SINGAPORE | 2024 Outlook

Maybank

Time to Cherry Pick

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Singapore Strategy

Time to Cherry Pick

Be selective in 2024E. BUY themes and laggards

Four major themes - corporate restructurings, sustainability inflows, regional M&A and productivity boost from new technologies - are converging. These should catalyse Singapore's medium-term earnings higher. However in 2024E, the pace is set to slow as benefits from interest rate hikes and early re-opening retreat. Risks are on the upside, though, particularly from a new semicon inventory cycle, falling rates, and fresh orders for O&M and alternative energy. Corporate balance sheets are strong giving significant runway for Singapore to consolidate its regional hub status. Top picks: **CD, CICT, CLAR, DBS, Dyna-Mac, FRKN, GENS, LREIT, ST, and Venture**.

Modest growth with a dash of upside

Momentum from interest rate hike-driven bank margins and early economic re-opening tailwinds are set to dissipate in 2024E, with market EPS growing just +3%, (vs. +18% 2023E). However, risks are on the upside, we believe. Potential interest rate cuts, semiconductor inventory building, bigger order books for O&M, alternative energy, plus rising inbound travellers could drive upward EPS revisions in REITs, Tech Manufacturing, Industrials, and Gaming. Moreover, Singapore's GDP growth is forecast to rebound to +2.2% (+1.1% 2023E) giving room for more upgrades. Amidst significant geopolitical and capital market uncertainty, corporate balance sheets are robust. Indeed, nearly 40% of all listings have net cash balances.

Four key themes driving medium-term earnings

Four major, multi-year themes could enhance Singapore's regional hub status going forward. These should drive earnings higher. First, expect corporate and government-linked company (GLC) restructurings to accelerate as they look to squeeze better ROICs. Second, Singapore could benefit from bigger sustainable investment allocations given better ESG risk scores. Third, the volume of accretive regional M&A may rise. Local firms could seek to supplement slow growth at home with faster growth outside, catalysed by a strong SGD, cheap regional valuations and ASEAN supply chain relocation opportunities. Finally, an early mover advantage in tech investments and a comprehensive national AI policy should drive productivity and revenue enhancements across multiple sectors.

STI 3,290 target. +ve on Gaming, REITs, Tech, Telcos

While earnings risk is on the upside, we are cautious on valuations. Until the dynamics of a robust fiscal impulse in the US and China's sputtering growth reverses, ASEAN valuations – including Singapore's - could see headway capped. We have lowered our 12-month STI target to 3,290 from 3,629. Our 50:50 weighting of bottom-up fundamentals and target PE/PB methodology is unchanged. However, our target multiples are downgraded to -2SD below the LT mean vs. the earlier peg to mean valuations. Our top picks reflect a mix of stocks geared towards Singapore's key themes as well as laggards that can potentially benefit from reversal in rates and better order-books. For themes, we like **DBS, ComfortDelGro, Dyna-Mac, SingTel**, and laggards **CLAR, CICT, Frencken, Genting Singapore, LREIT, and Venture**.

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Singapore Top Picks

Stock	BBG Code	M.Cap (USDm)	Rec	Price (LCY)	TP (LCY)
DBS	DBS SP	63,737	Buy	32.74	37.81
CLAR	CLAR SP	9,718	Buy	2.94	2.65
CICT	CICT SP	10,018	Buy	2.00	1.90
ComfortDelgro	CD SP	2,316	Buy	1.42	1.60
Dyna-Mac	DMHL SP	250	Buy	0.32	0.38
Frencken	FRKN SP	418	Buy	1.30	1.39
Genting SG	GENS SP	9,053	Buy	1.00	1.16
Lendlease GCR	LREIT SP	1,124	Buy	0.64	0.70
Singtel	ST SP	29,570	Buy	2.38	3.10
Venture	VMS SP	2,945	Buy	13.41	15.40

Source: FactSet, Bloomberg, Maybank IBG Research

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1. Macro Outlook - Speeding up transition

1.1 The political and green transitions

Singapore is in the midst of two major transitions, which will continue to unfold in 2024:

[1] a political transition that will see current Prime Minster Lee hand over power to his deputy Lawrence Wong by November 2024, before the 2025 general elections;

[2] a green transition that will see Singapore deploy massive capital and shift policies to prepare for climate change and achieve its target of net zero emissions by 2050.

On the political transition, PM Lee has set a concrete timeline for the handover of power to his deputy Lawrence Wong, which will likely lead to a Cabinet reshuffle and promotion of the fourth generation (4G) leaders to more prominent roles. Finance Minister Wong will be delivering Budget 2024 in February, and it will likely reflect the various policies and recommendations from the Forward Singapore exercise.

DPM Wong has described the new elements in the Singapore Dream as [1] vibrant and inclusive; [2] fair and thriving; and [3] resilient and united.

From the Forward Singapore exercise, the government is planning to introduce unemployment support which is pegged to training; expand HDB housing with more subsidies but tighter restrictions; improve the support for lower-income households and seniors; strengthen water and food security; prepare for climate change; expand Skillsfuture; and make the tax system more progressive. More details will be unveiled in Budget 2024 in February.

Table 1: Forward Singapore and policy implications

Key Pillars	Details	Policy Implications
Embracing Learning Beyond Grades	• Advance well-being of broad middle by helping them stay competitive & take on better jobs • Cultivate love for learning among young, promote lifelong learning beyond school • Provide more diverse pathways beyond focus on grades	Boost to Skillsfuture: credit top-ups for mid-career workers, training allowance and protected time-off for workers on full-time, longer courses (e.g. second degree/diploma)
Respecting and Rewarding Every Job	• Reduce wage gaps: better pay for 'hand' and 'heart' jobs, enable more ITE graduates to upskill and upgrade • Support job transitions • Nurture more Singaporean specialists and leaders in respective fields	• Unemployment support pegged to retraining: cash to help workers tide through, and training allowances for unemployed who attend upskilling courses. • More Work-Study Diplomas for ITE students: 5 new WSDips announced in Nov 2023 • Enhance Workfare support and Expand Progressive Wage Model to more sectors and occupations
Supporting Families through Every Stage	• Ensure public remains affordable and fair • More support for parents of infants and caregivers • Support work-life harmony (e.g. flexible work arrangements)	• New Prime and Plus Housing Model with more subsidies and tighter restrictions. • More parental leave and infant care options
Enabling Seniors to Age Well	• New "Age Well SG" programme • Ensure seniors retire with peace of mind	• Age Well SG: more community activities, more accessible care services, more senior-friendly homes and neighbourhoods • S$7b Majulah Package for 'young seniors'
Empowering Those in Need	• Uplift lower-income families by providing financial support tied to progress on their longer-term goals • Enable children to attend preschool regularly to close early gaps • Build a more inclusive society for persons with disabilities	Conditional transfers under Comlink+ program: • Top-ups to Child Development Account for children attending preschool by age 3 • Cash and CPF top-ups for those who stay in stable employment; matching repayments for paying off debt • Matching voluntary CPF contributions for saving up to buy HDB flat
Investing in Our Shared Tomorrow	• Optimize limited land and secure climate-resilient future • Strengthen food and water security • Uphold fiscal prudence and responsibility	• Hike water prices by 18% over two phases in 2024 and 2025 to support infrastructure investments and rising PUB costs • Green transition initiatives: higher carbon tax, carbon credits scheme, renewable energy imports • Enhance Climate Friendly Households Program • Higher wealth taxes: property tax will increase by 1% point to 9% point in 2024; tax structure will become more progressive • Higher personal income taxes for high-earners
Doing Our Part as One United People	• Nurture stronger culture of giving, especially those who have done well in society • Better connect donors and volunteers to local community needs • Strengthen multi-racialism and create more avenues for civic participation	Incentivise better workplace support for volunteering, CSR

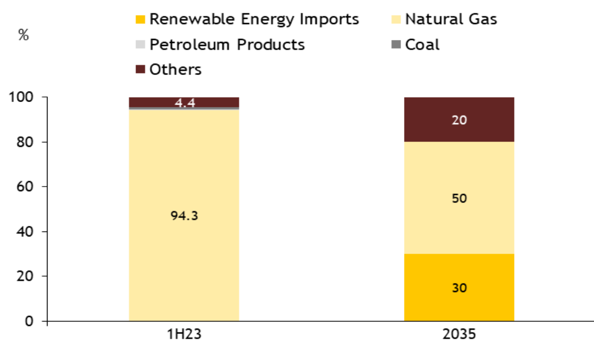
Source: Forward SG Report and Summary Booklet (link), Maybank IBG Research

On the green transition, Singapore will be accelerating the strong push towards its target of achieving net zero emissions by 2050. Emissions will be cut to around 60 MtCO2e in 2030 after peaking sometime this decade (vs. 57.7 MtCO2e in 2021).

The carbon tax will be hiked to S$25/tCO2e in 2024 and 2025; S$45/tCO2e in 2026 and 2027; with a view to reaching S$50-80/tCO2e by 2030. The 5% carbon tax collects about S$215m in revenue. A 25% carbon tax in 2024-25 will increase the annual revenue generated to about S$1b. The 2024 carbon tax hike will translate directly to a 4% hike in household electricity tariffs (S$4 per month) with electricity costs making up 1.6% of the CPI basket. Total electricity consumption was 54.9TWh in 2022, which amounts to roughly S$15b by our estimates.

By 2035, Singapore aims to reduce reliance on natural gas, which will make up about 50% of the energy mix, down from the current 94% in 2023. Some 30% is expected to come from renewable energy imports (Fig 1). This could include low-carbon electricity, predominantly solar, from Indonesia; 1GW of solar, hydropower and potentially wind from Cambodia; and 1.2GW of primarily wind energy from Vietnam. The final 20% could include solar, various forms of hydrogen, biofuels, nuclear power and geothermal power.

Fig 1: Singapore's energy mix, 2023 vs. 2035



Note: "Others" for 2023 include solar and municipal energy waste. "Others" for 2035 could include solar, various forms of hydrogen, biofuels, nuclear power and geothermal power.
Source: Energy Market Authority, The Straits Times

Fig 2: Planned 'Long Island' reclamation in East Coast

Source: Urban Redevelopment Authority

Singapore's appetite for renewable energy will be a key catalyst for investments in regional clean energy projects. About 70% of Singapore's electricity supply will eventually be replaced with hydrogen, ammonia or offset with carbon capture and storage. The remainder will need to be covered by importing 4GW of low-carbon electricity by 2035.

Undersea cables are being planned to import electricity from Indonesia, Vietnam and Cambodia. Solar energy may be imported from Johor and Indonesia; hydropower from Laos; wind power from Vietnam; and possibly hydropower from Sarawak in East Malaysia.

The government estimated that more than S$100b (US$73b) will be needed to be spent over the next century on climate change protection. Around 30% of Singapore lies less than 5m above mean sea level. S$5b has been injected into a coastal and flood protection fund.

Technical studies will start from 2024 into a "Long Island" off the East Coast, which would reclaim around 800ha of land – twice that of Marina Bay - over the next few decades (Fig 2). Apart from protection against rising sea levels, the new land could be used for commercial and residential developments. Other mitigation measures include building Changi Terminal 5 on higher ground, and potentially storm surge barriers on waterways.

Beyond additional costs and infrastructure investments, the green transition brings about substantial opportunity for Singapore to become Asia's environmental hub. A key vision is to become a carbon trading hub with related services such as carbon monitoring, credit verification and climate risk analysis.

Singapore already has the highest concentration of carbon service providers (more than 70) in ASEAN. This includes two exchanges (Climate Impact X and AirCarbon Exchange) which were created in 2021. Companies subjected to Singapore's carbon tax may be able to purchase carbon credits to offset up to 5% of their taxable emissions. Singapore is prepared to buy carbon credits generated from the early retirement of coal-fired power plants around the region, if found to meet environmental criteria.

1.2 Manufacturing and export green shoots

We expect growth to be stronger and more balanced in 2024, as manufacturing recovers while revenge spending in services fade. GDP growth is projected to rebound to +2.2% in 2024 and +2.1% in 2025 from

+1.1% in 2023. Green shoots are sprouting in exports and manufacturing, brightening the outlook. Global electronics demand is recovering, driven by a replacement cycle with new models and upgrades; depleting US inventories; and generous US subsidies on semiconductors and electric vehicles. China imports from Singapore are recovering more strongly than expected, despite a sluggish Chinese economy and real estate slump. Trade-related and outward-oriented services sectors, including wholesale trade and financial services, will revert to positive growth in 2024.

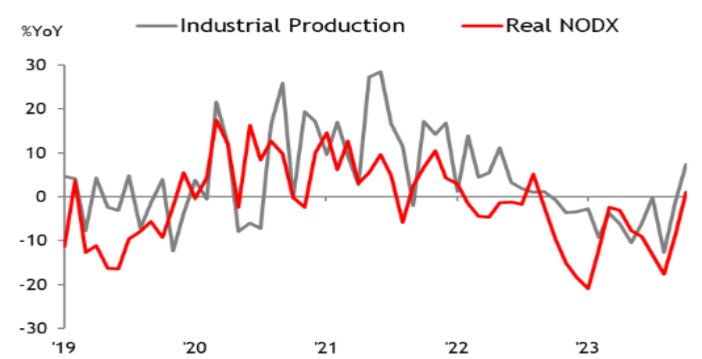
Exports and manufacturing have been picking up steam in recent months on the back of "green shoots" in global electronics demand. NODX is expected to rebound to between +7% to +9% growth from the double-digit slump in 2023. Manufacturing production (+7.4%) grew in October for the first time since Sep 2022, while real non-oil domestic exports (NODX) rose 0.9% from a year ago (Fig 3). The PMI (50.3) improved for a third straight month, while electronics PMI (50.1) broke a 15-month contractionary streak in November.

Easing domestic interest rates and the trade recovery will support more upbeat activity in the finance & insurance sector. Business loans should pick up with higher trade financing, while consumer loans should recover as mortgage rates slide.

Retail sales growth should improve compared to 2H23, driven by a resilient job market and higher car sales due to the bringing forward of COE quota from peak years. Motor vehicles account for around 11% of nominal retail sales. Hospitality, dining and entertainment may see more moderate growth, as pent-up revenge spending and travel cools off. There remains some "normalisation" tailwinds, with accommodation and F&B activity still below pre-pandemic levels (-9% as of 3Q23). The 30-day visa free arrangement for China visitors should boost the tourism sector's recovery in 2024.

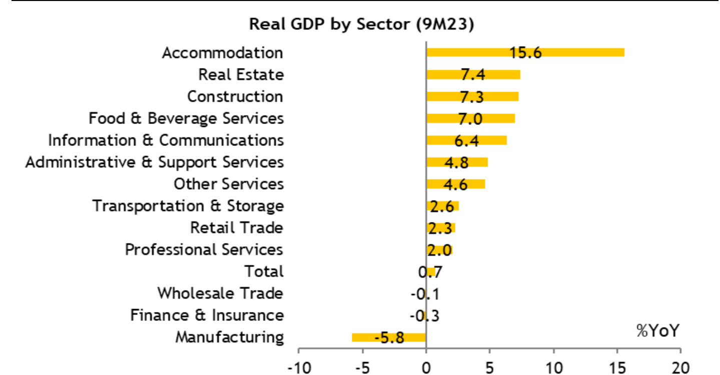
Construction will continue to expand at a robust pace, given the backlog of public and private sector projects, such as in public housing, infrastructure and healthcare. Nonetheless, high construction costs including for manpower, dormitories, building materials and borrowing costs, have eroded profit margins. The construction sector remains a laggard, with real levels in 3Q23 still -19% below pre-pandemic (3Q19) levels.

Fig 3: Manufacturing (+7.4%) and Real NODX (+0.9%) grew in October after more than a year of decline



Source: CEIC

Fig 4: GDP growth by sector – 9M23 weighed down by outward-oriented manufacturing, finance and wholesale trade



Source: CEIC

1.3 Sticky core inflation, MAS to ease only in Oct 2024

We expect core inflation to average +2.8% in 2024, down from 4.2% in 2023. Headline inflation is forecast to drop to +3% in 2024 (vs. +4.8% in 2023).

Core inflation will remain sticky and cool only marginally in 2024, remaining above historical norms. There will be an uptick in early 2024, given hikes in GST, carbon taxes and other administrative prices (water, public transport). Wage cost pressures amid a tight labour market will limit the fall in inflation. Prices will also be supported by steady consumer demand, on the back of a GDP recovery.

Labour costs could stay elevated due to the upbeat job market, as well as the hike to S Pass and Employment Pass qualifying salaries and scheduled wage hikes under the Progressive Wage Model. Salary increments are likely to hold steady at around 4% in 2024, according to talent firms Mercer and Aon, which draw on surveys across multiple industries.

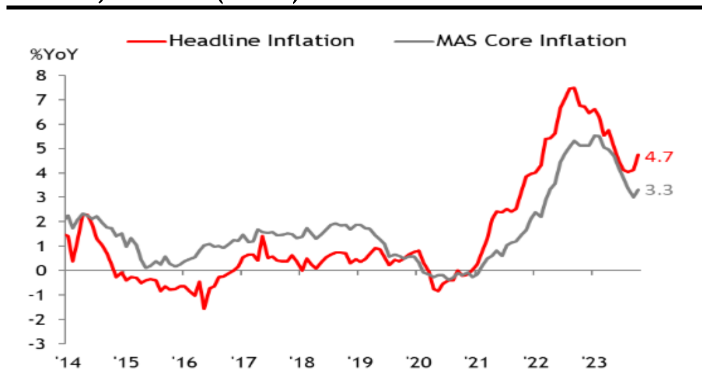
The unemployment rate (1.9% in Oct 2023; see Fig 6) remains below pre-pandemic levels, and job vacancy rates remain elevated, particularly in the services sector. Employment growth has moderated in recent quarters, but labour demand could see a pickup in 2024 as growth improves.

Headline inflation will be capped by lower private transport prices from higher supply of COEs, as the Land Transport Authority (LTA) is bringing forward more quota from peak periods to contain COE premiums. Accommodation inflation should ease on the back of an increase in housing supply.

We expect the MAS to maintain the current appreciation stance at the first three quarterly meetings in 2024, and ease only at the Oct 2024 meeting via a flatter S$NEER slope. The MAS will likely maintain the current appreciation stance in the first half of the year, given the economic recovery and still elevated core inflation. The central bank views current monetary settings as appropriate to guide core inflation down to near 2% by end-2024. Our S$NEER model suggests that the S$NEER is trading at the upper half of the band, about +2% above the mid-point (Fig 8).

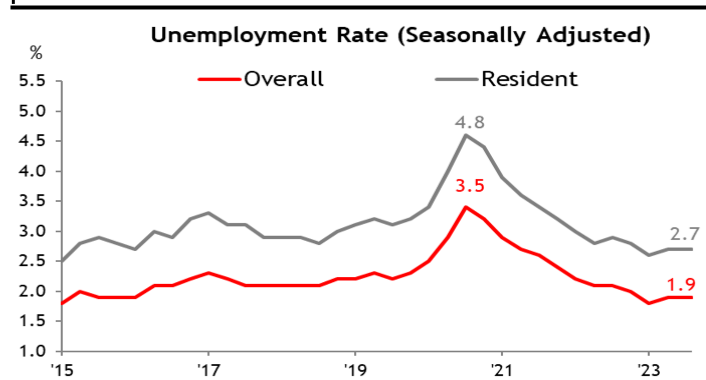
The 3-month SORA rate is projected to fall to 3.25% by end-2024 from the current 3.8%, tracking Fed rate cuts in the second half. Short-term interest rates are likely close to their peak, as the Fed is no longer expected to raise rates. The 3-month SORA rate is projected to fall to 3.25% by end-2024 and 2.6% by end-2025 (Fig 7). This is predicated on -75bps of Fed rate cuts in 2H 2024 and -100bps of cuts in 2025.

Fig 5: Headline CPI (+4.7%) rebounded to 5-month high in October, Core CPI (+3.3%) also rose



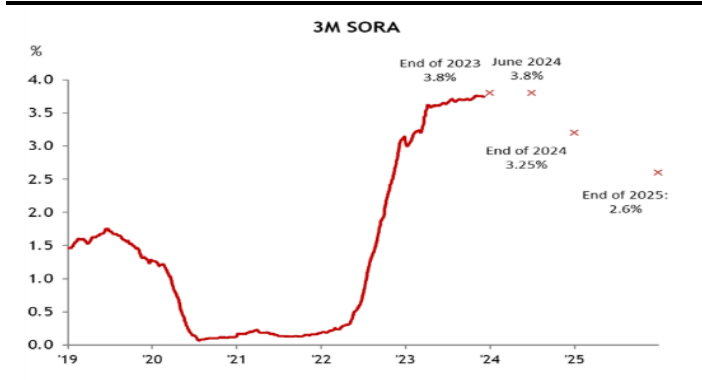
Source: CEIC

Fig 6: Tight Labour Market – Unemployment rate below pre-pandemic levels



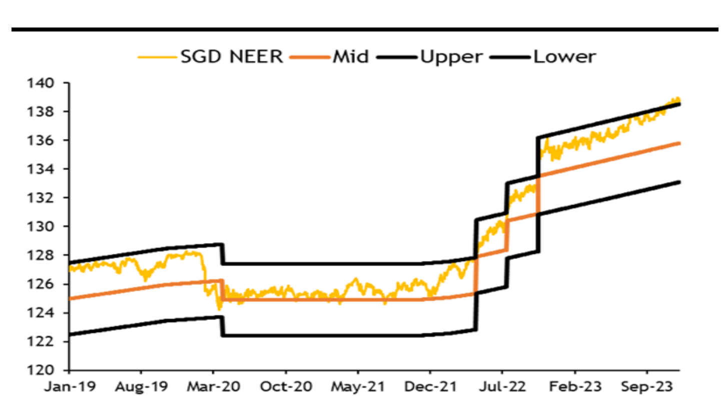
Source: CEIC

Fig 7: 3M SORA Projected to Fall to 3.25% at end-2024 and 2.6% at end-2025



Source: Bloomberg, Maybank IBG Research estimates

Fig 8: S$NEER About 2% Above Estimated Midpoint



Source: Maybank GM FX Research

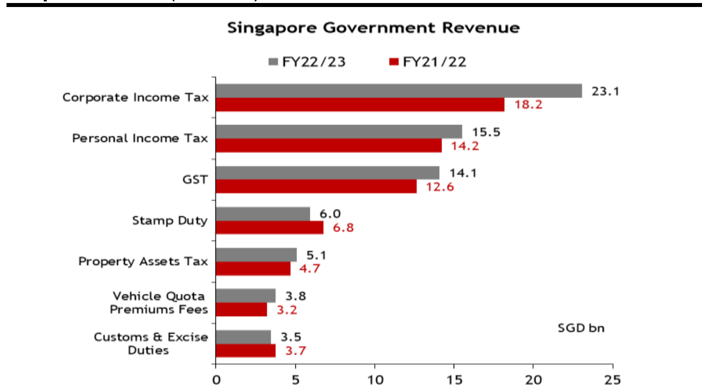
1.4 Wildcards: US recession, stubborn inflation

A key downside risk to the 2024 outlook is a global recession, which will derail demand and the trade recovery. Merchandise exports account for 110% of GDP in Singapore, the highest exposure in ASEAN. We cannot rule out the risk of a US recession, even though our base case is for a soft landing. Further Fed rate hikes could trigger a recession, if it turns out that inflation is not yet fully under control. Higher interest rates for an extended period will dampen the recovery of the financial sector and impact highly indebted companies. A deeper China downturn could also raise the risk of a global recession.

Another risk is a renewed climb in inflation. This could stem from more persistent labour market tightness or fresh commodity price shocks from a broadening of the Israel-Hamas war, El Nino or other weather events. "High-for-longer" inflation may crimp purchasing power and household consumption. The MAS may have to tighten via a steeper appreciation bias to contain price pressures, hurting export competitiveness. Cost of living concerns may affect public sentiment going into the general election, which has to be called by November 2025.

There is ample fiscal space to deploy additional policy support if downside risks materialise. Operating revenue is on track to exceed MOF's projections in FY23/24 (Apr-Mar), as total collections over the first 7 months (S$62.2b) already amounted to 64.3% of budgeted revenue (Fig 10). More generous top-ups and transfers can be provided to households and firms, akin to the S$1.1b Cost-of-Living Support Package announced in 2023.

Fig 9: FY22/23 tax revenue up S$7.9b (+13%), mainly due to corporate tax (S$4.9b)



Source: IRAS, CEIC, Maybank IBG Research

Fig 10: Revenue in first 7 months of FY23/24 reached 64% of full-year budget; double-digit gains in major components

	%YoY		% of FY23/24 Budgeted Revenue
	Apr-Oct 2022	Apr-Oct 2023	
Operating Revenue	**+12.5**	**+15.9**	**64.3**
Corporate Income Tax	+26.8	+29.0	-
Personal Income Tax	+8.9	+11.3	-
GST	+13.6	+11.4	-
Stamp Duty	-9.8	-1.7	-

Source: CEIC, Maybank IBG Research

Table 2: Singapore – Key Macroeconomic Indicators

	2021	2022	2023F	2024F	2025F
Real GDP (%)	**8.9**	**3.6**	**1.1**	**2.2**	**2.1**
By Expenditure:					
Private Consumption	6.6	9.7	3.9	3.4	3.3
Government Consumption	3.7	-2.3	2.3	2.0	1.9
Gross Fixed Capital Formation	18.0	1.6	-0.1	2.0	2.1
Exports of Goods & Services	11.7	-1.3	1.4	3.0	2.7
Imports of Goods & Services	12.0	-1.9	0.3	3.7	3.1
By Industry:					
Manufacturing	13.3	2.5	-3.3	4.0	2.0
Construction	20.5	6.7	6.9	5.3	4.8
Services	7.6	4.8	2.2	1.9	2.1
Wholesale & Retail Trade	9.8	3.5	0.4	1.9	1.9
Transportation & Storage	9.9	4.0	2.5	2.2	1.9
Accommodation & Food Services	-2.3	12.0	9.3	4.6	3.3
Information & Communication	13.4	8.6	6.0	3.4	2.6
Finance & Insurance	8.3	1.4	0.2	2.1	2.4
Business Services	2.6	9.0	3.5	1.9	1.8
Other Services	5.5	5.2	4.3	1.8	1.8
Current Account Balance (% of GDP)	18	19.3	19.1	18.5	18.2
Fiscal Balance (% of GDP)	0.3	-0.3	-0.1	0.5	0.1
Headline Inflation (%, period average)	2.3	6.1	4.8	3.0	1.8
Core Inflation (%, period average)	0.9	4.1	4.2	2.8	2.0
Unemployment Rate (%, end-period)	2.7	2.1	2.0	2.0	2.0
Exchange Rate (per USD, end-period)	1.35	1.34	1.35	1.335	1.31
10-Year Government Bond Yield (%, end-period)	1.64	3.09	3.10	2.75	2.50
3M SORA (% p.a., end-period)	0.19	3.10	3.80	3.25	2.60

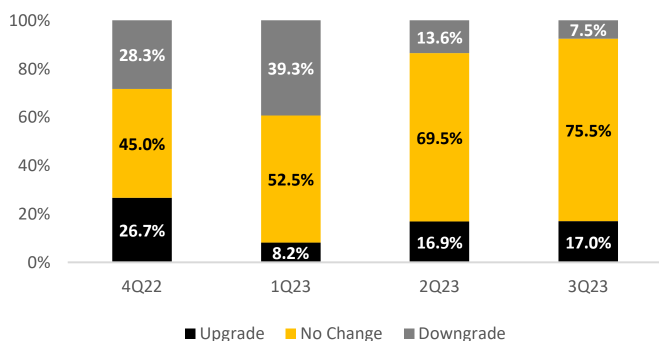
Source: CEIC, Maybank IBG Research forecasts

2. 3Q23 largely within expectations, but margins show squeeze

3Q23 results were largely within expectations. The only notable surprises were from sectors such as Banks and Gaming. As a result, 64% of our coverage universe was deemed 'in-line', marginally lower than the 67% in 2Q23.

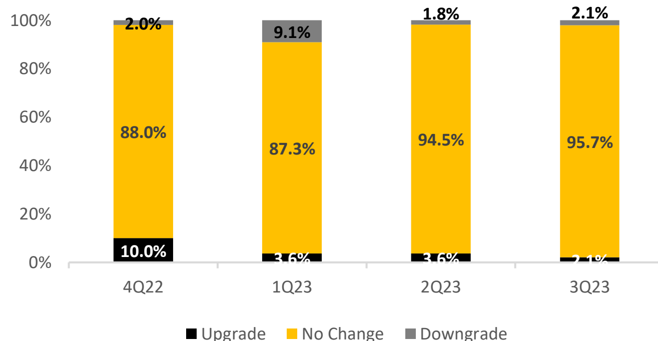
Overall forecast changes were largely left intact with 75.5% with no EPS changes. Interestingly, the proportion of downgrades dropped to just 7.6% of total coverage compared to 13.6% a quarter ago. This likely marks a bottom in downgrades from high interest rates and inflation, we think.

Fig 11: Coverage universe EPS forecast changes after 3Q23



Source: Maybank IBG Research

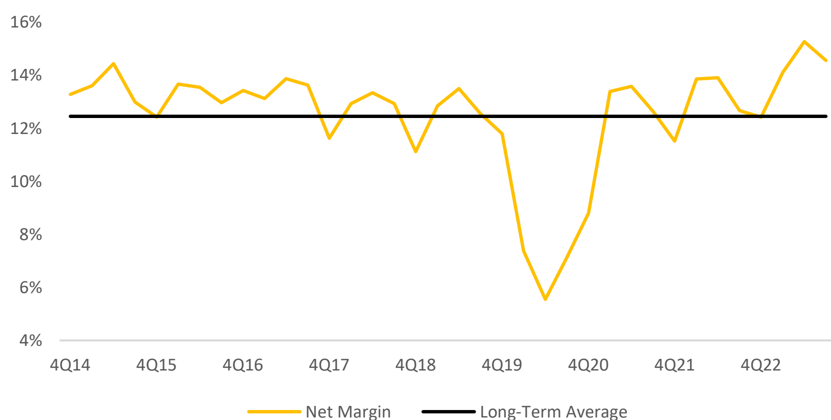
Fig 12: Coverage universe rating changes after 3Q23



Source: Maybank IBG Research

Rating changes were also largely intact with the proportion of downgrades falling to the lowest level since 4Q22. This signifies that intensity of operating uncertainty present at the start of 2023 is dissipating. Marginally higher confidence is returning to lagging sectors such Tech Manufacturing and REITs, which have seen an uptick in ratings upgrades in 3Q23 vs. 2Q23.

Fig 13: Coverage universe net margin (%)



Source: Company data, Maybank IBG Research

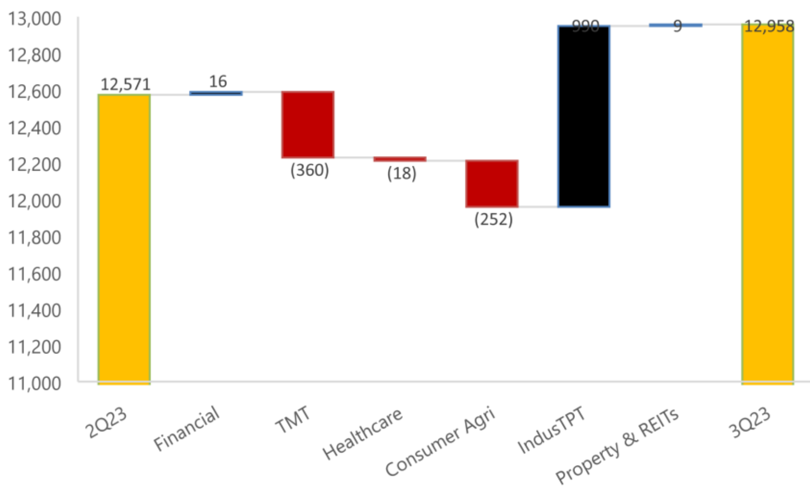
A key takeaway from the quarter was that margin growth is now contracting. Most of the coverage universe was able to manage the input and interest cost escalations of 2022-23 well. We saw better than anticipated ability to pass on higher costs to customers, which actually had a positive impact on margins. However, after peaking at 15.3% in 2Q23, net margins have come off to 14.6% showing corporates are hitting a ceiling in cost pass-throughs.

Nevertheless, overall margins remain well above pre-Covid levels, which should be supportive of ROEs.

Support for margins is partly driven by high net interest margins (NIMs) reported by the banks, consumer and gaming, industrials and healthcare. While we expect the trajectory of banking margins may turn as interest rates fall, for other sectors there could be a boon from falling input costs. This should keep overall margins supported in the medium term.

Indeed, the industrial segment supported by higher energy prices, increased aviation volumes and stronger order books drove most of the incremental earnings growth in 3Q23 QoQ.

Fig 14: 3Q23 core-earnings changes QoQ (SGDm)

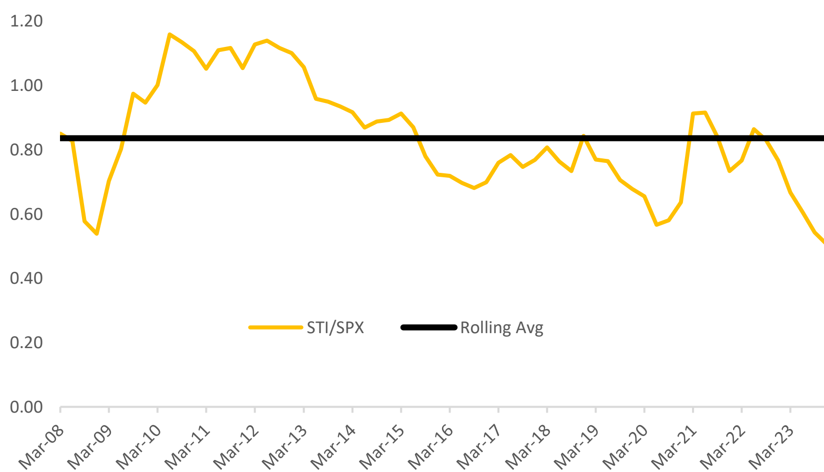


Source: Company data, Maybank IBG Research

3. Valuations ultra-cheap, but balance sheets resilient

On a PE basis, the STI is now trading at a 50% discount to the SPX. This is the lowest level in history, even when taking the *GFC* and Covid in to account. With the US Fed seen pivoting to a dovish stance following its 23 Dec meeting and with the dot plots pointing to interest rate cuts in 2024, we think this gap is not sustainable going forward.

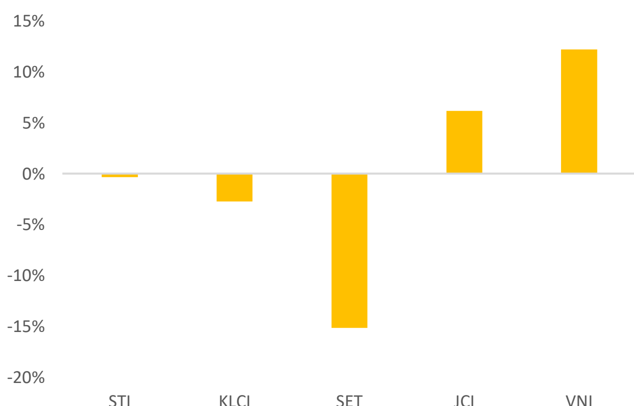
Fig 15: STI PE discount to SPX



Source: Bloomberg, Maybank IBG Research

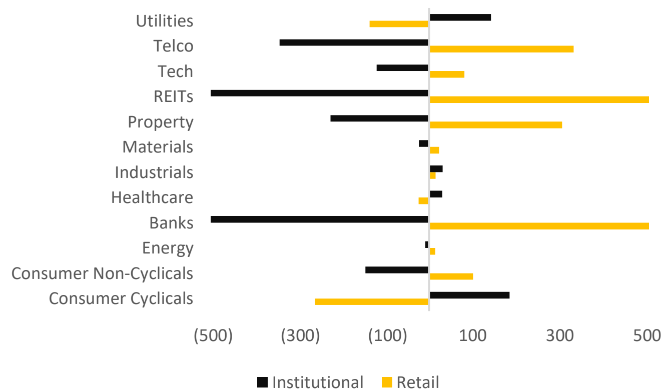
In 2023, Singapore underperformed relative to key global markets, but held firm compared to most regional peers. However, large interest rate sensitive sectors such as the Banks and REITs underperformed as institutional investors significantly reduced weightings. 2023 retail activity was somewhat muted with retailers buying just 77% of institutional selling.

Fig 16: Regional index performance 2023



Source: Bloomberg, Maybank IBG Research

Fig 17: Insti/Retail sector buying and selling in 2023



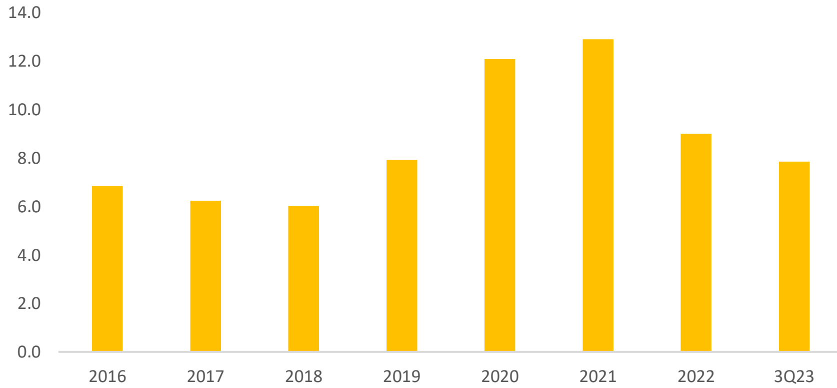
Source: SGX, Maybank IBG Research

We think potentially lower interest rates and a likely weakening of the USD, could have positive spill-over impacts to SE Asian markets as a whole given demographics, supply chain shifts and fiscal spending. This should also be beneficial for Singapore as the region's financial and technology centre.

Importantly, from a quality perspective, the Singapore market offers clear differentiation, in our view.

Balance sheets are strong with debt levels falling. Total debt to EBIT has fallen from a 2021 peak of 12.9x to 7.7x in 3Q23. Corporates have conservatively de-geared and repaid loans in a high interest rate environment and conserved cash.

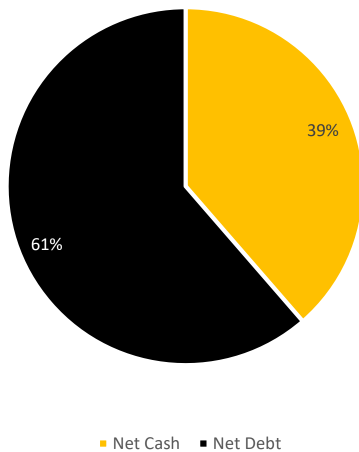
Fig 18: STI debt to EBIT ratio (x)



Source: Bloomberg, Maybank IBG Research

Indeed, of all the corporates listed on the SGX, nearly 40% have net cash balance sheets. This provides significant opportunities for M&A and capital return going forward, in our view.

Fig 19: SGX listings net cash to net debt balance sheet mix



Source: Bloomberg, Maybank IBG Research

4. Multi-year themes at play that should drive medium-term earnings, multiples

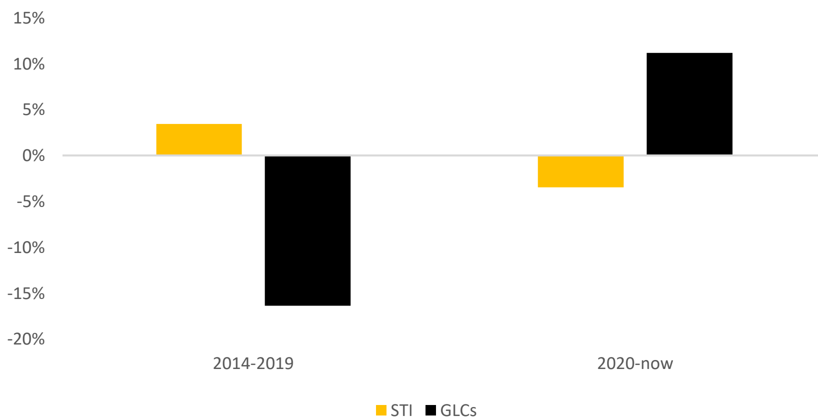
We believe Singapore could be a beneficiary of four key underlying themes that should support medium-term earnings and multiples. These include (a) GLC and corporate restructuring unlocking value, (b) increased allocations to sustainable investments, (c) more accretive M&A and deals from domestic companies going overseas and (d) boost to productivity and cost savings from new technologies such as GenAI, 5G and IoT.

4.1 GLC and corporate restructuring

Post 2020, there was an increase in restructuring activity among corporates – especially GLCs. This was largely catalysed by a focus on the need to improve ROICs and also to respond to changing market conditions brought about by the pandemic. Increasing penetration of digital technologies, the need to respond to realigning supply chains and develop comprehensive emission reduction and ESG strategies were among the key priorities.

As a result, GLCs such as Capitaland (unlisted), Sembcorp Industries, Keppel, SGX, and ST Engineering have undergone various stages of restructuring. The market has been generally receptive to these changes.

Fig 20: GLC* vs STI performance prior and after restructuring picked up pace



**Price performance of CLI (Capitaland prior to 17 Sep 21), SCI, Keppel, ST Eng, SGX*
Source: Bloomberg, Maybank IBG Research

This is evident in the share price performances of GLCs prior to and after restructuring. The aggregate performance of the key GLCs that started their restructuring journey of squeezing better ROICs show a 15% outperformance to the STI from 2020 onwards – the year restructuring momentum started to build up. In the 6 years prior to restructuring, these very same GLCs underperformed by 20%.

When drilling down to company level for SCI, between end-2018 to Dec 2023, the group has re-rated +254%. We estimate 75% of this re-rating was due to earnings expansion it hived off underperforming businesses and refocused on key growth segments such as alternative energy etc. The remaining 25% of the re-rating was from multiple-expansion, pointing to investors rewarding value unlocking restructuring efforts.

We believe there could be more such restructuring activity in the medium term.

Fig 21: Potential restructuring candidates in the medium-term

Stock	Ticker	Comments
Keppel Corp	KEP SP	Has sizable REIT management role together with large property development division. May face similar drivers to Capitaland restructuring, in our view
Frasers Property	FPL SP	Has sizable REIT management role together with large property development division. May face similar drivers to Capitaland restructuring, in our view
UOL	UOL SP	Has large property development exposure. But no REIT or PE fund. May have a lower compelling reason to restructure at this stage. Potential to focus on redeveloping existing assets
CitiDev	CIT SP	Sizable property development division. Underperforming overseas investments may drive a valuation discount to the group. This could be a catalyst for value unlocking
SingTel	ST SP	Already embarked on restructuring with Management targeting low double-digit ROIC by FY26E (FY23: 8%). The group expects to recycle up to SGD6bn of capital over the medium term through pairing down stakes in regional associates as well as monetising latest capabilities - such as selling 20% of its RDC business to private equity firm KKR.
Wilmar	WIL SP	The group has already separately listed its Chinese and Indian businesses in domestic exchanges, unlocking significant value. Now the parts are trading at a major premium to the Singapore listed whole. As a result, WIL may look to release more value from its franchises in Africa and SE Asia going forward.

Source: Maybank IBG Research

4.2 Increased allocations to sustainable investments

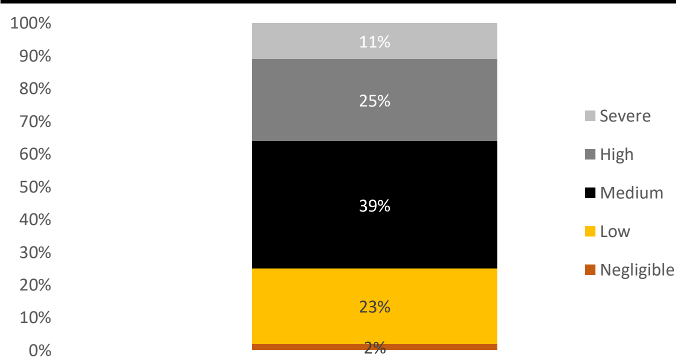
Institutional fund allocations based on ESG metrics is increasing. According to PwC, 39% of institutional investors found a net positive impact on their investment performance by integrating ESG.

Of course, this needs to be seen from the context that in 1H23, global sustainable fund net inflow declined by 62% YoY. High interest rates, inflation and global economic uncertainty was partly to blame. Yet overall sustainable assets under management have increased to USD2.8t in 1H23.

In our latest sustainability report (see ASEAN ESG focus improving, 1 Nov 23), we expect sustainable fund flows to turnaround in 2H23. Indeed, sustainable and green debt issuance has already showed signs of improving.

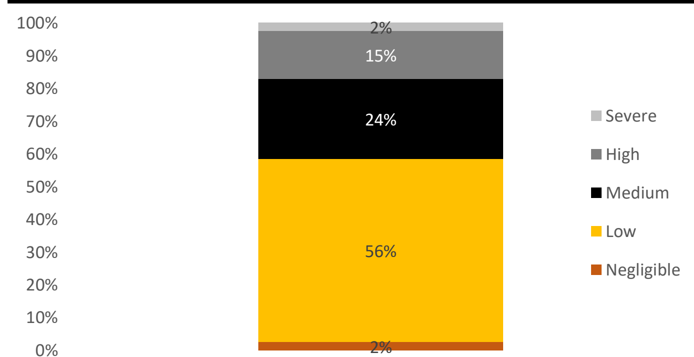
More importantly, our study of 174 ESG-linked indices managed by Morningstar show that 57% of such indices outperformed their comparable benchmarks year-to-November.

Fig 22: Sustainalytics global coverage ESG score distribution



Source: Sustainalytics, Maybank IBG Research

Fig 23: MIBG Singapore Sustainalytics ESG score distribution



Source: Sustainalytics, Maybank IBG Research

As a result, we think inflows to sustainable investment are set to structurally increase over the medium term. Allocation to Asia is relatively small. However, as a region that still has a growing carbon footprint and requires significant capital to transition to low carbon economies, sustainable investment weightings should see major expansion going forward, in our view.

Here, we believe Singapore offers a compelling entry point for building ESG exposure regionally. The regulatory and business-strategy drive to

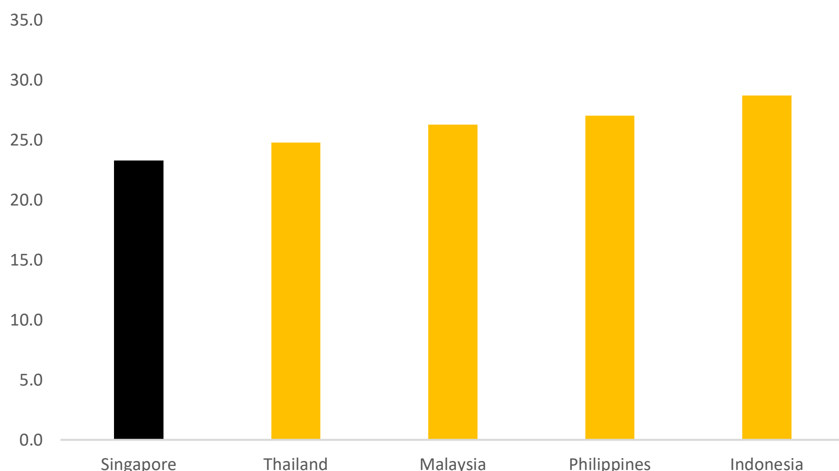
incorporate sustainability disclosure and align towards lower emissions have resulted in a corporate mix that is trending towards lower sustainability mix.

Under the Sustainalytics ESG scoring, 58% of MIBG's coverage universe falls under Low to Negligible risk categories. Only 25% of Sustainalytics' global coverage fall in to this category.

The prevalence of REITs, developers, financials and the technology sectors in Singapore and the lower representation of higher emission industries such as plantations, metals & mining, petrochemicals etc., is likely a key driver for this differential.

At the same time, from a regional context, Singapore's ESG risks is the lowest. We compare the Sustainalytics risk scores of the top-10 market cap components of regional indices. Here we see that Singapore has a score of 23.3, compared to a regional average of 26.0 (the lower the score, less the ESG risk).

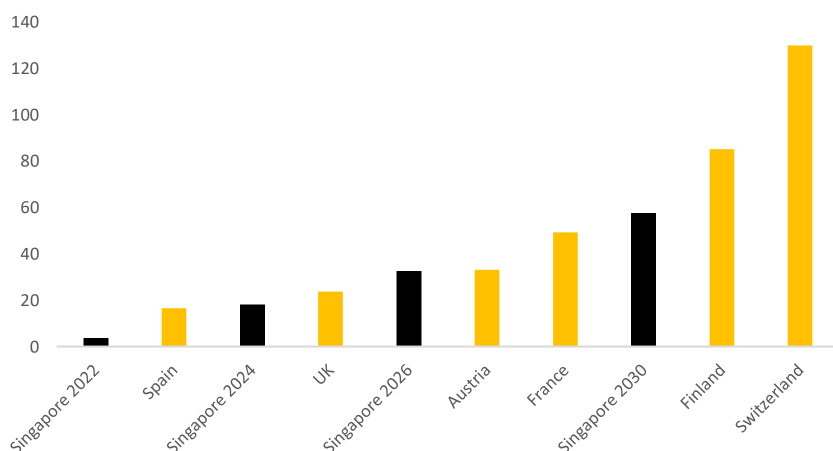
Fig 24: Average ESG scores of top-10 market cap components of regional indices



Source: Sustainalytics, Bloomberg, Maybank IBG Research

We believe the lower ESG risk profiles displayed by Singapore corporates could be a strategic advantage in attracting regional sustainable liquidity flows to Singapore. This could be a catalyst for higher earnings multiples in the medium term, we believe.

Fig 25: Current carbon taxes and Singapore trajectory (USD/tCO2e)



Source: NCCS, Tax Foundation Maybank IBG Research

Separately, Singapore's carbon pricing is set to increase materially following the Carbon Pricing (Amendment) Bill in November 2022. This raised the carbon pricing trajectory steeply to SGD25/ tCO2e by 2024 with a view of reaching SGD50-80 /tCO2e by 2030 from the current SGD5/tCO2e for facilities that directly emit at least 25,000 tCO2e per year.

While this may result in some pressure on margins in 2024E, we believe this could be a long-term sustainable advantage for Singapore corporates. They would be required to innovate and adapt to higher carbon pricing. Most ASEAN countries have now set clear Net Zero pathways. As a result, the regional adoption of higher carbon pricing would be a critical necessity for most governments to achieve their sustainability and transition goals. As these policies get rolled out, Singapore corporates would have a head-start in preserving margins and ROEs, in our view.

4.3 Increasing regional M&A from domestic corporates

Growth in ASEAN, excluding Singapore, is forecast to expand by 5.0% YoY in 2024E and a further 5.2% YoY in 2025E. This is a significantly higher pace of growth than Singapore's 2.2% YoY and 2.1% YoY for the same period.

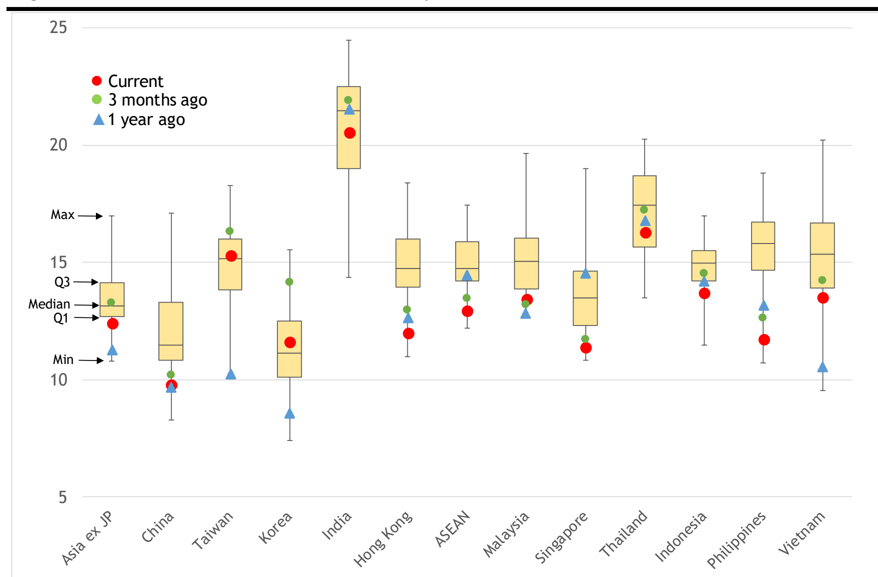
Fig 26: ASEAN and major economies GDP growth forecasts

	2021	2022	2023E	2024E	2025E
Indonesia	3.7	5.3	5.0	5.1	5.2
Malaysia	3.3	8.7	3.9	4.4	5.0
Philippines	5.7	7.6	5.8	6.5	6.2
Singapore	8.9	3.6	1.1	2.2	2.1
Thailand	1.5	2.6	2.3	3.6	3.8
Vietnam	2.6	8.0	4.8	5.8	6.2
ASEAN 5 (excl. SG)	**3.4**	**6.0**	**4.5**	**5.0**	**5.2**
ASEAN 6	**4.1**	**5.7**	**4.0**	**4.7**	**4.8**
US	5.8	1.9	2.2	1.0	1.8
EU	5.9	3.4	0.6	0.9	1.6
China	8.4	3.0	5.2	4.4	4.5

Source: CEIC, EUStat, Maybank IBG Research

Many ASEAN market valuations are also at deep discounts, especially Malaysia, Thailand and Indonesia. Yet these countries offer large consumer markets, demographic advantages and rapidly digitalizing infrastructure.

Fig 27: MSCI 12-month forward PE key markets



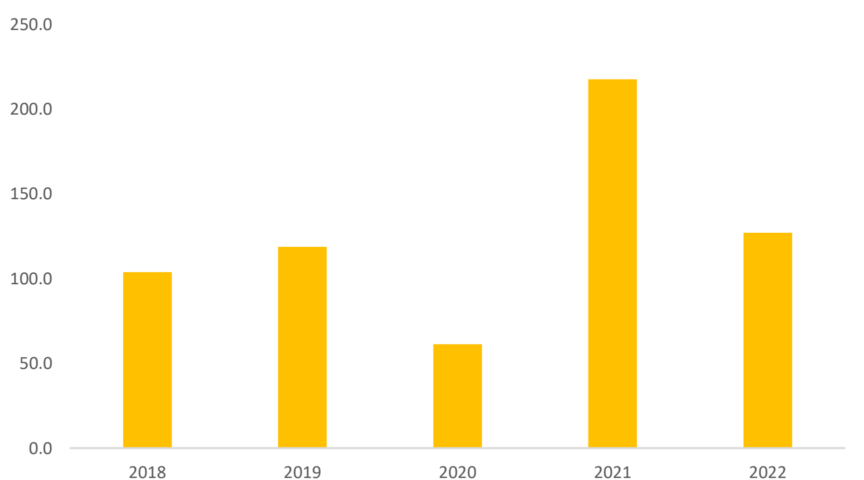
Source: FactSet, Maybank IBG Research

At the same time, ASEAN is fast becoming the epicentre for supply chain relocations as companies and countries adopt China+1 strategies due to geo-political influences and risk management needs. The region has seen its share of global foreign direct investment rise from just 6% in 2016 to 17% in 2022 as a result.

This momentum is likely to accelerate as China's growth trajectory is expected to slow going forward as the country restructures its property sector, regional government debt and implements 'common prosperity' goals.

Domestic Singapore companies should be key beneficiaries as they tap into regional growth. While Singapore corporates going overseas is not new, the convergence of low valuations, capital relocations and an appreciating SGD should boost regionalisation, in our view.

Fig 28: Outbound deals from Singapore (USDbn)



Source: Dealogic, Maybank IBG Research

In the 3 years leading up to the pandemic, outbound deals from Singapore to overseas totalled USD284bn. In the subsequent 2 years alone, this increased to USD345bn (+21%), despite increased movement restrictions and lockdowns by many countries.

To us, this implies that there is an increased appetite for buying growth overseas by Singapore corporates. Deals such as UOB buying Citigroup's (CP USD50.93, NR) ASEAN retail franchise or Raffles Medical buying Vietnam hospitals are clear examples of this trend, in our view.

We expect that, with potential downside risk to interest rates, more deals should be forthcoming. These transactions should drive accretive earnings and support medium-term valuations for Singapore corporates, we believe.

4.4 Convergence of GenAI, 5G, IoT driving efficiencies

Since the advent of OpenAI's ChatGPT generative AI model in 4Q22, the potential transformative power of artificial intelligence has been mainstreamed.

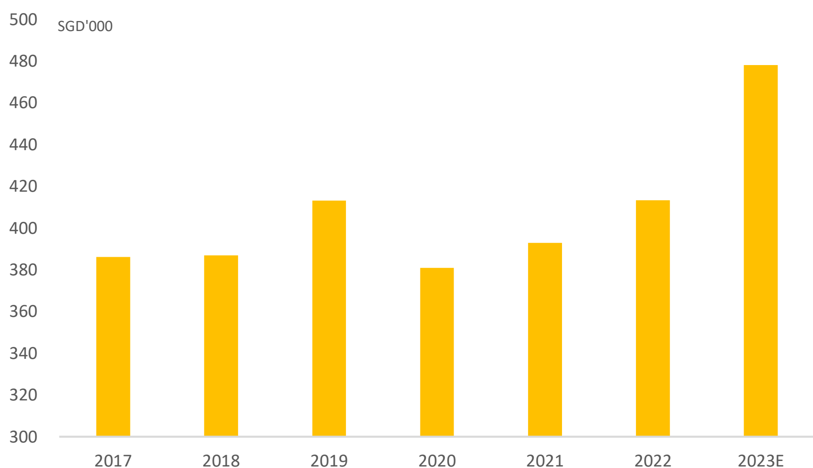
This is taking place concurrently as the adoption of Internet of Things (IoT) is growing across the region with rising demand for remote operations catalysed by wider network coverage and the rollout of commercial 5G. IoT spending in Asia Pacific is set to reach USD436b by 2026, according to IDC. IoT-based platforms and services, underpinned by 5G capabilities, would

make possible new use cases in the healthcare, automotive, banking and other sectors.

Examples such as Singtel's Paragon platform launched in Feb 2023 are allowing businesses to tap into its 5G network and MEC (multi-access edge compute) to deploy applications and platform solutions.

We believe the convergence of AI, IoT and 5G could be complementary and could give a material boost to operational efficiencies and cost savings across sectors.

Fig 29: Singapore banks net income per employee



Source: Company, Maybank IBG Research

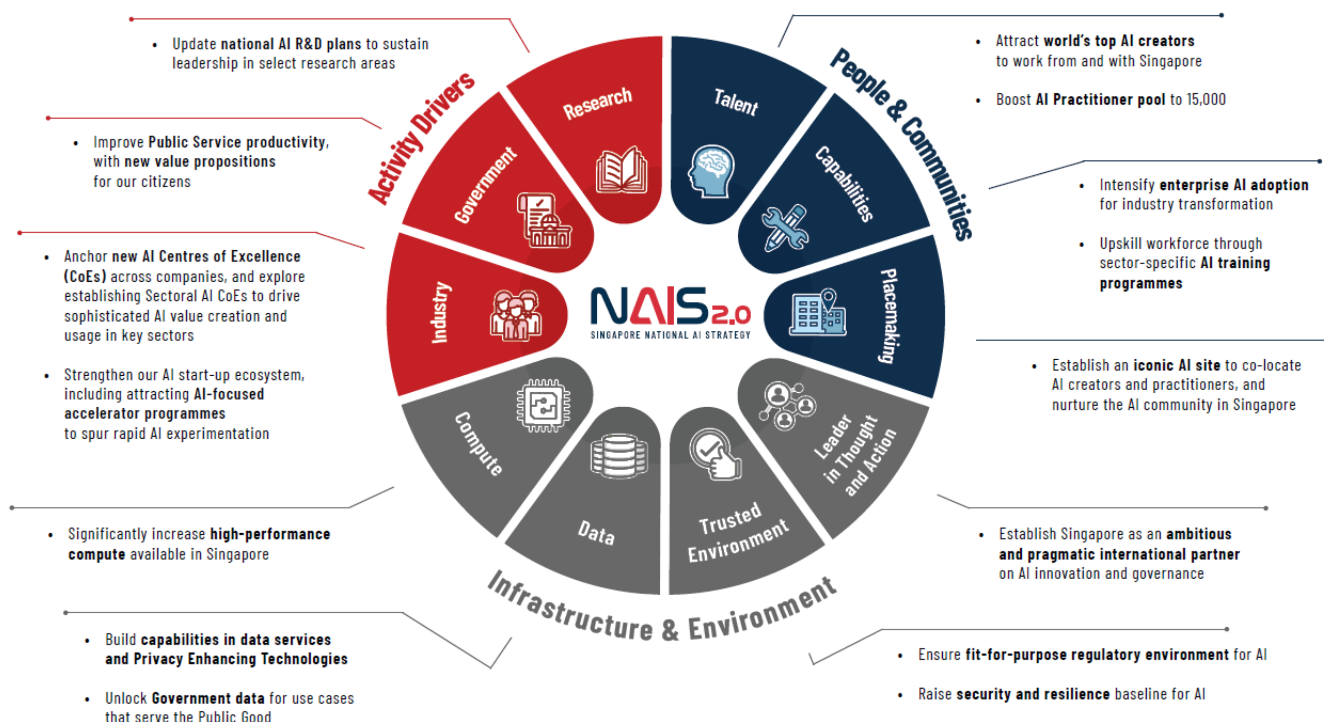
Indeed, early signs of this productivity boost is partially evident with the Singapore banks. As a sector that has been an early adopter of technology integration and AI, there has been 4% CAGR (2017-23E) improvement in income per employee. While higher interest rates have helped the banks to report income growth, the productivity improvements pre-date Fed rate hikes, we observe.

We believe similar trends should become evident in other sectors going forward.

From a regional perspective, we believe Singapore should have a strategic advantage in deploying AI and other enabling technologies.

Singapore has introduced a National AI Strategy since 2019, which has now been updated in 2023 and is focused on three broad objectives: mastering AI for national relevance, pooling resources globally and enhancing its capabilities, infrastructure and accelerating idea exchanges, according to the Smart Nations Office.

Fig 30: Singapore National AI strategy 2.0



Source: Smart Nation Office, Maybank IBG Research

We believe the combination of regulatory support, a clear national strategy and significant investments already made by critical sectors should provide Singapore a competitive advantage in harnessing AI. This should start to show through earnings and valuations in the medium term through new revenue opportunities, lower cost and higher productivity, in our view.

5. Sector Outlooks

Banks and Financials

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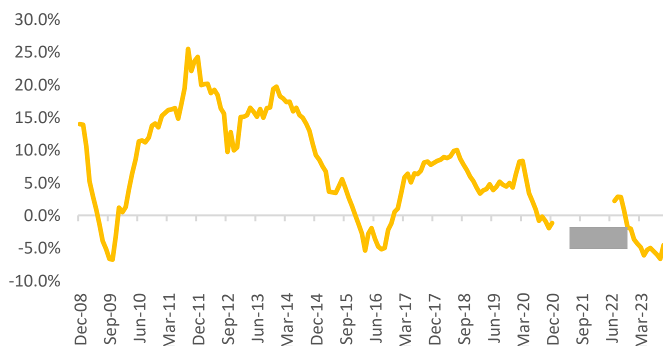
- **The sector has delivered strong earnings momentum thanks to rising net interest margins and low provisioning costs.**
- **The pace is likely to contract amidst falling interest rates and asset quality risks. Nevertheless, high dividend payouts should cushion downside valuation risks.**
- **Preferred pick: DBS given potential to defend NIMs from lower funding costs, upside risks of China turnaround and productivity gains from AI and tech investments.**

A strong 2023 with benign asset quality

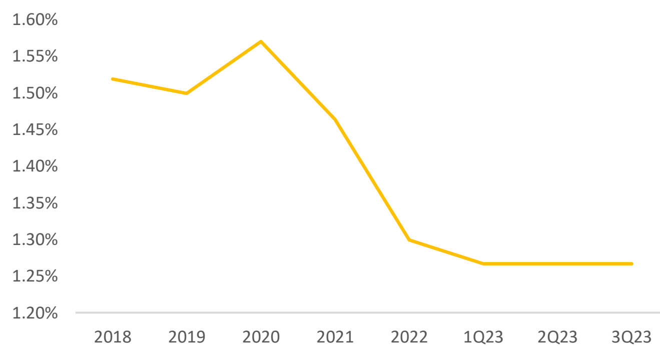
The sector delivered earnings ahead of expectations for three consecutive quarters YTD. This was driven by buoyant net interest margins (NIMs), where 9M23 expanded 46 bps YoY. The banks were able to price up their assets faster than the cost of funding. The strong flow of liquidity to the banking system (deposits +4.6% YTD Oct) kept deposit competition benign even as new digital challengers entered the fray. However, the high cost of funds restrained loan growth, which fell –4.6% YoY in Oct. Similarly, fee income growth also saw headwinds with wealth management fees stagnating as clients largely chose to sit on the sidelines and enjoy higher deposit rates without taking on riskier products. Overall, operating costs remained stable with sector 9M23 cost-to-income falling -4.6ppts YoY. A noteworthy development was the fact that asset quality continued to improve despite a high rate environment. NPLs fell from 1.3% in 4Q22 to 1.2% in 3Q23, with provisioning cost falling within guidance range.

Fig 31: Loan growth YoY (%)



**Jan 21-Jun 22 not available due to change of classification by MAS*
Source: MAS, Maybank IBG Research

Fig 32: Sector gross NPLs (%)



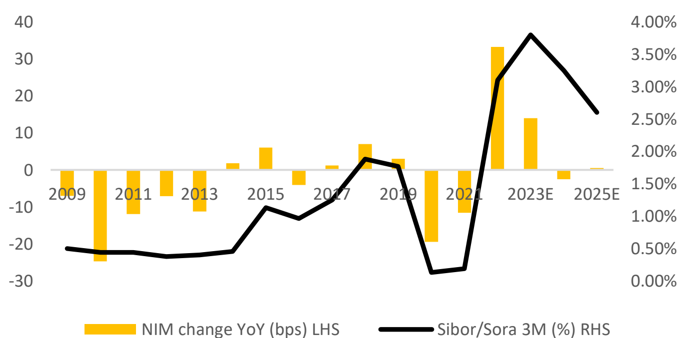
Source: Company, Maybank IBG Research

2024 might not see a repeat as rates fall. Yet dividends set to remain generous

A dovish Fed and heightened rate cut expectations in 2024E should be a downward inflection point for NIMs. We forecast NIMs to fall 2bps YoY with significant downside risk should funding costs continue to rise. Lower interest rates should spur loan growth (+3.1% YoY in 2024). However, this may not be enough to offset the fall in NIMs. Improved market conditions and activities could be a positive catalyst for non-interest income led by wealth management. This sector saw continued AUM inflows in 2023, giving it a large reserve of dry-powder that can be deployed to higher yielding and higher fee generating products as interest rates fall. A known-unknown is the pace of recovery of China and North Asia where 20-30% of sector income is originated. We think asset quality risks here remain heightened as well

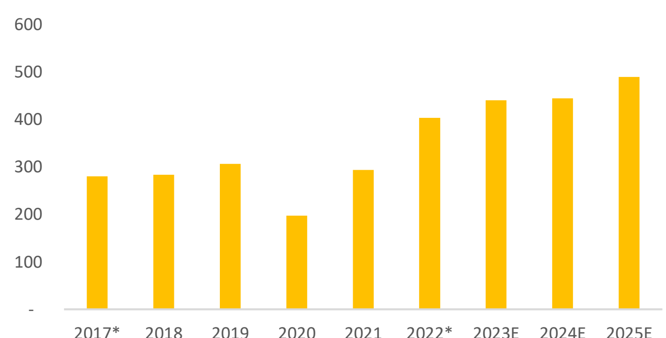
as uneven growth across SE Asia. We conservatively assume NPLs to tick up to 1.5% in 2024E (from 1.3% in 2023E) as a result. Overall, we expect earnings momentum in 2024E to fall -1.2% YoY, the first negative reading since 2020. The risks here are on the downside driven by falling NIMs and weak China. Nevertheless, we expect overall capital levels to remain robust – and CET1 could get an early boost from falling RWA with the implementation of Basel 4. Liquidity and balance sheet strength should also remain well supported. We also don't not expect any major M&A given the sector is still integrating deals done in the past 3 years. This should provide sufficient momentum for capital returns to shareholders, largely through dividends. This should provide downside support for valuations going forward in our view.

Fig 33: NIM change YoY vs. SORA



Source: Maybank IBG Research

Fig 34: Sector DPS (SGDcents)



**Includes special dividends*
Source: Maybank IBG Research

DBS top pick

Our preferred pick is DBS. While margins seem to have peaked, higher for longer rates should continue to support NII, while green-shoots in wealth management could boost NoII. A high base effect, slower China and global growth are likely to slow earnings momentum going forward. In a scenario where interest rate cuts happen sooner than expected, the group's large low-cost deposit franchise should be able to provide some defense for margin squeeze. Separately, given the IT infrastructure reliability issues DBS has faced in 2023, expect some cost escalations as it remediates the IT issues. However, its head start in IT and AI investment should provide medium-term cost offsets as well as new revenue opportunities. In the meantime, given strong capital levels, structurally higher ROEs going forward (average 15.9% 2023-25E), we expect dividends to remain well supported giving >5.6% yield.

Risks

Asset quality continues to be a major risk from slower China recovery as well as uneven regional recovery. At the same time, increased digitalization has opened up rising vulnerabilities to systems outages and cyber-security threats that can have a direct impact on profitability and capital ratios. While the competition from challenger digital banks has been mild so far, in a falling rate environment, competition risks are on the upside.

Gaming

- **Albeit late, the Chinese driven recovery in Singaporean gross gaming revenue (GGR) finally arrived in 3Q23.**
- **Going into 2024, we expect this recovery to consolidate as airline seat capacity from China is gradually restored.**
- **Our top pick is GENS as it is the sole proxy to this recovery.**

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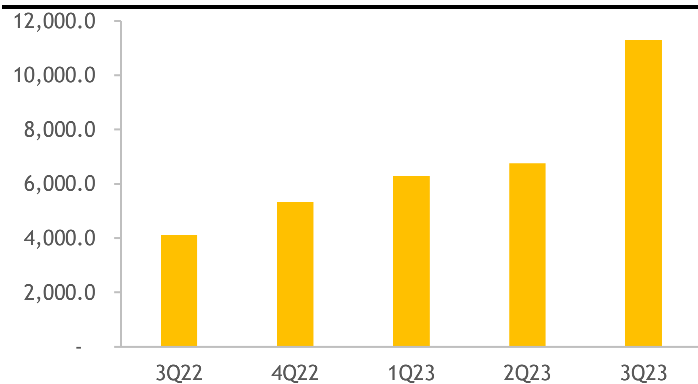
Post-Covid recovery bloomed late in 2H23

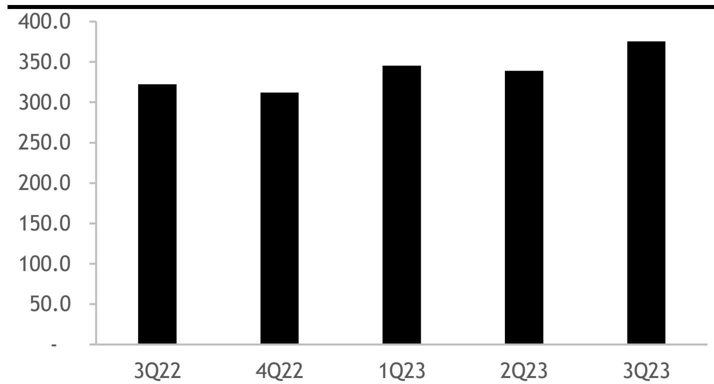
For GENS, Resorts World Sentosa's (RWS) 1Q23 EBITDA fell 22% QoQ although China reopened its border on 8 Jan 2023 due to Chinese tourists taking time to return to Singapore and Singaporeans travelling overseas en-masse during the Mar school holidays. RWS' 2Q23 EBITDA jumped 37% QoQ only due to a high-ish VIP win rate of 3.9%. 1H23 Chinese visitor arrivals to Singapore was subdued at c.20% of 1H19 levels. As the year progressed, things improved however. RWS 3Q23 VIP volume surged c.65% QoQ to SGD11.3b and RWS 3Q23 mass market GGR grew c.10% QoQ to SGD375m as Chinese visitors returned *en masse* to Singapore for the summer holidays. Both metrics were above pre-Covid levels. In fact, RWS 3Q23 VIP volume was the highest since 2Q15. These drove RWS 3Q23 EBITDA to SGD350.4m or 14% higher than the FY19A quarterly average EBITDA. On another note, the budget for 'RWS 2.0' has been raised by c.50% to SGD6.8b due to a combination of cost inflation and 'premium-isation' of the planned offerings but with a longer runway to completion (2031 vs. 2028 previously).

Fig 35: Estimated RWS VIP volume (SGDm)



Source: Maybank IBG Research

Fig 36: Estimates RWS mass market GGR (SGDm)

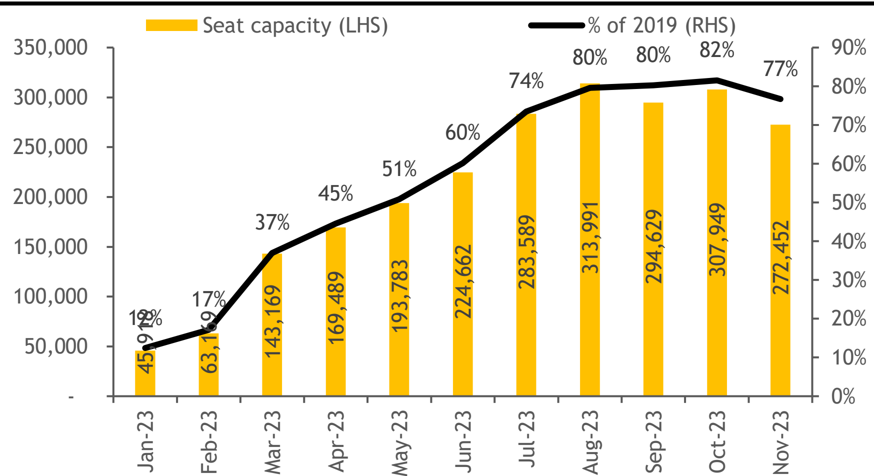


Source: Company, Maybank IBG Research

Recovery to consolidate in 2024; watch out for Thailand

For GENS' RWS, we expect operations to continue to improve as seat capacity from major source markets like China to Singapore continues to recover. In the long term, we expect RWS VIP volume and mass market GGR to exceed 2019 levels by c.20% (RWS 3Q23 VIP volume at 136% of FY19A quarterly average, RWS 3Q23 mass market GGR at 108% of FY19A quarterly average) thanks to a potent combination of more wealthy Singaporean citizens and permanent residents due to rising property prices and migration of more high net worth individuals. While we acknowledge that Thai IRs are more likely to be a threat to GENS than to GENM, we note from history that GENS is not averse to expanding overseas to partially stave of competition. Recall that GENS tried to expand into Jeju, South Korea until Nov 2016 and Yokohama, Japan until Sep 2021 in order to partially stave of competition from them. Thus, we do not discount the possibility that GENS may form a JV to bid for a Thai IR license should Thailand liberalise its casino industry.

Fig 37: Airline seat capacity from China to Singapore



Source: OAG, Maybank IBG Research

Maintain BUY on GENS

We have a BUY call and SGD1.21 DCF-TP on GENS. Singapore is one of the very few gambling jurisdictions that has seen its GGR exceed pre-Covid levels (the other being Las Vegas) and the only pure exposure to the Singaporean gaming industry is GENS. Marina Bay Sands is only one of the many casinos under the Las Vegas Sands (LVS US, USD45.34, Not Rated) stable.

Risks

(i) Full blown recession leading to subdued demand for gaming; (ii) higher casino entry levies for Singaporean citizens and permanent residents; (iii) smoking bans (partial or full); (iv) even harsher clampdown on cross border gaming (VIP and mass market) by China; and (v) more intense regional competition should more jurisdictions like Thailand liberalise their casino industries.

Healthcare

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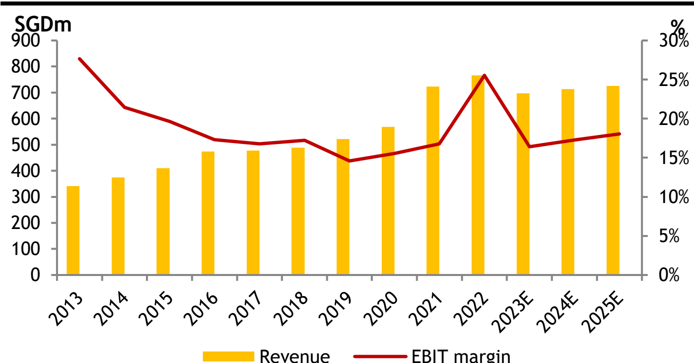
- **Slower-than-expected recovery in medical tourism and cessation of Covid activity hurt bottom lines.**
- **We think operational efficiency may improve via higher pricing and tighter cost control.**
- **Turnaround of overseas hospitals could help to drive potential re-rating of the sector.**

Coming off a high base

For 9M23, we saw the normalization of overall margins/profitability for the sector, exacerbated by negative operating leverage and inflationary pressures from rising manpower & utilities costs. At the same time, private healthcare players also recorded significantly lower pandemic-related revenues (such as PCR, vaccination). While RFMD's contract to manage the Transitional Care Facilities (TCF) at Changi Expo has been extended to Feb 2025, this will be mainly used by the government to provide stepped down care and is likely to be less profitable given its competitive tender process. In the case of QNM, its dental business revenue was partly impacted by the lower contribution stemming from the MYR depreciation at its Malaysian operations (accounted for c.7% of FY22 turnover).

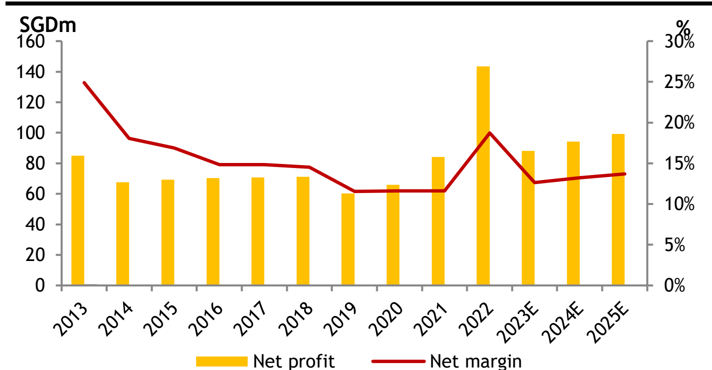
2023 was the first year when almost all countries, including China, fully reopened their borders. But given heightened competition and the relative strength of SGD vis-à-vis regional currencies, foreign patients have not recovered to pre-Covid levels, according to RFMD. Coupled with already high medical bills, elevated travel & accommodation expenses, this has somewhat dampened demand for high-end or premium healthcare services in Singapore. Not surprisingly, we note that some price-sensitive foreign patients are increasingly turning to cheaper destinations such as Malaysia and Thailand for treatment.

Fig 38: RFMD's revenue and EBIT margin



Source: Company, Maybank IBG Research

Fig 39: RFMD's net profit and NPM



Source: Company, Maybank IBG Research

Room to improve operating efficiencies

Looking ahead, we believe RFMD will try to progressively raise pricing to pass on some of its higher costs to patients although the group is generally not a price leader. To achieve better operating efficiencies, RFMD has also commenced right-sizing and rationalising its China operations by shifting its resources to specialties with higher demand, as well as deploying some of its nurses from Chongqing to its Shanghai hospital.

In Oct 2023, RFMD said that it will acquire a majority interest in American International Hospital (AIH) in Ho Chi Minh City for up to USD45.6m, to be funded via its internal resources. AIH is a 120-bed tertiary hospital in Ho Chi Minh City, fully equipped with five operating theatres and offers a full

range of specialists and essential diagnostics capabilities. We think the deal will enable RFMD to penetrate the growing demand for private healthcare services in Vietnam and augment its clinic operations there.

Meanwhile, QNM is exploring opportunities to develop another growth pillar via organic expansion of its dental business in Southeast Asia's burgeoning private dental healthcare market. To keep costs under control, management aims to use central purchasing as much as possible to cut wastage and ensure more just-in-time ordering so that it can reduce storage costs. Post-pandemic, its medical laboratory business, Acumen Diagnostic, is looking to develop a new range of tests & solutions for other medical purposes. These include tests for sepsis, identification of bacterial pathogens and their associated antimicrobial resistance in hospitalised pneumonia.

Fig 40: QNM's revenue and GPM

Source: Company, Maybank IBG Research

Fig 41: QNM's net profit and NPM

Source: Company, Maybank IBG Research

Overseas markets hold key to growth

Despite the current headwinds and limited stock catalysts in the near-term, we think the sector valuations look undemanding compared to regional peers. Backed by RFMD's strong balance sheet with a net cash position of SGD240m, the group recently embarked on share-buybacks by acquiring 5.4m shares in the open market at an average price of SGD1.06 (as at 11 Dec'23). For investors with a longer-time horizon, we are more sanguine on RFMD's expansion in China/Vietnam as it seeks to further improve its operational efficiency there. We expect to see a turnaround in earnings sometime in 2H24. Re-rating catalysts include better-than-expected margin recovery and a quicker turnaround in its overseas hospitals.

Risks

Key downside risks include i) slower-than-expected growth in overseas markets, ii) heightened competition in its core healthcare businesses, as well as iii) continued margin compression due to cessation of Covid-related revenues and higher opex such as staff costs, utilities, etc.

Industrials

- **Renewable players including Sembcorp and Keppel have increased their renewable capacity in recent years and this has created more value for their businesses.**
- **Energy consumption will accelerate in 2024 with momentum in renewable energy likely to continue, with combined solar and wind energy consumption growing by about 11% YoY. Many countries will also rush to build more hydrogen production capacity.**
- **A larger renewable portfolio could lift SCI's valuation in the long run and sustainable fuels for STE are a key part of the effort to address climate change in aviation.**

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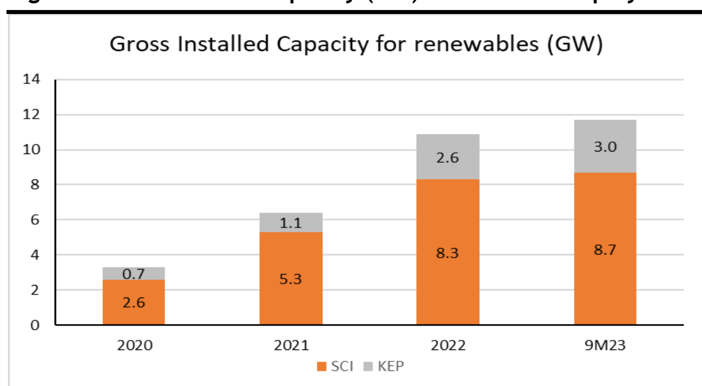
Great progress from "brown to green"

Sembcorp and Keppel infrastructure unveiled their strategic plans to support the global energy transition and sustainable development.

Keppel's infrastructure division has imported more than 260 GWh since the start of the 100 MW Lao PDR-Thailand-Malaysia-Singapore Power Integration Project in June 2022. Keppel is set to contribute about 35% of Singapore's 4GW low carbon electricity import target. In 9M23, the division obtained conditional approval from Singapore's Energy Market Authority to import another 1 GW of low-carbon electricity from Cambodia and 300 MW of solar power from Indonesia.

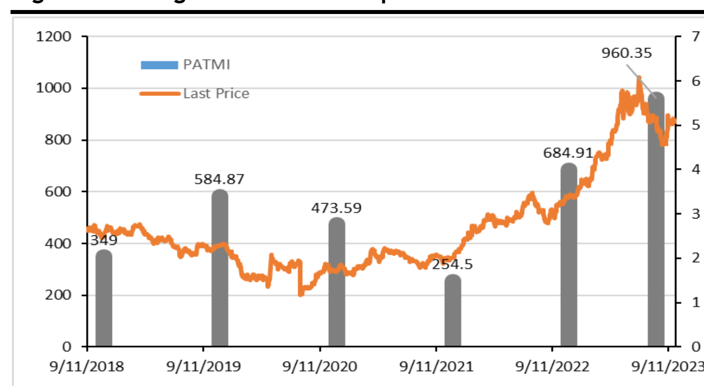
As at the end of Sep-23, SCI has delivered good results amidst a challenging macro environment. Gross renewables capacity has increased 4x, to 12.0GW, and now comprises 61% of Sembcorp's energy portfolio. Sembcorp has also achieved its 2025 GHG emissions intensity target ahead of time.

Fig 42: Gross Installed Capacity (GW) for renewable players



Source: Company data, Maybank IBG Research

Fig 43: Pivoting into renewables promotes value creation



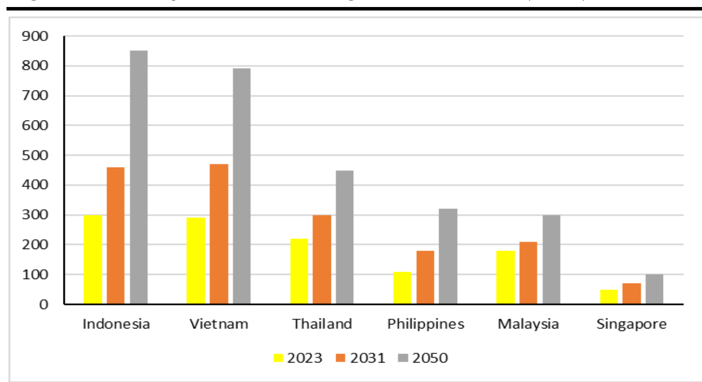
Source: Bloomberg, Company data, Maybank IBG Research

SCI's focus on its brown to green transformation strategy has been accompanied by an increase in net earnings and its share price. We expect earnings momentum in renewable energy to increase for the full year due to contributions from completed acquisitions.

Energy demand will get healthier in 2024

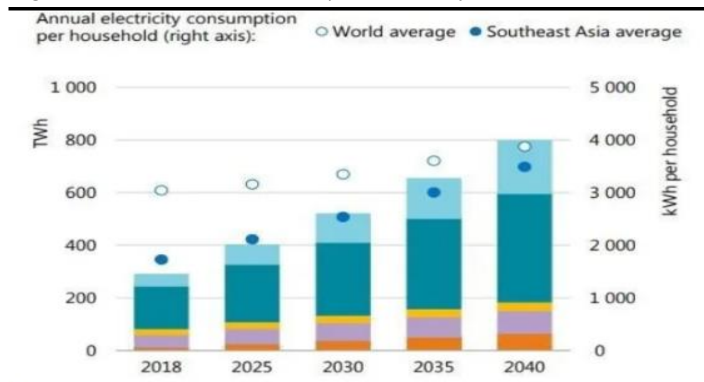
Plans to move away from coal generation have been a common feature in the region's climate strategies, but Southeast Asia's strong power demand growth will require adding more capacity on top of replacing coal. The post-pandemic recovery in energy consumption will see global energy demand accelerate to growth of 1.8% in 2024, up from just 1.2% in 2023. This will be supported by strong 3.1% demand growth in Asia, despite clouds over China's economic outlook. Gas and renewables will be increasingly called upon as financing options to build new coal plants become scarce.

Fig 44: ASEAN power demand growth outlook (TWh)



Source: Company, Maybank IBG Research

Fig 45: Residential electricity demand by end use



Source: Company, Maybank IBG Research

The need to strengthen energy security in the wake of the energy crisis, in addition to decarbonisation efforts, will drive many governments to push ahead with the deployment of renewable energy. Renewable energy will continue to expand quickly in 2024, with combined solar and wind energy consumption growing by about 11% YoY. Capacity additions are set to reach a record high of about 400 GW in 2023 and to grow even more in 2024.

Aiming to meet their hydrogen production goals, many countries around the world will rush to build more hydrogen production capacity in 2024. However, this will not be an easy task. Most hydrogen production currently is of grey hydrogen, which is made through fossil-fuel reforming. Rapid growth in clean hydrogen production will require massive expansion of electrolysis capacity, which will present many challenges. Producing hydrogen using electrolysis is mineral- and metal-intensive, sharing some of the main raw materials with the manufacturing of renewable energy technologies. So a rapid expansion of electrolyser production is likely to boost mineral and metals prices, which in turn will raise the cost of renewable energy generation. Furthermore, production of green hydrogen will compete with other sectors of the economy for scarce renewable energy output. Therefore, we do not expect much progress in clean hydrogen production in 2024.

Sembcorp and ST Engineering set to benefit

We expect both SCI and ST Engineering to benefit from diversifying their operations to include decarbonisation technologies and expanding renewable resources. Sembcorp is on track to achieve its target of 10GW of gross installed renewables capacity by 2025 and aims to grow its gross installed renewables capacity to 25GW by 2028. The group expects to spend SGD14b capex in 2024-28 of which 75% will be deployed for renewable, 10% for hydrogen assets and 10% for decarbonisation. We think that 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 to 25GW by 2028. These initiatives target to achieve at least 12% ROE and project a +25% 6-year CAGR for renewables backed 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 feedstock and is very similar in chemistry to traditional fossil 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 more costly than traditional fossil jet fuel, but as the technology matures, we expect costs to come off. 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.

Risks

Besides business and regulatory risks, we think higher than expected interest rates and the ability to retain talent are two key risk factors in the success of strategy execution in the energy market. Continued disruption to energy supplies would be another key risk. Global Risk Report 2023 respondents rank geo-economic confrontation as a top-three risk over the next two years and more than half expect the next ten years to be marked by persistent crises or multiple shocks, rather than a return to relative stability. The attack on the Nord Stream 2 pipeline, along with Russia's repeated targeting of Ukraine's energy grid, risks normalising the destruction of energy infrastructure as part of conflicts.

Internet and Telecom

- **Globally, 50% of the companies we track have reported positive net income with most of them achieving adjusted EBITDA breakeven and positive net cashflows.**
- **By the start of 2023, close to 200 telcos had rolled out 5G networks, and several more were set to follow in the subsequent 12 months. 5G will become the leading smartphone connection type in 2025, at just over 50% of total mobile users.**
- **Singtel is set to benefit from the 5G boost, investing and provisioning private 5G networks for enterprises.**

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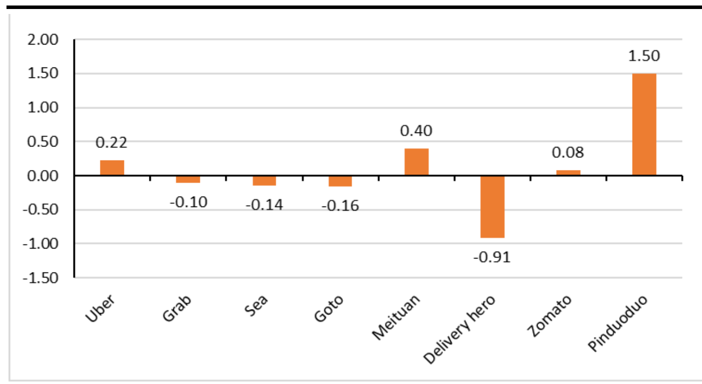
Achieving positive net income is no longer a dream

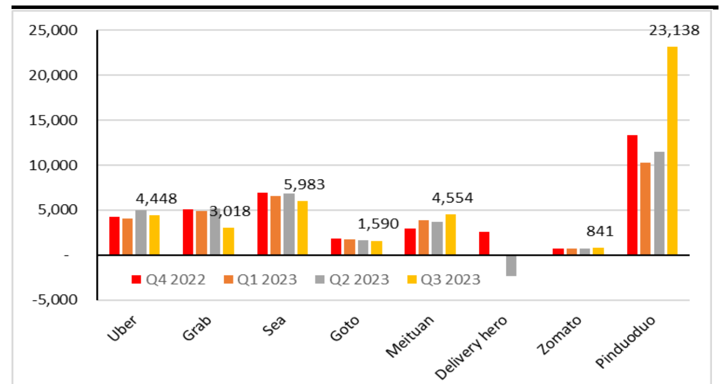
In recent years, driven by investor pressure and macroeconomic uncertainty, many tech platform companies have pivoted from growth to profitability. Today many platforms have attained profitability (or are about to), but they will now have to deliver growth again in a market where hypergrowth is a thing of the past, and competition is heating up for many.

Fig 46: Net income of platform companies in Q3FY23 (USD'b)



Source: Company data, Maybank IBG Research

Fig 47: Net cash of platform companies in 4Q22 (USD'm)



Source: Maybank IBG Research

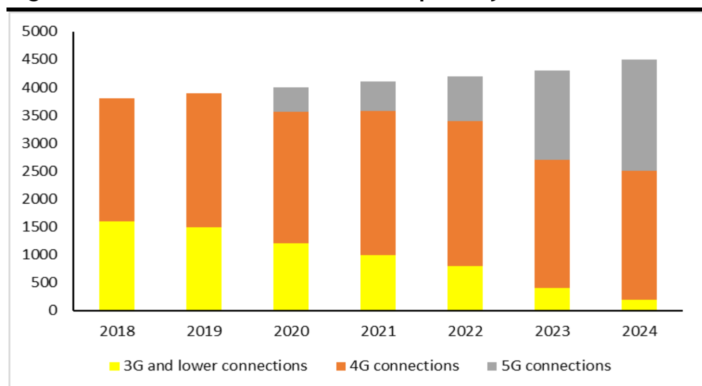
In 3Q23, 4 out of 8 platform companies we monitor reported positive net income with most very close to achieving adjusted EBITDA breakeven. Pinduoduo is way ahead of others in net income, even with its aggressive push of Temu across the world. Many of these companies have devoted significant efforts to attain profitability.

Even when looking at net cash, most companies are still in healthy cash positions, suggesting no upcoming liquidity challenges. Delivery Hero is the only one which has a negative net cash position. Its recent raise of convertibles in Feb 2023 to repay an earlier debt obligation gives the company enough time to deliver profitability.

The 5G wave

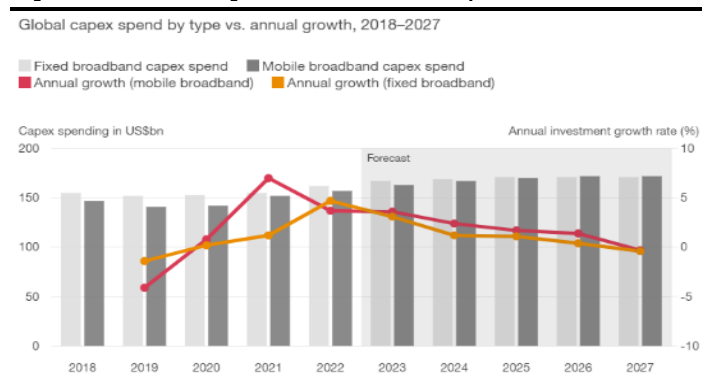
Given the rich array of technologies now available or in the pipeline, the future is looking increasingly diverse in terms of network choices for telcos and the customers they serve. By the start of 2023, close to 200 telcos had rolled out 5G networks, and several more were set to follow in the subsequent 12 months. 5G will become the leading smartphone connection type in 2025, at just over 50% of the total — and is forecast to rise to more than two-thirds in 2027 (see chart below). Fibre deployment is continuing to pick up steam, but still has a lot more ground to cover. Open radio access networks (Open RAN) — which focus on boosting interoperability among devices and providers — remain a niche technology, but one in which some notable initiatives are underway.

Fig 48: Global 5G connections will top 2b by 2024



Source: Omdia, Maybank IBG research

Fig 49: The rate of growth in network capex could decline



Source: Omdia, PwC Global Telecom Outlook

Looking ahead, however, we expect the growth rate in both fixed broadband and mobile broadband investment to decline every year through 2027. Substantially higher inflation and interest rates are instilling greater caution in capital spending. However, the continued high level of investment intensity will put ongoing pressure on telcos' financing and debt levels, sustaining their focus on improving operational efficiency, boosting monetisation and controlling costs. Singtel has built and launched 5G standalone networks with excess capacity to serve the rapidly growing data centre and cloud computing markets. Still others are seeking to gain economies of scale and synergies through mergers that enable them to pool resources and share the burden of investing in the integrated and scalable 5G networks that customers need. For instance, Starhub and M1 built a consortium in Nov 2021 to expand and enhance 5G coverage and services for Singapore consumers, enterprises and government clients.

Singtel is set to benefit from the massive 5G rollout

Singtel's 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.

Given the country's strong mobile take-up; its young, tech-savvy population; and the relative lack of available fixed broadband infrastructure, the rollout of 5G in India is opening the way for a surge in service development and innovation. Given the potential for 300m-350m 5G subscribers in India by 2026, Bharti Airtel (an associate of Singtel) has an incentive to build a thriving ecosystem on its networks, helping to boost subscriber stickiness and average revenue per user (ARPU).

Telcos also have major opportunities to provide fixed access networks to residents and small businesses (see chart above). There are also opportunities to provide 5G private networks for business customers in a variety of industries.

Singtel launched Singtel Paragon in Feb-23, a platform to allow local businesses to tap into Singtel's 5G network and MEC (multi-access edge compute) to deploy applications and platform solutions. One key feature for Paragon will be its app marketplace where customers will have access to Singtel's and its partner's 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 solutions for example. Customers can choose to have a private instance for their own apps for their staff to access their proprietary apps. We believe that strong enterprise interest in these use cases will increasingly translate into revenues. We think that Singtel will roll Paragon out to partner telcos in the region so customers will have access to multiple markets for their Paragon based

solutions which will, in turn, capture new streams of high revenue digital services in the region.

Risks

In our opinion, the tech battle will continue between the US and China in areas including AI, chips and quantum technologies. Current export controls and restrictions, in both the US and China, are open-ended to ensure that the market is not too disrupted. But with the US using national security as its main rationale, it is unclear how far it is willing to go in terms of restrictions. It is also unclear how far the Chinese will retaliate, and how other countries will react.

Plantation

- **Compared to 2022, 2023 was a relatively muted year for CPO prices. The much hyped El Nino failed to inflict much pain on palm oil as well as oilseeds output thus far in the Northern Hemisphere.**
- **2024 CPO price trend will broadly follow the trend of 2023. But the market is monitoring ongoing El Nino that has delayed soybean planting in Brazil. A crop failure may lead to a spike in CPO prices.**
- **Our preferred BUYs: First Resources and Bumitama Agri.**

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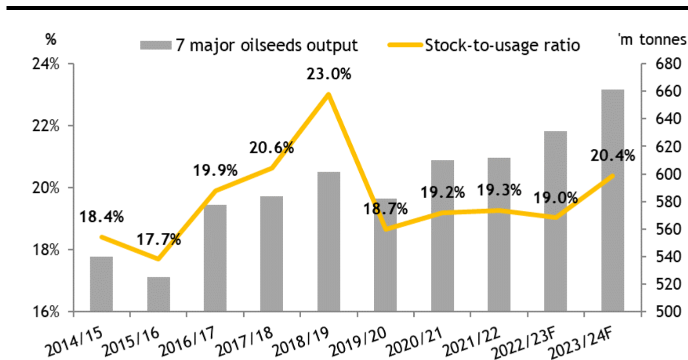
2023: A year dictated by weather transition

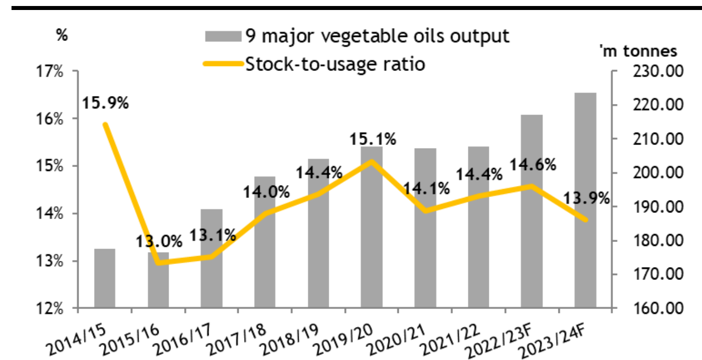
After 3 long years, La Nina finally came to an end in early 2023 but it still managed to leave a big dent on Argentina's soybean crops in the 2022/23 planting season at its tail end. Not long after La Nina ended, El Nino was forecasted to make a return. El Nino caused an initial scare in the US soybean planting season in 2022/23 as dry conditions in June drove soybean and soybean oil prices higher. Prices soon retraced in 3Q23 when beneficial rainfall returned. Over at the oil palm producing region, after an unusually slow production start in 2023 owing to biological tree rest and shortage of skilled harvesters in Malaysia, CPO production recovered strongly in 2H23. The ample palm oil supply however coincided with large supplies of sunflower oil emanating from Russia and Ukraine (despite the end of the UN-brokered Black Sea grain corridor agreement in July 2023). On the demand side, hope of strong demand from China reopening failed to materialise. The US Fed's aggressive rate hikes in 2023 and the ensuing collapse of several banks stoked global recessionary fears. Globally, demand for palm oil in 2023 was also partly dampened as many countries remained dependent on financial assistance from institutions such as the IMF and World Bank.

Fig 50: 7 major oilseeds' output and stock-to-usage ratio



Sources: USDA, Maybank IBG Research

Fig 51: 9 major vegetable oils' output and stock-to-usage ratio



Sources: USDA, Maybank IBG Research

2024: Potentially another range-bound year

USDA, in its latest November 2023 issue, forecasts the stock-to-usage ratio (SUR) of CPO to dip to 20.5% for 2023/24F (2022/23F: 22.8%; below its 5-yr historical average of 21.7%) as incremental consumption outpaces incremental output. In turn, this will lead to lower SUR for 9 vegetable oils at 13.9% for 2023/24F (2022/23F: 14.6%); below the 5-yr average of 14.2%. While USDA forecasts vegetable oils supplies to be relatively tighter at the end of 2023/24F, the global 7 oilseeds' SUR is however projected to be relatively ample at 20.4% (2022/23F: 19.0%), higher than its 5-yr average of 19.8%. The forecasted data is premised on record oilseeds production in 2023/24F.

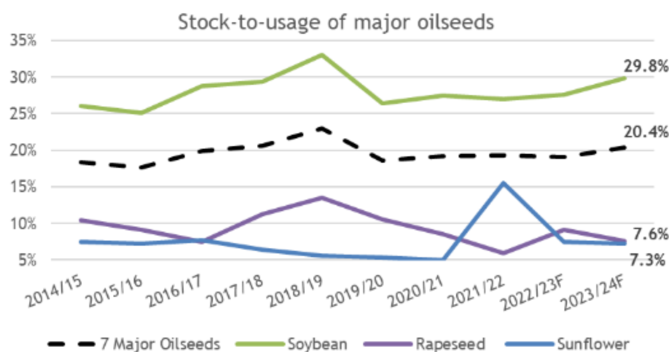
We are keeping our CPO ASP forecast of MYR3,700/t for 2024E (2023E: MYR3,800/t) premised on (a) good South American soybean harvest, and (b) lower YoY palm oil cost. In terms of price trend, CPO prices should be off to a good start in 1Q24 owing to a seasonally low output cycle.

Key things to watch for in 2024:

a) Weather developments. There is still much uncertainty about the anticipated record oilseed output in 2023/24F as the ongoing El Nino is only projected to end sometime in early-2024. If unfavourable weather conditions continue in Brazil in the next two months, it could send soybean prices higher which should benefit CPO prices indirectly.

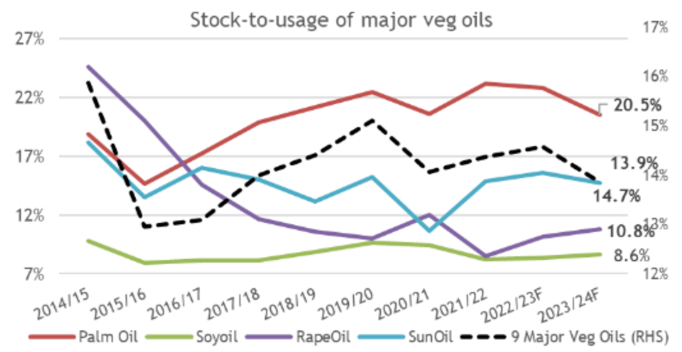
b) Recessionary fears linger. The effects of high US interest rates, the wars in Russia-Ukraine and the Middle East, and the financial health of many countries pose much uncertainty for global demand. Weaker-than-expected demand will lead to higher-than-expected stockpiles, dragging down CPO prices.

Fig 52: Stock-to-usage ratios of selected and 7 major oilseeds



Sources: USDA, Maybank IBG Research

Fig 53: Stock-to-usage ratios of selected and 9 major veg oils



Sources: USDA, Maybank IBG Research

Stock picks

Our preferred BUYs are First Resources and Bumitama Agri. Both are among the lowest cost CPO producers in the world. FR, the larger market cap of the two, presently trades at high single-digit PER and offers >5% dividend yield, supported by its net cash position and estimated dividend payout ratio of c.50%. As for BAL, it trades at mid-single-digit PER, and offers >7% dividend yields (based on estimated dividend payout ratio of 40%). BAL is projected to be in a net cash position by end-2023.

Risks

Upside risks: (i) Weaker-than-expected production of palm oil and other vegetable oils; (ii) Brent crude oil price rising closer to USD150/bbl; (iii) Weather anomalies at major palm oil and oilseed producing regions; (iv) Unfriendly government policies in exporting countries; and (v) Escalation of geopolitical tensions in Russia-Ukraine and/or the Middle East.

Downside risks: (i) Reversal of Brent crude oil price to sharply <USD80/bbl; (ii) Negative policies imposed by importing and/or exporting countries; (iii) Global demand turns out to be weaker than expected on demand destruction and/or global recession; (iv) Weaker competing oil prices (like soybean and rapeseed); and (v) Banking crisis in the West extending into a global crisis.

Real Estate

- **Despite interest rate cuts not materializing, a late-year rally premised on Fed signaling rate cuts in 2024, resulted in flat sector performance. In line with expectations, industrial REITs outperformed while the China reopening theme underwhelmed.**
- **Investors have to embrace volatility with an uncertain macro outlook. Without deep rate cuts, repricing of borrowing and higher operating expenses will weigh on distribution. Asset values, especially overseas ones, are yet to find a floor. M&A and opportunistic transactions are likely as cap rates widen and funding cost can be underwritten with more certainty.**
- **We recommend a barbell comprising of liquid large caps like CICT, CLAR and high yielding LREIT.**

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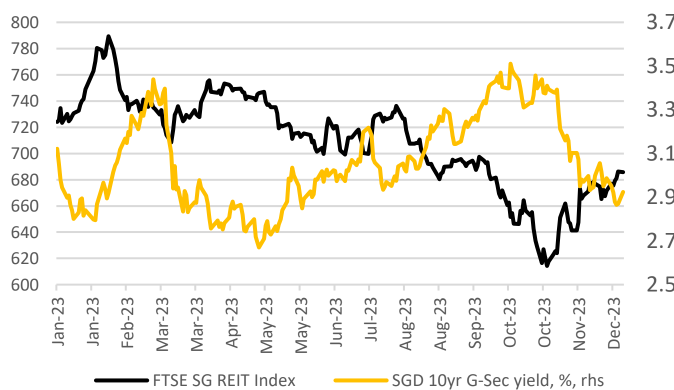
Resilient operations eroded by higher funding costs

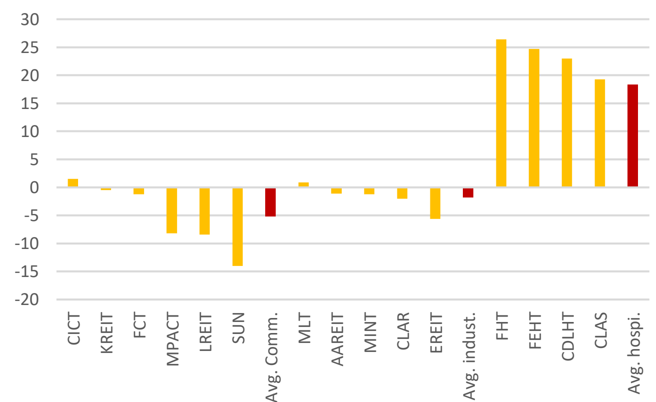
Net property income for REITs under coverage grew through the year, led by positive rental reversions, flat-to-higher occupancy and low-base effects, especially for hotel REITs. However, ballooning borrowing costs eroded operational gains resulting in lower distributions. Expectation of rate cuts didn't materialize and the sector traded in line with the 10-year yield. Notwithstanding subdued tourist arrivals from China, hotel rooms rates surprised on the upside in the recent quarter. Weak economy and high inflation impacted retail sales. However, REITs have managed to report mid-single digit retail rent reversion. Industrials outperformed in line with expectation. On the negative side, margins negatively surprised across sub-sectors while occupancy is softening for some of the industrial REITs.

Fig 54: SREIT Index and SGD10 year yield



Source: Maybank IBG Research, FactSet

Fig 55: YoY DPU change for latest reported period, %



Source: Maybank IBG Research

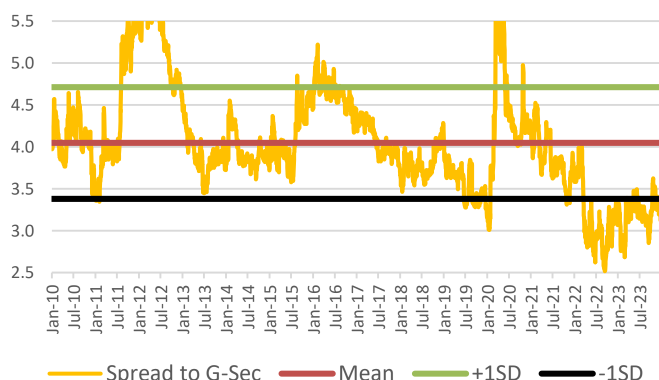
Staying selective and tactical

Without deep rate cuts, repricing of borrowing and higher operating expenses will weigh on distribution. If capital markets remain challenging, it remains to be seen if sector decides to pre-emptively increase retained distributions due to elevated working capital needs. Asset values, especially overseas ones, are yet to find a floor. Focus will continue to be on capital recycling. That said, widening cap rates and stable funding conditions may lead to more M&A's and opportunistic acquisitions.

We turn sector agnostic as industrial is well owned and supply pressure kicks in. Pandemic-induced low base effects and reopening momentum has dissipated for retail and hospitality, while office grapples with hybrid work. Firmer growth in China can provide positive surprise for hospitality and city-centre retail while one needs to be watchful of supply for the industrial

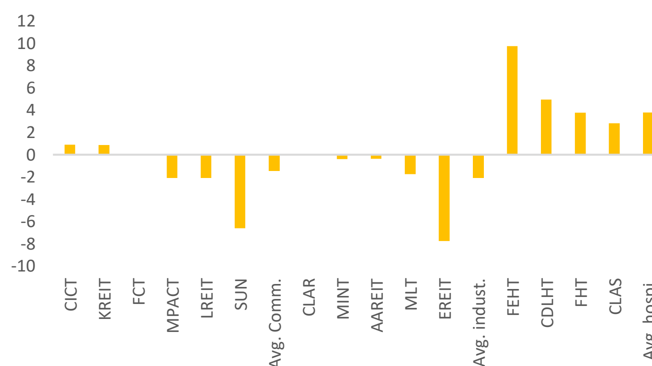
sector. A soft landing scenario can reignite the sector and REITs with a robust acquisition pipeline are likely to lead the next cycle.

Fig 56: SREIT Index Div. yield spread vs. SGD 10yr. G-Sec yield



Source: Maybank IBG Research, FactSet

Fig 57: Average DPU forecast for next 2 years, %



Source: Maybank IBG Research, FactSet

Stock picks and why

After the recent rally, valuations are stretched but CICT and CLAR provide better risk-adjusted exposure to navigate a volatile year, in our view. The names offer exposure to the industrial sector and Singapore commercial sector, are well-diversified and supported by strong sponsors. Small-mid cap high yielding LREIT is the preferred beta plays for the sector on any sharp retracement of the 10-year yield and deep rate cut. We have left our estimates and TPs unchanged for the upcoming results but assuming risk-free rates don't move, we foresee 10% upside to target prices on average as 10-year yields are down 50bps from our current inputs.

Risks

Sharper-than-expected asset devaluation, reacceleration of inflation, economic hard landing.

Technology

- **2023 was a tough year with lower demand and a paring down of inventory despite benefiting from supply chain diversification out of China.**
- **A better 2024 for Tech with inventory levels normalizing and demand poised to increase**
- **Top picks are Frencken and Venture Corporation.**

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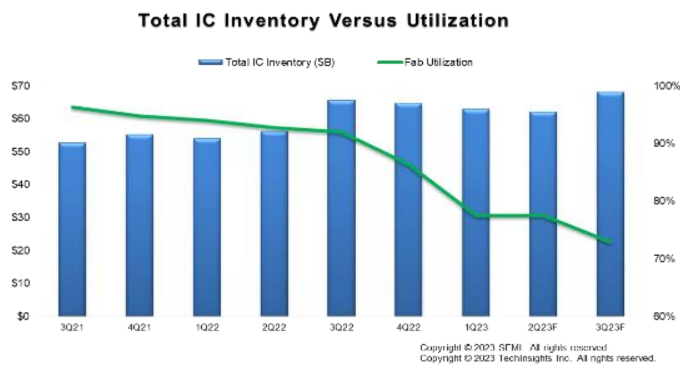
FY23: a year of normalisation

2023 was a tough year for most Tech manufacturers due to a drop in demand from the peak demand surge during Covid-19. In addition, Covid-19 lockdowns caused supply chain issues which resulted in most companies stockpiling their inventories to much higher levels, adding to the surge in demand which faltered after the reopening. As a result, 2023 has been a year of normalization with companies paring their inventory levels and ordering much less than in 2021-22. In 2023, we have also seen supply chain diversification out of China, especially for goods shipped to Europe and the US. Malaysia has since became a hotspot for manufacturers, along with Vietnam and India. On the semi-con space, Penang has benefited greatly with many new factories from global MNCs in the semi-con space being set up in the past 2 years. This has also resulted in many listed Singapore manufacturers with a manufacturing footprint in Malaysia benefiting from new customers and expanding their capacity. In 3Q23, signs of bottoming were observed with several companies reporting better revenue and profits QoQ and guiding for a better 2024. We believe that 2023 will likely have bottomed out for most manufacturers and 2024 points to a much better year if there is no economic slowdown or occurrence of recession.

Fig 58: IC sales

Source: SEMI, Tech insights

Fig 59: IC inventory vs utilization



Source: SEMI, Tech insights

According to SEMI, market indicators point to the semiconductor industry bottoming at the end of the first half of 2023, and the industry has since started a recovery, setting the stage for continued growth in 2024. All segments are projected to log YoY increases in 2024, with electronics sales surpassing their 2022 peaks.

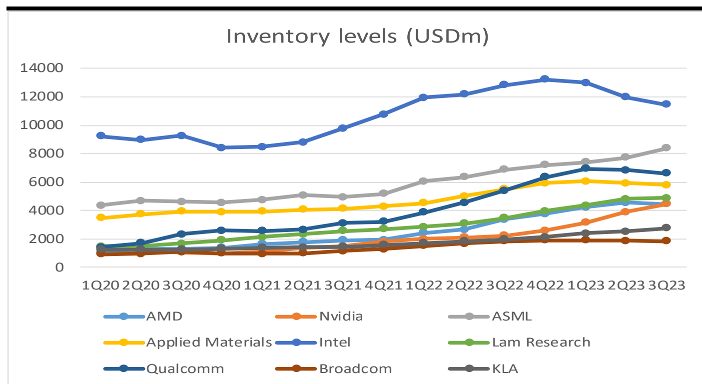
A rebound in FY24E led up increase demand + supply chain diversification.

We expect a rebound in orders in 2024 but maybe not as high as levels seen during the Covid-19, especially for the semi-con sector. We expect SEA manufacturers to continue to benefit from the diversification of supply chains out of China and have already seen many local players secure more market share with existing customers and gain new customers. We believe that this trend will likely continue and the ramp up of these new customers will happen in 2H24-2026.

Next, inventories have started normalizing to a level where more orders can be placed and forward guidance across the stocks we cover as well as the key industry players have also improved. Fig 60 shows inventory levels across the key global semi-con industry player decreasing from a peak in 1Q23 expect for a few outliers like ASML, AMD and Nvidia which need to stock up on inventory due to increased demand while Fig 61 also shows inventory levels for local listed manufacturers normalizing but still remaining at high levels as they prepare for more production in with several new product introductions being lined up. Key data points to look out for remain the outlooks of key industry players as well as any escalation of trade sanctions between China and the US on the semi-conductor front. Also, a slowdown in the economy will also result in less end-demand which may potentially lead to lower orders and this would also be a risk for the sector.

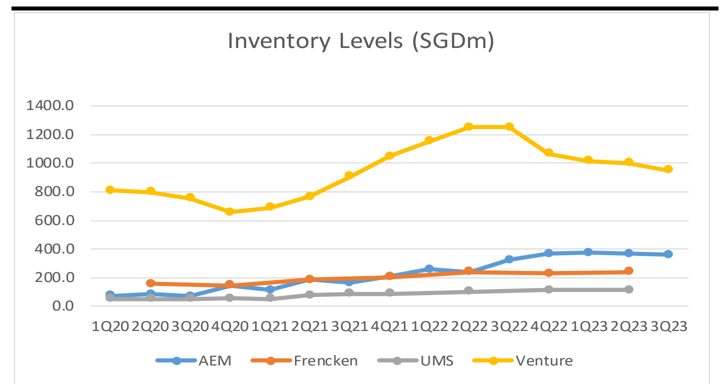
However, we do believe that 2023 is likely the bottom and signs are pointing toward a more positive 2024. International Data Corporation (IDC) has upgraded its Semiconductor Market Outlook by calling a bottom and return to growth that accelerates next year. IDC raised its Sep 2023 revenue outlook from USD518.8bn to USD526.5Bn. Revenue expectations for 2024 were also raised from USD625.9bn to USD632.8bn as IDC believes the US market will remain resilient from a demand standpoint and China will begin recovering by 2H24.

Fig 60: Inventory levels for key semi-con players



Source: Maybank IBG Research

Fig 61: Inventory levels for local listed players



Source: Maybank IBG Research

Our Top Picks are Frencken and Venture Corp

Frencken's semicon segment, which is crucial for its overall financial performance, bottomed in 1Q23 with management guiding for better 2H23 semi-con revenue than 1H23. In addition, it is also assisting its key customer in Europe to shift production to Malaysia which we believe should see Frencken as a key beneficiary. We believe that its other key customer inventory in SEA has depleted to an acceptable level and it has ordered more as seen in 3Q23. The automotive segment is also expected to pick up strongly in the next few years due to some new product innovations (NPI) in the works in the EV space. As a result, Frencken should also enjoy a ramp up in its Malaysia and Singapore factory utilisation in 2H24. All in all, FY23 should be the 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.

Venture already has a strong track record and is expanding its production in Malaysia which should 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 should likely be the bottom as management revealed that certain New Product Introductions (NPIs) 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.

Risks

Key risks remain geopolitical tensions, especially between the US and China. Any global conflicts could also hinder economic growth which will likely lead to softer demand. In addition, further interest rate hikes could also derail the economy.

Transport

- **Strong demand for air travel boosted airline profits but yields are likely to decline going forward.**
- **Land transport should extend its recovery into 2024 with a contractual indexation mechanism in place.**
- **ComfortDelGro is our preferred stock pick in the sector given its more sustainable margins and growth**

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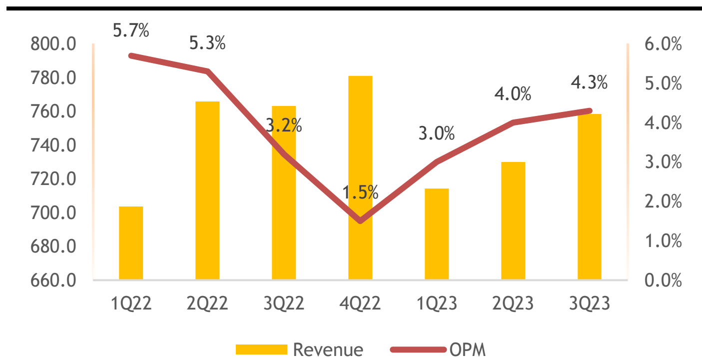
Aviation accelerates in 2023

Despite a slow start to the year, CD posted steady sequential growth in 2Q/3Q23, underpinned by i) margin recovery in its Public Transport, ii) better taxi earnings after the introduction of the SGD0.70 platform fee in Jul 2023, and 3) lower taxi rental discounts in China after resumption of activity post-Covid reopening. Notably, its UK operations also swung into positive operating profit in 3Q23 at SGD6.1m (1H23: -SGD5.8m, 2H22: -SGD15.4m). As a recap, CD gave its London Metroline bus drivers an 11% pay raise, with a 10% increase in back pay in Dec 2022, to call off strike action. With contractual indexation of service fees, the higher costs are gradually being passed on to the UK government (with c.30% remaining). In Singapore, the Public Transport Council revealed a fare hike of 7.3%, effective 23 Dec'23, which should help to mitigate the higher opex.

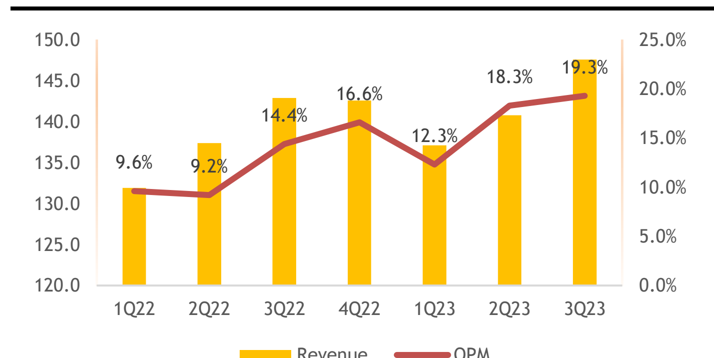
For SIA, demand for air travel remains buoyant, led by the solid rebound in passenger traffic to North Asia with the full reopening of China, Hong Kong, Japan, and Taiwan. This resulted in record 1HFY24 (Mar YE) operating and net profits for the national carrier on the back of strong load factors. In the meantime, the proposed merger of Air India and Vistara looks on track, with the Competition Commission of India approving the transaction in Sep 2023. Nonetheless, the deal is still subject to foreign direct investment approval, as well as approvals from other regulators and competition authorities in several jurisdictions. When completed, this will give SIA a 25.1% direct stake in an enlarged Air India Group with a major presence in this fast-growing aviation market.

Fig 62: CD's Public Transport quarterly trend



Source: Maybank IBG Research

Fig 63: CD's taxi & private hire quarterly trend



Source: Maybank IBG Research

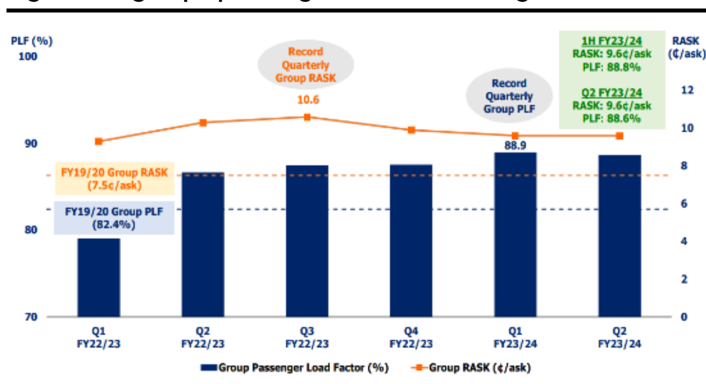
Land transport should outperform in 2024

Going forward, we think CD's public transport earnings are expected to continue to recover in 2024, supported by wages and energy indexation on public bus contracts, to some extent. For its rail operations, CD has contracts in place to partly lock in electricity rates as it expects tariffs to ease slightly next year. Singapore Taxi & Private Hire segment should also grow as demand for taxi and PHVs stays firm on the back of recovery in inbound tourism to Singapore especially from China with implementation of 30-day mutual visa free entry.

Despite the introduction of Zig platform fee, Singapore booking volumes remain stable at 8.1m in 3Q23 (unchanged from 2Q) even as it fine-tunes its pricing algorithm to reduce booking cancellation. CD has around 5,500-6,000 private hire drivers (c.30% active) and recently increased its booking commissions to 7% (from 5% previously) wef 1 Jan 2024. We believe the higher taxi revenue will more than offset the rising cost of operations in maintaining and upgrading technology systems, as well as financial charges for cashless transaction.

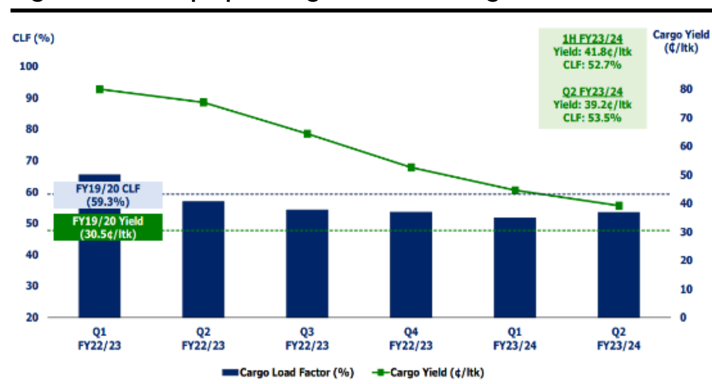
SIA expects to return to pre-Covid capacity levels in FY25 (Mar YE) with the progressive ramp-up of services across its network. That said, significant capacity restoration, especially in the Asia-Pacific region could exert some pressure on passenger yields. Cargo demand is likely to remain sluggish due to inflation and weak economic conditions. As more airlines add passenger services, bellyhold capacity will continue to increase globally. Inventory overhang and the easing of supply chain constraints have also caused a modal shift towards sea freight, according to management. SIA said it has fuel hedges already in place up to 1Q FY26, with additional gains locked in from closed-out trades.

Fig 64: SIA group operating statistics - Passengers



Source: Maybank IBG Research

Fig 65: SIA Group operating statistics - Cargo



Source: Maybank IBG Research

CD is our top pick within the sector

We continue to like CD for its sustained earnings trajectory and robust 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 capable of maintaining its dividend payout ratio of at least 70% of underlying net profits. Longer-term, CD also aims to build new capabilities, especially in smart & green mobility, while looking for growth opportunities in overseas and adjacent segments. For SIA (Non-rated), market watchers believe that industry competition could escalate further in 2024 as more capacity is added across the network, thus putting downward pressure on both passenger/cargo yields.

Risks

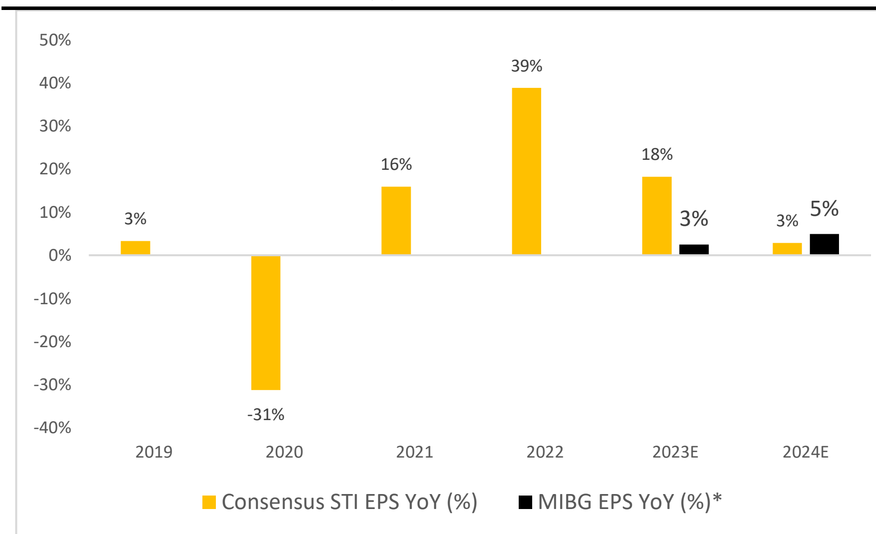
Apart from geopolitical and macroeconomic uncertainties, the prolonged inflationary pressures from higher fuel prices and shortages of pilots/drivers, could continue to pose challenges for the transportation sector. Other downside risks include yield/margin pressures due to intense competition, inability to pass on higher costs via higher fares, as well as the negative FX translation impact given the strong SGD.

6. Top picks

6.1 Setting STI Target

Singapore's consensus sees market earnings set to expand +18% YoY in 2023E, following a +39% YoY increase in 2022. The strong growth is thanks to the uplift in bank net interest margins (NIM) together with better performances in industrials and transport. Overall earnings momentum is expected to fall to +3% YoY in 2024E as NIMs start to contract from falling interest rates as re-opening tailwinds dissipate.

Fig 66: STI earnings growth YoY (%)

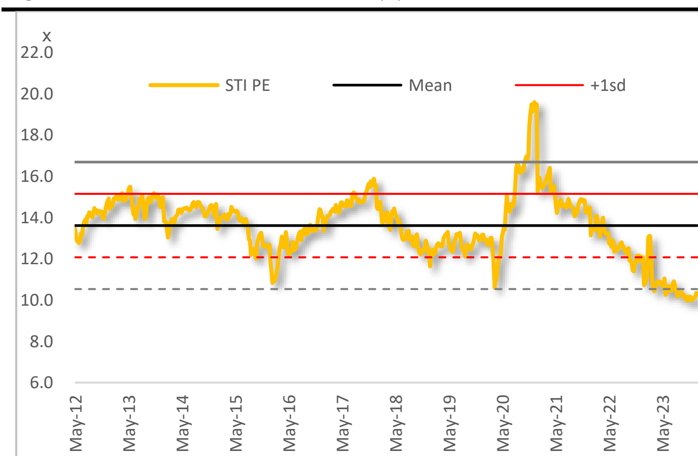


** MIBG EPS growth includes internet companies and SMIDs not included in STI*

Source: Bloomberg, Maybank IBG Research

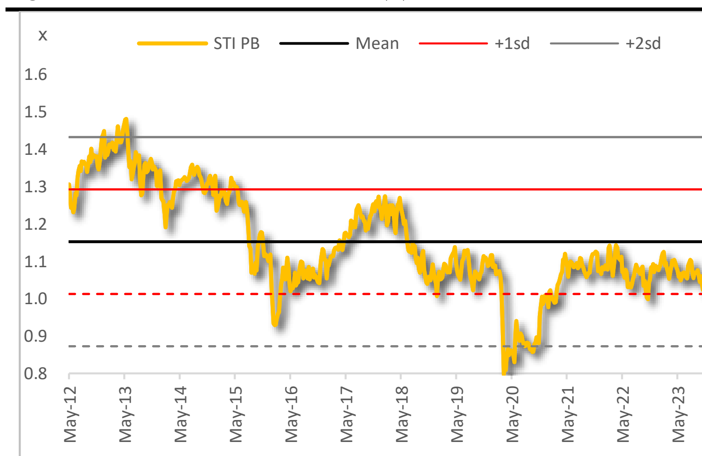
Nevertheless, we think the risks here are on the upside. From a macro perspective, 2024E is forecasted to see GDP grow +2.2%. We believe the earnings upgrade cycle is yet to catch up. Especially in sectors such as Tech Manufacturing where the global semiconductor cycle is showing signs of inventory building, which should drive larger order books. Similarly, with oil prices remaining well supported, the O&M sector should see more orders and concurrently, green energy transition should do the same for industrials. Even for banks, while margins are set to come off, lower interest rates could spur improving fee income, plus large Covid-era provisions could see releases diluting downside earnings risks.

Fig 67: STI 12-month forward PE (x)



Source: Bloomberg, Maybank IBG Research

Fig 68: STI 12-month forward PB (x)



Source: Bloomberg, Maybank IBG Research

Indeed, MIBG's total coverage EPS growth forecasts for 2024E is at +4.9% YoY – higher than the consensus +3% YoY for the STI. This indicates a broader recovery in SMIDs as well as improvements in the internet sector that is not well represented in the main index.

Despite the potential for upgrades, valuations show significant dislocation. The STI 12-month forward PE trades at its lowest levels since the Global Financial Crisis. On a PB basis, it is trading at its lower end barring the Covid crisis and the 2016/17 O&M crisis where there was significant uncertainty around the quality of the book across sectors such as banks, industrials, O&G etc.

Updating for the latest earnings, our 12-month STI index target has been lowered to 3,290 (c. 3,629). Our methodology remains the same of equal weighting top down and bottom up valuations. However, given the significant uncertainties surrounding a turnaround in China, continued fiscal stimulus and savings in the US and the timing of rate cuts, we have lowered top down relative PE and PB targets to -2 standard deviations from the 10-year mean. Our bottom-up valuations, which take into account intrinsic values of STI components remain unchanged.

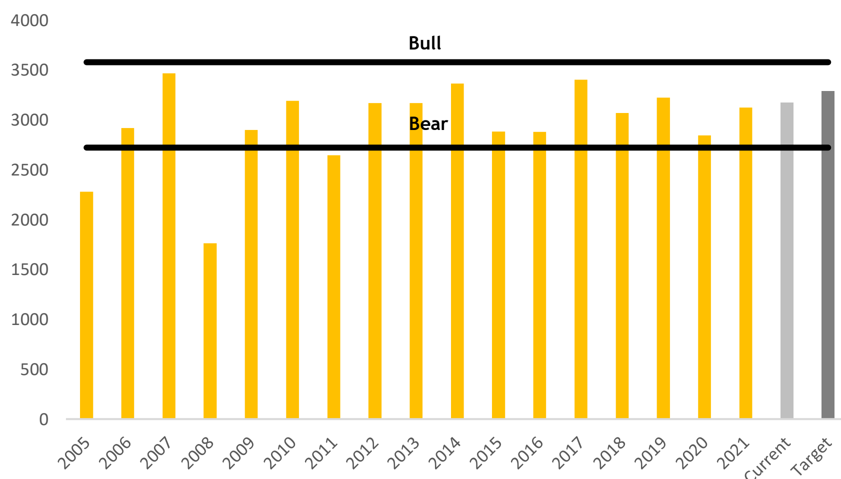
Fig 69: STI 12-month target setting

	Target	Weighting	Comments
MKE/Consensus TP Derived Index Level (Bottom Up)	3,578	50%	Fundamental value driven upside
10-year Mean Forward PE - 2sd 10.6x (Top Down)	3,283	25%	Traded up to +2SD following GFC, O&M crisis
10-year Mean Forward PB - 2sd 0.9x (Top Down)	2,722	25%	Traded up to +2SD following GFC, O&M crisis
Weighted 12-month Fwd Target	3,290		
Current Index	3,174		
Upside	4%		

Source: Bloomberg, FactSet, Maybank IBG Research

Nevertheless, our bull case scenario, which largely depicts fundamental value of the STI components has a target of 3,578.

Fig 70: STI target Bull and Bear scenario



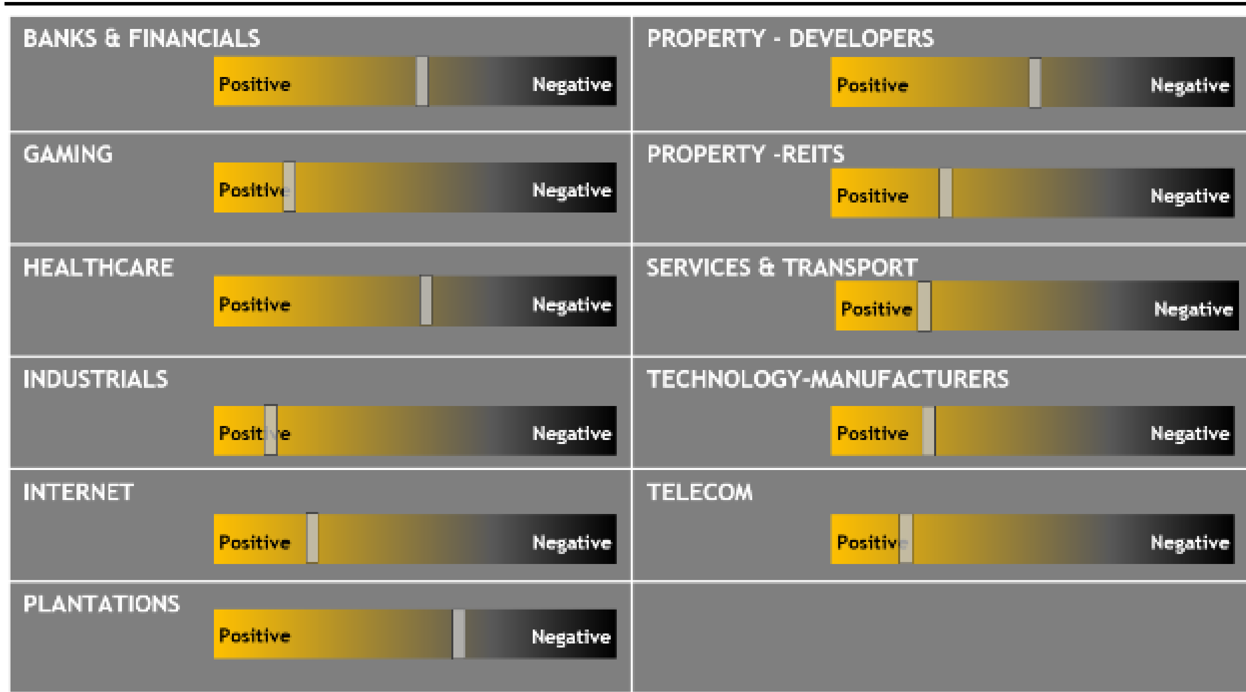
Source: Bloomberg, Maybank IBG Research

We believe as earnings upgrades catch up, especially for sectors such as REITs (as financing costs stabilise and rentals rise) and Tech Manufacturing (as electronics inventories build up), the index should be catalysed higher.

6.2 Sector Weightings

Our sector outlook is predicated on risk-reward based on gearing towards Singapore's medium term themes and near-term earnings catalysts for constituent corporates.

Fig 71: Singapore sector positioning 2024E



Source: Maybank IBG Research

6.3 Top stock picks

Our top picks are informed by a mix of defensive exposure to Singapore's medium-term growth themes and tactical exposure to laggards with upside catalysts such as semicon inventory building or falling rates widening dividend yield to risk-free spreads.

For growth themes our top picks are ComfortDelGro (ESG, AI, M&A), DBS (AI, ESG), Dyna-Mac (M&A, ESG), SingTel (Restructuring, AI, ESG). For laggards, we like CLAR (rates reset), CICT (rates reset), FRKN (semicon cycle), GENS (inbound travellers), LREIT (rates reset), Venture (semicon cycle).

Fig 72: Singapore Top Picks

Stock	BBG Code	M.Cap (USDm)	Rec	Price (LCY)	TP (LCY)	Upside (%)	EPS gr. (%) 23E	EPS gr. (%) 24E	P/E (x) 23E	P/E (x) 24E	ROE (%) 23E	ROE (%) 24E	P/B (x) 23E	P/B (x) 24E	Div Yield (%) 23E	Div Yield (%) 24E
Large Caps (>SGD5bn)																
DBS	DBS SP	63,737	Buy	32.74	37.81	15.5	21.9	0.0	8.4	8.4	18.0	16.3	1.4	1.3	5.8	6.1
Singtel	ST SP	29,570	Buy	2.38	3.10	30.3	16.7	12.2	16.2	14.4	8.9	9.5	1.4	1.3	4.1	4.3
CICT	CICT SP	10,018	Buy	2.00	1.90	(5.0)	(5.1)	0.0	18.0	18.0	5.1	5.4	0.9	0.9	5.5	5.5
Genting SG	GENS SP	9,053	Buy	1.00	1.16	16.6	90.3	22.0	16.9	13.8	8.2	8.8	1.5	1.4	4.0	4.0
Capitaland Ascendas REIT	CLAR SP	9,718	Buy	2.94	2.65	(9.9)	(16.6)	2.0	19.5	19.1	6.4	6.6	1.3	1.3	5.2	5.4
Small & Mid-Caps (<SGD5bn)																
Venture	VMS SP	2,945	Buy	13.41	15.40	14.8	(27.0)	11.1	14.5	13.0	9.5	10.2	1.4	1.3	5.6	5.6
ComfortDelgro	CD SP	2,316	Buy	1.42	1.60	12.7	30.2	8.5	17.3	16.0	7.0	8.0	1.2	1.2	4.3	4.6
Lendlease Global Comm REIT	LREIT SP	1,124	Buy	0.64	0.70	10.2	(14.9)	2.5	15.9	15.5	3.7	3.6	0.7	0.7	6.6	6.8
Dyna-Mac	DMHL SP	250	Buy	0.32	0.38	18.8	28.4	38.6	19.3	13.9	32.7	31.3	6.3	4.4	1.5	2.1
Frencken	FRKN SP	418	Buy	1.30	1.39	6.9	(51.2)	96.6	22.0	11.2	6.4	9.1	1.4	1.3	1.4	2.7

Source: FactSet, Maybank IBG Research

ComfortDelGro (CD SP, SGD1.42, BUY, TP: SGD1.60)

CD's public transport EBIT is likely to tread a recovery trajectory in 2024, supported by improving margins for its bus and rail operations. The Taxi & Private Hire segment should see upside as demand for point-to-point trips remains firm on the back of recovery in inbound tourism to Singapore, especially from China with implementation of 30-day mutual visa-free entry. Armed with net cash position of SGD500m, CD is able to sustain its dividend payout ratio of at least 70% of core net profits. Medium term, the group also seeks accretive M&A particularly in smart & green mobility, while looking for growth opportunities in overseas and adjacent segments.

Capitaland Ascendas REIT (CLAR SP, SGD2.94, BUY, TP: SGD 2.65)*

CLAR is the largest industrial SREIT by market cap and assets. The REIT offers defensive portfolio and exposure to hi-value, knowledge industries which are likely to afford a premium rent and growth. CLAR has the most diversified asset and tenant base. The largest asset accounts for less than 5% and top 10 tenants contribute less than 20% of rental income. Growth verticals such as tech, logistics and life sciences account for close to two-thirds of customer base. A-rated credit, relatively high interest coverage ratio and high level of natural hedging provides cushion against high interest rates and adverse FX movements. Valuations are fair with dividend yield of 5.2% and PB of 1.3x.

CICT (CICT SP, SGD2.00, BUY, TP: SGD 1.90)*

CICT is the largest SREIT by market cap and assets, and is a proxy to Singapore commercial real estate with more than 90% of revenue from local assets. It provides a good mix of organic growth and stability from positive rent reversions and relatively longer lease expiry profile of offices and integrated developments. There are existing buffers to navigate the high interest rate environment with A rated credit, high interest coverage ratio and mostly unencumbered assets. Scale, size of balance sheet and sponsor support offers access to capital partners and deal network which helps in capital recycling. Valuations are fair with dividend yield of 5.3% and PB of 0.94x.

DBS (DBS SP, SGD32.74, BUY, TP: SGD37.81)

While margins seem to have peaked, higher for longer rates should continue to support NII. Green-shoots in wealth management could boost NoII. A high base effect, slower China and global growth are likely to slow earnings momentum going forward. In a scenario where interest rate cuts happen sooner than expected, the Group's large low-cost deposit franchise should be able to provide some defence on margin squeeze. Separately, its head start in IT and AI investment should provide medium term cost offsets as well as new revenue opportunities. Given strong capital levels and structurally higher ROEs, we expect dividends to remain well supported, going forward.

Dyna-Mac (DMHL SP, SGD0.32 BUY, TP: SGD0.38)

In the past 2 months, O&G stocks locally have corrected 30-50% from their highs, including Dyna-mac which dropped about 40%. We believe that the correction is overdone. Our channel checks show FSPO rates are still trending upward and there will be even more projects next year up for grabs, especially in 1H24. We expect Dyna-mac to secure another SGD200-350m of orders by 1H24. As of Oct 2023, its orderbook totalled SGD631m with project delivery into 2025 covering close to 100% of our projected FY24E revenue. With SGD128.5m net cash, we expect more dividends at FY23E results in Feb 2024.

Frencken (FRKN SP, SGD1.30, BUY, TP: SGD1.39)

Frencken reported a positive 3Q23 and has delivered improving quarters since 1Q23 and we believe this trend is likely to persist. Its Malaysia factory utilisation should continue to benefit from its key customer shifting some production from Europe to Malaysia and FY24E should be a much better year. Automotive segment is also expected to pick up strongly in the next few years due to some new product innovations (NPI) in the works in the EV space.

Genting Singapore (GENS SP, CP: SGD1.00, BUY, TP: SGD1.16)

Even before 3Q23, mass market (which traditionally contributes c.75% of earnings) was already hitting pre-Covid levels despite the lack of Chinese tourists due to new migrants and wealth created by higher property prices. The return of Chinese tourists en masse in 3Q23, drove mass market gross gaming revenue to 8% above pre-Covid levels and VIP volume to 36% above pre-Covid levels. Save for the Philippines, Singapore is the only gaming jurisdiction in Asia to have gross gaming revenues exceed pre-Covid levels. We expect this growth to consolidate and continue in 2024 as seat capacity from China to Singapore recovers.

Lendlease Global Commercial REIT (LREIT SP, SGD0.64, BUY, TP: SGD 0.70)

LREIT is a high yielding Singapore-centric commercial REIT with predominantly well-located retail malls. Rent reversions provide near-term growth opportunities while rejuvenation of the micro markets are likely to provide rental and valuation uplift in the longer term. Master leased office assets provide stability. Manager is proactively managing office lease expiries and taking steps for yield enhancement. LREIT has a supportive sponsor with a global presence and strong development pipeline. While the REIT has high gearing and challenging funding metrics such as sub-2x interest coverage ratio, we believe its current valuations (7.4% dividend yield, 0.81x PB) discount the risk.

SingTel (ST SP, SGD2.38, BUY, TP: SGD3.10)

We think Singtel is making significant strides in restructuring the entire group, monetising assets and shedding unprofitable entities. Management is committed to improve ROIC (which is closely tied to its share price performance) to low double-digits by FY26 (FY23: 8%) by: a) increasing cost synergies, particularly from the recent consolidation of its enterprise and consumer businesses at both Singtel and Optus; b) reducing its capital intensity further through better management of 5G rollout and more prudent spending; C) reducing holdco discount to 15-20%, led by a steady rise in its core operating profit through tariff hikes in Optus mainstream postpaid plans; and d) unlocking value from asset recycling and capital partnerships to fund growth investments.

Venture (VMS SP, SGD13.41, BUY, TP: SGD15.40)

Management revealed recently production of some NPIs (new product introductions) is likely to start in 4Q23E and more are slated for FY24E. In addition, customers' inventory is depleted and more orders are likely in 2024. Through our channel checks, we are also more bullish FY24E will be stronger for Venture as higher utilisation rate and operating leverage lead to better margins. We believe Venture is undervalued at current levels trading below its historical 10 year P/E of 16x.

**TPs appear lower than current prices following the December 2023 run-up. We leave our estimates and TPs unchanged for the upcoming results season, but assuming risk-free rates do not move, we foresee 10% upside to target prices on average as rates are down 50bps from our current inputs.*

7. Appendix A: Coverage Universe

MIBG Singapore coverage universe

Stock	BBG	M.Cap	3M ADV	Rec	Price	TP	Upside	EPS gr. (%)		P/E (x)		ROE (%)		P/B (x)		Div Yield (%)	
	Code	(USDm)	(USDm)		(SGD)	(SGD)	(%)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
DBS	DBS SP	63,737	112.9	Buy	32.74	37.81	15.5	21.9	-	8.4	8.4	18.0	16.3	1.4	1.3	5.8	6.1
OCBC	OCBC SP	43,274	55.7	Hold	12.74	13.83	8.6	15.4	6.7	8.5	8.0	13.3	12.5	1.0	1.0	6.3	6.3
UOB	UOB SP	35,616	65.2	Hold	28.08	30.86	9.9	17.2	(2.9)	8.3	8.5	13.3	12.5	1.0	1.0	6.1	6.1
SGX	SGX SP	7,788	14.8	Hold	9.66	10.24	6.0	4.7	(2.8)	19.6	20.2	30.6	29.9	5.9	5.5	3.7	3.8
Financials		**150,415**	**80.1**					**18.0**	**1.1**	**9.0**	**8.9**	**16.2**	**15.0**	**1.4**	**1.4**	**5.9**	**6.0**
Singtel	ST SP	29,570	52.5	Buy	2.38	3.10	30.3	16.7	12.2	16.2	14.4	8.9	9.5	1.4	1.3	4.1	4.3
StarHub	STH SP	1,433	1.0	Hold	1.10	1.10	-	100.0	11.3	13.8	12.4	31.2	25.8	3.3	3.0	4.5	5.5
Netlink NBN	NETLINK SP	2,507	4.7	Buy	0.86	0.97	13.5	(10.0)	3.7	31.7	30.5	4.1	4.4	1.3	1.4	6.2	6.2
Telecoms		**33,510**	**46.7**					**18.2**	**11.6**	**17.2**	**15.5**	**9.5**	**9.8**	**1.5**	**1.4**	**4.3**	**4.5**
Sea Ltd	SE US	19,713	464.9	Buy	37.82	62.00	63.9	(125.0)	42.4	52.0	36.5	7.9	6.2	2.8	2.3	-	-
Grab Holdings	GRAB US	12,178	82.5	Buy	3.25	4.50	38.5	(66.4)	(72.2)	-	-	(8.6)	(1.3)	2.0	1.9	-	-
Internet		**31,891**	**318.8**					**(102.6)**	**(1.4)**	**32.2**	**22.6**	**1.6**	**3.3**	**2.5**	**2.2**	**0.0**	**0.0**
AEM Holdings	AEM SP	793	5.0	Buy	3.38	3.76	11.2	(92.6)	700.0	112.7	14.1	2.5	14.4	2.1	1.9	0.2	1.8
UMS Holdings	UMSH SP	651	4.3	Buy	1.29	1.44	11.6	(36.5)	39.4	13.7	9.8	16.9	19.6	2.3	2.1	3.9	4.3
Frencken	FRKN SP	418	3.8	Buy	1.30	1.39	6.9	(51.2)	96.6	22.0	11.2	6.4	9.1	1.4	1.3	1.4	2.7
Venture	VMS SP	2,945	12.4	Buy	13.41	15.40	14.8	(27.0)	11.1	14.5	13.0	9.5	10.2	1.4	1.3	5.6	5.6
Aztech Global	AZTECH SP	539	1.2	Buy	0.93	1.08	16.8	41.4	8.9	7.5	6.9	32.3	30.8	2.9	2.3	7.1	8.0
Technology		**5,345**	**8.5**					**(32.9)**	**123.2**	**28.8**	**12.0**	**11.4**	**13.9**	**1.7**	**1.6**	**4.4**	**4.9**
ComfortDelgro	CD SP	2,316	8.0	Buy	1.42	1.60	12.7	30.2	8.5	17.3	16.0	7.0	8.0	1.2	1.2	4.3	4.6
HRnetGroup Ltd	HRNET SP	533	0.0	Hold	0.70	0.80	14.3	(23.5)	3.8	13.5	13.0	16.5	16.0	1.8	1.7	5.0	5.0
PropNex Ltd	PROP SP	523	0.3	Buy	0.94	1.15	22.3	(16.2)	10.0	13.4	12.2	-	-	4.0	3.1	6.4	6.9
Civmec Ltd	CVL SP	300	0.1	Buy	0.79	1.05	33.8	8.8	-	7.5	7.5	13.9	14.3	1.0	0.9	5.5	6.6
Services & Transport		**3,671**	**5.1**					**14.0**	**7.4**	**15.4**	**14.3**	**8.0**	**8.6**	**1.7**	**1.5**	**4.8**	**5.2**
CDREIT	CDREIT SP	1,031	2.2	Buy	1.10	1.05	(4.5)	(20.8)	4.9	18.0	17.2	3.3	3.9	0.7	0.7	5.4	5.6
Far East Hosp.	FEHT SP	1,002	0.9	Buy	0.67	0.75	12.8	44.0	(5.6)	18.5	19.6	3.9	3.9	0.7	0.7	6.0	6.0
CapitaLand Ascott T.	CLAS SP	2,760	7.4	Buy	0.98	1.00	2.6	48.6	1.9	18.8	18.4	4.7	4.8	0.8	0.8	5.8	6.1
Frasers Hospitality T.	FHT SP	710	0.8	Buy	0.49	0.53	8.2	(81.5)	-	98.0	98.0	4.6	4.8	0.8	0.7	5.1	5.1
Hospitality REITs		**5,503**	**4.4**					**18.0**	**0.9**	**28.8**	**28.7**	**4.3**	**4.5**	**0.8**	**0.8**	**5.7**	**5.8**
AAREIT	AAREIT SP	805	1.5	Buy	1.32	1.36	3.0	(6.9)	4.3	14.3	13.7	6.7	5.9	0.7	0.7	7.0	7.3
ESR REIT	EREIT SP	1,880	3.6	Buy	0.33	0.31	(4.6)	(5.3)	16.7	18.1	15.5	5.3	6.8	1.0	1.0	7.4	7.4
Ascendas REIT	CLAR SP	9,718	39.1	Buy	2.94	2.65	(9.9)	(16.6)	2.0	19.5	19.1	6.4	6.6	1.3	1.3	5.2	5.4
Mapletree Ind.	MINT SP	5,330	11.3	Hold	2.50	2.15	(14.0)	(10.2)	-	18.9	18.9	-	-	-	-	5.2	5.1
Mapletree Log.	MLT SP	6,259	20.9	Buy	1.67	1.60	(4.2)	6.0	1.4	23.5	23.2	4.6	4.1	1.0	1.0	5.3	5.3
Industrial REITs		**23,992**	**24.1**					**(8.1)**	**2.6**	**20.1**	**19.7**	**4.4**	**4.5**	**0.9**	**0.9**	**5.5**	**5.5**
CICT	CICT SP	10,018	32.7	Buy	2.00	1.90	(5.0)	(5.1)	-	18.0	18.0	5.1	5.4	0.9	0.9	5.5	5.5
Frasers Ct.pt.	FCT SP	2,885	5.7	Buy	2.24	2.25	0.4	(0.8)	1.7	18.7	18.4	4.6	4.7	0.9	0.9	5.4	5.4
Mapletree Comm	MPACT SP	6,003	13.0	Hold	1.52	1.25	(17.8)	(9.7)	(1.2)	18.1	18.3	4.6	4.9	0.8	0.8	5.5	5.5
Keppel REIT	KREIT SP	2,632	9.4	Buy	0.93	1.00	8.1	-	-	16.8	16.8	3.5	3.5	0.7	0.7	6.4	6.4
Suntec REIT	SUN SP	2,681	5.6	Hold	1.23	1.15	(6.5)	(40.9)	7.3	22.4	20.8	2.6	2.7	0.6	0.6	5.7	5.7
Lendlease Global CR	LREIT SP	1,124	4.0	Buy	0.64	0.70	10.2	(14.9)	2.5	15.9	15.5	3.7	3.6	0.7	0.7	6.6	6.8
Retail REITs		**25,343**	**18.4**					**(9.4)**	**0.8**	**18.4**	**18.2**	**4.4**	**4.6**	**0.8**	**0.8**	**5.6**	**5.7**
CapitaLand Inv't	CLI SP	11,744	24.4	Buy	3.00	3.30	10.0	17.6	(7.1)	21.4	23.1	4.1	4.7	0.8	0.8	4.0	4.0
LHN	LHN SP	98	0.2	Buy	0.32	0.45	40.6	16.7	8.9	5.7	5.2	11.1	12.4	0.6	0.6	6.3	6.3
Real Estate		**11,842**	**24.2**					**17.6**	**(7.0)**	**21.3**	**22.9**	**4.1**	**4.7**	**0.8**	**0.8**	**4.0**	**4.0**
ST Engineering	STE SP	8,927	12.3	Buy	3.80	4.20	10.5	4.7	20.1	21.2	17.7	23.5	25.6	4.6	4.3	4.4	5.3
Sembcorp Industries	SCI SP	7,032	16.3	Buy	5.25	6.30	20.0	(11.4)	1.2	12.2	12.1	21.4	17.1	1.9	1.7	1.5	1.5
Industrials		**15,959**	**14.1**					**(2.4)**	**11.8**	**17.3**	**15.2**	**22.6**	**21.9**	**3.4**	**3.2**	**3.1**	**3.6**
CSE Global	CSE SP	197	0.5	Buy	0.43	0.65	52.9	277.8	29.4	12.5	9.7	9.7	11.0	1.1	1.0	6.6	6.6
Dyna-Mac	DMHL SP	250	1.6	Buy	0.32	0.38	18.8	28.4	38.6	19.3	13.9	32.7	31.3	6.3	4.4	1.5	2.1
Services		**446**	**1.1**					**153.1**	**34.0**	**15.9**	**11.8**	**21.2**	**21.2**	**3.7**	**2.7**	**4.0**	**4.3**
Genting SG	GENS SP	9,053	25.6	Buy	1.00	1.16	16.6	90.3	22.0	16.9	13.8	8.2	8.8	1.5	1.4	4.0	4.0
Food Empire	FEH SP	468	0.8	Buy	1.13	1.60	41.6	20.2	5.9	8.4	7.9	18.9	18.1	1.5	1.3	4.5	4.7
Gaming		**9,521**	**24.4**					**86.9**	**21.2**	**16.4**	**13.5**	**8.8**	**9.3**	**1.5**	**1.4**	**4.0**	**4.1**
Raffles Med	RFMD SP	1,517	1.9	Hold	1.07	1.30	21.5	(38.2)	6.4	22.8	21.4	8.6	7.5	1.9	1.8	2.1	2.3
Q&M Dental	QNM SP	189	0.0	Hold	0.26	0.31	19.2	(35.3)	18.2	23.6	20.0	-	-	2.8	3.1	1.9	3.1
Healthcare		**1,706**	**1.7**					**(37.8)**	**7.7**	**22.9**	**21.2**	**7.6**	**6.6**	**2.0**	**2.0**	**2.1**	**2.4**
First Res.	FR SP	1,704	1.7	Buy	1.43	1.82	27.3	(43.0)	(2.5)	8.8	9.0	11.9	14.6	1.2	1.1	5.7	5.5
Bumitama Agri	BAL SP	793	0.2	Buy	0.60	0.94	56.7	(27.3)	(4.1)	5.2	5.4	16.8	14.5	0.9	0.8	7.7	7.4
Wilmar	WIL SP	16,958	19.1	Hold	3.52	3.99	13.4	(18.3)	5.8	9.4	8.9	8.9	8.9	0.8	0.8	5.6	5.8
Plantations		**2,498**	**1.3**					**(38.0)**	**(3.0)**	**7.7**	**7.9**	**13.4**	**14.6**	**1.1**	**1.0**	**6.3**	**6.1**

Source: FactSet, Maybank IBG Research

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