGX listed corporate also made the largest healthcare acquisition in Southeast Asia since 2020 with the purchase of Vietnam's biggest private healthcare group, FV Hospital, for about USD381.4m. FV Hospital provides care across over 30 medical specialties, including oncology, cardiology, ophthalmology, orthopaedics, maternity, and gastroenterology. It has close to 200 operating beds and is currently undergoing an expansion, which will entail a 7-floor structure appended to the existing building. We believe these major M&A deals could help to unlock a sizeable Vietnamese opportunity, thus paving the way for further inroads into one of Southeast Asia's fastest-growing healthcare markets.

3.3 Expect potential turnaround in 2H24

We are sanguine on RFMD's long-term expansion in China/Vietnam as it continues to improve its operating efficiency there. We expect to see an earnings inflection point sometime in 2H24. Re-rating catalysts include better-than-expected margins recovery and quicker turnaround of its overseas hospitals.

4. Industrials

- **Countries are seeking energy security against the backdrop of heightened geopolitical concerns. Clean energy transition is bringing a major structural change in the generation profile of electricity systems around the world. Variable renewables generation has already surged significantly, driven by the achieving of grid parity and favourable policy environments. This is a trend that is set to accelerate in line with climate change, we believe**
- **Renewables technologies are helping to achieve energy independence and lower electricity pricing while also reducing the cost of production. This should be positive for margins**
- **A larger renewables portfolio could lift SCI's valuation. Sustainable fuels are a key element re addressing climate change in aviation**

4.1 Energy security becomes a priority

Energy providers are dealing with heightened pressure from regulators and investors to curb emissions while supporting energy security and affordability. Volatility in the natural gas market and geopolitical shocks have made it necessary for countries to diversify their energy mix and reduce reliance on gas. Governments are keen to fill supply gaps with renewable energy but for that to happen, the renewables sector needs emerging technologies and markets to take a major leap forward. At the same time, with many Southeast Asian countries experiencing strong growth in electricity demand, regulators and energy providers face challenges in deciding the best energy mix. Importantly, more investments in the grid infrastructure is required to support a higher share of renewable energy. Continued global uncertainty and underinvestment in fossil fuels could likely create a situation of higher energy prices for longer. We believe this is creating significant opportunities for energy providers to enhance their addressable market and expand their renewables footprints going forward.

4.2 Technology advancements offer huge potential

We believe improving renewables technologies could help countries achieve energy independence i.e. the ability to meet energy needs domestically, thereby reducing dependence on foreign nations and susceptibility to changing overseas energy prices. Increasing demand for new sources of green energy should drive research and spark technology advancements, bringing costs down further. Indeed, renewable energy is now comparable with the cost of building new coal and nuclear capacity. This means lower electricity pricing per unit, which should have positive spill-over effects on the broader economy. We believe this creates significant opportunities for transition for energy producers at a time when demand dynamics – from governments and corporates' strategies for lower emissions – are increasingly favourable.

4.3 SCI and ST Engineering to benefit

We expect both Sembcorp Industries (SCI SP, SGD5.07, BUY, TP: SGD6.30) and ST Engineering (STE SP, SGD3.71, BUY, TP: SGD4.20) to benefit from diversifying their businesses to include decarbonisation technologies and expanding renewable resources. We think SCI is uniquely positioned in the energy transition drive with a full suite of decarbonisation and green energy solutions. The group aims to triple its gross renewable installed capacity from 8.7GW currently, to 25GW by 2028. These initiatives target to achieve at least 12% ROE and are projected to deliver +25% 6-year CAGR for renewables, underpinned by the additional capacity and greenfield projects that become operational.

Separately, Sustainable Aviation Fuel (SAF) presents a unique opportunity for the aviation industry to achieve zero carbon emissions on flights. It is produced from sustainable feedstocks and is very similar in chemistry to traditional fossil fuel-based jet fuel. Using SAF results in a reduction in carbon emissions compared to the traditional jet fuel it replaces over a lifecycle. However, SAF is currently more expensive than traditional fossil fuel-based jet fuel but as the technology matures, we expect costs to trend lower. With its expertise in aircraft design and MRO, STE could support industry initiatives to adopt the use of SAF for its aircraft and bring down costs over the long term.

5. Internet and Telecom

- **As evolving consumer needs spark shifts in demand in the B2C space, a similar pattern is underway in the business and corporate customer segment. Although adoption of IoT is increasing across many industries, revenues to date have seen only linear rather than exponential growth. Adoption is held back by constraints in both supply and demand**
- **Telcos have been chiefly performing the role of connectivity providers for IoT. By exploring a greater share of the IoT value chain, forward-looking telcos can create new streams of high-revenue digital services**
- **Singtel has been pushing its 5G dominance and we think it is in a forefront position to benefit from its' Singtel Paragon platform for 5G network, edge computing and service orchestration**

5.1 Business adoption of the Internet of Things

Internet of Things (IoT) adoption is growing across the Asia Pacific, driven by rising demand for remote operations, improvements in network coverage and the rollout of commercial 5G. IDC expects IoT spending in the region to reach USD436 billion in 2026, with a compound annual growth rate of 11.8% for 2021-2026. With the strong business impetus to implement IoT systems locally and across the region, many enterprises face the complex challenge of provisioning connectivity from the device level to their IT systems. The process involves putting together different front and back-end connectivity options and dealing with multiple network service providers and regulatory regimes if the deployment is being rolled out on a regional basis. They would also have to ensure that connectivity can scale as the business grows.

5.2 New opportunities to seize

According to a GSMA forecast, 5G technologies are expected to contribute USD2.2t to the global economy between 2024 and 2034, unlocking benefits across industry verticals via cross-industry solutions and services. IoT-based platforms and services, underpinned by 5G's capabilities, would make possible new use cases in the healthcare, automotive, banking and other sectors. So far, telcos have been chiefly performing the role of connectivity providers for IoT. By exploring a greater share of the IoT value chain, forward-looking telcos can create new streams of high-revenue digital services. Given the increasing demand for high-speed and low-latency networks across an ever-wider array of industries, networks must be as efficient and scalable as possible. Telcos are looking to increase their ability to achieve these attributes by partnering across their ecosystems with specialists. The organisations in the driver's seat for IoT are set to change from telcos working alone to ecosystems of telco and tech players, each bringing complementary strengths to the table. In the B2B context, there will be a greater focus on private networks that connect onsite IoT devices to analytics and robotics. These will require a bundle of services from cloud, telecom, hardware and software providers, including edge computing services, security and integration, and private network installation and operation.

5.3 Singtel Paragon would be a game changer for Enterprise IoT

Singtel's (ST SP, SGD2.28, BUY, TP: SGD3.10) 5G Standalone (SA) network achieved over 95% 5G nationwide coverage in Singapore in 2022 and currently covers more than 1,300 outdoor locations and over 400 buildings. Singtel launched Paragon in Feb 23, a platform to allow local businesses to tap into its 5G network and MEC (multi-access edge compute) to deploy applications and platform solutions. One key feature of Paragon would be its app marketplace. Customers can have access to Singtel and partner apps that could be used to aid in their deployment over Paragon, or a vertical solution package for certain industries like fleet management or logistics, for example. We believe as enterprises build more demand for IoT use cases, it should translate increasingly into revenues. We think Singtel would roll Paragon out to partner telcos in the region. Then customers would have access to multiple markets for their Paragon-based solutions which could, in turn, capture new streams of high revenue digital services in the region.

6. Real Esta te

- **Contrary to expectations, rates did not go down the rabbit hole. Unsurprisingly, REITs failed to perform, with index -6.5% YTD**
- **Industrial REITs outshone peers on back of favourable sector narrative and active capital recycling. China reopening theme stayed lukewarm with Chinese visitor arrivals only a quarter of pre-pandemic level. Stocks of hotel and city-centre commercial landlords bore the brunt despite resilient operating metrics**
- **Singapore cap rates stayed sticky, mitigating the impact of offshore asset and FX devaluations on NAVs**

6.1 Hostage to interest rates

The sector entered the year with spiralling inflation and rapid rate hikes. Expectation of cooling price pressures and subsequent rate cuts by the Fed in the second half of 2023 set an optimistic tone. While the rate of price increases slowed, the pace of deceleration was insufficient to warrant a rate cut. Year-on-year change in Singapore all-item CPI slowed from 6.6% in January to 4.7% in October. 3-month SORA is at YTD high of 3.75%, while the 10-year yield is relatively unchanged from start of the year thanks to recent retracement. All this weighed on the REIT sector, with the FTSE SREIT Index down 6.5% YTD. Deal making and capital raising has slowed, with focus shifting to pre-emptive fund raising and active capital recycling to enhance financial flexibility. The sector acquired SGD3.6b of assets vs. SGD5b last year while divesting c.SGD1b of assets.

6.2 Industrial REITs outshine, Reopening theme taper

Industrial REITs have delivered flat return vs. mid-to-high single digit negative returns for commercial and hospitality, and high-teens negative returns for offshore REITs. Strong sector thematic, organic growth and active capital recycling has helped the industrial sub-sector notwithstanding dilutive fund raising by highly-geared small-mid cap names. While distribution has grown the fastest for hospitality sector resulting from low base, share price has missed the buzz as visitor arrivals from China underwhelmed. Sub-urban retail stayed resilient with c.5% retail sales growth, while city-centre retail showed c.10% rent reversion from low base. Local office performance has been steady while offshore grapples with hybrid working, higher incentive levels and fit-out capex.

6.3 Stable Singapore asset values

Amidst the cross winds of resilient operations and ballooning interest expense, one thing that has stayed constant is Singapore asset values and the country as a magnet for capital flows. System deposits grew 4%, bolstered by 8% growth in deposits of residents outside Singapore. REITs have been able to divest assets above book like FCT (FCT SP, SGD2.18, BUY, TP: SGD2.25) or with less than a 5% discount for some of the older industrial assets. Cap rates for office and hospitality tread below cost of debt funding. Perhaps, this also led to regulators raising ABSD rates across the board for private residential property in April 2023 to promote sustainable market and keep prices tethered to economic fundamentals. This helped slow down the growth rate but not yet reverse the same. Private home prices rose by 0.8% quarter-on-quarter in 3Q23, after a 0.2% contraction in 2Q.

7. Technology

- **Inventory reset in 2023 could lead to re-orders/higher orders**
- **Semi-con has likely bottomed**
- **Manufacturing shifting to SEA - Top Picks are Venture and Frencken across the EMS and semi-con space**

7.1 Inventory reset in 2023 could lead to higher orders in 2024

Following the Covid pandemic, many manufacturers and customers who stockpiled inventory were faced with a drop in demand, resulting in high levels of inventory. This was slowly depleted through 2023, resulting in a drop in revenues across the companies under our coverage, especially for semi-con-related manufacturers. However, we have started to see signs of a bottoming of these inventories and orders should likely resume to a much higher level in 2024 and 2025. As a result, we believe that many of the tech manufacturers under our coverage could benefit from higher orders from customers going forward.

7.2 Semi-con cycle has likely bottomed

2023 has been a year of reset for the semi-con-related players, with many facing revenue decline of around 50-60% YoY from 2022 levels. This was due to much higher demand in 2021-2022 caused by the Covid pandemic and lockdowns, as well as a drop in demand after border reopening. However, we have seen encouraging signs of inventory depletion and higher demand from end customers, solidified by key industry players raising their outlooks and forecasts in their recent results announcements. As a result, we believe the semi-con industry has likely bottomed in 2023 and should experience a recovery in 2024 and 2025. As a result, we have upgraded all-the semi-con-related stocks under our coverage to BUYs.

7.3 Manufacturing shift to SEA, especially Malaysia – Top picks are Venture and Frencken

As a result of geopolitical tensions and the ongoing trade war between the US and China, we have seen manufacturing shifts from China to Southeast Asia, especially for semi-con-related companies. As a result, Malaysia has become a hotspot due to its lower cost base and readily available supply of labour. We have seen key global players such as LAM Research, Intel, Bosch, KLA and Applied Materials expanding their operations in Penang. Subsequently, Singapore manufacturers such as Venture (VMS SP, SGD12.70, BUY, TP: SGD15.40), AEM (AEM SP, SGD3.32, BUY, TP: SGD3.76), Frencken (FRKN SP, SGD1.13, BUY, TP: SGD1.39) and UMS (UMSH SP, SGD1.24, BUY, TPL SGD1.44) are also expanding their presence in Penang and we believe this relocation of manufacturing supply chains should benefit ASEAN players, especially those with a key presence in Malaysia. Our top Pick for the EMS space is Venture, while for the semi-con space, it would be Frencken.

Frencken’s semi-con segment, which is crucial for its overall financial performance, bottomed in 2Q23, with management guiding for better 2H23 semi-con revenue as compared to 1H23 performance. In addition, it’s also assisting its key customer in Europe to shift production to Malaysia, which we believe Frencken to be a key beneficiary of. We believe its other key customer’s inventory in Southeast Asia have been depleted to an acceptable level and it should also enjoy a ramp-up in Malaysia and Singapore factory utilisation in 2H24. All in all, FY23 should mark a bottom for Frencken and we believe the years ahead should see good growth. We are also more confident of a stronger FY24E, and maintain our BUY rating and SGD1.27 TP.

For Venture, it already has a strong proven track record and it's expanding production in Malaysia, which would grant it significantly more capacity. It has also bought additional land and could further expand in the future if needed. Its outlook has improved and 3Q23 was likely the bottom as management revealed that certain New Product Introductions will have started in 4Q23E and more are slated for FY24. Customer inventory levels are also down sharply and we should see more orders placed in 4Q and in FY24E. With SGD956.5m of net cash and no bank borrowings, we expect dividends to be maintained at SGD0.75/sh annually, representing a yield of 6+%, which is attractive.

8. Transport

- **Kick-started the year on an optimistic note as China finally ended its zero-Covid policy**
- **Strong travel demand resulted in higher passenger traffic and rail/taxi ridership**
- **Retain BUY on CD for its continuing attraction as a recovery play, supported by solid balance sheet and yield of 5%**

8.1 China's reopening lifts tourism recovery prospects

Following China's reopening in Jan this year, Singapore Tourism Board (STB) had estimated that international visitor arrivals to the city-state would be in the range of 12-14m in 2023, with tourism receipts likely to net about SGD18-21b. This forecast is in line with the latest air traffic statistics provided by Changi Airport Group (CAG), which reported that the airport handled over 4.9m passenger movements in Sep (c.89% of pre-pandemic levels), thus bringing total passenger movements to 42.9m YTD. In fact, CAG recently reopened its Terminal 2 after undergoing about 3.5 years of engineering and expansion works. This brought the total passenger capacity to 90m passengers per annum, higher than the pre-pandemic levels of 85m passengers. We think this expansion is timely considering that Chinese visitors have not yet returned in droves. Singapore received about 870,000 Chinese visitors as of end-Aug (close to 30% of 2019 numbers) but STB believes this will rise as outbound travel from China picks up. Factors for the slow rebound in outbound tourism from China include higher airfares on international routes due to limited seats and more cautious spending among Chinese travellers amid the country's slowing economic growth.

8.2 Improvement in passenger traffic and ridership

Boosted by strong travel demand, both SIA and Scoot carried 17.4m passengers in 1HFY24 (+52.3% YoY) with the full reopening of China, Hong Kong, Japan, and Taiwan. Passenger traffic grew 38% from a year before, outpacing capacity expansion of 29%. As a result, the Group passenger load factor (PLF) improved by 5.8 ppt to 88.8%, the highest ever half yearly PLF. Notably, SIA and Scoot achieved record PLFs of 88% and 91.3% respectively in 1H. For land transport operator CD, its rail ridership has improved over the past year and mostly returned to pre-pandemic level. Demand for point-to-point (P2P) transport in Singapore continues to grow, with Sep's average daily number of trips at 618k even as taxi fares remain elevated due to driver shortage. CD is actively investing in transport-related green energy businesses. Its 49%-owned JV, CDG ENGIE, has secured tenders to install 5,000 EV charging points in Singapore. The group has also entered into a strategic partnership with Guangzhou Public Transport Group to construct EV charging and battery swapping stations, with the initial project catering to the needs of municipal buses and cars in Guangzhou.

8.3 CD remains our preferred pick

We prefer CD (SGD1.33, BUY, TP: SGD1.55) for its sustained earnings growth and solid balance sheet with net cash of SGD500m. Supported by its relatively asset-light operator model and strong operating cash flow, we believe the group is able to maintain its dividend payout ratio of at least 70% of underlying net profits. For SIA (Not Rated), we think competition is likely to intensify in the coming months as more capacity is gradually injected into international routes by other airlines.

Appendix: Singapore Coverage Universe

Fig 8: Singapore coverage universe

Stock	BBG Code	M.Cap USDm	Rec	Price SGD	TP SGD	Upside %	EPS gr. (%) CY23E	EPS gr. (%) CY24E	P/E (x) CY23E	P/E (x) CY24E	ROE (%) CY23E	ROE (%) CY24E	P/B (x) CY23E	P/B (x) CY24E	Div Yield (%) CY23E	Div Yield (%) CY24E
DBS	DBS SP	61,449	Buy	31.63	37.81	19.5	27.0	(2.1)	8.1	8.1	18.0	16.2	1.4	1.3	6.0	6.3
OCBC	OCBC SP	42,778	Hold	12.62	13.83	9.6	24.9	0.9	8.4	7.9	13.3	12.6	1.0	1.0	6.3	6.3
UOB	UOB SP	34,429	Hold	27.20	30.86	13.5	28.2	3.1	8.0	8.2	13.3	12.5	1.0	0.9	6.3	6.3
SGX	SGX SP	7,555	Hold	9.39	10.24	9.1	(6.9)	1.0	19.1	19.6	30.8	29.6	5.7	5.4	3.8	3.9
Financials		**146,210**					**24.9**	**0.2**	**8.7**	**8.7**	**16.2**	**15.0**	**1.4**	**1.3**	**6.0**	**6.2**
Singtel	ST SP	28,269	Buy	2.28	3.10	36.0	6.2	16.7	15.5	13.8	8.9	9.5	1.3	1.3	4.1	4.4
StarHub	STH SP	1,404	Hold	1.08	1.10	1.9	162.6	10.1	13.5	12.1	31.2	25.8	3.2	3.0	4.6	5.6
Netlink NBN	NETLINK SP	2,428	Buy	0.83	0.97	16.9	(2.5)	1.8	30.7	29.6	4.1	4.4	1.3	1.3	6.4	6.4
Telecoms		**32,102**					**12.4**	**15.3**	**16.6**	**14.9**	**9.5**	**9.8**	**1.4**	**1.3**	**4.3**	**4.6**
Sea Ltd	SE US	20,703	Buy	39.72	62.00	56.1	(133.3)	3.4	54.6	38.4	8.7	7.4	3.0	2.4	-	-
Grab Holdings	GRAB US	11,429	Buy	3.05	4.50	47.5	(67.7)	(84.4)	-	-	(8.6)	(1.4)	1.9	1.8	-	-
Internet		**32,132**					**(109.9)**	**(27.8)**	**35.2**	**24.7**	**2.5**	**4.3**	**2.6**	**2.2**	**0.0**	**0.0**
AEM	AEM SP	777	Buy	3.32	3.76	13.3	(90.2)	503.7	110.7	13.8	2.5	14.4	2.1	1.9	0.2	1.8
UMS	UMSH SP	624	Buy	1.24	1.44	16.1	(38.8)	28.9	13.2	9.5	16.9	19.6	2.2	2.0	4.0	4.5
Frencken	FRKN SP	362	Buy	1.13	1.39	23.0	(50.9)	51.7	19.2	9.7	6.4	9.0	1.2	1.1	1.6	3.1
Venture	VMS SP	2,784	Buy	12.70	15.40	21.3	(26.0)	9.0	13.7	12.3	9.5	10.2	1.3	1.2	5.9	5.9
Aztech	AZTECH SP	532	Buy	0.92	1.08	18.0	47.1	9.6	7.4	6.8	32.3	30.8	2.9	2.3	7.2	8.1
Technology		**5,080**					**(31.5)**	**90.3**	**28.2**	**11.5**	**11.5**	**14.1**	**1.7**	**1.5**	**4.6**	**5.1**
CDREIT	CDREIT SP	935	Buy	1.00	1.05	5.0	(71.9)	22.0	16.4	15.6	3.3	3.9	0.7	0.7	5.9	6.2
Far East Hosp.	FEHT SP	977	Buy	0.65	0.75	15.4	(64.3)	2.3	18.1	19.1	3.9	3.9	0.7	0.7	6.2	6.2
CapitaLand Ascott Trust	CLAS SP	2,628	Buy	0.93	1.00	7.5	(5.3)	6.5	17.9	17.5	4.7	4.8	0.8	0.8	6.1	6.3
Hospitality REITs		**4,540**					**(31.8)**	**8.8**	**17.6**	**17.5**	**4.3**	**4.4**	**0.7**	**0.7**	**6.1**	**6.3**
AAREIT	AAREIT SP	772	Buy	1.27	1.36	7.1	(12.3)	6.8	13.8	13.2	6.7	5.9	0.7	0.7	7.2	7.6
ESR REIT	EREIT SP	1,732	Buy	0.30	0.31	3.3	(146.1)	28.5	16.7	14.3	5.3	6.8	0.9	0.9	8.0	8.0
Ascendas REIT	CLAR SP	9,197	Buy	2.79	2.65	(5.0)	(12.7)	1.4	18.5	18.1	6.5	6.6	1.2	1.2	5.5	5.7
Mapletree Ind.	MINT SP	4,851	Hold	2.28	2.15	(5.7)	31.2	3.9	17.3	17.3	7.0	7.0	1.2	1.2	5.7	5.6
Mapletree Log.	MLT SP	5,854	Buy	1.57	1.60	1.9	(32.1)	1.4	22.1	21.8	4.8	4.4	0.9	0.9	5.6	5.6
Industrial REITs		**22,407**					**(18.6)**	**4.2**	**18.9**	**18.4**	**6.1**	**6.1**	**1.1**	**1.1**	**5.8**	**5.9**

Source: Maybank IBG Research, FactSet

Fig 9: Singapore coverage universe (cont'd)

Stock	BBG Code	M.Cap USDm	Rec	Price SGD	TP SGD	Upside %	EPS gr. (%) CY23E	EPS gr. (%) CY24E	P/E (x) CY23E	P/E (x) CY24E	ROE (%) CY23E	ROE (%) CY24E	P/B (x) CY23E	P/B (x) CY24E	Div Yield (%) CY23E	Div Yield (%) CY24E
CapitaLand Integrated Commercial Trust	CICT SP	9,197	Buy	1.84	1.90	3.3	(4.4)	10.3	16.6	16.6	4.9	5.4	0.9	0.9	5.9	6.0
Frasers Ct.pt.	FCT SP	2,802	Buy	2.18	2.25	3.2	(11.5)	5.2	18.2	17.9	4.6	4.7	0.9	0.9	5.5	5.6
Mapletree Comm	MPACT SP	5,321	Hold	1.35	1.25	(7.4)	(10.7)	7.7	16.1	16.3	4.6	4.9	0.8	0.8	6.2	6.1
Suntec REIT	SUN SP	2,458	Hold	1.13	1.15	1.8	(64.0)	3.4	20.5	19.2	2.7	2.7	0.5	0.5	6.2	6.2
Lendlease Global Comm REIT	LREIT SP	1,042	Buy	0.59	0.70	18.6	(24.0)	4.8	14.8	14.4	3.9	3.8	0.7	0.7	7.1	7.3
Retail REITs		**20,420**					**(13.5)**	**7.9**	**17.0**	**16.8**	**4.6**	**4.9**	**0.8**	**0.8**	**6.1**	**6.1**
CapitaLand Investment Ltd	CLI SP	11,837	Buy	3.03	3.30	8.9	(12.1)	30.0	21.6	23.3	4.3	4.9	0.8	0.8	4.0	4.0
Real Estate		**11,837**					**(12.1)**	**30.0**	**21.6**	**23.3**	**4.3**	**4.9**	**0.8**	**0.8**	**4.0**	**4.0**
Keppel REIT	KREIT SP	2,414	Buy	0.85	1.00	17.6	(56.7)	2.0	15.5	15.5	3.4	3.5	0.6	0.6	6.9	6.9
Office REITs		**2,414**					**(56.7)**	**2.0**	**15.5**	**15.5**	**3.4**	**3.5**	**0.6**	**0.6**	**6.9**	**6.9**
ST Engineering	STE SP	8,697	Buy	3.71	4.20	13.2	8.8	17.3	20.7	17.3	23.3	25.6	4.5	4.2	4.5	5.4
Sembcorp Industries	SCI SP	6,777	Buy	5.07	6.30	24.3	33.8	(7.2)	11.8	11.7	21.4	17.1	1.9	1.7	1.6	1.6
Industrials		**15,475**					**19.8**	**6.6**	**16.8**	**14.8**	**22.5**	**21.8**	**3.3**	**3.1**	**3.2**	**3.7**
ComfortDelgro	CD SP	2,164	Buy	1.33	1.55	16.5	5.7	16.2	16.2	15.5	7.0	8.0	1.1	1.1	4.6	4.8
Transport		**2,164**					**5.7**	**16.2**	**16.2**	**15.5**	**7.0**	**8.0**	**1.1**	**1.1**	**4.6**	**4.8**
Genting SG	GENS SP	8,172	Buy	0.90	1.16	28.9	96.7	11.0	15.3	12.5	8.2	8.8	1.3	1.3	4.4	4.4
Gaming		**8,172**					**96.7**	**11.0**	**15.3**	**12.5**	**8.2**	**8.8**	**1.3**	**1.3**	**4.4**	**4.4**
Raffles Med	RFMD SP	1,499	Hold	1.06	1.30	22.6	(38.2)	(8.9)	22.6	21.2	8.6	7.5	1.9	1.8	2.2	2.4
Q&M Dental	QNM SP	163	Hold	0.23	0.31	37.8	10.6	29.1	20.5	17.3	13.3	18.6	2.4	2.6	2.2	3.6
Healthcare		**1,663**					**(33.4)**	**(5.1)**	**22.3**	**20.8**	**9.0**	**8.6**	**1.9**	**1.9**	**2.2**	**2.5**
Bumitama Agri	BAL SP	798	Buy	0.61	0.94	55.4	(26.7)	(4.6)	5.2	5.4	16.9	14.5	0.9	0.8	7.7	7.4
First Res.	FR SP	1,689	Buy	1.42	1.82	28.2	(52.0)	30.9	8.7	9.0	11.9	14.6	1.2	1.1	5.7	5.5
Wilmar	WIL SP	17,403	Hold	3.62	3.99	10.2	(49.4)	37.3	9.6	9.0	5.7	7.1	0.7	0.7	5.5	5.7
Plantations		**19,890**					**(48.7)**	**35.1**	**9.3**	**8.9**	**6.7**	**8.1**	**0.8**	**0.7**	**5.6**	**5.7**
HRnetGroup Ltd	HRNET SP	532	Hold	0.70	0.80	14.3	(8.2)	3.2	13.5	13.0	16.5	16.0	1.8	1.7	5.0	5.0
Civmec Ltd	CVL SP	299	Buy	0.79	1.05	33.8	1.2	9.2	7.5	7.5	13.9	14.3	1.0	0.9	5.5	6.6
CSE Global	CSE SP	194	Buy	0.42	0.65	54.8	354.0	25.6	12.4	9.5	9.7	11.0	1.1	1.0	6.7	6.7
Food Empire Holdings	FEH SP	454	Buy	1.10	1.60	45.5	(9.6)	7.4	8.2	7.7	19.0	18.1	1.4	1.3	4.6	4.8
Services		**1,479**					**84.4**	**11.4**	**10.4**	**9.4**	**14.8**	**14.9**	**1.3**	**1.2**	**5.5**	**5.8**

Source: Maybank IBG Research, FactSet

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