Singapore Market Focus

FY23 Results Review

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Mar 2024

3 strategies to navigate a rangebound market

- Earnings disappointment this results season with 1.6% downward revision to FY24F earnings
- STI likely to trade rangebound between 3,030 and 3,300
- Seek industrials and tech stocks with earnings visibility
- Accumulate REITs on recent pullback

More negative than positive revisions. Earnings of stocks under our coverage were revised downwards by 5.4% in FY23 and 1.6% in FY24F, led by drags in real estate, industrials, and telcos, while banks remain stable. Pockets of positive revisions to FY24F earnings are found in the industrials and technology sectors. STI's earnings growth is expected to decelerate to 3.5%/2.6% in FY24F/25F, following these revisions.

STI rangebound between 3,030-3,300. We maintain our year-end target of 3,485 for the STI, pegged at 11.3X (-1.5SD) FY25F PE. The STI's attractive valuations and >5% dividend yields are factors that offset a muted earnings growth outlook. STI is likely to be rangebound between 3,030 and 3,300 in the coming months, with a recovery towards the latter figure possibly ahead of the index stocks going ex-dividend. Immediate support at 3,115.

Prefer industrials, tech for earnings visibility. We seek out opportunities in stocks with average FY24F/25F earnings growth of above 10%: 1) Earnings visibility on robust orderbooks – Yangzijiang, ST Engineering; 2) positive earnings revisions on improving earnings bases – Keppel, ComfortDelGro; and 3) an improving industry outlook – UMS Holdings, Venture Corp.

Stick to REITs as Fed pivots. We see the recent pullback in SREITs as an opportunity to add, with our thesis intact. Our REIT analysts' preference for "value" through retail > office > hotels and industrials is validated by better-than-expected FY23 showings and operating outlooks. Our preferred picks include retail (FCT, LREIT), office (CICT), hospitality (CLAS), and industrials (FLT, MLT, and DCREIT).

5 stocks to avoid. AEM, SIA, UOB, PropNex, and APAC Realty are five stocks to avoid, given their (1) uncertain outlook or no catalysts, (2) earnings cuts, (3) hold/fully valued calls, and/or (4) limited or no upside to TPs.

STI : 3,138.42

Analysts

Fang Boon FOO
fangboonfoo@dbs.com

Kee Yan YEO, CMT
keeyan@dbs.com

Key Indices

	Current	% Chng
FS STI Index	3,138.42	0.1%
FS Small Cap Index	224.68	0.7%
SGD Curncy	1.33	-0.2%
Daily Volume (m)	1,230	
Daily Turnover (S$m)	756	
Daily Turnover (US$m)	568	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2023	7.5	5.3
2024F	7.5	5.3
2025F	4.7	5.5

(x)	PER	EV/EBITDA
2023	12.1	15.3
2024F	11.3	13.8
2025F	10.8	12.9

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
Yangzijiang Shipbuilding	1.8	5,337	2.10	20.8	37.4	BUY
ST Engineering	3.97	9,292	4.80	5	16.8	BUY
Keppel Limited	7.11	9,404	9.00	5.7	30.2	BUY
ComfortDelGro	1.37	2,227	1.80	-1.4	15.1	BUY
UMS Holdings	1.33	709	1.84	5.6	29.1	BUY
Venture Corp	14.08	3,075	16.90	6.7	-16.9	BUY
Frasers Centrepoint Trust	2.19	2,806	2.70	-1.4	1.4	BUY
CapitaLand Integrated Commercial Trust	1.96	9,781	2.30	3.2	4.8	BUY
Capitaland Ascott Trust	0.91	2,245	1.30	-6.2	-9	BUY
Frasers Logistics & Commercial Trust	1.04	2,902	1.44	-8	-14.1	BUY

Source: DBS Bank Ltd, Bloomberg Finance L.P.
Closing price as of 11 Mar 2024

DBS Insights Direct

Watchlist the stock on Insights Direct to receive prompt updates

ed: BM/ sa: AS, PY, CS

Summary of FY23 results review

Misses outnumbered beats

- Banks
  - OCBC and UOB missed consensus expectations, on lower income (OCBC) and one-off Citi expenses (UOB)
- SREITs
  - Number of positive surprises outnumbered negatives for the office, retail, and hospitality sub-segments
  - Misses mostly came from overseas-focused REITs
- Industrials registered best positive:negative surprise ratio
  - Keppel, Sembcorp Industries rode on strong power earnings
  - Robust business momentum for Yangzijiang, ST Engineering
  - SIA and SIA Engineering missed expectations
- Stocks with significant China exposure
  - Persistent macro headwinds weighed on CapitaLand China Trust, HPH Trust, DFI Retail, Sasseur REIT with latest results below expectations

Earnings relative to expectations

Sector	Above	Below	Inline	Total
Banks		2		2
Comms Svcs	1	1	1	3
Cons Disc		2	1	3
Cons Staps		1	4	5
Financial	1			1
Health Care		1	1	2
Industrials	6	3	1	10
Info Tech	1	2	5	8
Real Estate	2		7	9
REITs	7	11	14	32
Utilities			1	1
Total	18	23	35	76

Source: DBS Bank Ltd

Markets marred by negative earnings revisions

- Negative earnings revisions of 5.4% for FY23 and 1.6% for FY24: Dragged down by industrials, real estate, and communication services
- Industrials – earnings cuts for SIA and Seatrium offset positive earnings revisions for Keppel and Sembcorp Industries
- Real estate - FY24F earnings estimates for CityDev and UOL cut on higher interest rate assumptions
- Communication services – earnings cut for Singtel on lower contributions from associates
- Technology – UMS and Frencken led the positive earnings revisions with an improving outlook, while earnings of AEM and Nanofilm were cut
- SREIT – DPU slightly reduced despite steady operational metrics due to higher interest costs, higher FX translations, and/or enlarged unit bases

Earnings revision by sector (q-o-q)

Sector	FY23 Change	FY24 Change
Banks	0.5%	-0.1%
Comms Svcs	-7.8%	-7.9%
Cons Disc	-6.7%	-1.1%
Cons Staps	2.1%	0.5%
Financial	0.6%	1.4%
Health Care	42.0%	-7.4%
Industrials	-28.1%	3.4%
Info Tech	-2.0%	-5.4%
Real Estate	-26.0%	-14.2%
REITs	0.2%	-1.6%
Utilities	9.2%	0.0%
Total	-5.4%	-1.6%

Source: DBS Bank Ltd

Earnings to decelerate in FY24F

- Muted earnings growth for banks **UOB** and **OCBC** offset by attractive forward dividend yield of 6%
- Sizeable orderbooks ensure earnings visibility for industrial giants such as **Yangzijiang** and **ST Engineering**; while **Seatrium**'s earnings turnaround story in FY24F remains intact despite the larger-than-expected non-cash write-down in FY23
- Expect strong earnings recovery for consumer staples **First Resources** and **Wilmar**, from their low earnings bases in FY23
- Developers **UOL** and **CityDev** trade at deep discounts to their book values, with strong sell-through rates and asset recycling activities as key catalysts to watch for, respectively
- Low single-digit earnings growth of around 3% for FY24F/25F
  - STI stocks with >10% average FY24F/25F EPS growth – **CLI**, **SATS**, **DFI**, **CIT**, **WIL**, **UOL**, **GENS**, **YZJSGD**, **STE**, **KEP**

Sector earnings and valuations

	Earn Grwth (%)			PER (x)			Div Yld (%)		
	23F	24F	25F	23F	24F	25F	23F	24F	25F
Banks	24.8	-0.7	2.5	8.3	8.4	8.2	6	6.1	6.1
Comms Svcs	8.8	8.2	4.6	18.4	17.1	16.3	4.9	5.5	5.7
Cons Disc	16.3	13.7	10.4	14.3	12.6	11.4	4.2	4.6	5.3
Cons Staps	-36.9	30.3	6.3	12.5	9.6	9.1	3.5	4.4	4.8
Financial	9.3	13.3	9.1	23.6	20.8	19.1	3.1	3.4	3.5
Health Care	61.4	-38.6	7.1	23.6	38.3	35.8	3	1.5	1.6
Industrials	-12.8	37.1	8.7	17.8	13.0	12.0	4.4	4.1	4.4
Info Tech	-33.6	22.8	17.8	15.5	12.6	10.7	4.1	4.2	4.4
Real Estate	4.6	32	7.9	16.2	12.2	11.4	4.6	4.6	4.6
REITs	-1.2	-0.5	2.9	14.6	14.6	14.2	6.7	6.6	6.8
Utilities	40.3	-2.7	-1	25.5	26.3	26.5	13.3	9.1	9.1
DBS Coverage	7.5	7.5	4.7	12.1	11.3	10.8	5.3	5.3	5.5
STI DBS forecast	19.7	3.5	2.6	10.9	10.6	10.3	5.2	5.4	5.4

Source: DBS Bank Ltd

Straits Times Index Outlook

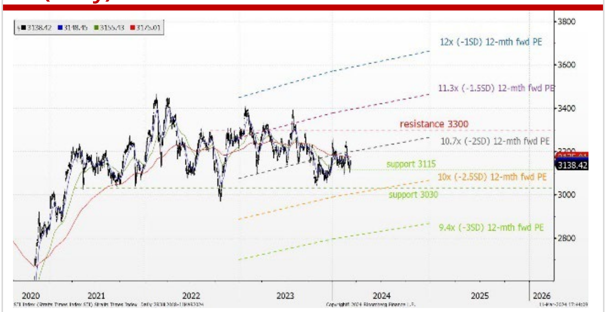
- STI trades between 10X (-2.5SD) to 10.7X (-2SD) 12-mth fwd PE, likely to stay well below 11.3X (-1.5SD) fwd PE with low single-digit EPS growth over FY24F and FY25F
- Rangebound between 3,030 and 3,300 in coming months with immediate support at 3,115
  - Recovery towards 3,300 possible over March-April ahead of the index stocks going ex-dividend
  - But watch for 'sell-in-May' post ex-dividend as attention intensifies on Fed rate cut and possible impact to **banks**' NIM
- Year-end target of 3,485 intact, pegged at 11.3X (-1.5SD) FY25F PE
  - Based on export-oriented manufacturing sector recovery
  - Resilient inbound tourism, information & communication, and financial services
  - But offset by a weaker residential property segment

STI at various forward PE levels

	-2.5sd: 10x PE	-2.0sd: 10.7x PE	-1.5sd: 11.3x PE	-1sd: 12x PE
FY23A	2,887	3,074	3,262	3,449
FY24F	2,989	3,183	3,377	3,571
FY25F	3,067	3,266	3,465	3,664
12-mth fwd	3008	3204	3399	3594

Source: DBS Bank Ltd

STI (Daily)



Source: DBS Bank Ltd, Bloomberg Finance L.P.

3 takeaways from FY23 results season

1. Prefer industrials and technology for earnings visibility. We seek out opportunities in stocks with earnings resilience amid negative earnings revisions in the wider market. Average FY24F/25F earnings growth of above 10% is also attractive as we enter a prolonged period of muted earnings growth, with STI earnings growth forecast at around 3%.

Double-digit average earnings growth for **Yangzijiang** and **ST Engineering** is underpinned by their robust orderbooks. We take comfort in our analysts' recent positive earnings revisions for **Keppel** and **ComfortDelGro** on their improving and steady earnings bases. Earnings recovery for selected technology stocks **UMS Holdings** and **Venture Corp** should pan out under an improving industry outlook, with a potential boost from the ongoing AI boom.

2. Stick to REITs as the Fed pivot continues to play out. We see the recent pullback in SREITs as an opportunity to add, as our thesis that 1) SREITs would outperform during a Fed's pivot and 2) the Fed would start lowering rates this year, remains intact. We see our REIT analysts' preference for "value" through retail > office > hotels and industrials validated by the latest results season, as 1) retail, office, and hotels sub-sectors saw more hits than misses and 2) these three sectors are expected to post positive outlooks and reversions. Our analysts also think that the worst of interest cost increases is likely over, with overall financial positions (e.g., capital values, interest coverage ratio) resilient. Our preferred picks include retail (**FCT**, **LREIT**), office (**CICT**), hospitality (**CLAS**), and industrials (**FLT**, **MLT**, and **DCREIT**).

3. 5 stocks to avoid
Our criterions are (1) uncertain outlook or no catalysts, (2) earnings cut, (3) hold/fully valued recommendation, and (4) limited or no upside to TP. The stocks to avoid are **AEM**, **SIA**, **UOB**, **PropNex**, and **APAC Realty**. While some of these stocks may be supported by the upcoming 'ex-dividend' in April, we believe any positive price movements are temporary, with a correction once the ex-dividend date passes

Stocks to avoid

Company	Price ($)	Rcmd	12-mth TP ($)	12-mth Return (%)	Earnings revision (%)		Comments	Next ex-div date
					FY24F	FY25F		
AEM	2.32	Hold	2.26	-2.6%	-59	-21	No visibility beyond 1H24, revenue guidance of S$170-200m is just c.42% of revised FY24F estimates	NA
SIA	6.34	Hold	6.1	-3.8%	-35	48	Continued downward pressure on passenger yields and rising costs pressures, FY24-26F core profits cut by 8%-14%	July
UOB	28.27	Hold	30.3	7.2%	-1	-5	Limited catalysts, NIM contraction with rate cut expectation, asset quality risks, especially for commercial real estate	25-Apr
PropNex	0.89	Hold	0.95	6.7%	-12	0	Our property transaction volume assumptions for new home sales and resales cut to 8,000 (prev: 9,000) and 13,500 (prev: 14,500) due to high stamp duties, affordability, weaker buyer sentiment	30-Apr
APAC Realty	0.415	Hold	0.48	15.7%	-9	2		25-Apr

Source: DBS Bank Ltd, Bloomberg Finance L.P. (prices as of 11 March 2024)

Stocks to watch

Company	Price 11 Mar 2024 (LCY)	12-mth Target Price (LCY)	12-mth Target Return	Mkt Cap (LCY, $m)	Rcmd	PER 24 (x)	PER 25 (x)	EPS Growth 24 (%)	EPS Growth 25 (%)	Div Yield 24 (%)	Div Yield 25 (%)	Net D/E 24	P/BV 23 (x)
Industrials and tech for earnings visibility													
Yangzijiang	1.870	2.10	12%	7,388	BUY	8.3	7.7	16.8	8.8	3.9	4.4	cash	1.9
ST Engineering	3.970	4.80	21%	12,380	BUY	18.1	15.6	8.0	16.0	4.0	4.0	1.9	5.0
Keppel	7.180	9.00	25%	12,652	BUY	12.5	10.9	6.0	15.3	4.9	5.3	0.8	1.3
ComfortDelGro	1.360	1.80	32%	2,946	BUY	13.2	11.8	24.2	11.2	6.0	6.7	cash	1.1
UMS Holdings	1.340	1.84	38%	952	BUY	10.9	10.0	37.4	9.4	3.7	3.7	cash	2.5
Venture Corp	14.040	16.90	20%	4,085	BUY	13.3	12.4	13.8	7.6	5.3	5.3	cash	1.4
Stick to REITs as the Fed pivots													
Frasers Cpt	2.200	2.70	23%	3,756	BUY	20.0	19.2	-7.2	4.2	5.3	5.5	0.4	0.9
LendLease REIT	0.575	0.90	56%	1,336	BUY	15.2	14.3	10.6	6.2	7.3	7.7	0.4	0.7
CapLand Integrated	1.950	2.30	18%	12,965	BUY	20.5	20.2	-15.2	1.6	5.3	5.4	0.4	0.9
CapLand Ascott	0.905	1.30	44%	2,975	BUY	16.2	16.1	57.7	1.0	7.1	7.0	0.4	0.7
Frasers Log & Com	1.050	1.44	37%	3,904	BUY	17.2	17.3	-11.0	-0.5	6.7	6.8	0.3	0.9
Mapletree Log	1.460	1.88	28%	7,031	BUY	18.4	17.9	2.8	2.5	5.9	6.0	0.4	1.0
Digital Core REIT	0.595	0.75	26%	668	BUY	18.1	19.0	-8.4	-4.4	8.0	8.2	0.7	0.6

Source: DBS Bank Ltd, Bloomberg Finance L.P.
Data as of 11 Mar 24 closing

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**Share price appreciation + dividends*

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10. Tham Sai Choy, a member of DBS Group Holdings Board of Directors, is a Director of Keppel Ltd as of 31 Dec 2023.
11. Judy LEE, a member of DBS Group Holdings Board of Directors, is a Director of Mapletree Logistics Trust as of 31 Dec 2023.
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DBS Regional Research Offices

HONG KONG
DBS Bank (Hong Kong) Ltd
Contact: Dennis Lam
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

SINGAPORE
DBS Bank Ltd
Contact: Andy Sim
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand