Singapore Market Focus

Small-mid cap strategy

DBS Group Research . Equity

5 Jan 2021

Vaccines to accelerate rebound

- Expect SMCs to catchup with larger caps on attractive valuations
- Hospitality and retail are beneficiaries of COVID vaccines and reopening of economies - our picks are ART, CDLHT, LREIT, CRCT
- Revival of M&A: potential targets in the technology space - Spindex, Fu Yu, Valuetronics; REITS – AIMS APAC; Consumer – Delfi, QAF; Deep value – YZJ, HPHT, CAO
- Re-rating of tech stocks to continue led by structural changes; Remain positive on semiconductors – AEM, UMS, Frencken
- Other themes: Steady earnings growth - iFAST, Delfi, First Resources, Bumitama; Value plays - Koufu, CAO, HPHT, Tuan Sing

Expect small-mid caps (SMC) to catch up with larger caps on attractive valuations. The Straits Times Index (STI) has rebounded 17% in the last two months on rotation to value plays led by positive developments on vaccines, and banks and other cyclical plays. In contrast, the FTSE ST Small Cap Index (FSTS) had only gained 10% during the same period, underperforming the STI. Given the relative attractive valuation at 12.4x FY21F PE for the FSTS vs 13.8x for the STI, we expect the rebound in smaller cap stocks to accelerate and catchup with the larger caps. We highlight four themes that could be in play for 2021.

Winners of positive vaccine developments. The hospitality sector is at an early cyclical upturn and we see a "V-shaped" recovery taking shape as early as 2H21. Our picks are ART and CDLHT. The retail REITS sector is trading at attractive valuations and a robust 2-year DPU growth of 13%. We like LREIT in the SMC space among the Singapore landlords and CRCT, a premier China proxy.

M&A revival - Who is next? The M&A and privatisation wave is gaining momentum. With the on-going pandemic, small-to mid-size businesses with less robust cash positions are likely to struggle as government support dries up. Bankruptcies and the number of distressed companies may rise, presenting opportunities for M&A as companies look for both shelter and new opportunities. Potential targets in the Tech space - Spindex, Fu Yu, Valuetronics; REITS – AIMS APAC; Consumer – Delfi, QAF for brands; Deep value – Yangzijiang, HPH Trust, CAO.

New technologies, new norms; re-rating of tech stocks to continue post COVID. The technology sector shone in 2020 as the pace of adoption of new technologies was hastened by the COVID-19 pandemic. We expect this structural change to sustain demand in the long term. Remain positive on semiconductors – AEM, UMS, Frencken.

Steady earnings growth and value plays. We like stocks with steady earnings growth and clear catalysts to sustain firm growth momentum ahead. SMC stocks in this space include iFAST, Delfi, and CPO plays First Resources and Bumitama. We see opportunities to position into companies that are on the cusp of an earnings turnaround - Koufu, CAO and HPHT are in this space, while Tuan Sing is an undervalued property play.

STI : 2,858.90

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Key Indices

	Current	% Chng
STI Index	2,858.90	0.5%
FS Small Cap Index	304.57	0.9%
USD/SGD Curncy	1.32	-0.1%
Daily Volume (m)	1,703	
Daily Turnover (S$m)	980	
Daily Turnover (US$m)	742	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2020E	(34.0)	3.6
2021F	43.2	4.1
2022F	13.0	4.5
(x)	PER	EV/EBITDA
2020E	21.3	19.3
2021F	14.8	14.6
2022F	13.1	13.8

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
Vaccine winners						
Ascott Residence	1.09	2,563	1.20	21.8	(18.1)	BUY
CDL Hospitality Trusts	1.31	1,211	1.40	26.0	(19.6)	BUY
LendLease Global Commercial REIT	0.745	663	0.90	6.4	(19.9)	BUY
CapitaLand Retail China Trust	1.39	1,511	1.70	18.8	(12.6)	BUY
Technology						
AEM Holdings Ltd	3.56	741	5.16	(0.3)	74.5	BUY
Frencken Group	1.34	432	1.51	40.3	41.8	BUY
UMS Holdings	1.15	464	1.36	18.6	9.5	BUY
Steady earnings growth						
iFAST Corporation	3.25	669	3.96	35.4	206.6	BUY
Delfi Ltd	0.71	328	0.98	1.4	(29.0)	BUY
First Resources	1.35	1,612	1.70	8.9	(29.7)	BUY
Bumitama Agri	0.51	668	0.66	5.2	(34.2)	BUY
Value plays						
Koufu Group Limited	0.69	289	0.77	7.8	(11.0)	BUY
China Aviation Oil	1.07	696	1.20	13.8	(17.7)	BUY
Hutchison Port (US$)	0.198	1,725	0.22	33.8	15.1	BUY
Tuan Sing Holdings	0.315	283	0.44	5.0	(6.0)	BUY

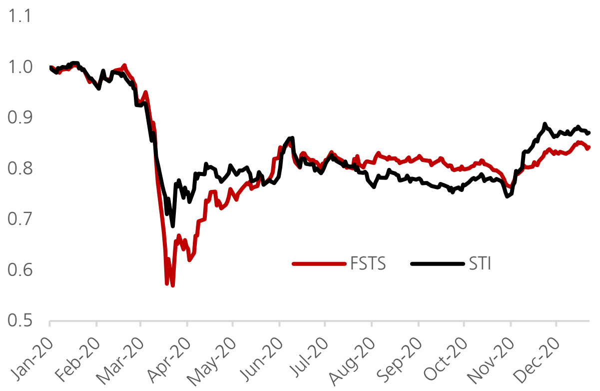
Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 4 Jan 2021

Review – SMC vs STI

Review

2020 a volatile year, especially for small-mid caps
The FTSE ST Small Cap Index (FSTS) suffered a steep drop in mid-April 2020 when COVID-19 hit the world, underperforming the ST Index (STI). However, FSTS staged a strong recovery and outpaced the STI during the July-October period. With positive COVID-19 vaccine news in November, a switch to value and big cap plays has led to the relative underperformance of small cap stocks in the last two months.

Relative performance – FSTS vs STI



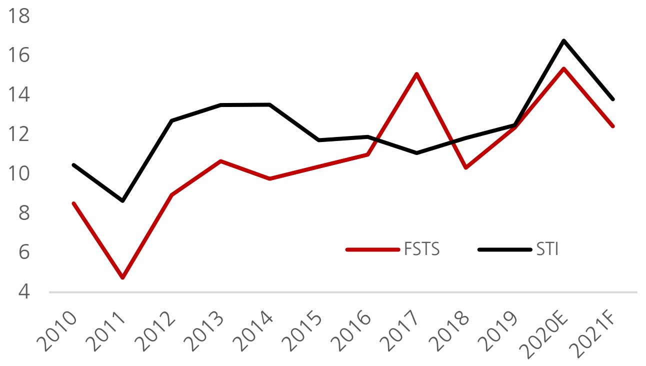
Source: DBS Bank; Thomson-Reuters

Expect small-mid caps to catch up with larger caps on attractive valuations. The STI has rebounded 17% since the beginning of November. Travel-related plays like hotels and airlines, as well as banks rebounded strongly as investors turned their attention to value plays on the positive developments on vaccines, leading to the strong rebound in STI. In contrast, the FSTS had only gained 10% during the same period, underperforming the STI.

With the gradual recovery of the global economies and the availability of COVID-19 vaccines in certain countries, we expect the rebound in smaller cap stocks to accelerate and catch up with the larger caps.

On the valuation front, FSTS usually trades at a discount to the STI on Price/Earnings (PE) basis. This trend is expected to remain in place going forward. The FSTS is projected to trade at 12.4x PE in FY21, vs 13.8x for the STI, according to Bloomberg consensus forecasts.

PE valuation– FSTS vs STI



Note: only include companies with positive earnings are included
Source: DBS Bank; Bloomberg Finance L.P.

2021 – vaccines to accelerate rebound

2020 saw wild swings in the stock market, caused by the COVID-19 pandemic. The market defied expectations, staging a strong rebound after hitting the trough in April even though the economy languished. This year, the economy is likely to improve the virus is contained. With the economy's nascent recovery and the COVID-19 vaccine news, we could see an extension of the rebound.

Four themes could be in play for 2021:-

1) Winners of positive vaccine developments
2) The revival of M&A. Who is next?
3) New technologies, new norms; re-rating of tech stocks to continue post COVID
4) Steady earnings growth and value plays

Theme 1 – Winners of positive vaccine developments

The aviation, hospitality and retail sectors are among the worst hit by the COVID-19 pandemic. But there is light at the end of the tunnel now as the vaccines become available. These "lockdown losers" could emerge as "vaccine winners" in 2021.

Hospitality sector to rebound ahead of earnings recovery. For the hospitality sector, our REITS team expects travel to restart for the majority of business meetings (including MICE). Together with the strong pent-up demand for leisure travel, we see a "V-shaped" recovery taking shape as early as 2H21, assuming the mass distribution of COVID-19 vaccines is possible in the first half of 2021. The hospitality sector is still at an early cyclical upturn stage and offers good value at P/NAV of 0.77x, close to -1.5 standard deviation (SD) of its historical range. Our picks are Ascott Residence Trust (ART) and CDL Hospitality Trusts (CDLHT) for their attractive valuations.

ART (BUY, TP: S$1.20)
We see compelling value in ART at 0.8x P/NAV, more than -1.5 SD of its historical 10-year mean, with an attractive 6.9% FY22 dividend yield with upside if travel rebound occurs faster than expected. ART's global portfolio enables the REIT to capture demand from both domestic and international travel, ahead of its Singapore-listed peers. Furthermore, a healthy 36% gearing level and S$2bn debt headroom could mean that acquisition of its Sponsor's > S$1.0bn US multi-family portfolio may be considered in 2021.

CDLHT (BUY, TP: S$1.40)
CDLHT currently trades at a price/book (P/NAV) of 0.8x (close to -1.5 SD levels) and a sharp discount from its mean P/Bk of 1.0x. We believe that the stock is on track to ride the travel demand recovery in 2021 and beyond. CDLHT is also trading below its replacement cost. CDLHT trades at an implied average price/room of S$0.6m for its Singapore hotels, which is below replacement cost of S$0.75m/room in Singapore. Investors are essentially getting exposure to the hotel sector at below the cost to rebuild.

Retail REITs – "dominant malls" the way to go
Our REITS team is of the view that malls with "dominant characteristics" will emerge as winners in this new normal as retailers handpick their physical storefronts to maximise visibility and sales. In the SMC space, Lendlease REIT's (LREIT) portfolio should be able to "buck the trend" and deliver operating performance close to/above pre-COVID-19 level ahead of peers in the sector. The retail REITS sector is trading at attractive valuation at -0.5x standard deviation and offers robust 2-year DPU growth CAGR of 13% (FY20 – FY22). Apart from Singapore landlords, we also like CapitaLand Retail China Trust (CRCT) for its attractive yields in excess of 8.0% with a visible pipeline to further propel its growth as a premier China proxy.

LREIT (BUY, TP: S$0.90)
LREIT is an undervalued gem, trading at a compelling valuation of 0.78x P/NAV (retail peer average of 0.94x P/NAV), yield of 7.7%, anchored by resilient earnings. We see more upside from the repositioning 313@Somerset's tenant mix in view of its enlarged footprint to c.330k sqft and expanded shopper base following the launch of Grange Road carpark redevelopment in 2Q22.

CRCT (BUY, TP: S$1.70)
Green shoots emerged within China retail in August 2020 as the sector turned positive for the first time this year, which we see translating into similar shopper footfall and tenant sales trend for CRCT. CRCT's shopper traffic and tenant sales have already recovered to c.90% of pre-COVID levels. Furthermore, CRCT has an addressable pipeline of more than S$33bn in terms of inorganic growth. Forward yield is compelling at c.8.5%.

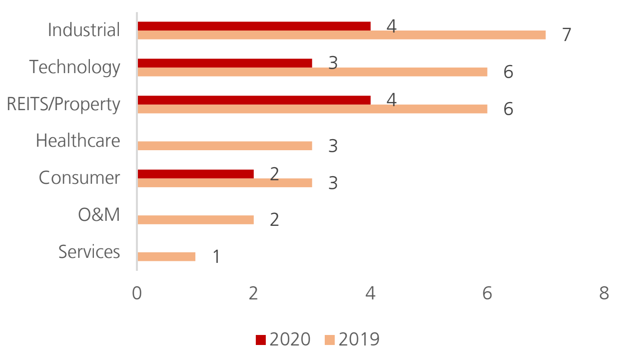
Theme 2 – The revival of M&A - Who is next?

The M&A and privatisation wave is gaining momentum, especially in recent months, after a quiet 1H2020. Most of the deals in 2020 occurred in the second half of the year, as the impact of COVID-19, coupled with a weak global economy, affected companies across industries. With the on-going pandemic, small-to mid-size businesses with less robust cash positions will struggle as government support dries up. Bankruptcies and the number of distressed companies are likely to rise, presenting opportunities for M&A as companies look for both shelter and new opportunities in all directions. Companies will need to repair, rethink and reconfigure their businesses.

Based on data compiled by us, over the past two years, the REITS/Property, Technology and Consumer sector have been the key contributors to M&A deals. In 2020, all the 13 deals were in the REITS/Property, Industrial, Technology and Consumer sectors. This number is only half of the 28 deals we saw in 2019, mainly attributable to the global pandemic, which raised roadblocks to deal-making fundamentals, including travel restrictions and quarantine requirements.

In our M&A report published in July 2019, "Spotlight on M&A – Stronger Together" we were spot on to highlight Sunningdale, United Engineers, ISEC Healthcare and mm2 Asia (restructuring) as potential targets.

Number of deals by sector



Source: DBS Bank; Bloomberg Finance L.P.

Growing attractiveness of M&A offers. Based on the data compiled, companies that were privatised or acquired are now transacted at a higher premium as compared to the last few years. In 2016 to 2018, average premium over the last transacted price before the deal was announced was about 10% to 20%. However, in 2019 and 2020, the premium has increased to about 38% to 40%. This often presents an opportunity for shareholders to liquidate and realise their entire investment, often at a premium to the prevailing market price, an option which may not otherwise materialise.

Average premium for key privatization and takeover deals

Year	Number of deals	Average premium
2016	17	22%
2017	14	12%
2018	8	10%
2019	28	38%
2020	13	40%

Source: DBS Bank; Bloomberg Finance L.P.

Going forward, we expect the M&A and privatisation trend to continue, especially in the Technology, REITS and Consumer space. Factors driving M&A and privatisation include limited necessity for access to equity capital markets, cost savings, restructuring and streamlining of operations and enabling the management to focus on long term goals without having to worry about meeting shareholders' short-term demands at the same time.

Technology sector – shift in supply chain, COVID-19 pandemic and trade war to hasten M&A/privatisation

In the technology space, the shift in supply chain – out of China to other ASEAN countries or back to the US to avoid the hefty tariffs, are taking a toll on manufacturing firms. Many technology companies have manufacturing plants in China, the factory to the world. However, the onset of the US-China trade war, and now the COVID-19 pandemic, has underscored the need to shift supply chains out of China and diversify risks. Many manufacturers are rethinking their supply sources, to balance between efficiencies, resilience, costs, and diversify their production networks instead of relying on a limited number of suppliers. Shifting their supply chains to other ASEAN countries or back to the US are some of the options. However, this process would take time and not all manufacturing processes can be easily transferred out of China.

The M&A or privatisation route could be an option to consider. It does make economic sense for technology companies to adopt the M&A route as some of these companies may have common customers, provide similar services or manufacture similar products. Synergistic acquisitions can also offer other significant benefits such as economies of scale and increased market share. Furthermore, delisting can also lead to cost savings from compliance and associated costs relating to listing requirements and regular disclosures. These resources could be channelled to their business operations instead.

Deals done in 2020 mainly driven by low trading liquidity, economic uncertainty due to shift in supply chain, COVID-19 pandemic, trade war. In 2020, some of the technology companies that have chosen this path include Elec and Eltek, and Sunningdale. Printed circuit board manufacturer Elec and Eltek was privatised after controlling shareholder, Kingboard Holdings, with a 73.6% stake offered to acquire the remaining shares at HK$18.07 (U$2.33) cash per offer share. The offer price was at a hefty premium of 99% based the last transacted price on the SGX-ST before the announcement. The low trading liquidity of the shares and low trading price were among the reasons for the privatisation.

The Chairman of Sunningdale, Mr Koh Boon Hwee, has teamed up with Novo Tellus PE Fund 2 to make an offer for the precision plastic components manufacturer at S$1.55 in cash per share via a scheme of arrangement. Mr Koh currently owns 15.6% of Sunningdale. The continuing global trade tensions and shift in supply chain that require the group's operations to better align with these changing market dynamics, coupled with low trading liquidity, prompted the privatisation offer.

Other potential candidates – Spindex, Fu Yu, Valuetronics. We believe Spindex is a potential privatisation candidate. Back in February 2017, the founder of Spindex attempted to privatise the company at S$0.85 per share, at a 21% premium to the last traded price. However, the deal was blocked by Star Engineering, a subsidiary of Northstar Equity Partners, indicating a potential offer at higher than S$0.85 per share. However, Star Engineering did not put forward a firm offer or a specific offer price. Spindex could potentially be back in the market, given the low free float of c.25% and net cash accounting for 43% of its market capitalisation.

Fu Yu trades at EV/EBITDA of close to 4x, which is the lowest among its industry peers in the region, which trade at an average of c.6-7x EV/EBITDA. Net cash accounts for c.40% of its current market capitalisation, with attractive dividend yield of 5.2%. Similarly, Valuetronics also has a high net cash level, accounting for c.70% of its current market capitalisation, with c.5% yield. The stock is trading at 9.4x/10.9x FY21/22F PE, which is at a discount to peers, and its ex-cash PE is less than 1x.

Tech stocks – Potential privatisation and takeover candidates

Company	Mkt Cap (S$m)	Price ($)	P/BV (x)	Hist. P/E (x)	Net cash as % of mkt cap	% majority owned	6-mth avg daily value (S$'000)
Potential candidate							
Spindex	111.9	0.97	0.88	9.2	43%	75.0	10.2
Fu Yu Corp	195.8	0.26	1.19	15.4	40%	39.1	299.2
Valuetronics	256.7	0.59	1.18	8.2	70%	24.8	825.4

Source: DBS Bank; Bloomberg Finance L.P.

Cash is king. Cash-rich technology companies could also be an attractive takeover target as the cash that they have can be used by the acquirer to fund the acquisition. Cash-rich companies in this space include Valuetronics, Fu Yu, Creative, Innotek, Silverlake and other smaller players like Datapulse, Sunright, ASTI, Cheung Woh, Avi-Tech, Metech, Datapulse, and Azeus Systems.

Tech stocks – Net cash >30% of market cap

Company	Mkt Cap (S$m)	Price ($)	P/BV (x)	Hist. P/E (x)	Net cash as % of mkt cap	% majority owned	6-mth avg daily value (S$'000)
Sunright	54.6	0.445	0.66	32.5	169%	56.7	28.9
ASTI	19.1	0.028	0.25	16.2	97%	36.0	49.0
Valuetronics	256.7	0.59	1.18	8.2	70%	24.8	825.4
Cheung Woh	43.1	0.146	0.57	loss	66%	79.1	3.9
Avi-Tech	71.0	0.415	1.39	11.9	52%	42.6	126.7
Spindex	111.9	0.97	0.88	9.2	43%	75.0	10.2
Metech	7.2	0.08	2.68	loss	42%	62.1	2.8
Creative	169.7	2.41	1.39	loss	41%	36.2	175.2
Fu Yu	195.8	0.26	1.19	15.4	40%	39.1	299.2
Datapulse	40.5	0.185	0.54	loss	40%	44.5	1.7
Innotek	128.1	0.56	0.77	10.0	38%	48.0	144.3
Azeus Systems	42.0	1.40	2.17	13.1	36%	82.4	1.3
Silverlake	683.1	0.265	2.92	11.5	33%	71.1	1,448.9

Source: DBS Bank; Bloomberg Finance L.P.

REITS & Property – M&A could still be in focus as peers are now getting bigger with consolidation

We have seen a number of M&As in the REITS space in the last two years. 2019 was an eventful year for REITS. The M&As included the combination of the two OUE-sponsored REITs (OUE Commercial Trust and OUE Hospitality Trust); merger of Ascott Residence Trust and Ascendas Hospitality Trust; merger of Frasers Logistics & Industrial Trust and Frasers Commercial Trust and merger of Cache Logistics Trust (via ARA, the manager) with the LOGOS Group to form ARA LOGOS Logistics Trust. In January 2020, the merger of CapitaLand Mall Trust (CMT) and CapitaLand Commercial Trust (CCT) was announced to form CapitaLand Integrated Commercial Trust.

Looking ahead, we continue to see further consolidation within the REIT space. Potential candidates include AIMS APAC REIT (AAREIT). We believe that AAREIT can be a target, given its focus on the high-quality business park space and modern ramp-up facilities.

In the mid-cap developer space, some are trading at attractive valuations but tepid trading liquidity. This group of developers typically have founders holding a significant stake or own a distinctive and valuable portfolio of assets. Some of the mid-cap developers that we like include Tuan Sing and Bukit Sembawang and developers (non-covered) with attractive commercial portfolios like GuocoLand and Ho Bee that fit the above criteria.

F&B – value in brands

Companies with strong brand equity are highly sought after, as seen by the takeovers and privatisations of OSIM, Eu Yan Sang, Super Group, Auric Pacific and Courts Asia. We believe Delfi stands out on its premiumisation strategy along with rejuvenation of the Van Houten brand, and may be on the radar screen of acquirers. Other potential targets with strong brand names include QAF, which owns the Gardenia bread brand. Auric Pacific, which owns the Sunshine brand bread, was privatised in 2017. Both Metro and Isetan are well-known players in the retail market. Khong Guan is also another widely known brand. Its peer, Prima Group, was delisted many years back, in 2003.

Deep value candidates

Yangzijiang is deeply undervalued trading at 0.55x P/BV and 6x PE, below its net cash level (include financial assets) of S$1.15/share, despite having superior financial metrics of 8% ROE and 4% dividend yield.

HPH Trust could be a privatisation candidate given that its share price is 80% below its IPO price of US$1.01, its prospects and earnings are turning more positive and it has strong shareholders (Hutchison Port Holdings and Temasek own nearly 42%).

China Aviation Oil has net cash of c.US$400m, which it can use to make earnings-accretive acquisitions. Management has stated that it is on the lookout for complementary acquisitions. Any significant EPS accretive acquisition(s) could help the stock to re-rate further.

Appendix: Key privatisation and takeover deals announced (2019 – 2020)*

Company	Date announced	Offer details	Offer price	Last close prior to offer	Premium/ (Discount)
PCI Ltd	04-Jan-19	Acquisition by global investment fund, Pagani Holdings, at S$1.33 per share.	S$1.330	S$1.040	28%
Declout	07-Jan-19	Voluntary offer by Kyowa, a leading Japanese conglomerate in the construction and supply of telecommunications infrastructure, electrical, civil and environmental engineering services, systems solutions and integration services, at S$0.13 per share	S$0.130	S$0.110	18%
Courts Asia	18-Jan-19	Voluntary offer by Nojima, an electrical appliance retail chain listed on the Tokyo Stock Exchange, at S$0.205 per share	S$0.205	S$0.152	35%
Fabchem	15-Mar-19	Mandatory cash offer at S$0.158 per share, after acquiring stake from substantial shareholder	S$0.158	S$0.158	0%
Challenger Technologies (lapsed)	20-Mar-19	Exit offer by founder at S$0.56 per share	S$0.560	S$0.530	6%
Kingboard Copper Foil (2nd attempt)	04-Apr-19	2nd attempt: Voluntary offer by the Kingboard Chemical group at S$0.60 cash per share.	S$0.600	S$0.550	9%
OUE Commercial REIT/OUE Hospitality Trust	08-Apr-19	Merger of OUE Commercial REIT and OUE Hospitality Trust	-	-	-
Indo Agri Resources (lapsed)	11-Apr-19	Privatisation offer by parent PT Indofood Sukses Makmur at S$0.28 per share. The offer price was raised to S$0.3275 per share. Despite the revision, the offer was lapsed with 88-08% acceptance, short of the 90% level for the deal to proceed.	S$0.328	S$0.260	26%
800 Super Holdings	06-May-19	Founder made privatisation offer at S$0.90 per share.	S$0.900	S$0.775	16%
JEP Holdings	13-May-19	Mandatory cash offer by UMS Holdings at S$0.15 per share, after increasing stake to 38.8%	S$0.150	S$0.156	-4%
Memtech International	14-May-19	Privatisation offer by founder at S$1.35 per share.	S$1.350	S$1.090	24%
Boardroom	15-May-19	Privatisation offer by major shareholder, GK Goh at S$0.88 per share.	S$0.880	S$0.770	14%
Millennium & Copthorne Hotels plc	07-Jun-19	Privatisation offer by major shareholder, City Developments at 685 pence per share.	685 pence	500 pence	37%
Hupsteel	28-Jun-19	Privatisation offer by founder at S$1.20 per share.	S$1.200	S$0.790	52%
Ascott Residence Trust	03-Jul-19	Merger of Ascott Residence Trust and Ascendas Hospitality Trust. ART to acquire ASCHT for S$1.0868 per unit on the basis of 5% cash (S$0.0543) and 95% units (0.7942 new Ascott Reit-BT Stapled Units issued at S$1.30)	S$1.0868	ASCHT: S$0.975 ART: S$1.31	12%
Health Management Int'l	05-Jul-19	Privatisation offer at S$0.73 per share.	S$0.730	S$0.660	11%
Delong Holdings	29-Jul-19	Privatisation offer by Chairman and CEO at S$7 per share	S$7.00	S$6.010	16%
Star Pharmaceutical	05-Aug-19	Privatisation offer by Chairman at S$0.45 per share	S$0.45	S$0.175	157%
TPV Holdings	08-Aug-19	Privatisation offer at HK$3.86 per share (both HKEx and SGX)	S$3.86	S$2.73	41%
PS Group	20-Aug-19	Privatisation offer at S$0.118 per share	S$0.118	S$0.04	195%
ISEC Healthcare	26-Aug-19	Offer by Aier (peer listed on Shenzhen Stock Exchange) at S$0.36 per share	S$0.36	S$0.325	11%
San Teh	05-Sep-19	Privatisation offer by the Kao family at S$0.28 per share	S$0.28	S$0.154	82%
United Engineers (2nd attempt)	25-Oct-19	Privatisation offer by Yanlord-led consortium at S$2.60 per share.	S$2.60	-	-
Keppel Corp (withdrawn)	21-Oct-19	Partial cash offer for 30.55% stake by Temasek at S$7.35 per share.	S$7.350	S$5.840	26%
Yanlord Land	25-Oct-19	Mandatory offer for United Engineers (UE) at S$2.60 per share, and also WBL at S$2.5947 per share.	UE:S$2.60	S$2.660	2%
PACC Offshore Services (POSH)	04-Nov-19	Privatisation offer by Kuok Group at S$0.215 per share.	S$0.215	S$0.109	97%
CITIC Envirotech	06-Nov-19	Privatisation offer by CITIC Group at S$0.55 per share.	S$0.55	S$0.370	49%
Frasers Property	02-Dec-19	Merger of Frasers Logistics & Industrial Trust and Frasers Commercial Trust. Unitholders of FCOT to receive S$1.680 per unit, to be satisfied by S$0.151 cash and 1.233 new FLT units valued at S$1.24 per unit.	-	-	-
Cache Logistics Trust	12-Dec-19	Merger of Cache Logistics Trust (via ARA, the manager) with the LOGOS Group to form ARA LOGOS Logistics Trust	-	-	-
CMT / CCT	22-Jan-20	Merger of CapitaLand Mall Trust (CMT) and CapitaLand Commercial Trust (CCT) to form CapitaLand Integrated Commercial Trust. The consideration per CCT unit comprises 0.720 new CMT units and S$0.2590 in cash, implying a gross exchange ratio of 0.820.	CMT: $2.59	-	-
Breadtalk	25-Feb-20	Privatisation offer by founder and Minor Int'l at S$0.77 per share	S$0.77	S$0.645	19%
Elec & Eltek	03-Apr-20	Privatisation offer by Kingboard Holdings at HK$18.07 (US$2.33) per share.	US$2.33	US$1.17	99%
Dynamic Colours	01-Jun-20	Privatisation offer by founder at S$0.225 per share	S$0.225	S$0.198	14%
Perennial Real Estate Holdings	12-Jun-20	Privatisation offer by consortium led by substantial shareholders at S$0.95 per share	S$0.95	S$0.505	88%
Luzhou Bio Chem	01-Jul-20	Privatisation offer by founder at S$0.03 per share	S$0.03	S$0.015	100%
Tee International	08-Jul-20	Offer for remaining stake by Tramore Global, after acquiring a 36.8% stake	S$0.0338	S$0.03	13%
SK Jewellery	02-Sep-20	Privatisation offer by founders at S$0.15 per share	S$0.15	S$0.088	70%
LCT Holdings	16-Sep-20	Privatisation offer at S$0.60 per share	S$0.60	S$0.43	40%
Lum Chang	18-Nov-20	Mandatory offer by a consortium led by Ellipsiz and the management (Lum family) at S$0.38 per share	S$0.38	S$0.35	9%
Sunvic	25-Nov-20	Conditional offer by Harrier Group (owned by private investor Mr Song Wuying) @ S$0.028 per share	S$0.028	S$0.022	27%
Sunningdale	09-Nov-20	Offer by Sunrise Tech (owned by chairman Koh Boon Hwee and Novo Tellus PE Fund) at S$1.55 per share	S$1.55	S$1.58	-2%
Average Premium / (Discount) :-		2017: 12%; 2018: 10%; 2019: 38%; 2020: 40%			

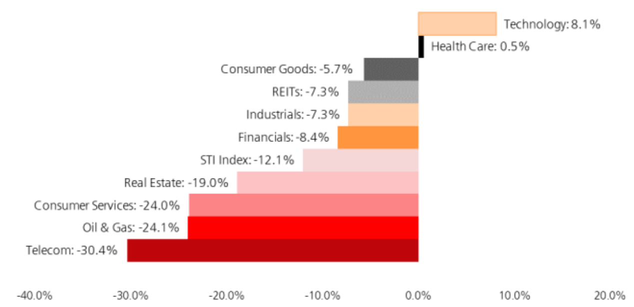
**List may not be exhaustive and excludes those in the watch list*
Source: DBS Bank; Bloomberg Finance L.P.

Theme 3 – New technologies, new norms; re-rating of tech stocks to continue post COVID

Technology shone in 2020

The only star in 2020. The Technology sector was the best performing sector in 2020, up 8.1% while all other sectors, other than Healthcare, were in negative territory. The adoption of new technologies - Internet of Things, Big Data, Artificial Intelligence and 5G - is driving new demands. The pace of adoption was hastened by the COVID-19 pandemic, which has created a pressing need for companies to begin their digital transformation by adopting technologies to increase their efficiency and competitiveness. The work-from-home policy and online learning have increased the proliferation of certain segments of the technology value chain, in particular semiconductors, memory and servers.

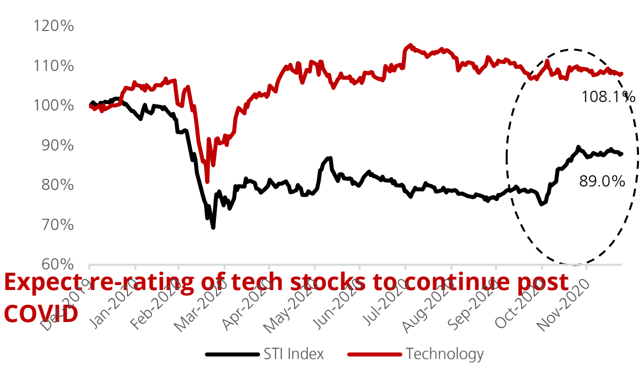
FTSE Straits Times Sector Indices YTD Performance



Source: DBS Bank; Bloomberg Finance L.P.

Resilience despite rotational shift out of tech into cyclicals and value plays. The Technology sector lost some luster and underperformed the broader market in the last few months as the COVID-19 vaccine news led to profit taking of technology stocks into cyclical and value plays. However, despite the rotational shift, tech stocks remained resilient.

STI vs FTSE Technology Index 2020 Performance



Source: DBS Bank; Bloomberg Finance L.P.

Expect re-rating of tech stocks to continue post COVID

Structural change to sustain demand. Although the pandemic will recede, the structural changes caused by the pandemic is likely to persist to some degree. This will drive paradigm shifts in tech requirements and consumer behaviour. There will be a sustained demand driving this digitisation trend as a result. Digital adoption has taken a quantum leap. There is little opportunity to return to the old ways of doing things. The transformation that we saw in 2020, fuelled by COVID-19, is here to stay.

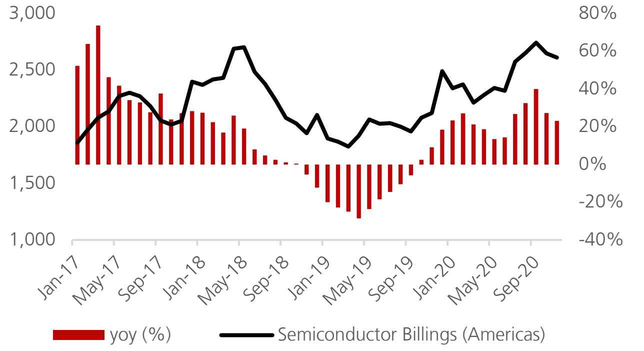
Still positive on semiconductors. Among the various segments within the technology value chain, we remain positive on the upstream semiconductors, despite the strong performance in 2020. Equipment manufacturer, chips maker or semiconductor services provider, are still expected to do well in 2021, on the back of the growing demand for new technologies, which require more advanced chips. We are more selective on the mid to downstream players, which include the Electronics Manufacturing Services (EMS) and contract manufacturers, as this space is generally more crowded and competitive.

Bullish forecasts and industry trends

Bullish forecast from WSTS, SEMI. The World Semiconductor Trade Statistics ("WSTS") and SEMI are projecting a stronger semiconductor industry in 2021. WSTS is expecting the world semiconductor market to expand by 6.2% y-o-y to US$452m, accelerating from 3.3% y-o-y increase in 2020. SEMI is projecting global fab equipment spending to increase by 13% y-o-y to US$67.7bn in 2021, up from 8% in 2020. This will be driven by the pandemic-induced demand for chips from gaming, communications, information technology (IT) infrastructures, data centres and healthcare electronics.

Uptrend for US semiconductor equipment billings intact. US semiconductor equipment billings passed its previous peak (May 2018) in September 2020 and momentum in the industry remains strong. The US 3-month semiconductor equipment billings increased 23.1% y-o-y in November to US$2.6bn. November also marked the 14th consecutive y-o-y increase.

US Semiconductor Equipment Billings



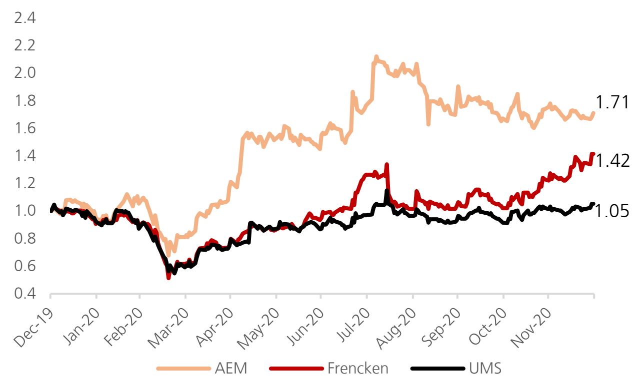
Source: SEMI, CEIC, DBS Bank

Semiconductor propping up the Singapore electronics sector. Back home, the buoyant semiconductor sector has also helped to prop up the electronics sector. The electronics segment clocked 34.9% y-o-y growth in November to reverse the previous month's 1.1% slip. The increase was fueled by the semiconductor segment, which was mainly attributed to demand from 5G markets and a low base a year ago.

Stock picks – AEM, Frencken, UMS

In the SMC space, our preference is still on the semiconductor plays - AEM, UMS, Frencken. All three stocks have done well in 2020, up 5% to 71%, and outperformed the STI by 11% to 82%. Both AEM and UMS are semiconductor equipment and parts manufacturers, while Frencken provides essential components and assembly for Wafer Fabrication Tools (Lithography, PVD), die bonding, IC testers and manipulators, and vacuum solutions.

2020 performance – AEM, Frencken, UMS



Source: DBS Bank; Bloomberg Finance L.P.

AEM (BUY, TP: S$5.16)
AEM is in a strategic position to benefit from its key customer and industry uptrend. It is trading at 9.2x FY21F PE, which is undemanding relative to its peer average of c.20x. Semiconductor industry momentum remains strong, with industry associations forecasting an accelerated growth for semiconductors in 2021. The complexity and shrinking nodes used in mission-critical applications such as 5G, EV, and AI, are driving longer test times and require system-level tests to ensure compatibility and interconnection between components, which is where AEM's forte lies in.

Frencken (BUY, TP: S$1.51)
Frencken's strong presence in a wide variety of industries and business segments - Automotive, Analytical & Life Science, Medical, Semiconductor and Industrial & Industrial Automation - provides greater resilience and stability. The group is riding on the robust semiconductor demand, with c.30% revenue exposure to the growing semiconductor industry.

UMS (BUY; TP: S$1.36)
UMS is in a sweet spot to ride on the strong global chip demand, on the back of the acceleration of 5G, artificial intelligence (AI) and other technology-driven developments. The positive semiconductor industry data, coupled with the double-digit growth forecast based on consensus view for its key customer, Applied Materials, provide a positive backdrop for UMS to propel higher.

Theme 4 – Steady earnings growth and value plays

Steady earnings growth. We seek to identify stocks with steady earnings growth and clear catalysts to sustain firm growth momentum ahead. SMC stocks in this space include iFAST, Delfi, and CPO plays First Resources and Bumitama.

iFAST (BUY, TP: S$3.96)
iFAST is now reaping the fruits of its labour in the last few years. It enjoys operating leverage from its scalable online-based business model. The strong results in the last few quarters are testament to this shift. iFAST is also a clear beneficiary of the growing adoption of digitalisation. We continue to expect iFAST's assets under administration (AUA) growth to outpace the industry growth even without a digital bank licence. This is due to the company's expanding range of products and services.

Delfi (BUY, TP: S$0.98)
Despite the COVID-19 pandemic, Delfi's outlook remains positive with growth drivers intact led by its premiumisation strategy along with rejuvenation of the Van Houten brand. Business activity since June has picked up, while Indonesia's consumer confidence index has also bottomed in May as sentiment on job availability and purchase of durable goods has improved. Delfi's valuations are attractive at 13.2x FY21F PE, which is -1.5 SD below its 4-year historical mean and a discount to its Indonesian-focused peers' c.18-21x FY21F PE.

First Resources (BUY, TP: S$1.70)
First Resources has consistently achieved above average CPO yield and profitability leading to double digit return on equity (ROE). It deserves to trade at a higher valuation multiple due to the constructive CPO price outlook in 2021. We forecast 18% earnings CAGR in 2019-2022. FR is currently trading at c.12x FY21F PE which is -2SD of its 5-year average PE multiple.

Bumitama (BUY, TP: S$0.66)
We believe that Bumitama's (BAL) earnings recovery will continue in 2021. BAL's good CPO yield performance would benefit from the current high CPO prices and translate into strong earnings and dividends for the company's investors. BAL is still trading at 12.5x FY20F price-to-earnings (PE), which we believe is undemanding.

Value plays. Additionally, we also see opportunities to position into companies that are on the cusp of an earnings turnaround. These would include companies that are badly hit by the COVID-19 pandemic but are gradually moving towards the recovery path. Koufu, CAO and HPHT are in this space, while Tuan Sing is an undervalued property play.

Koufu (BUY, TP: S$0.77)
Earnings in 2020 was badly affected by the circuit breaker due to the pandemic. We expect a steady recovery in 2021. Growth is supported by the gradual re-opening of its food outlets on easing Circuit Breaker measures, supported by the acquisition of Deli Asia which will contribute substantially to net profit in FY21F. Being in the mid to low end mass dining segment, Koufu is poised to benefit from a recovery of footfall. Valuation remains compelling at 15.1x FY21F PE.

China Aviation Oil (BUY; TP: S$1.20)
With the worst of the aviation sector likely behind us, we expect earnings for CAO to rebound strongly in FY21F. CAO should also see higher supply and trading volumes driving better gross profits going forward as air travel gradually recovers. CAO offers deep value as net cash accounts for c.67% of CAO's market cap and the stock trades at an attractive c.4x FY20 ex-cash PE.

HPH Trust (BUY, TP:US$0.22)
Overall throughput volumes have picked up firmly since June 2020 and HPHT is on track for a strong 2H20. In the medium term, a Biden win should also ease US-China trade tensions and help China's exports to the US to stabilise. With an improving earnings outlook bolstering the Trust's cash flow and balance sheet, we are confident that the Trust will not look to extend its HK$1bn per annum debt repayment plan beyond 2021 and therefore raise its DPU payout from FY22F onwards.

Tuan Sing (BUY, TP:S$0.44)
Trading at 0.3x P/NAV (between -1SD and -2SD from 3-year mean), we continue to see good value in Tuan Sing. In addition, office fundamentals favour a completion of the S$500m sale of Robinson Point which could drive a re-rating in valuation following improved balance sheet metrics.

Key data for stock picks

Company	Mkt Cap (US$ m)	Price 4 Jan (LCY)	12-mth Target Price (LCY)	12-mth Target Return	Rcmd	Div Yield (%) 20E	Div Yield (%) 21F	PER (x) 20E	PER (x) 21F	P/BV (x) 20E	P/BV (x) 21F	EPS/DPU Growth 20E	EPS/DPU Growth 21F	EPS/DPU Growth 22F
Vaccine winners														
Ascott Residence Trust	2,563	1.09	1.20	10%	BUY	2.4	3.8	67.2	33.3	0.9	0.9	-65%	58%	63%
CDL Hospitality Trust	1,211	1.31	1.40	7%	BUY	3.7	4.8	62.0	34.1	0.9	0.9	-47%	31%	23%
LendLease Global	660	0.745	0.90	21%	BUY	6.9	7.1	20.1	18.7	0.9	0.9	70%	3%	2%
CapitaLand Retail China Trust	1,511	1.39	1.70	22%	BUY	6.3	7.6	18.5	14.2	0.9	1.0	-12%	21%	3%
Re-rating of tech stocks to continue post COVID														
AEM Holdings	741	3.56	5.16	45%	BUY	2.5	2.8	10.3	9.5	4.7	3.5	76%	9%	3%
Frencken Group	432	1.34	1.51	13%	BUY	2.3	2.6	12.8	11.7	1.7	1.6	-4%	9%	8%
UMS Holdings	464	1.15	1.36	18%	BUY	5.2	5.2	13.4	12.6	2.4	2.3	37%	7%	10%
Steady earnings growth														
iFAST Corporation	669	3.25	3.96	22%	BUY	2.1	2.4	44.1	38.4	9.6	9.4	113%	15%	21%
Delfi Ltd	328	0.71	0.98	38%	BUY	4.4	3.8	16.8	13.2	1.4	1.3	-31%	27%	18%
First Resources	1,612	1.35	1.70	26%	BUY	1.8	2.4	13.7	12.7	1.5	1.4	33%	8%	14%
Bumitama Agri	668	0.51	0.66	29%	BUY	4.6	4.6	13.0	12.5	1.1	1.1	6%	4%	9%
Value plays														
Koufu Group	289	0.69	0.77	11%	BUY	1.4	2.6	24.7	15.3	3.4	3.0	-50%	61%	3%
China Aviation Oil	696	1.07	1.20	12%	BUY	2.3	3.5	12.9	8.6	0.8	0.7	-46%	50%	na
HPHT (US$)	1,725	0.198	0.22	11%	BUY	5.9	6.5	27.2	25.7	0.5	0.5	-7%	6%	6%
Tuan Sing	283	0.315	0.44	40%	BUY	1.9	1.9	nm	9.3	0.3	0.3	nm	nm	-15%

Source: DBS Bank

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

** Share price appreciation + dividends*

Completed Date: 5 Jan 2021 19:15:19 (SGT)
Dissemination Date: 5 Jan 2021 20:46:06 (SGT)

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