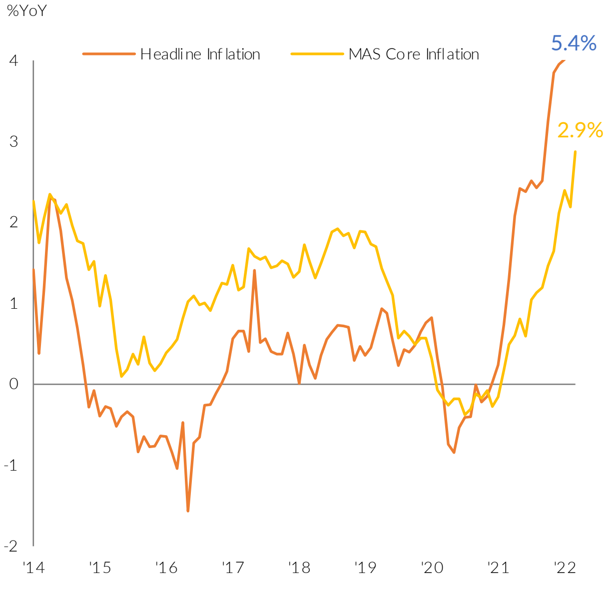
Singapore

MACRO

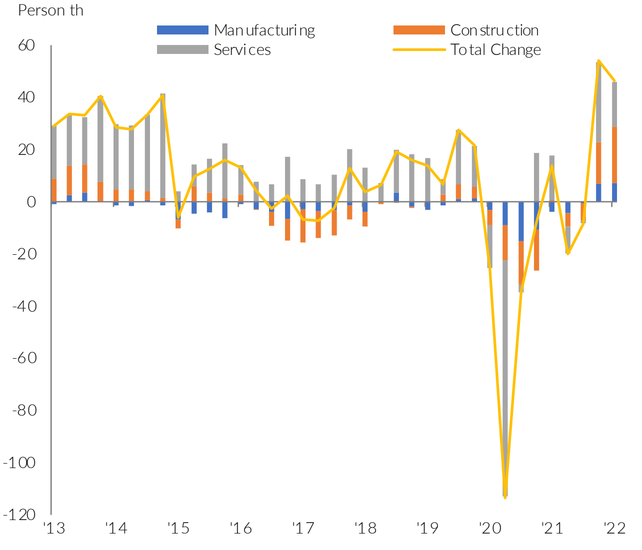
Headline and core inflation hit decade high



Source: Maybank IBG Research

Prices are soaring, with both core and headline inflation rising jumping to decade highs, reaching 2.9% and 5.4% respectively in March. Core inflation has been driven by higher food and services costs. Headline inflation has been mainly driven by higher private transport costs – both car and petrol prices.

Employment is recovering, as foreigners return with the easing of border controls

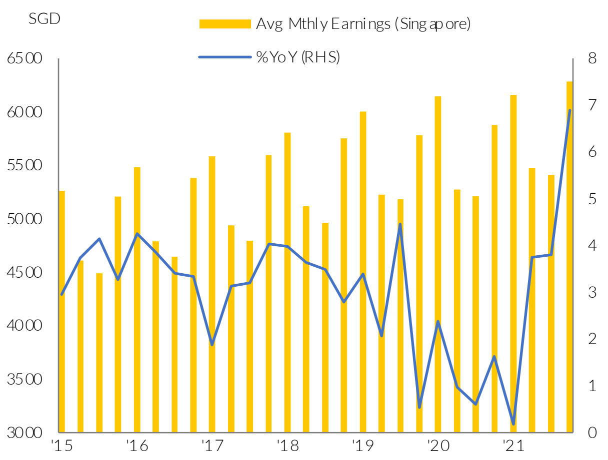


Source: Maybank IBG Research

Total employment has been recovering, with foreigners returning as border controls are eased.

The unemployment rate has fallen to 2.2% in 1Q 2022, back to pre-pandemic levels.

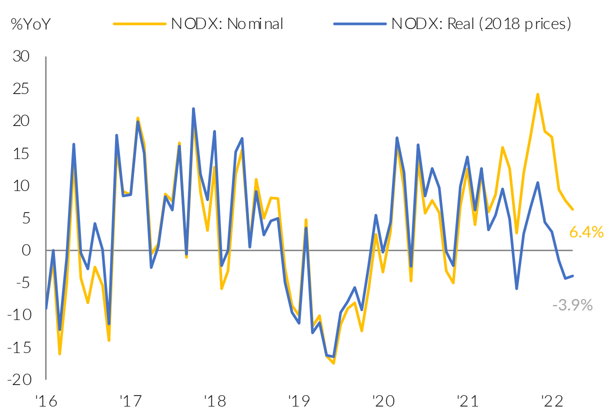
Average monthly earnings surging as the labour market tightens



Source: Maybank IBG Research

A tightening labour market and strict foreign worker measures are driving up average monthly wages which are up by almost 7% in the fourth quarter of last year from a year ago. Wage costs are expected to remain elevated with the introduction of the new local qualifying salary and the expansion of the progressive wage model to the retail sector in September 2022.

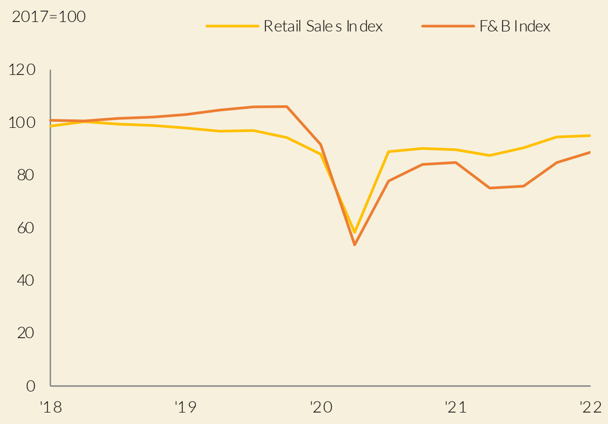
Easing non-oil domestic exports, with volumes contracting in February & March



Source: Maybank IBG Research

Slowing global growth, China's lockdown and the Ukraine-Russia conflict are dampening global and Singapore trade volumes. The WTO recently cut global trade growth forecasts to 3% from 4.7%, as global PMI dipped to its lowest since October 2020.

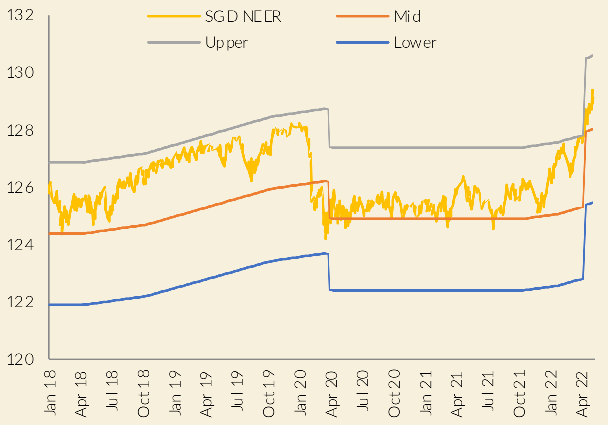
Domestic-oriented sectors rebounding, but remain below pre-pandemic levels



Source: Maybank IBG Research

Domestic-oriented sectors are rebounding but remain below the pre-pandemic level. The recent reopening and relaxation of border restrictions should lift both sectors to above the pre-pandemic level by the second quarter.

MAS has tightened monetary policy 3 times: October 2021, January 2022 & April 2022



Source: Maybank IBG Research

MAS tightened monetary policy by increasing the S$NEER band slope in October 2021 and January 2022. In April 2022, MAS tightened with a double-barrelled move, re-centring the mid-point of the S$NEER band upwards and increasing the slope further. MAS is projecting inflation to peak in 3Q22.

STRATEGY

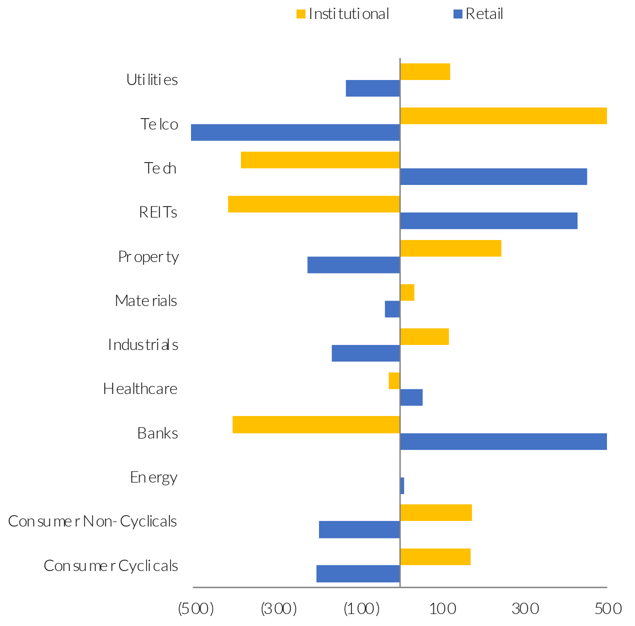
Institutional investors increasing weights in defensive, value sectors

Singapore has outperformed the S&P index by 19% YTD. The market is proving defensive despite record levels of volatility and uncertainty brought about by rising interest rates, record inflation together with disruptions from the Russia-Ukraine conflict and China's continued Covid lockdowns.

Within the STI, 72% of the market cap is banks, industrials, telcos and property. As a result, the index is dominated by traditional value sectors offering significant defensive positioning as money rotates out of growth sectors with uncertain earnings outlooks. As Central Banks continue to battle record levels of inflation and rate risks remain on the upside, we expect Singapore to continue to see inflows.

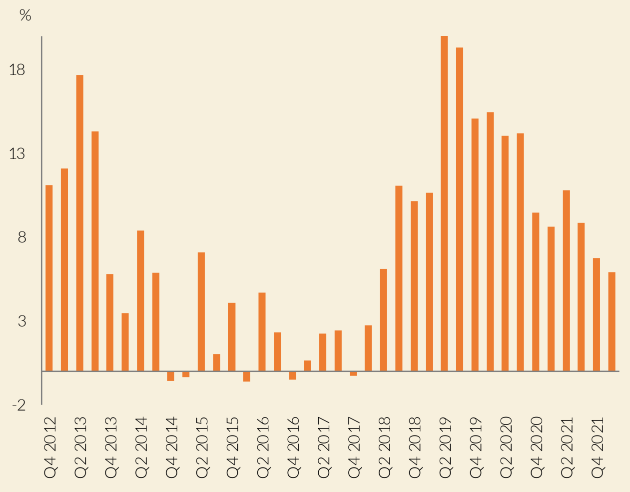
Institutional investors have been increasing weightings on key value sectors such as Telcos, Industrials, etc. We think this is supportive of our 12-month STI target of 3,629. It is based on bottom-up earnings expectations which should continue to see growth led by banks and industrials, while top-down PE and PB valuations are upstretched at levels below the long-term mean.

YTD SGX fund flows by institutional & retail investors



Source: SGX

STI components cumulative net gearing



Source: Bloomberg

STI gearing is now the lowest since pre-pandemic, which provides a buffer from rising rates

Rising inflation remains a key known unknown. A 10% rise in oil prices would add 10bps to Singapore inflation and lower GDP growth by 5bps. MAS' tightening stance, as well as rising interest rates, should be supportive of countering this. However, the risks remain on the upside as supply-chain disruptions remain.

A higher interest rate environment could impact corporate margins by raising interest costs. For the STI, net gearing is at 6% vs. 15% pre-pandemic. This lowers the risks of negative surprise from rising rates, we believe. Further, we believe this enhances the defensive qualities of Singapore during this period of uncertainty, in our view.

In the Banking sector, 56-76% of deposits are low-cost CASA. A rising interest rate environment should provide significant upside net interest margin upside from higher loan yields. Similarly, REITs – particularly in office, retail and hospitality – should benefit from upward rental revisions as inflation takes hold.

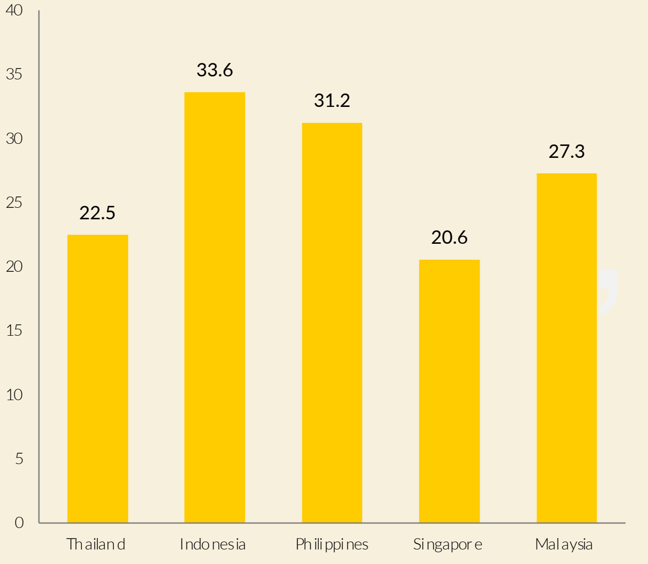
Corporate restructuring driving stronger sustainability. A catalyst for multiple rerating?

Singapore's M&A and restructuring deal volumes continue to accelerate with 2Q22 total deals increasing 2x YoY. The average deal size has increased 4x YoY during this period. Structural changes to operating environments from Covid together with valuations dislocations are driving a rising pace of restructurings in Singapore.

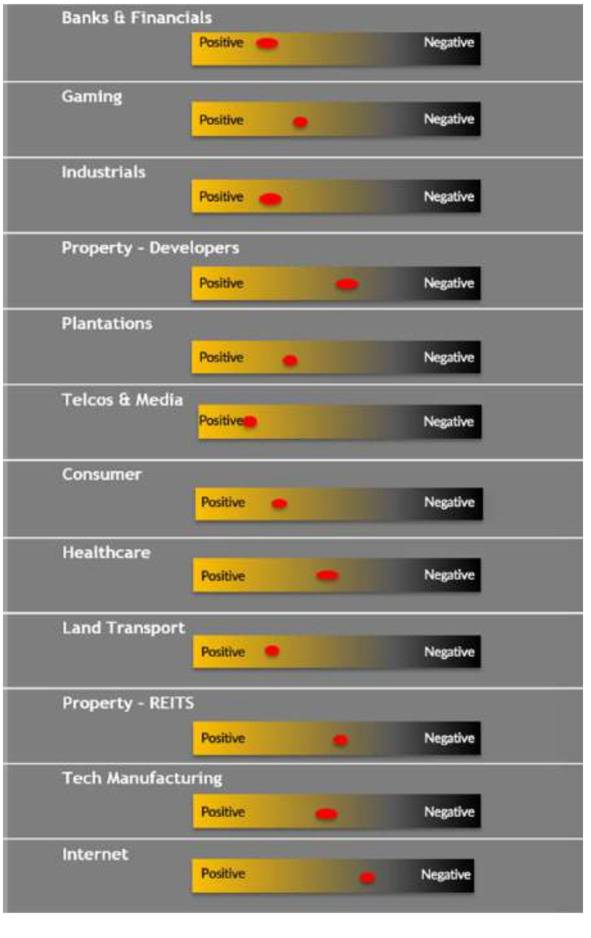
Another key driver for restructuring is ESG, with corporates strategizing to transition towards a lower-carbon future. This is catalysed by the Government's Singapore Green Plan - where policy support is focused on reaching carbon neutrality - as well as increasing calls from stakeholders for lower emissions and social equity.

We believe this should increasingly differentiate capital flows towards corporates that are transitioning toward better ESG risk management. A comparison of the ESG risks amongst the top-30 listed stocks in SE Asia places Singapore in the lowest risk category. We believe this would catalyse higher valuation multiples going forward as investors increase sustainability weightings.

Top 30 stocks average ESG score (lower = better)



Source: Sustainalytics, Maybank IBG Research



We are positive on Banks, Industrials, Telcos, Land Transport

Rising interest rates should support NIM expansion opportunities to Banks together with regional re-opening boosting loan demand. This should drive positive earnings momentum, especially as incremental provisioning risks remain low following large charges in 2020-21. Rising aviation demand together with a shift towards increased renewable capacity should be supportive of the Industrials.

Increasing international travel, rising 5G take-up rates and a new focus on ICT as SE Asia digitalises should drive revenues and margins for Telcos, we believe. While rising rentals should drive upside to REIT income, rising interest rates may compress the yield spread in the near term.

We believe in adopting a barbell approach in stock selection. On one end, we prefer defensive stocks that offer strong earnings certainty and competitive moats to withstand current uncertainty – BAL, CICT, CDREIT, SGX, SingTel. Concurrently, we also prefer stocks that offer exposure to longer-term themes such and ESG, digitalisation and emerging markets consumption – CLI, CD, DBS, OCBC and Venture.

BANKS

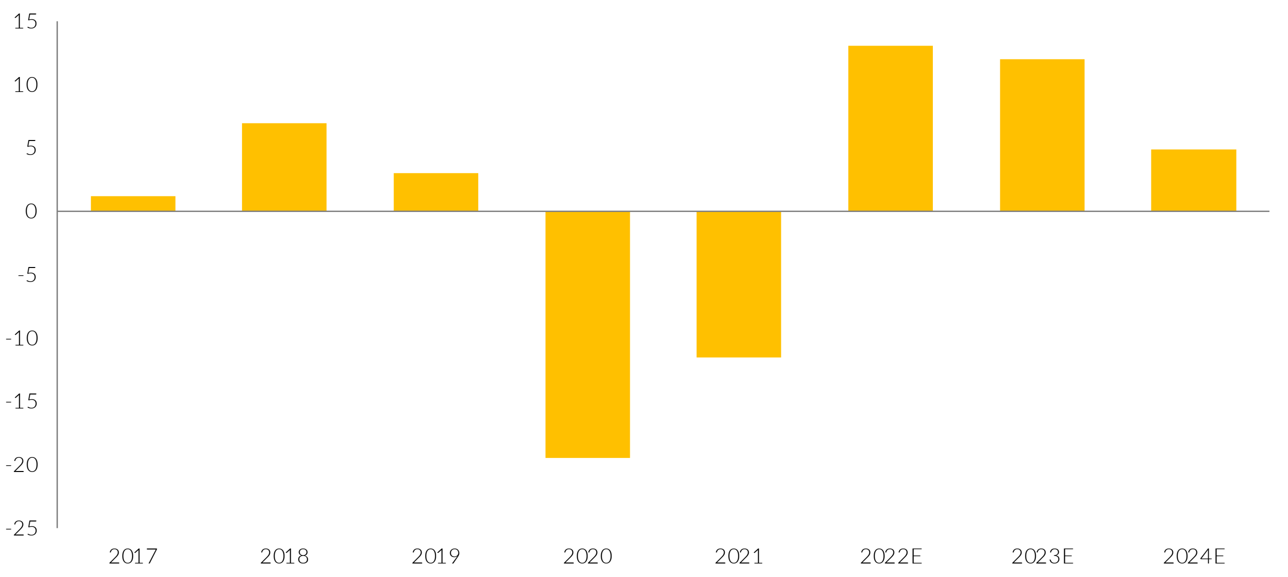
NIMs set to drive operational growth

We believe the Singapore banks are in the early phase of operational growth with rising net interest income supported by robust loan growth and improving net interest margins. Loans in 1Q22 expanded 8-9% YoY pointing to a strong regional recovery, but a slower North Asia is an overhang. Potential policy support from China may be an upside surprise.

NPL ratios are largely benign pointing to improving conditions and rising loan growth. While provision write-backs are unlikely given macro uncertainty, we think steep increases in credit charges are also unlikely given significant balance sheet strength. This should allow operating improvements to be largely reflected in earnings going forward.

Our preferred pick in the sector is DBS given its large, low-cost funding base, which should allow it to maximise spreads as asset-yields rise. We believe OCBC should be a key beneficiary of any policy-driven revival in North Asian economic activity. Border re-openings within SE Asia together with potential North-South supply chain relocations should be a key catalyst for UOB.

Singapore banks NIM growth YoY (bps)



Source: Company data, Maybank IBG Research

REITs

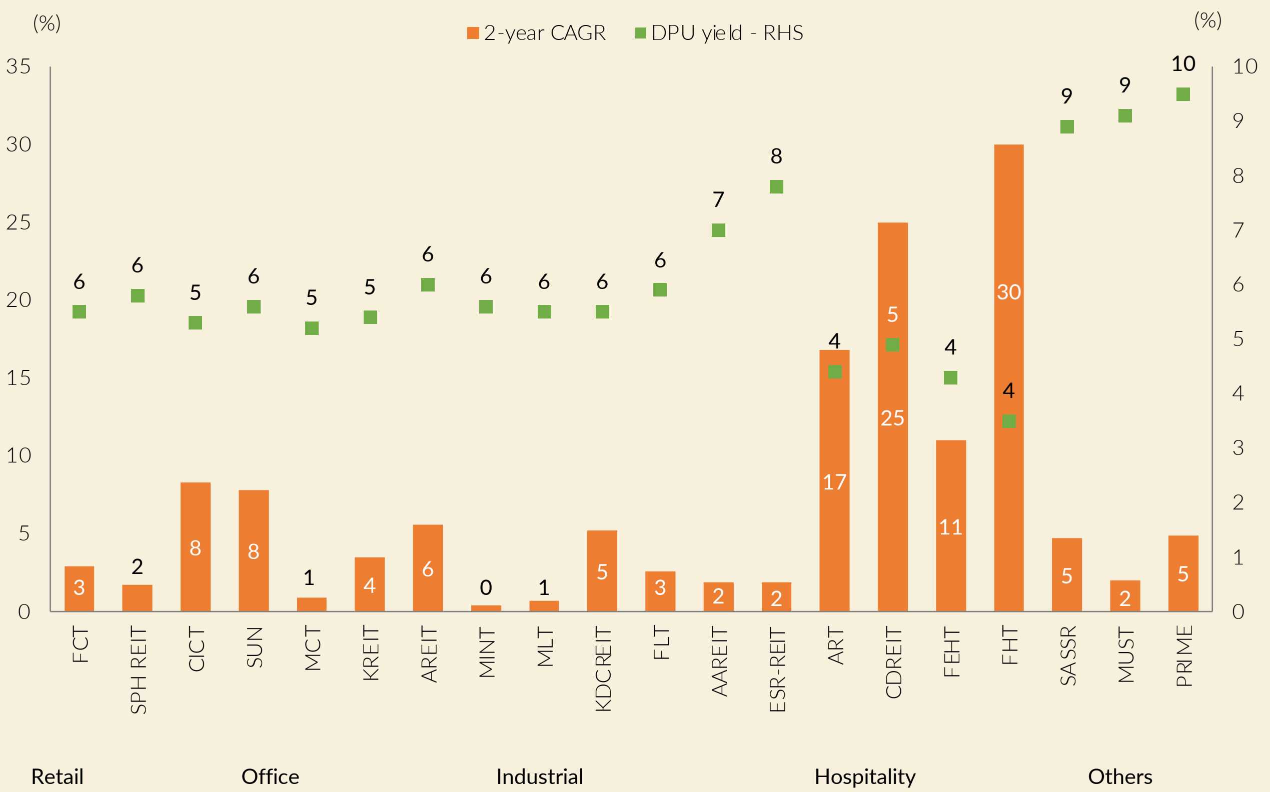
Re-opening efforts to mitigate inflationary cost pressures

We stay constructive on S-REITs, with evidence of broad-based DPU recovery in 1Q22, underpinned by resilient occupancies, and improving leasing momentum. We see the growth outlook strengthening amid firmer macro fundamentals and re-opening efforts, which are expected to mitigate inflationary cost pressures and rising interest costs. With the absence of rental waivers, rising rents from business normalisation, and contributions from acquisitions, we expect DPUs to rise by +12% YoY in FY22, from +10% in FY21. On a total return basis, the S-REITs are trading at a 4-10% dividend yield, and we expect them to generate 2-3% 2-year DPU CAGR for retail, 1-8% for office, up to 6% for industrial and a higher 11-30% for hospitality, as RevPARs recover from a low base.

The office sector saw a short-lived downcycle and is recovering on stronger-than-expected demand, led by tech occupier expansion, a 'flight-to-quality' and an easing of work-from-home mandates. With supply constrained, pricing power has returned to the office landlords. We forecast Grade A rents to rise at +12% through 2023 and see a more active physical market and increasing inorganic growth opportunities for S-REITs, especially as the cost of capital improves.

In our view, the sector remains under-owned, as risks of higher interest rates have kept investors on the side lines. Our sensitivity analysis suggests DPUs could be lower by 1-6%, assuming rates rise by a faster-than-expected 50bps. We prefer office REITs and large-cap industrial names with new economy exposure. We have BUYs on AREIT, CICT, KREIT, and SUN, as they are expected to deliver higher total return potential with a 5-6% dividend yield, and 4-8% DPU CAGR.

S-REITs DPU yield and 2-year CAGR



REIT	2-year CAGR	DPU yield - RHS
FCT	3	6
SPH REIT	2	6
CICT	8	5
SUN	8	6
MCT	1	5
KREIT	4	5
AREIT	6	6
MINT	0	6
MLT	1	6
KDCREIT	5	6
FLT	3	6
AAREIT	2	7
ESR-REIT	2	8
ART	17	4
CDREIT	25	5
FEHT	11	4
FHT	30	4
SASSR	5	9
MUST	2	9
PRIME	5	10

Source: Company data, Maybank IBG Research

LAND TRANSPORT

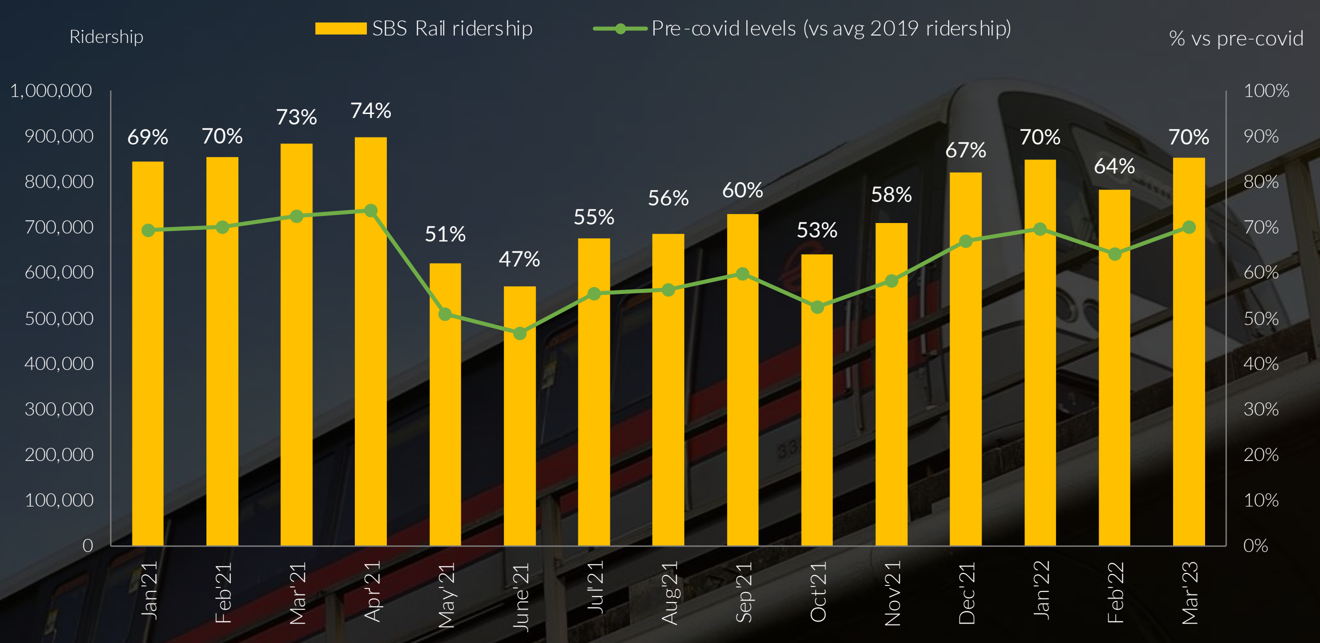
Set for sequential operating growth from re-opening tailwind

With most geographies starting to relax Covid restrictions and international travel gradually resuming, we expect rail ridership in Singapore to continue showing improvement (c.65-70% of the pre-Covid level in 1Q22). Notably, passenger traffic through Changi Airport now averages above 40% of pre-pandemic levels and Singapore aims to reach its target of 50% by the end of 2022. The strong recovery of passenger traffic is projected to gain momentum with the upcoming June holidays and the start of the summer travel period overseas. Anecdotal evidence also suggests that higher taxi fares (amid elevated fuel prices) have not dampened commuters' demand for P2P trips along with increasing mobility as Singapore dropped most of its pandemic-era curbs and reopened its economy.

To lower the fixed costs and enhance drivers' income, ComfortDelgro (CDG) is extending its 15% taxi rental rebate until end-September, while the temporary one-cent hike in its distance and waiting time fares will also be extended until end-July. The surcharge for taxi trips starting from Changi Airport will be raised by SGD3 from 19 May until 30 June to increase the supply of cabs for passengers there amidst a revival in international air travel. Meanwhile, CDG recently tweaked its taxi revenue model by introducing a 4% commission rate on the trip fare (vs. 20% for Grab/Gojek) for all bookings via its mobile app (c.45% of its total rides) w.e.f. 1 May. We think this will help to attract more private hire drivers over to its platform, thus potentially boosting the market share for its taxi business.

Notwithstanding the cessation of most government relief schemes, we expect the Group to show sequential core operating profit growth, particularly with the relaxation of social distancing restrictions from late April 2022. Within the land transport sector, we continue to like CDG as a strong reopening play and retain our Buy recommendation with a DCF-based TP of SGD1.76 (WACC: 8.3%, LTG: 1%).

Expects improvement in SG rail ridership



Source: SBS Transit

HEALTHCARE

Expect higher-margin electives & medical tourism to boost growth

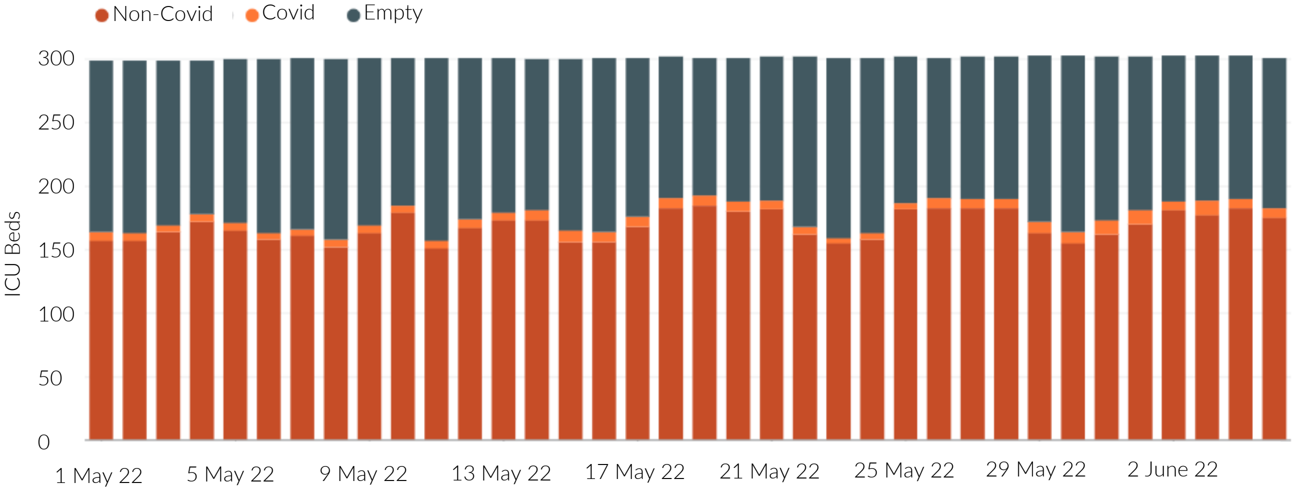
In may 2022, health minister ong ye kung announced a major restructuring of Singapore's healthcare ecosystem to lighten the burden on public hospitals and make healthcare expenditure more sustainable. First, the Ministry of Health (MOH) would establish a scheme where every Singaporean would be enrolled in a named general practitioner (GP) or family physician. Secondly, the three public health care clusters, SingHealth, National Healthcare Group and the National University Health System, would be funded differently. Instead of the current volume-based funding, the clusters would instead be moved to a capitation model.

MOH will kickstart the process with a national enrolment programme, inviting Singapore residents to register with a family doctor of their choice from 2023. This requires the integration of primary care providers, especially GPs, into the public healthcare ecosystem and is central to the national strategy that MOH unveiled called "Healthier SG".

To support this shift towards primary and community care over the next few years, MOH will look into how family doctors can be given access to patients' medical records and tools such as clinical dashboards to better track their patients' conditions and health trends over time.

For medical stocks under our coverage, Covid-related activities are expected to taper off progressively, especially PCR test revenues as Singapore moves into the endemic phase. That said, we think foreign patient load and elective procedures (which typically translates into higher billings) should increase as regional patients begin to return with borders reopening. In terms of stock picks, we prefer Raffles Medical (RFMD SP, BUY, TP: SGD1.50) as the group is a potential beneficiary of this fundamental trend towards preventive health in the longer term especially given its large primary care networks.

Daily adult ICU bed utilisation



Source: Singapore MOH

TELECOMMUNICATIONS

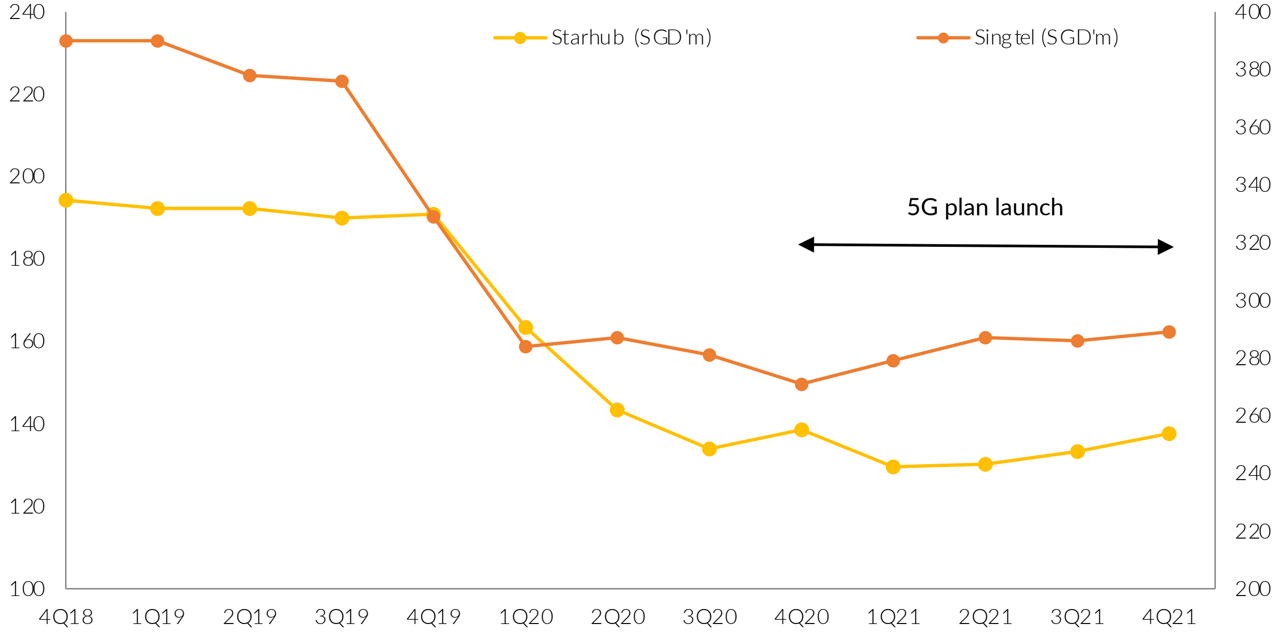
Improved outlook from improving post-paid ARPU, asset recycling & new segments

The telecommunication sector is experiencing a nascent recovery in roaming revenue with the reopening of cross-border travel. We continue to see stable mobile service revenue among the incumbent telcos (Singtel, Starhub). 5G handset-bundle plans were first rolled out in December 2020. The companies have been reporting good take-up rates, as smartphone users are embracing 5G. This was evidenced in the higher post-paid average revenue per user (ARPU) trend in both Singtel and Starhub, which offset the dilution from SIM-only plans.

Stepping into 2H22, Singtel management remains encouraged by the post-paid trajectory seen in Singapore and Optus, while being cautiously optimistic about its associate investments in India, Indonesia and Thailand. Starhub has guided for a robust 10% YoY service revenue growth, but EBITDA would be adversely impacted by inflationary pressures and upfront investment in IT transformation. Management expects margins to recover from 2023 onwards (to at least 23% from 20%). Similarly, Netlink expects operational inflationary pressures to materialise in 2022, including higher interest rates in the rising rate environment.

Our top pick remains Singtel as it is a proxy to: a) regional economic reopening, b) monetisation of their existing assets to narrow the valuation gap, and c) growth opportunities in data centres and their regional digital banking (GXS bank) outfit in Southeast Asia. We also got a BUY call for Netlink as we continue to see the stock as a good shelter (yield at 5.2%) amid market volatility given its strong earnings visibility, healthy balance sheet and cautious approach in terms of overseas/domestic acquisitions.

Stabilisation in mobile service revenue



Source: Individual Companies, Maybank IBG Research

TECHNOLOGY HARDWARE

Demand remains robust

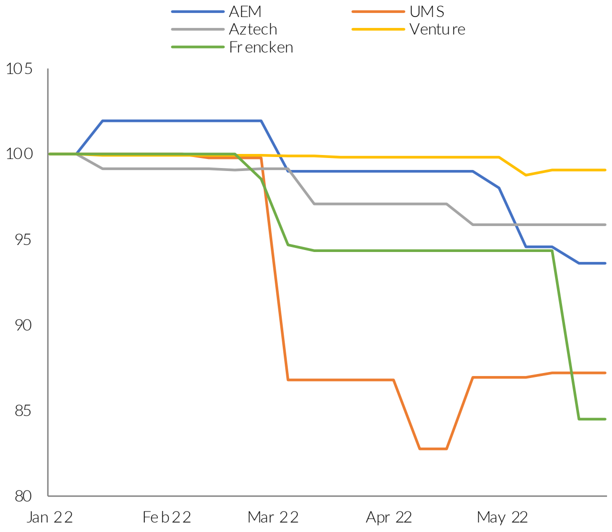
The Russia-Ukraine war, as well as Covid related disruptions in China, are the latest to compound supply chain concerns for Singapore technology hardware companies. The street has had to reduce net margin assumptions for tech stocks due to higher raw materials, freight, energy, and labour costs, amongst others. In the case of AEM/ Frencken, margin revision also factored in higher R&D/ depreciation (due to capex in FY21) respectively – as they pursue further growth.

As fears that material global economic slowdown might take place, we believe the next key risk to observe would be on the demand side. We point out that thus far demand for semiconductor equipment (relates to AEM, UMS, Frencken) remains resilient as chipmakers plan capacity for higher structural demand on the back of technologies like 5G and AI. Demand for certain industrial end-markets like life sciences and medical (relates to Venture and Frencken) and networking (Venture) also appear robust currently. In our view, we are more concerned with the vulnerability of consumer electronics demand (relates to Aztech).

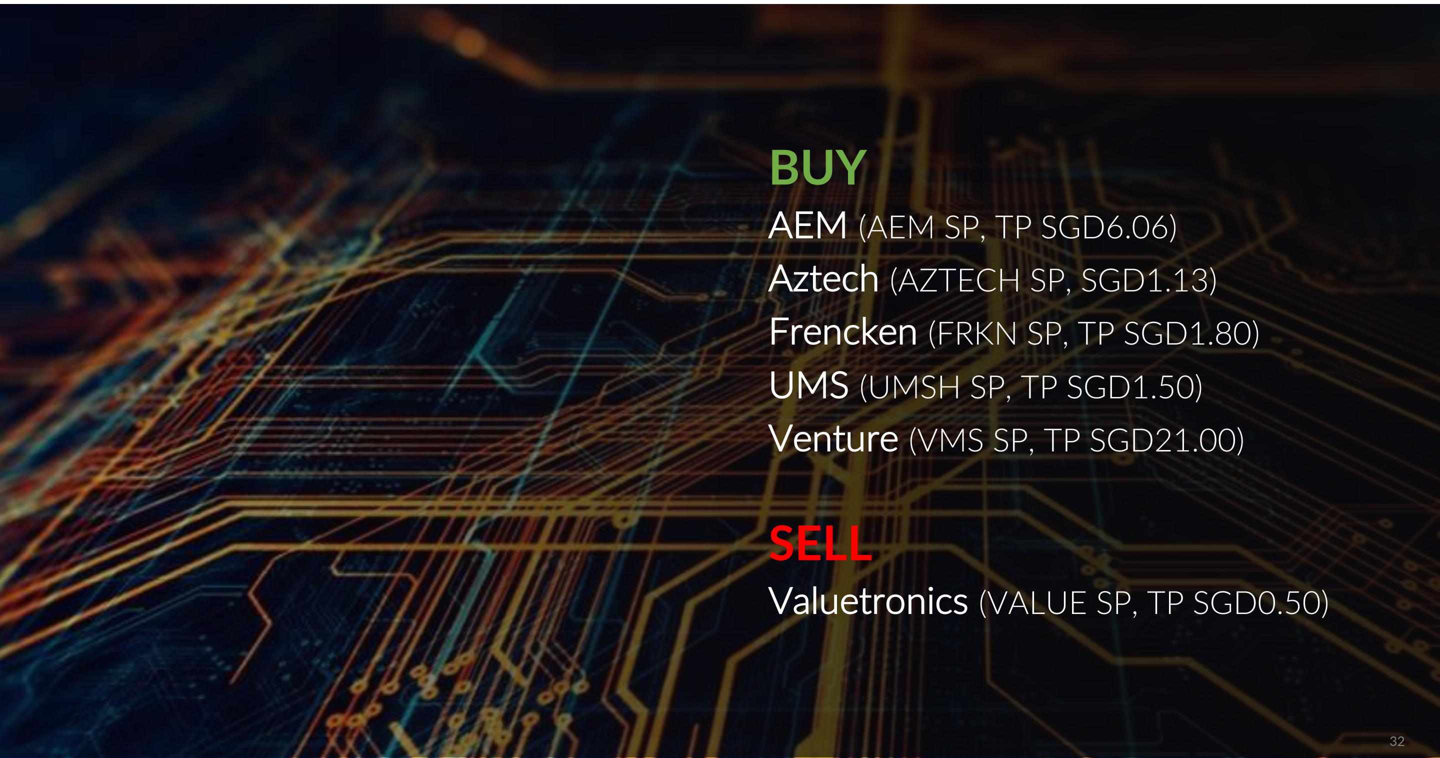
While we are cognizant of the aforementioned risks, we are POSITIVE on the sector on: i) valuation; and ii) long-term growth prospects. Multiple companies exhibit multi-year growth drivers from: i) potential new customers (e.g. AEM, UMS, and Aztech); and ii) new products with likely higher margins due to stronger value add (e.g. Frencken and Venture).

For companies that may benefit from potential new customers, we see upside to our forecasts over a multi-year horizon. Our current top pick is Venture – due to resiliency in margins and end-market demand. As we progress into 2023, we believe Intel would have to start taking delivery of equipment for its new Penang plant due to begin in 2024 – which should be a catalyst for AEM in the early-to-mid 2023 vicinity.

YTD changes in FY22 consensus street margin in % terms indexed to start of the year



Source: Bloomberg



BUY

AEM (AEM SP, TP SGD6.06)

Aztech (AZTECH SP, SGD1.13)

Frencken (FRKN SP, TP SGD1.80)

UMS (UMSH SP, TP SGD1.50)

Venture (VMS SP, TP SGD21.00)

SELL

Valuetronics (VALUE SP, TP SGD0.50)

INTERNET

As inflation drives market concerns of central bank overtightening, pre-earnings growth stocks like Grab and Sea have underperformed

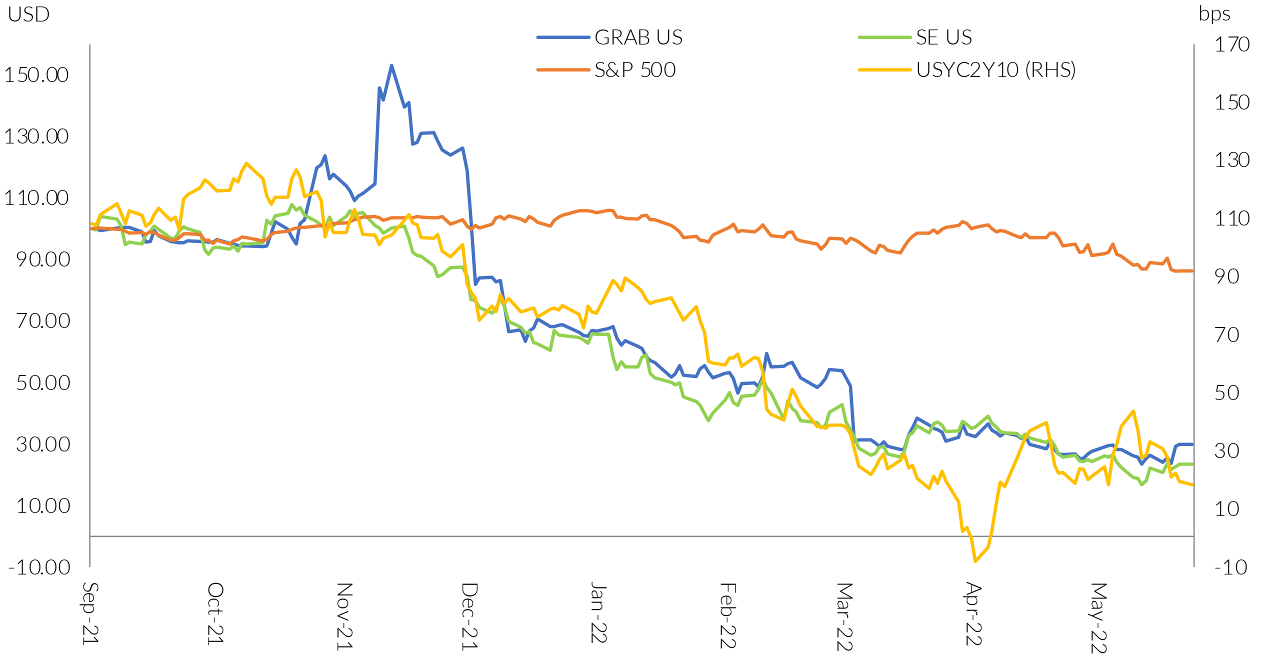
Grab's (or Altimeter prior to December 21) and Sea's share prices have fallen by 85% over September 21 to May 22 as interest rates rose and the US 10Y-2Y yield curve collapsed. During this time, US 2Y yields have risen 241bps to 2.6%, outpacing 10Y yields (+151 bps to 2.8%). We think this could be reflecting a lack of appetite for pre-earnings growth stocks as the Fed turns hawkish.

In our view, the sell-off is a combination of)i risk-off as investors position defensively; ii) re-pricing of valuations (valuations are now pegged towards revenue multiples than GMV multiples previously), and iii) investors cautious towards rate of cash burn and need for fundraising that could be dilutive.

Higher costs of capital have also increased the opportunity cost of holding these stocks. We perceive that Sea and Grab understand the lack of appetite for investors to tolerate equity fundraising in the current climate, as they judiciously manage resources to pursue growth. However, we flag decreasing consumer sentiment as a risk as large parts of the ASEAN population are price sensitive given their purchasing power positions.

We are POSITIVE towards internet stocks on an 18-24 months horizon as we try to look past current market sentiment and focus on the competitive positioning of Sea and Grab as regional champions in their respective verticals. We expect them to continue maintaining net cash positions as they eventually reach profitability and positive free cash flow in a few years. BUYs on Sea (SE US, TP USD140), Grab (GRAB US, TP SGD4.25)

Grab (or Altimeter, prior to December 21), Sea and S&P500 indexed share price performance vs. US 10Y-2Y yield curve



Source: Bloomberg