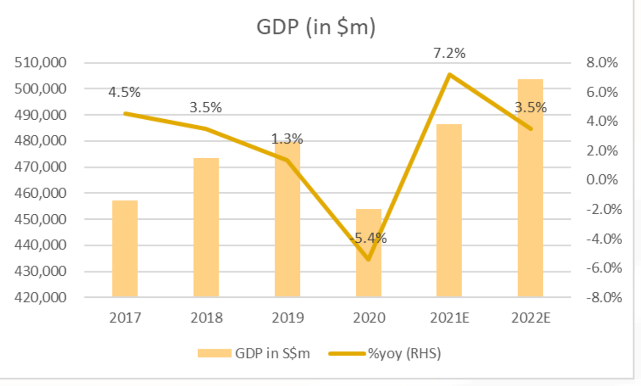
Singapore 1Q 2022 Strategy

If Omicron proves to be no worse than Delta, we expect Singapore's economic recovery to remain on track in 2022, though the pace might be slowed by virus flare-ups and restrictions. After a strong growth of about 7.2% in 2021, which would have exceeded that of 2019, 2022 might turn in a growth of 3.5%. The official estimate is 3-5%.



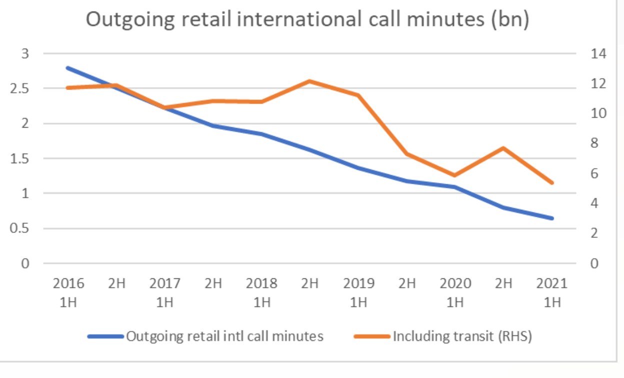
Source: DOS Singapore

Four investment themes will dominate in 1Q 2022:

Reopening of the borders and economy

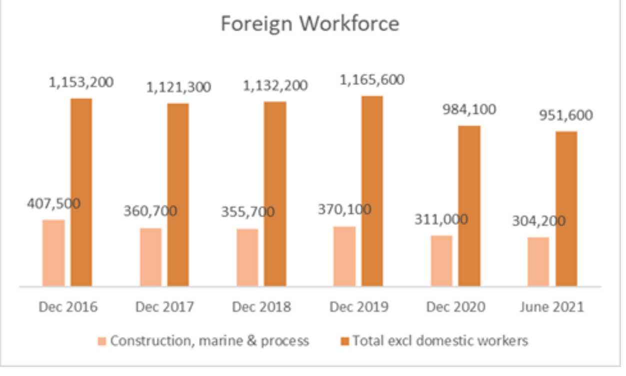
Singapore will push ahead with border relaxations to allow the flow of tourists and foreign workers to enable economic activities to normalize. Air travel and land transportation will increase, COVID protocols will further ease to accommodate large scale events, and more workers will return to office as vaccination edges towards 90%.

Telcos' roaming revenue will recover with the resumption of traffic, with Malaysia and China the two key markets. Starhub's 1H21 (June) mobile revenue fell 15.4%, after FY20's 24.3% decline. The impact is not as significant for Singtel, as earnings recovery will be driven mainly by India, Australia and associates in Indonesia and the Philippines. **Starhub** is preferred also for its cyber-security arm Ensign which enjoys an entrenched position in the public sector.

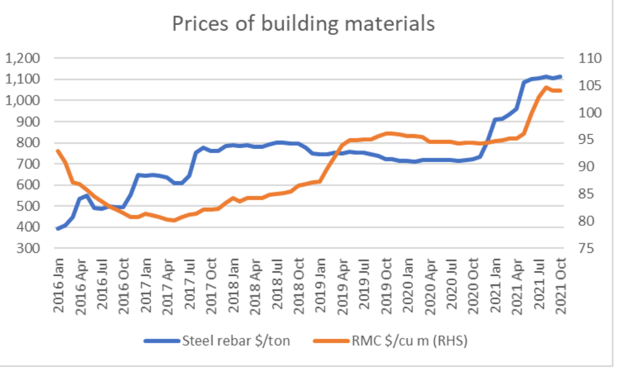


Source: IMDA

The return of foreign manpower will relieve the pent-up demand in the construction of infrastructure and HDB flats. This will also help to fill the void at the offshore and marine sector. Construction companies, however, face with more costly building materials and higher shipping costs. Manpower costs have also risen with COVID measures, insurance and lower manpower supply. All these eat into margins. The building material suppliers, such as **Pan United**, **BRC Asia** and **Choo Chiang** are better-placed to ride on the demand growth.



Source: MOM

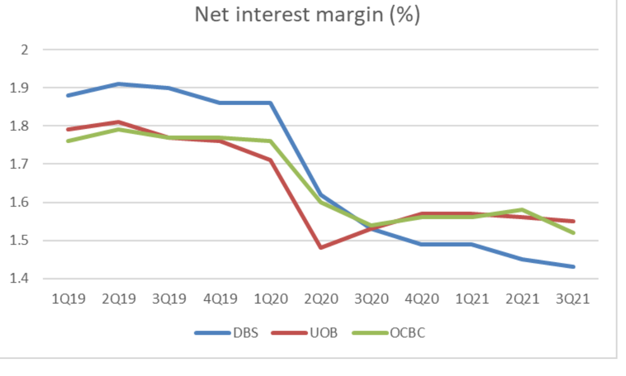


Source: BCA

Monetary tightening

Fed's tapering of bond purchases and three rate hikes in 2022 have set central bankers working to evaluate their monetary stances to deal with rising US interest rates. Likewise, Singapore interest rates would edge higher and 10-Y government bond yield could hit 2% by end 2022. Rising interest rates are tailwinds for finance sector, but headwinds for growth stocks.

Stronger consumption spending and economic activities will drain bank deposits and lift loans demand for capex and working capital, thus we believe net interest margins have bottomed. Asset quality will improve with higher residential prices, allowing for provisions write-back in 2022. **UOB** tops in terms of ratio of mortgage loans to total loans, and trades at attractive 1x P/B, compared with DBS' 1.4x. The sector, however, face disruption from digitalization and alternative financing options such as Buy Now Pay Later.



Source: Various banks

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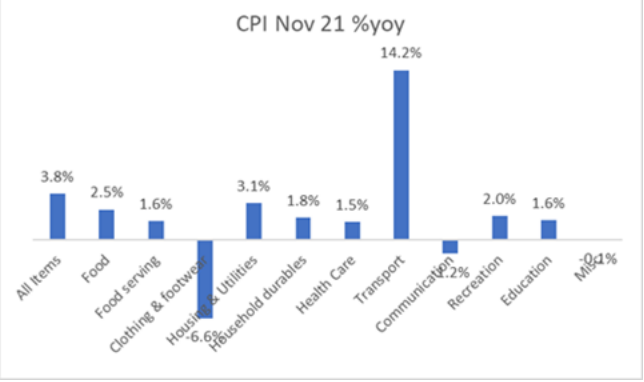
Inflation to moderate with stronger S$ and waning COE-rush

Nov headline CPI and core CPI, at 3.8% and 1.6% respectively, were driven by higher prices of motor vehicles (led by sharp fall in the number of COEs) and energy. We see CPI easing in 2022 with moderated decline in COEs. The ramp up of manufacturing output in ASEAN countries will relieve supply constraints and soften the prices of goods. But energy use will rise and oil price will stay at current level, if OPEC sticks to its production target. The mooting of a GST increase suggests that the authority does not expect runaway inflation.

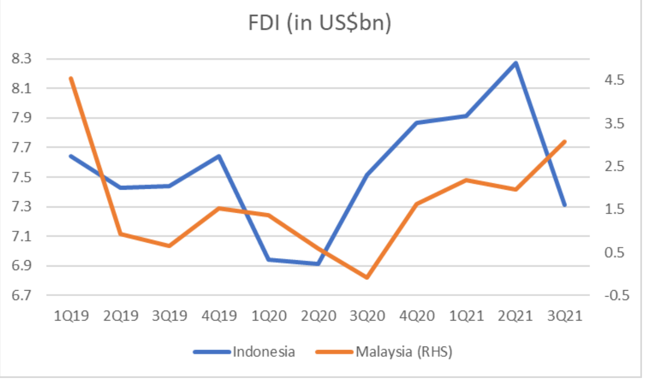
We expect the authority to target a stronger S$ to reduce imported inflation. On the other hand, countries in the region might hold rates low for longer to give time for their economies to recover. Strong S$ could discourage tourist and patient arrivals. Already, hospitals in Thailand and Indonesia have geared up during border closures to win the local patients. The healthcare sector faces challenges from rising competition and potential decline in COVID-related work.



Source: DOS Singapore

Foreign Direct Investments bounced back

FDI flows into Malaysia and Indonesia bounced back in 2021. Year to Sep, foreign investments into Malaysia gained 284%, mainly in the manufacturing sector. Indonesia posted 9.9% growth in FDI for the nine months to US$22.7bn (1Q: +14% yoy; 2Q: +19.6%). This would be stronger if not for the pull-back in Sep quarter due to the lockdown.



Malaysia commands 7% of global semiconductor trade and 13% share of capacity for back-end testing and assembly. Intel's plans to invest US$7.1bn in Penang over the next ten years would further raise Malaysia's market share. Singapore tech stocks which are engaged in the fabrication of tools and equipment such as **AEM**, **UMS** and **Grand Venture** will ride on the capacity build-out in the semicon sector.

Indonesia, on the other hand, is thriving on the demand for metal resources, fuelled by demand shift to electric vehicles and batteries. Indonesia enjoys advantages with its vast resources of key minerals such as nickel and tin.

FDIs will translate into capex spending and employment growth. This will bring spillover benefits to Singapore in the financial and retail sectors, and property investments.

FY2022 earnings growth to ease, higher real yields weigh on equity value

Singapore's relaxation of border controls and COVID protocols, a ramp up of construction output, and higher manufacturing output and capex spend in the ASEAN countries will drive revenue growth for the Singapore equities in 2022. However, margins could come under pressure from the tapering government grants, higher interest rates and higher input costs. Some sectors that have enjoyed significant COVID support might feel the greatest impact. We see risks among the construction, and offshore and marine sectors.

Equity returns will be flattish, to reflect lower earnings growth and higher real bond yields that weigh on equity valuations.

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