26 October 2022

Market Strategy

Stay Defensive And Look For Value Opportunities

Stocks Covered	39
Rating (Buy/Neutral/Sell):	27 / 12 / 0
Last 12m Earnings Revision Trend:	Positive

- **Build a defensive portfolio, with selective exposure to banks and economic reopening plays.** Given the rising global macroeconomic risks, equity markets are likely to continue being volatile. Investors should maintain a defensive stance in 4Q22 as we believe companies with resilient earnings, as well as the ability to pass on costs and maintain strong cash flow should outperform in the current environment. We also recommend investors to buy banks, build exposure to selective economic reopening plays, and rotate into selective industrial and office REITs.
- **Singapore's economic growth to moderate.** We do not expect the recent surge in COVID-19 cases to disrupt businesses, livelihoods, and tourist inflows into Singapore. Prospects for Singapore's manufacturing sector have dimmed, as growth in Singapore's major trading partners is anticipated to decelerate to below-trend levels. We expect the services sector to pick up some slack in manufacturing, as strong household balance sheets and wage incomes lead to continued growth in the domestic-oriented and travel-related sectors. However, the pace of discretionary spending could moderate over the course of 2023. While there is still a risk of the major advanced economies entering into a recession in 2023, we expect Singapore to witness a below-trend but positive GDP growth of 3.0% YoY. While inflation could stay elevated in the near term, it is projected to ease more in 2023.
- **Strong positive earnings growth, for now.** The Street is estimating 2023 STI EPS growth at 13% YoY. This compares with our coverage universe's 2023F EPS growth of 16% YoY. However, note that our estimate excludes the manufacturing sector. Companies in this sector are expected to witness significantly slower or negative earnings growth in 2023. With expectations of a slowdown in 4Q22 GDP growth and the elevated risk of a further slowdown in economic growth in 2023F, there remain downside risks to earnings growth next year.
- **Themes for 4Q22 include**: i) Buying shares of firms with resilient and defensive earnings/dividends; ii) buying banking stocks as a proxy to rising interest rates; iii) continued selective exposure to economic reopening plays; and v) buying REIT counters that are defensive, and those that will benefit from the economic reopening (eg industrial and office REITs).
- **STI's valuation is inexpensive, but the uncertain outlook means upside will be limited.** The STI now trades below 10.3x (-2SD) 12-month forward P/E as investors question the sustainability of ongoing positive earnings revisions and 2023F EPS growth. While we still expect the STI to outperform most regional markets, any upward move will be a slow grind. Our end-2022 STI target of 3,200pts (from 3,380pts) is based on 11.75x 2022F P/E (from 12.5x 2022F P/E). This lies between the -1SD and -2SD of its forward P/E since Jan 2008, and reflects the rising risks of a favourable operating environment ahead.

Singapore sector ratings

OVERWEIGHT	Consumer, Financials, Industrials, S-REITs, Transport
NEUTRAL	Food Products (Plantations), Healthcare Real Estate, Telecom & Media

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Sector Top Picks

Sector	Most preferred
Consumer	Kimly, Sheng Siong
Financials	DBS, OCBC
Food products	Wilmar
Healthcare	Raffles Medical Group
Industrials	HRnetGroup, ST Engineering
Real estate	Centurion, City Developments
REIT	AIMS APAC REIT, CapitaLand Ascendas REIT, ESR-LOGOS REIT, Suntec REIT
Telecom & media	Singtel
Transport	ComfortDelGro

Source: RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
CapLand Ascendas REIT	Buy	3.60	45.9	17.5	1.0	6.0	6.7
City Developments	Buy	9.75	33.2	14.5	0.8	5.3	2.7
ComfortDelGro	Buy	1.75	37.8	12.8	1.0	7.6	3.9
DBS	Buy	37.60	16.1	9.1	1.3	15.0	5.0
Raffles Medical	Buy	1.60	32.2	26.6	2.3	8.7	1.9
Sheng Siong	Buy	1.78	9.2	16.9	5.0	31.1	4.2
Singtel	Buy	3.55	49.2	13.6	1.3	9.5	5.2
ST Engineering	Buy	4.10	31.4	15.8	3.7	24.2	4.0
Suntec REIT	Buy	1.95	40.2	14.7	0.7	4.5	6.5

Source: Company data, RHB

Global Macroeconomic Outlook & Themes

(RHB Economics & Market Strategy)

Light at the end of the tunnel

A plain vanilla slowdown followed by a recovery in global growth, powered by a recovery in the US by the summer of 2023F. The balance of risks – which is not our base case (which is of a plain vanilla slowdown) – remains unchanged, ie a shallow and short recession, followed by a recovery, in the US. We would first notice the early signs of a US recession manifesting itself in the trade and Purchasing Managers' Index (PMI) data in Asia ex-Japan, since this region is the factory of the world. In addition, we would notice weaknesses in the credit markets, in mid- to large-cap companies starting to pick up. All we are seeing is a broad slowdown in real exports and imports in Asia ex-Japan, with North Asia feeling the brunt of the slowdown due to weakness in the technology sector, and logistics issues in China along with geopolitical risks in the Straits of Taiwan. South-East Asia's real exports and imports are slowing, but mirroring more of an orderly slowdown, not a collapse. Credit markets in Asia ex-Japan are not showing signs of stress. In the US and Emerging Market (EM) credit markets, we do not see much signs of stress or defaults either.

Counter-cyclical fiscal policies in major economies could materialise towards the year-end. We also believe counter-cyclical fiscal policies in major economies such as parts of Europe, Japan, and China could materialise towards the year-end as global growth slows. In the UK, it is not clear how the recent fiscal package will impact the domestic economy and markets, but these issues should be clearer when the full budget is released in November. Overall, we are not in the "UK is an EM" camp, and we think the Bank of England (BoE) – through various policy measures besides just the policy interest rate – will try to stabilise its financial markets, when needed. Note that the UK markets do have a spillover effect on global markets, hence an assumption on how policy evolves in the UK is important.

Elevated core inflation to lose momentum by year-end or early next year. With respect to core inflation, in the US and South-East Asia, we could see a sustained loss of momentum towards end-2022 to early 2023 as growth slows down further. In addition, early signs are already emerging that supply chain congestions in the US, Malaysia, and Singapore (per our proprietary indicators as of September) are receding to some extent, with China being the "genie in the bottle" in terms of significant supply chain congestions re-emerging at the global level. In Europe, there could be some geopolitical resolution to the natural gas shortage – either through a negotiated settlement with Russia or the continent splintering on its negotiations with Russia.

Commodity prices to drop. Our long-held view, that oil and food prices will further drop as global growth slows and the sanctions against Russia – as it relates to its shipments of oil and agricultural commodities – will remain ineffective, is maintained. As such, we remain short oil with Brent crude priced at USD70-80 per barrel in 2023F (vs around USD100 per barrel in 2022F on average). The recent production cut by OPEC+ does not alter our oil price view, since we expect continued US Strategic Petroleum Reserve (SPR) releases in the next few quarters, in instances where the uptrend in Brent prices is strong, and if the commodity breaches the USD100 per barrel mark.

US Federal Funds Rate (FFR) forecast is at 4.25-4.50% by end-2022, followed by 4.50-4.75% in 1H23. We expect no FFR cuts in 2023. For the 3 Nov Federal Open Market Committee (FOMC) meeting, we continue to expect a 75bps hike for the FFR. Resilient US growth and labour market conditions, along with elevated supply chain congestion into end-2022, are the main drivers of our FFR forecasts. With respect to the European Central Bank (ECB) policy outlook, we revised up our 2022 policy rate forecast to 2.4% from 1.0%, while our 2023 estimate has been increased to 2.6% from 1.5%. In terms of the Bank of Japan (BoJ) policy, there are no changes to our forecasts – with policy interest rates on hold at 0% in 2022 and 2023. For the People's Bank of China's (PBoC) 1-year best lending policy interest rate, we revise down our forecasts to 4.30% for 2022 and 2023, from 4.35%. Further reserve requirement ratio (RRR) cuts could ensue in 2022 and 2023, on top of the loosening of policy towards the property and infrastructure sectors as well. The USD/CNY fixing band could be widened at end-2022 to early 2023.

4Q22 global asset allocation

Our 4Q22 global asset allocation is overweight bonds, market weight equities, and underweight cash vs the 3Q22 global asset allocation of overweight bonds, market weight equities, and underweight cash. In global markets, the three main themes investors will focus on in 4Q22 are:

i. US Federal Reserve (US Fed) FFR peak assessment;

ii. Asian financial crisis sentiment related to a strong USD;

iii. The trajectory of USD/CNH

Near-term global equity, fixed income and FX outlook. In the global equity markets, we foresee continued stress in the US markets in October and much of November, with periods of rallies of around 5% in these months not to be completely discounted. Some signs of stabilisation – if not a rally – in early December and into early 2023 could materialise (ie Santa Claus rally) as it becomes clear that: i) The US Fed would have done much of the heavy lifting in FFR hikes, by then; ii) core personal consumption expenditure (PCE) inflation shows signs of losing some momentum; iii) growth is slowing to trend or a bit below trend in 2H22 – not collapsing; and iv) the equity risk premium has fallen to more extreme levels than today and not observed in decades.

In addition, given the above macroeconomic and policy backdrop in the US and elsewhere in the world, in December we could see US Treasury 10-year bond (UST10YR) yields stabilise on a sustained basis as well. At an instrument level, our 4Q22 UST10YR yield average forecast has been revised to 3.5-4.0%, from 2.80-3.10%. This is on back of our upward adjustment on estimated US Fed policy rates for 2022-2023. In 1H23, we expect an average of 3.0-3.5% and, in 2H23, we expect an average of 2.5-3.0%.

In FX, our USD (DXY Index) 4Q222 trading range is revised to 110-115 from 107-112. In 1H23, the trading range is 112-117, followed by 107-112 in 2H23. The main strength in the DXY Index will come from commodity-oriented currencies such as the CAD and Scandinavian currencies, with some retracement of the GBP/USD downwards from current levels in 4Q22. The ADXY index will continue to be driven by movements in USD/CNY, and we foresee continued weakness in the ADXY index in 4Q22. The main drivers of our stronger-for-longer view on the USD are: i) Continued market uncertainty on the US Fed's peak rate, which should keep the interest rate differential support for the USD intact in 4Q22 and into 1H23; ii) bouts of flight to safety to the USD against Asia could ensue in 4Q22 and into 1H23, as Asia economic data surprises on the downside; iii) geopolitical risks related to China and other unforeseen geopolitical risks' impact on the global currency market sentiment.

Figure 1: RHB's real GDP growth forecasts

% YoY	2020	2021	2022F	2023F
US	(2.8)	5.9	2.2	2.0
Western Europe	(6.2)	5.8	2.5	1.5
Japan	(4.7)	1.8	1.8	1.3
China	2.2	8.1	3.0	4.0
ASEAN				
Indonesia	(2.1)	3.7	5.0	4.1
Malaysia	(5.5)	3.1	6.0	4.5
Singapore	(4.1)	7.6	3.7	3.0
Thailand	(6.2)	1.5	3.0	3.0
Vietnam	2.9	2.6	7.5	6.5

Source: Bloomberg, RHB Economics and Market Strategy

Figure 2: RHB's CPI inflation forecasts

% YoY	2020	2021	2022F	2023F
US	1.2	4.7	7.8	3.3
Western Europe	0.4	2.5	7.8	4.7
Japan	-	(0.3)	1.8	1.1
China	2.5	0.9	2.1	2.2
ASEAN				
Indonesia	2.0	1.6	6.0	7.0
Malaysia	(1.2)	2.5	3.4	3.0
Singapore	(0.2)	2.3	5.8	3.0
Thailand	(0.8)	1.2	6.2	3.0
Vietnam	3.2	1.8	3.8	4.0

Source: Bloomberg, RHB Economics and Market Strategy

Downside risks to our global macroeconomic call. These are

i. The US housing market collapses in 4Q22 to 1Q23. In this scenario, US GDP growth will be well below 1.5% YoY in 2022 and 2023. This is an environment where a deep and prolonged US and global recession – not crisis – materialises.

ii. US high yields spreads blow out to 2008 Global Financial Crisis (GFC) levels, and US credit market liquidity dries up. In addition, the spillover effects from a US credit crisis manifest via another 10-20% decline in US equity markets and the MXWO index, credit spreads blow out in emerging markets, and the DXY Index trades in the 120-130 range. In this scenario, the US and the rest of the world will be in a GFC type environment.

iii. US and global core CPI inflation momentum continues to accelerate into 2023 and the US Fed raises the FFR to 6-7% in 2023. In this scenario, US GDP growth will be well below 1.5% YoY in 2022 and 2023. In other parts of the world, GDP growth will be below trend.

iv. A large-scale deployment of nuclear weapons by Russia in Ukraine accompanied by a massive deployment of nuclear weapons on the border of Ukraine by the North Atlantic Treaty Organisation (NATO) materialises. In this scenario, the US and the rest of the world will be in a GFC-type environment.

v. China deploys armed and naval forces to occupy Taiwan, with Western allies responding by sending ground troops and air support for the island economy. This is an environment where a deep and prolonged US and global recession and potentially a GFC type of crisis materialises.

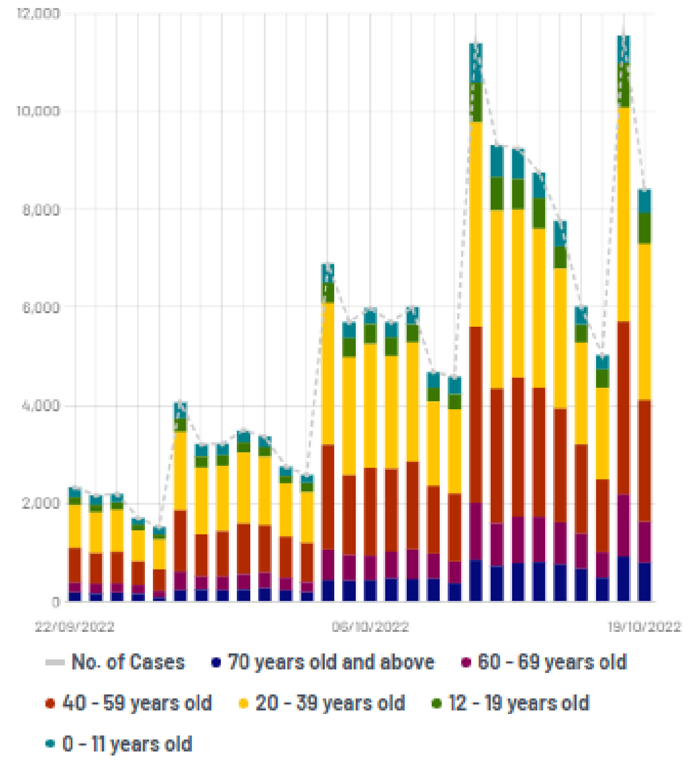
Singapore: Market Outlook

Rise in COVID-19 cases should not disrupt business, livelihoods and tourism

Singapore is currently witnessing a significant surge in COVID-19 cases (Figure 3) and a rapid rise in the number of hospitalised patients (Figure 4). The current wave of infections is driven by the XBB variant, an Omicron sub-variant. While the number of cases has gone up significantly, the number of intensive care unit cases and deaths has not risen in tandem, and remains similar to the figures recorded at the beginning of August, when there were far fewer cases overall.

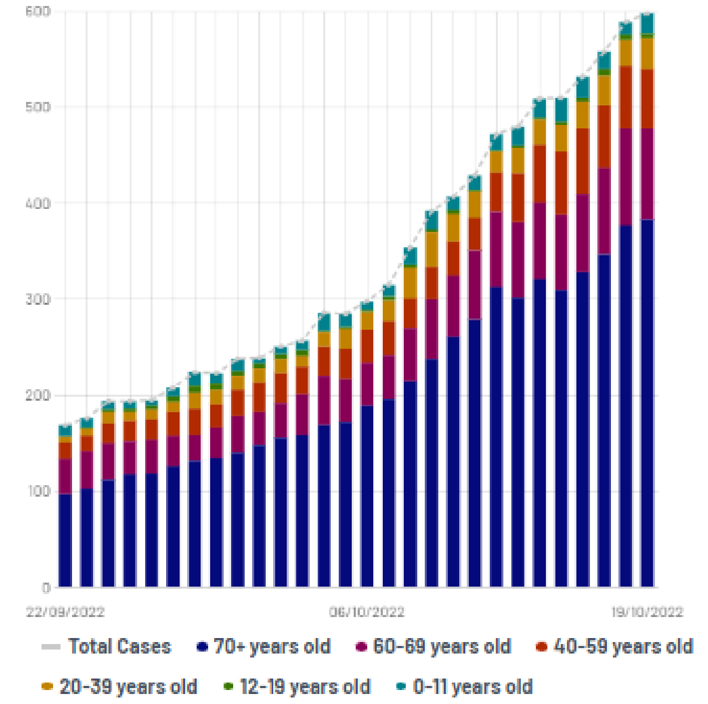
However, Singapore's high vaccination rate, as well as the assessment that the current wave of infections will not be as severe as the Omicron wave earlier this year, should enable the Government to keep businesses open, with no impact on livelihoods. It is also important to note that most of the population has likely already been infected – as not all positive cases are reported to Ministry of Health (MOH).

Figure 3: Singapore has recorded a higher number of COVID-19 cases recently



Source: Ministry of Health

Figure 4: Correspondingly, the number of patients in hospitals has also increased



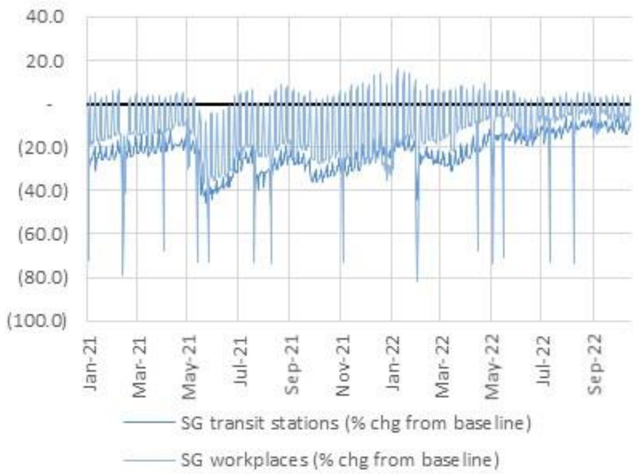
Source: Ministry of Health

Nevertheless, the MOH said that, in response to the surge over the past two weeks, public hospitals have rapidly activated various measures to operate about 200 more beds for COVID-19 patients. These include deferring non-urgent admissions, discharging stable patients home or to nursing homes, and transferring recovering patients to transitional care facilities and community hospitals.

In an advisory, the MOH has also urged seniors and immuno-compromised people to continue wearing masks in crowded indoor settings. Members of the public should also not go to the hospital emergency departments, unless they have conditions that necessitate such treatment. To relieve the load on general practitioner clinics and polyclinics here, employers have been urged not to require medical certificates from employees who have self-tested positive for COVID-19 or have symptoms of acute respiratory infection.

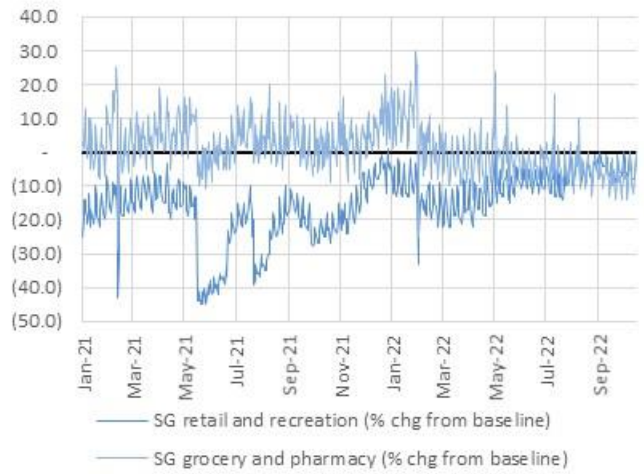
Despite the rise in number of COVID-19 cases, activity levels at workplaces (Figure 5) as well as at retail and recreation places (Figure 6) have stayed close to pre-pandemic levels, as per data from Google Mobility.

Figure 5: Google data suggests that mobility at workplaces is returning to pre-pandemic levels



Source: Google, RHB

Figure 6: Google data suggests that mobility at retail and recreation has returned to pre-pandemic levels



Source: Google, RHB

Slower but a positive economic growth expectation for 2023

Globally, we are facing elevated inflation pressures. On the demand side, the releasing of pent-up demand following the reopening of economies has significantly increased overall inflationary pressures, as have the lag effects of the large fiscal and monetary stimulus in response to the epidemic. Global food, energy, and commodity prices have increased significantly, as a result of supply interruptions brought on by the pandemic's aftereffects and the war between Russia and Ukraine. The rise in inflation has forced central banks to tighten their monetary policies. Economic expansion must inevitably slow down, in order to restore the equilibrium between total supply and demand. This also creates the risk of the major advanced economies entering a recession in 2023. Our house view is that we expect a recovery in global growth, powered by a recovery in the US by the summer of 2023. The balance of risks, not our base case (which is a plain vanilla slowdown), remains unchanged of a shallow and short recession, followed by a recovery in the US. The economies of the Asia-Pacific region are less likely to undergo a recession, but the global slowdown will have an impact there as well.

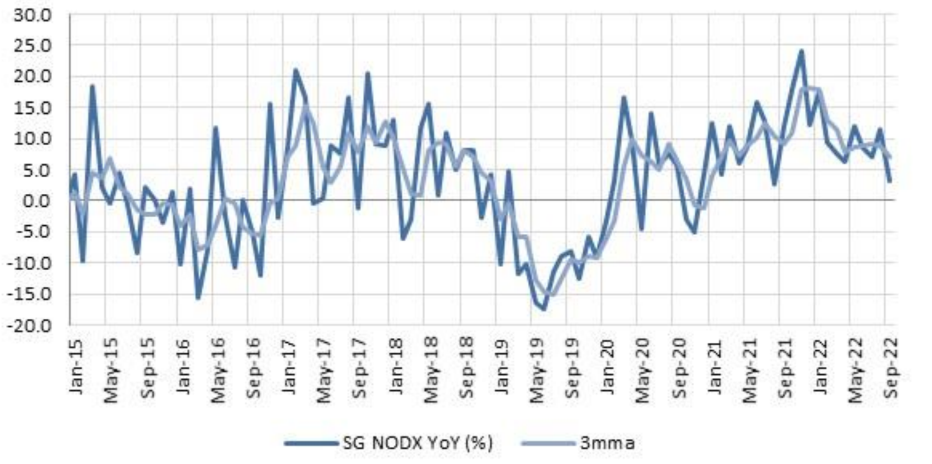
For Singapore, we still expect the growth momentum to slow in 4Q22. Our 2022 GDP growth forecast stands at 3.7% YoY. For 2023, our outlook suggests 3.0% YoY GDP growth for Singapore, suggesting that the momentum may continue to decelerate into next year. Singapore's output gap has remained positive YTD, but the pace of growth may slow to below trend in 2023, thereby likely tipping the output gap into negative territory in 1H23. The drivers behind the growth slowdown are centred on the persistently high global inflation, coupled with a deceleration of global economic activity in 3Q22. Moreover, tighter financial conditions, especially in developed economies, would likely dampen private consumption and investment.

Non-domestic oil exports (NODX) and manufacturing growth to decelerate

September NODX was at 3.1% YoY vs the Bloomberg consensus estimate of 6.9% and our estimate of 4.1%. In real terms, NODX contracted 3.5% YoY, which is the seventh decline in the last eight months. Across key trading partners, NODX expanded the most to Indonesia (+25.6% YoY), followed by Thailand (+21.7% YoY) and Taiwan (+10.0% YoY), but declined in China (-33.8% YoY) and Hong Kong (-16.7% YoY). Singapore's trade balance in real terms has contracted for 10 sessions in the past 12 months, highlighting that higher prices, rather than volume, had underpinned overall trade values.

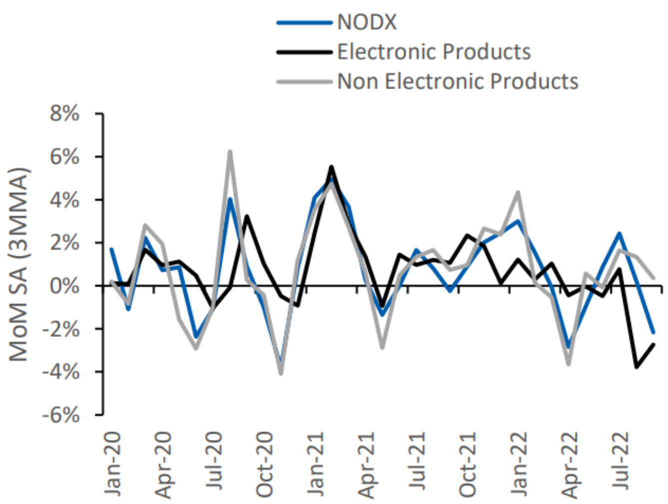
We expect the NODX momentum (measured via MoM % (3MMA)) to slow in 4Q22. The chief reason for the slowdown will likely stem from softening export demand from East Asia. NODX to China and Hong Kong declined in September 2022, extending the fall seen in the previous month. Meanwhile, China skipped a scheduled release of its September trade data in a rather rare and inexplicable lapse, fuelling concerns that China's export growth had softened further in the latest reading.

Figure 7: Singapore's NODX growth



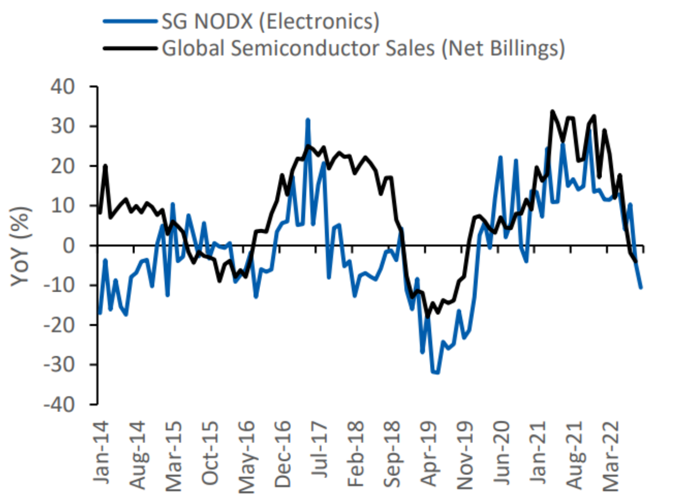
Source: Bloomberg, RHB

Figure 8: NODX momentum continued to decline across the board



Source: CEIC, RHB Economics & Market Strategy

Figure 9: The decline in electronic exports was impacted by the slowdown in semiconductor sales



Source: CEIC, RHB Economics & Market Strategy

Given the soft September trade data in real terms, the advance estimate of 3Q22 GDP of 4.4% YoY could see downward revisions. In real terms, the trade balance contracted 35.0% YoY in 3Q22, extending the decline of 36.7% YoY in 2Q22. Due to Singapore's trade-dependent structure, the decrease in the NODX momentum may also drag the overall manufacturing outlook in 4Q22.

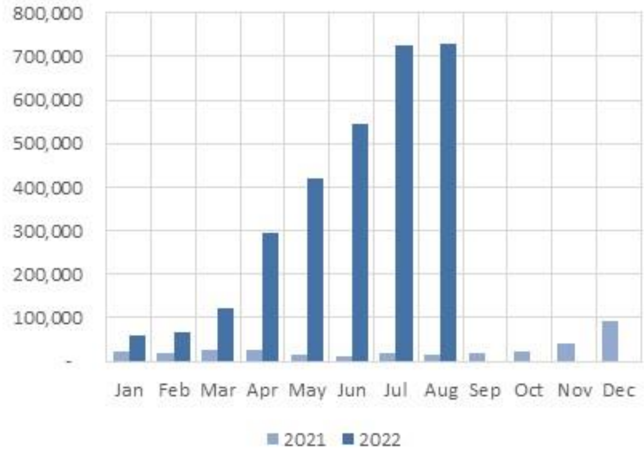
Easing of domestic and border restrictions has boosted the services sector

Despite signs of a slowdown in manufacturing, we believe GDP growth in 3Q22 may be cushioned by services exports over the same period, owing to the strong visitor arrivals (44 times more in Aug 2022 compared to a year ago) amid a record attendance of the Formula One Grand Prix night race. The improvement in the services sector is coming on the back of the economic reopening and easing of COVID-19 measures. The sector, we believe, is expected to pick up some slack in manufacturing, despite rising external headwinds. We believe the services sector should continue to benefit from the re-opening of borders and easing of domestic restrictions that prompts a speedier recovery in the hospitality, F&B, aviation, and tourism related services industries (retail and hospitality REITs).

Figure 10: Singapore's tourist arrivals is rebounding from record lows

Source: Bloomberg, RHB

Figure 11: Tourist arrivals are already significantly higher from last year



Source: Bloomberg, RHB

Singapore's retail sales climbed by 13.0% YoY in Aug 2022, the least in four months, after an upwardly revised 13.9% growth a month earlier. Still, this was the sixth straight month of increase in retail trade, amid a slowdown in the sales of cosmetics, toiletries (24.6% vs 25.5% in July), apparel (64.7% vs 68.6%), recreational goods (10.6% vs 18.9%), petrol services (16.3% vs 23.8%), and food & alcohol (48.5% vs 52.8%). By contrast, sales grew faster for optical goods & books (12.4% vs 8.3), others (17.0% vs 16.9%), department stores (42.8% vs 42.6%), and computer & telecommunications (4.6% vs 4.0%). Meanwhile, sales of vehicles dropped further (-7.9% vs -13.3%). On a monthly basis, retail sales fell 1.3% in August, reversing from an upwardly revised 0.7% gain in July.

The RHB Economics & Market Strategy team has forecasted Singapore's retail sales growth at 10% YoY in 2022, from 2021's +11.1% YoY. Factors driving Singapore's retail climate include a relatively tighter labour market and the gradual reopening of Asia's borders. Singapore's unemployment rate was at 2.1% in Jun 2022, compared to Oct 2020's peak of 3.6%. Moreover, visitor arrivals continued to grow, while hotel occupancy rates rose to 79.1% in July 2022. Nonetheless, tourism-related indicators remain below pre-COVID-19 levels, with visitor arrivals and hotel occupancy rates averaging 1.6m persons and 86.9% on a monthly basis in 2019.

Inflation remains elevated, but should moderate in 2023

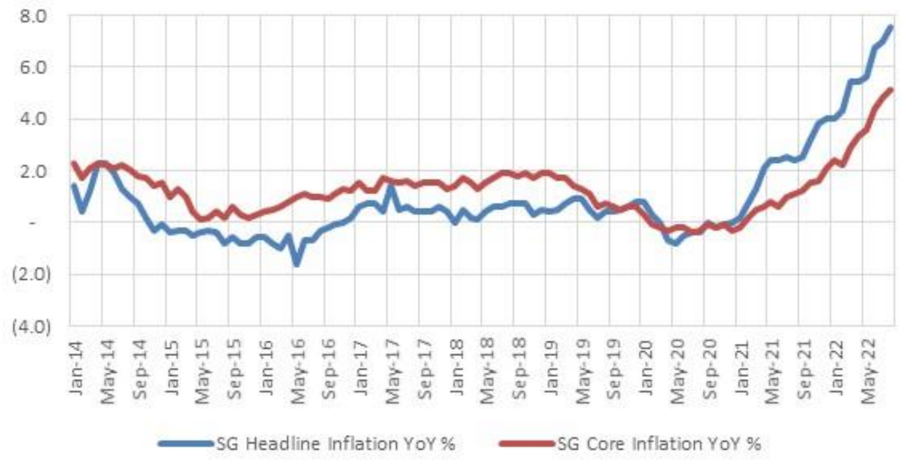
Monetary Authority of Singapore's (MAS) core inflation rate rose to 5.1% YoY in August, from 4.8% in July. The pick-up in core inflation was mainly driven by larger increases in the prices of services and food. CPI-All Items inflation came in at 7.5% YoY in August, from 7.0% in July. The rise in headline inflation largely reflected the higher private transport inflation, in addition to the pick-up in core inflation. On a MoM basis, core CPI and CPI-All Items increased by 0.5% and 0.9%.

According to MAS, inflation is expected to remain high in most of Singapore's key trading partners in the near term, while global growth moderates. The Singapore economy will grow at a slower pace in tandem with weakening global demand. However, core inflation will stay elevated over the next few quarters, as imported inflation remains significant and a tight labour market supports strong wage increases. Inflation is projected to ease more discernibly in 2H23, although there is considerable uncertainty around the outlook for both inflation and growth. For the rest of 2022, the confluence of demand and supply factors that drove the price increases in July-August is expected to persist. A tight domestic labour market will support robust wage increases, while imported inflation will remain significant across a range of intermediate and final goods.

For 2022 as a whole, MAS Core Inflation will average around 4% and CPI-All Items inflation around 6%. In 2023, taking into account all factors including the Goods and Services Tax (GST) increase, MAS Core Inflation should come in at 3.5-4.5% on average over the year, and CPI-All Items inflation at 5.5–6.5%. However, even excluding the one-off effects of the GST increase, core inflation would remain above trend at 2.5–3.5% and headline inflation at 4.5–5.5%.

Furthermore, there are upside risks to these forecasts, including from fresh shocks to global commodity prices and second-round effects associated with a prolonged period of high inflation.

Figure 12: Core CPI and headline CPI have continued to move higher, but should taper off in 2023



Source: Bloomberg, RHB

RHB Economics & Market Strategy thinks that inflation will likely peak in 3Q22 at 7.5%, with headline and core CPI to average 5.8% and 3.8% in 2022. With commodity prices likely to further ease in 2023, the team has pencilled headline inflation at 3.0% in 2023. A word of caution, perhaps, is that while headline and core inflation momentum are expected to ease for the rest of 2022, YoY growth rates should stay elevated as compared to long-run levels. The team expects core inflation to fade to just below the 5.0% handle in 4Q22, way above the symbolic 2.0% handle. Similarly, headline CPI will likely trend lower to around 6.0% towards the year-end, against a 10-year average of just 1.1% (2012- 2021).

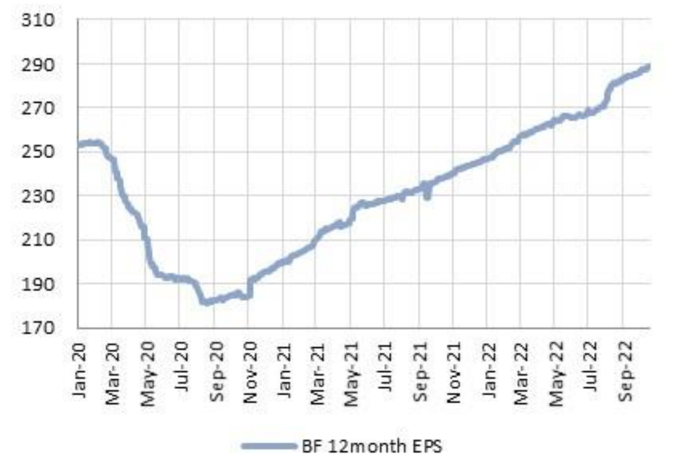
Stocks affected by China's zero-COVID strategy

In his most recent speech to the National Congress of the Chinese Communist Party, President Xi Jinping did not indicate any softening of China's non-COVID-19 strategy, prompting analysts to believe that its zero-COVID posture may persist for the foreseeable future. Any delay in China's zero-COVID policy's relaxation will also delay Singapore's tourist arrivals' return to their pre-pandemic levels. Chinese visitors constituted up 19% of all visitors in 2019. The ongoing absence of high-roller gamblers from China can have an impact on the casino players in Singapore. Additionally, the delay in the relaxation of China's zero-COVID policy might cause Raffles Medical's hospitals in China to take longer to ramp up operations.

Earnings growth in 2023 despite moderation in macroeconomic outlook

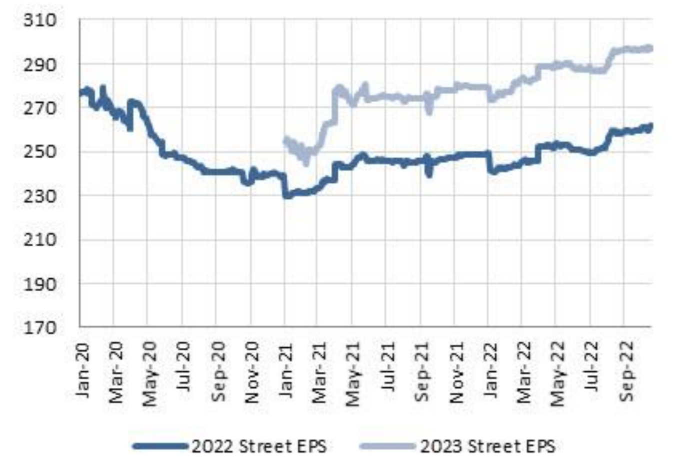
While there are increasing risks of a further slowdown in economic growth in 2023, we see the consensus remaining optimistic about strong corporate earnings growth. The 12-month forward EPS for the STI has only seen upgrades post 3Q20 results/business updates (Figure 13). Historically, the STI's forward EPS growth has had a positive correlation with Singapore's GDP growth expectations. Given the expectations of a moderation in economic growth, ie slower GDP growth in 4Q22, as well as slower economic growth in 2023 vs 2022, it will be safe to assume that earnings growth could moderate. Compared with the consensus EPS growth of 13% for the STI, we estimate the 2023 EPS growth for our coverage universe at 16%. However, we highlight that our aggregate estimates exclude the manufacturing sector, which is expected to record slower or, in some cases, negative earnings growth in 2023.

Figure 13: 12-month forward EPS for STI has only seen upgrades post 3Q20 results/business updates



Source: Bloomberg, RHB

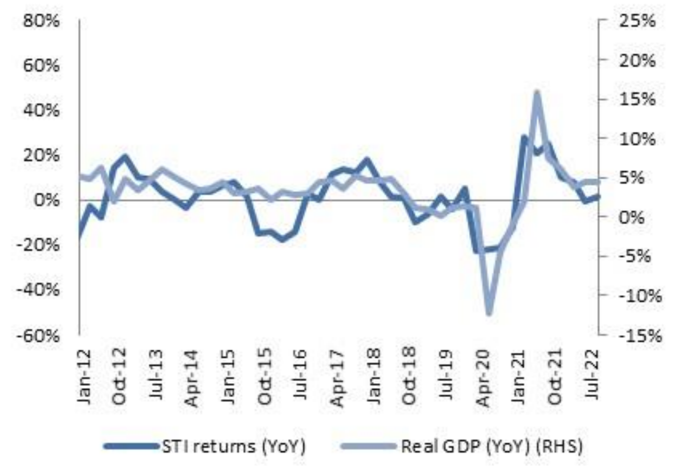
Figure 14: The Street remains optimistic on earnings growth being sustained in 2023F



Source: Bloomberg, RHB

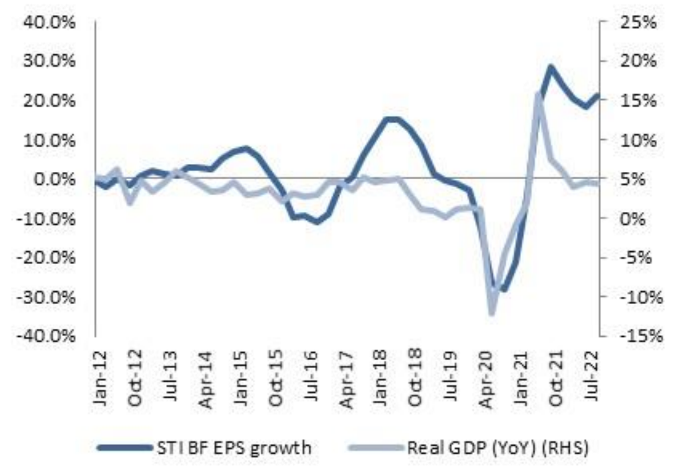
We note that, historically, the STI returns have had a positive correlation with Singapore's GDP growth expectations. With expectations of a slowdown in GDP growth for 4Q22, the risk of downgrades to Singapore's 3Q22 GDP advance estimates, and the elevated risk of a further slowdown in economic growth in 2023 from external factors, it will be difficult to build a case for strong positive STI returns in 2022.

Figure 15: There is a positive correlation between STI returns and GDP growth expectations



Source: Bloomberg, RHB

Figure 16: STI forward EPS growth and expected GDP growth are also positively correlated



Source: Bloomberg, RHB

Singapore Economic Outlook

(RHB Economics & Market Strategy team)

Moderation in economic growth

We maintain our view for the growth momentum to cool down in 4Q22. Due to the upside surprise in 3Q22 GDP data, we upgraded our 2022 GDP forecast to 3.7% YoY, up from the initial outlook of 3.2%. The revised full-year GDP outlook of 3.7% for 2022F is also in line with our proprietary composite leading index model (RHB-CLI SG), albeit highlighting that growth will slow to trend in 2H22. Note our decision to upgrade GDP growth in 2022 is consistent with our view on the balance of risks being tilted towards the upside.

For 2023, we keep our GDP growth outlook unchanged at 3.0% YoY, suggesting that the momentum may continue to decelerate into next year. Singapore's output gap has remained positive YTD, but the pace of growth may slow to below trend in 2023, thereby likely tipping the output gap to negative in 1H23. The drivers behind the growth slowdown are centred on the persistently high global inflation, coupled with a deceleration of global economic activity in 3Q22. Moreover, tighter financial conditions, especially in developed economies, would likely dampen private consumption and investment. Our latest thematic report, *US Growth is Made in Asia*, suggests that Asia Ex-Japan is the factory of the world, which highlights that declining consumption in developed economies should eventually translate to a slowdown in Asia's economic activities. In a nutshell, there remain plenty of uncertainties surrounding Singapore's growth prognosis in 2023 – given the current global economic slowdown and persistently high inflation.

Manufacturing industry to see much slower growth in 2022 vs 2023. Similar to many parts of Asia, the decline in electronic and semiconductor demand has led export and manufacturing momentum southwards. Note that the industrial production momentum continued decelerating to -2.7% in Aug 2022, the lowest point since Dec 2020 (-3.2% MoM SA (3MMA)). Even as sequential growth was at a seasonally adjusted pace of 2.0% in August, risks surrounding the slowdown in semiconductor demand had dragged precision engineering output (+2.9% YoY, the slowest in five months, -14.3% MoM SA). With industrial production momentum likely to slow for the rest of the year, we expect Singapore's manufacturing full-year growth at 4.0% in 2022, dwarfed by the 13.3% surge in 2021.

We maintain our 2022F NODX growth outlook at 7.0%, a slower pace vs the YTD growth of 9.1%. In real terms, however, we think that NODX will contract by 1.7% in 2022, against the YTD pace of -1.3%. The weakness in September's electronic outbound shipments reinforces our view that softer semiconductor demand will likely weigh on Singapore's NODX in the months ahead. Electronic exports fell 10.6% YoY in Sep 2022, marking the deepest contraction since Jan 2020 (-13.0% YoY). Separately, non-electronic NODX, which had so far shouldered the bulk of export growth, rose 7.6% YoY (13 straight months of expansion)

Notwithstanding the risks surrounding trade and manufacturing, the good news may stem from moderating inflation pressures in 2H22. We think that inflation will likely peak in 3Q22 at 7.5%, with headline and core CPI to average 5.8% and 3.8% in 2022F. With commodity prices likely to further ease in 2023, we pencil headline inflation at 3.0% in 2023. A word of caution, perhaps, is that while headline and core inflation momentum are expected to ease for the rest of 2022, YoY growth rates should stay elevated as compared to long-run levels. We expect core inflation to fade just below the 5.0% handle in 4Q22, way above the symbolic 2.0% handle. Similarly, headline CPI will likely trend lower to around 6.0% towards the year-end, against a 10-year average of merely 1.1% (2012- 2021).

Regarding the fiscal balance, we now think that 2022's budget deficit may be closer to 1.0% of GDP compared to our previous 0.5% forecast. The change in view is primarily due to the weaker-than-expect GDP growth, which narrows the denominator of the equation. A deficit of SGD3.0bn will likely be seen in 2022, as announced in the FY2022 budget. The budget is expected to turn to a surplus in the next two years, on the back of higher GST rates (8% in 2023, 9% in 2024), while the introduction of a carbon tax of SGD25/tonne may help, albeit in a small way. Elsewhere, the net investment returns contribution portion of the budget should allow for more surplus room, given MAS' decision to transfer excess foreign reserves to the Government for longer-term Government of Singapore Investment Corp investments since the start of 2022.

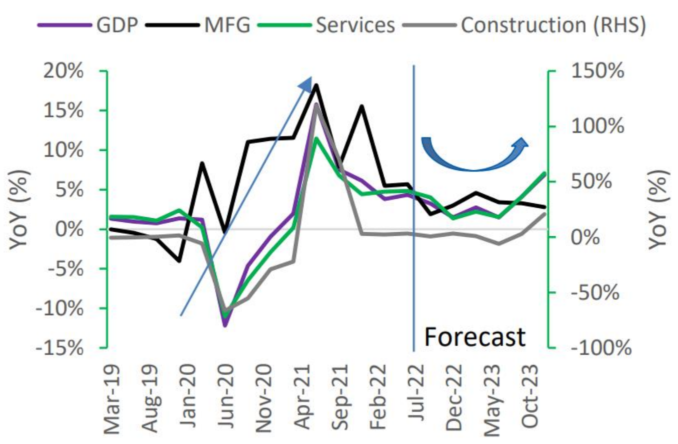
We expect Singapore's current account balance to post a surplus of 16.8% of GDP in 2022, against 2021's 18.1% of GDP. As discussed above, Singapore's non-electronic exports had shouldered much of the gains in outbound shipments YTD, and this should continue to benefit the overall current account balance. Moreover, the current account has already clocked 19.5% of GDP in 1H22, although some softness may ensue, given the weakness in electronic exports seen to date. We forecast the trade surplus to come in at SGD51.4bn in 2022, down from SGD68.2bn in 2021.

Figure 17: Singapore – key economic forecasts

	2020	2021	2022F	2023F
Real GDP Growth (% YoY)	**(4.1)**	**7.6**	**3.7**	**3.0**
Contribution to real GDP Growth (%)				
Private Consumption	(4.8)	1.7	3.6	1.4
Government Consumption	1.4	0.5	(0.3)	0.6
Gross Fixed Capital Formation	(3.5)	4.4	0.6	0.4
Net Exports	3.1	1.0	(0.4)	1.6
CPI	**(0.2)**	**2.3**	**5.8**	**3.0**
Current Account Balance (% of GDP)	**17.0**	**18.1**	**16.8**	**17.5**
Fiscal Balance (% of GDP)	**(10.8)**	**(1.0)**	**(1.0)**	**3.0**

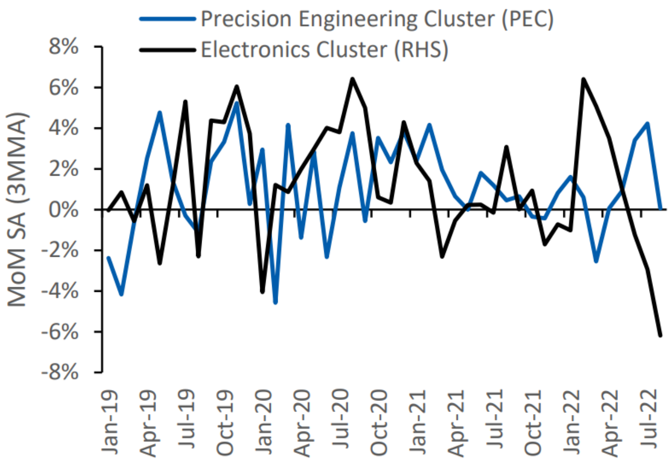
Source: Bloomberg, RHB Economics & Market Strategy

Figure 18: GDP to slow down in 2H22 and stabilise at 3% in 2023



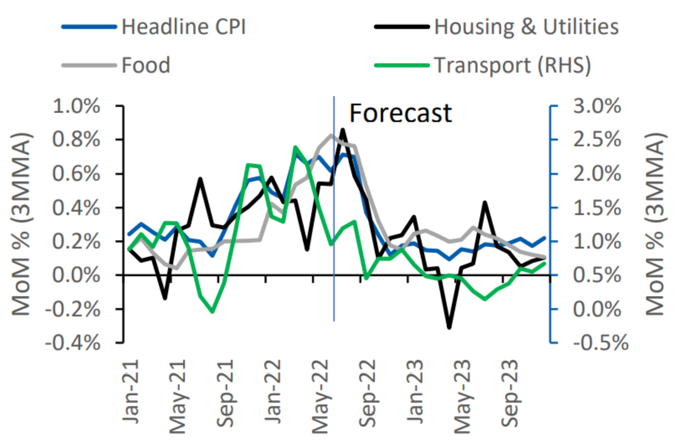
Source: CEIC, Bloomberg, RHB Economics & Market Strategy

Figure 19: Slowing E&E demand weighs on manufacturing



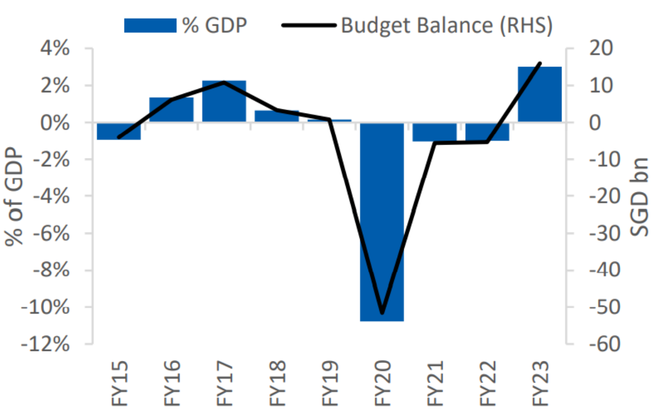
Source: CEIC, Bloomberg, RHB Economics & Market Strategy

Figure 20: Inflation to peak in 3Q22F and moderate in 2023F



Source: CEIC, Bloomberg, RHB Economics & Market Strategy

Figure 21: A budget surplus is expected in FY23



Source: CEIC, Bloomberg, RHB Economics & Market Strategy

Equity Strategy

Resilient and defensive earnings

Both developing and emerging economies are at increased danger of undergoing a sharp slowdown in growth. Despite slower GDP growth of +3.7% YoY for 2022F and +3% for 2023F, Singapore's base case continues to indicate that there will not be a recession. Equity markets are likely to continue to be volatile. We believe investors should prioritise surviving through these uncertain times. Companies with strong financial sheets, pricing power, captive customer bases, recurrent demand, and the capacity to pass through increasing costs should be key considerations when choosing stocks. We support a fundamentally defensive stance that emphasises on investing in companies that have sturdy earnings or dividend profiles. We believe companies with resilient earnings, as well as the ability to pass on costs and maintain strong cash flow should outperform in the current environment. We have looked for businesses that can maintain profitability despite slowing growth and rising inflation. Our stock picks for this subject are ST Engineering (STE), City Developments, Kimly and Sheng Siong.

We expect STE to record a sustained recovery in earnings beyond 2022, driven by the gradual improvement in its Commercial Aerospace unit. STE's defensive business model should allow it to sustain YoY higher dividends amid resilient earnings and positive FCF generation. Meanwhile, Kimly and Sheng Siong are set to benefit from the recent rise in inflation. Kimly operates coffee shops, which we believe would be the preferred cheaper alternative for meals amidst higher food prices. Moreover, it has the ability to pass on the rise in costs by increasing rental rates. Sheng Siong's defensive business model gives it the ability to preserve margins by passing on the cost increases consumers. We expect growth to come from consumers seeking cheaper options amidst rising inflation. For City Developments, we expect earnings recovery in 2022 to come from a rebound in the hospitality segment and healthy locked-in sales of its residential projects.

Figure 22: Singapore – resilient earnings growth (1)

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
City Developments	4,644	Buy	9.75	33.2	Dec-22	16.9	14.5	0.8	0.8	2.5	2.7	na	11.6	4.6	5.3
Kimly	291	Buy	0.46	37.3	Sep-22	9.1	7.7	2.6	2.3	6.6	7.8	7.7	11.0	30.3	31.8
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	17.4	16.9	5.5	5.0	4.0	4.2	6.6	6.5	33.1	31.1
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	17.8	15.8	4.0	3.7	5.7	4.0	0.2	1.4	24.7	24.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 23: Singapore – resilient earnings growth (2)

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**	**2FY**	**1M**	**3M**	**1M**	**YTD**
City Developments	4,644	Buy	9.75	33.2	Dec-22	302.3	17.2	50.0	11.1	12.1	12.8	1.1	1.1	-10.4	10.3
Kimly Ltd	291	Buy	0.46	37.3	Sep-22	9.8	18.7	57.6	18.7	17.2	17.2	0.3	0.2	-5.6	-19.3
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	5.8	3.4	5.8	3.4	9.7	9.6	-0.5	-0.6	3.2	11.6
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	-4.5	13.1	19.1	-30.1	6.2	6.5	2.3	2.3	-15.4	-17.0

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Riding the rising interest rate cycle

In a context of rising interest rates and inflation, the banking sector offers intriguing options. The disparity between rates on loans and deposits allows banks to make money, and stronger nominal GDP growth may also result in an increase in credit card and transaction fees. The main area of optimism for Singaporean banks will be the NIM expansion as a result of the US Fed's aggressive rate hikes. Even while waning investor confidence is starting to reduce credit demand, this should offer some relief. In 2H22, non-II is anticipated to stay soft, as fees from loans and trade flows reflect the reduction in credit growth and the income from volatile capital markets affects wealth management.

Banks are actively repricing loans, and NIM is probably going to improve. This should provide some comfort even as declining investor confidence is starting to lower lending demand. According to banks' forecasts, every 25bps increase in interest rates would increase FY22F NIM for DBS by 7-8 bps, OCBC Bank (OCBC) by 4-5 bps, and United Overseas Bank by 3-4 bps (UOB).

This would result in a 5% increase in DBS' earnings and a 3% increase for OCBC and UOB. DBS and OCBC are still trading at modest valuation levels, and are well supported by their respective FY22F dividend yields of 4.5% and 5.0%. DBS and OCBC are our Top Picks, while we rate SG Banks as OVERWEIGHT.

Figure 24: Singapore – riding the rising interest rate cycle (1)

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
DBS Group	58,314	Buy	37.60	16.1	Dec-22	10.1	9.1	1.4	1.3	4.5	5.0	na	na	14.2	15.0
OCBC	36,246	Buy	13.90	20.6	Dec-22	9.3	7.9	0.9	0.9	5.0	5.5	na	na	10.3	11.4

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 25: Singapore – riding the rising interest rate cycle (2)

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**	**2FY**	**1M**	**3M**	**1M**	**YTD**
DBS Group	58,314	Buy	37.60	16.1	Dec-22	20.5	11.6	22.5	10.2	na	na	na	na	-3.4	-0.8
OCBC	36,246	Buy	13.90	20.6	Dec-22	13.6	17.7	9.2	8.6	na	na	na	na	-6.6	1.1

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Continued selective exposure to economic reopening plays

Singapore has started living with treating COVID-19 as an endemic. The country has taken a significant step to reduce domestic and international COVID-19 related restrictions, which has coincided with the wider regional reopening of ASEAN. On the strength of a pick-up in travel, service sectors like hotel, food and beverage, aviation, healthcare, and tourism-related services industries have started to rebound robustly. By the end of 2024, International Air Transport Association (IATA) expects aviation travel to have reached pre-pandemic levels, once China and Japan have both opened their borders. As a result, there is still plenty of room for the recovery to continue.

Within our coverage, Centurion Corp, ComfortDelGro, HRnetGroup, Raffles Medical and SingTel should be the key beneficiaries of this theme.

Centurion Corp should benefit from increased demand for worker accommodations as construction activities have now resumed. HRnetGroup should be able to ride on growth in hiring volumes and salaries. Raffles Medical should benefit from the return of elective procedures and pent-up demand from medical tourism. ComfortDelGro should see sustained earnings recovery amid the normalisation of Singapore rail and taxi businesses operations, while the resumption of international travel should drive a recovery in roaming revenue and sale of starter packs for Singtel.

Figure 26: Singapore – economic reopening/recovery plays (1)

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
Centurion Corp	209	Buy	0.51	43.7	Dec-22	5.3	5.0	0.4	0.4	5.6	5.6	11.1	15.7	10.2	8.8
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	14.3	12.8	1.0	1.0	4.0	3.9	16.7	9.5	7.1	7.6
HRnetGroup	500	Buy	1.01	41.3	Dec-22	9.9	9.5	1.8	1.6	6.1	6.3	10.0	11.3	18.8	18.1
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
SingTel	27,483	Buy	3.55	49.2	Mar-23	14.9	13.2	1.3	1.3	5.2	5.2	11.4	13.5	8.9	9.7

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 27: Singapore – economic reopening/recovery plays (2)

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**	**2FY**	**1M**	**3M**	**1M**	**YTD**
Centurion Corp	209	Buy	0.51	43.7	Dec-22	32.8	4.8	91.7	0.0	32.6	33.1	0.9	0.8	-9.0	7.6
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	24.6	11.0	20.9	-2.6	5.1	5.4	-0.3	-0.4	-9.9	-9.3
HRnetGroup	500	Buy	1.01	41.3	Dec-22	10.6	4.4	74.6	4.4	11.2	11.2	-0.9	-0.9	-8.3	-11.2
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
SingTel	27,483	Buy	3.55	49.2	Mar-23	32.6	12.9	29.0	0.0	15.8	17.3	0.4	0.3	-10.9	2.6

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Selectively positive on industrial and office REITs

Despite rising macroeconomic risks and inflationary pressures, we expect S-REITs to register positive DPU growth in 2022. Key catalysts:

i. We expect DPU growth (for stocks under coverage) at 4.9% and 3.0% for 2022-2023 on the back of positive economic growth;

ii. Valuations are looking attractive, with 13 out of the 14 REITs under our coverage trading below book value, while all REITs are now offering >6% yields;

iii. Singapore's growing status as an Asian financial hub, with a good number of sovereign and pension funds as well as family offices of high net worth individuals (HNI) setting up regional offices.

The key risk remains the economy tipping into a deep recession and persistent inflationary pressures (our base case assumption remains that there is no recession in 2022-2023 for Singapore).

Prefer industrial and office REITs. Industrial demand remains strong, mitigating supply concerns. We expect industrial rental rates to continue rising, while occupancy rates are expected to remain relatively flattish. Among the sub-sectors, we like logistics, hi-tech, and good-quality business parks, as these sectors continue to benefit from changing market dynamics brought about by COVID-19 and the Government's longer-term push to transform Singapore into a smart nation. We expect overall office rental rates to rise up to 5% in 2022 and occupancy levels to remain stable. Despite the positive rental outlook and external factors supporting Singapore's office market, office REITs have been trading at a discount to book value – which are a sharp contrast to transactions in the market. We believe this is mainly due to investor concerns on the impact arising from interest rates and uncertainty over the long-term office demand outlook due to prevailing work-from-home (WFH) trends. We remain relatively more bullish in our outlook for long-term office demand.

Our preferred exposure in the S-REITs sector are AIMS APAC REIT, CapitaLand Ascendas REIT, ESR-LOGOS REIT and Suntec REIT.

Figure 28: Singapore – REIT picks (1)

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	8.7	8.9	0.8	0.8	8.6	8.9	12.6	13.1	9.2	8.8
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	13.5	17.5	1.0	1.0	6.5	6.7	10.8	11.1	7.7	6.0
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	na	9.4	0.7	0.9	9.4	9.5	15.9	13.8	-14.1	9.3
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	13.2	14.7	0.7	0.7	6.4	6.5	5.9	6.1	5.0	4.5

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 29: Singapore – REIT picks (2)

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	(USDm)	Rating	TP	down. (%)	year	1FY	2FY	1FY	1FY	1FY	2FY	1M	3M	1M	YTD
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	-10.8	-2.3	2.8	3.7	56.3	53.7	0.8	0.8	-15.7	-22.1
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	-20.9	-22.6	5.8	3.1	57.3	43.7	0.6	0.6	-11.8	-16.3
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	-308.9	na	0.6	2.0	-85.3	55.3	0.9	0.9	-20.0	-33.3
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	-38.9	-10.3	3.2	1.9	76.9	65.6	0.8	0.7	-13.7	-7.9

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Sector Outlook, Rating & Preferred Picks

Figure 30: Sector outlook, rating and preferred picks

Sector	Rating	2H22 sector outlook	Preferred picks
Consumer	O/W	Singapore's shift to living with COVID-19 should sustain the economy and consumer spending recovery, notwithstanding the threat of new variants emerging. Inflation remains a relevant concern and risk to consumer spending, but MAS' proactive stance in managing inflation alongside the economic recovery should mitigate some of the impact. That said, consumers tend to reduce their discretionary spending in an inflationary environment, but the demand for consumer staples and necessities should be relatively stable.	Kimly, Sheng Siong
Financials	O/W	NIM expansion on the back of aggressive rate hikes by the US Fed will be the key bright spot for Singapore banks. This should provide some reprieve even as weakening investor sentiment is beginning to dampen loan demand. Non-II is expected to remain soft in 2H22, with fees from loans and trade flows reflecting the moderation in credit growth, while volatile capital markets would impact wealth management income. We expect asset quality to hold up as we believe most borrowers are having better balance sheets compared to two years ago.	DBS, OCBC
Food Products (Plantations)	N	CPO prices have recovered somewhat from its lows, although it is still being held hostage by Indonesia's export policies in the short term. Nevertheless, we believe supply risks remain, which could bolster prices in the medium term in the form of: i) Fertiliser availability from Russia and Belarus – which would affect the planting season in South America in November/December; ii) labour shortages in Malaysia; and iii) *La Nina* – which is expected to last until 1Q23. Demand is also returning, given the significant discount CPO is trading at vs SBO and to gasoil. We prefer the integrated players which would be able to withstand a lower CPO price environment better than the purer planters.	Wilmar
Healthcare	N	We anticipate that Singapore's healthcare service providers will profit from the resurgence of elective treatments and pent-up demand from medical tourism. We think that because healthcare is a necessary service, it will be able to absorb most of the cost inflation. Given the modest gearing levels, we do not anticipate a significant impact from an increase in interest rates.	Raffles Medical
Real estate	N	The Government's latest measures mainly target the high-end Housing and Development Board (HDB) resale market, while ensuring prudence in property purchases by adjusting mortgage ratios. We see the policy changes as more light touch and targeted in nature, slowing down transaction volumes (HDB resale in particular) with a marginal impact on property prices. New home sales for the full year are likely to come in at the lower end of our estimate of 8,000-9,000 units. Overall resale transactions are expected to decline by 15-20% with a sharp slowdown of HDB resale transactions in 4Q22. Our pricing forecasts are unchanged, at +4% to +6% for 2022 and -2% to +2% for 2023. Key factors underpinning resilient property market are: i) A stable job market and wage growth; ii) limited inventory levels and supply; and iii) Singapore's stature as a regional and global financial hub. Key risks include recessionary risks, a continued sharp spike in interest rates, and further cooling measures.	City Developments, Centurion Corp
Hospitality REITs	N	Hospitality REITs have retreated since September, amid increasing recession fears. While the near-term outlook remains positive, concerns are mounting over the medium term from a sharp economic slowdown and the sustainability of pent-up demand. Valuations, however, are now at more reasonable levels but a dimming macroeconomic outlook limits any upside. With increasing inflationary pressures and recessionary risk, we believe there is a possibility of some of the hospitality demand slowing down post the initial surge from the lockdown. As such, hospitality stocks are likely be more range-bound in the near term, with risks tilted towards the downside.	CDL Hospitality Trusts
Industrial REITs	O/W	Industrial demand remains strong, mitigating supply concerns. We expect industrial rents to continue to rise while occupancy is expected to remain relatively flattish. Among the sub-sectors, we like logistics, hi-tech, and good=quality business parks, as these sectors continue to benefit from changing market dynamics brought about by COVID-19 and the Government's longer-term push to transform Singapore into a smart nation.	CapitaLand Ascendas REIT, ESR-LOGOS REIT

Source: Company data, RHB

Figure 31: Sector outlook, rating and preferred picks (continued)

Sector	Rating	2H22 sector outlook	Preferred picks
Office REITs	O/W	We expect overall office rental rates to rise up to 5% in 2022 and occupancy levels to remain stable. Despite the positive rental outlook and external factors supporting Singapore's office market, office S-REIT stocks have been trading at a discount to book value – a sharp contrast to transactions in the market. We believe this is mainly due to investor concerns on the impact arising from interest rates and uncertainty over long-term office demand outlook from work-from-home (WFH) trends. We remain relatively more bullish on long-term office demand outlook.	Suntec REIT, Keppel REIT
Overseas REITs	O/W	The sharp correction in US office REITs in 1H22 has resulted in these REITs trading at attractive valuations of >30% discounts to book value and forward dividend yields averaging 12%. This, in our view, has priced in most of the current market uncertainty. Our base case at this juncture is that the US economy is unlikely to tip into a severe recession, and interest rate hikes are nearing the peak of the cycle. Based on the above view, we believe US office REITs are nearing the bottom of the current market cycle.	Prime US REIT, Keppel Pacific Oak US REIT
Retail REITs	N	For 2022, we expect landlords to remain focused on maintaining high occupancy rates in the shopping malls, while remaining flexible on rental structures. Overall, we expect the island-wide vacancy to remain stable at 8-9% in 2022. In terms of retail rental, we expect overall rates to be relatively flattish at -2% to +2%. We continue to maintain our NEUTRAL view on the sector as recovery remains clouded by risks from rising inflation, manpower constrains, and e-commerce. We expect retail REITs' share price to see more of a sideways movement.	Frasers Centrepoint Trust, Starhill Global REIT
Telecom	N	We see the recovery in roaming and prepaid revenues fuelling a stronger rebound in industry mobile service revenue in 2H22. Higher adoption of 5G services with coverage on track to reach island-wide by year-end (3 years ahead the mandated requirement of the regulator) should also buffer the impact on ARPU from competition within the SIM-only market. Higher enterprise digitalisation projects from both the private and public sector will catalyse stronger enterprise revenue growth with the telcos capitalising on the string of M&As executed across the Asia-Pacific region over the past 12-18 months.	Singtel
Transport & Industrials	O/W	With the re-opening in Singapore in full swing, we expect land transport operators like ComfortDelGro to benefit from higher demand for its taxi services and higher traffic for its rail business. This should offset some impact of higher energy costs for its rail business. Net cash position for transport players is also a positive in rising interest rate environment. ST Engineering's defensive growth should continue to attract investor interest. While its high gearing will be impacted by rising interest rates, we believe some of the impact should be mitigated by strong cash flow generation ability.	ComfortDelGro, ST Engineering

Source: Company data, RHB

Figure 32: Summary of our sector weightings

Overweight	Neutral
Consumer	Food products (plantations)
Financials	Healthcare
Industrials	Real estate
REITs	Telecom & Media
Transport	

Source: RHB

Figure 33: Summary of preferred stocks across sectors

Sector	Most preferred
Consumer	KMLY, SSG
Financials	DBS, OCBC
Food products	WIL
Healthcare	RFMD
Industrials	HRNET, STE
Real estate	CENT, CIT
REIT	AAREIT, CAREIT, EREIT, SUN
Telecom & media	ST
Transport	CD

Source: RHB

Figure 34: Sector valuation comparison (1)

		P/E (x)		P/BV (x)		Dividend Yield (%)		FCF Yield (%)		ROE (%)	
Sector name	**Rating**	**2022**	**2023**	**2022**	**2022**	**2023**	**2022**	**2023**	**2023**	**2022**	**2023**
Consumer	OW	22.0	12.9	2.6	2.4	3.6	4.6	5.6	8.4	17.3	19.0
Financials	OW	10.4	9.1	1.4	1.3	4.7	5.2	3.3	5.4	12.7	13.7
Food Products	N	7.2	7.6	0.8	0.7	4.4	3.9	29.4	15.9	13.7	11.5
Healthcare	N	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
Industrials	OW	17.3	15.3	3.9	3.5	5.8	4.2	0.9	2.0	24.3	23.7
Real estate	N	16.2	13.9	0.8	0.7	2.8	3.0	12.5	11.9	5.1	5.6
REIT	OW	12.8	13.4	0.8	0.8	7.2	7.4	9.3	9.7	5.5	6.4
Telecom & Media	N	14.9	13.2	1.4	1.3	5.2	5.2	12.0	14.8	9.4	10.2
Transport	OW	13.3	11.8	0.9	0.9	3.7	3.7	18.5	9.5	6.7	7.4

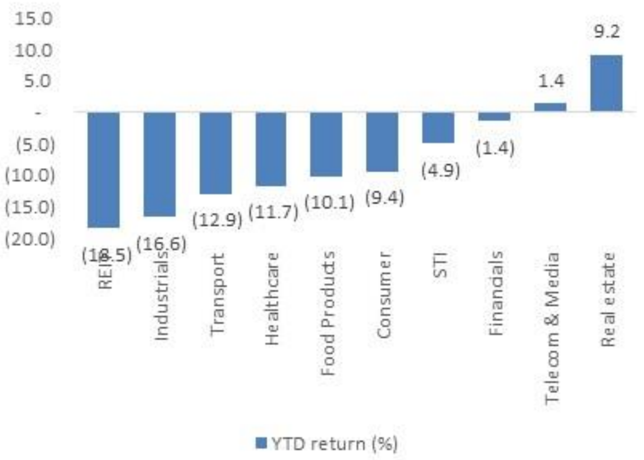
Note: Prices are as at 21 Oct 2022. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 35: Sector valuation comparison (2) and returns

		EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Sector name	**Rating**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**1M**	**3M**	**1M**	**YTD**
Consumer	OW	5.8	64.8	3.4	62.2	8.4	8.9	0.7	0.5	-9.7	-13.8
Financials	OW	13.7	14.9	13.4	9.7	38.2	38.6	-0.6	-0.7	-5.4	-1.4
Food Products	N	23.3	-6.8	21.3	-6.6	5.9	5.3	0.9	0.8	-8.8	-10.1
Healthcare	N	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
Industrials	OW	-3.5	12.5	22.9	-27.8	6.5	6.8	2.1	2.1	-15.0	-16.6
Real estate	N	282.5	15.9	49.5	10.1	12.8	13.4	1.0	1.0	-10.5	9.2
REIT	OW	-26.9	-3.6	4.8	2.2	58.4	62.5	0.6	0.6	-15.2	-18.5
Telecom & Media	N	30.3	13.1	26.8	0.0	15.4	16.8	0.4	0.4	-11.0	1.4
Transport	OW	23.0	14.5	12.6	0.7	4.2	4.6	-0.4	-0.4	-11.4	-12.9

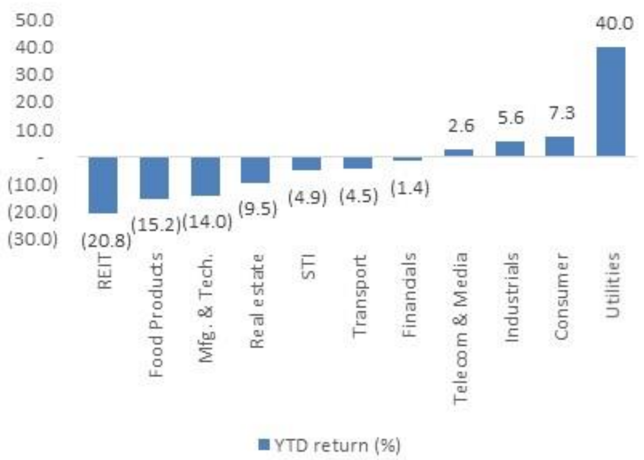
Note: Prices are as at 21 Oct 2022. Market cap weighted-averages for stocks under RHB's coverage
Source: Bloomberg, RHB

Figure 36: YTD sector performance – stocks under RHB's coverage



Note: As at 21 Oct 2022
Source: Bloomberg

Figure 37: YTD sector performance for components of the STI



Note: As at 21 Oct 2022
Source: Bloomberg

Stock Picks

Figure 38: Singapore – valuation comparison (1) for large-cap picks

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	13.5	17.5	1.0	1.0	6.5	6.7	10.8	11.1	7.7	6.0
City Developments	4,644	Buy	9.75	33.2	Dec-22	16.9	14.5	0.8	0.8	2.5	2.7	na	11.6	4.6	5.3
DBS Group	58,314	Buy	37.60	16.1	Dec-22	10.1	9.1	1.4	1.3	4.5	5.0	na	na	14.2	15.0
OCBC	36,246	Buy	13.90	20.6	Dec-22	9.3	7.9	0.9	0.9	5.0	5.5	na	na	10.3	11.4
SingTel	27,483	Buy	3.55	49.2	Mar-23	14.9	13.2	1.3	1.3	5.2	5.2	11.4	13.5	8.9	9.7
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	17.8	15.8	4.0	3.7	5.7	4.0	0.2	1.4	24.7	24.2

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 39: Singapore – valuation comparison (2) and returns for large-cap picks

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**	**2FY**	**1M**	**3M**	**1M**	**YTD**
CapitaLand Ascendas	7,259	Buy	3.60	45.9	Dec-22	-20.9	-22.6	5.8	3.1	57.3	43.7	0.6	0.6	-11.8	-16.3
City Developments	4,644	Buy	9.75	33.2	Dec-22	302.3	17.2	50.0	11.1	12.1	12.8	1.1	1.1	-10.4	10.3
DBS Group	58,314	Buy	37.60	16.1	Dec-22	20.5	11.6	22.5	10.2	na	na	na	na	-3.4	-0.8
OCBC	36,246	Buy	13.90	20.6	Dec-22	13.6	17.7	9.2	8.6	na	na	na	na	-6.6	1.1
SingTel	27,483	Buy	3.55	49.2	Mar-23	32.6	12.9	29.0	0.0	15.8	17.3	0.4	0.3	-10.9	2.6
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	-4.5	13.1	19.1	-30.1	6.2	6.5	2.3	2.3	-15.4	-17.0

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 40: Singapore – valuation comps (1) for mid- to small-cap picks

	M Cap			Upside/	1FY	P/E (x)		P/BV (x)		Div Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	8.7	8.9	0.8	0.8	8.6	8.9	12.6	13.1	9.2	8.8
Centurion Corp	209	Buy	0.51	43.7	Dec-22	5.3	5.0	0.4	0.4	5.6	5.6	11.1	15.7	10.2	8.8
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	14.3	12.8	1.0	1.0	4.0	3.9	16.7	9.5	7.1	7.6
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	na	9.4	0.7	0.9	9.4	9.5	15.9	13.8	-14.1	9.3
HRnet Group	500	Buy	1.01	41.3	Dec-22	9.9	9.5	1.8	1.6	6.1	6.3	10.0	11.3	18.8	18.1
Kimly	291	Buy	0.46	37.3	Sep-22	9.1	7.7	2.6	2.3	6.6	7.8	7.7	11.0	30.3	31.8
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	17.4	16.9	5.5	5.0	4.0	4.2	6.6	6.5	33.1	31.1
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	13.2	14.7	0.7	0.7	6.4	6.5	5.9	6.1	5.0	4.5

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 41: Singapore – valuation comps (2) and returns for mid- to small-cap picks

	M Cap			Upside/	1FY	EPS Growth (%)		DPS Growth (%)		Net margin (%)		Net debt/Equity (x)		Returns (%)	
Company name	**(USDm)**	**Rating**	**TP**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**	**2FY**	**1M**	**3M**	**1M**	**YTD**
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	-10.8	-2.3	2.8	3.7	56.3	53.7	0.8	0.8	-15.7	-22.1
Centurion Corp	209	Buy	0.51	43.7	Dec-22	32.8	4.8	91.7	0.0	32.6	33.1	0.9	0.8	-9.0	7.6
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	24.6	11.0	20.9	-2.6	5.1	5.4	-0.3	-0.4	-9.9	-9.3
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	-308.9	na	0.6	2.0	-85.3	55.3	0.9	0.9	-20.0	-33.3
HRnet Group	500	Buy	1.01	41.3	Dec-22	10.6	4.4	74.6	4.4	11.2	11.2	-0.9	-0.9	-8.3	-11.2
Kimly	291	Buy	0.46	37.3	Sep-22	9.8	18.7	57.6	18.7	17.2	17.2	0.3	0.2	-5.6	-19.3
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	5.8	3.4	5.8	3.4	9.7	9.6	-0.5	-0.6	3.2	11.6
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	-38.9	-10.3	3.2	1.9	76.9	65.6	0.8	0.7	-13.7	-7.9

Note: Prices are as at 21 Oct 2022.
Source: Bloomberg, RHB

Figure 42: Investment theses for our stock picks

Stock	Investment thesis
AIMS APAC REIT (AAREIT SP)	• High-quality industrial portfolio, with a focus on logistic assets, which has been in demand amongst investors post COVID-19 • Earnings recovery will be driven by acquisitions, improved occupancy rates and rental increases • Untapped potential to enhance portfolio value from asset enhancements • Could be a medium-term M&A candidate
CapitaLand Ascendas REIT (CAREIT SP)	• Largest industrial REIT with diversified exposure to business parks, logistics and hi-tech industrial spaces • Organic growth from asset redevelopments, higher occupancy rates, and rental improvement • Backed by a strong and experienced sponsor
Centurion Corp (CENT SP)	• Resumption in construction activities should lead to increased demand for worker accommodations • Witnessing a rapid recovery in its workers and student accommodation businesses • Expect a potential rise in its rental prices to mitigate the rise in operational costs • Trading at a c.50% discount to NAV, and offering a 5% dividend yield
City Developments (CIT SP)	• Earnings recovery in 2022 from a rebound in the hospitality segment and healthy locked-in sales of its residential projects • Potential to recycle investment assets and unlock value through divestments, private funds or REITs • Trading at an attractive valuation of more than 50% discount to its RNAV
ComfortDelGro (CD SP)	• Sustained earnings recovery amid normalisation of Singapore rail and taxi businesses operations • Improvement in earnings contributions from the UK and Australian businesses • Valuation is compelling amid strong YoY earnings growth and strong improvements in ROE • Risk of slower-than-estimated earnings from the UK if Europe and/or the UK enters into a recession
DBS Group (DBS SP)	• DBS has the highest sensitivity to interest rate movements, with a 25bps hike boosting annual earnings by 5% • Some macroeconomic headwinds for topline growth, but lower provisions would provide uplift to bottomline • Its digital capabilities and new regional growth platforms support richer valuations
ESR-LOGOS REIT (EREIT SP)	• Good proxy to Singapore's industrial sector, with a diverse presence across the island • Balanced exposure to business parks/hi-tech/logistics segments, which continue to do well • Strong and capable sponsor backing (ESR) and attractive valuation
HRnet Group (HRNET SP)	• Enjoyed continued rebound in hiring space due to continued economic recovery and growth • Attractive dividend yields of +5% • The stock is trading at valuations lower than the global peer average
Kimly (KMLY SP)	• Operates coffee shops - preferred cheaper alternative for meals amidst high inflation • Has the ability to pass on the rise in costs by increasing rental rates • Singapore's economic reopening should be positive for its recently acquired Tenderfresh business
OCBC (OCBC SP)	• CET-1 ratio of 15.2% is strongest among peers and above optimal levels of 12.5%-13.5%, providing headroom for better dividend payouts in the future • Resilient asset quality, with GIL ratio at 1.4% in Mar 2022 and coverage at a comfortable 91%. Credit cost a low 6bps, but management is sticking with the conservative credit cost of 20-25bps • Leadership in wealth management, a good source of recurring fee income
Raffles Medical (RFMD SP)	• Singapore hospital and healthcare operations gradually reverting to normal will help offset some decline in COVID-19 related revenue and eventually drive growth in 2023 and beyond • China, which accounts for c.7% of RFMD's revenue, should also see higher revenue beyond 2023 • A net cash position should enable Raffles Medical to look at inorganic growth opportunities • RFMD's 2023F P/E and EV/EBITDA are below its peer average
Sheng Siong (SSG SP)	• Defensive business model with the ability to preserve margins by passing on higher costs to consumers • Growth will come from consumers seeking cheaper options amidst rising inflation and from normalisation of revenge spending • Generates strong cash flow and has a net cash balance sheet
SingTel (ST SP)	• The resumption of international travel should drive a recovery in roaming revenue and sale of starter packs • ARPU uplift to come from stronger 5G adoption • Positive execution of strategic business reset (ie regionalisation of enterprise/B2B businesses & value unlocking of strategic infrastructure assets)
ST Engineering (STE SP)	• Sustained recovery in earnings over 2022, driven by gradual improvement in Commercial Aerospace • STE could sustain our forecasted profit CAGR of c.7% beyond 2023 if it delivers on its new 2026 targets • Defensive business model that will allow STE to sustain YoY higher dividends amid resilient earnings, robust balance sheet, and positive FCF generation
Suntec REIT (SUN SP)	• Sustained rebound in earnings from the relaxation of COVID-19 restrictions and acquisition contributions mitigates rising interest rates impact • Office portfolio valuation has remained resilient; Suntec City Mall should benefit from the crowds returning to the office. Strong demand for Suntec City Convention Centre • Attractive valuation at 15% discount to book value, and offering a 5% yield

Source: Company data, RHB

Key Risks

Higher-than-expected commodity prices, especially that of oil

We think that higher-than-anticipated commodity prices, particularly that of oil, could stall the economy's tentative recovery. Higher domestic prices will eventually result from the increase in oil prices, which may have an effect on inflation and consumption. The RHB Economics & Market Strategy team has long believed that as global development slows and sanctions against Russia regarding its supplies of oil and agricultural commodities would continue to be ineffective, the price of food and oil will continue to fall. As such, we remain short oil with Brent oil USD70-80 per barrel coming in 2023F (vs around USD100 per barrel in 2022F on an average basis). The recent production cut by OPEC+ does not alter our oil price view, since we expect continued US SPR releases in the next few quarters in instances where Brent oil prices upward momentum is strong and breaches above USD100 per barrel.

Rapid rise in inflation and higher-than-expected rise in interest rates

Companies will have to deal with high material, energy, and labour costs as well as rising rental rates in an inflationary environment. Our full-year CPI estimate would be more vulnerable to unexpectedly rising geopolitical tensions and/or deteriorating supply chain disruptions. A persistently high rate of inflation will persuade the US Fed to keep its aggressive approach on monetary policy. Long-term supply chain interruptions, labour availability, and inventory shortages might all increase inflationary pressures. The US Fed was behind the curve on inflation, but overly aggressive changes to the monetary policy and efforts to normalise its balance sheet (quantitative tightening) might result in tighter liquidity, driving up bond yields and destabilising equity markets. Additionally, this will put the world economy in danger and increase the likelihood of a stagflation or recession.

Risk of sustained slowdown in China's economic growth

For the near-term prospects of the Chinese and regional economy, the recent indications that China will maintain its zero-COVID posture continues to be a significant risk. Our 2022 GDP growth projection by the RHB Economics & Market Strategy team was reduced from 4% to 3.0% YoY a few weeks ago, but the 2023 forecast was left unchanged at 4%. The intermittent lockdowns in China are affecting both domestic and international supply lines and hampering economic activity. Recent government figures indicate that the real estate market is still slowing down.

Rising geopolitical risks

Beyond trade and technology issues, a worsening of US-China ties might have significant repercussions on international trade relations and geopolitical stability. The South China Sea, commerce, technology, Taiwan, Hong Kong, Xinjiang, and Tibet are just a few of the many issues that have caused tensions between the two sides. Investor may become more wary as the US-China relationship changes. Should relations deteriorate, businesses might decide to postpone their investment plans.

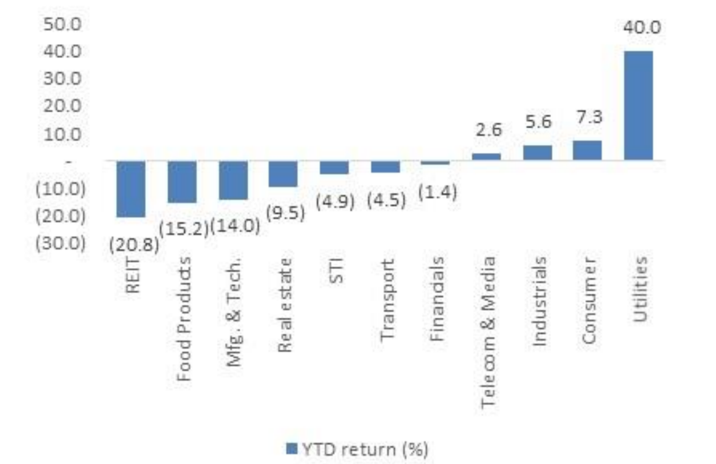
The prolonged conflict in Ukraine could progressively erode Europe's budgetary viability. With the record-high natural gas prices caused by the Ukraine conflict and widespread droughts that are having an impact on hydroelectric energy output, the continent is currently experiencing an energy crisis. Governments in Europe are being forced to spend more money to protect consumers and businesses from rising fuel and electricity costs and to speed up the development of renewable energy sources. Amid heightened geopolitical tensions, Europe is likewise approaching an era of significantly increased defense spending. Public finances will be more strained as a result.

STI Target Of 3,200pts For End-2022

Remain constructive on STI outperforming most regional markets

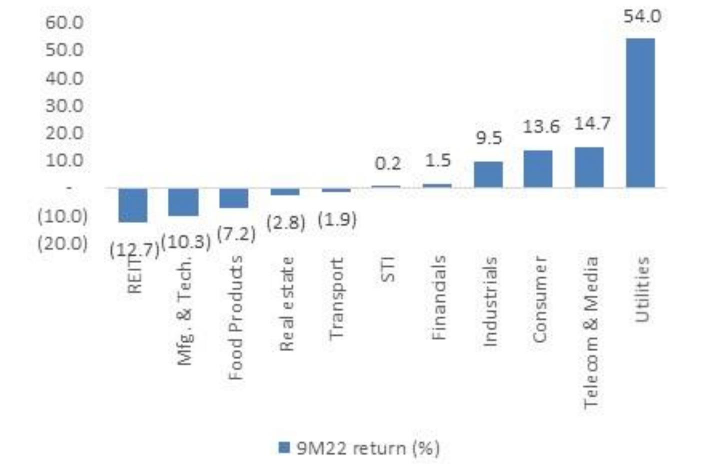
The STI is now trading below 10.5x (-2SD) 12-month forward P/E as investors question the sustainability of positive earnings revisions and the EPS growth of 13% in 2023F, especially in an environment of rapidly decelerating economic growth. Our end-2022 STI target of 3,200pts (from 3,380pts) offers a c.8% upside from the 21 Oct close of 2,970 pts. This is based on 11.75x 2022F P/E (from 12.5x 2022F P/E), which lies between the -1SD and -2SD from its forward P/E mean since Jan 2008. We believe our target P/E, well below its historical average, now reflects the rising risks of a favourable operating environment ahead. While we still remain constructive on the STI outperforming most regional markets, any upward move for the index will be a slow grind as investors assess the impact of rising inflation, rising interest rates, and slowing economic growth.

Figure 43: YTD sector performance for components of STI



Note: As at 21 Oct 2022
Source: Bloomberg

Figure 44: 9M22 sector performance for components of STI



Note: As at 30 Sep 2022
Source: Bloomberg

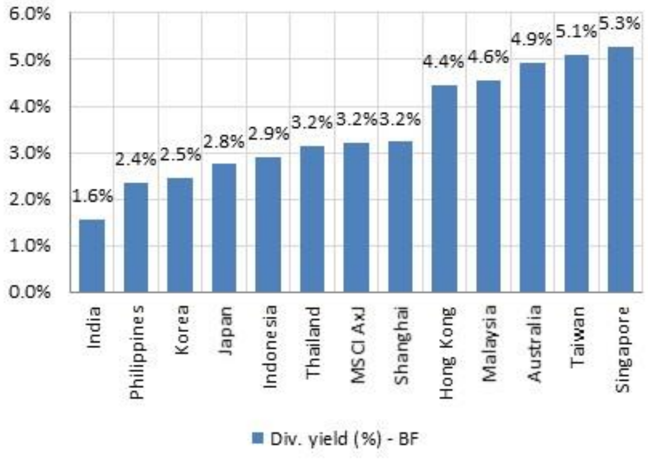
The reopening of Singapore and the regional (ASEAN) economies, along with the safe haven status of Singapore as a country and its currency, has led to the STI becoming the most defensive developed economy benchmark in Asia this year. Among the emerging Asia economies, India and Indonesia have delivered positive returns in local currency terms and have outperformed the STI (Figure 54). The STI's 10x 2FY P/E is well below its historical P/E, and the lowest amongst the ASEAN equity indices (Figure). Its blended forward yield of 5.3% is still amongst the highest in Asia (Figure 45).

Figure 45: Valuation comparison for regional indices

	P/E		Dividend yield		P/BV		ROE	
	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Developed Asia								
Australia	12.8	12.7	4.9	4.9	1.8	1.7	14.9	13.9
Hong Kong	9.1	7.9	4.1	4.4	0.9	0.9	11.3	11.1
Japan	11.9	11.5	2.6	2.8	1.1	1.1	9.0	8.9
Korea	9.9	9.7	2.3	2.5	0.9	0.8	6.5	8.7
Singapore	**11.3**	**10.0**	**4.8**	**5.3**	**1.0**	**0.9**	**9.1**	**9.9**
Taiwan	9.1	10.3	5.6	5.1	1.7	1.6	22.4	18.7
Emerging Asia								
India	21.4	18.6	1.4	1.6	3.1	2.8	15.6	15.6
Indonesia	15.2	15.1	2.5	2.9	2.0	1.8	-9.1	-8.2
Malaysia	14.1	12.6	4.2	4.6	1.4	1.3	10.3	11.1
Philippines	14.2	12.4	2.3	2.4	1.5	1.4	8.5	9.4
Shanghai	10.8	9.4	3.0	3.2	1.2	1.1	11.0	10.8
Thailand	15.1	14.4	2.9	3.2	1.6	1.5	8.9	9.2
MSCI APxJ	**11.9**	**11.2**	**3.4**	**3.5**	**1.4**	**1.3**	**11.7**	**11.4**

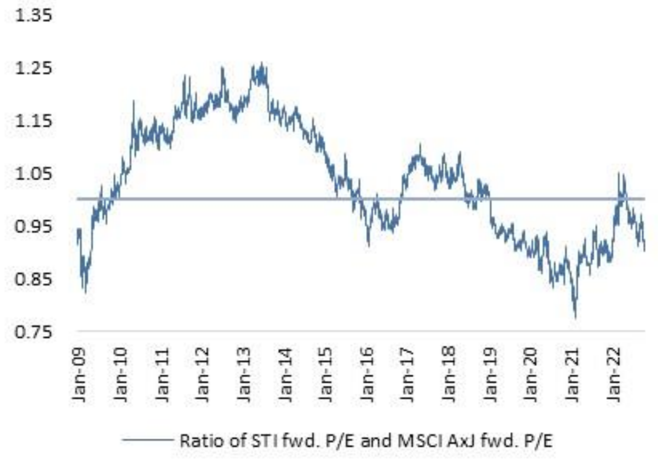
Note: As at 21 Oct 2022
Source: Bloomberg

Figure 46: The STI is the top-yielding market in Asia



Note: As at 21 Oct 2022
Source: Bloomberg

Figure 47: Amidst a recent correction, the STI's P/E has now dropped to a discount vs the Asia ex-Japan average



Note: As at 21 Oct 2022
Source: Bloomberg

Figure 48: The STI's forward consensus P/E

Note: As at 21 Oct 2022
Source: Bloomberg

Figure 49: STI's forward consensus P/BV

Note: As at 21 Oct 2022
Source: Bloomberg

Valuations Of Stocks Under RHB's Coverage

Figure 50: RHB's coverage universe (by sector)

	M Cap		Target	Upside/	1FY	P/E (x)		P/BV (x)		Div. Yield (%)		FCF Yield (%)		ROE (%)	
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**
Dairy Farm	2,896	Neutral	2.71	26.5	Dec-22	58.5	14.2	2.4	2.2	1.4	5.6	1.2	9.1	4.0	16.3
Food Empire	189	Buy	0.95	88.1	Dec-22	5.2	4.9	0.7	0.7	4.0	4.3	7.0	14.7	15.1	14.4
Japan Foods	49	Buy	0.55	35.1	Mar-23	19.8	15.9	2.2	2.1	5.8	5.0	1.7	4.8	11.0	13.6
Kimly Ltd	291	Buy	0.46	37.3	Sep-22	9.1	7.7	2.6	2.3	6.6	7.8	7.7	11.0	30.3	31.8
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	17.4	16.9	5.5	5.0	4.0	4.2	6.6	6.5	33.1	31.1
Thai Beverage	9,929	Buy	0.97	71.1	Sep-22	12.8	12.1	2.2	2.0	4.1	4.3	6.6	8.4	18.2	17.4
Consumer	**15,069**					**22.0**	**12.9**	**2.6**	**2.4**	**3.6**	**4.6**	**5.6**	**8.4**	**17.3**	**19.0**
DBS Group	58,314	Buy	37.60	16.1	Dec-22	10.1	9.1	1.4	1.3	4.5	5.0	na	na	14.2	15.0
OCBC	36,246	Buy	13.90	20.6	Dec-22	9.3	7.9	0.9	0.9	5.0	5.5	na	na	10.3	11.4
Singapore Exchange	6,135	Neutral	9.00	9.8	Jun-23	20.5	19.3	5.4	5.0	3.9	3.9	3.3	5.4	26.9	26.8
UOB	30,446	Neutral	29.30	12.7	Dec-22	10.2	8.5	1.0	0.9	4.8	5.4	na	na	9.9	11.3
Financials	**131,141**					**10.4**	**9.1**	**1.4**	**1.3**	**4.7**	**5.2**	**3.3**	**5.4**	**12.7**	**13.7**
Bumitama Agri	710	Buy	0.80	36.4	Dec-22	2.8	4.9	0.9	0.8	14.2	8.3	33.3	16.5	34.5	17.1
First Resources	1,603	Neutral	1.50	2.5	Dec-22	5.8	6.9	1.2	1.1	6.0	5.1	19.6	14.8	21.9	16.9
Golden Agri	2,440	Neutral	0.30	7.6	Dec-22	3.7	6.0	0.5	0.4	5.7	3.5	34.8	25.9	29.5	22.3
Wilmar	15,325	Buy	4.95	41.2	Dec-22	8.1	8.0	0.7	0.7	3.5	3.6	na	14.4	9.4	9.0
Food Products	**20,078**					**7.2**	**7.6**	**0.8**	**0.7**	**4.4**	**3.9**	**29.4**	**15.9**	**13.7**	**11.5**
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	25.9	26.6	2.4	2.3	2.2	1.9	4.0	5.6	9.2	8.7
Healthcare	**1,569**					**25.9**	**26.6**	**2.4**	**2.3**	**2.2**	**1.9**	**4.0**	**5.6**	**9.2**	**8.7**
HRnet Group	500	Buy	1.01	41.3	Dec-22	9.9	9.5	1.8	1.6	6.1	6.3	10.0	11.3	18.8	18.1
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	17.8	15.8	4.0	3.7	5.7	4.0	0.2	1.4	24.7	24.2
Industrials	**7,296**					**17.3**	**15.3**	**3.9**	**3.5**	**5.8**	**4.2**	**0.9**	**2.0**	**24.3**	**23.7**
APAC Realty	127	Neutral	0.60	17.4	Dec-22	7.7	8.7	1.1	1.1	9.7	8.6	14.6	15.0	14.2	12.0
Centurion Corp	209	Buy	0.51	43.7	Dec-22	5.3	5.0	0.4	0.4	5.6	5.6	11.1	15.7	10.2	8.8
City Developments	4,644	Buy	9.75	33.2	Dec-22	16.9	14.5	0.8	0.8	2.5	2.7	na	11.6	4.6	5.3
Real estate	**4,979**					**16.2**	**13.9**	**0.8**	**0.7**	**2.8**	**3.0**	**12.5**	**11.9**	**5.1**	**5.6**
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	8.7	8.9	0.8	0.8	8.6	8.9	12.6	13.1	9.2	8.8
CapitaLand Ascendas REIT	7,259	Buy	3.60	45.9	Dec-22	13.5	17.5	1.0	1.0	6.5	6.7	10.8	11.1	7.7	6.0
CDL Hospitality	882	Neutral	1.30	27.5	Dec-22	15.5	15.1	0.8	0.8	5.8	7.1	7.6	8.8	4.9	5.0
CICT	8,073	Buy	2.00	15.1	Dec-22	13.3	12.9	0.8	0.8	6.3	6.3	7.8	9.5	6.3	6.4
EC World REIT	269	Neutral	0.55	16.7	Dec-22	16.0	11.6	0.5	0.5	11.6	11.6	27.6	19.8	3.2	4.5
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	na	9.4	0.7	0.9	9.4	9.5	15.9	13.8	-14.1	9.3
Frasers Centrepoint	2,334	Neutral	2.45	25.2	Sep-22	14.4	14.4	0.8	0.8	6.5	6.5	7.2	6.8	5.9	5.9
IREIT Global	392	Buy	0.72	48.5	Dec-22	9.7	7.9	0.6	0.6	8.3	8.2	10.3	9.8	6.6	8.0
Keppel Pacific Oak	512	Buy	0.87	76.9	Dec-22	7.6	7.5	0.6	0.6	12.2	12.1	19.2	16.8	7.8	7.9
Keppel REIT	2,323	Buy	1.31	47.2	Dec-22	10.6	9.6	0.7	0.7	6.8	7.0	1.9	3.9	6.4	7.0
Manulife US REIT	586	Buy	0.78	137.7	Dec-22	5.6	6.4	0.5	0.5	15.7	16.2	20.0	19.1	8.2	7.5
Prime US REIT	549	Buy	1.00	115.0	Dec-22	8.4	7.0	0.6	0.6	14.9	15.2	16.9	16.5	6.7	8.0
Starhill Global REIT	762	Buy	0.68	40.2	Jun-23	12.0	9.1	0.6	0.6	8.1	8.2	12.1	9.6	5.2	6.8
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	13.2	14.7	0.7	0.7	6.4	6.5	5.9	6.1	5.0	4.5
REIT	**28,801**					**12.8**	**13.4**	**0.8**	**0.8**	**7.2**	**7.4**	**9.3**	**9.7**	**5.5**	**6.4**
SingTel	27,483	Buy	3.55	49.2	Mar-23	14.9	13.2	1.3	1.3	5.2	5.2	11.4	13.5	8.9	9.7
StarHub	1,234	Neutral	1.20	17.6	Dec-22	15.1	12.7	2.8	2.6	4.9	4.9	24.3	43.4	19.3	21.5
Telecom & Media	**28,718**					**14.9**	**13.2**	**1.4**	**1.3**	**5.2**	**5.2**	**12.0**	**14.8**	**9.4**	**10.2**
China Aviation Oil	391	Neutral	0.91	40.3	Dec-22	8.4	6.4	0.4	0.4	2.1	2.5	27.6	9.6	5.1	6.4
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	14.3	12.8	1.0	1.0	4.0	3.9	16.7	9.5	7.1	7.6
Transport	**2,316**					**13.3**	**11.8**	**0.9**	**0.9**	**3.7**	**3.7**	**18.5**	**9.5**	**6.7**	**7.4**

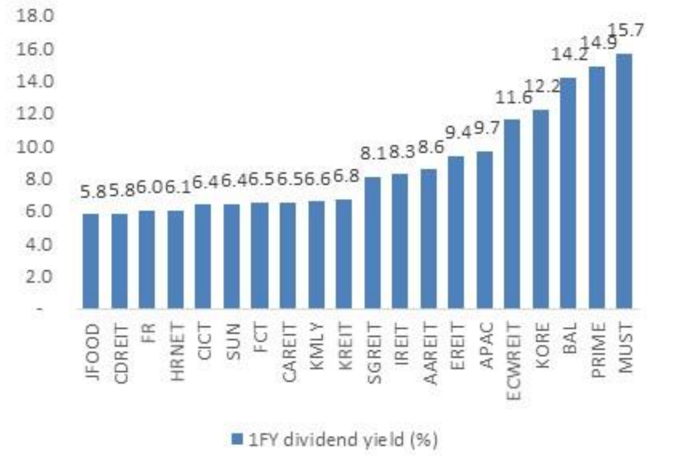
Note: Prices are as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 51: RHB's coverage universe (by sector) (continued)

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	EPS Growth (%) 1FY	EPS Growth (%) 2FY	DPS Growth (%) 1FY	DPS Growth (%) 2FY	Net margin (%) 1FY	Net margin (%) 2FY	Net debt/Equity (x) 1FY	Net debt/Equity (x) 2FY	Returns (%) 1M	Returns (%) YTD
Dairy Farm	2,896	Neutral	2.71	26.5	Dec-22	-51.9	312.9	-72.7	300.0	0.5	2.2	0.8	0.7	-16.1	-25.2
Food Empire	189	Buy	0.95	88.1	Dec-22	92.8	6.0	22.6	6.0	10.0	10.1	0.0	-0.1	-1.9	-34.4
Japan Foods	49	Buy	0.55	35.1	Mar-23	na	24.9	4.4	-13.2	5.2	6.1	-0.6	-0.6	-5.8	0.0
Kimly Ltd	291	Buy	0.46	37.3	Sep-22	9.8	18.7	57.6	18.7	17.2	17.2	0.3	0.2	-5.6	-19.3
Sheng Siong	1,714	Buy	1.78	9.2	Dec-22	5.8	3.4	5.8	3.4	9.7	9.6	-0.5	-0.6	3.2	11.6
Thai Beverage	9,929	Buy	0.97	71.1	Sep-22	20.8	5.8	23.3	5.8	10.2	10.5	0.9	0.7	-10.3	-14.4
Consumer	**15,069**					**5.8**	**64.8**	**3.4**	**62.2**	**8.4**	**8.9**	**0.7**	**0.5**	**-9.7**	**-13.8**
DBS Group	58,314	Buy	37.60	16.1	Dec-22	20.5	11.6	22.5	10.2	na	na	na	na	-3.4	-0.8
OCBC	36,246	Buy	13.90	20.6	Dec-22	13.6	17.7	9.2	8.6	na	na	na	na	-6.6	1.1
Singapore Exchange	6,135	Neutral	9.00	9.8	Jun-23	-5.2	6.4	0.0	0.0	38.2	38.6	-0.6	-0.7	-14.1	-11.8
UOB	30,446	Neutral	29.30	12.7	Dec-22	4.5	19.7	3.7	12.0	na	na	na	na	-6.1	-3.4
Financials	**131,141**					**13.7**	**14.9**	**13.4**	**9.7**	**38.2**	**38.6**	**-0.6**	**-0.7**	**-5.4**	**-1.4**
Bumitama Agri	710	Buy	0.80	36.4	Dec-22	136.1	-42.4	126.7	-41.5	22.0	15.6	0.1	0.0	-6.4	8.3
First Resources	1,603	Neutral	1.50	2.5	Dec-22	99.7	-15.1	85.8	-15.1	30.3	26.3	-0.1	-0.2	-1.4	-3.3
Golden Agri	2,440	Neutral	0.30	7.6	Dec-22	63.5	-39.0	32.2	-39.0	5.8	4.0	0.2	0.1	0.0	12.2
Wilmar	15,325	Buy	4.95	41.2	Dec-22	3.6	0.8	7.9	1.1	2.6	2.9	1.1	1.0	-11.1	-15.2
Food Products	**20,078**					**23.3**	**-6.8**	**21.3**	**-6.6**	**5.9**	**5.3**	**0.9**	**0.8**	**-8.8**	**-10.1**
Raffles Medical	1,569	Buy	1.60	32.2	Dec-22	22.4	-2.5	34.5	-14.2	11.4	11.2	-0.1	-0.2	-12.3	-11.7
Healthcare	**1,569**					**22.4**	**-2.5**	**34.5**	**-14.2**	**11.4**	**11.2**	**-0.1**	**-0.2**	**-12.3**	**-11.7**
HRnet Group	500	Buy	1.01	41.3	Dec-22	10.6	4.4	74.6	4.4	11.2	11.2	-0.9	-0.9	-8.3	-11.2
ST Engineering	6,796	Buy	4.10	31.4	Dec-22	-4.5	13.1	19.1	-30.1	6.2	6.5	2.3	2.3	-15.4	-17.0
Industrials	**7,296**					**-3.5**	**12.5**	**22.9**	**-27.8**	**6.5**	**6.8**	**2.1**	**2.1**	**-15.0**	**-16.6**
APAC Realty	127	Neutral	0.60	17.4	Dec-22	-34.5	-11.3	-40.0	-11.3	4.2	4.0	0.0	-0.1	-16.4	-29.2
Centurion Corp	209	Buy	0.51	43.7	Dec-22	32.8	4.8	91.7	0.0	32.6	33.1	0.9	0.8	-9.0	7.6
City Developments	4,644	Buy	9.75	33.2	Dec-22	302.3	17.2	50.0	11.1	12.1	12.8	1.1	1.1	-10.4	10.3
Real estate	**4,979**					**282.5**	**15.9**	**49.5**	**10.1**	**12.8**	**13.4**	**1.0**	**1.0**	**-10.5**	**9.2**
AIMS APAC REIT	567	Buy	1.66	47.3	Mar-23	-10.8	-2.3	2.8	3.7	56.3	53.7	0.8	0.8	-15.7	-22.1
CapitaLand Ascendas REIT	7,259	Buy	3.60	45.9	Dec-22	-20.9	-22.6	5.8	3.1	57.3	43.7	0.6	0.6	-11.8	-16.3
CDL Hospitality	882	Neutral	1.30	27.5	Dec-22	17.4	3.0	39.9	20.9	40.2	35.7	0.7	0.7	-20.3	-12.8
CICT	8,073	Buy	2.00	15.1	Dec-22	-21.9	2.9	3.7	0.2	60.6	60.4	0.7	0.7	-15.5	-14.7
EC World REIT	269	Neutral	0.55	16.7	Dec-22	-1.8	37.7	-11.9	0.1	20.5	28.4	0.7	0.7	-11.2	-38.3
ESR-LOGOS REIT	1,500	Buy	0.53	65.8	Dec-22	-308.9	na	0.6	2.0	-85.3	55.3	0.9	0.9	-20.0	-33.3
Frasers Centrepoint	2,334	Neutral	2.45	25.2	Sep-22	25.2	0.0	5.8	0.3	66.0	65.9	0.5	0.4	-14.0	-15.2
IREIT Global	392	Buy	0.72	48.5	Dec-22	-70.2	23.1	-0.4	-0.9	66.3	81.3	0.4	0.4	-5.8	-25.4
Keppel Pacific Oak	512	Buy	0.87	76.9	Dec-22	-18.1	1.7	-5.4	-1.0	44.4	44.3	0.6	0.6	-24.6	-38.8
Keppel REIT	2,323	Buy	1.31	47.2	Dec-22	-16.7	10.2	4.7	3.0	140.7	152.6	0.6	0.6	-16.0	-21.2
Manulife US REIT	586	Buy	0.78	137.7	Dec-22	136.6	-12.5	-3.3	3.4	50.5	44.7	0.7	0.7	-30.5	-50.7
Prime US REIT	549	Buy	1.00	115.0	Dec-22	-9.3	19.4	2.0	1.8	39.8	46.4	0.6	0.7	-23.1	-44.3
Starhill Global REIT	762	Buy	0.68	40.2	Jun-23	78.0	31.2	2.8	0.6	45.8	60.2	0.6	0.6	-16.4	-26.0
Suntec REIT	2,794	Buy	1.95	40.2	Dec-22	-38.9	-10.3	3.2	1.9	76.9	65.6	0.8	0.7	-13.7	-7.9
REIT	**28,801**					**-26.9**	**-3.6**	**4.8**	**2.2**	**58.4**	**62.5**	**0.6**	**0.6**	**-15.2**	**-18.5**
SingTel	27,483	Buy	3.55	49.2	Mar-23	32.6	12.9	29.0	0.0	15.8	17.3	0.4	0.3	-10.9	2.6
StarHub	1,234	Neutral	1.20	17.6	Dec-22	-22.0	19.0	-21.9	0.0	5.1	5.7	1.2	1.0	-13.6	-25.0
Telecom & Media	**28,718**					**30.3**	**13.1**	**26.8**	**0.0**	**15.4**	**16.8**	**0.4**	**0.4**	**-11.0**	**1.4**
China Aviation Oil	391	Neutral	0.91	40.3	Dec-22	15.2	31.4	-28.1	17.0	0.2	0.2	-0.6	-0.6	-18.8	-30.9
ComfortDelGro	1,924	Buy	1.75	37.8	Dec-22	24.6	11.0	20.9	-2.6	5.1	5.4	-0.3	-0.4	-9.9	-9.3
Transport	**2,316**					**23.0**	**14.5**	**12.6**	**0.7**	**4.2**	**4.6**	**-0.4**	**-0.4**	**-11.4**	**-12.9**

Note: Prices are as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 52: Top 20 high-yield stocks under RHB's coverage



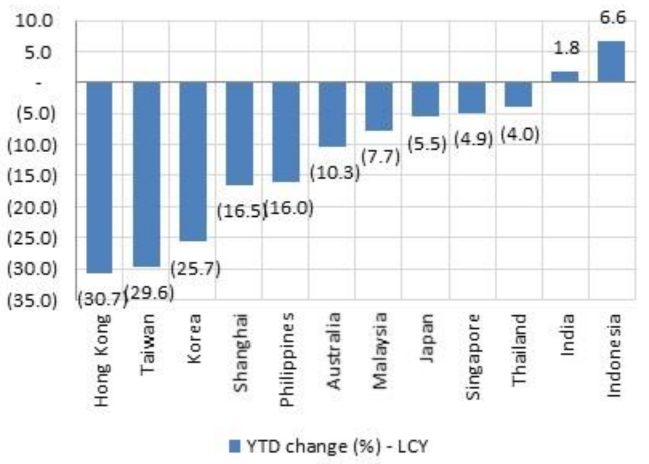
Note: Prices are as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 53: Top 20 ROE for stocks under RHB's coverage

Source: RHB

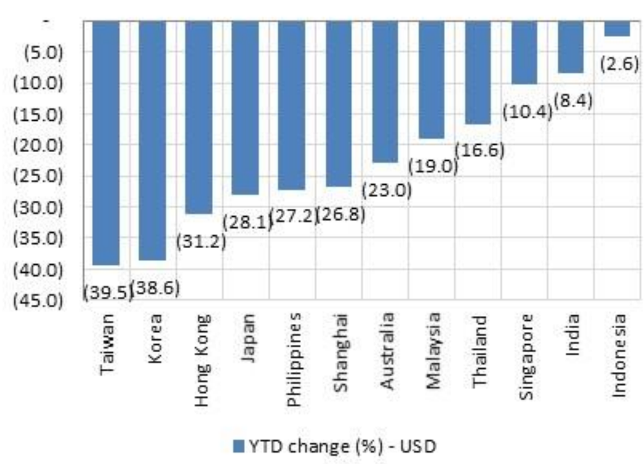
2022 – The Year So Far

Figure 54: Asian equity index returns in local currencies



Note: Prices as at 21 Oct 2022
Source: Bloomberg, RHB.

Figure 55: Asian equity index returns in USD terms

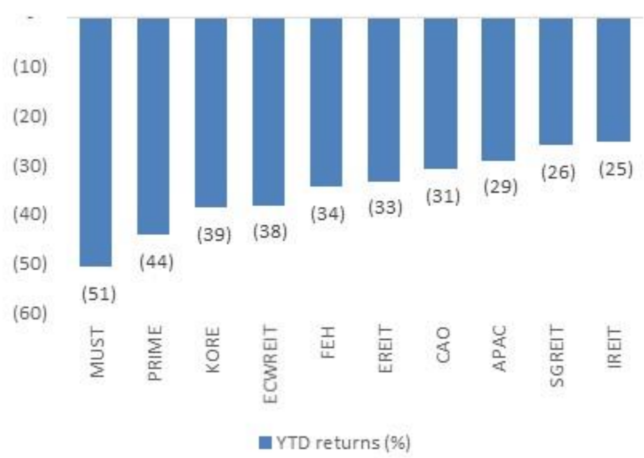


Note: Prices as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 56: Best performing stocks under RHB's coverage

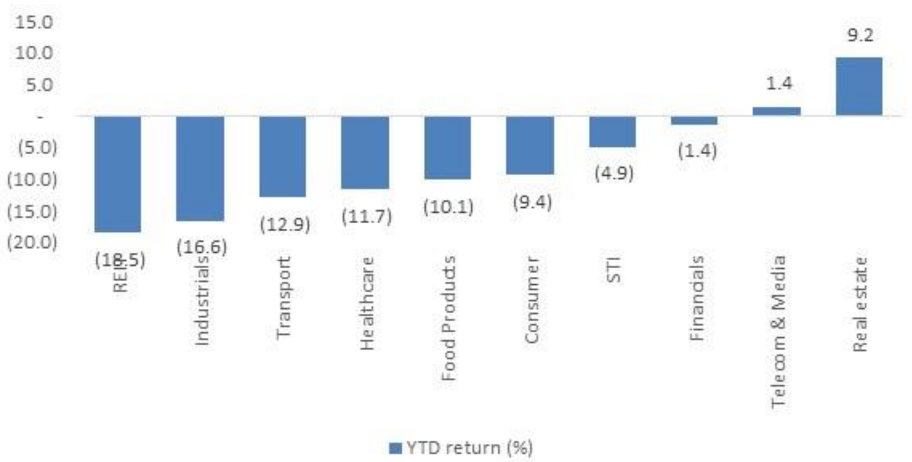
Note: Prices as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 57: Worst performing stocks under RHB's coverage



Note: Prices as at 21 Oct 2022
Source: Bloomberg, RHB

Figure 58: Market cap-weighted YTD sector returns (under RHB's coverage)



Note: Prices as at 21 Oct 2022
Source: Bloomberg, RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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