Phillip Singapore Monthly – Feb24

A yawner this month

SINGAPORE | STRATEGY

6 March 2024

- The Singapore market was largely unchanged in February. Down just 0.35%. REITs took a 5% knock as expectations of a rate cut were pushed out towards the second half. The red-hot semiconductor sector was the biggest gainer. Optimism in North Asia drove up Hong Kong-related stocks.
- Economic data were generally positive. Exports jumped 17% YoY in January after almost 15 months of contraction. Tourism remains vibrant with arrival surging 54% YoY in January and RevPAR rising 13% YoY.
- Singapore REITs have a new competitor called DBS. The bank pays quarterly an annual dividend yield of around 7%, which becomes the hurdle rate for dividend-yield stocks unless they display far superior growth. Even with such a dividend yield, DBS still has untapped capital reserves of around S$7bn when the new Basel rules are implemented and another S$2bn from model overlays in provisions.

Review: It was a sluggish month for Singapore equities, with a 0.35% decline in February. YTD24, the market is down 3%. Bank performances were mixed depending on the dividends announced (Figure 1). DBS announced a 23% jump in FY23 dividends and another 24% for FY24. OCBC and UOB dividends for FY23 expanded by 20% and 26%, respectively. Both bank dividend yields are around 6%. Index gainers were led by Hong Kong-related names (Figure 2). ST Engineering reported strong 24% earnings growth and order books climbing 19% to a record S$27bn. The underperformers include Sembcorp Industries, which is engaging in scheduled maintenance of their power plants in Singapore, which will negatively impact FY24 earnings. Seatrium's massive S$2bn of write-down drove book value down by 21%. Closure of more yards could exacerbate losses in the near future. Genting earnings disappointed from bad debt provisions and a major hotel closure expected in FY24.

Economy: Economic data were generally resilient, but the later festive period compared to last year will distort base effects. Exports jumped 16% YoY in January after almost 15 months of contraction (Figure 7). Meanwhile, retail sales were down for the second consecutive month, with a 2.1% decline in January (Figure 8). Tourism was the standout, with a 54% YoY jump in arrivals to 1.4mn for January (Figure 9), or 88% of pre-pandemic levels. A 7-fold spike from China supported arrivals. RevPAR (Figure 10) turned around from three consecutive months of decline to a 13% rise in January, led primarily by both higher occupancy (+2%) and rates (+11%).

Sectors: As expected, the recently announced 2024 Singapore budget has had a limited immediate impact on the equity market. Compared to last year's budget, there was more support for retirees and reskilling of the workforce. The focus on infrastructure spending shifted from climate-related spending to energy transition and security. Longer-term beneficiaries from this transition will include local gencos. Most companies announced 4Q23 results that were within expectations. Earnings growth was modest. Banks no longer enjoyed the stellar earnings growth buoyed by rising interest margins. Healthcare earnings were pummelled from the absence of high-margin pandemic-related services and foreign patient numbers stagnating due to the strong currency and competition from the region. Semiconductors recorded a modest recovery largely due to the pull-in of orders to meet export deadlines to China or tiered pricing discounts. A wave of front-end semiconductor component manufacturing and assembly work is being outsourced to Malaysia and Singapore.

Recommendation: Without the sluggish earnings expected for FY24, we focus on stocks with attractive yields and earnings visibility. Bank dividend yields are turning more attractive and we believe earnings are resilient from more stable funding costs and growth in fee income. Other stocks with earnings growth visibility include ST Engineering, China Aviation, Pan-United, Valuetronics, Singtel and ComfortDelgro.

February 2024 performance

Figure 1: Show me the yield performance

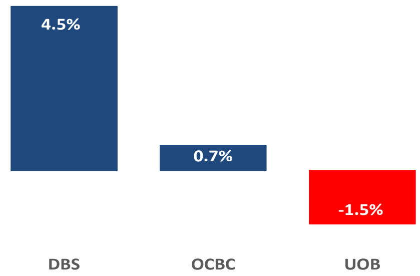


Figure 2: A rebound in Hong Kong names

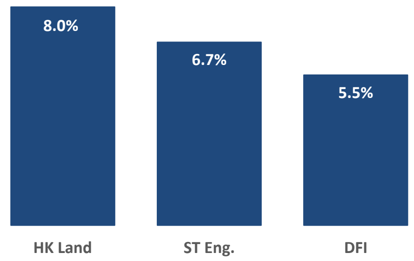


Figure 3: Results or outlook were weaker

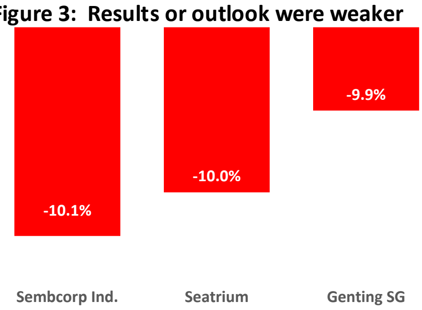
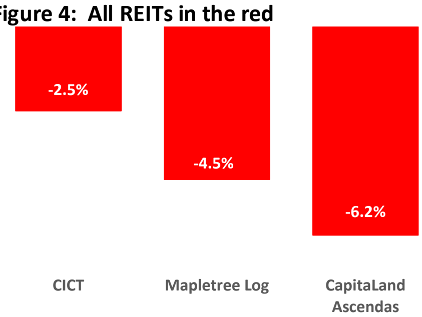


Figure 4: All REITs in the red



Source (Fig 1-4): PSR, Bloomberg, 29Feb24

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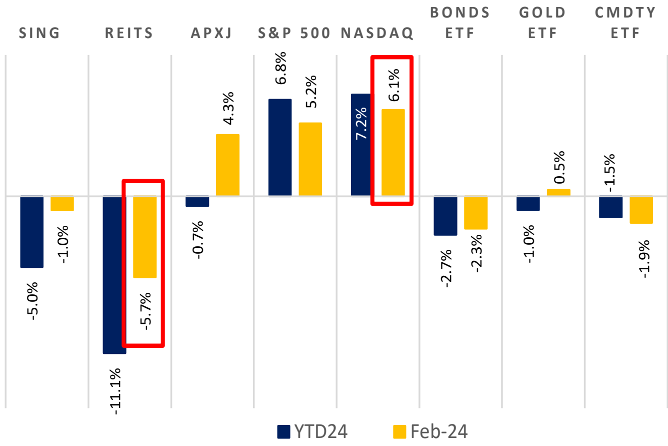
Events To Watch Next Month: US Payrolls (8Mar), US CPI (12Mar), China FAI, retail sales (17Mar), FOMC meeting (20Mar)

Corporate Insight Webinars: Daiwa House (5Mar), OxPay (12Mar), Yoma (13Mar), Thakral Corp (14Mar), Uni-Asia (15Mar), https://www.poems.com.sg/education/events-seminars/

Figure 5: Nasdaq boosted by 11% rally in semiconductors



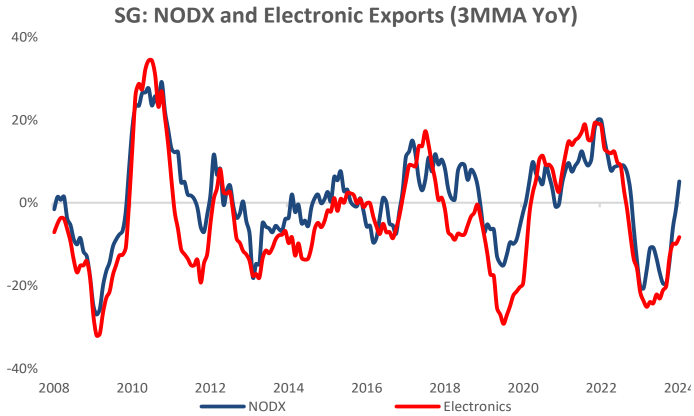
Source: PSR, Bloomberg

Figure 6: Electronics the best-performing sector

PSR (145 companies)	1 Mth Perf.	3 Mth Perf.	YTD Perf.
Commodities	**0.9%**	-5.3%	-5.0%
Conglomerate	**0.8%**	3.7%	-1.5%
Consumer	**-3.3%**	-0.7%	-5.7%
Finance	**1.8%**	3.6%	-0.8%
Healthcare	**1.7%**	4.1%	-0.2%
Electronics/Services	**4.1%**	21.2%	-18.5%
Property/Const.	**-2.3%**	-2.9%	-7.9%
REIT - Hospitality	**-5.7%**	-4.5%	-9.6%
REIT - Industrial	**-5.1%**	-3.7%	-10.2%
REIT - Office	**-5.2%**	0.7%	-6.8%
REIT - Retail	**-5.1%**	2.5%	-8.0%
REIT - Others	**-5.9%**	-1.3%	-9.4%
Shipping	**-1.6%**	5.0%	-1.7%
Telecomm.	**-1.5%**	1.8%	-4.2%
Transportation	**-2.8%**	2.2%	-1.9%
	-0.6%	1.8%	-3.9%
Singapore	-0.35%	2.2%	-3.0%

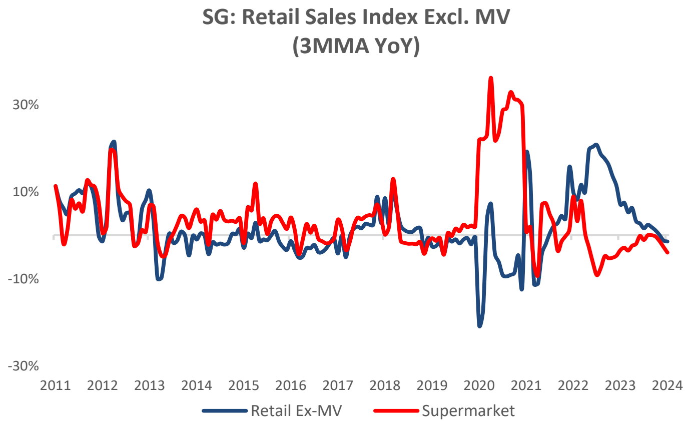
Source: PSR, Bloomberg

Figure 7: Early signs of a turnaround



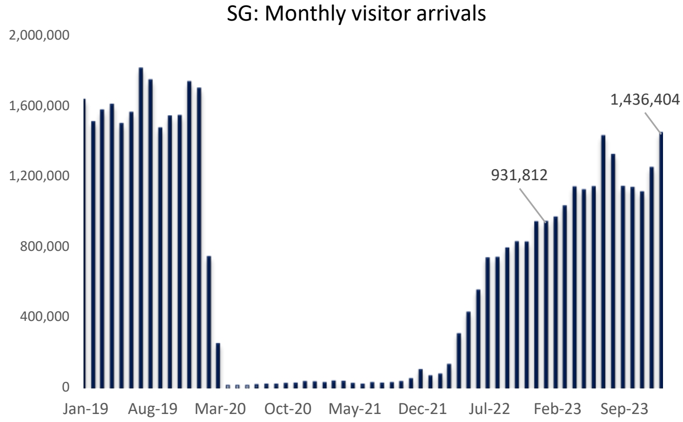
Source: PSR, CEIC

Figure 8: Retail spending sliding down



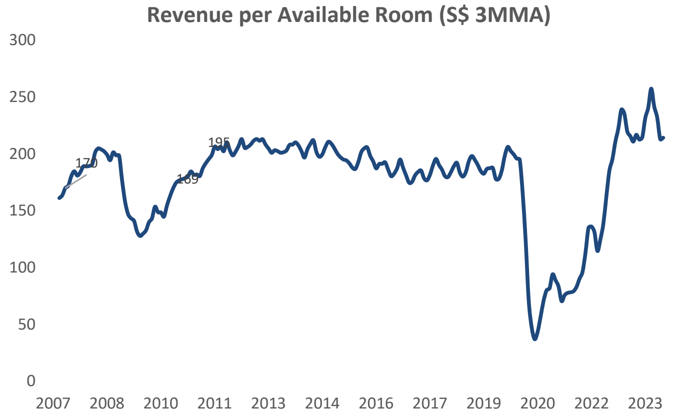
Source: PSR, CEIC

Figure 9: Arrivals supported by a 7-fold spike from China



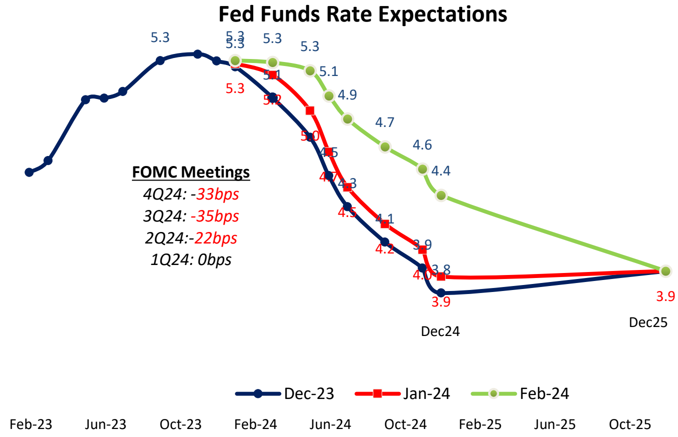
Source: PSR, CEIC

Figure 10: Starting to creep up after three-month fall



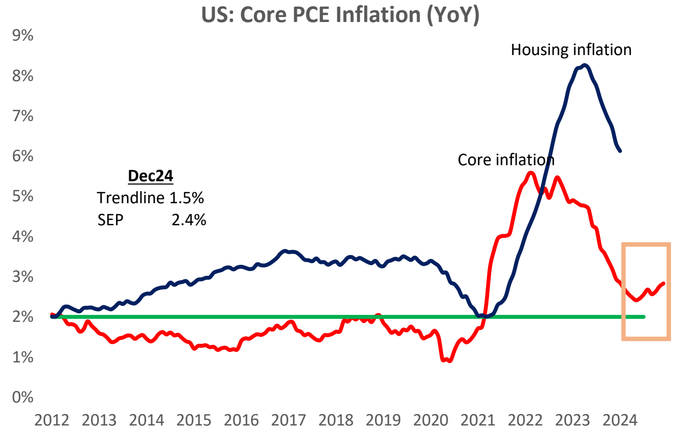
Source: PSR, CEIC

Figure 11: 50 bps point jump in rate expectations hurt REITs



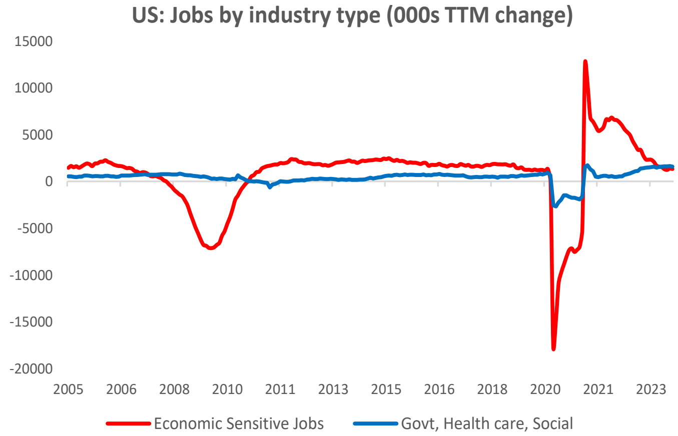
Source: PSR, CEIC

Figure 12: January MoM inflation tripled to 0.42%



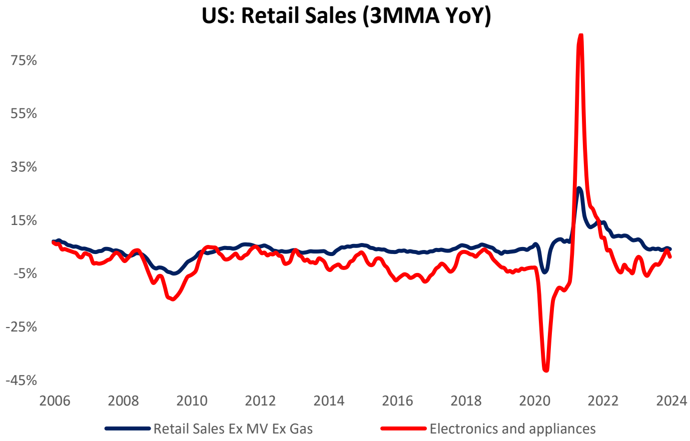
Source: PSR, CEIC

Figure 13: US payroll led by non-economic sensitive sectors



Source: PSR, CEIC

Figure 14: US retail sales still holding up



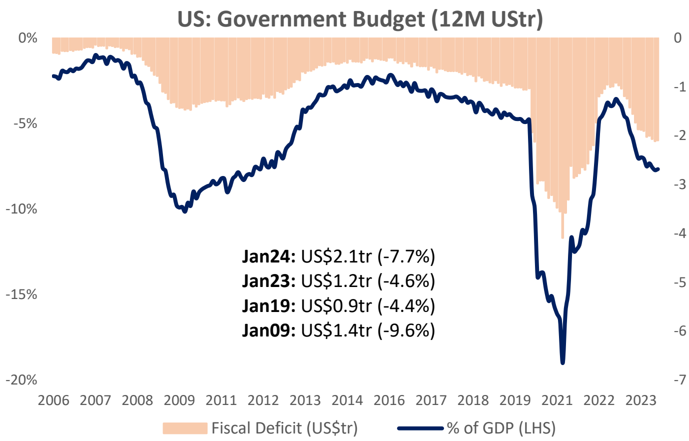
Source: PSR, CEIC

Figure 15: Property volumes in Singapore to rebound in 2024

YoY Change	2023	2024e PropNex	2024e Agency X	2024e PSR Revenue
Private - New	-9.6%	+9% to +17%	+12% to +29%	+11%
- Resale	-14.7%	+3% to +11%	+4% to +6%	+7%
HDB	-4.2%	-3% to +1%	+3% to +5%	+6%
Rental - private	-8.7%	n.a.	-3% to -5%	+4%
Price - Private	+6.8%	+3% to +4%	+4% to +6%	+5%
- HDB	+4.9%	+4% to +5%	+3% to +5%	+4%

Source: PSR, Companies

Figure 16: Aggressive government deficits supports US economy



Source: PSR, CEIC

Phillip Absolute 10

In February, our model portfolio was down -0.93%. The gainers were China Aviation, ST Engineering and OCBC. China Aviation earnings in 2H23 almost tripled YoY to US$43mn on recovery in fueling volume from their Shanghai airport refuelling associate and higher margins as the trading operations scale up. ST Engineering reported healthy earnings led by the defence and aerospace segments. Orderbook rose 19% to a record high of S$27bn. Despite the disappointment, OCBC is still paying a 6% dividend yield. The largest decliner for the second consecutive month was CapitaLand Investment. The company announced fair value losses of S$600mn. Operating profit declined 15% YoY in 2H23 due to rising interest rates, lower rental income in China and a drop in event-driven fees. It remains in our portfolio as we believe the company is building a fund management franchise with a target to double assets under management in five years.

4Q22 - Add: SGX; **Remove:** Asian PayTV
1Q23 - Add: Prime US REIT; **Remove:** Singtel
2Q23 - Add: FCT, PropNex, CLI; **Remove:** Prime US REIT, Del Monte Pacific, HRnetGroup
3Q23 - Add: Thai Beverage; **Remove:** DBS
4Q23 - Add: ST Engineering, Singtel; **Remove:** CDL, SGX

Strategy commentary: Our macro assumption is slow economic growth with rate cuts in 2H23. We balance attractive dividend yield with earnings growth visibility. Re-rating plays are stocks where we expect to enjoy a valuation expansion from higher-than-expected growth or monetising assets to narrow their valuation discounts.

Figure 17: Monthly movements

	Absolute 10	SING
Jan24	-0.9%	-2.7%
Feb24	-0.9%	-0.4%
Mar24		
Apr24		
May24		
Jun24		
Jul24		
Aug24		
Sep24		
Oct24		
Nov24		
Dec24		
YTD	-1.8%	-3.0%
Out/(Under)perf.		1.2%

Source: Bloomberg, PSR, Performance is for illustration only and excludes brokerage fees, dividends and monthly rebalancing costs.

Figure 18: Phillip Absolute 10 for February 2024

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
Frasers Centrepont Trust	-4.8%	0.5%	-3.1%	**Accumulate**	**2.38**	2.19	9%	2,946	5.5%
OCBC	0.7%	3.5%	-0.2%	**Buy**	**14.96**	12.98	15%	43,475	6.3%
Dividend / Earnings Growth									
China Aviation	7.4%	8.7%	7.4%	**Buy**	**1.10**	0.94	17%	602	5.4%
ST Engineering	6.7%	7.3%	2.3%	**Buy**	**4.50**	3.98	13%	9,231	5.0%
Thai Beverage	-3.8%	1.0%	-3.8%	**Buy**	**0.67**	0.505	33%	9,455	4.5%
Valuetronics	-4.9%	4.5%	-2.5%	**Buy**	**0.70**	0.580	21%	177	4.1%
Re-rating Plays									
CapitaLand Investment	-6.1%	-8.3%	-12.0%	**Buy**	**3.68**	2.78	32%	10,518	4.3%
ComfortDelGro	-3.6%	4.7%	-3.6%	**Buy**	**1.57**	1.35	16%	2,178	3.5%
Singtel	-2.1%	1.7%	-4.9%	**Buy**	**2.80**	2.35	19%	28,897	4.2%
Keppel Ltd	1.1%	8.5%	2.4%	**Accumulate**	**7.98**	7.24	10%	9,573	2.6%
Average	-0.93%	3.2%	-1.8%				19%		4.5%

Source: Bloomberg, PSR ^ Dividend yields are historical for all stocks

Figure 19: Snapshot of Top 10 gainers and losers in February

Top 10 Gainers		Top 10 Losers	
Frencken Group	23.1%	Keppel Pacific Oak	-55.4%
Dyna-Mac	20.4%	Dasin Retail Trust	-52.0%
Aztech Global	18.2%	Yoma	-28.6%
Pan-United	14.5%	Prime US REIT	-26.3%
Valuemax	12.5%	Del Monte	-21.4%
UMS Holdings	12.5%	AEM	-20.4%
Centurion	10.4%	Rex International	-16.9%
Marco Polo Marine	9.8%	UGHealthcare	-12.6%
YZJ Fin.	9.5%	IREIT Global	-12.5%
Olam Group	9.5%	Delfi	-12.3%

Top 10 SPDR Gainers		Top 10 SPDR Losers	
HK Land	8.0%	Sembcorp Ind.	-10.1%
ST Eng.	6.7%	Seatrium	-10.0%
DFI	5.5%	Genting SG	-9.9%
DBS	4.5%	Frasers Logistics	-8.0%
Venture Corp.	4.4%	Mapletree Pan Asia	-7.5%
YZJ	4.2%	CDL	-7.2%
Jardine Matheson	4.0%	Mapletree Ind.	-6.5%
Keppel	1.1%	Ascendas	-6.2%
Emperador	1.0%	CLI	-6.1%
OCBC	0.7%	UOL	-5.9%

Source: Bloomberg, PSR

Weekly Equity Strategy Commentary

Week 5	The Federal Reserve meets this Wednesday. Expectations are interest rates will be left unchanged. We expect the Fed to remain dovish. Core PCE inflation for December was 2.9% YoY. It is above the market and even the Fed's projection of 3.2%. Inflation was lowest in almost three years when the Fed funds rate was still at zero. The odds of rate hikes this year have increased. Beneficiaries include REITs and property sectors. After attending multiple REIT results briefings last week, the conclusion is operationally rents are still rising but finance and foreign exchange remain headwinds. This will lead to mediocre DPU growth in 2024. Any rate cuts will not impact DPU as debt is largely hedged at a fixed rate. The most challenging segment is industrials in China. Logistics rents are declining as much as 20% in Tier 2 cities and data centre tenants are in arrears. A combination of a weak economy, higher supply and regulations have impacted the industry. Conversely, Singapore's retail looks the strongest for rental reversion. It benefits from a 3-year renewal cycle that is refreshed against pandemic rents. The rental index is still 22% below pre-pandemic levels. The office sector is expected to grow at a slower pace due to a decade-high in pipeline supply and cautious corporates. Industrial outlook ranges from undersupplied high-spec logistics to weak business parks. Business parks face huge supply from Punggol digital district and Singapore Science Park, an estimated 4mn sft supply. Industrial buildings face slow growth amid a soft export environment. Consequently, tenants are also not looking to relocate. Existing data centres are unlikely to benefit from the growth in AI due to the lack of available power. Pure AI or GPU cloud data centres such as CoreWeave are likely to thrive. Marina Bay Sands's record earnings in the December quarter point to strong mass market growth of 22% YoY whilst VIP volumes are flat. Genting Singapore should register robust earnings. Another positive will be for the construction industry. Marina Bay's planned 4th tower and capex of S$4.5bn are still on track. Possible completion date is 2030. Beneficiaries include building material suppliers Pan United and BRC Asia.
Week 6	As anticipated, the Federal Reserve kept interest rates unchanged. It also ruled out a cut in March but did reiterate it was appropriate to reduce rates. This puts May as the earliest for a rate cut with three more core inflation data points. The impressive jobs data of 353k additions in January beat market estimates of 187k, and is double the pre-pandemic average of 177k. Notably, nearly 2/3 of the job additions were from the government and healthcare sectors, underscoring that government spending remains the backbone of US growth. These jobs are growing at almost triple their pre-pandemic pace. With the delay in rate cuts and sluggish earnings, REITs will be under pressure. In the recent reporting season, around 80% of the REITs reported a decline in DPU averaging 10% YoY. In a recent briefing by a Malaysian port operator, gateway volumes (i.e. container shipments sourced from local manufacturers) were at record levels. It was an indication that the re-shoring of manufacturing into SE Asia is gaining momentum. The Red Sea disturbance caused a major delay in shipments for the 1st half of January but recovered in the 2nd half. Shipments can normalise despite some vessels taking the longer route of around the Cape. This is because there are excess vessels available that can be deployed to normalise shipping times. Suez throughput is down 30% but the larger worry is the Panama Canal which is down 50% due to the ongoing drought. Container rates are unlikely to climb higher due to the excess supply of vessels, but the longer sailing times will cap any downside. In Singapore, tourist arrivals grew 33% YoY in December with a large boost from China arrivals that spiked 5-fold. There is upside from China that is only 50% of pre-pandemic levels. With an impressive line-up of concerts and events plus visa-free travel, the Singapore Tourism Board projects arrivals of 15mn-16mn in 2024, representing an increase of 11-19%. Another promising sector is building materials. There is good visibility of demand. According to the Building and Construction Authority (BCA), construction demand in 2024 is expected to grow to S$32bn-38bn (-5 to +12%), following the 17% rise in 2023. Demand is expected to remain between S$31bn-38bn for the subsequent years until 2026. More critical was BCA raised expected demand by 25% from an average of S$28.5bn to S$34.5bn in the coming years. However, such positive fundamentals may not find favour with investors as flows will remain attracted to US equities, especially after Big Tech (of FAANGM) blockbuster results in the December quarter. Net profit jumped 53% YoY to US$102mn. AI is becoming a major earnings contributor.
Week 7	The highlight last week was DBS's stellar jump in dividends. 2023 dividends rose 28% to S$1.92 and another 24% (including 10% bonus shares) to S$2.16 in 2024. DBS is now trading at a dividend yield of 7.3%. We dub DBS the REIT killer in the near term. It will be difficult for many Singapore asset REITs to match those yields. The high yield is not only due to a higher payout ratio (from 50% to 60%) but also an element of capital return. With the new (Basel) capital ratios, around 2% points or S$7bn of capital can be returned to shareholders. This is around S$2.85 per share of capital returns. Rather than a one-off special, DBS is returning to shareholders as ordinary dividends and possibly share buybacks. We think OCBC will be under pressure to raise their dividends too, as their capital is even higher than DBS. Operationally, DBS earnings are stable. Interest margins will be under pressure, but the offset is the rollover of S$90bn of their bonds into higher yields. Loans growth can recover from trade and infrastructure loans. Fee income is growing in the teens. The upside is lower interest which will trigger increased investments and leverage in wealth management. Other corporate highlights for us were: (i) Emperador - In our Poems webinar, the company reminded investors that their luxury whisky brand Dalmore has been on allocation (i.e. take a queue number to buy) to customers since 2018.

	Prices are rising 15-25% per annum. Whisky demand has expanded from just consumption to investment as the value grows. Emperador's success was to re-focus the acquired Whyte and Mackay presence into Asia, especially China, from 3% of sales to now 30%; (ii) Paragon REIT: The 4.1% S$300mn perpetual is due in August 2024. We believe it will likely be replaced with debt as the step-up is costlier than loans. This will push Paragon's gearing by 7% points to 37%. But not all REITs have the luxury to convert this "fake and expensive" equity to debt.
Week 8	As expected, the recently announced 2024 Singapore budget has had a limited immediate impact on the equity market. Compared to last year's budget, there was more support for retirees and reskilling of the workforce. The reskilling programme particularly stood out. The generous training allowance (up to 50% of the previous monthly pay for two years) when enrolled in a full-time course was akin to unemployment benefits. Nuclear and hydrogen were the clean fuels mentioned for the country's energy transition. The need to safeguard energy security will also be an opportunity for both conglomerates - Keppel and Sembcorp. Finally, our version of the minimum salary or local qualifying salary has been raised from S$1,400 to S$1,600. Recent inflation data exceeding expectations propelled bond yields close at their year highs. US core CPI in January climbed 3.9% YoY (Dec23: +3.9%), a tad above expectations. Holding up the CPI has been stubborn services trending around 7% YoY. Further dampening hopes of a rate cut were comments by FOMC member Bostic that he is not yet comfortable that inflation is declining to their 2% objective. The January core producer price index rose 1.9% and was above expectations. Expectations are the key core PCE reading to be released at month-end will similarly disappoint. Our view is the inflation downtrend is intact. This final leg to pull down the services will be slower, especially with a buoyant labour market. On stocks, the UK is another country on the heels of a rate cut. Inflation of 4% is more than 2-year lows. Rate cuts will benefit the valuation of Elite REIT's assets in the UK and the attractiveness of its 14% plus dividend yield. UMS Holdings rallied off Applied Materials (AMAT) better than expected guidance. The guidance was underwhelming as revenue growth is expected to decline 2% YoY. Nevertheless, sentiment and flow drove AMAT shares up by 6%. We believe that with AI, the whole semiconductor supply chain is enjoying a significant re-rating. Keppel Pacific Oak (KORE) experienced a dramatic 40% collapse in its share price in a single day. Although it could have paid US$26mn in dividends, it opted to suspend payments until 2026 to conserve liquidity and cap gearing. Ironically, the market has punished KORE for reinvesting in its future. Capex is now crucial to retain and attract tenants. There is no bank funding for office real estate in the US.

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