Singapore Market Focus

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DBS Group Research . Equity

2 Jun 2021

Speeding towards reopening

- Positive earnings revisions – FY21 earnings above pre-COVID
- STI YE target raised 4.5% to 3325
- Inflation theme – FR and Wilmar are upstream beneficiaries; YZJSGD, CityDev and UOL are resilient
- Speeding faster towards reopening - FCT,MCT, Suntec REIT, Koufu, Genting, ComfortDelgro to benefit

Positive earnings revision Stocks under our coverage saw a second consecutive quarter of positive earnings revision at +2.3% for FY21F and +1.5% for FY22F. FY21F earnings is now expected to be 2% above FY19A (pre-COVID) level. UOB and OCBC led positive revisions with +5.5% for FY21F and +4.8% for FY22F.

STI YE target raised We lift our STI YE target by 4.5% to 3325 (prev. 3180) pegged to 13.48x (+0.25SD) FY22F PE. Only 6 out of 30 index component stocks are directly affected by the tighter measures. The Singapore government has kept its 2021 GDP growth forecast at 4-6% as stronger-than-expected 1Q and improving external environment may offset the 2Q slowdown due to current anti-COVID measures. Bias is on the upside towards 3300 by end July with support at 3115.

Inflation back in focus Metals and energy related commodity prices have jumped on rising global demand and supply shortfall due to COVID related restrictions. This benefits upstream producers such as First Resources (FR) and in part Wilmar. The margin impact for downstream names such as shipbuilder Yangzijiang (YZJ), and property developers City Dev and UOL are not as outright negative as some of the costs can be passed on to their customers.

Speeding towards reopening The recent share price correction of domestic reopening names due to the current tighter measures may be the 'last chance' for investors to buy. Singapore targets at least 85% of population to receive at least one dose of the vaccine by National Day and be fully vaccinated by 4 October due to faster vaccine deliveries. Healthcare sector (IHH, Q&M) benefits from accelerated vaccination and testing programs. The resilience of the affected sectors against COVID news volatility goes up as more of the population gets vaccinated. Our picks for domestic reopening beneficiaries are retail malls (FCT, MCT, Suntec REIT), leisure (Genting Singapore), F&B (Koufu), and public transportation (ComfortDelGro). The possibility of quarantine free travel with countries that have brought the pandemic under control and whose population is also adequately vaccinated by year-end benefits SATS and hospitality REITs CDL HT and FEHT.

STI : 3,187.23

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Key Indices

	Current	% Chng
STI Index	3,187.23	-1.1%
FS Small Cap Index	330.02	0.0%
USD/SGD Curncy	1.33	0.0%

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2020	(45.2)	3.2
2021F	82.5	3.9
2022F	12.3	4.0

(x)	PER	EV/EBITDA
2019	28.2	21.0
2020F	15.5	16.0
2021F	13.8	14.7

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
First Resources	1.29	1,751	1.83	(9.2)	(5.2)	BUY
Wilmar International	4.84	23,044	6.67	(8.7)	21.6	BUY
UOB	26.31	33,665	29.20	5.3	34.9	BUY
OCBC Bank	12.56	42,517	14.00	13.4	46.9	BUY
Frasers Centrepoint Trust	2.42	3,103	3.00	(1.2)	0.0	BUY
Mapletree Commercial Trust	2.09	5,238	2.25	3.0	4.5	BUY
SATS Ltd	4.03	3,268	4.50	(12.3	45.1	BUY
CDL Hospitality Trusts	1.20	1,112	1.35	(2.4)	26.3	BUY
ComfortDelGro	1.70	2,781	1.99	6.3	18.1	BUY
Genting Singapore	0.86	7,786	0.95	1.2	8.9	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 1 Jun 2021

Live more, Bank less

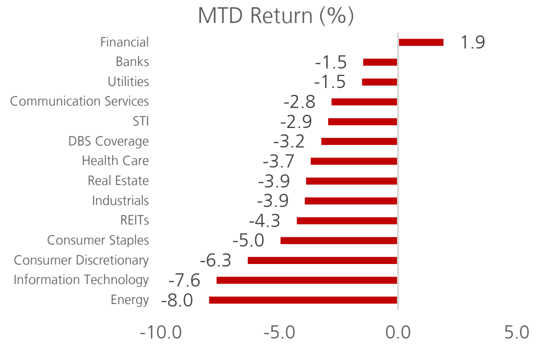
ed: JS/ sa: PY, CS

April Market Performance

Yields take a breather

- STI recovered from a c.6% decline from the re-introduction of COVID measures to end the month down just c.1% as investors view the restrictions will not have a lasting impact on the economy
- Financials was the only outperforming sector as banks reported strong earnings and investors betted on higher dividend pay-outs
- Energy underperformed as China Aviation Oil faced headwinds against rising COVID-19 cases in Taiwan, Singapore, and India
- Information Technology underperformed, dragged down by semiconductor chip shortage for Venture
- Consumer Discretionary underperformed as Jumbo, Genting, and Koufu were impacted by Singapore's Phase 2 Heightened Alert

FTSE ST Indices' relative performance for April



Source: DBS Bank

A step closer to taper?

- End of Phase 2 (Heightened Alert) in Singapore
  - Tightened measures are scheduled to be lifted on 14 June
  - Singapore government indicated likely no further tightening of restrictions necessary as curbs are working
- US Y-o-Y CPI
  - US April CPI rose 4.2% y-o-y, the highest since 2009
  - Inflation concerns picked up amid higher commodity prices, government stimulus and higher labour costs
- US Fed Funds Rate
  - Median projection for FED funds rate shows no rate hike until 2023 but some members' expectations of rate hike timing are shifting forward
  - Some FED officials have suggested discussing asset purchase tapering at upcoming FOMC meetings

June event calendar

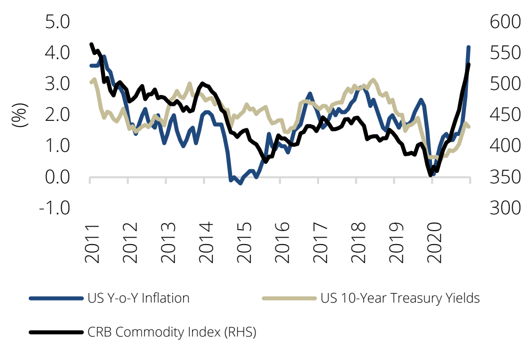
Date	Event	Comments
14 June	End of Phase 2 (Heightened Alert) in Singapore	The additional measures and restrictions are scheduled to end on 13 June 2021
10 June	US Y-o-Y CPI in May	CPI data will be key in confirming inflation sentiment
17 June	US Fed Funds Rate	Consensus and dot plot indicate no change in Fed funds rate

Source: Bloomberg Finance L.P., DBS Bank

Inflation, transitory or not?

- Inflation concerns have risen as global economies reopen and recover
- US CPI rose 4.2% y-o-y in April, at a decade-high, while core inflation rose 3.0% y-o-y
- FED officials and many economists think this is "transitory" due to the low base effect last year
- But CRB Index has risen c.50% since April 2020 bottom, driven by stimulus measures and demand recovery
- At the March Fed meeting, some FOMC members brought forward their timeline for rate hikes
- US 10-year treasury yields have risen 70bps YTD to 1.6%, our interest rates strategist sees yield heading to 2% this year and the FED may start to taper asset purchases by year end

US CPI y-o-y increase hits decade high

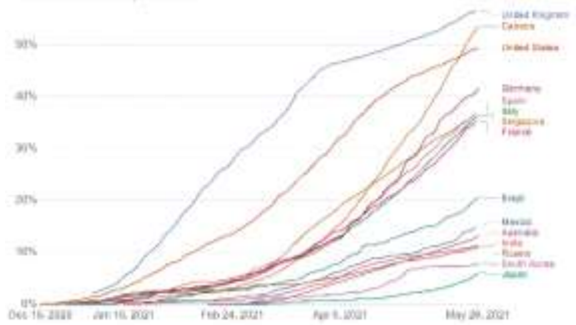


Source: US Bureau of Labour Statistics, Commodity Research Bureau, Bloomberg Finance L.P., DBS Bank

Vaccination progressing well in America and Europe

- Among the top 15 countries by GDP, America and Europe are progressing much faster in their vaccination programs
- The UK, Canada, and US lead the pack with 56%, 51%, and 49% of their respective populations receiving at least one dose of COVID-19 vaccine
- Other top European countries have 30-40% of their population receiving at least one dose of COVID-19 vaccine
- 32 out of the 50 states in the US have reopened and some of the remaining states will reopen when vaccination criteria have been met
- The European Union has agreed to reopen their borders to visitors who have been fully vaccinated against COVID-19 as early as the end of May

Share of people with >1 dose of COVID-19 vaccine



Source: World in Data, DBS Bank

Singapore keeps 2021 GDP outlook despite uncertain 2Q

- 1Q GDP grew a stronger +1.3% y-o-y vs consensus' +0.9%
- Manufacturing sector led growth with +10.8% q-o-q growth
- Services sector saw +1.1% q-o-q growth lifted by real estate (+5.6% q-o-q) and transportation/storage (+5.7% q-o-q)
- Construction sector recovered +5% q-o-q
- Enterprise Singapore projects NODX to grow 1-3% y-o-y from 0-2% back in February
- Singapore government keeps 2021 GDP growth forecast of 4-6%
  - Stronger-than-expected 1Q and improving external environment may offset the 2Q slowdown due to the current anti-COVID measures

Singapore GDP (y-o-y)

Source: Bloomberg Finance L.P.

2nd consecutive quarter of positive earnings revision

- Stocks under our coverage posted positive earnings revision
  - 2nd consecutive month of positive revisions
  - +2.3% for FY21F and +1.5% for FY22F
- Banks (**UOB**, **OCBC**) led positive revisions at +5.5% in FY21F, +4.8% in FY22F
- Healthcare sector's positive revision came from **Riverstone** after ASP and margins beat expectations
- Consumer discretionary suffered earnings cut of -26.1% for FY21F and -16.7% for FY22F, dragged down by **Genting** and **Jumbo** on slower-than-expected tourism recovery
- Technology sector saw negative revisions of -4.7% for FY21F and -14.7% for FY22F as chip shortages affected **Venture Corp** and **AEM**

1Q21: Q-o-q earnings revision by sector

	FY21 Chng	FY22 Chng
Banks	5.5%	4.8%
Comm Svcs	3.3%	0.8%
Cons Disc	-26.1%	-16.7%
Cons Staples	-0.5%	-1.1%
Energy	-0.4%	-0.4%
Financial	0.0%	0.0%
Health Care	24.0%	13.1%
Industrials	-0.9%	1.6%
Info Tech	-4.8%	-14.7%
Real Estate	1.4%	0.0%
REITs	-0.5%	0.1%
Utilities	-0.4%	-0.4%
DBS Coverage	2.3%	1.5%

Source: DBS Bank

Earnings to recover above FY19A (pre-COVID)

- FY21F earnings to grow 49% (prev. 44.2%) for stocks under our coverage
  - FY21F earnings now expected to be 2% above FY19A (pre-COVID)
- Banks' earnings are anticipated to recover back to about 96.5% of FY19A, higher dividends a potential catalyst
- Strongest earnings recovery for consumer discretionary from low-base comparison, FY21F earnings still only c.46% of pre-COVID level for Genting Singapore while losses expected to deepen for Jumbo
- Riverstone lifts healthcare sector's FY21F growth on expectation of strong ASP and margin
- REITs' 5.5% yield for FY21F points to a healthy yield spread of 4% vs the MAS 10-yr yield.
- Marginal earnings contraction for consumer staples as the loosening of COVID measures could affect Sheng Siong

Sector valuation

	Earnings Growth (%)		PER (x)		Div Yld (%)	
	21F	22F	21F	22F	21F	22F
Banks	34.1	10.0	11.5	10.5	4.3	4.6
Comm Svcs	16.0	6.1	19.3	18.2	4.6	5.0
Cons Disc	423.5	55.4	30.7	19.8	2.5	3.1
Cons Staples	-1.6	9.0	15.5	14.3	3.1	3.4
Energy	45.0	14.8	8.5	7.4	3.5	4.1
Financial	-1.8	3.6	27.4	26.5	2.7	2.7
Health Care	75.1	-23.3	20.2	26.3	1.8	1.4
Industrials	nm	38.9	23.9	17.2	2.7	2.8
Info Tech	8.7	12.6	14.3	12.7	3.5	3.7
Real Estate	nm	16.9	11.8	10.1	3.5	3.4
REITs	23.8	8.6	18.0	16.6	5.5	6.0
Utilities	11.4	10.6	13.3	12.1	6.5	6.6
Grand Total	81.7	12.0	15.1	13.5	4.0	4.2
Ex Property	49.0	11.3	15.6	14.0	4.0	4.3

Source: DBS Bank

Raise STI YE target to 3325

- May's correction to a low @ STI 3024 was right smack within our stated 2966 to 3056 support range
- Tighter measures have limited impact on STI earnings
  - Only 6 (e.g. Genting, MCT, SATS, ComfortDelgro) out of 30 index component stocks are directly affected by the current measures
- STI currently trades at 13.78X (+0.5SD) 12-mth fwd PE
- Maintain range bound trade over coming months with resistance at 3200-3300 and support at 2966-3056
- Bias on the upside towards 3300 (possibly July) over the next 2 months on recovery optimism and current anti-COVID measures seen as temporary
  - If true, support at 3115 should hold up
- Raise STI YE target to 3325 (prev. 3180) pegged to 13.48x (+0.25SD) FY22F PE

Straits Times Index (Daily)

Source: DBS Bank

Strategy

Play to win in an inflationary environment
Inflation is back in the limelight. The US April CPI rose a stronger-than-expected 0.8% m-o-m (consensus: 0.2%). Headline inflation numbers are likely to stay elevated as demand for goods and services rises with the loosening of COVID restrictions for vaccinated Americans and as Biden's child tax credit payments reach American families from mid-July.

Meanwhile, metals and energy related commodity prices have recovered strongly on rising global demand and supply shortfall due to COVID related restrictions that have lifted the CRB Index beyond 2019 level. This benefits upstream producers. Thankfully, the margin impact for downstream consumer sectors is not as outright negative as some of the costs can be passed to consumers due to demand for higher end products.

CPO - First Resources and Wilmar should reap benefits from CPO price upswing. First Resources has better exposure to CPO spot prices. However, 1Q21 earnings were hit by Indonesia's progressive export levies and hedged CPO price. Wilmar is expected to reap the benefits from its integrated upstream-downstream tropical oil platform.

Steel - Steel accounts for 20% of a vessel's cost. Rising steel prices will affect 2021's margins for older contracts to be delivered this year. But this will be priced into future contracts on strong order intake. Margins are expected to recover from 2021's low for recent and future new orders through higher newbuild prices that reflect cost inflation. The orderbook to fleet ratio is at historical lows for bulk carriers and tankers, indicating potential uptick in orders. Yangzijiang rides on the newbuild supercycle.

Real estate sector – Impact of commodity inflation is low because construction cost (concrete, steel and labour) typically contributes just 25-35% of overall development costs. Most developers are shielded as construction contracts are either locked in or they can pass on these cost increases to consumers by inching up their selling prices for upcoming launches. Our picks are City Developments and UOL.

Potential beneficiaries and riding out rising commodity prices

Company	Price 27 May 2021	12-mth Target Price	Target Return	Rcmd	PER 21 (x)	PER 22 (x)	EPS Growth 21 (%)	EPS Growth 22 (%)	Div Yield 21 (%)	P/BV 20 (x)	Comments
Wilmar	4.820	6.67	38%	BUY	15.7	15.1	2.4	4.0	2.9	1.3	Expected to reap the benefits from its integrated upstream-downstream tropical oil platform
First Resources	1.340	1.83	37%	BUY	11.9	11.0	13.6	8.7	2.5	1.5	Better exposure to CPO spot prices. However, 1Q21 earnings were hit by Indonesia's progressive export levies and hedged CPO price.
Yangzijiang	1.500	1.80	20%	BUY	9.9	7.9	12.1	25.8	3.4	0.9	Best proxy to ride on the newbuild supercycle
City Dev	7.670	10.50	37%	BUY	14.2	8.7	380.5	62.0	2.1	0.7	Construction cost contributes just 25-35% of overall development costs.
UOL	7.340	8.40	14%	BUY	18.4	16.1	59.8	13.9	2.4	0.6	Construction contracts are either locked in or they can pass on cost increases to consumers

Source: DBS Bank

Among the sectors, banks generate relatively stronger earnings growth on lower provisions, higher fee based income. **UOB** and **OCBC** led positive revisions with +5.5% for FY21F and +4.8% for FY22F. Banks stand to benefit from a rising interest rates environment lifting off a low base as the economic recovery spurs more borrowing amid an improving NIM environment. Our picks are **UOB** followed by **OCBC**.

Banks benefit from rising interest rates lifting off a low base

Company	Price 27 May 2021	12-mth Target Price	Target Return	Mkt Cap (S$m)	Rcmd	PER 21 (x)	PER 22 (x)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
OCBC	12.400	14.00	13%	55,520	BUY	11.3	10.5	4.4	0.0	1.1
UOB	26.010	29.20	12%	43,564	BUY	11.4	10.0	4.4	0.0	1.1

Source: DBS Bank

Faster vaccine deliveries, speeding towards reopening

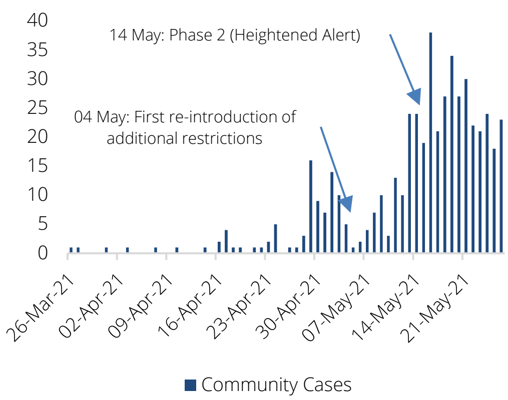
We think the recent negative price reaction on domestic reopening names due to the reintroduction of COVID-19 restrictions from 8 May to 13 June may well be the 'last chance' for investors to buy for the following reasons:

(1) Faster vaccine deliveries over next 2 months → Faster reopening timeline
(2) Affected sectors' resilience against COVID news volatility goes up as more get vaccinated. At least 2.2million of Singapore's population has currently been vaccinated with at least 1 dose. The Singapore government targets all eligible individuals (at least 85% of population) to receive at least one dose of vaccine, which is said to offer at least 75% efficacy against infection, by National Day.
(3) Singapore government announced a $800million support package for businesses and workers affected by the tighter measures, says new community cases have stabilized and no further tightening measures may be needed
(4) Changi Airport will roll out strict movement control measures to prevent virus transmission through transient contact from 13 June
(5) Studies have shown that current vaccines are effective against the B1617 variant
(6) Countries that have achieved high vaccination rates (e.g. US, UK, parts of Europe, Israel) are gradually opening domestically in a more sustainable fashion

Our picks for domestic reopening beneficiaries are retail malls (**Frasers Centrepoint Trust**, **MCT**, **Suntec REIT**), leisure (**Genting Singapore**), F&B (**Koufu**), and public transportation (**ComfortDelGro**).

Increase in vaccination and COVID-19 tests bodes well for Singapore Healthcare players, such as Raffles Medical / IHH. As the authorities step up efforts for vaccination and COVID-19 tests, we believe this will bode well for Singapore healthcare players with increased revenue contributions from COVID-19 related services. Singapore healthcare players have been supporting the government in running vaccination centres and conducting COVID-19 tests. The additional COVID-19 related services contribute c.16% to 30% of IHH Healthcare (Singapore operations) and Raffles Medical. New healthcare entrants, such as Q&M, will also benefit, as it was awarded the tender by Health Promotion Board (HPB) for the provision of COVID-19 swab and testing services on 17 May 2021

Number of community cases in Singapore



Source: Ministry of Health, DBS Bank

Healthcare, reopening beneficiaries

Company	Price 27 May (S$)	Target Price	Target Return	Mkt Cap (S$m)	Rcmd	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
Malls								
FCT	2.31	3.00	30%	3,924	BUY	5.5	0.4	1.0
MCT	2.04	2.25	10%	6,765	BUY	4.8	0.3	1.1
Suntec REIT	1.42	1.85	30%	4,036	BUY	6.2	0.4	0.7
F&B								
Koufu	0.635	0.77	22%	351	BUY	3.5	Cash	3.5
Public Transport								
ComfortDelGro	1.66	1.99	20%	3,598	BUY	3.3	Cash	1.4
Leisure								
Genting	0.835	0.95	14%	10,074	BUY	2.4	Cash	1.3

Source: DBS Bank

Will your 'dream' vacation this year-end materialise?
Travel and hospitality sectors will lag domestic reopening but not too far behind. If all goes as planned, all eligible individuals (at least 85% of population) in Singapore should be fully vaccinated by 4 October. This opens the possibility of quarantine free travel with other countries that have brought the pandemic under control and whose population is also adequately vaccinated. Such a travel arrangement should be much more robust than recent unsuccessful travel bubbles attempts. We just have to keep our fingers crossed. Beneficiaries are SATS and hospitality REITs CDL HT and FEHT

Travel and aviation stocks

Company	Price 27 May 2021	12-mth Target Price	Target Return	Rcmd	PER 21 (x)	PER 22 (x)	EPS Growth 21 (%)	EPS Growth 22 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
SATS	3.860	4.50	16%	BUY	28.4	20.0	nm	41.8	1.0	cash	2.9
CDL HT	1.140	1.35	18%	BUY	37.3	22.5	nm	66.0	5.2	0.4	0.9
FEHT	0.580	0.70	21%	BUY	26.7	19.9	53.8	34.4	4.8	0.4	0.7

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

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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