Phillip 2025 Singapore Strategy

Don't Fight The Trump

SINGAPORE | STRATEGY

Review: It was a memorable 2024. The Singapore market was up 16.9% in 2024 (2023: +0.3%). And only 1.6% shy of the all-time high achieved in October 2007. If you prefer, the market did nothing after 17 years. Including dividends, average returns were around 4.5% p.a. The finance sector was the stellar outperformer in 2024, with gains of 34%, led by DBS's 44% surge (Figure 1). REITs succumbed to another year of underperformers with a decline of 11.8% (Figure 2). Massive gains were in transport-related stocks (Figure 3), supported by improved volumes and higher prices.

Outlook: Navigating 2025 will be daunting due to the unpredictable policies of the new US administration. The risk ranges from a trade war to a resurgence of inflation. Notable policies expected to be implemented: (i) Immigration - mass deportation of undocumented immigrants. The economic risk is inflation due to the crunch in labour supply, especially in agriculture; (ii) Tariffs - every country with a trade surplus will be at risk (Figure 6). A political tool that resolves US immigration, drug, national security, and manufacturing issues; (iii) Fiscal Deficit - The deficit is expected to widen further from the current US$1.7tr (or 6.3% of GDP) through lower taxes for onshoring companies overtime pay, tips, and social security. Despite all the caution over rising government debt (Figure 7), fiscal deficits trump US exceptionalism in economic growth. Our macro baseline is global interest rates will continue their downtrend. Inflation will be much lower in 1Q25 due to base effects (Figure 8) and the tapering of the long-cycle shelter inflation (Figure 9). The impact of Trump's policies will be inflationary but with a lag. Europe is likely to face the steepest rate cuts (Figure 10). Singapore's economic growth was resilient in 2024 (Figure 11). Sectors with healthy growth were construction, air transportation, property, data centres, defence, and marine. As the US turns more insular, the largest risk will be a global trade war disrupting supply chains and higher import tariffs imposed on SE Asian countries. We saw higher tariffs from the current Biden administration on Malaysian solar equipment exported into the US. These tariffs could be widened to exert pressure for geopolitical reasons.

Recommendation: We believe the themes for 2025 will be corporate restructuring, more interest rate cuts than expected, and the re-rating of China risk premiums. Many companies want to monetize assets to return capital to shareholders or improve their valuations. These include Keppel Ltd, Singtel, Olam, Thai Beverage, telco mergers and SingPost. We believe lower-than-expected interest rates are another source of market returns. The Fed is now guiding two of the expected four rate cuts in 2025. The Fed is backward-looking, and we expect inflation and weaker jobs than expected. US payroll data will likely be revised downwards by 800k to 1mn lower for 2024. We are constructive (i.e., less negative) on China. The competitive impact is less severe if tariffs are levied on multiple countries. If we assume Trump is transactional, he could repeat a Phase One Trade Agreement under his first Administration, where he halved trade tariffs. In return, China purchases more commodities from the US. The wild card is Elon Musk, who has huge auto and satellite interests in China.

3 January 2025

2024 performance

Figure 1: Stellar bank performance

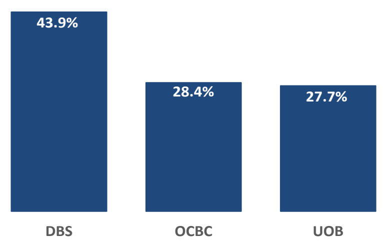


Figure 2: REITs worst performers

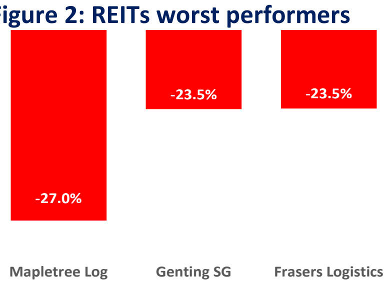
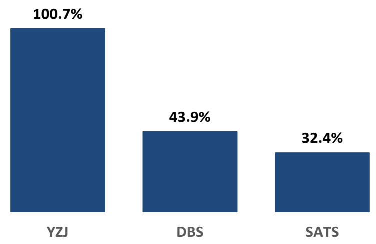


Figure 3: Transportation gains



Source for Figures 1-3: PSR, Bloomberg

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The Phillip Absolute 10 Model Portfolio

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
CapitaLand Ascott (New)	-2.2%	-10.8%	-12.1%	**Buy**	**1.04**	0.870	20%	2,418	7.6%
Stoneweg REIT - EUR	-2.5%	-1.3%	11.3%	**Buy**	**1.95**	1.58	23%	920	9.9%
Dividend / Earnings Growth									
China Aviation	2.2%	1.1%	4.6%	**Buy**	**1.05**	0.92	15%	576	3.0%
OCBC (New)	2.5%	10.5%	28.4%	**Accumulate**	**18.80**	16.69	13%	61,099	4.9%
SATS	-3.2%	0.8%	32.4%	**Buy**	**4.62**	3.64	27%	3,964	0.0%
ST Engineering	3.6%	0.0%	19.8%	**Accumulate**	**5.00**	4.66	7%	10,628	3.4%
UOB	-0.1%	12.9%	27.7%	**Accumulate**	**39.70**	36.33	9%	44,466	4.4%
Re-rating Plays									
CapitaLand Investment	-4.0%	-16.0%	-17.1%	**Buy**	**3.38**	2.62	29%	9,560	4.6%
Keppel Ltd	1.6%	3.2%	-3.3%	**Buy**	**7.60**	6.84	11%	9,046	5.0%
Wee Hur Hldgs. (New)	-6.7%	16.7%	115.4%	**Buy**	**0.62**	0.42	48%	283	1.4%
Average	-0.9%	1.7%	20.7%				20.2%		4.4%

Source: Bloomberg, PSR; * prices as at 31 December 2024, average performance is for illustration purposes only. It is an equal-weighted portfolio of 10 stocks and excludes the cost of monthly rebalancing, transaction fees and dividend income. Upside computation excludes expected dividends.

2024 REVIEW

It was a memorable 2024. The Singapore market was up 16.9% in 2024 (2023: +0.3%). And only 1.6% shy of the all-time high achieved in October 2007. If you prefer, the market did nothing after 17 years. Including dividends, average returns were around 4.5% p.a. The Finance sector was the stellar outperformer in 2024, with gains of 34%, led by DBS's 44% surge (Figure 1). REITs succumbed to another year of underperformers with a decline of 11.8% (Figure 2). Despite rate cuts that were higher than initially expected—there were massive gains in transport-related stocks (Figure 3). Yangzijiang benefited from the rebound in container freight rate due to the Red Sea disruption. Freight volumes for SATS were better than expected, and the company was enjoying the repricing of its services. Reviewing our 2024 macro projection, we see that the anticipated softness in the US economy did not materialise; instead, China was the underperformer. The two central demand pillars of the US economy are rising household wealth and huge government spending.

3 themes for 2025

- ✓ 4 rate cuts in 2025
- ✓ Corporate restructuring drives alpha
- ✓ Re-rating of China equities

4 themes for 2024

- ~~✓ 2 rate cuts in 2024~~
- ✓ Slowdown in the US
- ✓ Assets prices recover
- ~~✓ China's economy is better than expected~~

4 themes for 2023

- ✓ Inflation peaked with rate cuts
- ~~✓ Mild recession in the US~~
- ✓ Interest rates modestly higher
- ~~✓ Rebound in China and tourism~~

~~Strikethrough~~ *means our macro assumptions did not occur (i.e. wrong).*

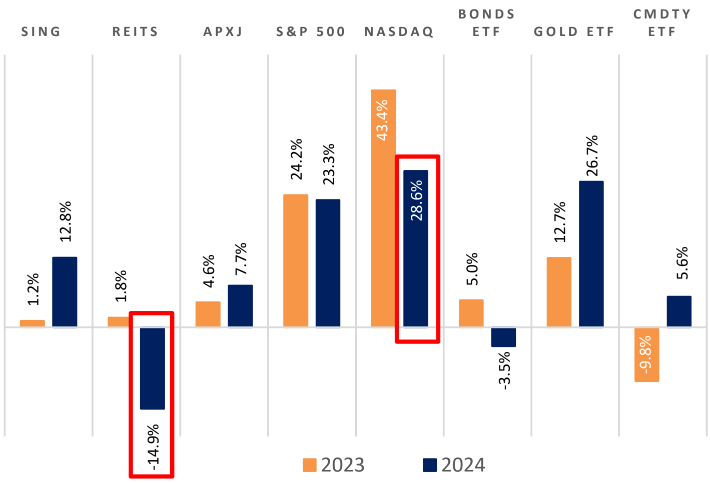
Themes for 2025

(i) Four rate cuts by Federal Reserve: The Fed's medium-term interest rate or dot plot projections are as reliable as that scorpion on the frog's back. In 2024, expectations started with two to three cuts in 2024. When 2Q24 arrived, this swung to one or no cuts. The higher-for-longer narrative returned. By August, we had the Powell pivot in Jackson Hole, and rate cuts were happening. The Fed cut 50bps and guided four cuts in 2025 at the September meeting. After 100 bps of cuts by December, Fed dot plots showed rate cuts dropping from 4 to 2 in 2025. We believe rate cuts will be more than expected. Inflation will be under pressure from lower gasoline prices, tapering shelter inflation, and base effects from 1Q24. Trump's inflationary policies will only occur with a long lag. Beneficiaries will be REITs. Even if rates are unchanged, most REITs have repriced their lower interest rate hedges, removing the pressure for DPU growth.

(ii) Corporate restructuring: The restructuring of corporate assets via public offerings or stake sale will be a continuing theme for alpha generation (i.e. generates excess returns or returns higher than a benchmark). Keppel will look to dispose of its Rigco assets, Thai Beverage will sell a stake via trade sale or IPO in Beerco, Olam will look to dispose of its stake in Olam Agri or de-merge Olam Food, Singtel will look to partly crystalise the market value of its Bharti or Intouch stake, and SingPost will aim to complete the disposal of its Australian and property assets.

(iii) Re-rating of China valuations: We are not expecting a strong rebound in China's growth. Government support so far has been to cap downside risk by providing liquidity to provincial governments, banks, and stock markets. The longer-term solution to raising household wealth and incomes is still unclear. Nevertheless, our view is Trump's policies will not be as harsh as market expectations, supporting a re-rating of Chinese valuations. It benefits Singapore listcos such as CapitaLand Investment and China Aviation Oil.

Figure 4: Another massive outperformance in US equities



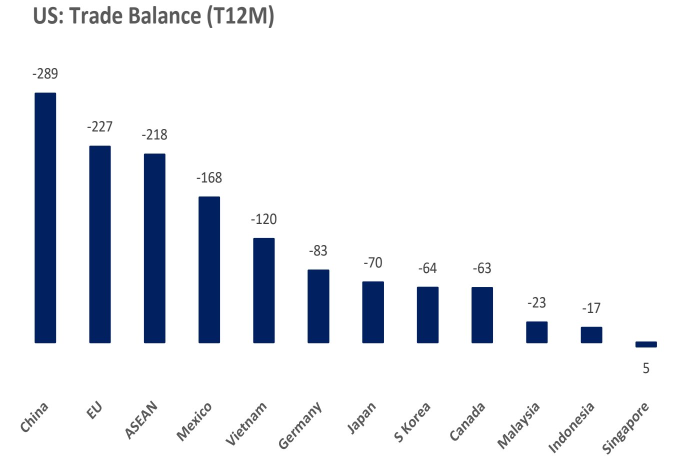
Source: PSR, Bloomberg, # US dollar returns *Bonds ETF (LQD), Gold ETF (GLD). Commodity ETF (DJP)

Figure 5: Singapore banks one of the best performing assets

	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Market Cap (US$ bn)
SG Financials	2.0%	12.9%	34.2%	209
Taiwan	3.5%	3.6%	28.5%	2,246
Japan	4.4%	5.2%	19.2%	21,973
Hong Kong	3.3%	-5.1%	17.7%	2,999
Singapore	1.3%	5.6%	16.9%	423
Malaysia	3.0%	-0.4%	12.9%	258
Shanghai	0.8%	0.5%	12.7%	7,118
Vietnam	1.3%	-1.6%	12.1%	205
India	-2.0%	-8.4%	8.8%	2,188
ASEAN 6	0.0%	-2.6%	3.8%	2,111
Philippines	-1.3%	-10.2%	1.2%	155
SG Mid Cap	-0.5%	-5.7%	-0.5%	87
Thailand	-1.9%	-3.4%	-1.1%	509
Indonesia	-0.5%	-6.0%	-2.7%	766
SG Small Cap	0.4%	-3.3%	-3.7%	23
S Korea	-2.3%	-7.5%	-9.6%	1,291
SG REIT	-1.3%	-10.3%	-11.8%	65

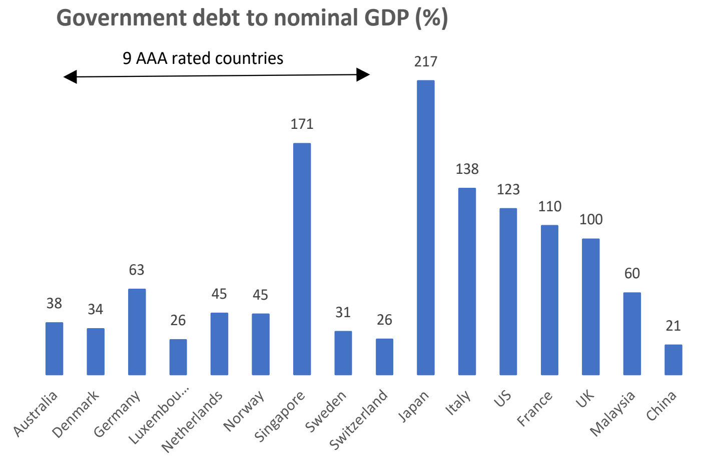
Source: PSR, CEIC # Local currency returns

Figure 6: Countries with a large trade surplus with the US



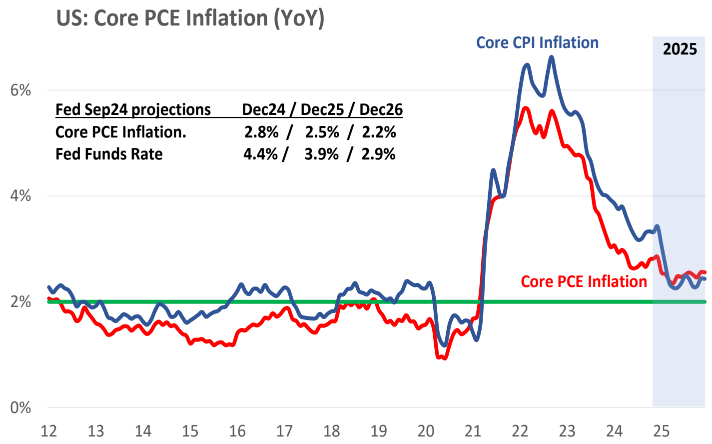
Source: PSR, CEIC

Figure 7: Multiple developed countries with higher govt. debt



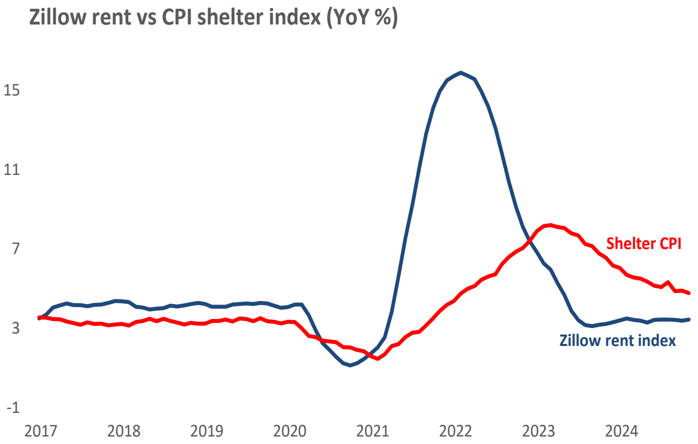
Source: PSR, CEIC

Figure 8: Base effects can pull down 1Q25 inflation to 2.4-2.5%



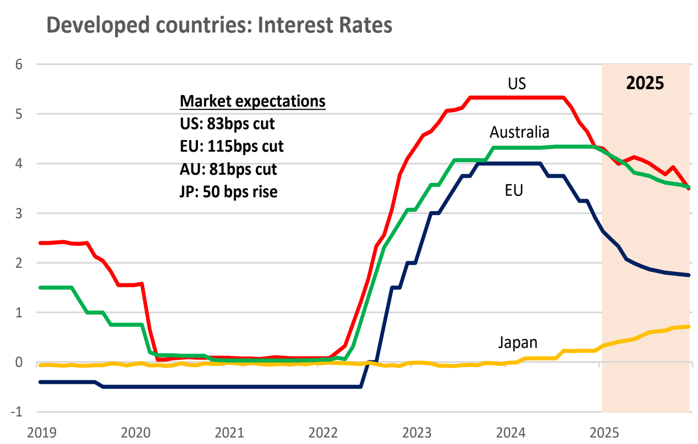
Source: PSR, CEIC

Figure 9: The huge shelter CPI tapering down



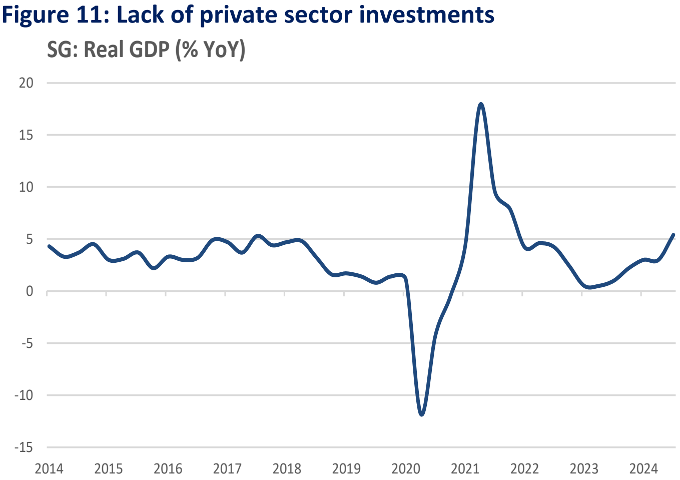
Source: PSR, CEIC

Figure 10: Europe expected to cut rates 4-5 times



Source: PSR, CEIC

Figure 11: Lack of private sector investments



Source: PSR, CEIC

RECOMMENDATIONS FOR PHILLIP ABSOLUTE 10

The strategy of the portfolio is to generate alpha or absolute returns in a balanced portfolio. Using 10 stocks for a portfolio is highly concentrated. We add lower beta yield names to avoid excessive volatility in our model portfolio. In our 2025 model portfolio, which is reviewed every quarter, the top 10 picks - The Phillip Absolute 10 - by category are:

a) **Dividend yields:** Such stocks anchor the portfolio with less volatility and attractive dividend income. We find the dividend yield of CapitaLand Ascott and Stoneweg REIT attractive. Hospitality remains a growth segment, albeit at a slower pace. Valuations are attractive with the REIT trading at 0.8 price to book and 7% yield. Ascott has a history of selling assets at a significant premium to book. Both REITs benefit from declining interest rates in developed markets, especially Europe. Stoneweg portfolio occupancy and rents have been resilient despite the multiple economic challenges in Europe.

b) **Dividend/Earnings growth:** These are stocks with growth in dividends and/or earnings. We added OCBC due to an upside surprise in dividends. China Aviation is expected to report healthy earning growth in 2025. An upside surprise will come from a rise in their dividend payout ratio. SATS and ST Engineering will ride on continued improvement in freight and passenger travel volumes.

c) **Re-rating:** Companies that we expect to enjoy higher valuations due to certain share price catalysts. CapitaLand Investment is building an asset-light fund management platform that warrants premium valuations. We expect growth to return as REIT performance improves from lower interest rates and China asset prices stabilise. Wee Hur will enjoy a windfall from the disposal of its student accommodation portfolio in Australia.

Figure 8: Phillip Absolute 10

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Average	-0.9%	1.7%	20.7%				20.2%		4.4%

Source: Bloomberg, PSR

2024 performance review: Phillip Absolute 10

Our Phillip Absolute 10 underperformed the index in 2024. Changes we made during the year:

1Q24 - Add: Valuetronics, China Aviation Oil; **Remove:** CapitaLand Ascott Trust, PropNex
2Q24 - Add: DBS, Stoneweg European REIT; **Remove:** OCBC, Frasers Centrepoint Trust
3Q24 - Add: OUE REIT; **Remove:** Thai Beverage
4Q24 - Add: UOB, SATS; **Remove:** DBS, Singtel
1Q25 - Add: CapitaLand Ascott, OCBC, Wee Hur Hldgs; **Remove:** ComfortDelGro, Valuetronics, OUE REIT

Underperformers

The portfolio suffered from continued de-rating of China. This negatively impacted our CapitaLand Investment and China Aviation. Keppel Ltd's weak earnings and lack of divestments were a drag to the portfolio. Other names with positive gains but underperformed were ComfortDelGro, Valuetronics, and OUE REIT. The results were within expectations but considered lacklustre.

Outperformers

The major winners were banks such as UOB and DBS. Their financial performance and dividends exceeded expectations. SingTel's outperformance was due to the surge in Bharti's share price and cost-cutting measures in Optus. ST Engineering reported healthy results from aircraft maintenance, defence, and urban solutions.

Figure 13: Monthly perf.

	Absolute 10	SING
Jan24	-0.9%	-2.7%
Feb24	-0.9%	-0.4%
Mar24	0.7%	2.6%
Apr24	1.5%	2.1%
May24	-0.2%	1.3%
Jun24	-0.3%	-0.1%
Jul24	3.3%	3.7%
Aug24	-0.2%	-0.4%
Sep24	7.4%	4.1%
Oct24	-1.9%	-0.7%
Nov24	0.2%	5.1%
Dec24	0.2%	1.3%
YTD	8.9%	16.9%
Out/(Under)perf.		-8.0%

Source: Bloomberg, PSR, *Performance for illustration only. It is an equal-weighted portfolio of 10 stocks and excludes the cost of monthly rebalancing, transaction fees and dividend income.*

Technical View - Singapore Equities

Bullish ascent within the main uptrend channel

SINGAPORE | STRATEGY REPORT | TECHNICAL ANALYSIS

Figure 14: Monthly charts indicate price remains in a bullish trend within the main uptrend channel

Source: TradingView, PSR

The monthly chart for Singapore Equities showed an acceleration in its bullish ascent following a breakout of an uptrend channel in May 2024. The price retested the main uptrend channel resistance at 3.93. Moving forward to 2025, the price structure shows potential further upside towards the 4.20 level from the bullish trend continuation.

Figure 15: Weekly chart indicates near-term headwinds likely from the main uptrend channel resistance

Source: TradingView, PSR

The weekly chart for Singapore Equities showed the price held the throwback at the 3.30 level following a breakout of an uptrend channel in August 2024. Following this, the price continued its bullish trend and ascended towards the main uptrend channel at 3.93. Given the price is currently trading at the main uptrend channel resistance area, we believe it is likely for Singapore Equities to consolidate sideways in 1Q25 between the 3.70-3.92 area before resuming the bullish primary trend towards the 4.10 level in 2Q25.

Construction OVERWEIGHT

- Construction output grew 8.9% YoY in the first ten months of 2024, driven by steady demand and backlog completions.
- Strong project pipelines, driven by the expansion of the two integrated resorts and Changi Airport Terminal 5 next year, are expected to boost construction output and maintain high demand for worker accommodations for FY25e.
- We maintain **OVERWEIGHT** on the construction, building material, and worker accommodations sector.

2024 Review

Output grew 8.9% YoY in the first 10 months of 2024. Construction progress continued to increase as companies completed project backlogs from the pandemic and experienced steady demand. At the same time, the trailing 12 months of contracts awarded are also at record levels at around S$44bn, increasing 36% YoY (Figure 17). This will translate into output in the next 12 to 18 months.

Prices of building materials remain stable. The price of steel rebars began its descent in early 2023 and is currently about -9.8% YoY. Prices of steel rebars are showing signs of recovery as its YoY decrease in prices is slowing down (Figure 20). Prices of cement and ready-mixed concrete (Figure 21) were stable and still above pre-Covid levels.

Slowing demand for foreign migrant workers. The Dependency Ratio Ceiling (DRC) was reduced from 1:7 to 1:5 (i.e., one local employee to 5 work permit holders) starting from Jan 2024. As a result, the total demand for worker accommodations increased only by 0.4% HoH in June 2024. This was less than expected, considering the previous YoY increase in 2023 was 6%.

Outlook

Strong pipeline of construction projects. The Building and Construction Authority estimated that there will be between S$31bn and S$38bn worth of construction demand from 2024 to 2028, higher than average pre-pandemic levels. The expansion of the two integrated resorts and the commencement of Changi Airport Terminal 5 next year will also further boost construction output next year. Demand for worker accommodations is expected to remain strong due to the strong pipeline of construction projects.

Strong pipeline for public housing projects. By the first ten months of 2024, HDB had already delivered 21,225 new flats, almost reaching the previous high of 21,393 flats in 2023. According to HDB, they are on track and committed to launching 100,000 flats from 2021 to 2025. This represents a c.3.2% CAGR growth of HDB units launched from FY23 to FY25e (Figure 18).

Recommendations

We **OVERWEIGHT** the construction, building material, and worker accommodations sector.

- **Wee Hur (WHUR SP, BUY, TP S$0.62).** We expect revenue and profit growth from the new 10,500-bed worker dormitory, Pioneer Lodge, starting operations in FY25. The sale of the Group's PBSA portfolio is also expected to yield c.S$320mn in cash, raising the chance of special dividends. The Group received S$85mn higher cash balances YoY in FY12 from the Group's completion of Harvest@Woodlands industrial development project, and paid out c.S$15.9mn worth of special dividends.

- **Centurion (CENT SP, ACCUMULATE, TP S$1.02).** After it's expected completion in December 2024, we expect the new 1650-bed worker dormitory, Westlite Ubi, to drive revenue and profit growth. Its location is favourable in the East due to less regional supply, and we believe 5-10% higher rental rates can be charged for it.

- **BRC Asia (BRC SP, ACCUMULATE, TP S$2.80).** We expect revenue and profits to be driven by a strong order book from the expansion of the two integrated resorts and the commencement of Changi Airport T5. We also expect the dividend yield to remain high at around 7% for FY25e after increasing by 1.5% YoY in FY24.

- **Pan-United (PAN SP, BUY, TP S$0.68)** Pan-U's low-carbon products could set it apart as customers adopt and transition towards low-carbon solutions in their construction designs. Low-carbon products now account for more than 50% of 1H24 revenue. Gross margin has increased to 21.6% in 1H24, a 3-year high from higher sales of low-carbon concrete.

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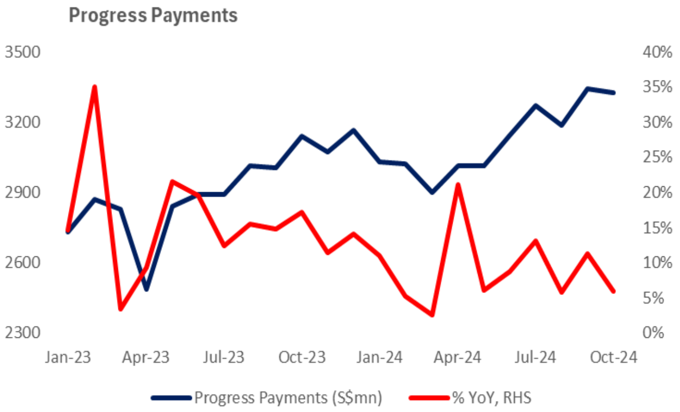
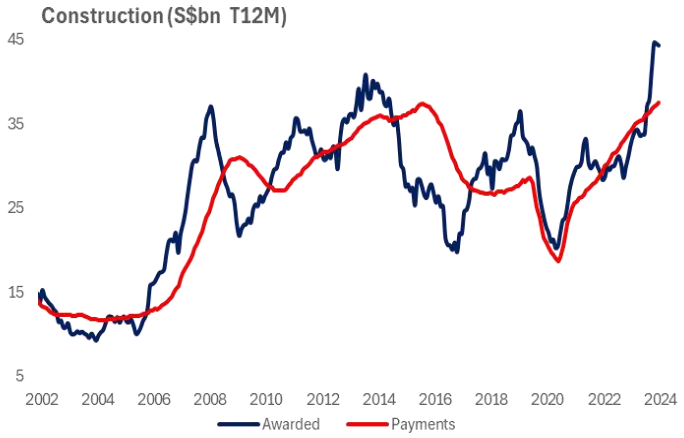
Figure 16: Rising progress payments reflect more jobs completed and higher construction cost



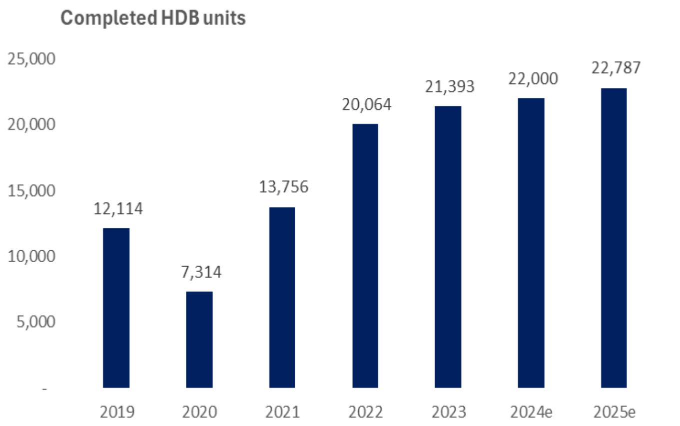
Source: PSR, BCA

Figure 17: Surge in jobs awarded will translate into output in 12-18 months



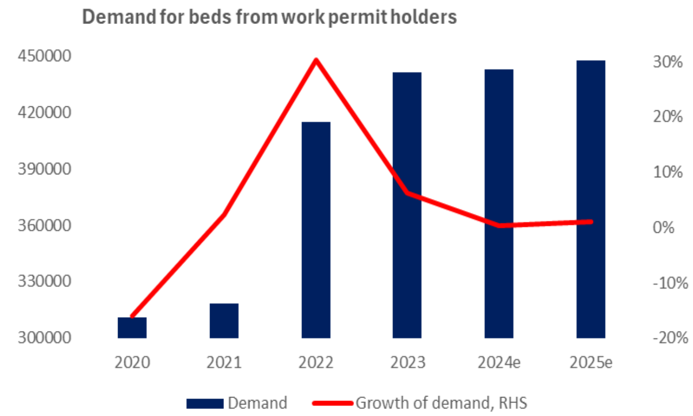
Source: PSR, BCA

Figure 18: Completion of housing units to remain high in the next two years



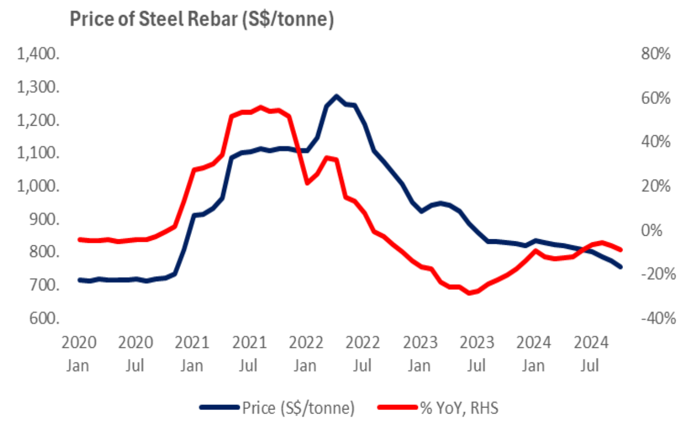
Source: PSR, Singstat

Figure 19: Slowing demand for worker accommodations



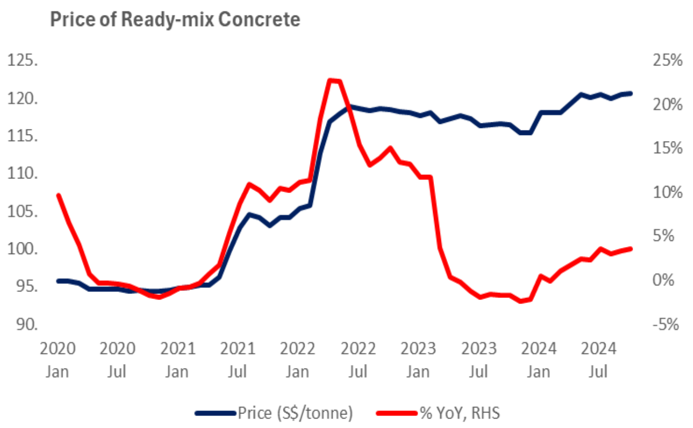
Source: PSR, MOM

Figure 20: Steel rebar prices declined and are nearing trough



Source: PSR, Singstat

Figure 21: Ready-mixed concrete prices held stable



Source: PSR, Singstat

Finance OVERWEIGHT

- Rate cuts finally materialised, and SORA fell 47bps in 2024. As a result, the banks' NIMs and NII fell in tandem. However, the banks were able to protect their margins as they locked in longer-term securities with excess deposits. Double-digit fee income growth provided a boost for earnings as investor sentiment shifted.
- Excess capital ratios could lead to higher dividends as the banks take a more aggressive approach to capital management; potential share buybacks will improve ROE and EPS.
- We remain **OVERWEIGHT** on the Singapore banking sector.

2024 Review

Interest rate cuts kick in, resulting in NIM and NII stagnation. Rate cuts finally materialised in 2H24, with the Feds lowering interest rates by 100bps in 2024. As a result, the Fed rate was lowered to 4.5% from the record high of 5.5% and resulted in a similar move in the 3M-SORA/3M-HIBOR to 3.29%/4.31%, respectively (-47/113bps YoY) (Figure 29). Consequently, the banks' Net Interest Margins (NIMs) dipped by 6bps to 2.13% in 9M24. Net Interest Income (NII) in 9M23 was flat YoY from fixed-asset repricing and deployment into lower-yielding high-quality assets. However, the lower NIMs and NII were more than offset by a strong recovery in fee income and loan growth recovery.

Fee income growth resurgence. Fee income recovered strongly in FY24, with the banks' 9M24 fee income rising by 18% YoY (Figure 25). The resurgence was due to improved market and investor sentiment, as there was a continued shift from deposits into investments and bancassurance, with wealth management (WM) fees being the main contributor to fee income growth. Furthermore, assets under management (AUM) hit record highs (YTD9M24: +8%) from continued net new money inflows.

Loan growth recovery taking shape. The banks' loan growth took a hit from the high-interest rate environment, but we are beginning to see positive signs, with Oct 24 loan growth at a 25-month high. Loans growth inched up in the second half of 2024 despite the absence of interest rate cuts and reached a high in October when the first rate cut was fully felt. Housing loans remained robust, and the recovery was mainly attributable to a recovery in the building & construction and manufacturing sectors. We expect low-single-digit growth for 2024 as loan growth is expected to recover further from the rate cuts going into 4Q24.

SGX's securities and derivatives volumes growth surge. SGX's securities volume surged, with the 5MFY25 securities daily average volume (SDAV) up 38% YoY to 1,326mn contracts (Figure 27) as the Singapore stock market remained a flight-to-quality venue amidst heightened volatility surrounding the Yen carry trade in August and the US elections. Similarly, SGX's derivatives volume rose for the 11th consecutive month, with the 5MFY24 derivatives daily average volume (DDAV) rising 25% YoY (Figure 28). The growth was across equities, FX, commodities, and continued interest in the FTSE China A50 Index Futures and GIFT Nifty 50 Futures.

2025 Outlook

Rate cut expectations lowered. The 3M-SORA and 3M-HIBOR have declined from the highs reached in FY24. We expect the interest rates to follow in line with the Fed rates and to dip further in FY25. However, market expectations for rate cuts have been lowered under the incoming Trump administration, with projections of only two more rate cuts (totalling 50bps) in 2025. We expect this to benefit the banks, as the decline of the NIM and NII will be softened.

Stable NIM Guidance. NIM guidance for all three banks has been maintained at 2-2.25% for FY24e, with expectations for NIMs to decline from these levels in FY25e. This is mainly due to a decline in interest rates in 2H24 and an expectation for more rate cuts in FY25. However, the banks have guided for higher loan growth as interest rates continue to decline in FY25, with guidance for mid to high-single-digit loan growth for FY25e. The banks will also look to lower their funding costs to maintain NIMs, with fixed deposit (FD) and CASA rates being cut.

Non-interest income to provide boost. The banks expect fee income to continue the strong growth from the sustained shift in investor sentiment as funds move from low-interest-yielding to higher-yielding products like investment and bancassurance. As such, they have guided for high single-digit fee income growth for FY25e. There is an upside from trading income due to the heightened volatility surrounding the Trump administration and uncertainty with the Fed rates. We expect non-interest income to offset the NIM and NII growth stagnation and be the growth driver for FY25.

Recommendation

Remain OVERWEIGHT. With lower rate cut expectations going into FY25 and improving loan growth, banks will benefit as the decline in NII and NIM will soften. Capital markets are turning more buoyant for 4Q24 with the rise in trading volumes, and the banks' trading income could further benefit. Furthermore, the continued double-digit growth in fee income and a loan growth recovery will boost earnings. There is a further upside to dividends as the banks look to manage excess capital actively (~S$2-4bn), and a possibility of share buybacks will improve ROE and EPS.

We like OCBC (OCBC SP, ACCUMULATE, TP: S$18.80) due to attractive valuations and a dividend yield of 5.4%, buffered by a well-capitalised 15.6% CET 1, and non-interest income growth from recent acquisitions, and UOB (UOB SP, ACCUMULATE, TP: S$39.70) due to stable NII and NIM by cutting deposit costs and continuing to increase loan margins, and other tailwinds such as loan growth recovery from rate cuts and double-digit fee income growth, which will boost earnings.

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Figure 9: Singapore banks' peer comparison

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E Yr0	Forward P/E Yr1	Forward P/E Yr2	Forward P/BV Yr0	Forward P/BV Yr1	Forward P/BV Yr2	Dividend Yield (%) Yr1	Dividend Yield (%) Yr2	ROE (%) Yr0	ROE (%) Yr1	ROE (%) Yr2	Price (Local Currency)	Target Price (S$)	Upside
Singapore																
DBS	Accumulate	91,785	8.6	11.1	11.5	1.4	1.9	1.8	5.1	5.6	16.9	17.8	16.3	43.9	44.70	2%
OCBC	Accumulate	61,309	8.4	9.7	9.9	1.1	1.3	1.2	5.4	5.6	13.3	14.0	13.0	16.7	18.80	13%
UOB	Accumulate	44,721	8.5	10.0	9.7	1.1	1.3	1.2	5.3	5.7	13.3	13.2	12.9	36.4	39.70	9%
	Market Cap Weighted Average:		**8.5**	**10.4**	**10.6**	**1.2**	**1.6**	**1.5**	**5.2**	**5.6**	**15.0**	**15.6**	**14.5**			
Indonesia																
BCA	Non-rated	73,892	23.8	21.7	19.9	4.8	4.5	4.1	2.9	3.2	21.0	21.5	21.4	9675	na	na
MANDIRI	Non-rated	32,960	10.3	9.4	8.7	2.2	1.9	1.7	6.3	6.6	22.4	20.8	20.6	5700	na	na
BNI	Non-rated	10,052	9.6	7.3	6.5	1.3	1.0	0.9	6.5	7.1	14.6	14.2	14.8	4350	na	na
BANK BRI	Non-rated	38,310	14.4	10.1	9.3	2.8	1.9	1.8	8.1	8.4	19.7	19.2	19.8	4080	na	na
BANK BTN	Non-rated	991	5.0	5.0	4.5	0.6	0.5	0.4	4.4	4.1	12.4	9.8	10.2	1140	na	na
	Market Cap Weighted Average:		**17.6**	**15.2**	**14.0**	**3.5**	**3.0**	**2.8**	**5.1**	**5.5**	**20.5**	**20.2**	**20.3**			
Malaysia																
AFFIN BANK	Non-rated	1,555	12.0	13.5	12.4	0.4	0.6	0.6	2.8	3.1	3.7	4.3	4.6	2.9	na	na
ALLIANCE BANK	Non-rated	1,693	8.3	10.3	9.6	0.8	1.0	0.9	4.4	4.6	9.9	10.0	10.1	4.9	na	na
AMMB HOLDINGS	Non-rated	4,047	7.5	9.5	9.0	0.7	0.9	0.8	4.8	5.2	10.0	9.5	9.6	5.5	na	na
BANK ISLAM	Non-rated	1,260	9.0	10.2	9.3	0.7	0.8	0.7	6.0	6.5	7.8	7.4	8.1	2.5	na	na
CIMB BANK	Non-rated	19,667	8.9	11.2	10.7	0.9	1.2	1.1	5.6	5.3	10.7	11.2	11.2	8.2	na	na
HONG LEONG BANK	Non-rated	9,958	9.4	9.4	8.7	1.1	1.1	1.0	3.7	4.0	11.8	11.5	11.6	20.5	na	na
MAYBANK	Non-rated	27,636	11.5	12.3	11.7	1.1	1.3	1.2	6.0	6.3	10.4	10.5	10.6	10.2	na	na
PUBLIC BANK	Non-rated	19,748	12.5	12.5	11.9	1.5	1.5	1.4	4.5	4.8	12.7	12.5	12.4	4.5	na	na
RHB	Non-rated	6,321	8.3	9.3	8.8	0.8	0.9	0.8	6.3	6.4	9.4	9.5	9.4	6.5	na	na
	Market Cap Weighted Average:		**10.4**	**11.4**	**10.8**	**1.1**	**1.2**	**1.2**	**5.2**	**5.4**	**10.8**	**10.9**	**11.0**			
Thailand																
BANGKOK BANK	Non-rated	8,423	7.2	6.6	6.4	0.6	0.5	0.5	4.9	5.0	8.1	8.1	7.9	151.0	na	na
BANK OF AYUDHYA	Non-rated	5,266	6.3	5.8	5.6	0.6	0.5	0.4	3.7	3.8	9.3	8.1	7.9	24.5	na	na
KASIKORNBANK	Non-rated	10,766	7.5	7.7	7.3	0.6	0.7	0.6	5.1	5.4	8.2	8.7	8.9	155.5	na	na
KIATNAKIN BANK	Non-rated	1,274	7.8	9.8	8.6	0.7	0.7	0.7	5.4	6.2	9.2	7.4	7.9	52.5	na	na
KRUNGHTHAI	Non-rated	8,576	7.0	6.9	6.8	0.6	0.7	0.6	5.0	5.3	9.4	10.1	9.7	21.0	na	na
KRUNGHTHAI CARD	Non-rated	3,767	15.4	17.3	16.1	3.1	3.2	2.9	2.7	2.9	21.8	19.8	18.9	50.0	na	na
SCB X PCL	Non-rated	11,561	8.2	9.6	9.0	0.7	0.8	0.8	8.2	8.6	9.3	8.6	9.0	117.5	na	na
SRISAWAD	Non-rated	1,843	11.1	12.1	11.1	2.1	1.9	1.7	2.0	2.6	18.6	16.8	16.3	41.8	na	na
THANACHART BANK	Non-rated	1,548	7.9	7.7	7.3	0.7	0.7	0.7	6.7	6.9	9.6	9.7	9.8	50.5	na	na
TISCO	Non-rated	2,305	10.9	11.5	11.7	1.9	1.8	1.8	7.8	7.9	17.1	16.1	15.6	98.5	na	na
	Market Cap Weighted Average:		**8.2**	**8.6**	**8.2**	**0.9**	**0.9**	**0.9**	**5.5**	**5.7**	**10.4**	**10.1**	**10.0**			

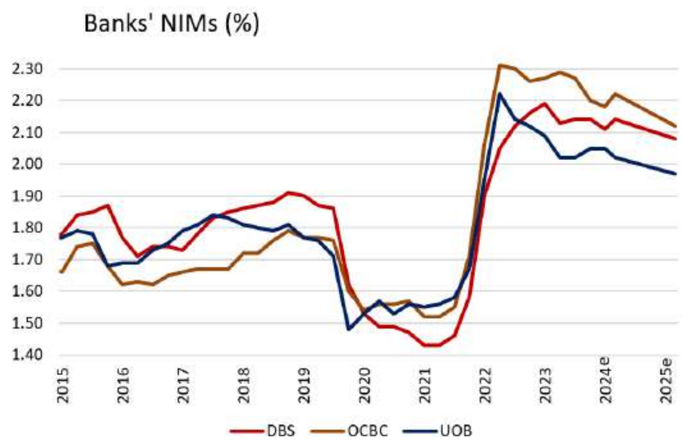
Source: Bloomberg, PSR Extracted as of 31-Dec-24

Figure 10: Singapore banks' share price performance

BBG Ticker	Singapore Banks	Last Price (S$)	PSR Recommendation	PSR Target Price (S$)	Upside	Div Yield (%)	Performance 1 Year (%)	Performance YTD (%)	Performance 3 Month (%)	Performance 1 Month (%)
DBS SP EQUITY	DBS	43.91	ACCUMULATE	44.70	2%	4.8	44.6	44.6	15.4	3.5
OCBC SP EQUITY	OCBC	16.67	ACCUMULATE	18.80	13%	5.2	28.2	28.2	10.4	2.4
UOB SP EQUITY	UOB	36.43	ACCUMULATE	39.70	9%	4.7	28.0	28.0	13.2	0.2

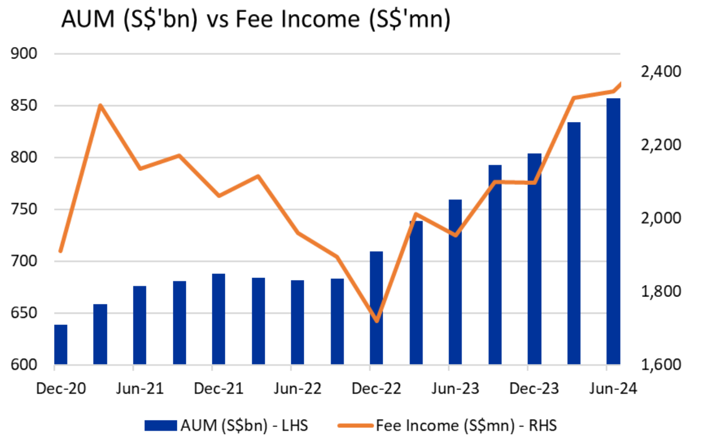
Source: Bloomberg, PSR

Figure 24: NIM to inch down in 2025



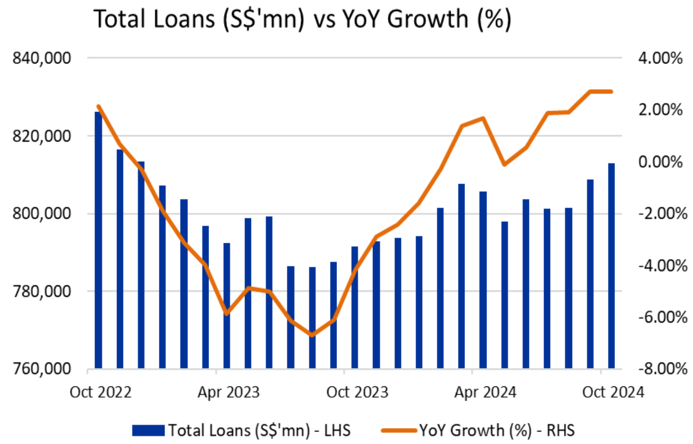
Source: PSR, Companies

Figure 25: AUM and fee income at record highs



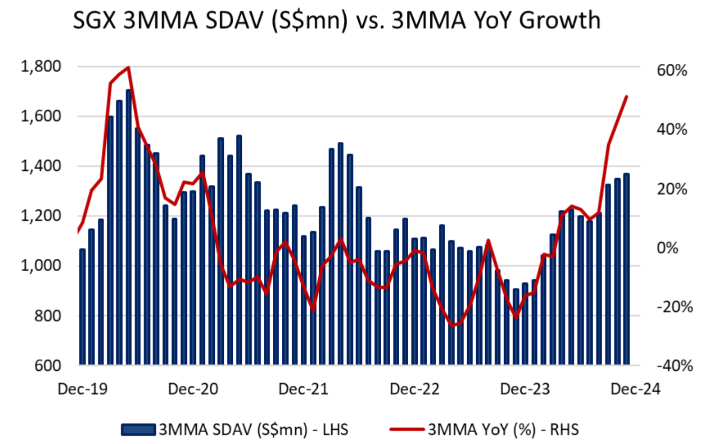
Source: PSR, Companies

Figure 26: Loans growth at 25-month high



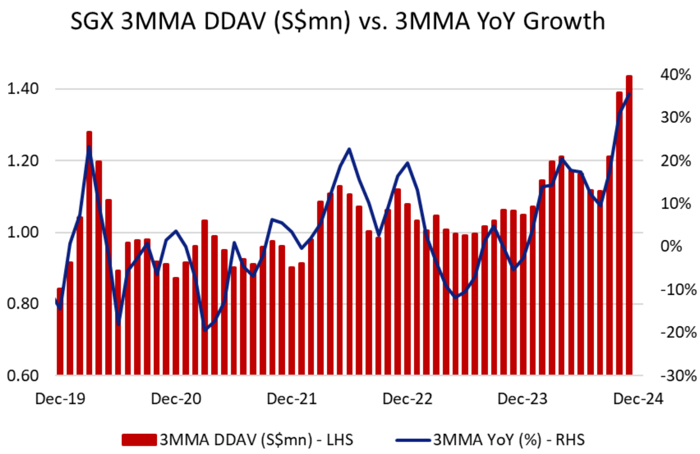
Source: PSR, Companies

Figure 27: SGX SDAV recovers strongly



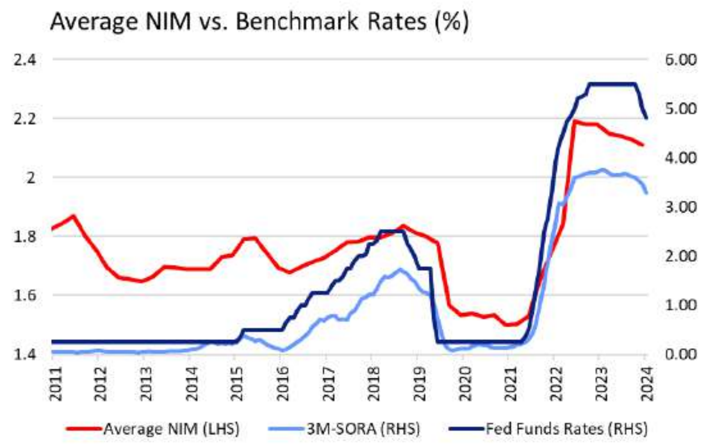
Source: PSR, Companies

Figure 28: SGX DDAV growth broad-based



Source: PSR, Companies

Figure 29: Interest rate cuts kick in



Source: PSR, Companies

Healthcare NEUTRAL

- It has been a mixed year for healthcare. IHH was the leader with a 27% rise in share price in 2024. Earnings rose 21% YoY in YTD3Q24 to RM1.7bn. In contrast, Raffles Medical reported poor results, with 1H24 earnings declining 48% YoY to S$31mn.
- We believe Singapore has been losing market share in medical tourism to Malaysia and Indonesia. The stronger currency, more capital invested into private healthcare (facilities), and improved perceptions during the pandemic have negatively impacted the competitiveness of Singapore's healthcare compared to that of its regional peers.
- We have a **NEUTRAL** weighting on the sector. We favour healthcare companies building a long-term branded franchise in skin health (Hyphens Pharma) and dental chains (Q & M Dental).

2024 Review

Turning more competitive. Regional healthcare centres invest more in facilities, increasing complexity and improving their reputation. Hospitals that cannot raise their revenue intensity will face pressure. Raffles Medical is squeezed between IHH Healthcare's strength in complex patient cases and insurance companies moving more patients into public hospitals. Transitional care facilities, where public hospitals transfer stable patients, are facing competitive bidding. Another pressure point is the Healthier SG scheme, where general practitioners are given fixed prices on their services and drugs in return for allocated patient volume by the authorities.

Private transactions support valuations. Hospitals remain a well-sought-after and premium-priced asset class in the private market. IHH Healthcare recently acquired Island Hospital, a 600-bed capacity hospital in Penang, for RM3.9bn. This equates to around the historical 24x EV EBITDA and 53x PE ratio. Last year, Thomson Medical Acquired a 200-bed FV Hospital in Vietnam for S$487mn. This implies a 17x EV/EBITDA and 31x PE ratio. Raffles Medical is trading at 27x PE and 12x EV/EBITDA.

Rebound in healthcare performance. The healthcare sector recovered in 2024 with a gain of 22% (2023: -10%). IHH's gain of 27% supported the industry's performance. Other major gainers were glove maker Riverstone (+55%) and Q &M Dental (+10%). The weakest performers were Cordlife (-52%), iX Biopharma (-44%), Thomson Medical (-23%) and Raffles Medical (-21%).

Outlook

The macro drivers supporting healthcare demand are intact. Singapore faces a growing population (Figure 30), an ageing population (Figure 31) and rising life expectancy (Figure 32) and even birth rates have started to stabilise (Figure 33). Admission volumes in public hospitals are outpacing private (Figure 34). Therefore, private hospitals have to rely on revenue intensity rather than volumes to grow (Figure 35). Listed hospital groups have pivoted to expansion overseas as a growth driver. However, greenfield hospitals face start-up losses and new acquisitions can be earnings dilutive due to interest rates and amortisation of goodwill. We remain NEUTRAL on the sector due to intense competition from overseas and concentrated specialist care groups.

Recommendation

We are **NEUTRAL** on the healthcare sector.

- **Raffles Medical (RFMD SP, NEUTRAL, TP S$0.96)**. Its largest private competitor challenges its ability to raise revenue intensity and undertake more complex cases. Higher losses at the insurance operations and China will continue to depress earnings.
- **Q & M Dental (QNM SP, BUY, TP S$0.36)**: After aggressively expanding to 40 clinics over 2020-23, Q&M is focused on consolidating its clinics, turning around its associates, and raising revenue intensity with AI evidence-based treatment.
- **Thomson Medical (TMG SP, BUY, TP S$0.061)** A recovery in earnings for FY25e remains on track driven by: (i) normalisation of volumes in Singapore and Malaysia after operational disruptions; (ii) increased revenue intensity as more specialists are onboarded; (iii) higher growth in Vietnam following a ramp-up in marketing and headcount spend.
- **Hyphens Pharma (HYP SP, BUY, TP S$0.35).** We believe the company is building a foundation for sustainable growth through product innovation, expanding distribution points and securing new exclusive licensing partnerships. In addition, Hyphens is building a regional B2B platform (i.e. DocMed) for healthcare practitioners and pharmaceutical companies.

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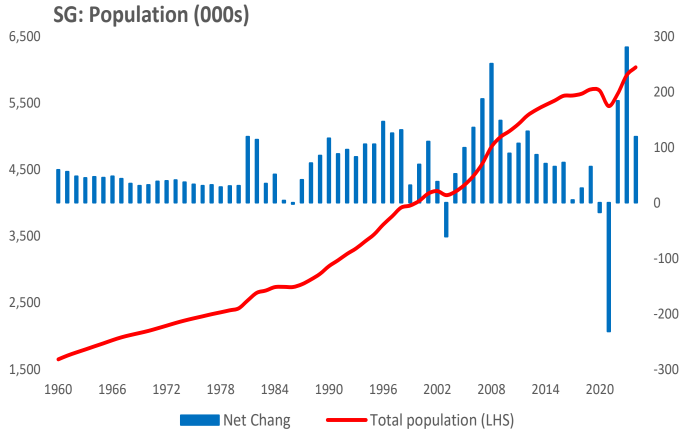
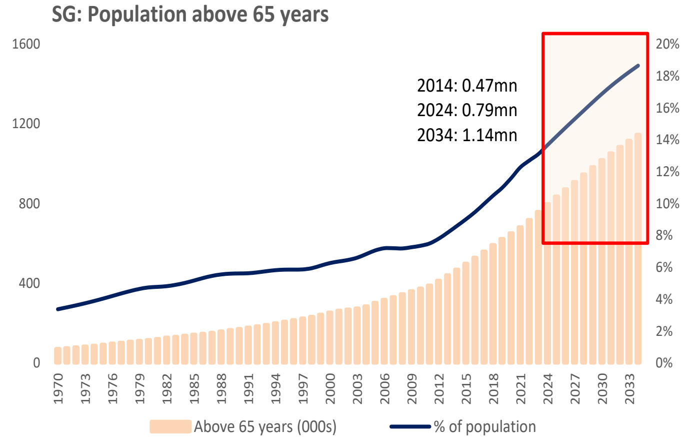
Figure 30: Population rebound to record 6mn



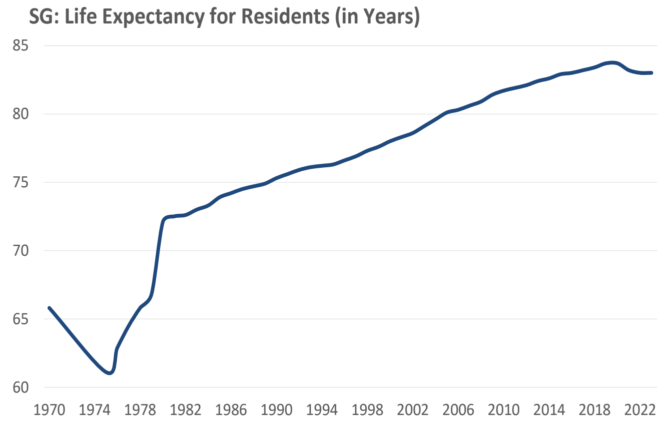
Source: CEIC, PSR

Figure 31: Number of 65 years and above rising fast



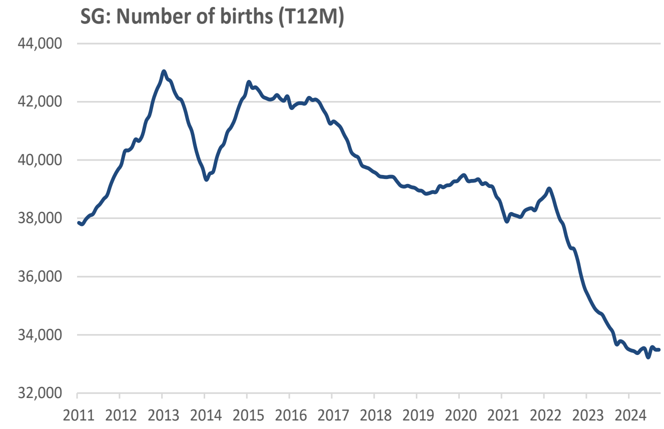
Source: CEIC, PSR

Figure 32: 80 is the new 60



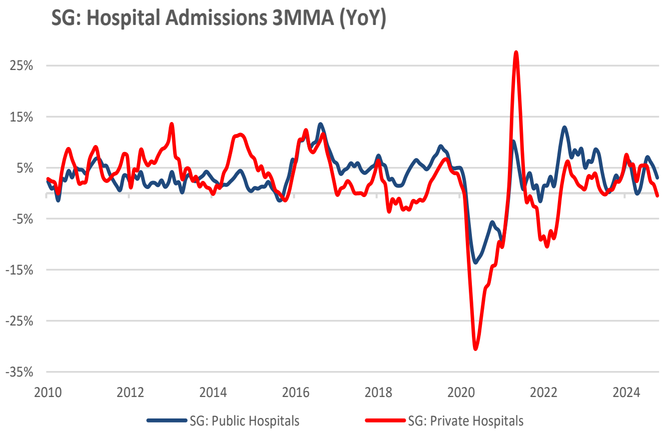
Source: CEIC, PSR

Figure 33: Birth levels stabilising after recent plunge



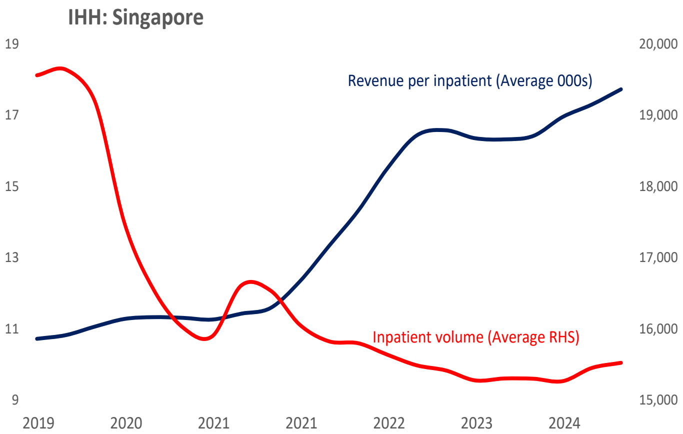
Source: CEIC, PSR

Figure 34: Public sector admissions outpacing private



Source: CEIC, PSR

Figure 35: Revenue intensity offsetting volumes



Source: CEIC, PSR

Property NEUTRAL

- Singapore's private residential property prices increased 1.6% in 9M24, moderating from the 3.9% increase in 9M23. It declined 0.7% in 3Q24, the first decline since 2Q23.
- New home sales picked up in 4Q24 with the launch of over 4,000 units, coupled with interest rate cuts. Buyers were mostly local as the ABSD hike to 60% in April 2023 has continued to stifle foreign demand.
- Property demand is likely to improve in 2025 with more interest rate cuts on the horizon.
- **NEUTRAL** on the property sector. The top pick in the sector is CapitaLand Investment (CLI SP, BUY, TP: S$3.38).

2024 Review

Singapore private residential property prices declined by 0.7% QoQ in 3Q24, marking the first drop since 2Q23. This brought the 9M24 price increase to 1.6%, down from 3.9% in the same period last year. 3,222 units were launched in 9M24, followed by over 4,000 units in 4Q24. Supported by interest rate cuts in September, November, and December, sales momentum increased significantly in 4Q24. Most buyers were Singaporeans or PRs, as foreign demand has largely vanished since the Additional Buyers' Stamp Duty (ABSD) hike to 60% in April 2023.

Considering the 60% ABSD, the launch of some high-end projects continues to be delayed. For instance, City Developments Limited postponed the launch of Newport Residences, a high-end project targeting foreign buyers, initially scheduled for 2Q23.

Outlook

Incoming completed stock is expected to remain muted at 6,603/8,819/11,941 units in FY25-27e (including ECs), significantly lower than the 21,284 units completed in 2023 and 7,533 units completed in 9M24. This limited supply pipeline should support private home prices in the future, and we expect prices to increase only slightly in 2025. An estimated 34 projects, with over 14,000 units, are expected to be launched in 2025.

Property demand will likely improve in 2025 with more interest rate cuts on the horizon.

Recommendation

We maintain a **NEUTRAL** stance on the property sector, citing a lack of catalysts for significant improvement. CLI is our preferred pick for its robust recurring fee income streams and asset-light model. Growth drivers for CLI include more REIT transactions, further interest rate declines, and the launch of new funds.

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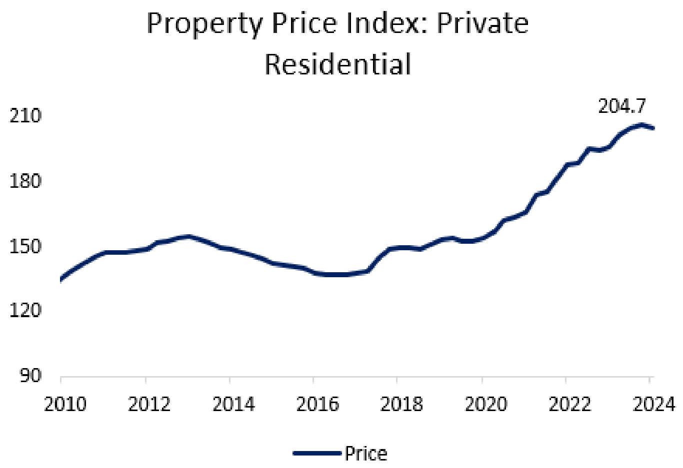
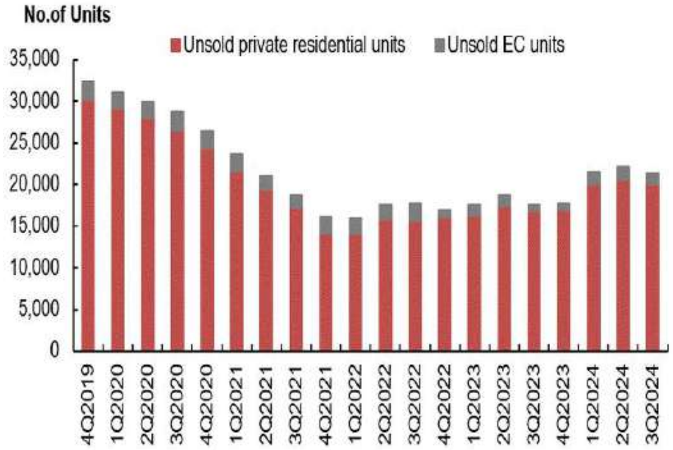
Figure 36: Singapore Property price index was up 1.6% for 9M24



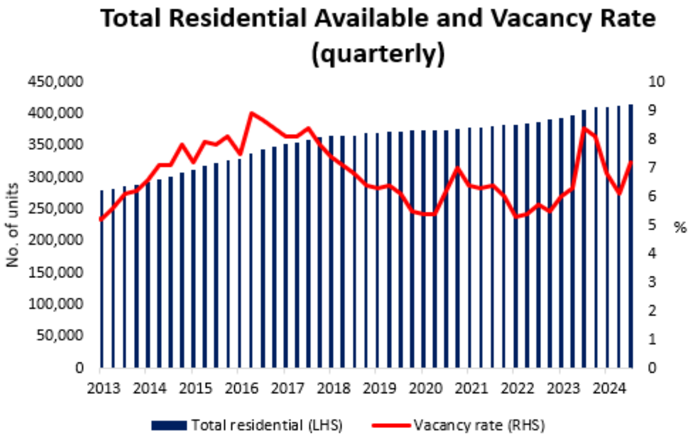
Source: URA, CEIC, PSR

Figure 37: Inventory levels ticked up in 2024 with 21,375 private residential units (including ECs) unsold



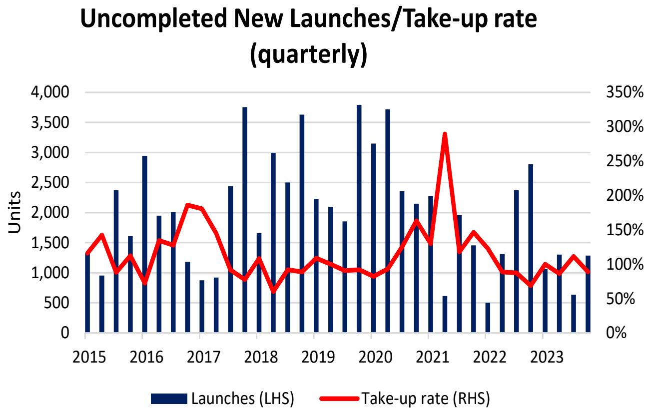
Source: URA

Figure 38: Vacancy of private residential units rose to 7.2% in 3Q24



Source: PSR, CEIC, URA

Figure 39: Over 4,000 units launched in 4Q24, taking 2024 total to over 7,000 units



Source: PSR, CEIC, URA

Real Estate Investment Trusts (REITs) — OVERWEIGHT

- SREITs' total returns were down 6.2% in 2024, significantly underperforming the STTF (+22%) for the year. Retail (+2.2%) was the best-performing sub-sector - lifted by strong positive rent reversions, while overseas commercial (-15.8%) was the worst-performing sub-sector. Frasers Hospitality Trust (FHT SP, not rated) emerged as the top performer in 2024 (+24.3%) after a 39.3% surge in December on high trading volume, while Keppel Pacific Oak US REIT (KORE SP, not rated) was the worst performer in 2024 (-45.3%).
- The sector is now trading at a forward dividend yield spread of 3.5% (-0.65x s.d.) over the benchmark 10-year SGS and a P/NAV of 0.86x, which is 1.8x s.d. below the mean. Based on this, we think SREITs are cheap as they are trading at a significant discount on their NAV.
- We are **OVERWEIGHT** on SREITs but are less optimistic than before, given the reduced likelihood of interest rate cuts under the Trump presidency. Our sub-sector preference is retail as we expect strong positive rent reversions to continue from the below-average occupancy cost. Catalysts for growth include inorganic growth opportunities through asset recycling and accelerated interest rate cuts. Top picks are CapitaLand Ascott Trust (CLAS SP, BUY, TP S$1.04), Stoneweg European REIT (SERT SP, BUY, TP €1.95), and Frasers Centrepoint Trust (FCT SP, ACCUMULATE, TP S$2.44).

<u>2024 Review</u>

The Fed cut its benchmark rate three times in 2024, totalling 100bps, bringing it to a target range of 4.25%-4.50%. Consequently, the 3MSORA fell 60bps YoY to 3.1%. Higher finance costs continued eroding distributable income, leading to a YoY decline in DPU for most REITs in 2024. While interest rate cuts offer relief, the high proportion of fixed-rate loans means S-REITs will take time to realize the benefits. Higher cap rates still impacted most overseas properties, resulting in lower property valuations. Asset valuations in Singapore remain stable, with mostly unchanged cap rates. Transactions volumes picked up in 2H24 with interest rates trending down.

In November 2024, MAS introduced a new minimum interest coverage ratio (ICR) of 1.5x and a single leverage limit of 50% for all REITs. Previously, REITs could only increase their leverage limit from 45% to 50% if they maintained a minimum ICR of 2.5 times.

Retail. Rent reversions were strong for retail in 9M24. Suburban malls had high single-digit positive rent reversions, while downtown malls saw positive rent reversions in the high-teens to low-twenties range. Despite a slowdown in tenant sales across most REITs, with some even reporting YoY declines, landlords observed that tenants remain willing to pay higher rents, supported by occupancy costs that are still below historical averages. Strong demand from overseas retailers, new F&B concepts, and the shift towards entertainment and wellness supported rental growth. According to CBRE, retail rents for downtown malls grew by 4.8% YoY in 3Q24, while suburban malls increased by 2.1%.

Office. Singapore Core CBD Grade A office rents were unchanged QoQ in 3Q24 at S$11.95 (+0.8% YoY). This was largely due to the completion of IOI Central Boulevard Towers, which added 1.2mn sq ft of prime office space in 3Q24. As a result, Core CBD Grade A vacancy spiked to 7.8%, up from 3.6% at the start of the year. Despite the influx of new supply, rental reversions remained resilient at high-single-digit for most office REITs as they have passing rents that are still below market rents. The flight to quality trend remains, with tenants prioritising prime city centre locations and seeking higher specifications.

Industrial. Rents have begun to moderate from the double-digit positive rental reversions seen in the industrial sector over the past few years. All industrial occupancy remained stable at 89% YoY in 3Q24 as occupancy gains in multi-user factories (+1.9%) were offset by occupancy losses in business parks (-1.7%). All industrial rents grew 4.8% YoY in 3Q24, slowing from the 9.3% growth in 3Q23. Rental growth was driven by multi-user factory (+5.8% YoY) and warehouse (+4.2% YoY), with all asset classes registering rental growth. Business parks remain the laggard compared with other industrial asset classes, with occupancy at 78.8% and a 2% YoY rental growth.

Hospitality. RevPAR YoY growth for most REITs has slowed to low-single-digit levels due to the high base in 2023. However, it remains higher than pre-COVID levels, as higher average daily room rates (ADR) (+20% vs 2019 levels) have more than offset the lower occupancy (c.93% of 2019 levels). Visitor arrivals from China picked up following the introduction of the 30-day visa-free entry for Chinese citizens in February 2024. As of 11M24, visitor arrivals from China are 14% below 2019 levels for the same period. 1Q24 was an exceptionally strong quarter for tourism in Singapore, driven by major concerts from Coldplay, Taylor Swift, and Ed Sheeran. In 11M24, Singapore international visitor arrivals (IVA) totalled 15.1mn, still below 2019 levels of 17.4mn for the same period. RevPAR fell 1.8% YoY in 3Q24 but remains 21% above 3Q19.

Outlook

Things are looking to improve for S-REITs with more interest rate cuts on the horizon. However, with Trump elected as president, the trajectory of future rate cuts has become more uncertain due to the potential inflationary impact of his policies. The market is now expecting only one or two rate cuts in 2025. Most REITs have already repriced their debt to reflect the current interest rate levels, and we expect interest costs to begin trending down in 2025. As a result, we expect DPU to return to growth in 2025, driven by lower financing costs. Transaction volumes picked up in 2H24 following the interest rate cuts, and we expect this momentum to continue, spurring inorganic growth opportunities. We expect the dividend yield spread to widen in 2025 as the 10YSGS yield decreases and DPU increases. The P/NAV of 0.86x, 1.8x s.d. below the 10-year mean appears attractive.

Retail (OVERWEIGHT). We expect tenant sales to improve in 2025, driven by the rising international visitors to Singapore. The occupancy cost of c.16% for suburban malls and c.25% for downtown malls remain below averages, offering the potential for further positive rental reversions following the strong performance in FY24. The limited average incoming supply of 0.3mn sqft p.a. from 2024-27, below the 10-year historical average of 0.5mn sq ft p.a., should also support rental growth. The normalisation of back-to-office work arrangements is expected to drive demand for prime retail spaces. Positive rental reversion in the mid-teens is anticipated for downtown malls, backed by retailer confidence in tourism recovery. Demand for suburban mall catchment areas remains robust, with healthy mid-single-digit positive rental reversion expected in FY25e. Singapore continues to be an attractive market for many global brands.

Office (NETURAL). The new supply from IOI Central Boulevard Towers has been well absorbed, with 60% pre-committed and expected to reach 70-80% occupancy by the end of 2024. They also target a higher market segment, with rents upwards of S$13 psf pm. Despite this, we expect core CBD Grade A office rents of $11.95 psf pm in 3Q24 (unchanged QoQ) to come under pressure as supply (+614k sq ft from Keppel South Central in 2025) outstrips demand and vacancies increase (7.8% in 3Q24). The new incoming supply of 0.5mn sq ft per year from 2025-2027 is also above the 5-year average of 0.1mn sq ft per year from 2019-2023. Demand for office space could pick up with more companies mandating employees to return to the office. With a large portion of new supply uncommitted in the pipeline, we expect Singapore office rents to remain muted in FY25.

Industrial (NEUTRAL). Leasing demand will likely be muted as most companies remain cautious with their business and expansion plans amid global uncertainties. A new supply of 1.6mn sqm is expected to come on stream in 2025, and this is expected to outstrip demand. As a comparison, the average supply and demand of industrial space over the past three years were only 0.9mn sqm and 0.5mn sqm, respectively. With the increase in prime logistics supply in 2025, landlords prioritize occupancy rates and temper their rental growth expectations, which have risen by 42.7% since the trough in 1Q20, according to CBRE. Given the bleak economic outlook and the anticipated slowdown in manufacturing, demand for industrial properties is likely to weaken. Consequently, we expect mid-single-digit positive rental reversions for this sector.

Hospitality (NEUTRAL). RevPAR is expected to grow in 2025 at similar levels to 2024, driven by higher occupancy as ADRs begin to normalise. International visitor arrivals to Singapore are projected to reach pre-pandemic levels by 2025, supported by various MICE events and the completion of Minion World at Universal Studios Singapore and the rebranded Singapore Oceanarium. It will be challenging to replicate 1Q24’s exceptional RevPAR performance, as that quarter benefitted from major concerts by Coldplay, Taylor Swift, and Ed Sheeran, which drew massive foreign crowds.

Recommendation

We are **OVERWEIGHT** on SREITs, with a sub-sector preference in retail. We think the recovery of international visitor arrivals to pre-COVID levels and population growth will drive tenant sales, and the potential for positive rental reversions for retail malls remains high. Our key recommendations are:

- **CapitaLand Ascott Trust (CLAS SP, BUY, TP S$1.04)** for its geographically diversified portfolio, which provides stability, and for its portfolio reconstitution efforts to drive inorganic growth.
- **Frasers Centrepoint Trust (FCT SP, ACCUMULATE, TP S$2.44)** for its defensive suburban mall portfolio, high occupancy, inorganic growth opportunities from its sponsor, and potential for more positive rent reversions from the below-historical-average occupancy cost.
- **Stoneweg European REIT (SERT SP, BUY, TP €1.95)** for its divestment and redevelopment strategies, which drive growth and stable capital, as well as its high dividend yield of 9%.

Our initiations in 2024 were:

- **OUE REIT (OUEREIT SP, BUY, TP S$0.40)** for its more than 50% discount to NAV. The REIT divested its only overseas asset in Shanghai, China, at a 5% discount to its latest valuation. It transitioned into a pure-play Singapore REIT with balanced exposure to the retail and hospitality sectors. This diversification is expected to drive resilient rental reversions and benefit from increased tourism arrivals in 2025.
- **FIRST REIT (FIRT SP, BUY, TP S$0.30)** for its long WALE of over 10 years and 4.5% base rental escalation for its hospitals in Indonesia, which provide earnings visibility and its high dividend yield of 9%.

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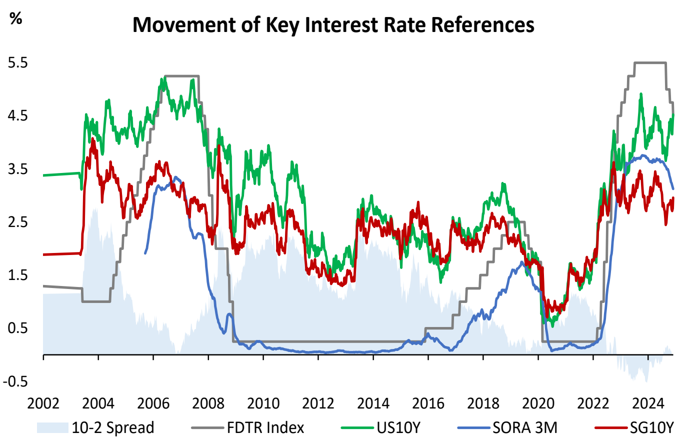
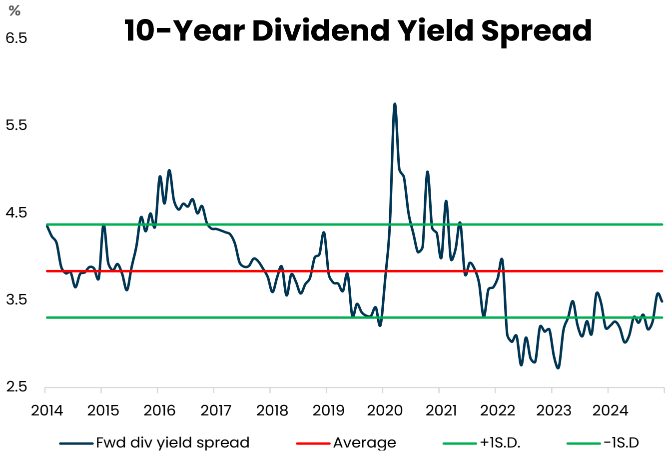
Figure 40: Fed cut interest rates 3 times (100bps total) in 2024



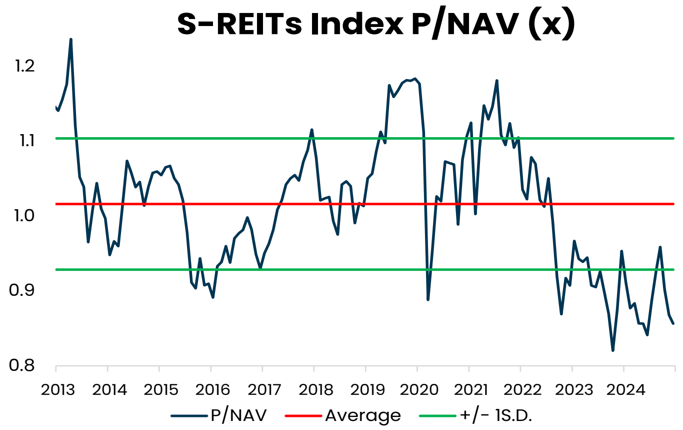
Source: Bloomberg, PSR

Figure 41: S-REIT Index yield spread at 3.5% and -0.65x s.d.



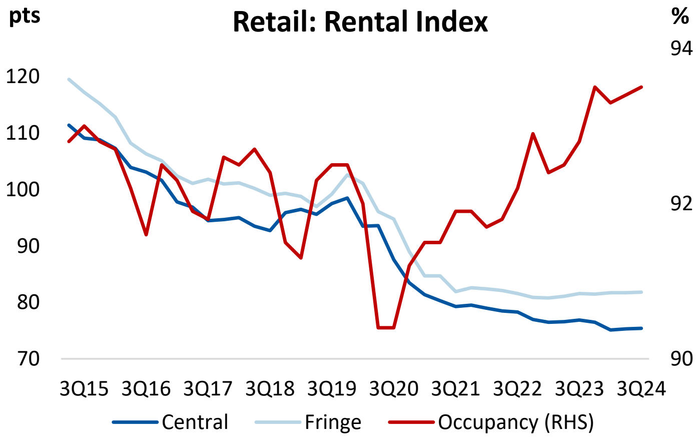
Source: Bloomberg, Phillip Securities Research

Figure 42: S-REIT Index P/NAV at 0.86x and -1.8x s.d.



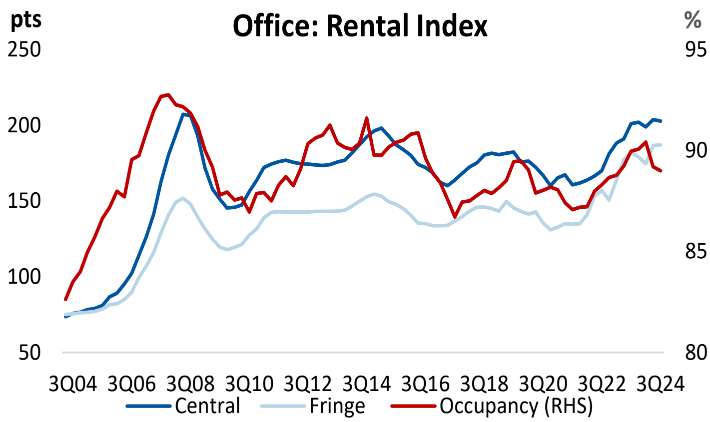
Source: Bloomberg, Phillip Securities, Research

Figure 43: Retail – room for rents to increase



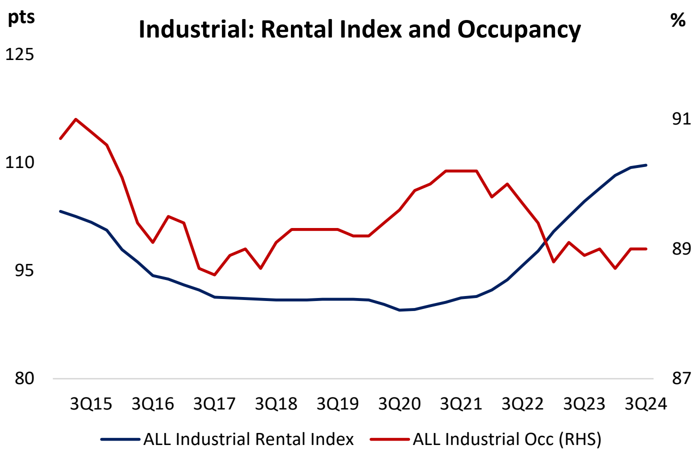
Source: URA (rebased 4Q1998), CEIC, PSR

Figure 44: Office – rents stabilised and higher vacancies with new supply



Source: URA (rental index rebased 4Q1998), CEIC, PSR

Figure 4511: Industrial – rents starting to normalise



Source: URA (rebased 4Q2012), CEIC, PSR

Technology (Hardware) NEUTRAL

- It was the 3rd consecutive year of decline for electronics. The sector was down 8% in 2024 following last year's 9% decline. The most significant drag was the 58% collapse in AEM's share price, followed by a 24% drop in Aztech Global and another 23% fall in UMS. Venture fared better with a 3% decline.
- The recovery in semiconductors was confined to AI-related segments. There was no broad-based recovery. Supply chains shift from China, the US, and Europe to SE Asia. However, volumes have not improved enough for earnings to recover from these huge upfront investments. Contract manufacturers' end demand has generally been soft for Venture and Valuetronics' end customers.
- We remain neutral on the technology sector in Singapore. End demand for smartphones and personal computers (PCs) remains tepid, growing 2-3%. We remain cautious about AI edge computing driving up a replacement cycle for smartphones and PCs. There is a lack of a killer app in AI.

2024 Review

The semiconductor names in Singapore suffered from softer equipment spending by foundries (Figure 46). Whilst demand for high-performance semiconductors (or AI GPUs) remains healthy and supports overall sales (Figure 47), the volumes have been soft (Figure 48). High-volume electronic products such as smartphones and personal computers reported a growth of 2-3% (Figure 49). AEM was the worst performer, with a decline of 60% in 2024. Accounting issues and its major customer suffering from low utilisation of equipment pummelled the stock. Most electronic company's share prices were down in 2024, Aztech Global (-24%), UMS (-23%), Nanofilm (-18%), Frencken (-16%) and Venture (-3%). Valuetronics (+4%) and Grand Venture (+37%) were the only gainers.

The long-term outlook remains positive with the securing of new programmes. UMS secured a major customer for its Penang plant but the customer ramp has been slower than expected due to execution delays. AEM has a new AI customer for its test equipment, and the major ramp will be in 2025. Frencken is working on two major front-end customers involved in lithography and wafer disposition. Capex has been spent, but the major ramp has yet to be underway.

Venture's earnings remain sluggish for contract manufacturers as volume from medical and consumer lifestyles was lacklustre. Revenue has contracted for seven consecutive quarters, and 9M24's net profit is down 9% YoY to S$184mn (9M23: -25% YoY to S$203mn). Venture's revenue has been structurally declining since 2017 (Figure 50). Valuetronics outperformed as earnings grew 10% YoY to HK$90.5mn in 1H25. Both companies have a huge cash hoard. Venture's net cash is a record S$1.19bn. Valuetronic's net cash of HK$1.17bn (S$202mn) is almost 80% of its market cap. The dividend yield for both companies is attractive at around 5%.

Outlook

We expect electronics to improve in 2025. There will be a 3-year replacement cycle from the huge demand pulled during the pandemic. Inventory levels have normalised since 1H24. For electronics demand to exceed expectations, AI applications in edge computing (i.e. smartphones and personal computers). Assuming it gets rolled out eventually, the Apple Intelligence features on iPhones have been disappointing. It largely integrates ChatGPT as a writing tool, helps erase "photo bombers," makes cuter emojis, and allows identification of dog breeds (objects) from photos. These are applications used maybe 2 or 3 times a year. The possible killer app is allowing Siri's voice to control other apps. The revamped Siri is planned for March 2025. Contract manufacturing revenue will be sideways, but the sector has much value backed by a cash hoard and attractive dividend yield. The huge upgrade underway for Nvidia's Blackwell AI GPU will be positive for some semiconductor equipment makers focused on high bandwidth memory and high-performance computing semiconductor demand, such as Terradyne and ASML.

Recommendations

Venture Corp. (VMS SP, NEUTRAL, TP S$13.50) We believe earnings have stabilised, but growth depends on a pick-up in customer orders from consumer lifestyle, life science, and AI data centres. We find the dividend yield of ~6% attractive, supported by a net cash pile of S$1.19bn.

Valuetronics (VALUE SP, BUY, TP S$0.785). Apart from the networking products, the volume ramp from the three new customers still hinges on improving macro conditions and capital expenditure decisions. Excluding cash, the company trades at 5x forward PE and 3x EV/EBITDA FY25e. Valuetronics is investing HK$222mn (S$38mn) to purchase MetaX GPUs for their AI venture in Hong Kong.

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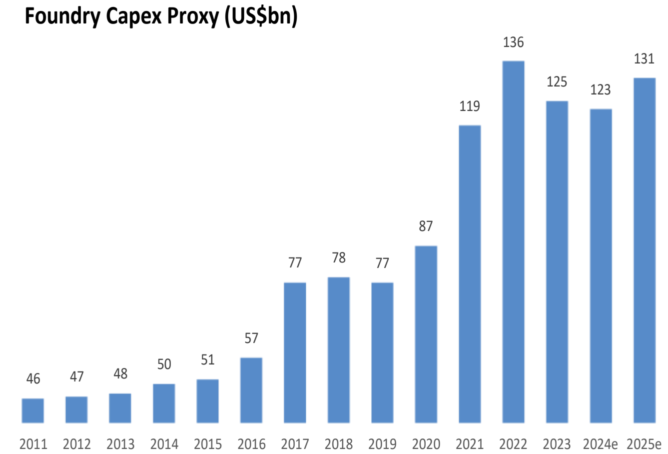
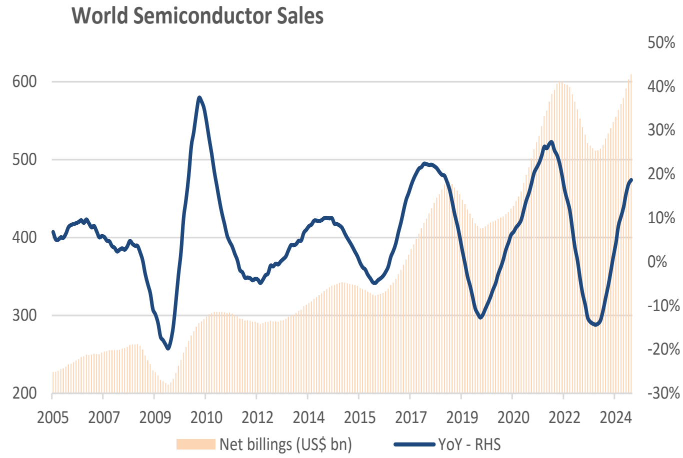
Figure 46: Foundry capex down 2% in 2024



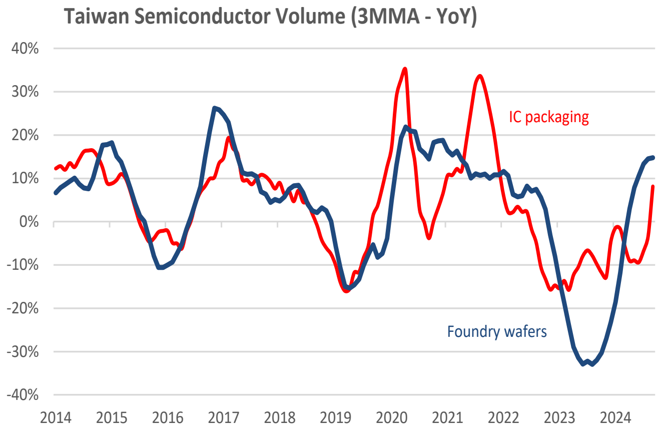
Source: PSR, Bloomberg, Companies

Figure 47: Returning to record sales



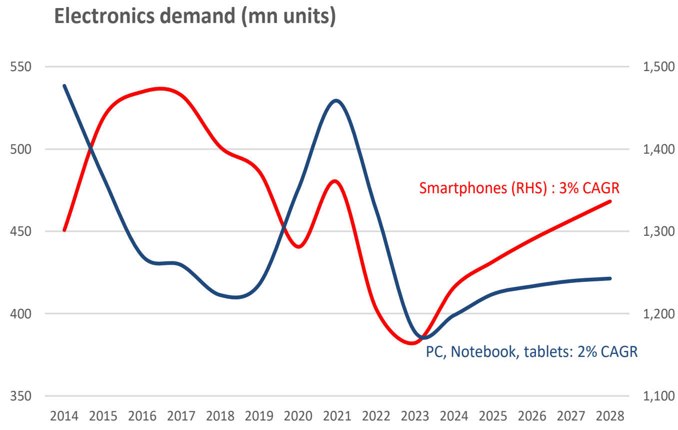
Source: PSR, CEIC, WSTS

Figure 12: Volumes have perked up recently



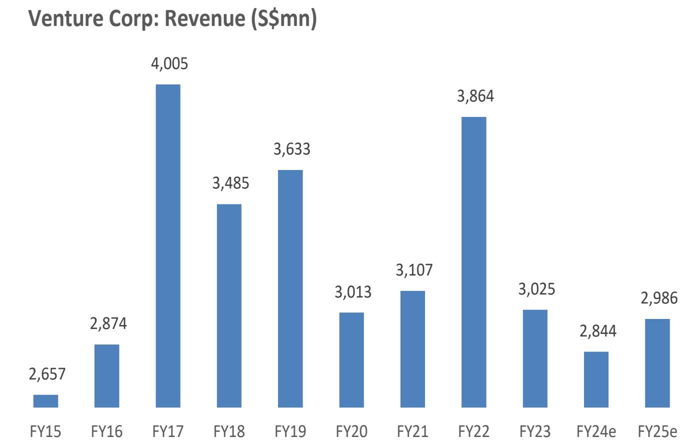
Source: PSR, CEIC

Figure 49: End demand is low single-digit



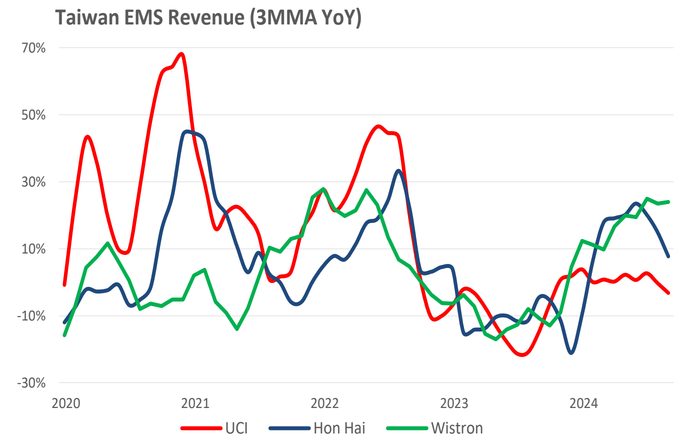
Source: PSR, Bloomberg, IDC

Figure 50: Structural decline in revenue



Source: PSR, Company

Figure 51: Revenue starts to slip in 4Q24



Source: PSR, Companies

Telecommunications OVERWEIGHT

- The telco sector rebounded strongly this year with a gain of 23%, led by a 25% rally in Singtel. StarHub and Netlink also enjoyed gains of 9% and 4%, respectively. Singtel rallied on strong price gains in Bharti Airtel, higher dividends, asset monetisation, and cost-cutting initiatives.
- Mobile and broadband in Singapore face intense competition from Mobile Virtual Network Operators (MVNOs) and Simba, respectively. StarHub mobile revenue and postpaid average revenue per user (ARPU) declined 6% YoY in 3Q24 due to increased price competition with Simba's introduction of fixed broadband.
- We are **OVERWEIGHTING** the sector. The key theme will be the consolidation of mobile operators in Singapore. We believe Singtel will be the primary beneficiary of any price repair from such consolidation. Singtel's other price catalysts include improving operating performance in Optus, further monetisation of assets, mobile price repair in associates namely India and Thailand, and growth in data centres and GPU-as-a-service.

<u>2024 Review</u>

The telco sector performed strongly this year with a gain of 23% (2023: -3%). Singtel's stellar performance pulled up the sector's outperformance. Other telcos similarly achieved positive gains - StarHub (+9%) and NetLink NBN (+4%). Singtel's share price benefited from the huge rally in Bharti Telecom (BTL), where its market cap almost converged with Singtel before the rally began (Figure 52). Mobile prices for the Singtel group were largely on a recovery path (Figure 53), led by India, the Philippines, and Thailand. Another positive share price driver has been the recovery in Optus earnings (Figure 54) from cost savings after reducing headcount by 10%.

StarHub's results were marginally below expectations due to intense mobile price competition dragging down revenues (Figure 56). The expected payment of S$282mn for the 700MHz spectrum next year was a further drag on the share price. The $270mn DARE+ investments will largely be completed by FY24. It is not clear whether the revenue uplift from these investments and if cost savings will be immediate due to the operation of legacy IT systems until FY26.

NetLink revenues were largely flat despite the 2% improvement in residential connections due to the lower connection charges, effective April 2024. Free cash flows will be softer this year due to the additional capex for a new Seletar central office. Debt will be utilised in the near term to grow distributions modestly.

<u>Outlook</u>

Consolidation in the mobile industry will be the major theme or topic in 2025. The current competitive intensity and upcoming spectrum payments will only depress the return profile of the entire industry (Figure 55). StarHub may not be the immediate beneficiary of a consolidation because it will be dependent on the acquisition price. Any price repair from consolidation still depends on the behaviour of competitors. We are overweight on the telco industry with Singtel as our preferred pick. We find several catalysts underway for the company such as industry mobile price repair, cost-out targets of S$200mn p.a. from Singapore and Australia, the commencement of new data centres, and a S$6bn monetization target.

<u>Recommendations</u>

Singtel (ST SP, ACCUMULATE, TP S$3.44): Cost-out efforts in Singapore and Australia are supporting a recovery in margins. The target S$6bn asset monetisation is on track and led by disposals in Intouch, proceeds from the sale of Comcentre, and the equalisation of Bharti Airtel's direct stake into BTL. We expect earnings growth to be muted in FY25e until new Tuas data centres commence operations in FY26e.

StarHub (STH SP, ACCUMULATE, TP S$1.29) The mobile operating environment remains intense. Most of the mobile subscriber gains were from MVNOs on the StarHub network. We believe margins will be impacted. Cost savings from DARE+ may not be immediately evident as decommissioning legacy IT systems will only occur in FY25/26.

NetLink NBN Trust's (NETLINK SP, NEUTRAL, TP S$0.87) We expect distribution to be stable despite lower residential prices as connections continue to grow (Figure 57), supported by household formations and demand for higher fibre bandwidth.

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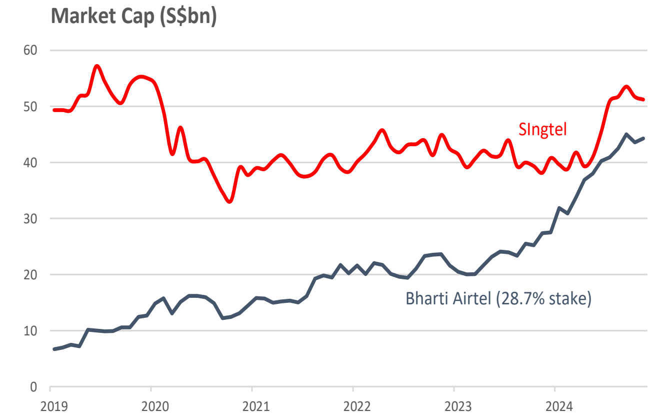
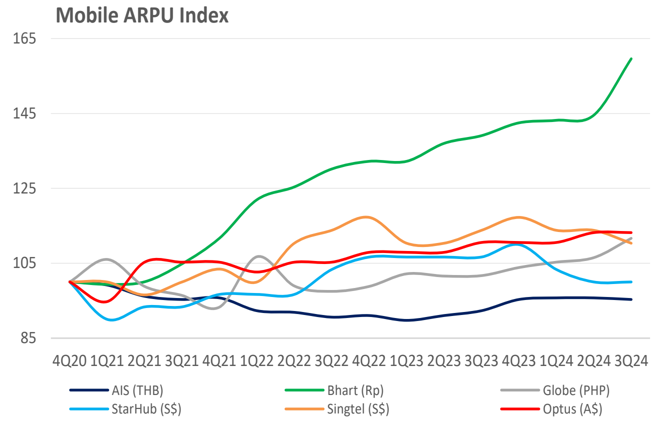
Figure 5213: Surge in Bharti Airtel market cap



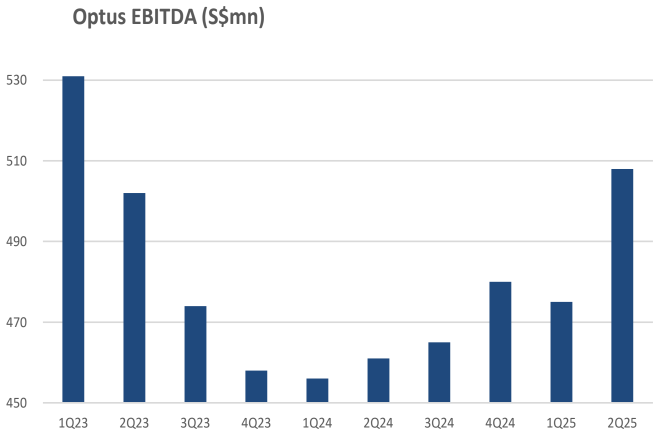
Source: PSR, Company

Figure 53: Bharti leads the mobile price repair



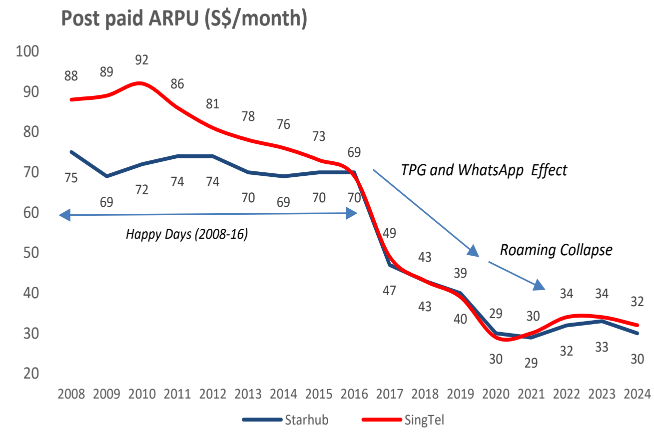
Source: PSR, Company

Figure 54: Optus earnings turning around



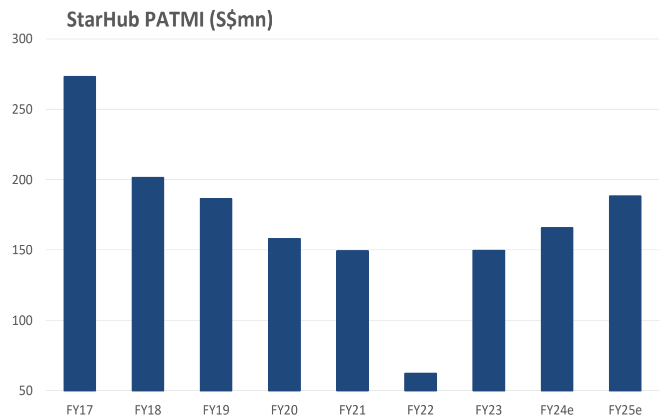
Source: PSR, Company

Figure 55: A new leg of price deflation



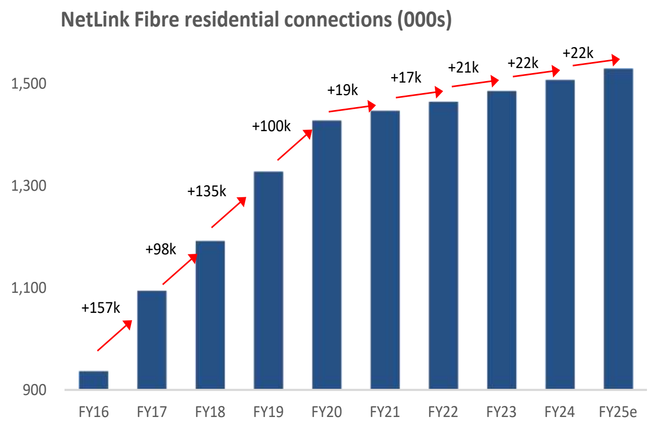
Source: PSR, Company

Figure 56: Incorporating Dare+ returns



Source: PSR, Company

Figure 57: Residential connections support revenue



Source: PSR, Company

Transportation – AIR NEUTRAL

- The post-pandemic recovery was partially sustained in 2024 as airlines successfully ramped up their capacity and networks to meet or exceed pre-COVID levels, though this eventually resulted in constraints on load factors and yields. We expect a fading recovery tailwind along with intensified competition among Asian airlines as new capacity adds to the market, thus compressing yield further. Cost pressure for fuel and non-fuel was seen across the board in 2024, further squeezing margins.
- The cargo segment has lent critical support for the growth of the airline industry in 2024. We expect booming cargo demand to continue in 2025, underpinned by the ongoing geopolitical tension affecting sea shipments and surging e-commerce activity originating from Asia.
- We are **NEUTRAL** on air transportation. Inflationary pressure due to supply chain disruption is likely to be extended to 2025 leading to lower earnings and ROE forecasts. With depleting pent-up demand and the uncertainties brought by the Trump Administration, air cargo and business travel demand could be dampened.

2024 Review

Air Traffic Returns to Pre-COVID Levels. Changi Airport's passenger volume increased by 10% YoY in Oct24, fully recovering to pre-pandemic levels during the same month (Figure 58). The pace of growth has peaked, with SIA's passenger traffic moderating to 8.3% in Nov24, underperforming its capacity expansion of 9.3%. Meanwhile, Chinese travellers exceeded pre-COVID levels, reaching 111% in Oct24, driven by Golden Week demand.

Cargo Revenue Booms. Changi Airport's airfreight volume surged 16.3% in the first 10 months of 2024 (Figure 60), fuelled by booming e-commerce demand and disruptions in sea shipments due to geopolitical tensions. SIA's cargo volume also increased 12.3% YoY in Nov24 (Figure 61), supporting airlines' profitability in 2024.

Passenger Yields Contract from 2023 Highs. Revenue passenger kilometres rose 11.8% in Nov24 (Figure 59), supported by strong leisure and business travel demand. However, fares and load factors have been contracting from their 2023 highs due to airline promotions and new capacity entering the market. The Air Freight Forwarding Price Index dropped by 13.8% YoY in 2Q24, reflecting lower ticket prices.

Jet Fuel Price Trends. Jet fuel prices plunged by 19.8% YTD, extending the downward trend from 2023. However, airlines' fuel costs have risen as low-cost hedges secured during COVID-19 are gradually phasing out.

China's air traffic reached a post-COVID record high in 3Q24. Total transport turnover, passenger trips, and cargo and mail transport volumes in the country's civil aviation sector increased by 19.8% YoY, 12.3% YoY, and 19.4% YoY, respectively. China's international air traffic surged by 76%YoY in Nov24 (Figure 63), recovering to 94% of pre-pandemic level.

Outlook

SIA's capacity reached a record high in 2Q25 post-pandemic, though it remains at 99% of pre-COVID levels. We expect capacity to fully recover to pre-pandemic levels in 2025 as the supply chain gradually shrinks its efficiency. Meanwhile, load factor and yield have been compressing from their 2023 peak but remain above pre-COVID levels by 0.1ppt and 27%, respectively. We believe further improvement is possible but limited in the coming year with the recovery in Chinese demand. Still, it is likely to be dragged by 1)intensified competition over airfares, 2)weakened business sentiment amid geopolitical uncertainties, and 3) improved supply chain efficiency, with more aircraft being delivered and entering the market.

Cargo volume is anticipated to remain strong, though rates will likely decline from current highs. SIA's cargo yields have moderated from 2023 levels but remain 22% above pre-COVID levels. We expect advanced inventory bookings ahead of new tariffs under Trump's "Tariff 2.0" with China, which could support cargo demand and stabilize yields in early 2025.

Airfares are expected to decline further amid macroeconomic uncertainties and intensified competition among Asian airlines. While this may bolster passenger traffic in 2025, we estimate that international air traffic in China will surpass 85% of pre-COVID levels for 2024 and reach c.95% in 2025.

Airlines will likely remain the top beneficiaries of an anticipated decline in crude oil prices in 2025, assuming jet fuel prices move in parallel. A downward price trend could significantly improve profitability with jet fuel representing around 30% of total costs.

Recommendations

We are NETURAL on the air transportation sector.

- **SIA (SIA SP, REDUCE, TP S$5.25)**: Net profit may normalize further due to the declining yield and absence of one-off gains. Our TP, at 1x FY25e P/B, considers a lower ROE under an ex-growth operating environment.
- **SATS (SATS SP, BUY, TP S$4.62)** Broad-based tailwinds have reversed the loss-making PATMI in 2024. Gateway services benefited from increasing cargo volumes, a trend we expect to persist until the potential implementation of US-China Tariff 2.0. The cost of financing has decreased, along with the company's S$200mn debt reduction target, which remains on track. We anticipate further improvements in the balance sheet and profit margin based on the improving operating leverage and credit rating.

- **China Aviation Oil (CAO SP, BUY, TP S$1.05)** Earnings are expected to be bolstered by the recovery in international air traffic in China, which we anticipate will reach approximately 95% of pre-pandemic levels in 2025. This recovery lays the foundation for CAO to announce a dividend policy, supported by exceptional FY24 earnings and a cash-rich position of US$353mn.

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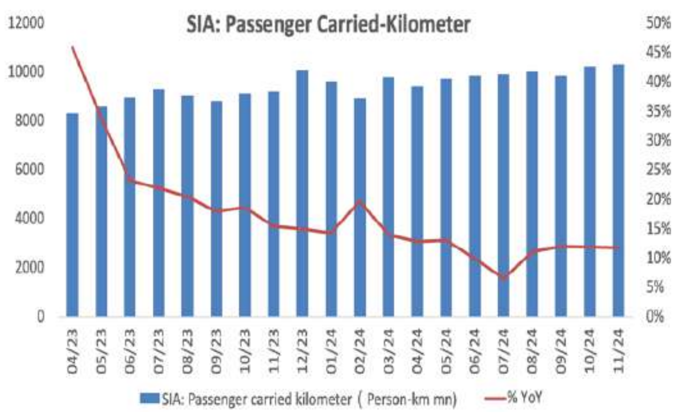
Figure 58: Passenger volume surpassed pre-COVID by 0.3%

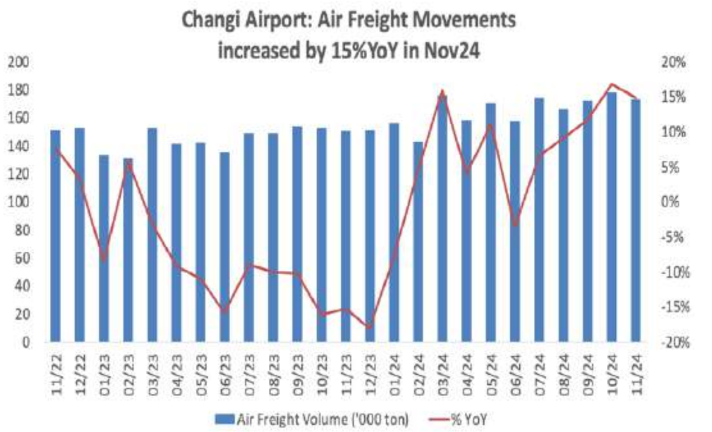
Source: PSR, CEIC

Figure 59: SIA passenger growth moderating



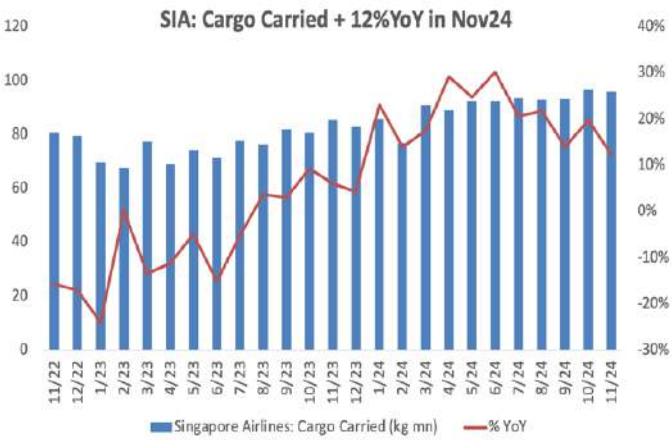
Source: PSR, CEIC

Figure 60: Airfreight volume sustained at high level



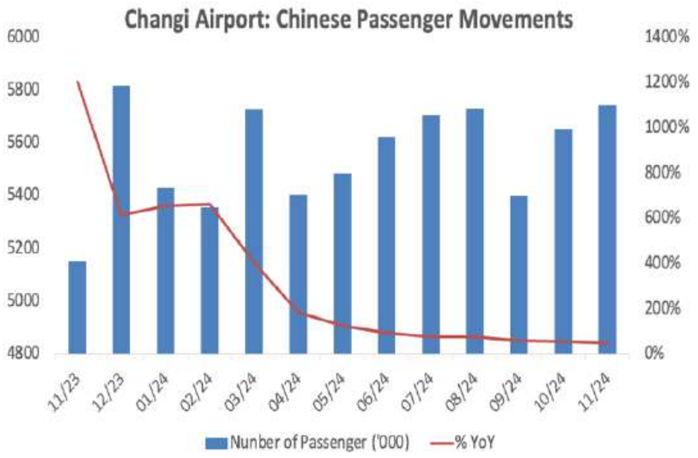
Source: PSR, CEIC

Figure 61: SIA cargo volume continues to grow



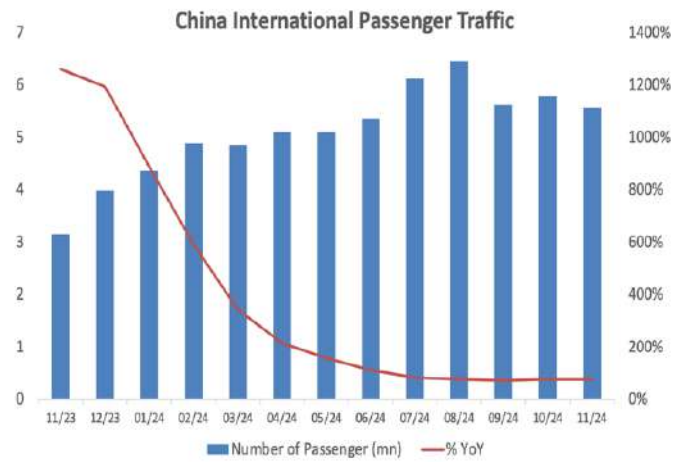
Source: PSR, CEIC

Figure 62: Number of Chinese travellers + 45%YoY in Nov24, surpassed pre-COVID by 0.3%



Source: PSR, CEIC

Figure 63: China international air traffic +76%YoY in Nov24, 94% of pre-COV level



Source: PSR, CEIC

CapitaLand Ascott Trust

Asset recycling to drive inorganic growth

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- 3Q24 portfolio RevPAU increased 3% YoY to S$158 despite the high base, reaching 105% of pre-Covid 3Q19 levels. This was due to a higher average occupancy of 79% (3Q23: 77%), 92% of pre-Covid levels.
- Strong track record of divesting assets at significant premiums to book value, with two recent divestments in Japan completed at 40% and 55% above book value.
- Maintain BUY with a DDM-based TP of S$1.04. CLAS remains our top pick in the sector owing to its mix of stable and growth income sources and geographical diversification, which provide resilience amidst global uncertainties. CLAS also has the flexibility to distribute over S$300mn of previous divestment gains, either to mitigate the impact of ongoing AEIs or to reward shareholders. CLAS trades at an attractive FY24e DPU yield of 6.9%.

Company Background

CapitaLand Ascott Trust (CLAS) is the largest lodging trust in Asia Pacific, with an asset value of S$8.5bn as of 30 June 2024. It is an owner-operator of serviced residences (SRs), business hotels, student accommodation, and rental housing assets. As of 30 June 2024, CLAS's portfolio comprised 102 properties with more than 18,000 units in 45 cities across 16 countries. About 80% of its gross profit is derived from eight key markets: the US, Japan, UK, France, Vietnam, Singapore, China and Australia. CLAS's properties mostly operate under the Ascott, Citadines, Somerset, and Quest brands. The Ascott Limited, CLAS's sponsor, is the wholly-owned hospitality platform of mainboard-listed CapitaLand Investment Limited (CLI SP, BUY, TP S$3.38).

Investment Merits/Outlook

- **Portfolio RevPAU continues to improve despite the high base in FY23.** 3Q24 portfolio RevPAU grew 3% YoY to S$158, reaching 105% of pre-COVID 3Q19 pro-forma RevPAU. This was due to higher occupancy of 79% (3Q23: 77%), as average daily room rates (ADR) remained stable YoY at 15% above pre-Covid levels. RevPAU for CLAS's five key markets in Australia, Japan, Singapore, the UK, and the USA continued to match or exceed pre-COVID 3Q19 levels. With global ADRs normalising, we expect mid-single-digit RevPAR growth in FY25e from improving occupancy.

- **Capital management continues to be stable.** Gearing was 38.3%, with effective borrowing cost unchanged QoQ at 3% and 79% of debt on fixed rates. Interest cover remains healthy at 3.6 times. Borrowing costs are expected to remain stable at 3% for FY24e and FY25e. Every 100bps decrease in floating rate will improve DPS by 0.2 Scents.

- **Portfolio reconstitution efforts are taking shape.** YTD, CLAS has completed over S$500mn in divestments at a premium to book value, unlocking S$60mn in capital gains. This includes two recently announced divestments in Japan, with premiums of 40% and 55% over book value. CLAS also has S$350mn in investments YTD, the latest being the proposed acquisition of lyf Funan Singapore at an EBITDA yield of 4.7%, to be funded by previous divestment gains and debt. Five asset enhancement initiative (AEI) projects were completed in 9M24, with another three properties under AEI expected to be completed in phases from 4Q24 through FY26. This should further increase occupancy once finished.

Recommendation

Maintain BUY with a DDM target price of S$1.04. The current share price implies an FY24e DPU yield of 6.9%.

3 January 2025

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.870
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 1.040
TOTAL RETURN	26.4%

COMPANY DATA

BLOOMBERG CODE:	CLAS SP
O/S SHARES (MN) :	3,796
MARKET CAP (USD mn / SGD mn) :	2418 / 3303
52 - WK HI/LO (SGD) :	1 / 0.85
3M Average Daily T/O (mn) :	8.29

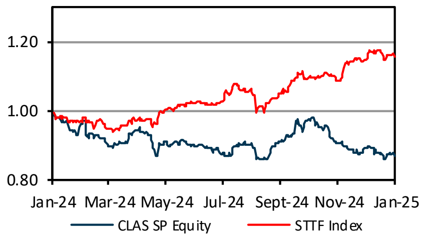
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	25.1
VANGUARD GROUP	2.74
BLACKROCK INC	2.08

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(2.2)	(10.8)	(6.6)
STTF RETURN	0.8	5.7	22.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev. (S$mn)	621	745	800	821
Gross Profit (S$mn)	283	338	385	401
Dist. Inc. (S$mn)	203	251	241	259
P/NAV (x)	0.76	0.75	0.79	0.80
DPU (cents)	5.67	6.57	5.96	6.39
Distribution Yield	6.5%	7.6%	6.9%	7.3%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.96%; Terminal g: 1.75%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	**394**	**621**	**745**	**800**	**821**
Direct expenses	(221)	(338)	(406)	(415)	(420)
Gross Profit	**173**	**283**	**338**	**385**	**401**
Net finance (expense)/inc.	(53)	(68)	(82)	(101)	(101)
Manager's fees	(25)	(30)	(34)	(35)	(36)
Others	(19)	(38)	10	(22)	(22)
Net income	74	131	210	208	221
FV changes	147	128	77	-	-
Others	(19)	(38)	10	(22)	(22)
Total return before tax	375	260	302	208	221
Taxation	(65)	(34)	(72)	(50)	(53)
Total return after tax	**310**	**226**	**230**	**158**	**168**
Distribution adjustments	(158)	(20)	19	87	95
Distributable income	**151**	**203**	**251**	**241**	**259**

Per share data (cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV	1.19	1.15	1.16	1.10	1.08
DPU	4.32	5.67	6.57	5.96	6.39

Cash Flow

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income	**375**	**260**	**302**	**208**	**221**
Adjustments	(179)	51	70	168	171
WC changes	(46)	7	(40)	9	3
Cash generated from ops	150	318	332	385	395
Others	(4)	(32)	(32)	(15)	(20)
Cashflow from operations	**145**	**286**	**301**	**370**	**375**
CFI					
CAPEX, net	(101)	(36)	(56)	(27)	(18)
Net Investments in SR & PPE	(621)	(283)	(280)	(105)	(105)
Others	184	11	39	5	5
Cashflow from investments	**(539)**	**(309)**	**(297)**	**(127)**	**(118)**
CFF					
Share issuance, net	150	170	303	-	-
Loans, net of repayments	332	166	81	-	-
Dividends	(157)	(184)	(215)	(244)	(262)
Others	(67)	(81)	(104)	(106)	(105)
Cashflow from financing	**259**	**71**	**64**	**(350)**	**(368)**
Net increase (decrease) in CCE	**(134)**	**45**	**68**	**(108)**	**(112)**
Ending cash	**344**	**364**	**459**	**350**	**238**
Restricted cash deposits	3	3	3	3	3

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
SR properties and PPE	7,225	7,434	7,734	7,831	7,917
Others	44	88	88	88	88
Total non-current assets	**7,270**	**7,522**	**7,821**	**7,919**	**8,005**
Trade Receivables	104	112	197	212	217
Cash	346	364	461	353	241
Others	44	88	88	88	88
Total current assets	**463**	**502**	**683**	**590**	**483**
Total Assets	**7,733**	**8,024**	**8,505**	**8,508**	**8,488**
LIABILITIES					
LT Borrowings	1,965	2,473	2,465	2,663	2,506
Others	429	435	468	495	520
Total non-current liabilities	**2,394**	**2,908**	**2,933**	**3,158**	**3,026**
Trade Payables	167	244	314	338	347
ST Borrowings	764	402	530	332	489
Others	429	435	468	495	520
Total non-current liabilities	**2,394**	**2,908**	**2,933**	**3,158**	**3,026**
Total Liabilities	**3,366**	**3,579**	**3,802**	**3,853**	**3,886**
Net assets	**4,368**	**4,445**	**4,702**	**4,655**	**4,602**
Represented by:					
Unitholders' funds	**3,891**	**3,965**	**4,228**	**4,180**	**4,125**
Perpetual securities hold	396	396	396	396	396
Non-controlling interests	81	83	78	79	80

*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.73	0.76	0.75	0.79	0.80
Distribution Yield (%)	5.0%	6.5%	7.6%	6.9%	7.3%
NPI** yield (%)	2.5%	4.0%	4.6%	5.0%	5.2%
Growth & Margins (%)					
Growth					
Revenue	6.6%	57.5%	19.8%	7.5%	2.5%
Gross profit	15.8%	63.2%	19.6%	13.9%	4.1%
Net income	26.7%	76.5%	59.5%	-0.9%	6.4%
DPU	42.6%	31.3%	15.9%	-9.2%	7.2%
Margins					
Gross profit	43.9%	45.5%	45.4%	48.1%	48.9%
NPAT	78.7%	36.4%	30.9%	19.7%	20.5%
Key Ratios					
Gearing	37.8%	38.7%	38.7%	38.2%	37.8%
ROA	4.2%	2.8%	2.8%	1.8%	1.9%
ROE	8.3%	5.7%	5.6%	3.7%	3.9%

PhillipCapital

Stoneweg European REIT

Resilient portfolio with high yield

BULL AND BEAR StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Stable portfolio occupancy (3Q24: 93.9%) with CPI-indexed rental escalations.
- 9M24 portfolio rental reversion was healthy at +4.3%. SERT's overall passing rents are c.7% lower than market rents, indicating potential for positive rental reversions in the future.
- Maintain BUY with a DDM-based TP of €1.95. SERT's pivot towards a 60% target asset class weight in light industrial/logistics aims to capitalise on positive structural trends, such as increased e-commerce penetration and the nearshoring of supply chains. Catalysts include further ECB rate cuts to secure a low coupon rate for the new bond issuance. SERT trades at an attractive FY24e DPU yield of 9%.

Company Background

Stoneweg European REIT (CERT) was listed on the SGX in Nov 2017. Its €2.2bn portfolio comprises 100+ predominantly freehold properties in or close to major gateway cities in the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, Slovakia, the Czech Republic, and the UK, with an aggregate lettable area of c.1.8mn sq m and over 800 tenant-customers. CERT's portfolio consists predominantly of light industrial/logistics (53%) and office (45%) assets. Following the sale by Stoneweg Property Group of (i) all its interest in the Manager of CERT and (ii) its 27.79% interest in the Units in CERT to Stoneweg Icona Capital Platform (Stoneweg), Stoneweg is the new Sponsor and substantial unitholder of CERT. CERT's name will change to Stoneweg European REIT (SERT) starting 2 Jan 2025.

Investment Merits/Outlook

- **Resilient portfolio with stable occupancy (3Q24: 93.9%) and healthy rent reversions (9M24: 4.3%).** The occupancy of the logistics/light industrial portfolio increased 30bps in 3Q24 to 95.1%, accompanied by a strong rent reversion of 8.8% in 3Q24. This was driven by two new leases signed in Milan and Amsterdam, with rental reversions of 30.1% in Milan, driven by market growth and AEIs, and 44.7% in Amsterdam due to market growth.

- **New credit facilities secured.** SERT has secured a new €340mn bridge debt facility with a final maturity in 2027, intended for refinancing the November 2025 bond unless a new bond is issued before that date. The aim is to wait for further interest rate declines to secure a lower rate for the new bond issuance. The overall cost of debt was 3.16% in 3Q24, with 87.6% hedged to a fixed rate. The all-in cost of debt is expected to rise to 4% in FY25e following the bond refinancing.

- **Valuations will improve with cap rate compression.** The ECB has cut interest rates four times this year, and signs of cap rate compression are emerging. We expect slight portfolio valuation gains during the year-end portfolio valuation exercise.

- **CPI-indexed rental escalations.** Most of SERT's leases contain annual rental escalation clauses based on 100% of the YoY increase in CPI, except for leases in Italy, which are based on 75% of the YoY increase in CPI. This will help SERT weather difficult periods of high inflation.

Recommendation

Maintain BUY with a DDM target price of €1.95. The current share price implies an FY24e DPU yield of 9%.

3 January 2025

BUY (Maintained)

LAST CLOSE PRICE	EUR 1.58
FORECAST DIV	EUR 0.14
TARGET PRICE	EUR 1.95
TOTAL RETURN	32.5%

COMPANY DATA

BLOOMBERG CODE:	CERT SP
O/S SHARES (MN) :	562
MARKET CAP (€ mn / SGD mn) :	920 / 889
52 - WK HI/LO (SGD) :	1.68 / 1.3
3M Average Daily T/O (mn) :	0.40

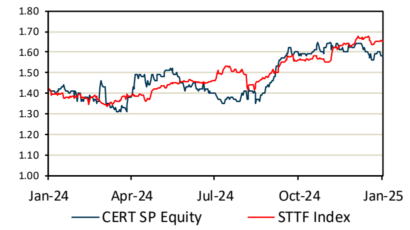
MAJOR SHAREHOLDERS (%)

STONEWEG ICONA CAPITAL	27.4%
HILLSBORO CAPITAL LTD	7.3%
BLACKROCK INC	5.0%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(2.5)	(1.3)	24.0
STTF RETURN	0.8	5.7	22.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (€$m)	FY22	FY23	FY24e	FY25e
Gross Revenue	222.1	216.5	214.1	219.4
NPI	136.8	134.3	130.0	133.3
Dist. Inc.	96.7	88.3	79.9	75.4
P/NAV (x)	0.65	0.75	0.75	0.76
DPU (€ cents)	17.19	15.69	14.20	13.41
Dist. Yield (%)	10.88	9.93	8.99	8.49

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 10.2%; Terminal g: 2%)

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Financials

Income statement

Y/E Dec, (€S'000)	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	**200,122**	**222,105**	**216,489**	**214,051**	**219,402**
Property expenses	**(70,030)**	**(85,330)**	**(82,208)**	**(84,010)**	**(86,111)**
Net property income	**130,092**	**136,775**	**134,281**	**130,040**	**133,291**
Net Finance (Expense)/Inc.	(21,736)	(24,387)	(32,380)	(35,150)	(43,246)
Manager's fees	(5,619)	(6,057)	(5,894)	(5,445)	(5,440)
Other items	23,227	55,819	(6,034)	(5,967)	(6,107)
FV change, derivatives & ppties	(1,052)	(106,450)	(148,350)	-	-
Net income before tax	**124,912**	**55,700**	**(58,377)**	**83,477**	**78,499**
Taxation	(28,309)	(13,751)	(15,522)	(12,522)	(11,775)
Net income after Tax	96,603	41,949	(73,899)	70,956	66,724
Distribution adjustments	(2,741)	57,039	164,479	11,225	11,008
Income available for distribution	93,618	96,667	88,254	79,855	75,406

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (€S)	2.52	2.42	2.12	2.10	2.08
DPU (€ cents)	16.69	17.19	15.69	14.20	13.41

Cash Flow

Y/E Dec, (€S'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Net income before tax	**124,912**	**55,700**	**(58,377)**	**83,477**	**78,499**
Adjustments	(7,871)	69,792	183,245	35,725	43,836
WC changes	3,427	(5,014)	938	384	1,002
Cash generated from ops	**120,468**	**120,478**	**125,806**	**119,586**	**123,337**
Others	(23,601)	(28,132)	(36,674)	(41,502)	(49,219)
Cashflow from ops	**96,867**	**92,346**	**89,132**	**78,084**	**74,118**
CFI					
Acquisition of investment properti	(215,590)	(107,463)	-	-	-
Capex, net	(22,637)	(38,884)	(83,053)	(35,865)	(33,412)
Others	(210,023)	(67,458)	194,645	50,000	50,000
Cashflow from investments	**(232,660)**	**(106,342)**	**111,592**	**14,135**	**16,588**
CFF					
Proceeds from issuance of units	**97,728**	**(121)**	**(13)**	**-**	**-**
Loans, net of repayments	73,043	88,163	(66,857)	-	-
Distributions	(83,197)	(93,338)	(91,580)	(79,855)	(75,406)
Others	63,884	(4,534)	(3,911)	(2,326)	(2,326)
Cashflow from financing	**151,458**	**(9,830)**	**(162,361)**	**(82,181)**	**(77,732)**
Net change in cash	**15,665**	**(23,826)**	**38,363**	**10,038**	**12,974**
Cash at the start of the period	43,593	59,258	35,432	73,795	83,833
FX changes	-	-	-	-	-
Ending cash	**59,258**	**35,432**	**73,795**	**83,833**	**96,807**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (€S'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	2,449,014	2,509,407	2,241,570	2,227,435	2,210,847
Others	6,902	27,845	12,650	12,886	12,660
Total non-current assets	**2,455,916**	**2,537,252**	**2,254,220**	**2,240,321**	**2,223,507**
Trade receivables	18,491	16,340	14,450	15,993	15,211
Cash	59,258	35,432	73,795	83,833	96,807
Others	865	960	25,008	25,008	25,008
Total current assets	**78,614**	**52,732**	**113,253**	**124,834**	**137,026**
Total Assets	**2,534,530**	**2,589,984**	**2,367,473**	**2,365,156**	**2,360,533**
LIABILITIES					
Loans and borrowings	23,000	50,630	-	-	-
Trade payables	35,691	42,385	42,073	44,237	44,231
Others	55,492	86,908	40,181	40,181	40,181
Total current liabilities	**91,183**	**129,293**	**82,254**	**84,418**	**84,412**
Loans and borrowings	899,729	964,284	947,600	947,600	947,600
Others	66,338	73,486	82,478	88,648	94,449
Total non-current liabilities	**966,067**	**1,037,770**	**1,030,078**	**1,036,248**	**1,042,049**
Total Liabilities	**1,057,250**	**1,167,063**	**1,112,332**	**1,120,665**	**1,126,461**
Net assets	1,477,280	1,422,921	1,255,141	1,244,490	1,234,072
Represented by:					
Unitholders' funds	1,477,280	1,422,921	1,255,141	1,244,490	1,234,072

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	0.63	0.65	0.75	0.75	0.76
Distribution Yield (%)	10.6	10.9	9.9	9.0	8.5
NPI yield (%)	10.6	5.5	5.7	5.8	6.0
Growth & Margins					
Growth					
Revenue	7.0%	11.0%	-2.5%	-1.1%	2.5%
Net property income (NPI)	10.9%	5.1%	-1.8%	-3.2%	2.5%
Distributable income	5.1%	3.3%	-8.7%	-9.5%	-5.6%
DPU	0.5%	3.0%	-8.7%	-9.5%	-5.6%
Margins					
NPI margin	65.0%	61.6%	62.0%	60.8%	60.8%
Key Ratios					
Net Debt or (Net Cash)	863,471	979,482	873,805	863,767	850,793
Gearing	36.4%	39.2%	40.0%	40.1%	40.1%

PhillipCapital

China Aviation Oil (Singapore)

Doubling profit to lead dividend growth

BULL AND BEAR™ StocksBnB.com

SINGAPORE | TRANSPORT | UPDATE

- International air traffic in China jumped 76% YoY in Nov24, narrowing the gap to just 6% below pre-COVID levels. We estimate it will reach c.85% on a full-year basis. Demand could accelerate further with boosted business confidence and household sentiment following the substantial government stimulus in 2024.
- Margins expanded in 1H24 due to price discrepancies arising from geopolitical instability. We expect this trend to carry into 2025, with increased mispricing opportunities in the Middle East shifting additional jet fuel demand to the Asian market.
- Maintain BUY with a DCF-TP of S$1.05. We expect net profit to double over the next two years, creating room for a higher special dividend (FY23 payout ratio: 30%). C.45% of the market capitalization is backed by net cash of US$353mn as of 1H24.

Background

CAO supplies imported jet fuel to international airports across mainland China and is 51.3 %-owned by the state-owned China National Aviation Fuel Group Limited, which has the exclusive mandate to supply all jet fuel in the country. Additionally, CAO markets jet fuel to airports outside China, engages in international trading of jet fuel and other oil products, and trades carbon credits. The company holds a 33% stake in Shanghai Pudong International Airport Aviation Fuel Supply Company Ltd (SPIA), the sole refuelling agent for flights at Shanghai Pudong Airport. SPIA contributed 52% of CAO's net profit in FY23.

Investment Merits/Outlook

- **International passenger traffic in China surged 76% YoY in November 2024,** reflecting the ongoing recovery to nearby sub-regions, narrowing the gap to just 6% below pre-COVID levels. We estimate that traffic will reach c.85% of pre-pandemic levels on a full-year basis. Demand could gain momentum as the Civil Aviation Administration of China grants more routes and improves business confidence and household sentiment following the extensive government stimulus in 2024. The Asia-Pacific region is the largest market by revenue passenger kilometres (RPK), with China contributing over 40% of the total traffic. We expect international air traffic to return to c.95% of pre-COVID level in 2025.
- **Improving margins for the jet fuel trading segment.** Margins strengthened in 1H24 due to mispricing from geopolitical tensions in areas such as the Red Sea and the Middle East. We anticipate this trend to persist into 2025, shifting more jet fuel demand to the Asian market. Nevertheless, CAO also supplies jet fuel globally apart from China, such as the US and Singapore, which enables higher sales with the recovering global air demand.
- **A special dividend in 2024 is highly likely,** supported by strong net cash of US$353mn as of 1H24, equivalent to 45% of the market cap. We also foresee net profit doubling in the next two years with the recovery of the Chinese aviation sector. In addition, State-Owned Enterprises have been encouraged to raise dividends.

Recommendation

Our TP is based on the discounted cash flow model (WACC 15%, terminal growth 1%). CAO doesn't have any borrowing, with net cash of US$353mn (as of 1H24 S$0.41/share). We expect a special dividend in FY24 with a payout ratio higher than FY23's 30%.

3 January 2025

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 0.915
FORECAST DIV	SGD 0.036
TARGET PRICE	SGD 1.050
TOTAL RETURN	**18.7%**

COMPANY DATA

BLOOMBERG CODE:	CAO SP
O/S SHARES (MN) :	860.18
MARKET CAP (USD mn / SGD mn) :	576 / 787
52 - WK HI/LO (SGD) :	0.97 / 0.82
3M Average Daily T/O (mn) :	0.3425

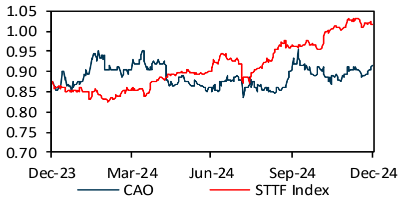
MAJOR SHAREHOLDERS (%)

CHINA NATIONAL AVIATION FUEL GROUP	51.3%
BP INVESTMENTS ASIA LTD	20.2%

TOTAL RETURN (%)

	1MTH	3MTH	1YR
COMPANY	2.2	1.1	10.6
STTF RETURN	1.3	6.4	23.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (US$, 'mn)	FY22	FY23	FY24e	FY25e
Revenue	16,464	14,430	15,023	15,473
Gross Profit	35.4	50.6	52.6	54.2
EBIT	38.9	66.7	89.6	97.6
NPAT	33.2	58.4	77.1	81.2
P/NAV (x)	0.7	0.6	0.6	0.6
P/E (x)	23.8	13.6	10.3	9.7
ROE (%)	3.7%	6.2%	8.1%	8.1%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 15%, Terminal g: 1%)

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Financials

Income Statement

Y/E Dec, (US$'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	**17,637**	**16,464**	**14,430**	**15,023**	**15,473**
Cost of sales	(17,606)	(16,429)	(14,379)	(14,970)	(15,419)
Gross Profit	**31**	**35**	**51**	**53**	**54**
Other operating income	2	1	19	10	8
Administration	(11)	(14)	(17)	(12)	(12)
Other expenses	1	(1)	(16)	(5)	(5)
Share of results of associates and joint ve	24	18	30	44	53
EBIT	**46**	**39**	**67**	**90**	**98**
Net finance expenses	(2)	(1)	(1)	(2)	(2)
Profit before tax	**44**	**38**	**66**	**88**	**96**
Taxation	(4)	(5)	(8)	(11)	(14)
Net Profit	**40**	**33**	**58**	**77**	**81**
Minority interests	-	-	-	-	-
Profit attributable to owners	**40**	**33**	**58**	**77**	**81**

Per share data (US$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	104.8	105.0	110.3	110.3	116.0
DPS (S$ cents)	2.6	1.6	5.1	3.6	3.8
EPS	4.7	3.9	6.8	9.0	9.4

Cash Flow

Y/E Dec, (US$'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	**44**	**38**	**66**	**88**	**96**
Adjustments	(27)	(11)	(32)	(38)	(46)
WC changes	96	(114)	25	42	(9)
Cash generated from ops	**113**	**(87)**	**59**	**92**	**40**
Others	44	23	33	31	38
Cashflow from ops	**157**	**(65)**	**92**	**123**	**78**
CFI					
CAPEX, net	(0)	(0)	(11)	(2)	(2)
Others	(0)	1	0	-	-
Cashflow from investments	**(0)**	**0**	**(11)**	**(2)**	**(2)**
CFF					
Dividends paid to owners	(17)	(12)	(10)	(31)	(32)
Proceeds from borrowings, net	(8)	(15)	(6)	-	-
Others	-	-	-	-	-
Cashflow from financing	(25)	(26)	(16)	(31)	(32)
Net change in cash	132	(91)	64	90	44
Cash at the start of the period	269	401	308	308	398
Currency translation	(0)	(2)	1	-	-
Ending cash	**401**	**308**	**373**	**398**	**442**

Balance Sheet

Y/E Dec, (US$'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	4	5	15	4	3
Others	304	288	271	296	301
Total non-current assets	**308**	**294**	**286**	**300**	**305**
Cash and cash equivalents	401	308	373	398	442
Inventories	43	182	88	82	84
Trade and other receivables	784	716	1,040	1,070	1,102
Others	-	-	-	-	-
Total current assets	**1,228**	**1,206**	**1,501**	**1,550**	**1,628**
Total Assets	**1,536**	**1,500**	**1,788**	**1,850**	**1,933**
LIABILITIES					
Trade and other payables	605	565	814	861	887
ST borrowings	-	-	-	-	-
Others	15	16	13	24	32
Total current liabilities	**620**	**580**	**826**	**885**	**919**
LT borrowings	-	-	-	-	-
Others	14	12	9	12	12
Total non-current liabilities	**14**	**12**	**9**	**12**	**12**
Total liabilities	**634**	**592**	**835**	**897**	**930**
EQUITY					
Share Capital	216	216	216	216	216
Retained profits	686	687	733	734	782
Others	-	-	-	-	-
Total equity	**901**	**903**	**948**	**949**	**998**
Minority interests	-	4	4	4	4
Total equity and liabilities	**1,536**	**1,500**	**1,788**	**1,850**	**1,933**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	19.6	23.8	13.6	10.3	9.7
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	5.8	9.1	4.8	3.4	2.7
Dividend yield (%)	2.8	1.7	5.5	3.9	4.1
Growth & Margins (%)					
Growth					
Revenue	-13.3%	-6.6%	-12.4%	4.1%	3.0%
Gross profit	-47.5%	15.3%	43.0%	3.9%	3.0%
EBIT	-57.8%	-15.8%	71.6%	34.3%	9.0%
PBT	-58.3%	-15.1%	74.8%	32.8%	9.2%
Margins					
Gross profit margin	0.2%	0.2%	0.4%	0.4%	0.4%
EBIT margin	0.3%	0.2%	0.5%	0.6%	0.6%
Net profit margin	0.2%	0.2%	0.4%	0.5%	0.5%
Key Ratios					
ROE	4.5%	3.7%	6.2%	8.1%	8.1%
ROA	2.1%	2.1%	2.5%	3.0%	2.8%
Net Gearing	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company, Phillip Securities Research (Singapore) Estimates

Oversea-Chinese Banking Corp Ltd

Record fee income and highest CET-1

SINGAPORE | BANKING | UPDATE

- Despite loan growth of 2%, NII remained flat in 3Q24 as rising funding costs compressed NIM, leading OCBC to lower its FY24e NIM guidance to 2.20% (from 2.20% to 2.25%) but maintained low single-digit loan growth expectations.
- Fee income hit a new quarterly high, driven by OCBC's wealth management investments and recent acquisitions while trading income surged by 135% YoY; high single-digit fee income growth is expected for FY25e.
- The highest capital ratio of 15.6% among the three local banks. We believe there is upside in dividend from the excess capital of 160bps or ~S$4bn of CET1. Maintain ACCUMULATE with an unchanged target price of S$18.80.

Background

Oversea-Chinese Banking Corp Ltd (OCBC) is the longest-established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second-largest financial services group in Southeast Asia by assets. OCBC's key markets are Singapore, Malaysia, Indonesia, and Greater China, and it has more than 470 branches and representative offices in 19 countries and regions.

Investment Merits/Outlook

Fee income reaches record high: Fee income rose 10% YoY to a new quarterly high. OCBC's ongoing investments in its wealth management (WM) franchise have delivered results, with fee income growing by double digits. OCBC continues to increase hiring for the business, and the recent acquisitions of PT Bank Commonwealth in Indonesia will accelerate its growth in ASEAN. The shift in investor sentiment towards investment products has also contributed to growth. Trading income has also hit a new quarterly high (+135% YoY) from higher customer flow income and could benefit further from more buoyant capital markets. We expect high single-digit fee income growth for FY25e.

Net interest income flat: Despite loan growth of 2% YoY, NII fell 1% YoY in 3Q24 as the rise in funding costs led to NIM being compressed further to 2.18% (3Q23: 2.27%). Loans growth was led by an increase in corporate loans and mortgages, mainly in Singapore, Malaysia, the UK, and Australia. OCBC has lowered its FY24e NIM guidance to 2.20% (from 2.20% to 2.25%) while maintaining its low single-digit loan growth guidance. We expect NIM compression to stabilise in FY25 as rate cut expectations are lowered and a recovery in loan growth to offset the NIM decline.

Highest capital ratios: OCBC's fully phased-in Common Equity Tier 1 (CET1) rose 1bp QoQ and 8bps YoY to 15.6% and remained the highest among the three local banks (DBS: 15.2% and UOB: 15.2%). OCBC has mentioned returning excess capital (160bps or ~S$4bn of CET1) to shareholders. We believe there is an upside in dividends from its high 15.6% CET1 buffer and excess liquidity.

Commercial real estate office sector: Commercial real estate (CRE) office sector loans are primarily from networking customers in key markets with a proven track record and financial strength. The portfolio is predominantly secure, with overall LTVs between 50% and 60%. The CRE office sector loans comprise 11% of the total loan book, with two-thirds of loans to key markets of Singapore, Malaysia, Indonesia, and Greater China, with the remainder largely in developed markets.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$18.80.

3 January 2025

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 16.70
FORECAST DIV	SGD 0.87
TARGET PRICE	SGD 18.80
DIVIDEND YIELD	5.2%
TOTAL RETURN	17.8%

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	5,000
MARKET CAP (USD mn / SGD mn) :	61442 / 83543
52 - WK HI/LO (SGD) :	17 / 12.66
3M Average Daily T/O (mn) :	5.34

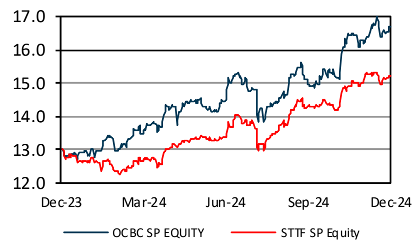
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	11.2%
Lee Foundation Singapore	4.4%
Lee Rubber Company Pte Ltd	3.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.6	10.6	36.6
STTF RETURN	1.3	6.2	22.7

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY22	FY23	FY24e	FY25e
Total Income	11,286	13,507	14,667	15,000
Op. Profit	4,884	6,612	7,760	7,508
NPAT, adj.	5,338	7,021	7,866	7,750
EPS (SGD)	1.19	1.56	1.75	1.72
PER, adj. (x)	14.1	10.7	9.5	9.7
P/BV, x	1.5	1.4	1.3	1.2
Dividend Yield	4.1%	4.9%	5.2%	5.5%
ROE	10.3%	13.3%	14.0%	12.9%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 10.2%, g: 2%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	5,855	7,688	9,645	9,717	9,628
Fees and Commission	2,245	1,851	1,804	2,020	2,263
Other Non int income	2,496	1,747	2,058	2,930	3,109
Total operating income	**10,596**	**11,286**	**13,507**	**14,667**	**15,000**
Operating expenses	(4,764)	(5,026)	(5,223)	(5,566)	(5,943)
Operating profit	**3,880**	**4,884**	**6,612**	**7,760**	**7,508**
Provisions and others	(976)	(688)	(836)	(671)	(774)
Associates & JVs	824	910	953	982	991
Profit Before Tax	**5,680**	**6,482**	**8,401**	**9,412**	**9,273**
Taxation	(648)	(1,031)	(1,236)	(1,385)	(1,364)
Profit After Tax	**5,032**	**5,451**	**7,165**	**8,027**	**7,909**
Non-controlling Interest	174	113	144	161	159
Net Income, adj.	**4,858**	**5,338**	**7,021**	**7,866**	**7,750**

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash bal with central banks	27,919	34,966	34,286	33,779	29,864
Due from banks	25,462	30,244	38,051	41,141	41,295
Debt and equity securities	34,015	28,010	36,591	33,286	33,411
Loans and bills receivable	286,281	291,467	292,754	306,356	320,156
Life Assur. Fund Inv. Assets	100,096	94,997	97,517	100,443	103,456
Others	68,414	77,240	82,225	79,869	80,205
Total Assets	**542,187**	**556,924**	**581,424**	**594,873**	**608,388**
Due to banks	8,239	10,046	10,884	13,764	13,918
Due to non-bank customers	342,395	350,081	363,770	372,364	377,726
Life Assur. Fund Liabilities	96,306	96,209	99,644	102,633	105,712
Debts issued	20,115	21,938	26,553	20,554	20,862
Others	20,794	26,225	25,019	25,761	26,526
Total liabilities	**487,849**	**504,499**	**525,870**	**535,076**	**544,745**
Shareholder's equity	52,663	51,117	54,170	58,252	61,939
Non-controlling interest	1,675	1,308	1,384	1,545	1,704
Total Equity	**54,338**	**52,425**	**55,554**	**59,798**	**63,643**

Per share data (SGD)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	1.08	1.19	1.56	1.75	1.72
EPS, adj.	1.08	1.19	1.56	1.75	1.72
DPS	0.53	0.68	0.82	0.87	0.92
BVPS	11.72	11.37	12.05	12.90	13.72
Dividend payout ratio	49%	57%	52%	50%	53%

Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	15.5%	15.2%	15.9%	16.9%	17.6%
Tier 1 CAR	16.0%	15.9%	16.5%	17.4%	18.1%
Total CAR	17.6%	17.7%	18.1%	18.9%	19.5%

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	15.4	14.1	10.7	9.5	9.7
P/B (X)	1.4	1.5	1.4	1.3	1.2
Dividend Yield	3.2%	4.1%	4.9%	5.2%	5.5%
Growth & Margins					
Growth					
Net int income	-1.9%	31.3%	25.5%	0.7%	-0.9%
Non int income	13.7%	-24.1%	7.3%	28.2%	8.5%
Pre provision operating profit	4.5%	6.5%	19.7%	8.6%	2.3%
Operating income	36.8%	14.7%	33.7%	13.2%	-1.8%
Net income, reported	35.6%	9.9%	31.5%	12.0%	-1.5%
Net income, adj	35.6%	9.9%	31.5%	12.0%	-1.5%
Margins					
Net interest margin	1.54%	1.91%	2.28%	2.22%	2.12%
Key Ratios					
ROE	9.5%	10.3%	13.3%	14.0%	12.9%
ROA	1.1%	1.2%	1.5%	1.6%	1.5%
RORWA	2.2%	2.3%	3.0%	3.2%	3.0%
Non-int/total income ratio	44.7%	31.9%	28.6%	33.8%	35.8%
Cost/income ratio	45.0%	44.5%	38.7%	38.0%	39.6%
Loan/deposit ratio	83.6%	83.3%	80.5%	82.3%	84.8%
NPL ratio	1.5%	1.1%	0.9%	0.9%	0.9%

Source: Company, Phillip Securities Research (Singapore) Estimates

SATS LTD

Exceptional earnings

3 January 2025

SINGAPORE | TRANSPORT SERVICES| UPDATE

- Growth in gateway services revenue drove the 2024 performance, supported by increased cargo tonnage and rate across all regions, outpacing global industry growth. Routes to the Americas and Europe supported traffic growth, bolstered by robust e-commerce demand and capacity constraints in ocean shipping.
- SATS repriced its key customer, SIA, in 2Q25 and views contract repricing as an ongoing process with varying terms and durations across contracts. We anticipate that most contracts will include indexation clauses, and with inflation remaining a global concern, additional repricing opportunities will uphold profit growth.
- Maintain BUY with a DCF-TP of S$4.62. The growth in cargo volume and several contract repricing will boost earnings through operating and financial leverage. SATS is trading at 20x/17x FY25e/FY26e PE, with our TP implying a 22x FY26e PE.

Background

SATS specializes in inflight catering, airport ground handling, and cargo handling services for the aviation industry, operating in over 27 countries across domestic and international markets. The company provides inflight meals to over 80 airlines and manages ground services at over 40 airports across Asia. In 1H25, cargo services contributed 50% of the group's total revenue, while ground services and food solutions accounted for 27% and 23%, respectively.

Investment Merits/Outlook

- **Airline recovery tailwind.** Air cargo handling services were the key revenue catalyst in 2024. We expect SATS to surpass the industry's 5% cargo volume growth forecast, projecting around 15% for the year. This is supported by the spillover effect due to Red Sea tension and partnerships like SF Holding to capture booming e-commerce demand. SATS is also shielded from air cargo rate volatility, charging based on cargo activity handled, which will be isolated from a potential decline in rate in 2025. We expect air cargo volumes to sustain their momentum in 2025, supported by the prolonged Red Sea conflict and pre-emptive inventory loading in anticipation of potential China-US tariffs, particularly with North America accounting for c.30% of the group's revenue. However, growth is likely to stabilize following the implementation of US-China Tariff 2.0.
- **Continues contract repricing.** SIA successfully repriced one of its key customers, SIA, which contributed S$892.9mn in FY24, representing 17.3% of total revenue. SATS views contract repricing as an ongoing and incremental process with varying terms and durations across agreements. We anticipate most contracts will include indexation clauses, and given inflation's global impact, further repricing opportunities could emerge in FY25.
- **Operational and financial leverage.** SATS has been expanding its operations to capitalize on economies of scale, including increasing food production capacity to 108,000 meals per day, up from 80,000 in Phase 1. Revenue per employee improved by ~7% YoY in 1H25, and the company is on track to achieve its 6% PATMI margin target (1H25: 1.6%), supporting stronger free cash flow.

Recommendation

Our TP is based on the discounted cash flow model (WACC 8.2%, terminal growth 1%).
SATS is confident that FCF will turn positive from 2025 onwards on the back of the
Increased cargo volume and multiple contract repricing initiatives will enhance earnings by driving operating and financial leverage.

BUY (Maintained)

LAST CLOSE PRICE	SGD 3.63
FORECAST DIV	SGD 0.01
TARGET PRICE	SGD 4.62
TOTAL RETURN	27.8%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN) :	1,487
MARKET CAP (USD mn / SGD mn) :	3964 / 5413
52 - WK HI/LO (SGD) :	4.08 / 2.4
3M Average Daily T/O (mn) :	5.15

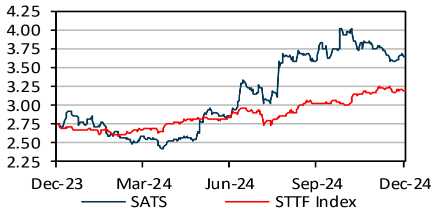
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	39.7%

TOTAL RETURN (%)

	1MTH	3MTH	1YR
COMPANY	(3.2)	1.2	33.5
STTF RETURN	1.3	6.4	23.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar (S$, 'mn)	FY23	FY24	FY25e	FY26e
Revenue	1,758	5,150	5,573	5,948
Gross Profit	77	128	781	1,071
EBIT	(43)	(48)	244	498
Net income	(27)	56	272	320
EPS	-	5.3	18.1	21.3
P/E (x)	-	69.9	20.3	17.3
ROE (%)	-1.0%	2.1%	9.6%	11.3%

Source: Company, PSR

VALUATION METHOD

Discounted cash flow

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Financials

Income Statement

Y/E Mar, ($'mn)	FY22	FY23	FY24	FY25e	FY26e
Revenue	**1,177**	**1,758**	**5,150**	**5,573**	**5,948**
Opex	1,100	1,631	4,369	4,502	4,899
EBITDA	**77**	**128**	**781**	**1,071**	**1,048**
EBIT	(43)	(48)	244	498	541
Interest exp	(17)	(19)	(258)	(196)	(175)
JV	17	45	110	140	140
Other income	**12**	**(33)**	**(1)**	**(23)**	**(23)**
Profit before tax	(27)	(44)	116	444	507
Net Profit	**20**	**(27)**	**56**	**272**	**320**
Adjusted net profit	**(23)**	**(51)**	**79**	**272**	**320**

Per share data (S$ cents)

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
BVPS	1.5	2.1	1.7	1.8	2.0
DPS	-	-	1.5	8.2	10.7
EPS	(1.9)	(4.3)	5.3	18.1	21.3

Cash Flow

Y/E Mar, ($'mn)	FY22	FY23	FY24	FY25e	FY26e
CFO					
Net income	**(23)**	**(51)**	**79**	**272**	**320**
WC changes	50	(14)	198	(281)	(170)
Other items	(155)	(1,765)	955	-	-
Cash generated from ops	**70**	**(1,705)**	**1,771**	**591**	**689**
CFI					
CAPEX, net	(78)	(119)	(186)	(300)	(325)
Associates	124	10	(340)	-	-
Cashflow from investments	**31**	**(1,832)**	**68**	**(300)**	**(325)**
CFF					
Change in short term debt	(16)	(89)	1,301	(66)	(66)
Change in long term debt	(19)	730	1,313	(134)	(134)
Interest paid	-	-	(22)	(122)	(160)
Cashflow from financing	**(36)**	**1,426**	**2,600**	**(322)**	**(360)**
Net change in cash	66	(2,110)	4,439	(31)	4
Cash at the start of the period	880	786	374	659	628
Ending cash	945	(1,324)	4,813	628	632

*nm - not meaningful

Balance Sheet

Y/E Mar, ($'mn)	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
PPE & Investment Properties	590	579	796	881	1,056
Intangibles	553	527	3,511	3,154	2,796
Investments in associates & JV	454	444	784	784	784
Other Long Term Assets	385	386	1,439	1,439	1,439
Total non-current assets	**1,996**	**1,951**	**6,530**	**6,258**	**6,075**
Cash and cash equivalents	786	374	659	628	632
Inventories	83	69	73	155	247
Trade and other receivables	388	481	1,138	1,527	1,792
Others	39	1,799	79	79	79
Total current assets	**1,296**	**2,723**	**1,950**	**2,390**	**2,751**
Total Assets	**3,292**	**4,674**	**8,480**	**8,647**	**8,827**
LIABILITIES					
Trade and other payables	458	522	1,382	1,572	1,760
ST borrowings	143	54	1,355	1,289	1,223
Others	30	30	53	53	53
Total current liabilities	**631**	**606**	**2,791**	**2,915**	**3,036**
LT borrowings	695	1,424	2,737	2,603	2,469
Others	133	128	393	393	393
Total non-current liabilities	**828**	**1,553**	**3,130**	**2,996**	**2,862**
Total liabilities	**1,459**	**2,159**	**5,921**	**5,910**	**5,898**
EQUITY					
Share Capital	368	1,154	1,162	1,162	1,162
Reserves	1,235	1,180	1,213	1,363	1,523
Minority interest	231	181	185	212	244
Total equity	**1,834**	**2,515**	**2,560**	**2,737**	**2,929**
Total equity and liabilities	**3,292**	**4,674**	**8,480**	**8,647**	**8,827**

Valuation Ratios

Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	-	-	69.9	20.3	17.3
P/B (x)	237.9	174.5	213.8	201.1	188.6
EV/EBITDA (x)	90.0	54.3	8.9	6.5	6.6
Dividend yield (%)	0.0%	0.0%	0.4%	2.2%	2.9%
Growth & Margins (%)					
Growth					
Revenue		49.4%	192.9%	8.2%	6.7%
EBITDA		65.8%	510.8%	37.1%	-2.1%
EBIT		-12.7%	608.7%	104.0%	8.6%
PBT		-229.9%	-312.8%	382.0%	17.8%
Margins					
Gross profit margin	93.4%	92.7%	84.8%	80.8%	82.4%
EBIT margin	-2.4%	-0.9%	4.4%	8.4%	8.6%
Net profit margin	1.7%	-1.5%	1.1%	4.9%	5.4%
Key Ratios					
ROE	0.9%	-1.0%	2.1%	9.6%	11.3%
ROA	0.5%	-0.4%	0.7%	3.1%	3.7%
Net Gearing (%)	25.5%	31.6%	48.3%	45.0%	41.8%

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

StocksBnB.com

ST Engineering Ltd

Most engines roaring

3 January 2025

SINGAPORE | CONGLOMERATE | UPDATE

- The two underlying growth drivers for ST Engineering are (i) commercial aircraft airframe and engine maintenance from rising air travel demand and delays in new aircraft and (ii) demand for conventional weapons and ammunition led by new export markets.
- Satcom remains challenging as ST Engineering transitions to its new platform. Intuition 1.0 was launched in September, with the full version to be released next year. The challenge is migrating customers into this new platform. Satcom is undergoing aggressive cost savings efforts of S$60mn-70mn per year.
- Maintain BUY with a DCF TP of S$5.00. The company is riding on multiple growth levers, including increased demand for aircraft maintenance, growing defence budgets, rising cloud solutions, and cyber security requirements, and adopting new urban transport solutions.

Background

ST Engineering is a global technology, defence and engineering group with a portfolio of businesses across the aerospace, smart city, defence, and public security segments. Though it has built a strong reputation in research and development capability in advanced defence and mobility technologies, about two-thirds of its revenue is derived from commercial projects. New contract wins of S$8.3bn secured in 9M24 (9M23: S$11.7bn) took the order book to S$26.9bn as at Sep24 (3Q23: S$27.5bn).

Investment Merits/Outlook

- **Aircraft maintenance requirements elevated.** Due to delays in aircraft deliveries and a rise in air travel, demand for heavier airframe and engine maintenance work has surged. Conversely, the lack of passenger aircraft for passenger-to-freight conversion will negatively impact commercial aerospace revenues. Lower aircraft sales have also impacted revenues in FY24.
- **Demand for conventional weapons.** Recent conflicts globally have surprisingly seen a demand for conventional weapons despite new technologies. ST Engineering has captured the growth in ammunition in the export markets, especially in the 40mm and 155mm categories. Conflicts have also triggered re-stocking by other countries.
- **TransCore turnaround.** TransCore has started to make more headway in the US market. In September 2024, it secured a US$1.73bn E-ZPass toll collection system from the New Jersey Turnpike Authority. However, due to a competitor's formal protest, the project is not in the order book. Another positive news for TransCore is the implementation of New York congestion pricing on 5 January 2025.
- **Satellite still restructuring.** Satcom is facing competition from Starlink's low-earth orbit (LEO) satellites. The company is looking to deploy a new multi-orbit solution with faster throughput. Meanwhile, the company is undertaking aggressive cost measures by cutting headcount by 20%.

Recommendation

Our TP is based on the discounted cash flow model (WACC 6.6%, terminal growth 1%). The operations generate strong cash flows.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 4.660
FORECAST DIV	SGD 0.160
TARGET PRICE	SGD 5.000
TOTAL RETURN	10.7%

COMPANY DATA

BLOOMBERG CODE:	STE SP
O/S SHARES (MN) :	3,115
MARKET CAP (USD mn / SGD mn) :	10628 / 14514
52 - WK HI/LO (SGD) :	4.81 / 3.66
3M Average Daily T/O (mn) :	4.58

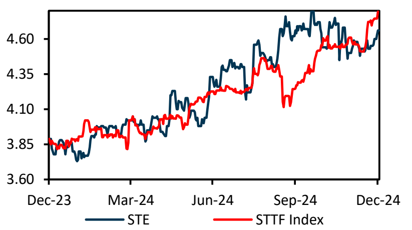
MAJOR SHAREHOLDER

TEMASEK HOLDINGS	51.0%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	3.6	0.9	24.3
STTF RETURN	1.3	6.4	23.5

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$mn)	FY22	FY23	FY24e	FY25e
Revenue	9,035	10,101	11,213	11,919
Gross Profit	1,699	1,973	2,299	2,495
EBIT	735	915	1,070	1,166
PATMI	535	586	723	818
P/NAV (x)	6.0	5.9	5.4	4.8
P/E (x)	27.1	24.7	20.1	17.7
Dividend yield	3.4%	3.4%	3.4%	3.4%
ROE	22.3%	23.8%	26.9%	27.2%

Source: Company, PSR

VALUATION METHOD

DCF (WACC 6.8%, Terminal g 1%)

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PhillipCapital

Financials

Income Statement

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	**7,693**	**9,035**	**10,101**	**11,213**	**11,919**
Cost of sales	(5,631)	(6,158)	(7,336)	(7,803)	(7,712)
Gross Profit	**1,535**	**1,699**	**1,973**	**2,299**	**2,495**
Selling and distribution	(183)	(195)	(179)	(242)	(257)
Administration	(608)	(727)	(753)	(841)	(894)
Others	(87)	(75)	(184)	(206)	(238)
Associates and joint venture	16	33	58	60	60
EBIT	**674**	**735**	**915**	**1,070**	**1,166**
Net finance expenses	(36)	(138)	(210)	(203)	(192)
Profit before tax	**638**	**597**	**704**	**867**	**974**
Taxation	(71)	(54)	(100)	(134)	(146)
Net Profit	**567**	**543**	**604**	**733**	**828**
Minority interests	4	(8)	(18)	(10)	(10)
PATMI	**571**	**535**	**586**	**723**	**818**

Per share data (S$ cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	77.5	77.0	79.0	86.2	96.5
DPS	15.0	16.0	16.0	16.0	16.0
EPS	18.3	17.2	18.8	23.2	26.3

Cash Flow

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	**638**	**597**	**704**	**867**	**974**
Adjustments	446	618	722	748	723
WC changes	139	(442)	(101)	131	(20)
Cash generated from ops	**1,223**	**774**	**1,326**	**1,746**	**1,677**
Others	(118)	(133)	(373)	(309)	(267)
Cashflow from ops	**1,105**	**641**	**953**	**1,437**	**1,410**
CFI					
CAPEX, net	(312)	(763)	(540)	(500)	(500)
Others	(126)	(3,849)	283	-	-
Cashflow from investments	**(438)**	**(4,612)**	**(257)**	**(500)**	**(500)**
CFF					
Dividends paid to owners	(484)	(695)	(499)	(498)	(498)
Proceeds from borrowings, net	(49)	4,491	(430)	(400)	(400)
Others	(48)	(26)	(16)	-	-
Cashflow from financing	(581)	3,770	(944)	(898)	(898)
Net change in cash	86	(201)	(248)	39	12
Cash at the start of the period	729	816	602	353	393
Currency translation	1	(14)	(0)	-	-
Ending cash	**816**	**602**	**353**	**393**	**405**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	1,794	2,076	2,076	2,249	2,421
Others	3,365	6,761	6,673	6,395	6,132
Total non-current assets	**5,159**	**8,837**	**8,749**	**8,644**	**8,553**
Cash and cash equivalents	816	602	353	393	405
Inventories	1,261	1,684	1,897	1,954	2,065
Trade and other receivables	1,067	1,152	1,581	1,536	1,633
Others	2,213	2,689	2,798	2,798	2,798
Total current assets	**5,356**	**6,127**	**6,630**	**6,680**	**6,901**
Total Assets	**10,516**	**14,964**	**15,379**	**15,324**	**15,454**
LIABILITIES					
Trade and other payables	2,613	2,826	3,155	3,297	3,485
ST borrowings	560	3,628	2,564	2,164	1,764
Others	1,507	1,551	1,604	1,572	1,584
Total current liabilities	**4,680**	**8,005**	**7,322**	**7,033**	**6,833**
LT borrowings	1,555	2,907	3,544	3,544	3,544
Others	1,612	1,399	1,760	1,760	1,760
Total non-current liabilities	**3,168**	**4,306**	**5,304**	**5,304**	**5,304**
Total liabilities	**7,847**	**12,311**	**12,627**	**12,337**	**12,137**
EQUITY					
Share Capital	896	896	896	896	896
Retained profits	1,548	1,473	1,563	1,788	2,108
Others	(31)	29	0	0	0
Minority interests	255	255	293	303	313
Total equity	**2,668**	**2,653**	**2,752**	**2,987**	**3,317**
Total equity and liabilities	**10,516**	**14,964**	**15,379**	**15,324**	**15,454**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	25.4	27.1	24.7	20.1	17.7
P/B (x)	6.0	6.0	5.9	5.4	4.8
EV/EBITDA (x)	15.1	17.3	14.7	11.8	11.0
Dividend yield (%)	3.2	3.4	3.4	3.4	3.4
Growth & Margins					
Growth					
Revenue	7.5%	17.4%	11.8%	11.0%	6.3%
Gross profit	0.5%	10.7%	16.1%	16.5%	8.5%
EBIT	13.0%	9.1%	24.4%	17.0%	9.0%
PATMI	9.3%	-6.2%	9.6%	23.3%	13.1%
Margins					
Gross profit margin	20.0%	18.8%	19.5%	20.5%	20.9%
EBIT margin	8.8%	8.1%	9.1%	9.5%	9.8%
Net profit margin	7.4%	5.9%	5.8%	6.4%	6.9%
Key Ratios					
ROE	23.6%	22.3%	23.8%	26.9%	27.2%
ROA	6.1%	4.4%	5.5%	6.6%	7.2%
Net Gearing	48.7%	223.6%	209.1%	177.9%	147.8%

PhillipCapital

United Overseas Bank Limited

Diversifying into ASEAN

SINGAPORE | BANKING | UPDATE

- UOB's 4Q23 earnings are projected to grow ~15% YoY, driven by fee and loan growth recovery, stable NII and NIM, and low credit costs, with steady earnings growth expected into FY25 due to higher fee and loan growth. The lower interest rates have started to boost loan growth, with UOB's 9M24 loans growing 5% YoY and management guiding for continued growth into 4Q24 and FY25.
- Fee income recovery was driven by credit card and wealth management fees, with an expected growth of ~11% in FY25e, potentially adding ~S$280mn to revenue, supported by 9% YoY AUM growth and regional Citi portfolio integrations.
- UOB has also mentioned possible share buybacks, which would further improve ROE and EPS, and that they "can be more aggressive in capital management," which indicates a possible increase in dividends. Maintain ACCUMULATE with an unchanged target price of S$39.70.

Background

United Overseas Bank (UOB) was founded in 1935 as United Chinese Bank and was renamed in 1965. Today, it stands as the third-largest bank by assets in Southeast Asia. UOB boasts a substantial presence with over 500 offices across 19 countries and territories, showcasing its extensive reach and influence. In Singapore, UOB leads the issuing of credit and debit cards and significantly supports small and medium-sized enterprises (SMEs) through loans. The bank offers a comprehensive suite of financial services, including corporate and commercial banking, investment banking, treasury services, transaction banking, and personal wealth management.

Investment Merits/Outlook

Earnings growth sustained: We expect 4Q23 earnings to grow ~15% YoY from higher fees, trading income, and loan growth recovery while NII and NIM remain stable. We expect credit costs to come in around the guidance of 25-30bps. UOB has maintained their FY24e guidance for low-single-digit loan growth, NIM to hold above 2%, and CIR stable at around 41-42% while providing FY25e guidance for "higher total income" from high single-digit loan growth and double-digit fee growth. We expect double-digit trading income growth in 4Q24 from higher volatility surrounding the US elections. Earnings will steadily grow into FY25 from fee income and loan growth recovery.

Fee income diversification: UOB expect fee income to continue its recovery and for the growth to be led by credit card fees and wealth and fund management fees as market sentiment recovers. Wealth management AUM has grown 9% YoY to S$185bn from continued net new money inflows. UOB has integrated the Citi portfolios in Malaysia, Indonesia, and Thailand, with Vietnam to be completed by FY24. This could expand its regional franchise with a larger deposit and customer base. We expect fee income growth of ~11% for FY25e, which could add ~S$280mn to revenue.

Loan growth recovery: While rate cut expectations have been lowered with an imminent Trump administration, we still expect rates to dip further in FY25, which could further improve loan growth. UOB's 9M24 loans have grown by 5% YoY, and we expect this to continue into 4Q24 and FY25. Management has guided low-single-digit loan growth for FY24e and high-single-digit growth for FY25e.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$39.70.

BULL AND BEAR StocksBnB.com

3 January 2025

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 36.43
FORECAST DIV	SGD 1.90
TARGET PRICE	SGD 39.70
DIVIDEND YIELD	5.2%
TOTAL RETURN	14.2%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1672
MARKET CAP (USD mn / SGD mn) :	44809 / 60927
52 - WK HI/LO (SGD) :	37.42 / 27.62
3M Average Daily T/O (mn) :	2.54

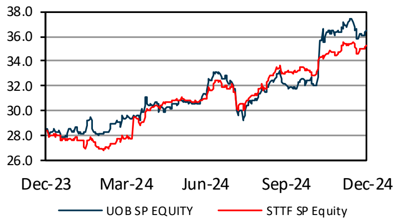
MAJOR SHAREHOLDERS (%)

Wee Investments	8.0%
Wah Hin & Co Pte Ltd	5.2%
Vanguard Group Inc	2.3%
BlackRock Fund Advisors	2.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.2	13.0	35.3
STTF RETURN	15	6.6	23.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Total Inc (SGD mn)	11,574	13,931	14,645	15,415
Op Profit (SGD mn)	5,690	6,793	7,743	8,473
NPAT (SGD mn)	4,575	5,734	6,415	7,002
EPS (SGD)	2.68	3.37	3.78	4.13
PER, (X)	13.6	10.8	9.6	8.8
P/BV, (X)	15	14	14	13
Dividend Yield	3.7%	4.7%	5.2%	5.5%
ROE	11.2%	13.4%	14.4%	15.0%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 10.2%, g: 2%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Net Int Income	6,389	8,342	9,678	9,724	9,758
Fees and Commission	2,412	2,143	2,234	2,477	2,757
Other Non-int income	989	1,089	2,019	2,443	2,900
Total operating income	**9,790**	**11,574**	**13,931**	**14,645**	**15,415**
Operating expenses	(4,314)	(5,281)	(6,217)	(6,018)	(6,015)
Provisions	(658)	(603)	(921)	(883)	(926)
Operating profit	**4,818**	**5,690**	**6,793**	**7,743**	**8,473**
Associates & JVs	117	98	93	100	100
Profit Before Tax	**4,935**	**5,788**	**6,886**	**7,843**	**8,573**
Taxation	(850)	(1,203)	(1,138)	(1,412)	(1,555)
Profit After Tax	**4,085**	**4,585**	**5,748**	**6,431**	**7,019**
Non-controlling Interest	12	10	14	16	17
Net Income, reported	**4,073**	**4,575**	**5,734**	**6,415**	**7,002**
Net Income, adj.	**4,073**	**4,821**	**6,084**	**6,415**	**7,002**

Per share data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	2.38	2.68	3.37	3.78	4.13
EPS, adj.	2.38	2.68	3.37	3.78	4.13
DPS	1.20	1.35	1.70	1.90	2.00
BVPS (less pref shares)	24.08	24.24	26.00	26.42	28.46
Dividend Pay-out Ratio	50%	50%	50%	50%	48%

Supplementary items

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
CET1 CAR	13.5%	13.3%	13.4%	14.9%	14.4%
Tier 1 CAR	14.4%	14.4%	14.4%	15.8%	15.4%
Total CAR	16.6%	16.7%	16.6%	17.9%	17.4%

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Cash bal w central banks	36,558	49,419	52,350	57,092	82,056
Due from banks	38,916	35,410	35,093	40,294	39,899
Investment securities	29,068	35,183	46,533	42,102	43,786
Loans to non-bank cust	306,713	315,355	317,005	323,785	333,416
Others	48,068	68,893	72,539	76,721	79,984
Total Assets	**459,323**	**504,260**	**523,520**	**539,994**	**579,141**
Due to banks	15,561	24,537	32,371	32,532	32,858
Due to non-bank cust	352,633	368,553	385,469	410,037	445,156
Debts issued	34,056	40,593	36,280	27,217	27,489
Others	14,212	26,971	22,932	22,932	22,932
Total liabilities	**416,462**	**460,654**	**477,052**	**492,719**	**528,435**
Shareholder's equity	42,635	43,368	46,229	47,018	50,432
Non-controlling interest	228	240	242	258	275
Total Equity	**42,863**	**43,608**	**46,471**	**47,275**	**50,707**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	15.3	13.6	10.8	9.6	8.8
P/B (X)	1.5	1.5	1.4	1.4	1.3
Dividend Yield	3.3%	3.7%	4.7%	5.2%	5.5%
Growth & Margins					
Growth					
Net interest income	5.9%	30.6%	16.0%	0.5%	0.3%
Non interest income	8.3%	-5.0%	31.6%	15.7%	15.0%
Pre provision op profit	6.7%	18.2%	20.4%	5.1%	5.3%
Operating income	40.3%	18.1%	19.4%	14.0%	9.4%
Net income, reported	40.3%	12.3%	25.3%	11.9%	9.1%
Margins					
Net interest margin	1.56%	1.86%	2.09%	2.02%	1.97%

Key Ratios	FY21	FY22	FY23	FY24e	FY25e
ROE	9.9%	11.2%	13.4%	14.4%	15.0%
ROA	0.9%	0.9%	1.1%	1.2%	1.2%
RORWA	1.6%	1.8%	2.1%	2.3%	2.4%
Non-int/total income ratio	34.7%	27.9%	30.5%	33.6%	36.7%
Cost/income ratio	44.1%	45.6%	44.6%	41.1%	39.0%
Loan/deposit ratio	87.0%	85.6%	82.2%	79.0%	74.9%
NPL ratio	1.6%	1.6%	1.5%	1.7%	1.7%

Source: Company, PSR

PhillipCapital

CapitaLand Investment Limited

Growing FUM to increase FRB earnings

StocksBnB.com

SINGAPORE | REAL ESTATE | UPDATE

- CLI aims to double its funds under management (FUM) to S$200bn by 2028 (currently at S$115bn) and double its operating earnings to over S$1bn by 2028-2030. Focusing on growth-oriented capital deployment, it targets 60-70% of these earnings from its four Fee Income-related Businesses (FRB).
- FRB growth will be fuelled by expanding the REIT platform, accelerating private funds growth, and scaling lodging and commercial management through organic expansion, new listings, fund launches, and M&A activities.
- Maintain BUY with an unchanged target price of S$3.38. Our SOTP-derived target price represents an upside of 33% and a forward P/E of 23x. We like CLI for its robust recurring fee income stream and asset-light model. Growth drivers include more REIT transactions, further interest rate declines, and the launch of new funds.

Background

CapitaLand Investment (CLI) was listed on SGX-ST on 20 September 2021 after a successful demerger from the development business of CapitaLand Limited. This transformative transaction created one of Asia's leading listed real estate investment managers (REIM) and one of the largest REIMs in the world. Three synergistic growth drivers support CLI's two key business platforms: Fund Management, Lodging Management and Capital Management. The Fee-Income Related Business (FRB) comprises listed funds management, private funds management, lodging management and commercial management. Together, they provide a steadily growing, recurring fee-based revenue stream. The Real Estate Investment Business (REIB) generates a stable flow of rental income from our global portfolio of commercial and lodging assets. It is also a source of assets for CLI's managed investment vehicles.

Investments Merits/Outlook

- **FRB revenue continues to improve.** 9M24 FRB revenue grew by 6% YoY, driven by private funds management (+14%), commercial management (+14%), and lodging management (+1%). Excluding one-offs from government contracts for COVID-19 facilities and termination fees, lodging management fees grew 12% YoY.

- **Increased transaction activity from listed funds.** YTD transactions from the listed platform rose 90% YoY to S$2.6bn, largely due to CICT's acquisition of ION Orchard. As a result, event-driven fees will pick up in 4Q24 as that transaction was completed on 30 Oct 2024. Transaction volumes are expected to increase further in 2025, with interest rates declining.

- **Growth in private funds space and faster deployment of capital.** Three new funds were launched in 3Q24, namely the Australia Credit Program (S$240mn), China Business Park RMB Fund III (S$260mn), and Korea Office Value-add Fund (S$430mn). Over the last 2 months, CLI also announced the acquisition of Wingate for S$173mn to enhance its private credit capabilities and presence in Australia, along with a 40% stake in SC Capital Partners for S$280mn.

Recommendation

Maintain BUY with an unchanged SOTP-derived target price of S$3.38.

3 January 2025

BUY (Maintained)

LAST DONE PRICE	SGD 2.62
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.38
TOTAL RETURN	33.4%

COMPANY DATA

BLOOMBERG CODE:	CLI SP Equity
O/S SHARES (MN) :	4,983
MARKET CAP (USD mn / SGD mn) :	9560 / 13056
52 - WK HI/LO (SGD) :	3.2 / 2.42
3M Average Daily T/O (mn) :	8.96

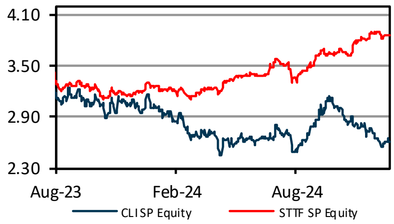
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	57.2%
VANGUARD GROUP	2.1%
BLACKROCK INC	2.0%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(4.0)	(16.0)	(13.2)
STTF RETURN	0.8	5.7	22.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY22	FY23	FY24e	FY25e
Revenue	2,876	2,784	2,998	3,109
Gross Profit	1,290	1,260	1,379	1,430
EBIT	1,435	831	1,564	1,611
PATMI	861	181	750	827
EPS (SGD)	16.79	3.54	14.66	16.17
P/E (x)	15.6	74.1	17.9	16.2
P/BV (x)	0.89	0.96	0.94	0.93
DPS (cents)	17.90	12.00	12.00	12.00
Div Yield, %	6.8%	4.6%	4.6%	4.6%
ROE, %	5.7%	1.3%	5.3%	5.7%

Source: Company Data, Bloomberg

Valuation Method
SOTP

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Financials

Income Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Revenue	**2,293**	**2,876**	**2,784**	**2,998**	**3,109**
Gross profit	**1,058**	**1,290**	**1,260**	**1,379**	**1,430**
Operating inc./exp	10	145	(429)	185	181
Gross operating profit	**1,068**	**1,435**	**831**	**1,564**	**1,611**
Finance cost	(353)	(432)	(488)	(516)	(516)
Share of results from:					
- Associates	1,008	425	206	267	289
- Joint ventures	210	106	67	94	164
(Loss)/Profit before tax	**1,956**	**1,388**	**474**	**1,268**	**1,398**
Tax expense	(396)	(318)	(141)	(377)	(416)
(Loss)/Profit for the year	1,560	1,070	333	891	982
Attributed to:					
Owners of the company	**1,349**	**861**	**181**	**750**	**827**
Non-controlling interests	211	209	152	140	155

Per share data (SGD)

Y/E Dec, SGD cents	FY21	FY22	FY23	FY24e	FY25e
EPS	38.35	16.79	3.54	14.66	16.17
DPS	15.00	17.90	12.00	12.00	12.00
BVPS	4.56	2.95	2.73	2.79	2.83

Cash Flows

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
(Loss)/Profit for the year	**1,560**	**1,070**	**333**	**891**	**891**
Adjustments	(941)	(119)	693	673	673
WC changes	255	(21)	(190)	623	(562)
Cash generated from ops	874	930	836	2,187	1,049
Taxes paid, others	(207)	(195)	(154)	(583)	(377)
Cashflow from ops	**667**	**735**	**682**	**1,501**	**569**
CFI					
CAPEX	(1,242)	(1,009)	(724)	(90)	(429)
Dividends from associtesы & JV	1,980	348	413	413	413
Proceeds from disposal of IP	1,354	15	-	-	-
Cashflow from investments	**1,268**	**(382)**	**(187)**	**450**	**(429)**
CFF					
Dividends paid	(117)	(958)	(800)	(614)	(614)
Interest expense paid	(342)	(418)	(481)	(420)	(420)
Net cash from borrowings/debt securities	750	105	374	-	-
Cashflow from financing	**223**	**(1,370)**	**(637)**	**(614)**	**(614)**
Net change in cash	2,158	(1,017)	(142)	1,337	(475)
Effects of exchange rates	(21)	(145)	(38)	-	-
Cash & equivalents at end of year	**3,815**	**2,624**	**2,439**	**3,776**	**3,301**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE	1,067	1,225	1,312	1,283	1,223
Associates & JVs	13,248	13,152	13,043	12,615	12,655
Investment Properties	16,249	14,706	13,572	13,572	13,911
Others	1,260	1,606	1,759	1,759	1,759
Total non-current assets	**31,824**	**30,689**	**29,686**	**29,229**	**29,549**
Accounts Receivables	1,661	1,025	939	1,176	1,017
Cash balance	3,877	2,668	2,460	3,776	3,301
Others	284	728	1,048	1,048	1,048
Total current assets	**5,822**	**4,421**	**4,447**	**6,000**	**5,366**
Total Assets	**37,646**	**35,110**	**34,133**	**35,229**	**34,915**
LIABILITIES					
Short term borrowings	1,941	1,208	1,014	1,014	1,014
Accounts Payables	2,128	2,093	1,455	2,315	1,594
Others	1,547	861	1,075	869	908
Total current liabilities	**5,616**	**4,162**	**3,544**	**4,198**	**3,516**
Long term borrowings	10,428	9,880	9,514	9,514	9,514
Others	1,501	2,139	2,838	2,838	2,838
Total non-current liabilities	**11,929**	**12,019**	**12,352**	**12,352**	**12,352**
Total Liabilities	**17,545**	**16,181**	**15,896**	**16,550**	**15,868**
EQUITY					
Shareholder Equity	**16,044**	**15,133**	**13,961**	**14,262**	**14,476**
Perpetual Securities	396	396	396	396	396
Non-controlling interest	3,661	3,400	3,880	4,020	4,175
Total Equity	**20,101**	**18,929**	**18,237**	**18,679**	**19,047**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E	6.8	15.6	74.1	17.9	16.2
P/B	0.57	0.89	0.96	0.94	0.93
Dividend Yield		6.8%	4.6%	4.6%	4.6%
Growth & Margins					
Growth					
Revenue	15.6%	25.4%	-3.2%	7.7%	3.7%
EBIT	n.m.	34.4%	-42.1%	88.2%	3.0%
Net Income, adj.	n.m.	-31.4%	-68.9%	167.5%	10.3%
Margins					
EBIT margin	46.6%	49.9%	29.8%	52.2%	52.2%
Net Profit Margin	68.0%	37.2%	12.0%	29.7%	29.7%
Key Ratios					
ROE	8.4%	5.7%	1.3%	5.3%	5.7%
ROA	4.1%	3.0%	1.0%	2.5%	2.8%
Debt/Equity	0.48	0.52	0.56	0.47	0.49

Keppel Ltd

Data centre growth with special dividends

SINGAPORE | CONGLOMERATE | UPDATE

- Keppel is well positioned for the surge in demand for data centres in the region. It has the complete value chain, from greenfield developer to asset manager to connectivity provider to energy supplier.
- Asset monetisation target of S$10-12bn from 2020 to 2026 was not changed (or another S$4-6bn). Leading the asset sale is Rigco, where operating conditions continue to improve.
- Keppel is transitioning from an electricity provider to an asset manager. 2H24 earnings will be weaker due to China's real estate sales decline. The medium-term opportunity is to grow their assets under management from the current S$85bn to S$200bn by 2030. Underpinning earnings growth is the expected 3 to 5% p.a. growth in power demand in Singapore, supported by Keppel's imported power and new 600MW power plant in early 2026. Maintain BUY with a TP of S$7.60, derived from the SOTP model.

Background

Keppel is a global asset manager and operator of assets in more than 20 countries. These assets cover critical infrastructure and services for renewables, clean energy, decarbonization, sustainable urban renewal, and digital connectivity. Its fund management platform, which manages private funds and five listed REITs, managed S$85bn by the end of September 2024. Assets worth S$12.4bn on its balance sheet can be injected into the funds, generating recurring fees and operating income on an asset-light model.

Investment Merits/Outlook

- **Tapped into the growth of data centres.** Keppel can ride on the surging demand for data centres and AI through its multiple businesses: i) S$10bn of funds under management are available for greenfield data centres; ii) Bifrost transmission cable where prices have more than doubled; iii) Imported green power into Singapore expected to double; iv) Commercialisation of two data centres in Genting Lane. Keppel can generate income from divestment gains and long-term recurrent asset management, operations, and maintenance fees.
- **Asset monetization is an added share price driver.** Over the next two years, there is another S$4 to 6bn monetization target. These assets include S$4.3bn legacy rigs under Asset Co, disposal of mobile operator M1, and 35k unit land bank.
- **Healthy power demand in Singapore.** Singapore's peak demand for electricity is expected to grow by 3% to 5% p.a. over the next 10 years. This compares with the 2023 growth of 1.2%. To support the demand, green electricity will be imported. Singapore's low carbon imported energy target was raised recently from 4GW to 6GW by 2035. Greenpower can be priced at a premium as carbon tax in Singapore will jump 9x from S$5 last year to S$45 per ton in 2026. Keppel had 200MW of imported power in 2024 and another 300MW in 2028. Data centres will be a key off-taker for imported energy.

Recommendation

The lack of real estate sales will pressure earnings this year. FY25e will likely be the timeline for monetising legacy and infrastructure assets, supported by a lower interest rate environment. The demand for data centres has spurred growth and valuations in asset management, infrastructure, and connectivity divisions.

3 January 2025

BUY (Maintained)

LAST CLOSE PRICE	SGD 6.840
FORECAST DIV	SGD 0.340
TARGET PRICE	SGD 7.600
TOTAL RETURN	16.1%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,806
MARKET CAP (USD mn / SGD mn) :	9046 / 12354
52 - WK HI/LO (SGD) :	7.45 / 5.76
3M Average Daily T/O (mn) :	3.13

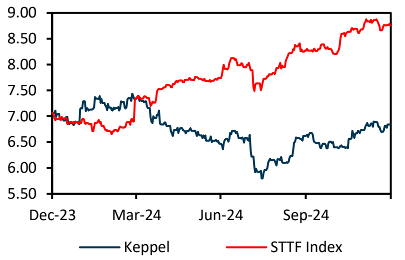
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	20.6%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	1.6	3.2	2.0
STTF RETURN	0.8	5.7	22.1

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$ mn)	FY22	FY23	FY24e	FY25e
Revenue	6,620	6,966	6,827	7,236
EBIT	565	1,076	1,113	1,085
NPAT	927	4,067	794	810
Dividend yield	4.8%	5.0%	5.0%	5.0%
P/NAV (x)	1.1	1.2	1.1	1.1
P/E (x)	13.2	3.0	15.2	14.8
ROE (%)	6.9%	7.7%	6.7%	6.8%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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Financials

Income Statement

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
Revenue	**6,611**	**6,620**	**6,966**	**6,827**	**7,236**
Materials and Subcontract costs	(5,082)	(5,174)	(4,998)	(4,847)	(5,210)
Staff costs	(665)	(668)	(704)	(669)	(724)
Depreciation and amortisation	(291)	(207)	(221)	(193)	(220)
Other items	556	(6)	34	(4)	3
EBIT	**1,129**	**565**	**1,076**	**1,113**	**1,085**
Investment income	105	49	78	75	80
Net finance expenses	(82)	(55)	(263)	(291)	(264)
Share of results of associates	459	536	322	130	200
Profit before tax	**1,611**	**1,095**	**1,214**	**1,027**	**1,102**
Taxation	(375)	(245)	(290)	(236)	(253)
Minority interests	16	5	(27)	(27)	(27)
Perpetual securities holders	(3)	(12)	(12)	(12)	(12)
Adj. Net Profit	**1,249**	**844**	**885**	**752**	**810**
Discontinued operations/FV	(226)	83	3,181	42	-
Profit attributable to owners	**1,023**	**927**	**4,067**	**794**	**810**

Per share data (S$)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
BVPS	6.41	6.29	5.85	6.15	6.49
DPS	0.33	0.33	0.34	0.34	0.34
EPS	0.56	0.52	2.31	0.45	0.46

Cash Flow

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Pretax profit	**1,611**	**1,095**	**1,162**	**1,235**	**1,301**
Adjustments	(1,283)	(773)	(377)	(406)	(389)
Working capital changes	(263)	426	146	54	42
Cash generated from ops	**65**	**747**	**931**	**883**	**953**
Others	(106)	(235)	38	54	48
Cashflow from ops	**(40)**	**512**	**969**	**937**	**1,002**
CFI					
CAPEX, net	(615)	(696)	(600)	(580)	(580)
Others	2,383	(249)	1,801	-	-
Cashflow from investments	**1,768**	**(946)**	**1,201**	**(580)**	**(580)**
CFF					
Dividend paid	(357)	(688)	(4,149)	(311)	(326)
Proceeds from borrowings, net	(674)	(308)	1,000	-	-
Proceeds from equity issuance	-	-	-	-	-
Others	385	(500)	-	-	-
Cashflow from financing	(646)	(1,496)	(3,149)	(311)	(326)
Net change in cash	1,082	(1,929)	(980)	47	96
Cash at the start of the period	2,408	3,544	1,445	163	210
Currency translation	53	(170)	-	-	-
Others	-	-	(302)	-	-
Ending cash	**3,544**	**1,445**	**163**	**210**	**306**

Source: Company, PSR estimates

Balance Sheet

Y/E Dec, ($'mn)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
PPE & Investment Properties	6,830	5,501	5,781	6,168	6,528
Others	10,647	10,554	14,691	14,481	14,331
Total non-current assets	**17,477**	**16,055**	**20,472**	**20,649**	**20,859**
Cash and cash equivalents	3,617	1,142	1,266	2,104	2,552
Stocks	4,604	2,301	2,110	1,957	2,022
Receivables	2,169	1,228	1,694	1,216	1,289
Others	3,401	(8,913)	573	573	573
Total current assets	**14,318**	**5,319**	**6,004**	**6,211**	**6,798**
Assets - held for sale	528	9,561	362	362	362
Total Assets	**32,323**	**30,935**	**26,838**	**27,222**	**28,018**
LIABILITIES					
Trade and other payables	4,957	2,786	2,586	2,583	2,781
ST borrowings	4,659	3,578	2,422	2,422	2,422
Others	2,219	4,996	1,131	990	1,007
Total current liabilities	**11,835**	**11,360**	**6,139**	**5,994**	**6,209**
LT borrowings	6,796	6,603	8,538	8,538	8,538
Others	1,174	(7,390)	531	531	531
Total non-current liabilities	**8,008**	**3,438**	**9,376**	**9,376**	**9,376**
Liabilities - held for sale	**38**	**4,224**	**307**	**307**	**307**
Total liabilities	**19,882**	**19,022**	**15,821**	**15,677**	**15,891**
EQUITY					
Share Capital	1,306	1,306	1,306	1,306	1,306
Treasury shares	(5)	(456)	(387)	(387)	(387)
Retained profits	10,354	10,329	9,389	9,891	10,445
	11,655	11,178	10,307	10,809	11,363
Others	786	735	709	736	763
Total equity	**12,441**	**11,913**	**11,017**	**11,545**	**12,127**
Total equity and liabilities	**32,323**	**30,935**	**26,838**	**27,222**	**28,018**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	12.2	13.2	3.0	15.2	14.8
P/B (x)	1.1	1.1	1.2	1.1	1.1
EV/EBITDA (x)	14.3	27.5	16.8	16.0	15.6
Dividend yield	4.8%	4.8%	5.0%	5.0%	5.0%
Growth & Margins					
Growth					
Revenue	0.6%	0.1%	5.2%	-2.0%	6.0%
EBITDA	236.9%	-45.7%	68.1%	0.7%	0.0%
EBIT	nm	-50.0%	90.4%	3.5%	-2.5%
PBT	nm	-32.0%	10.8%	-15.4%	7.3%
Margins					
EBITDA margin	21.5%	11.7%	18.6%	19.1%	18.0%
EBIT margin	17.1%	8.5%	15.4%	16.3%	15.0%
Net profit margin	18.9%	12.7%	12.7%	11.0%	11.2%
Key Ratios					
ROE	10.6%	6.9%	7.7%	6.7%	6.8%
ROA	3.8%	2.7%	3.1%	2.8%	2.9%
Net Gearing	63.0%	75.9%	88.0%	76.7%	69.3%

PhillipCapital

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Wee Hur Holdings Ltd

Unlocking value from PBSA sale

SINGAPORE | CONSTRUCTION | INITIATION

- We estimate worker dormitory revenue and profits will have a CAGR of c.40% from FY23 to FY25 due to 11k more worker accommodations or a 70% jump in bed capacity (1H24: 15,744 beds) operational in FY25. Pioneer Lodge is expected to be partially operational by 1Q25 and fully operational by the end of FY25.
- Wee Hur Holdings recently secured an A$1.6bn exit from its PBSA portfolio, potentially bringing in net proceeds of S$320mn. Given the Group's track record of declaring special dividends during strong financial performance, we believe there is a strong likelihood that special dividends may be announced. Post disposal, net cash will be around 67% of the current market cap.
- Initiate coverage of Wee Hur Holdings with a BUY recommendation and SOTP target price of S$0.62. The stock is currently trading at around 36% below book value.

Company Background

Established in 1980 and listed on the SGX Main Board in 2008, Wee Hur Holdings Ltd (the Group) is an investment holding company. Its operating segments include 1) Building Construction, 2) Workers' Dormitory, 3) Property Development, 4) Fund Management, and 5) PBSA Operations. The largest contributor to 1H24 revenue was Building Construction (41%), followed by Workers' Dormitory (39%).

Highlights

- **Worker dormitory segment as a key growth driver.** Pioneer Lodge, the Group's second purpose-built dormitory (PBD) with 10,500 beds, is expected to be partially operational by 1Q25 and fully operational by the end of FY25. Higher rental rates in 2024 resulted in a 67.9% YoY increase in revenue for the workers' dormitory segment in 1H24. With higher rental rates in FY24 and a higher bed capacity by the end of FY25, we expect revenue and PATMI for the workers' dormitory segment to increase by c.40% CAGR from FY23 to FY25. There is an upside to our target price if the remaining two-year lease of the 15,744-bed Tuas View Dormitory is extended.
- **Wee Hur recently secured an A$1.6bn exit from its PBSA portfolio, potentially bringing in net proceeds of S$320mn.** The transaction could result in a one-off gain from sale of S$36mn. The transaction could also enhance the Group's financial position, improving from current net debt of S$60.6mn to net cash of S$259.3mn. Given the Group's track record of declaring special dividends during strong financial performance, we believe there is a strong likelihood that special dividends may be announced. Notably, in FY12, the Group reported a S$90mn gain from sale from the completion of the Harvest@Woodlands industrial development project and subsequently distributed c.S$15.9mn in special dividends.
- **Wee Hur's stock is trading significantly below book value per share.** The Group's sale of its PBSA portfolio will result in a 10.6% increase in its revised net tangible assets (NTA) per share from S$0.66 to S$0.73. Based on the average 0.9x P/B of the Group's comparables, this represents a c.56% upside in valuations based on current stock prices. Given the successful agreement to realize value from its PBSA portfolio, we believe the Group is well-positioned to leverage its expertise and experience to maximize the potential of its remaining tangible assets.

3 January 2025

BUY (Initiation)

CLOSING PRICE	SGD 0.420
FORECAST DIV	SGD 0.006
TARGET PRICE	SGD 0.62
TOTAL RETURN	49.0%

COMPANY DATA

Bloomberg CODE:	WHUR SP Equity
O/S SHARES (MN) :	919.2
MARKET CAP (USD mn / SGD mn) :	288 / 391
52 - WK HI/LO (SGD) :	0.55 / 0.17
3M Average Daily T/O (mn) :	7.89

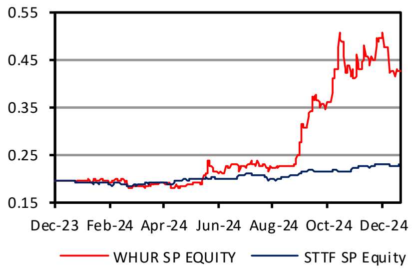
MAJOR SHAREHOLDERS

GSC Holdings Pte Ltd	38.0%
Citibank Nominees Singapore Pte Ltd	7.1%

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(6.6)	16.4	124.6
STTF RETURN	1.8	6.3	22.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec,S$mn	FY22	FY23	FY24e	FY25e
Revenue	215.9	224.8	232.8	255.7
EBITDA	-23.6	47.7	47.0	51.7
Net Profit	67.9	98.6	117.2	149.2
EPS (cents)	7.4	10.7	12.7	16.2
P/E (X)	2.8	1.9	3.1	2.5
Dividend Yield	2.4%	3.0%	1.5%	1.8%
ROE	10.3%	14.8%	17.8%	20.9%
ROA	4.9%	8.3%	11.8%	14.2%

Source: Company, PSR

VALUATION METHOD

SOTP Valuation

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Financials

Income Statement

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
Revenue	**200,375**	**215,890**	**224,842**	**232,750**	**255,745**
Gross profit	8,462	25,355	53,601	55,486	60,968
EBITDA	**39,908**	**(23,579)**	**47,653**	**47,007**	**51,651**
Depreciation & amortisation	(1,843)	(2,023)	(2,243)	(2,200)	(2,119)
EBIT	**38,065**	**(25,602)**	**45,410**	**44,807**	**49,532**
Net Finance Inc/(Exp)	(10,654)	(30)	(2,702)	(3,516)	(4,045)
Net fair value gains	59,660	(14,667)	26,923	-	-
share of assoc and JVs	2,546	531	126,390	134,995	76,723
Admin expense	(24,875)	(26,990)	(26,939)	(27,930)	(30,689)
Others	(34,785)	41,657	16	2,308	2,625
Profit before tax	**29,957**	**(25,101)**	**169,098**	**150,664**	**94,146**
Taxation	(15,500)	(3,067)	(8,860)	(7,894)	(4,519)
Minority interest	(13,795)	(68,117)	(26,199)	(25,603)	(28,132)
PATMI	**662**	**67,923**	**98,566**	**117,167**	**149,195**
Net fair value gains	(59,660)	14,667	(26,923)	-	-
Profits from PBSA JV	(2,546)	(164,739)	(90,917)	(134,995)	(76,723)
PATMI, adjusted	**(61,544)**	**(82,149)**	**(19,274)**	**(17,828)**	**(15,228)**

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, Reported	0.1	7.4	10.7	12.7	16.2
EPS, Adjusted	-6.7	-8.9	-2.1	-1.9	-1.7
DPS	0.5	0.5	0.6	0.6	0.7
BVPS	0.49	0.53	0.66	0.72	0.77

Cash Flow

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
<u>CFO</u>					
Profit before tax	**29,957**	**(25,101)**	**169,098**	**150,664**	**94,146**
Adjustments	(38,391)	(134,458)	(93,811)	(135,862)	(77,671)
WC changes	27,514	14,449	50,004	23,172	55,123
Cash generated from ops	**19,080**	**45,462**	**90,177**	**37,613**	**71,786**
Tax paid	(8,336)	(3,308)	(5,415)	(2,381)	(4,089)
Cashflow from ops	**10,744**	**42,154**	**84,762**	**35,232**	**67,697**
<u>CFI</u>					
CAPEX, net	(690)	(386)	(1,107)	(1,111)	(1,220)
Addns to investmt property	(100,870)	(80,186)	(26,513)	(25,137)	(38,362)
Cash from disposal of PBSA	-	-	-	-	319,849
Others	(14,982)	61,980	(1,063)	4,045	4,345
Cashflow from investments	**(116,542)**	**(18,592)**	**(28,683)**	**(22,203)**	**284,612**
<u>CFF</u>					
Repayment of lease liability	(7,925)	(6,304)	(6,711)	(6,612)	(6,513)
Loans, net of repayments	79,541	10,835	33,497	30,367	32,999
Dividends	(4,876)	(6,277)	(20,996)	(20,996)	(21,400)
Others	36,179	(27,824)	(7,996)	(23,292)	(23,292)
Cashflow from financing	**102,919**	**(29,570)**	**(2,206)**	**(20,533)**	**(18,206)**
Net change in cash	**(2,879)**	**(6,008)**	**53,873**	**(7,504)**	**334,103**
Cash at start of period	58,402	53,430	47,258	100,644	92,690
FX charges	(2,093)	(164)	(487)	(450)	(542)
CCE, end	**53,430**	**47,258**	**100,644**	**92,690**	**426,251**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Trade and other receivables	142,141	86,506	124,902	104,738	115,085
Cash	53,430	38,525	107,316	117,181	437,030
Development properties	196,297	168,818	134,794	122,990	83,957
Disposal group	-	996,697	-	-	-
Others	1,761	246	250	-	(0)
Total current assets	**393,629**	**1,290,792**	**367,262**	**344,909**	**636,072**
PPE	32,541	30,954	29,784	28,695	27,796
Investment properties	877,446	25,796	166,563	167,580	255,745
Investments in JV	-	-	355,727	403,366	104,666
Others	64,795	44,638	54,439	61,521	67,599
Total non-current assets	**974,782**	**101,388**	**606,513**	**661,162**	**455,806**
Total Assets	**1,368,411**	**1,392,180**	**973,775**	**1,006,071**	**1,091,878**
LIABILTIES					
Accounts payable	115,099	92,889	122,380	110,907	121,864
Bank borrowings	429,608	34,826	116,370	69,825	76,723
Liabilities of disposal grp	-	472,395	-	-	-
Others	3,242	4,057	6,677	6,983	7,672
Total current liabilities	**547,949**	**604,167**	**245,427**	**187,714**	**206,259**
Deferred tax liabilities	13,548	3,604	2,443	2,937	2,557
Long-term borrowings	174,943	69,022	82,494	116,375	127,872
Others	21,600	12,000	14,567	13,965	15,345
Total non-current liabilities	**210,091**	**84,626**	**99,504**	**133,277**	**145,775**
Total Liabilities	**758,040**	**688,793**	**344,931**	**320,991**	**352,034**
Equity					
Share capital	125,733	125,733	125,733	125,733	125,733
Shareholder Equity	**610,371**	**703,387**	**628,844**	**685,080**	**739,844**

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X) - Reported	277.7	2.8	1.9	3.1	2.5
P/B (X)	0.4	0.4	0.3	0.6	0.5
EV/EBITDA (X)	22.5	-20.0	6.3	9.9	3.2
Dividend Yield	2.5%	2.4%	3.0%	1.5%	1.8%
Growth & Margins					
<u>**Growth**</u>					
Revenue	5.5%	7.7%	4.1%	3.5%	9.9%
EBITDA	123.9%	-159.1%	302.1%	3.3%	9.3%
EBIT	141.1%	-167.3%	277.4%	3.5%	9.9%
Net profit, adj	-209.3%	-33.5%	76.5%	7.5%	14.6%
<u>**Margins**</u>					
Gross margin	4.2%	11.7%	23.8%	23.8%	23.8%
EBITDA margin	19.9%	-10.9%	21.2%	20.2%	20.2%
EBIT margin	19.0%	-11.9%	20.2%	19.3%	19.4%
Net profit margin, adj	-30.7%	-38.1%	-8.6%	-7.7%	-6.0%
Key Ratios					
ROE	0.1%	10.3%	14.8%	17.8%	20.9%
ROA	0.0%	4.9%	8.3%	11.8%	14.2%
Net Gearing (%)	90.3%	9.3%	14.6%	10.1%	Net cash
Net Debt/EBITDA (X)	13.8	-2.8	1.9	1.5	-4.5

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