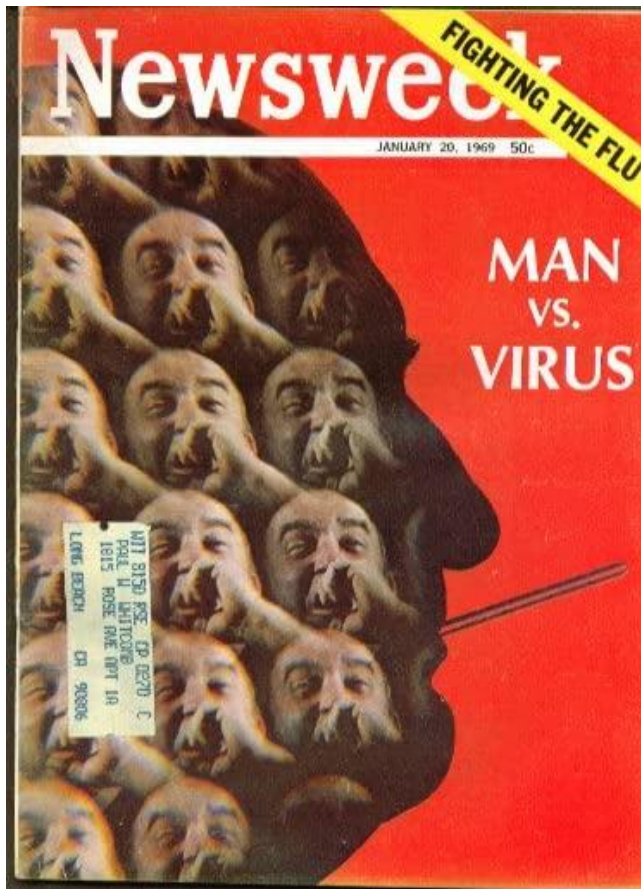


Singapore 2Q20 Equity Strategy



Source: 20Jan1969, Amazon Image

Man Vs Virus....bet on us

Paul Chew

Head Of Research

Phillip Securities Research Pte Ltd

30Mar20

Disclaimer

The information provided in this seminar is solely for educational purposes and should not be considered as financial advice. The views, statements and opinions expressed in this seminar are solely the views, statements and opinions of the presenter made in his/her personal capacity and do not represent the views, statements or opinions of nor are they made on behalf of Phillip Securities Pte Ltd (PSPL).

The information contained in this presentation has been obtained from public sources which PSPL has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this presentation are based on such information and are expressions of belief only. PSPL has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and PSPL shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will PSPL be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

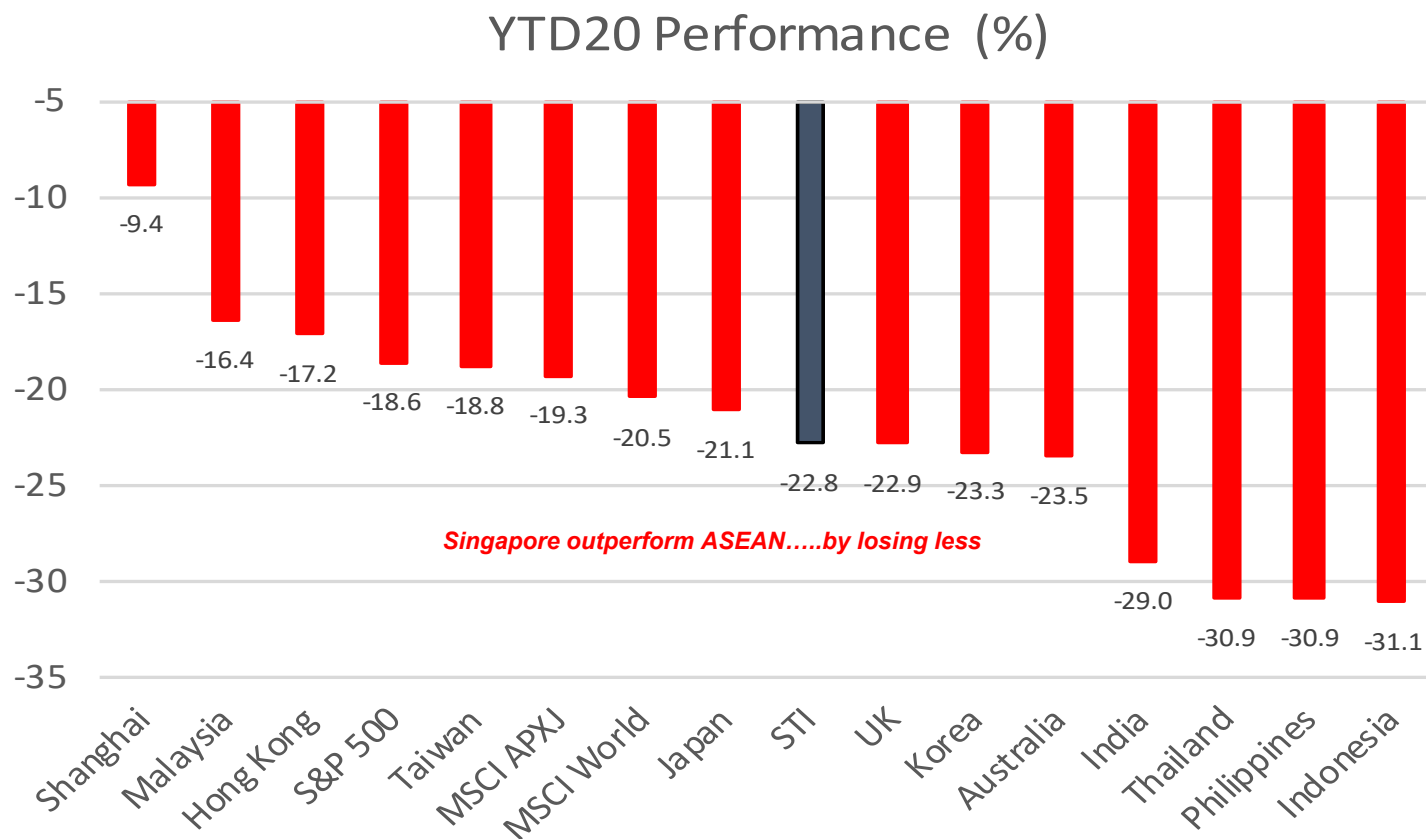
This presentation is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

You should seek advice from a financial adviser regarding the suitability of the investment products mentioned, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to invest in such products.

Agenda

- ✓ Review of 1Q20
- ✓ Economic conditions
- ✓ 5 reasons to Buy
- ✓ Technical update
- ✓ Sector views
- ✓ Stock Picks

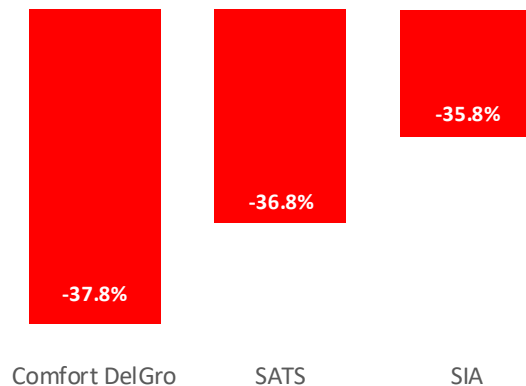
YTD20 most markets down 20-30%



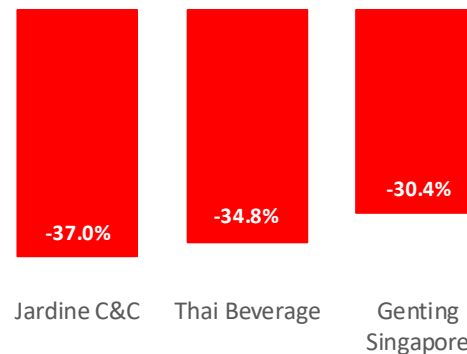
Source: Bloomberg, PSR, as at 26Mar20

YTD20 STI components performance

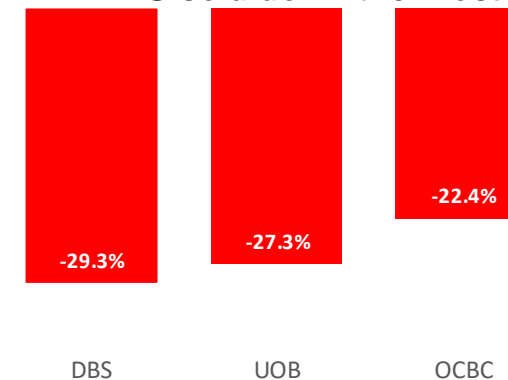
Transport the worst hit



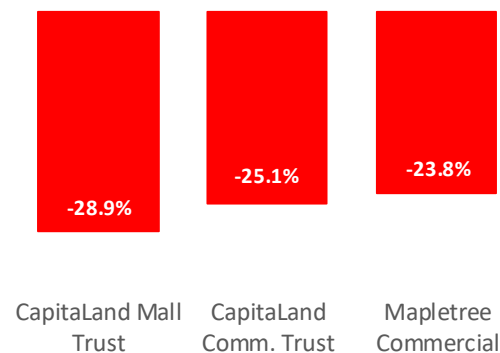
Consumer similarly bad



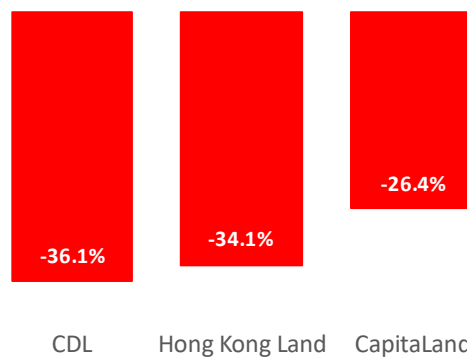
DBS sold down the most



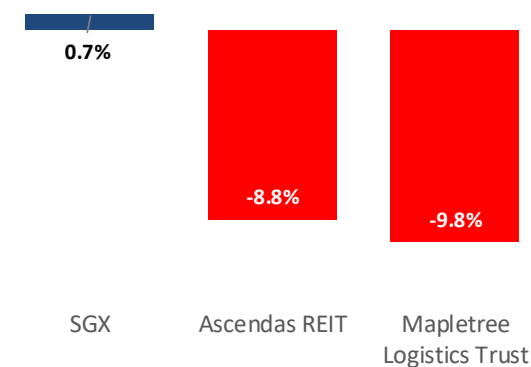
REITs also suffered



Property was miserable



Only 1 gainer this year



Source: Bloomberg, PSR, as at 30Mar20

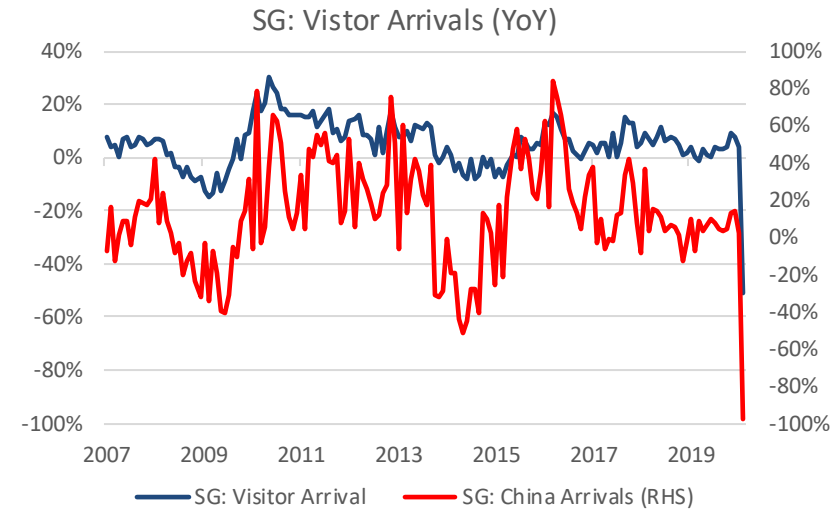
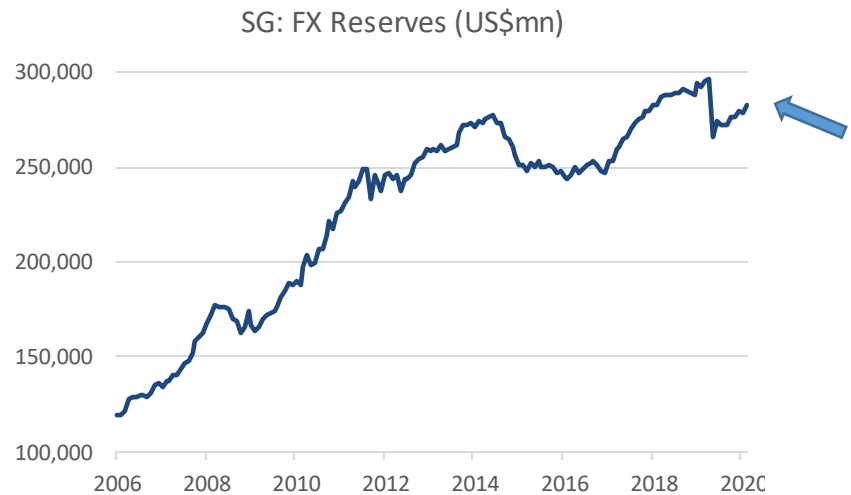
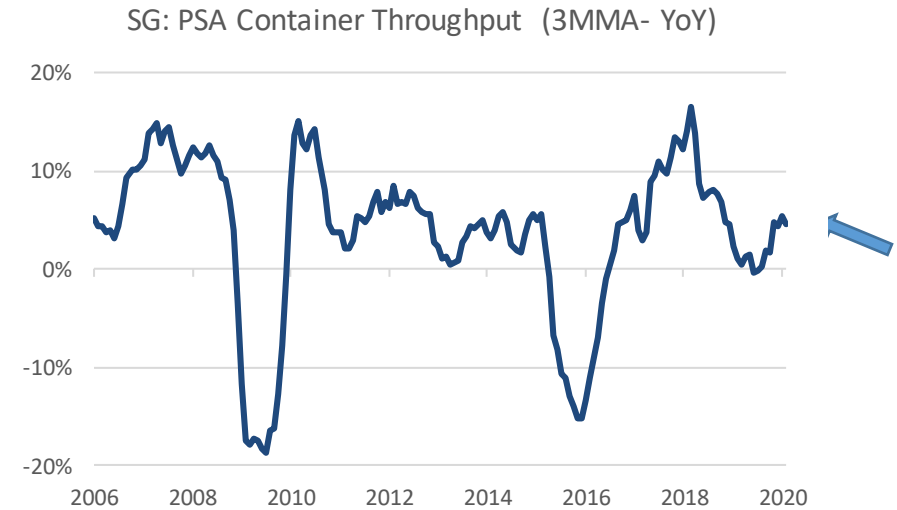
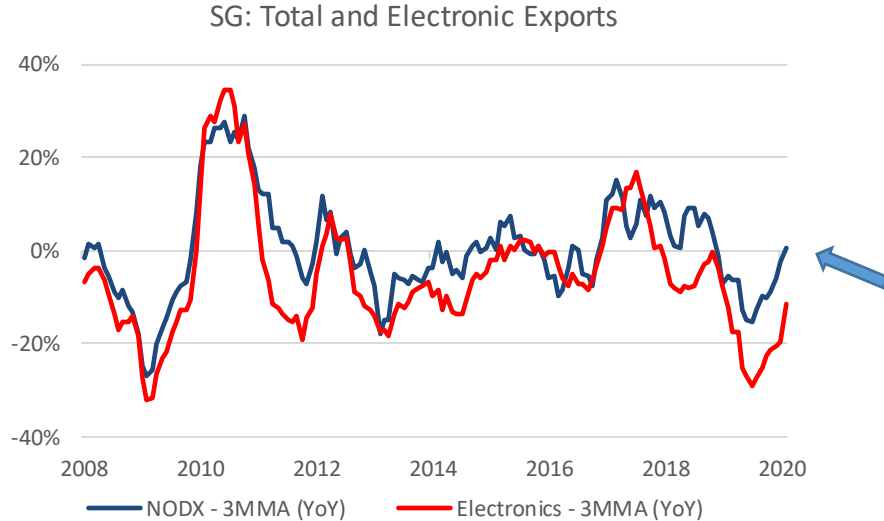
5

Economic Conditions



Source: Unsplash.com

Singapore was mostly open for business....



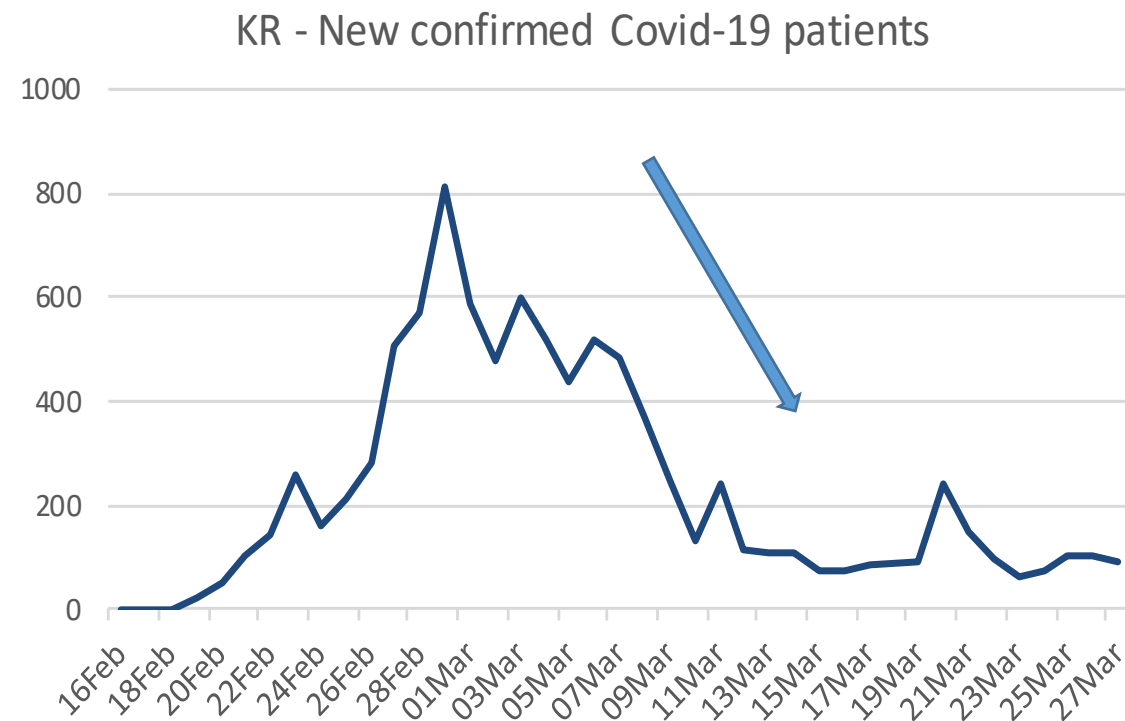
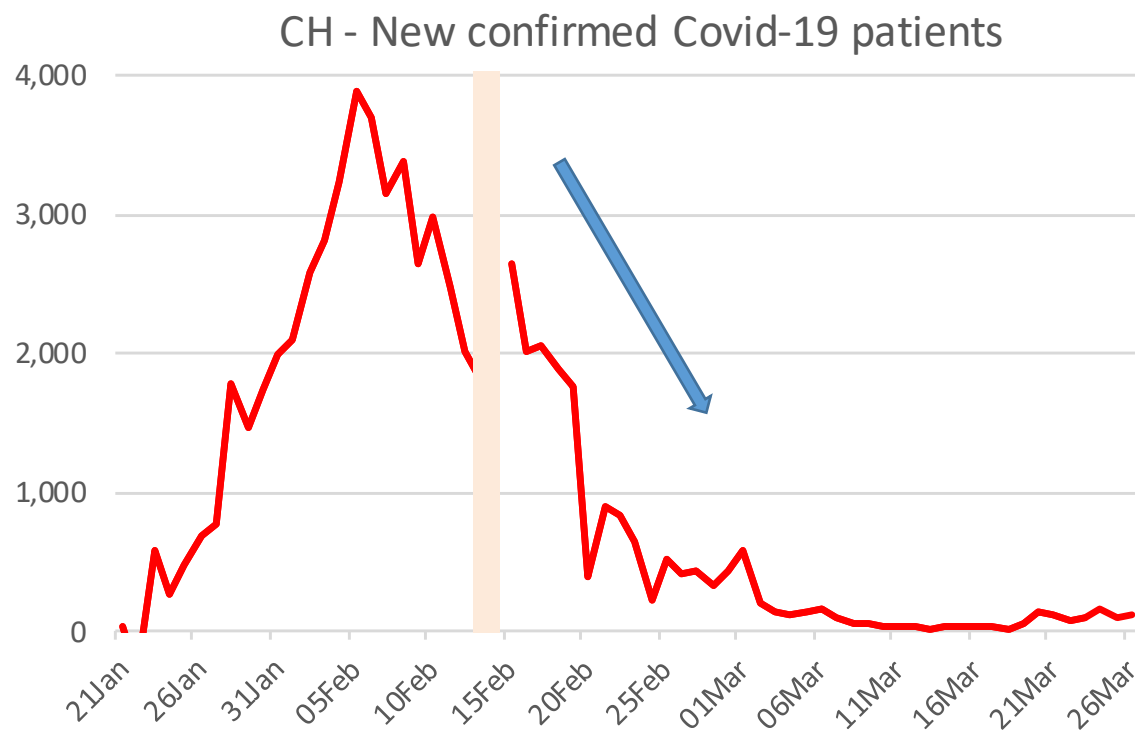
Source: CEIC, PSR, Bloomberg

5 reasons to Buy



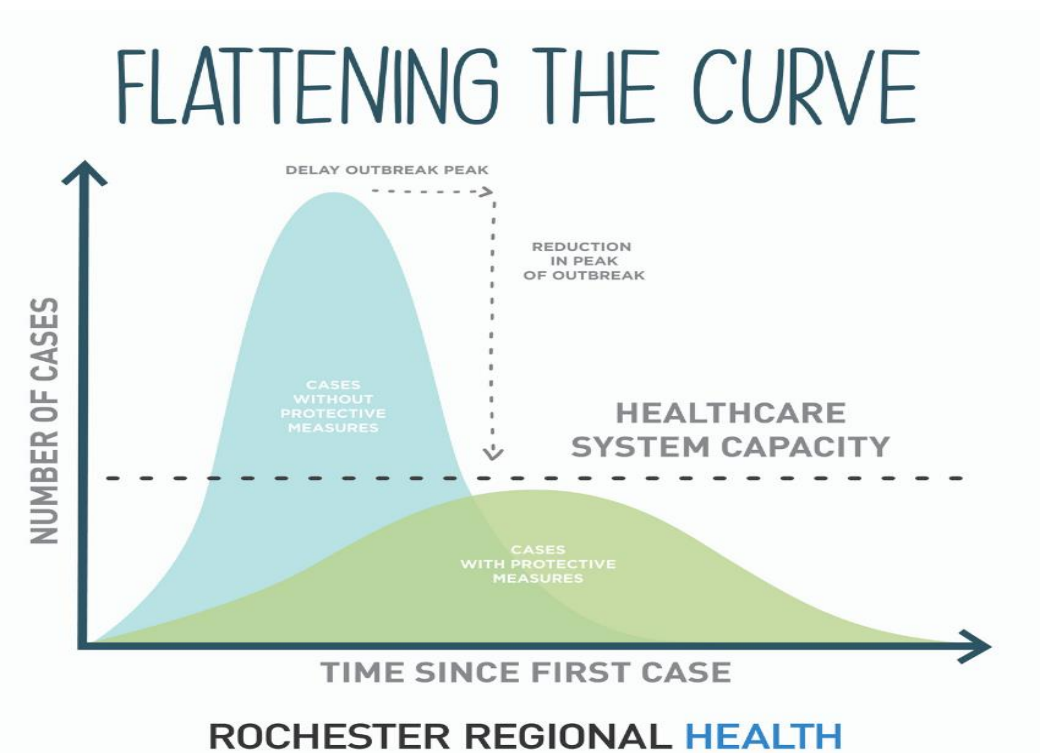
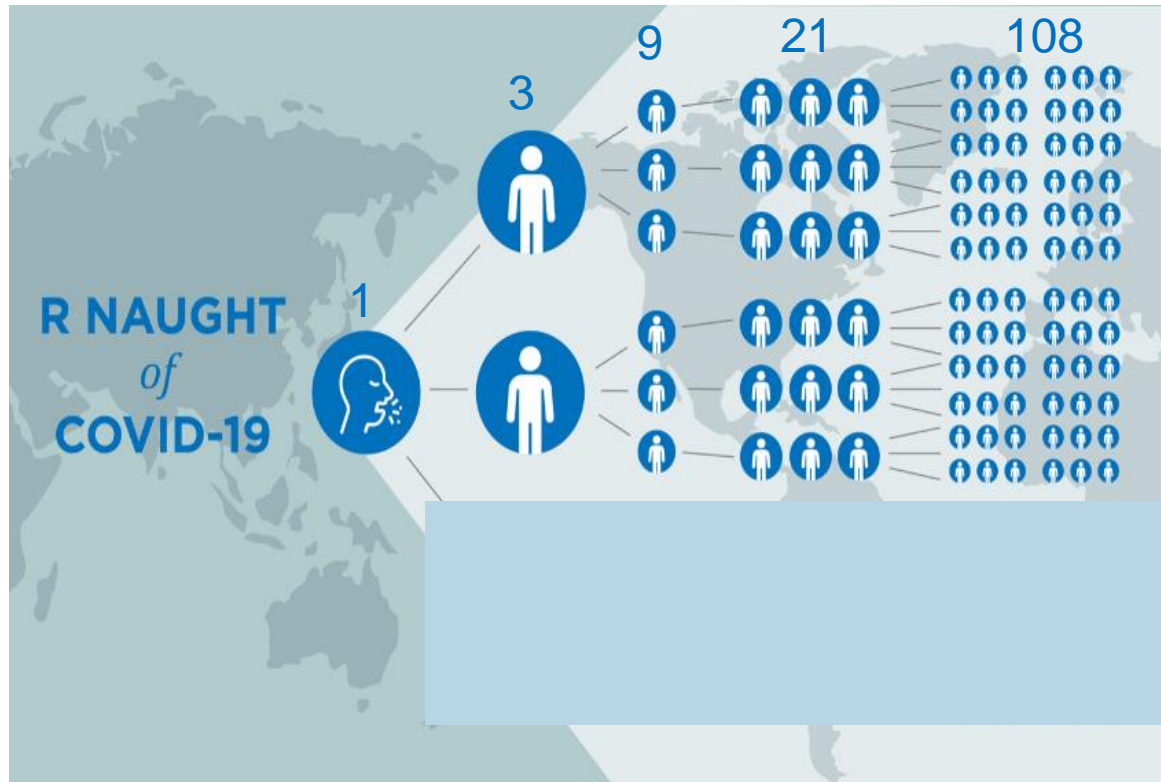
Source: unsplash.com

Reason 1: It can be contained



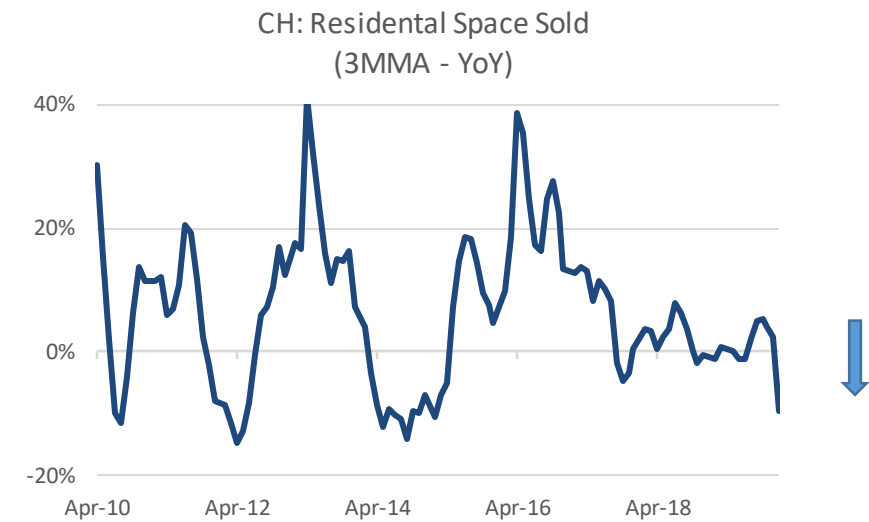
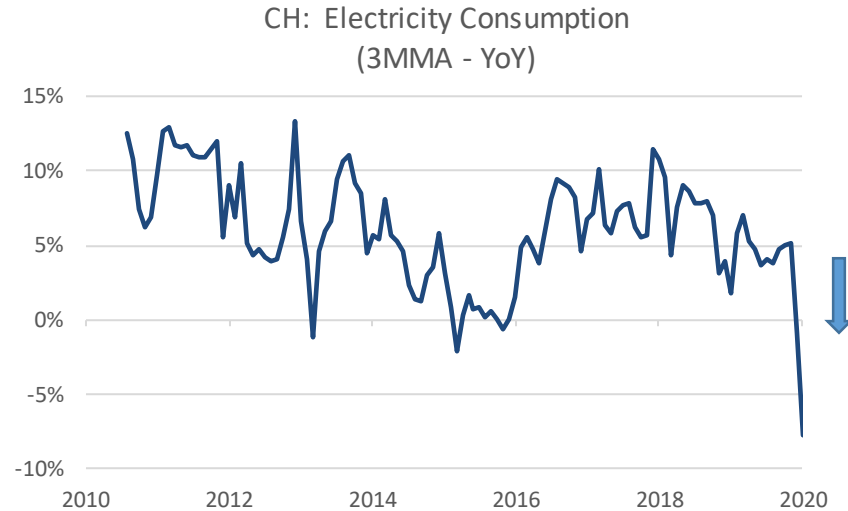
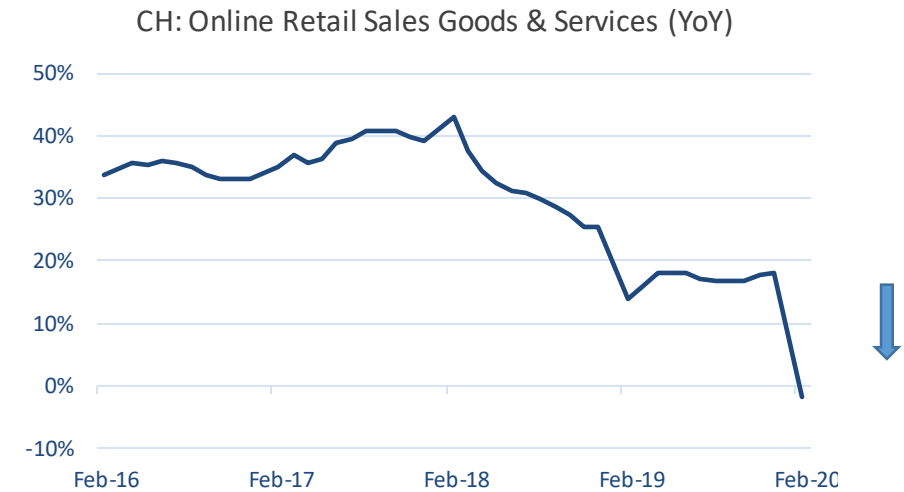
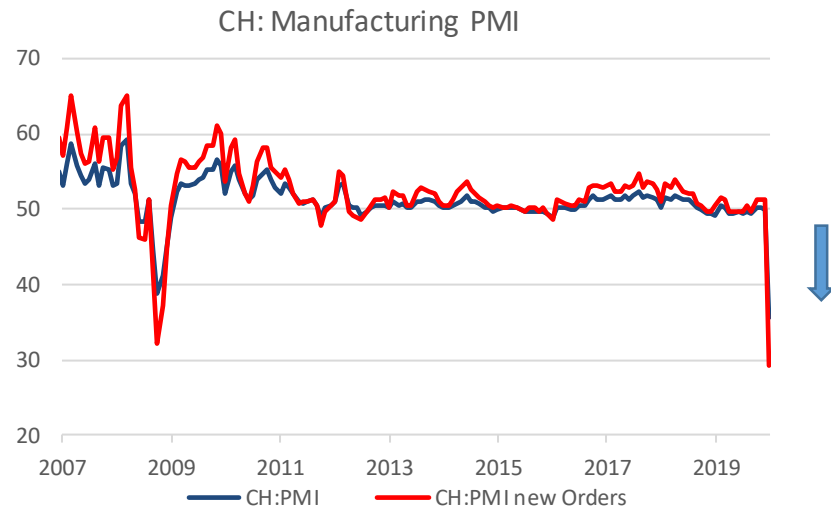
Source: CEIC, WHO, PSR

Cut the spread but....



Source: www.rochesterregional.org/news/2020/03/social-distancing-important

....huge economic cost

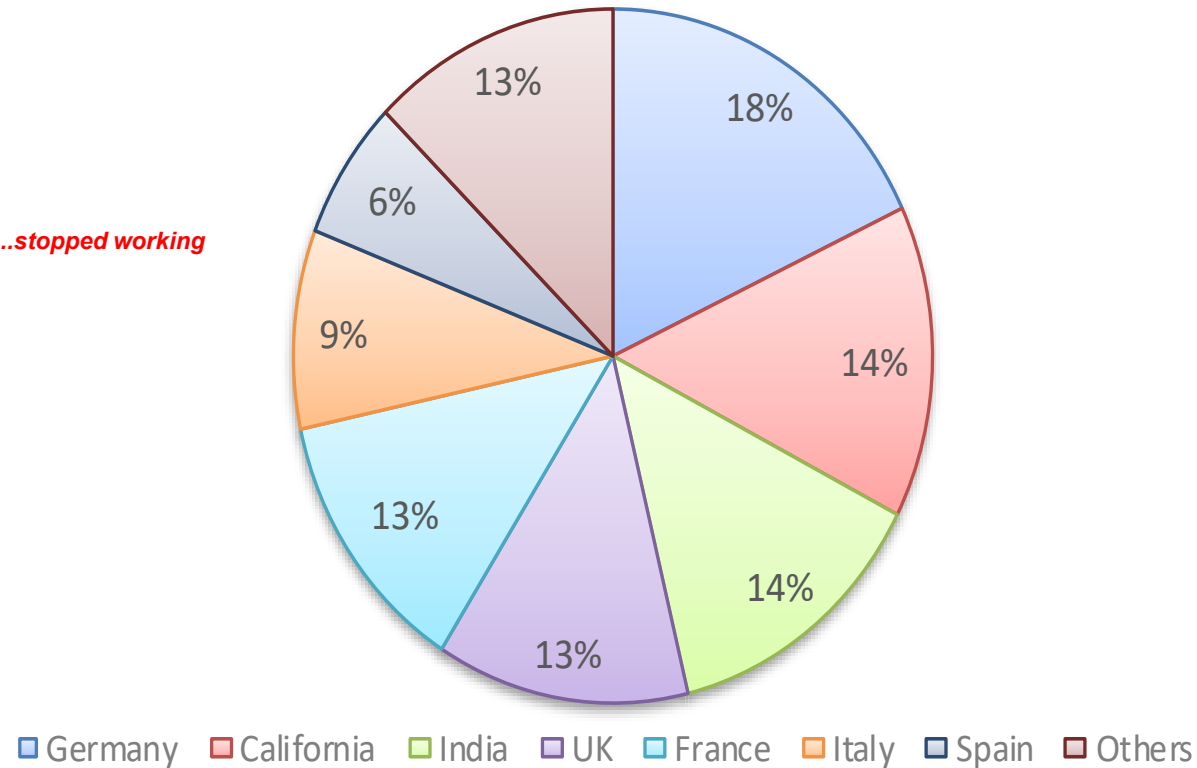


Source: CEIC,PSR

Reason 2: There is fear by governments and society

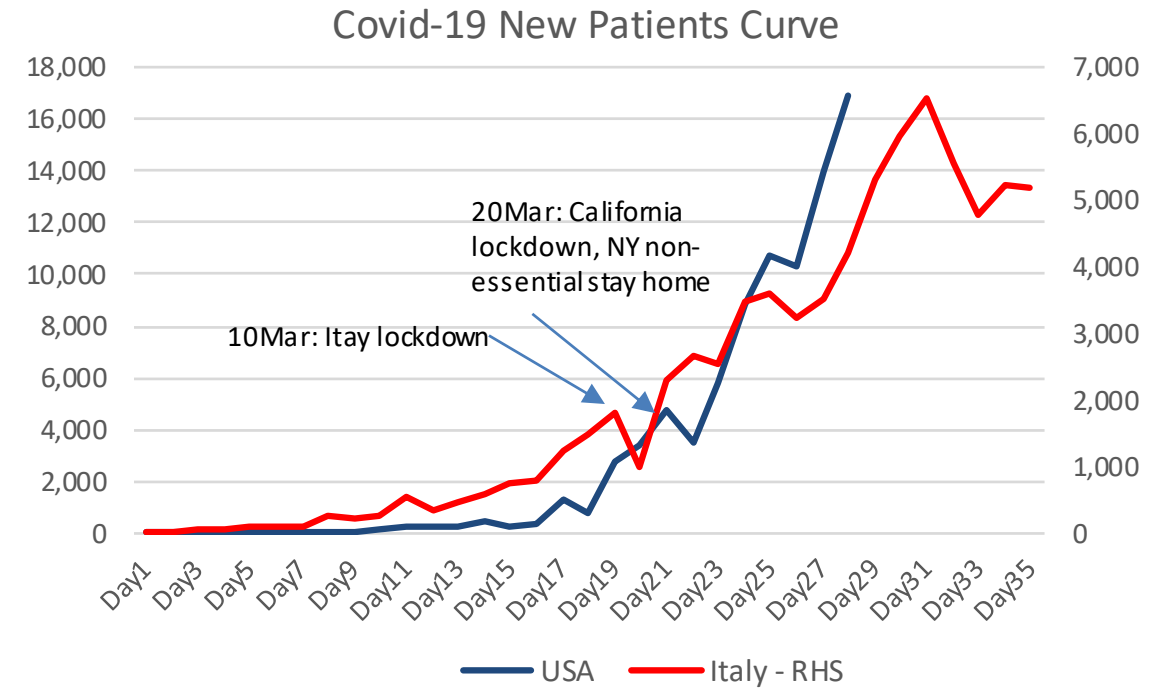
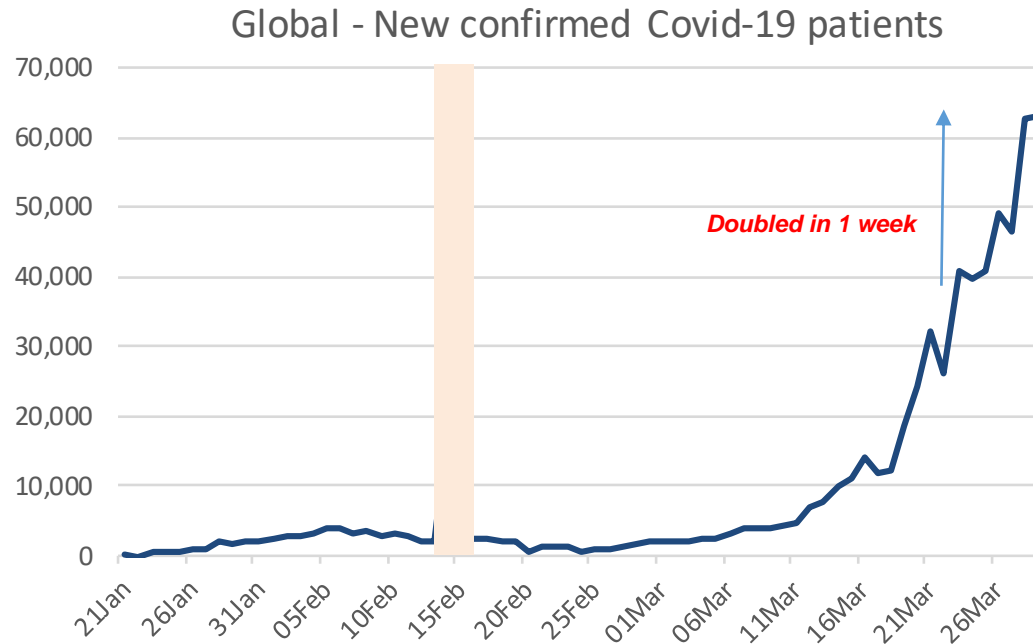
Countries Under Lock-down: 25% World GDP

At least ¼ of the world economy.....stopped working



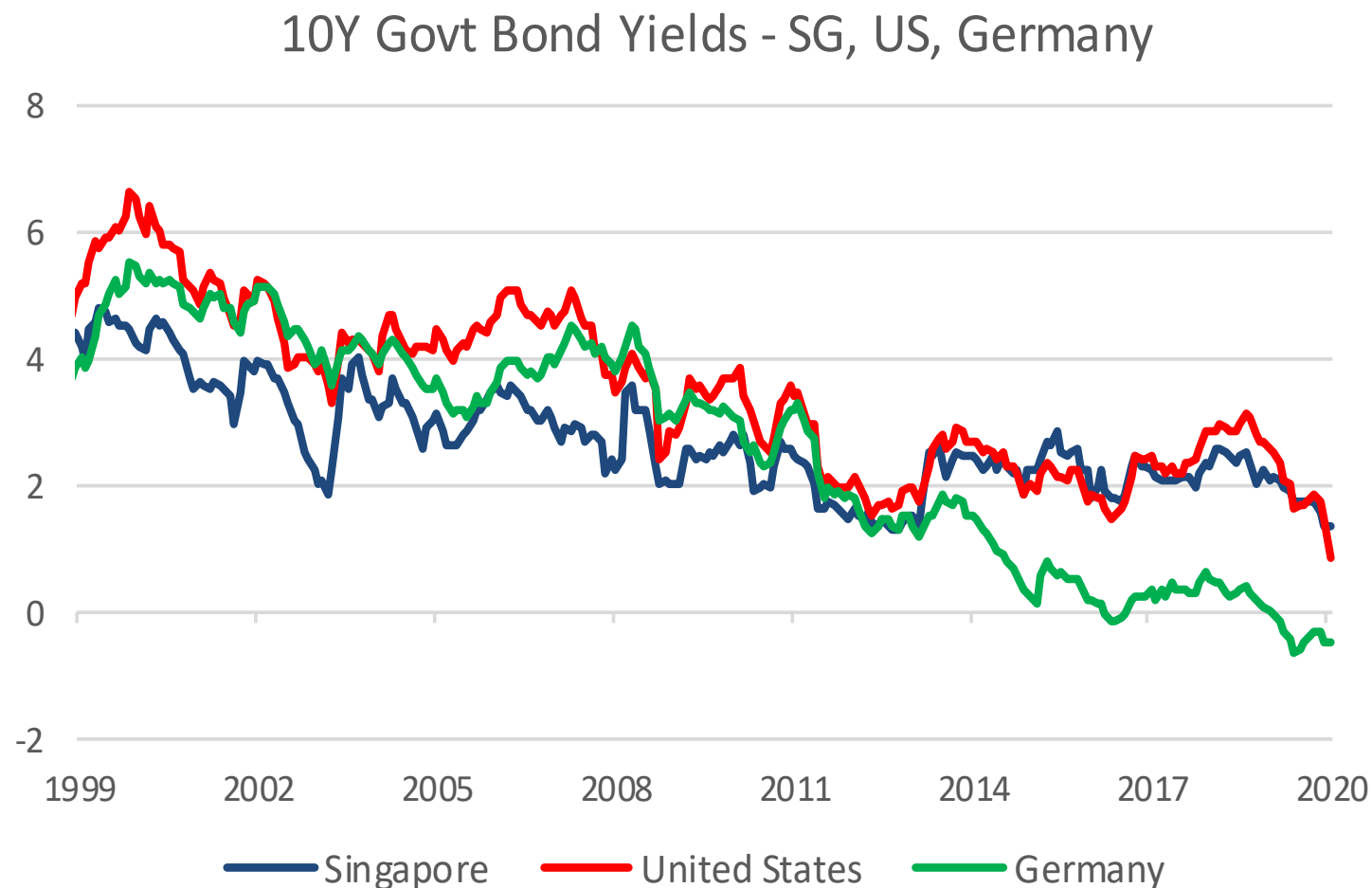
Source: Media, IMF, * Others – Belgium, S Africa, Colombia, Denmark, N Zealand, Ireland, Malaysia, etc

But not peaked in ...new patients and economic damage



Source: CEIC, WHO, CDC, PSR

Reason 3: Record low interest rates



- ✓ Growth Stimulus
- ✓ Positive for asset prices
- ✓ Equity relative attractive
- ✓ Yield the most valuable

Source: CEIC, PSR

Reason 5: Historical outperf. - 12th worst 3 months performance

Worst 15	3M Perf.	12M Returns	6M Returns	3M Returns
Nov-87	-45.2%	18.6%	16.4%	8.4%
Dec-87	-43.0%	24.1%	27.5%	11.3%
Oct-87	-40.9%	17.0%	10.1%	4.6%
Oct-08	-38.8%	47.8%	7.0%	-2.7%
Nov-08	-36.8%	57.7%	34.4%	-7.9%
Jun-98	-32.0%	114.8%	38.0%	-6.9%
Sep-90	-31.3%	28.9%	38.6%	9.7%
Oct-90	-29.0%	25.9%	34.4%	9.0%
Aug-98	-26.6%	155.2%	64.9%	65.4%
Dec-08	-25.3%	64.5%	32.4%	-3.5%
Jul-98	-25.0%	111.4%	40.7%	18.7%
Mar-20	-24.8%			
Oct-97	-22.7%	-20.1%	-10.2%	-15.5%
May-98	-22.6%	63.1%	21.3%	-26.6%
Sep-01	-21.4%	0.5%	38.6%	24.4%
		50.7%	28.2%	6.3%

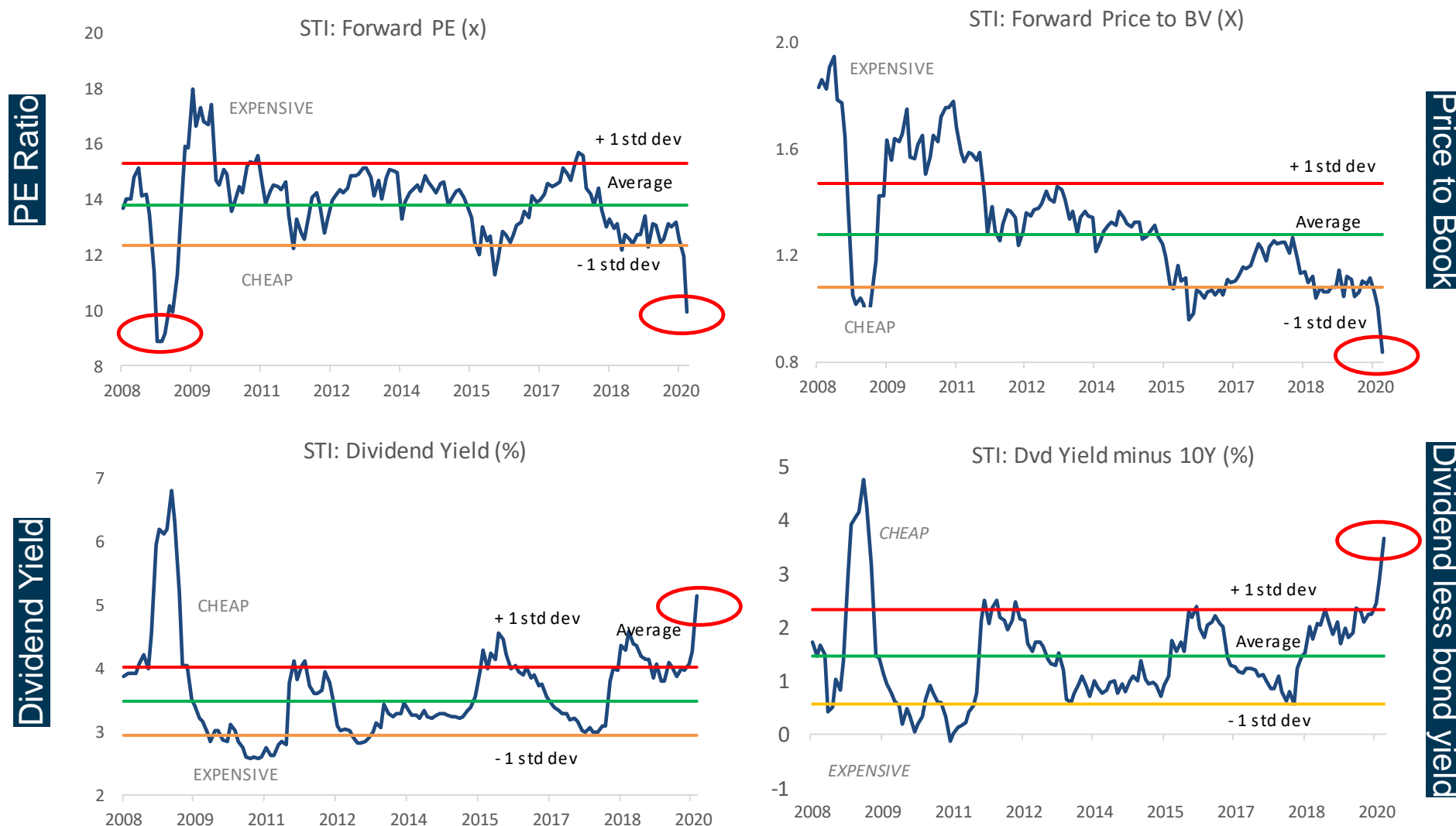
It pays off to BUY.....



Peak		Bottom		Change	Months
1987-08-01	1250.21	Nov-87	685.2	-45.2%	3
1990-07-31	1292.89	Nov-90	879.82	-31.9%	4
1997-02-28	2057.61	Aug-98	856.43	-58.4%	18
2002-03-28	1821.21	Mar-03	1235.25	-32.2%	12
2007-10-31	3763.57	Feb-09	1594.87	-57.6%	16
2015-04-30	3487.39	Jan-16	2629.11	-24.6%	9
2019-12-31	3222.83	Mar-20	2419.55	-24.9%	3

Source: Bloomberg, PSR, as at 30Mar20

Reason 5.5: Valuations reaching GFC levels



Source: PSR, Bloomberg

Technical Views



Chua Wei Ren

Technical Analyst

Phillip Securities Research Pte Ltd

18

Straits Times Index – Downside came faster than expected

2020 Q1 recap summary.

- Prices forming a weekly double top at 3289, shy of 11 points of the psychological high of 3300.
- Subsequent sell down below 3000 conclude the wave ((iii)) extension movement.
- Expect further downside after a rebound.

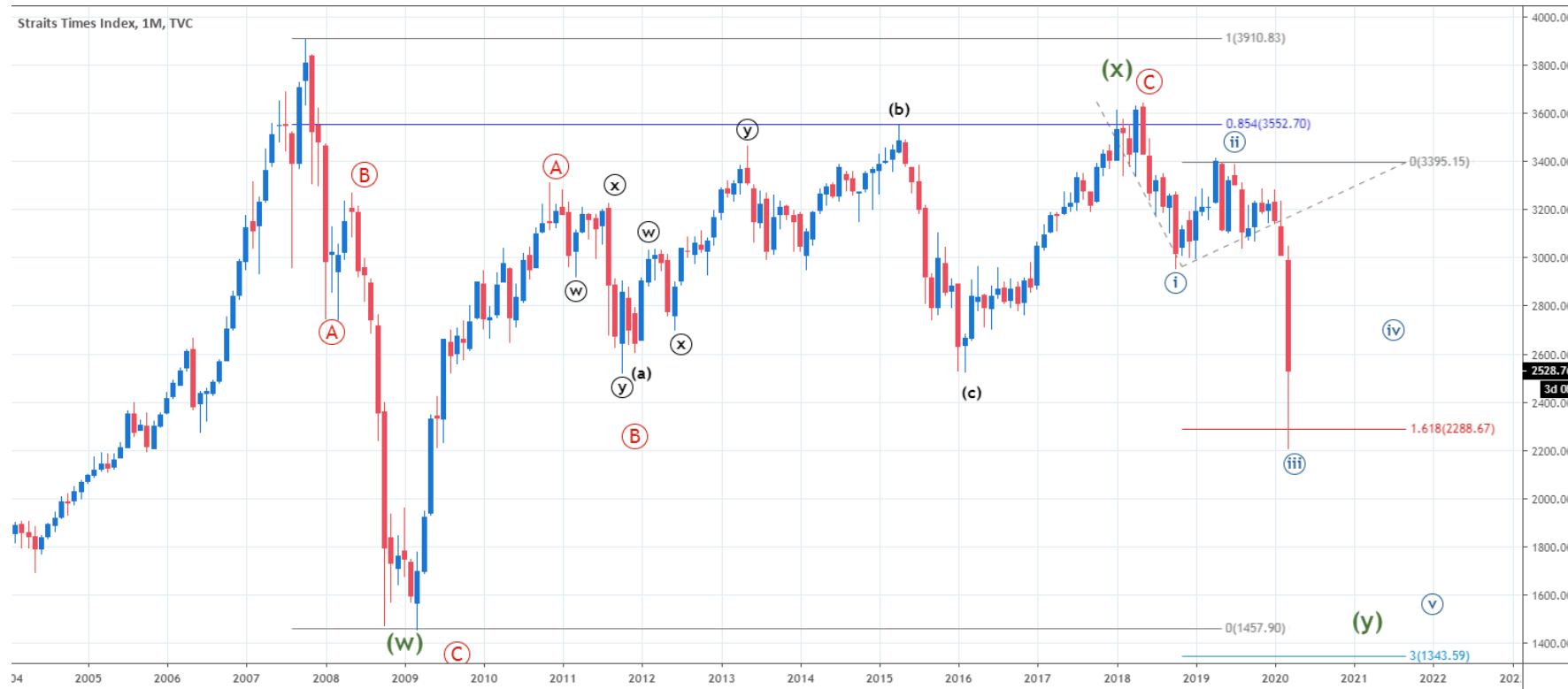
Straits Times Index- 4th January 2020 recap

- STI B wave has topped out in 2018, forming a dark cloud cover at 85.4% of wave A.
- The monthly wave count will be prolonged for the next 2-3 years with bearish downturn in the longer run.



Straits Times Index – Monthly wave analysis

- A cycle phase corrective regular flat in place.
- Current wave cycle is in the ((iii)) phase after a strong rebound last Friday at 161.8%.



Straits Times Index – Monthly wave analysis

- Rebound ended exactly at the monthly support of 2531.19 as of last Friday close.
- Expect price to further strengthen to 2800 region before a strong sell down to complete wave last leg of wave Y
- Wave Y have 2 target, 1564-1709 or 887.69 if the 1000 psychological support level is broken.



Straits Times Index – Weekly wave analysis

- Weekly rebound have formed a piercing line candlestick formation.
- However price still need to break the monthly support at 2531.19 to confirm the rebound.
- The bullish rebound shouldn't be taken as a recovery.



DBS Group – Price rebound as expected

- The report titled “The Banks had a similar sell-off in a similar fashion” dated 18th March 2020 has played out accordingly based on the wave analysis.
- We expect DBS to climb towards 20.00-21.00 region before a sell-off resume to complete wave (v), which is the last leg of wave C.
- We have 2 target price for Wave C target price, 15.19-14.81 and 13.74-13.29

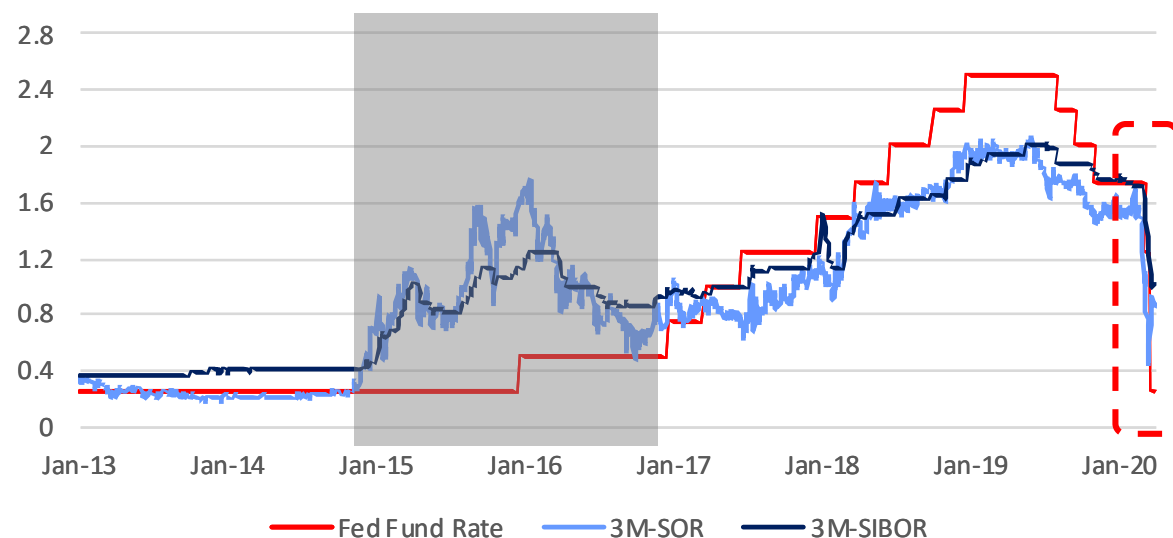


Sector Views



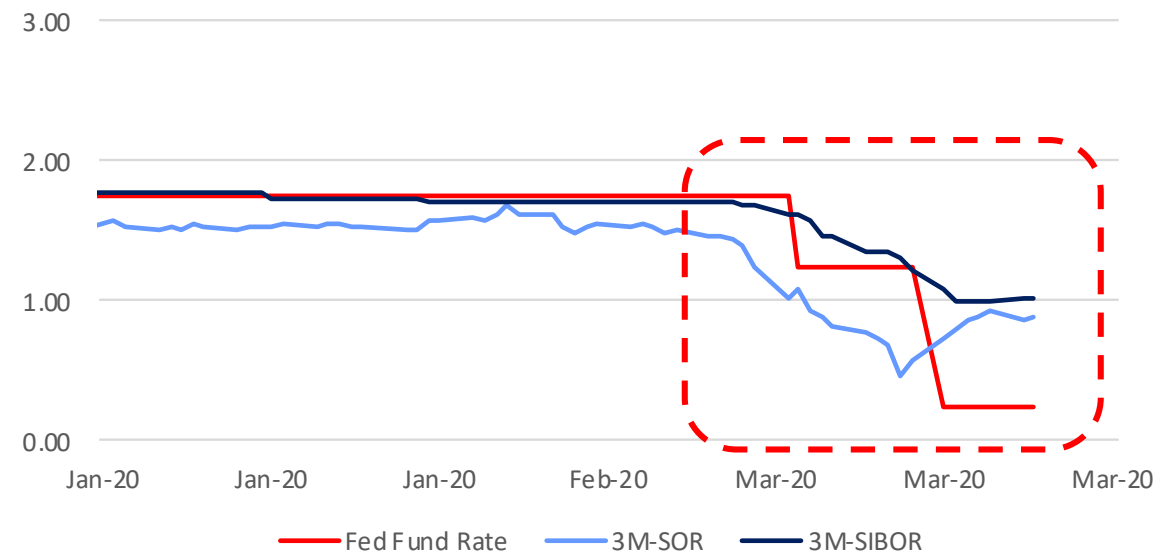
Banking: Fed rate cuts and margin compression

Fed Fund Rates (FFR) vs. 3M-SIBOR vs. 3M-SOR



Source: Bloomberg, PSR

Fed Fund Rates (FFR) vs. 3M-SIBOR vs. 3M-SOR



Source: Bloomberg, PSR

Double whammy in March

- Reduction of 50 bps and 100 bps
- Levels last seen after 2008 Global Financial Crisis

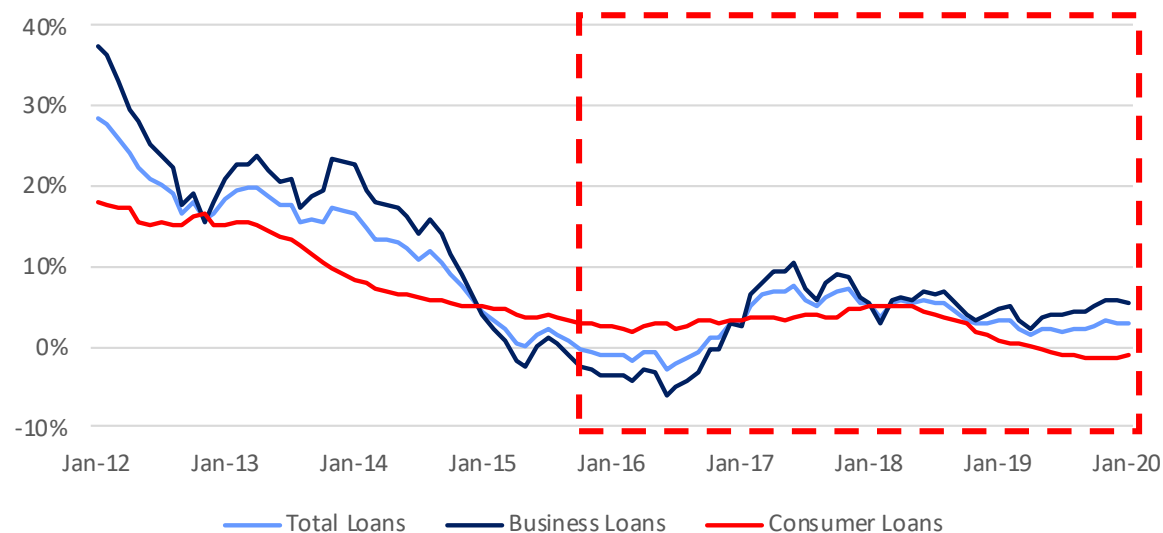
	3M-SOR	3M-SIBOR
1Q20 Average	1.32%	1.59%
2020 Low	0.49%	0.99%
Current	0.89%	1.01%

Banking: Loans outlook

Jan 2020 Total DBU Loans (S\$mn)

691,155

DBU Loans Growth (YoY %)



Source: CEIC, PSR

	2016	2017	2018	2019	Current
Growth Rate	2.93%	5.60%	3.04%	3.08%	2.97%

Consumers Loans	S\$mn	Proportion
Housing & Bridging Loans	200,828	29.1%
Professional and Private Individuals	61,979	9.0%
- Car Loans	8,849	1.3%
- Credit Card	11,541	1.7%
- Share Financing	1,832	0.3%
- Others	39,757	5.8%
Total	428,348	62.0%
Pro. and Priv. Individuals	35,074	5.1%
Others	142,399	20.6%
Total	428,348	62.0%

Source: CEIC, PSR

Technology (Hardware): Supply shock not demand

CH: Handset production units (YoY 3MMA)



KR: Semiconductor export value (YoY 3MMA)



Global semiconductor spending (YoY)



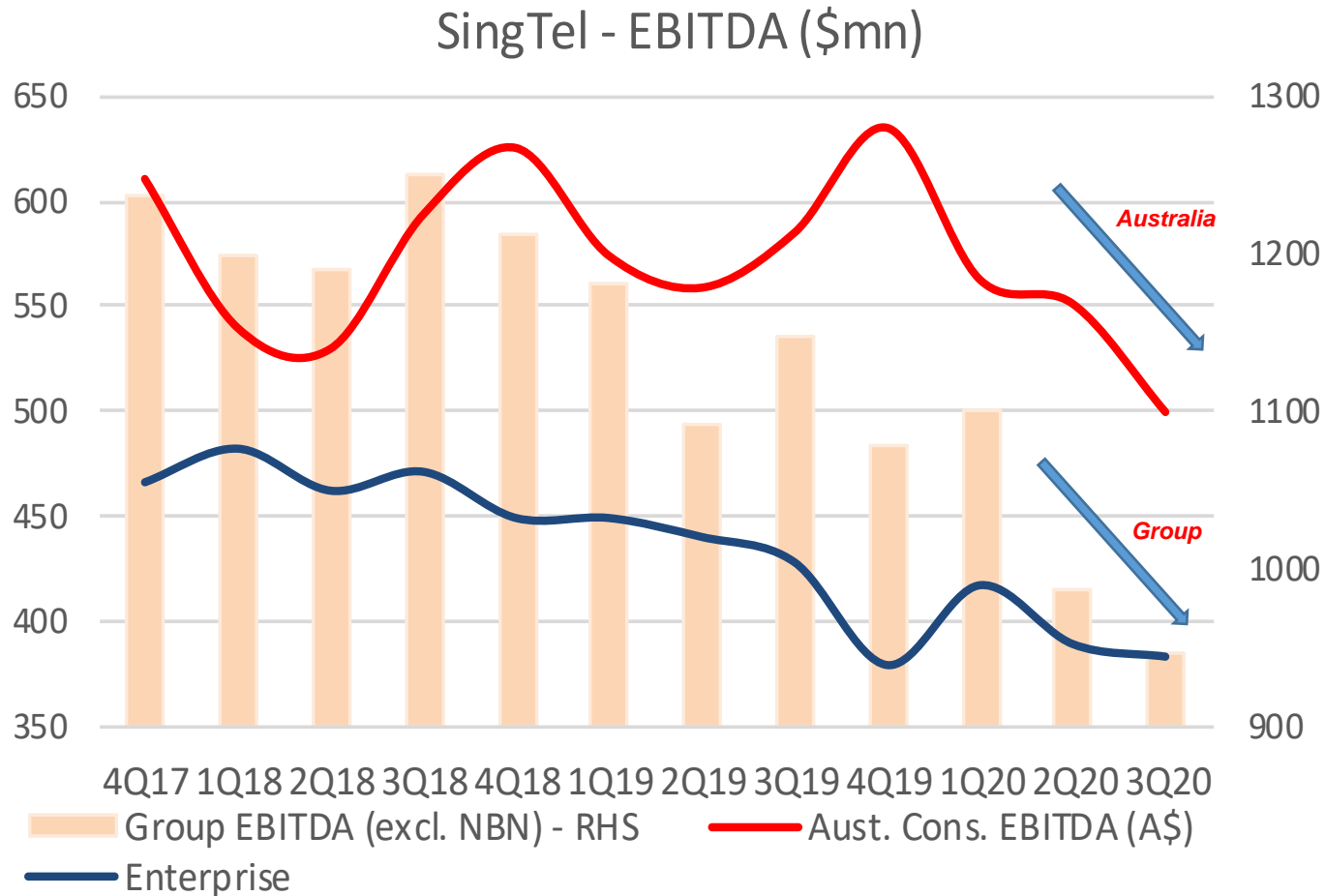
TW: Backend packaging units (3MMA YoY)



- Demand drivers intact and even accelerating
- 5G + Mobile Computing + Cloud Computing + New Foundries in China
- Transportation disrupted
- China resuming but now Malaysia supply chain now paralyzed
- Rating: **OVERWEIGHT**

Source: CEIC, PSR

Telecommunications: Australia a soft spot



- **Australia:** Broadband, mobile and enterprise all weak; NBN a structural headwind
- **Enterprise:** Customers cutting back on their budgets and competition intensify
- **Content:** Hooq liquidated ; > US\$25mn loss in investment
- **Associates:** Bharti the bright spark as competition reduce but Telkomsel outside Java face competition
- **SingTel** cut guidance 2 consecutive quarters
- Rating: **OVERWEIGHT, Prefer StarHub and NetLink**

Aviation: Bailout has a flip side

SIA: Share price - past 20 years (S\$)



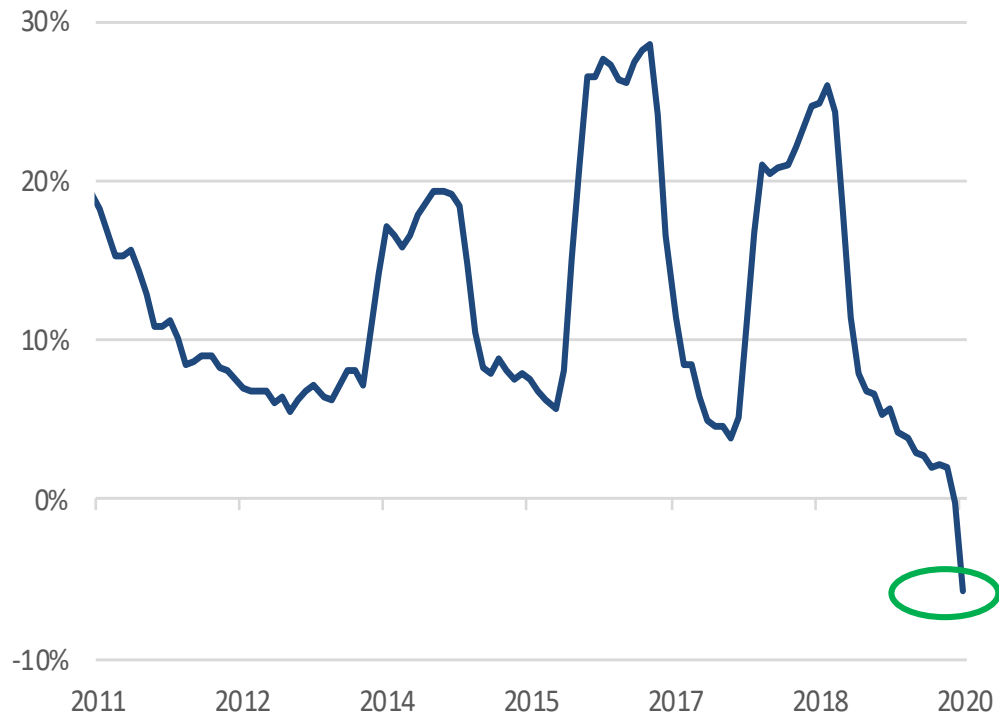
Type of issue	Shares (mn)	Value (S\$m)	Per Share	Rights Entitlement
Existing	1,185	6,874	5.80	
New issues	1,778	5,333	3.00	3 for 2
TERP	2,963	12,207	4.12	
Right MCB	723	3,500	4.84	295:100
	3,686	15,707	4.26	
Additional MCB	n.a.	6,200	n.a.	

- 3 for 2 rights issue of 1.77mn new shares @\$3 per share; raise S\$5.3bn; every share pay S\$4.5k
- TERP price is S\$4.40 (S\$6.50) or S\$4.12 (S\$5.80)
- Temasek underwrite..... Everything
- Competition is strategic, not for profit
- 4% redemption value for MCB

Source: Bloomberg, PSR, TERP = Theoretical ex-rights price, MCB = Mandatory convertible bond

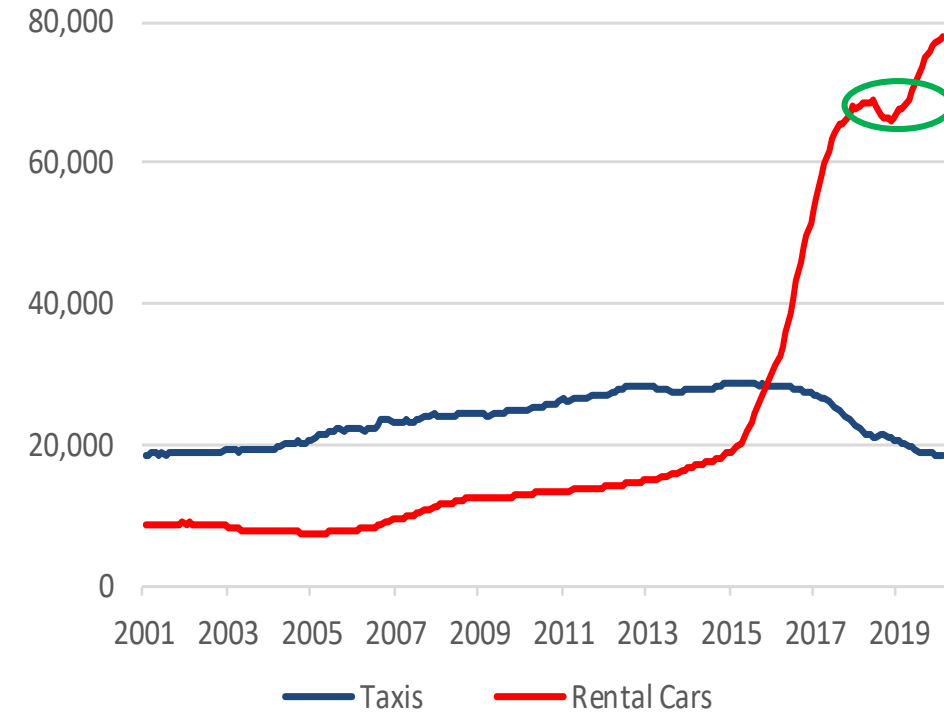
Land Transportation – Too tough a competitor

SBS: Rail Ridership Growth (YoY - 3MMA)



1st YoY decline ...

Taxi vs Private-Hire (units)



Even Bruce Lee ...

Feb20: 4.2 to 1

2018: 3.2 to 1

2017: 2.8 to 1

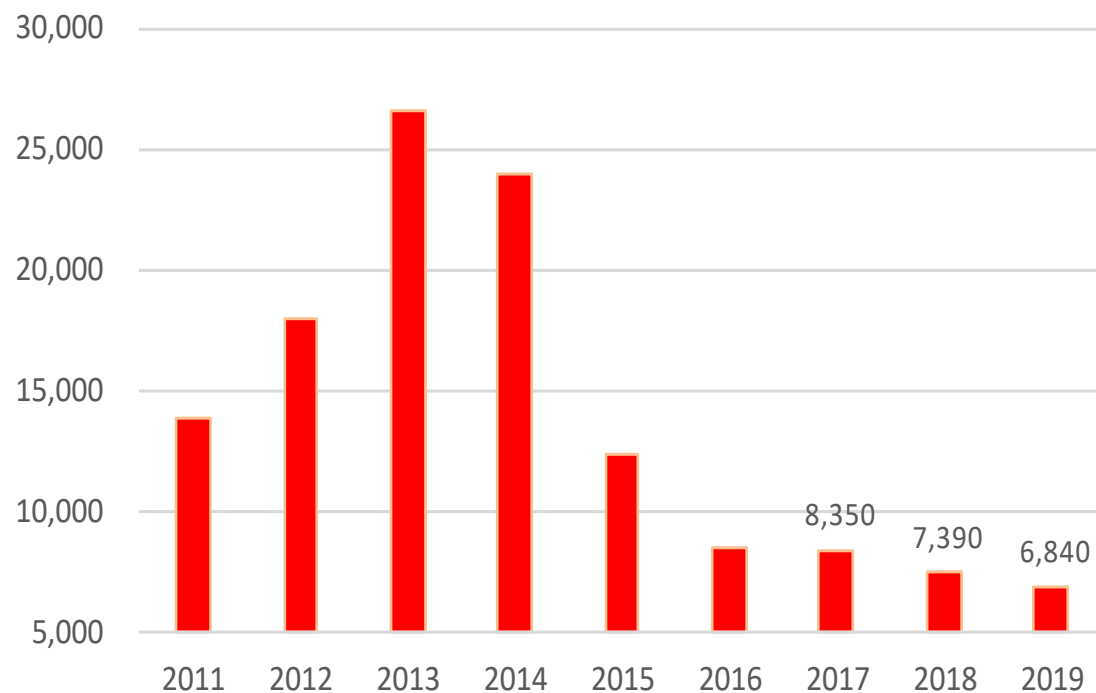
2016: 2 to 1

2015: 1 to 1

Source: CEIC, PSR, Rail is NEL, DTL & LRT

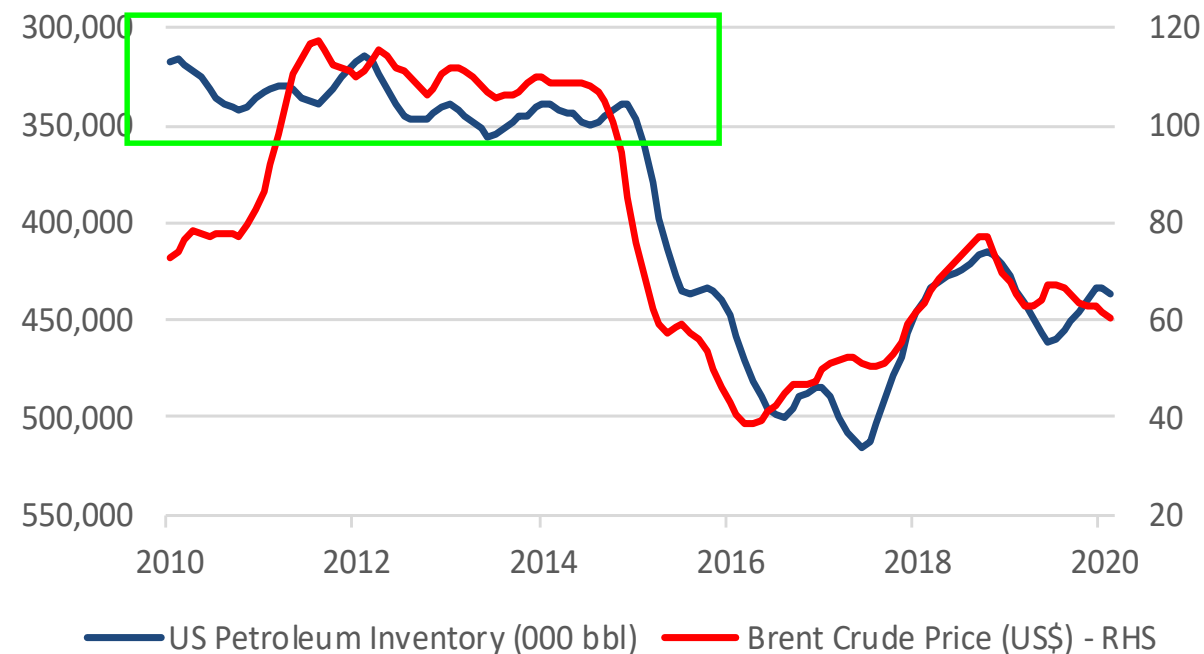
Marine Sector: Exploration is game over

Keppel/SMM orderbook (S\$mn)



Falling even before oil px collapse...

Crude Price Vs Inventory (6MMA)

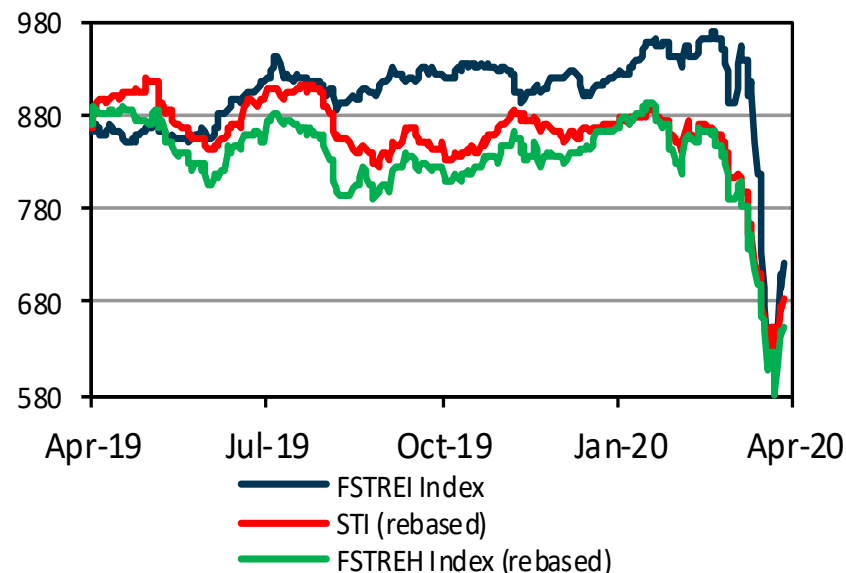


Inventory from 440k need to drop back to ...350k

Source: CEIC, Bloomberg, PSR

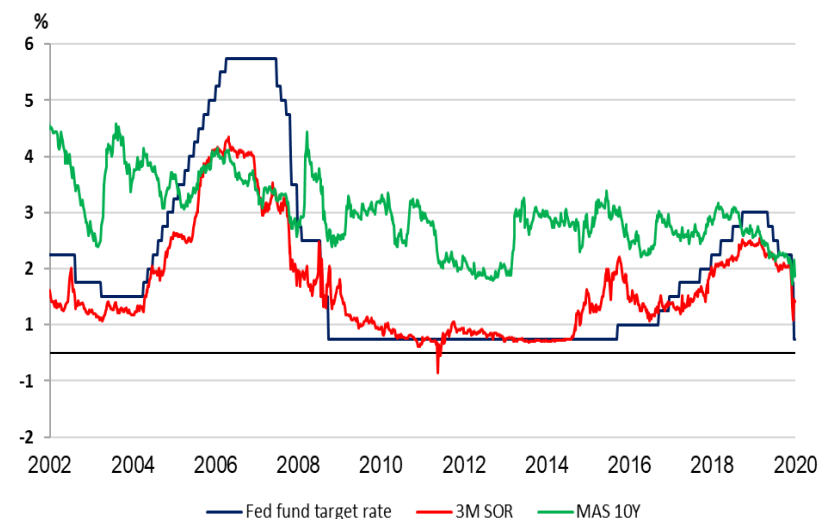
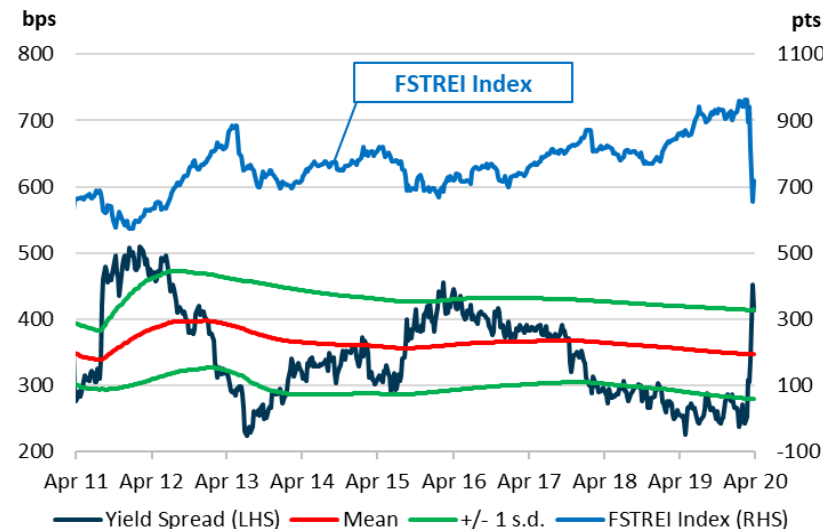
32

REIT: Dividend Yield at +1.1 s.d. level



INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	(25.6)	(23.2)	(23.7)	(14.7)
FSTREH RETURN	(21.3)	(24.5)	(24.7)	(21.9)
STI RETURN	(19.9)	(22.4)	(22.4)	(18.9)



Dividend yield: 5.6%
2019 Ave: 4.6%

Div. yield spread: 4.2%
2019 Ave: 2.6%

FED rate: 0% - 0.25%
after 150bps cut

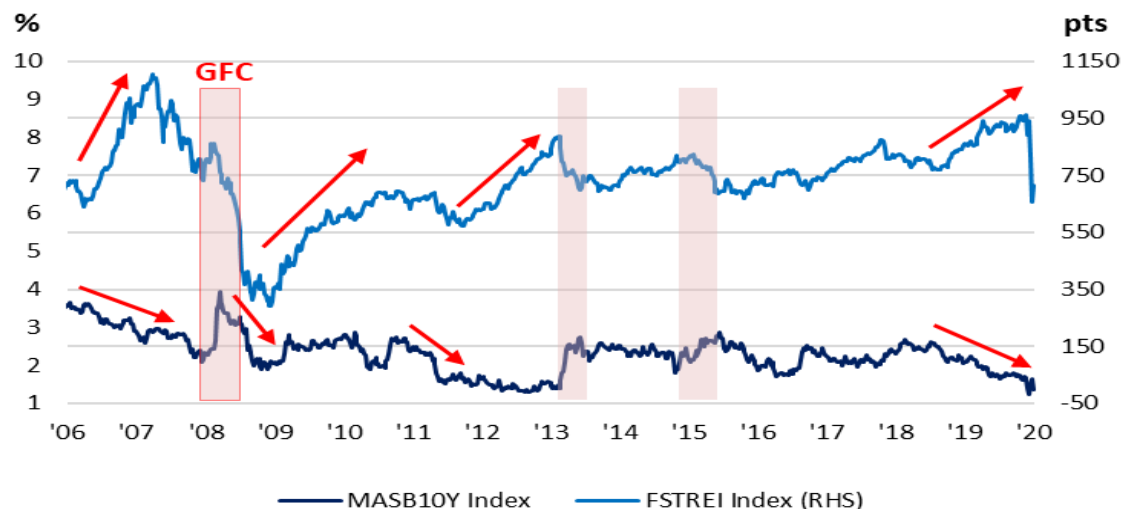
3M SOR: 0.9%
(YoY: -100bps, -51.6%)

10YSGS: 1.4%
(YoY: -66bps, -31.6%)

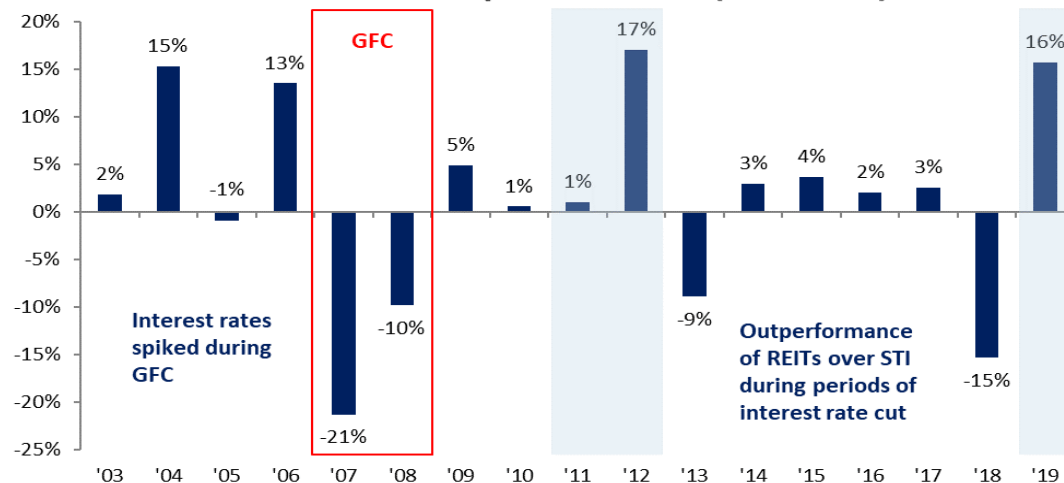
Source: Bloomberg, PSR

REIT: This time, it's different

Inverse relationship between 10YSGS and FTSE REIT Index



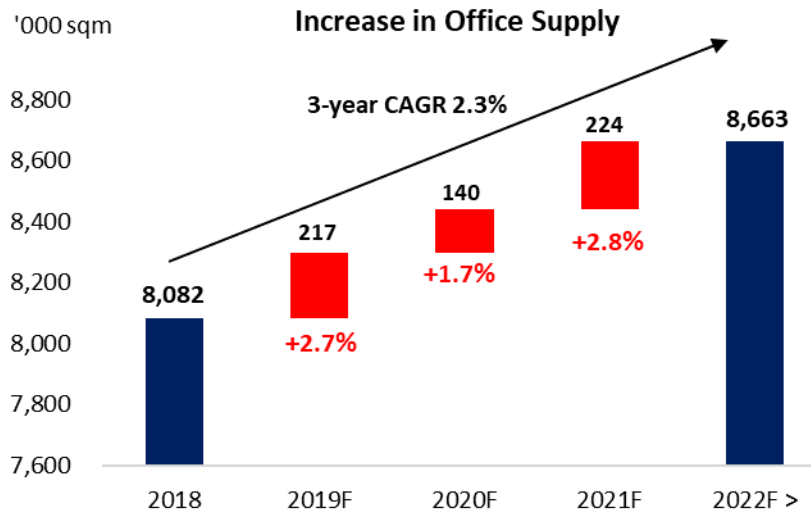
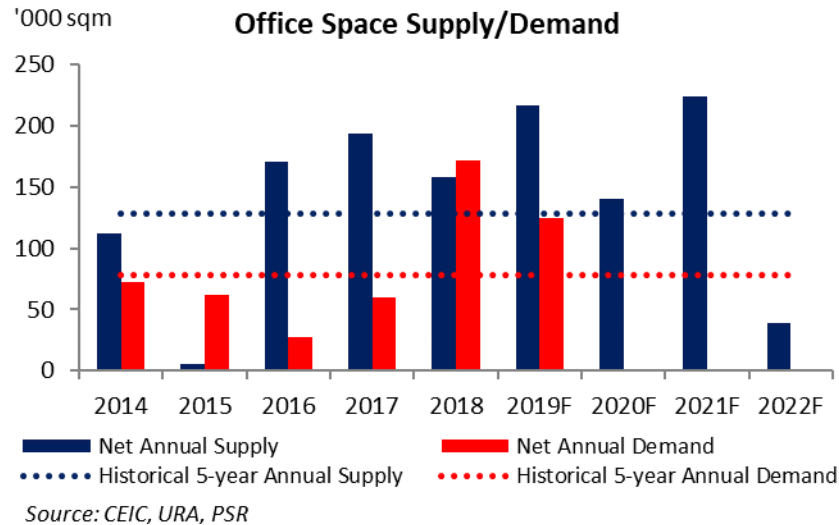
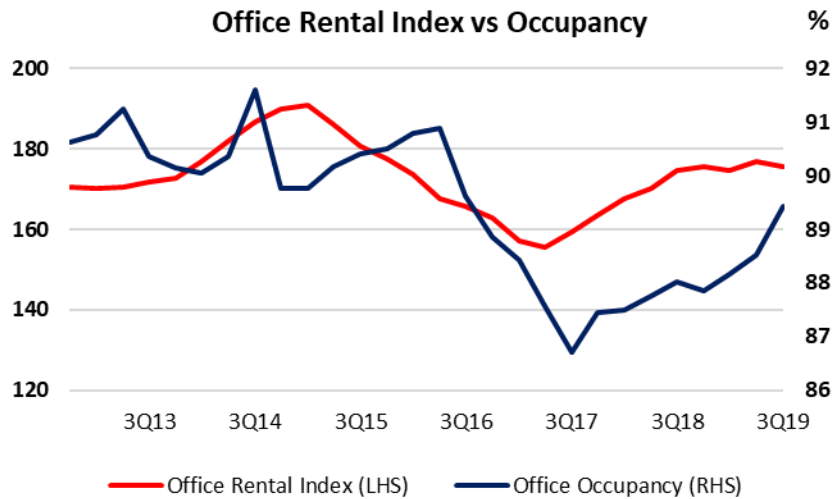
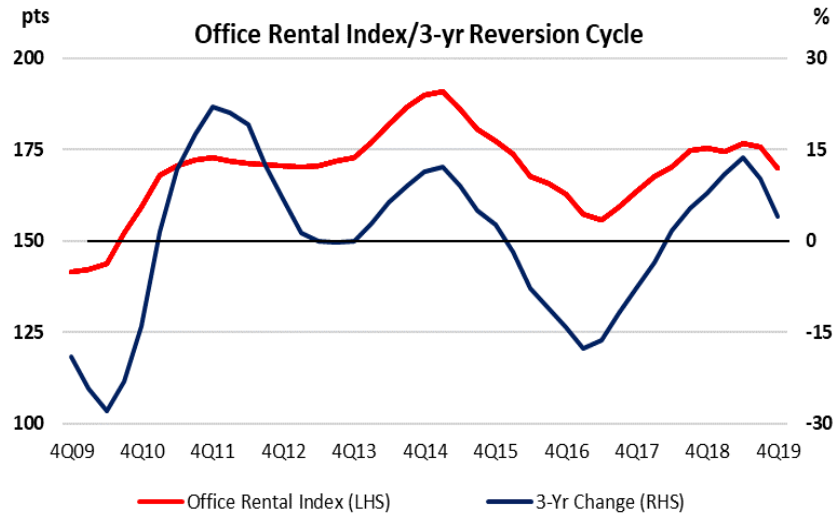
Absolute % Outperformance (REITs-STI)



- In times of financial crisis, stocks tend to exhibit higher correlation with the markets
- Key difference: Spike in interest during GFC vs near zero interest levels now
- Low interest rate environment is a tailwind for REITS as financing cost comprises 30% to 40% of expenses but acquisitions will pause due to lower equity values
- More renewals; new leases taking longer to conclude

Source: Bloomberg, PSR

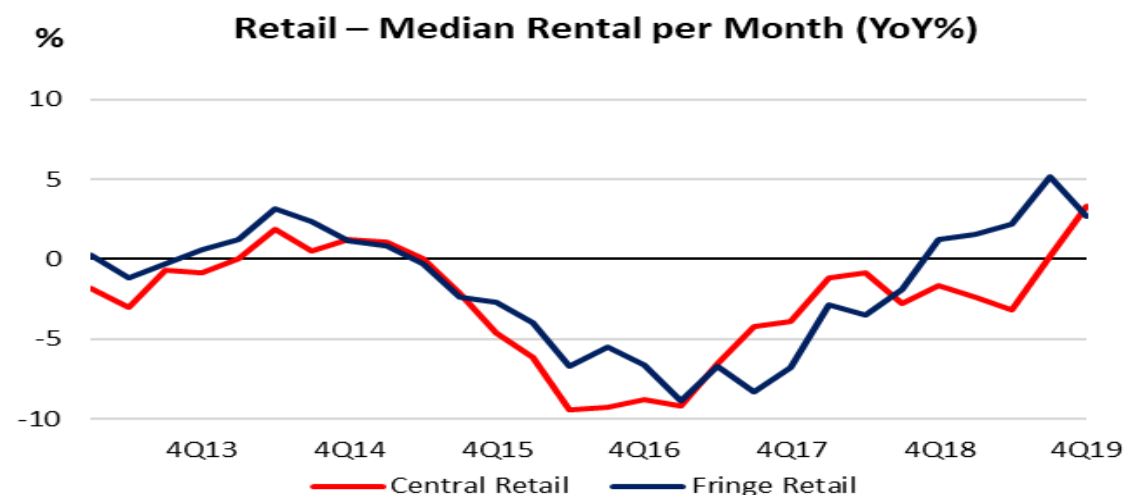
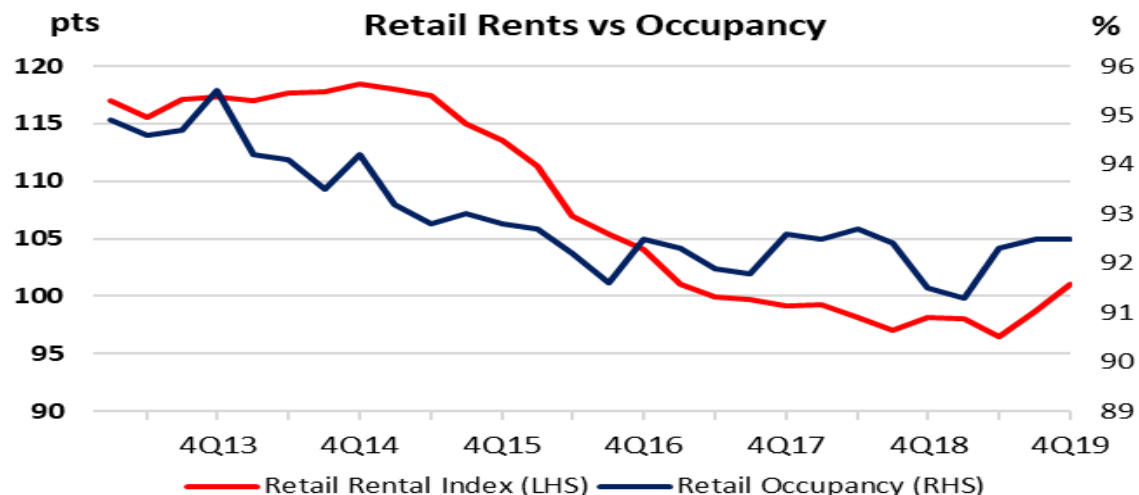
Commercial – Riding The Upcycle



- Risk? Rationalisation/Right-sizing of space, enabled by technology and accelerated by BCP's remote working
- Positive rental reversions still expected over 2017's trough rents
- Benign supply coming onto the market

Source: Bloomberg, PSR

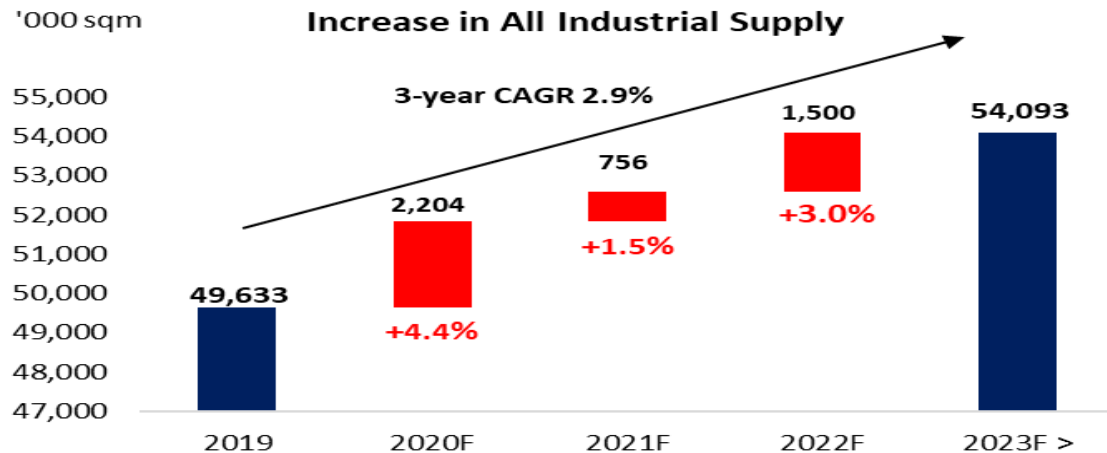
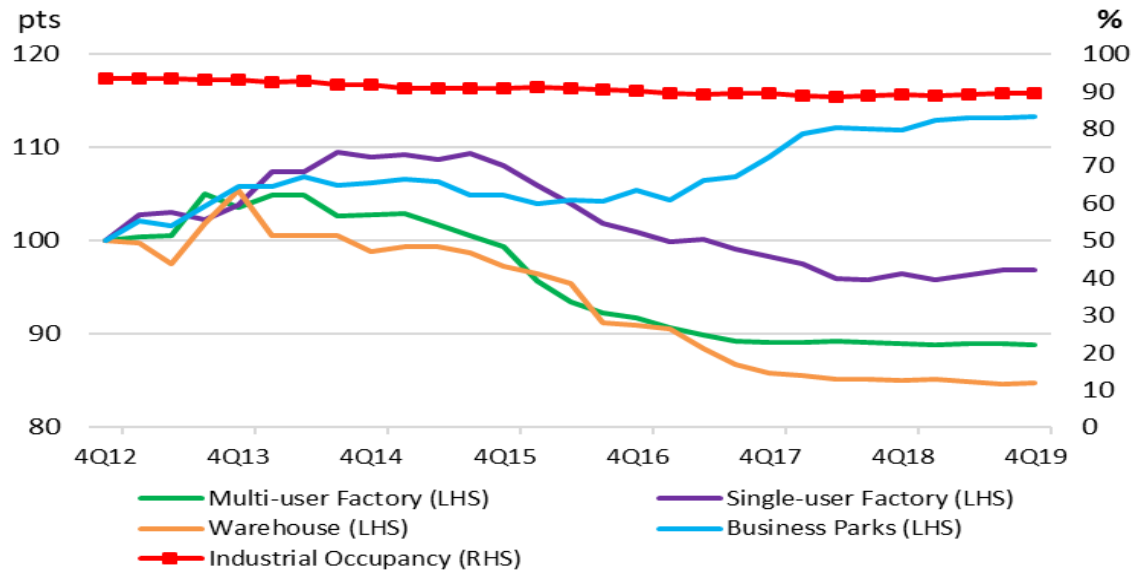
Retail – Temporal headwinds



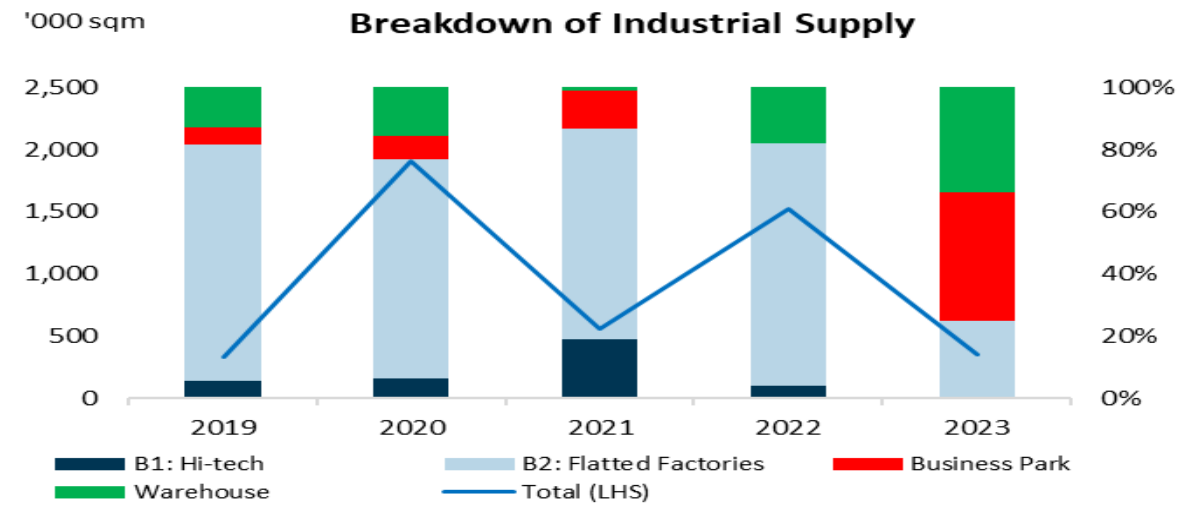
- 172k sqm (+2.8%) of retail space in 2019 was well absorbed
- Benign supply (c.70k sqm) coming onto the market in 2020 and 2021
- 2019: REITs under our coverage managed to secure rental reversion in the low single digits – weaker tenant sales still outperformed RSI Ex MV Index
- Symbiotic tenant-landlord relationship – helping tenants pull through
- 100% property tax rebates will be passed on to tenants
- Rental rebates, releasing of one month's worth of security deposits, rental waivers for entertainment and enrichment centre tenants
- Necessity-driven suburban malls will do better

Source: Bloomberg, PSR

Industrial – A waiting game

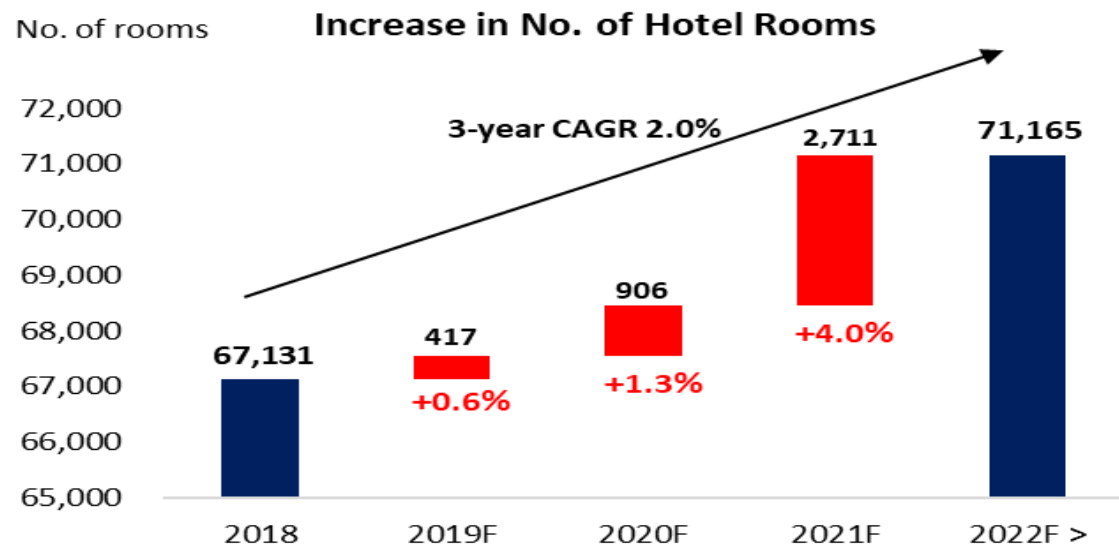
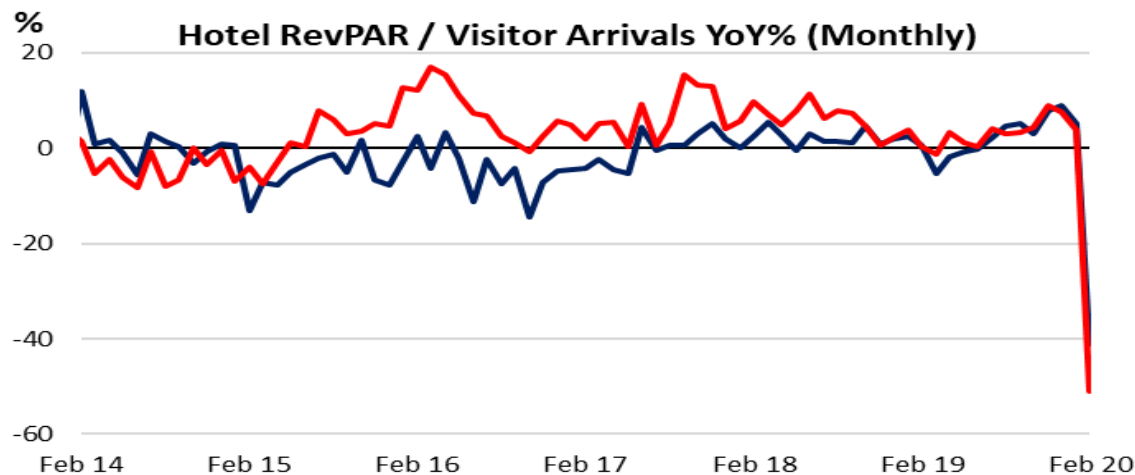


- Industrial supply to grow at a CAGR of 2.9% (3-year historical: +3.1%)
- Strong competition among flatted factories (accounts for 68%-78% of supply)
- Asset redevelopment, repositioning, rejuvenation
- Business as usual, AREIT no enquiries on rebates or spike in arrears



Source: Bloomberg, PSR

Hospitality – Strong rebound to come

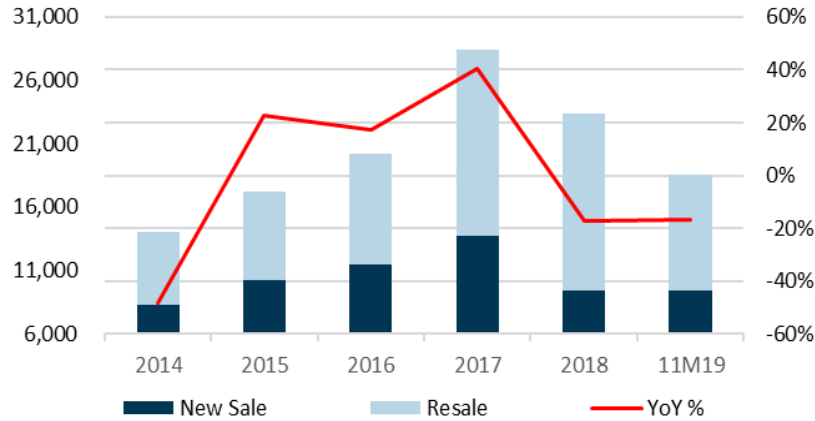


- Muted room supply tailwinds overshadowed by Covid-19; 3-yr CAGR of 2.0% vs historical 3-yr CAGR of 4.2%
- Occupancies for hotels between 20% to 50%; SRs occupancies c.70% due to longer-staying corporate clients
- Feb 20: IVA -51%, RevPAR -41%
- Stay-home notice customers helping to fill occupancy
- Most SG-listed hospitality REITs have revenue structures with at least 50% of revenue from “stable” sources
- Both Singapore-centric and diversified hospitality REITs equally hit due to the international nature of tourism
- 100% property tax rebates; accelerating AEI/maintenance timelines

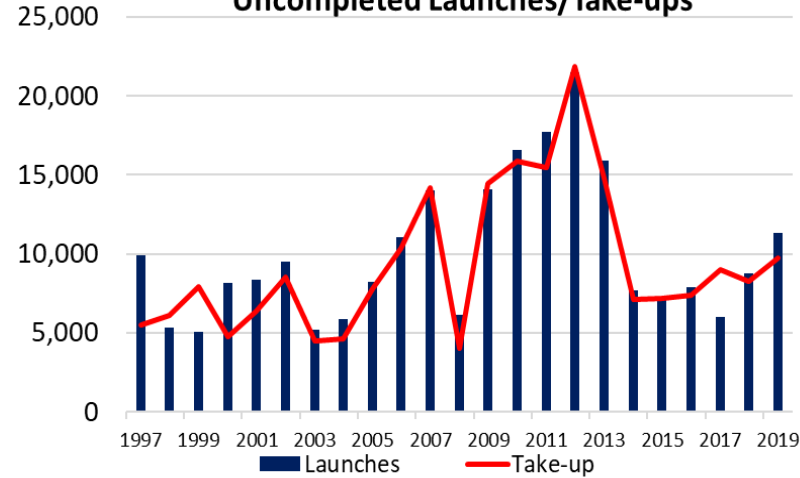
Source: Bloomberg, PSR

Property transactions bucking the trend

Recent Property transaction volumes



Uncompleted Launches/Take-ups

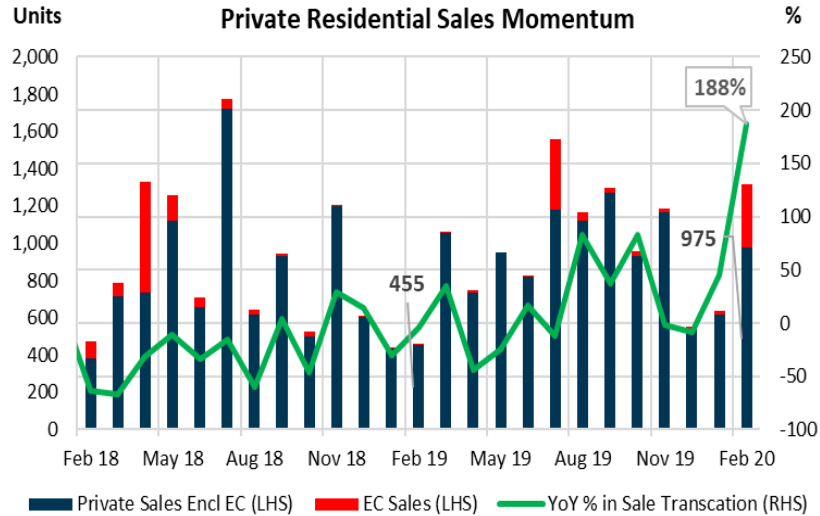


- 35,529 unsold units in the pipeline vs average of c.9,800 primary sales 2018/19

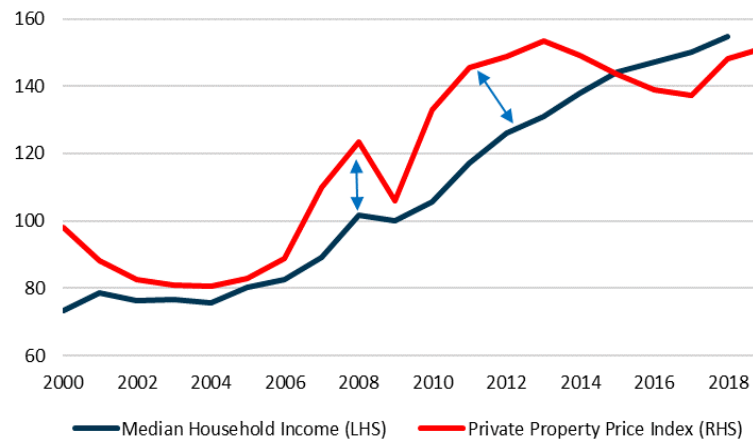
- ABSD penalties to keep launch timelines

- Property prices expected to hold steady due to committed development costs

Private Residential Sales Momentum



Private Residential Price Index vs Median Household Income (2009=100)



- Selective launches with good locations pulled crowds despite Covid-19; Feb sales +114% YoY

- Low interest rates to help transactions

- Maintain **NEUTRAL**

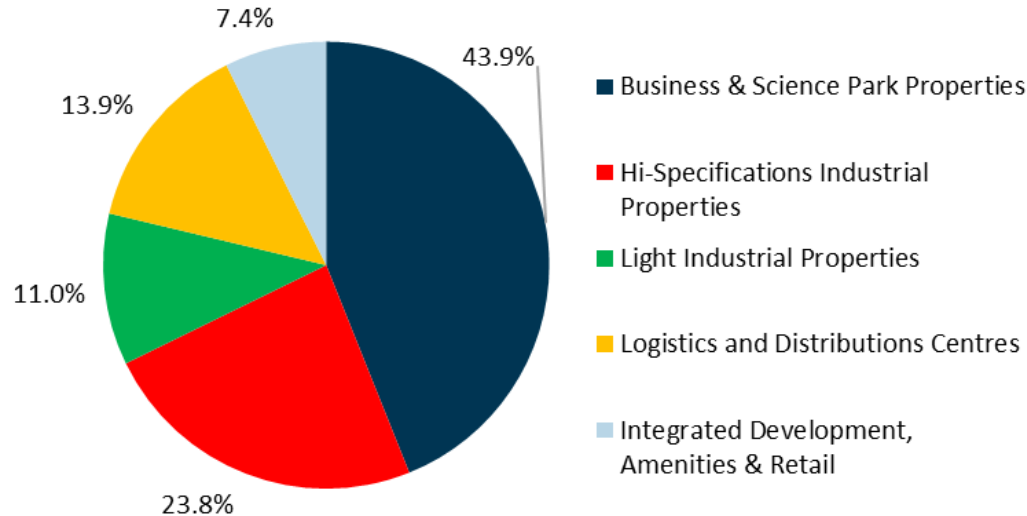
Source: Bloomberg, PSR

Stock picks



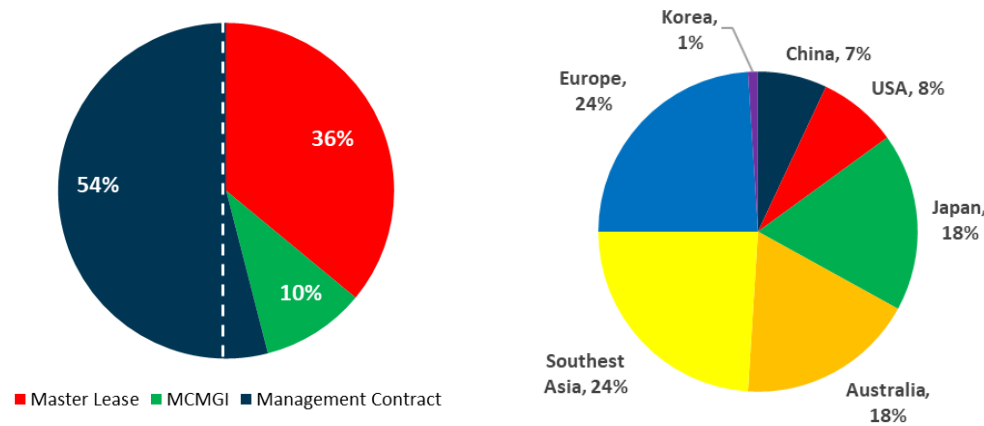
Ascendas REIT: The stable giant

Breakdown of SG Gross Revenue by Asset Class

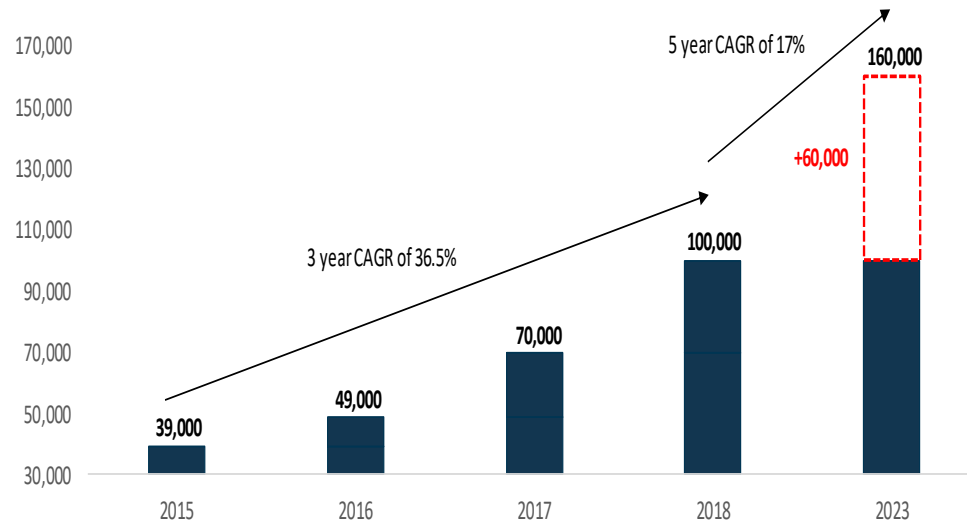


- Protected by diversification - 197 assets across 5 asset classes and 4 countries
- 68% of revenue from in-demand Biz Parks and Hi-spec asset class
- Low tenant concentration risk – 1,490 tenants, no tenant accounts for more than 4% of NPI)
- Size allows undertaking of value-adding redevelopment and development projects with minimal impact to DPU
- Track record – willing and able to enter promising markets in a meaningful way
- Rating: BUY; TP: S\$3.31.

Ascott Residence Trust: Better equipped to ride out the storm



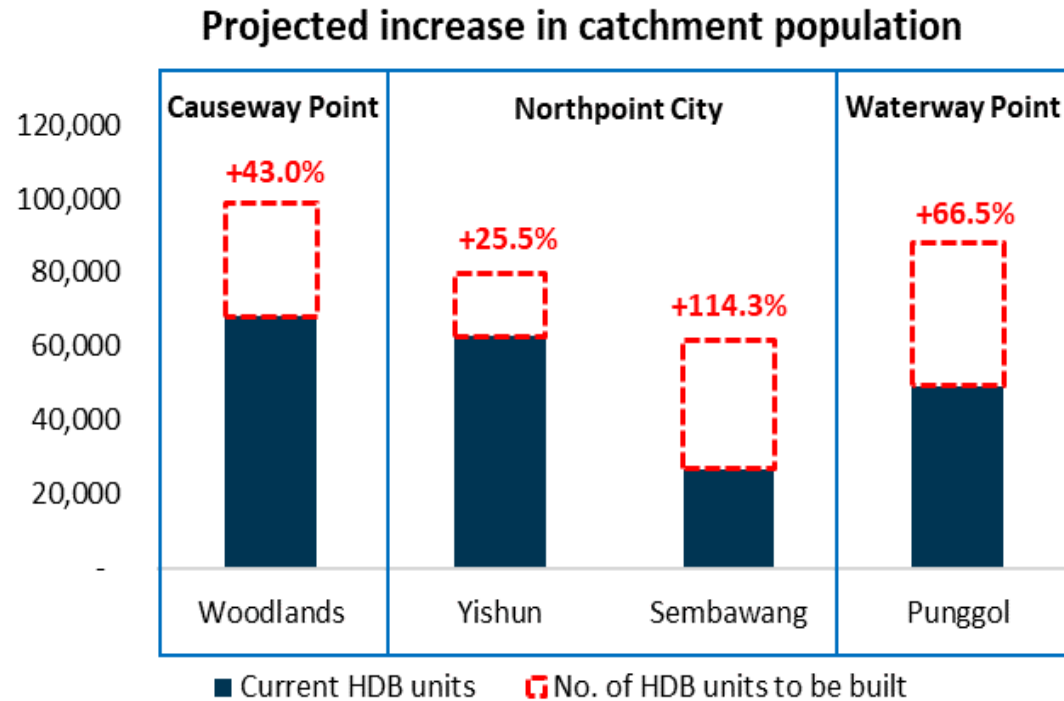
Sponsor's growth in No. of keys under management



Source: Company, PSR

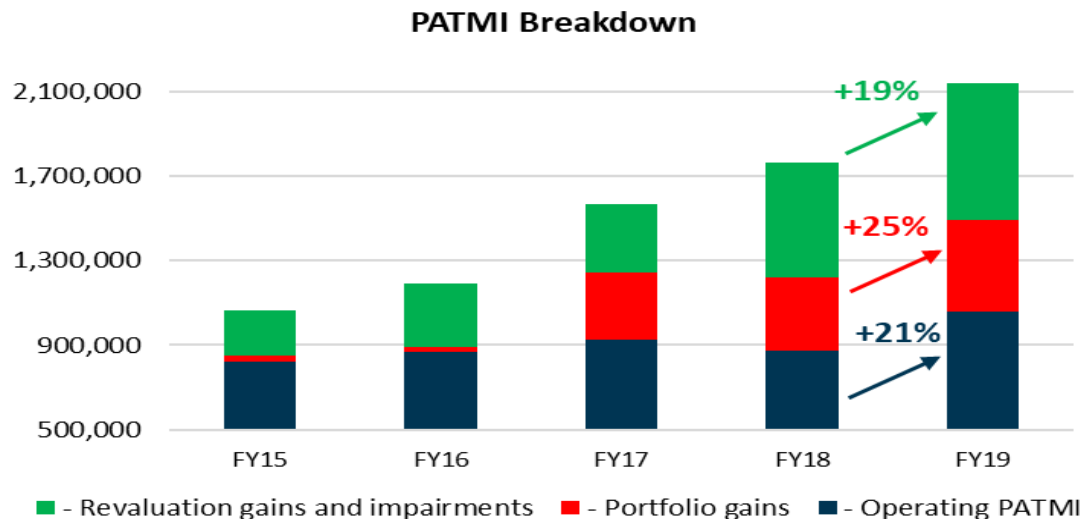
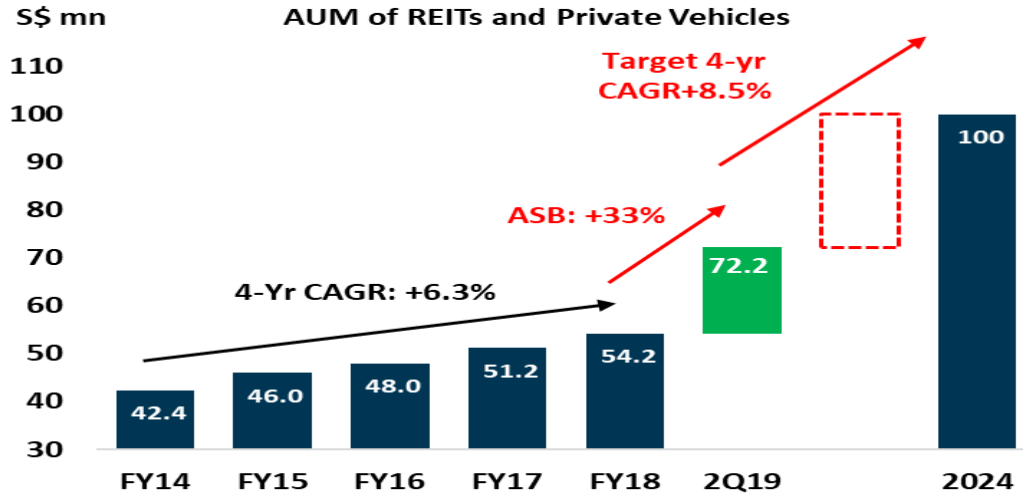
- Stability from geographical and lease structure diversification
- 20 ROFR properties, S\$1bn debt headroom, immediate c.40% increase DPU yield from 5.4% to 7.5%
- Serviced Residences proving the more resilient and asset type – occupancy 60% (Industry Ave: 20% to 50%)
- Increased brand recognition and loyalty programs
- Popularity of select-service accommodation – preference for value
- Rating: **BUY**; TP: **S\$1.53**.

Frasers Centrepont Trust: Resilient growth



- Anchored by resilient necessity spending – suburban malls will recover faster than central malls
- Organic growth: Projected 67.7% jump in HDB units surrounding three largest malls
- Beneficiary of URA Master Plan (Woodlands and Punggol)
- Inorganic Growth: 3 Pipeline assets from Sponsor and 6 mall under PGIM portfolio
- Imminent acquisition FPL has acquired the property manager and has 88% stake in PGIM
- Rating: **BUY**; TP: **S\$3.11**.

CapitaLand: In hyperdrive



- Unlocking value in new geographies (India) and asset classes (business parks). Plans to more than double AUM in India from S\$3.3bn to S\$7.0bn by 2024
- Achieved 10% ROE – grew PATMI across all segments
- High proportion of recurring income – Investment properties contribute 80% of FY19 EBIT
- Rating: **BUY**; TP: **S\$4.20**

Source: Company, PSR




UOB: Defense is the best offense

Context #1: NIM compression

- Favourable for bank with lower CASA ratio
- Greater room for flexibility to adjust funding costs




Context #2: Asset quality deterioration

- Impact of COVID-19 should be similar across all banks




			
Total CASA (\$mn)	238,357	146,489	141,190
Total Deposits (\$mn)	404,289	302,851	310,727
CASA Ratio	58.96%	48.37%	45.44%
Gross loans (\$mn)	362,427	264,773	268,676
NPL (\$mn)	5,773	3,838	4,136
NPL Ratio(%)	1.5	1.5	1.5
Credit Costs (bps)	21	25	24

Source: Company, PSR

DBS: Yield play to tide out volatile times

Dividend Payout			
FY2018 (S\$)	1.20	0.43	1.20
FY2019 (S\$)	1.23 (+2.5%)	0.53 (+23.3%)	1.30 (+8.3%)
FY2020e (S\$)	1.32	0.56	1.30
Current Price (S\$)	19.14	8.91	20.21
Indicative Yield	6.9%	6.3%	6.4%
Frequency	Quarterly	Semi-annual	Semi-annual

Source: Company, PSR

CET-1 Ratio			
FY2017	13.9%	13.9%	14.7%
FY2018	13.9%	14.0%	13.9%
FY2019	14.1%	14.9%	14.3%
FY2008 (GFC) Tier-1 Capital	10.1%	14.9%	10.9%

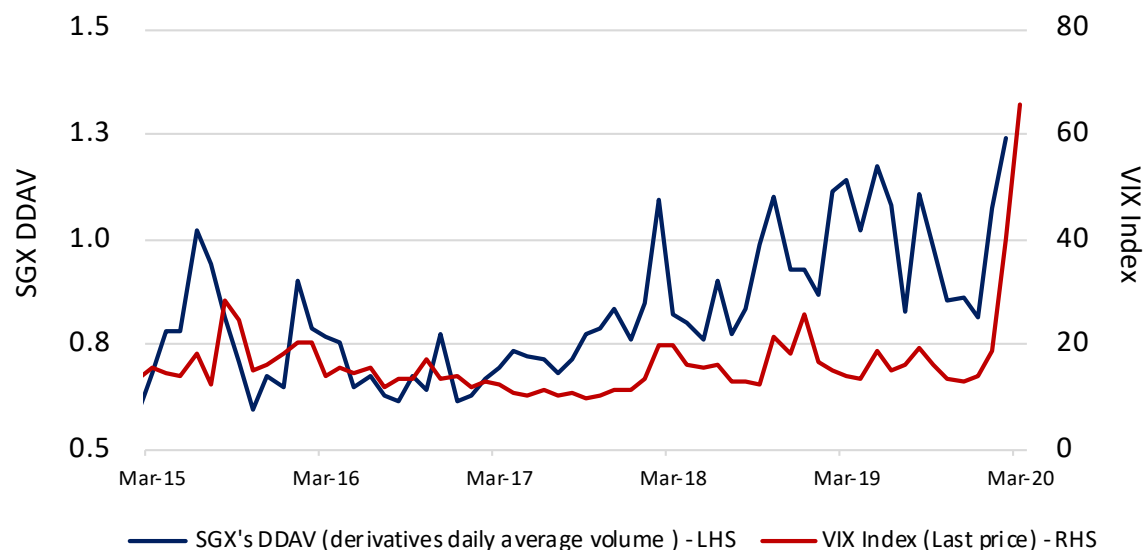
Source: Company, PSR

Sustainable and attractive dividend yield

- High CET-1 ratios across the local banks
- Frequency of payout

SGX: Tenacity in Adversity

SGX DDAV (mn) vs VIX Index



Source: Bloomberg, PSR

	DDAV ('000s)	YoY	VIX
Mar 20	-	-	58.0
Feb 20	1,239	+ 9%	19.6
Jan 20	1,075	- 3%	13.8

Main business includes Equities, FICC and DCI

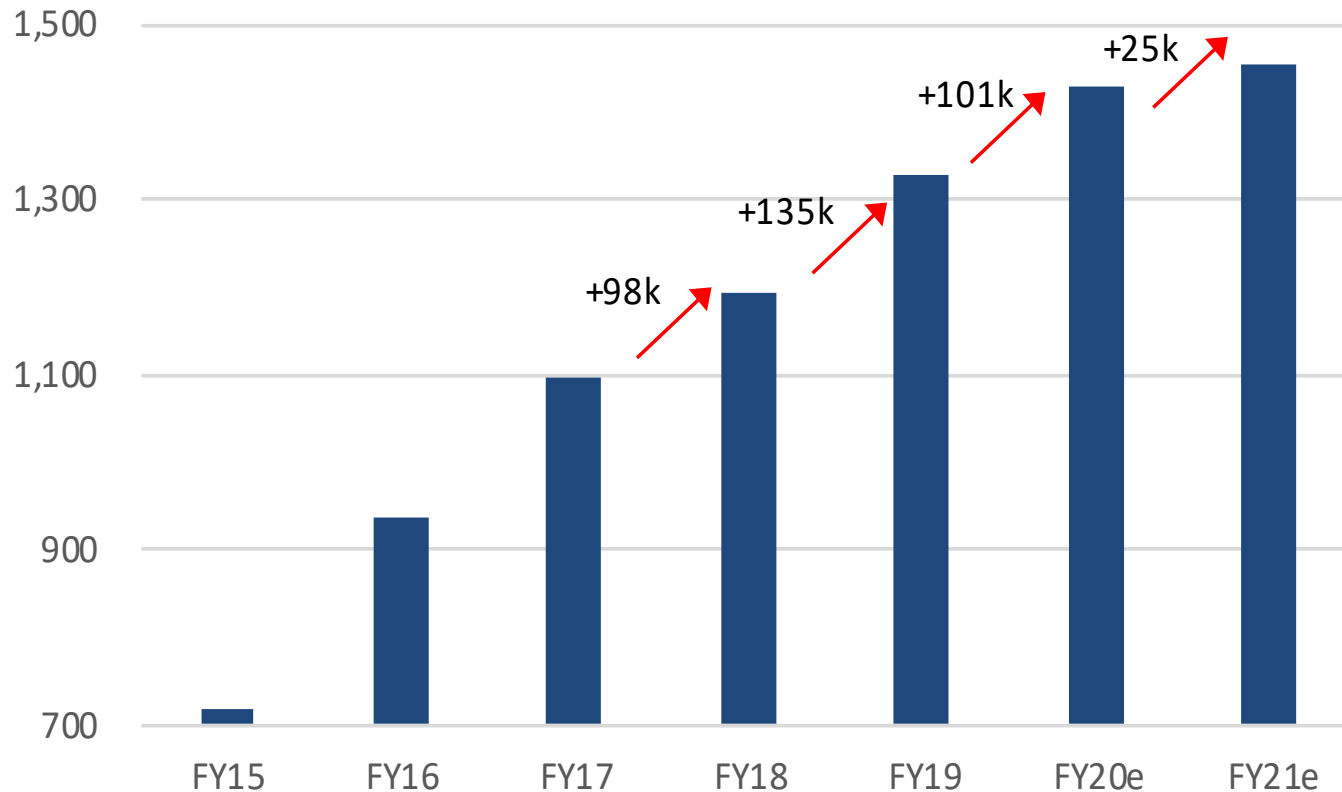
- Securities and derivatives typically move opposite
- Both securities and derivative volumes received a boost during the February and March sell-off
 - Spike in VIX benefits derivative volumes
 - Low valuations boosts securities volumes

➤ Earnings to receive a boost

	SDAV (\$mn)	YoY
Mar 20*	2,190	+ 113%
Feb 20	1,377	+ 30%
Jan 20	1,219	+ 24%

Netlink NBN Trust: Stable yield provider

NetLink Fibre residential subscribers (000s)

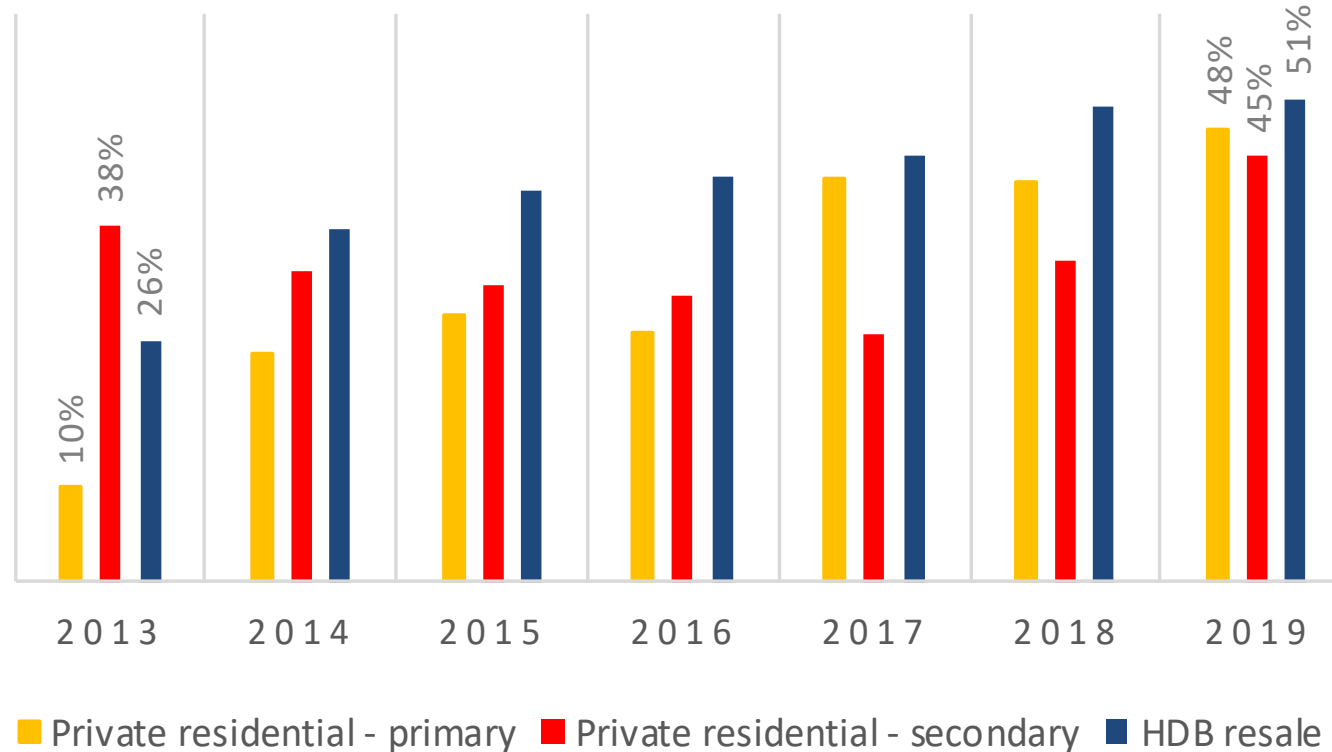


- Monopoly fibre provider that cannot be replaced
- Recurrent S\$13.80 per month from 1.4mn households = ~S\$231mn
- Impact from Covid-19 is minimal
- Dividend payout is after capex; S\$200mn dividend vs S\$250mn operating cash-flow
- **NEUTRAL***; TP: **S\$0.99**; Distribution yield: 5.9%

Source: Company, PSR, *our previous rating was Neutral based on S\$1.01 share price; currently S\$0.885

PropNex: Market leader with great model

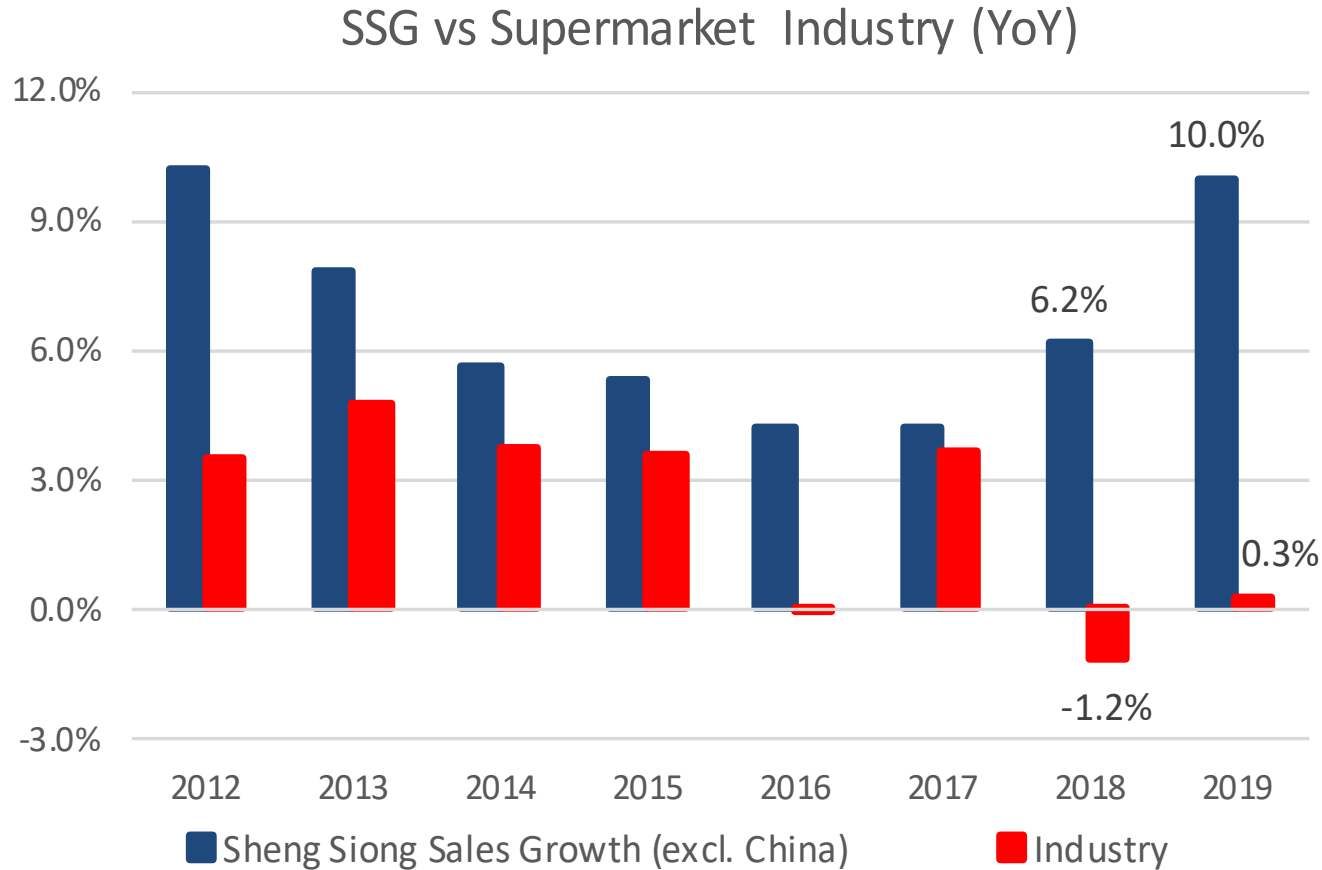
PropNex Market Share (units)



- Largest real estate agency in Singapore
- Impressive market share – private residential new launch 48%, private resale 45%, HDB resale 51%
- Impact from Covid-19
- Sustainable dividend yield of 7.8%; a S\$13mn payout vs net cash S\$82mn
- Attractive metrics: ROE 28% on fixed assets of S\$3.5mn
- Rating: **BUY**; TP: **S\$0.70**.

Source: Company, PSR

Sheng Siong: Growing 10x faster than industry

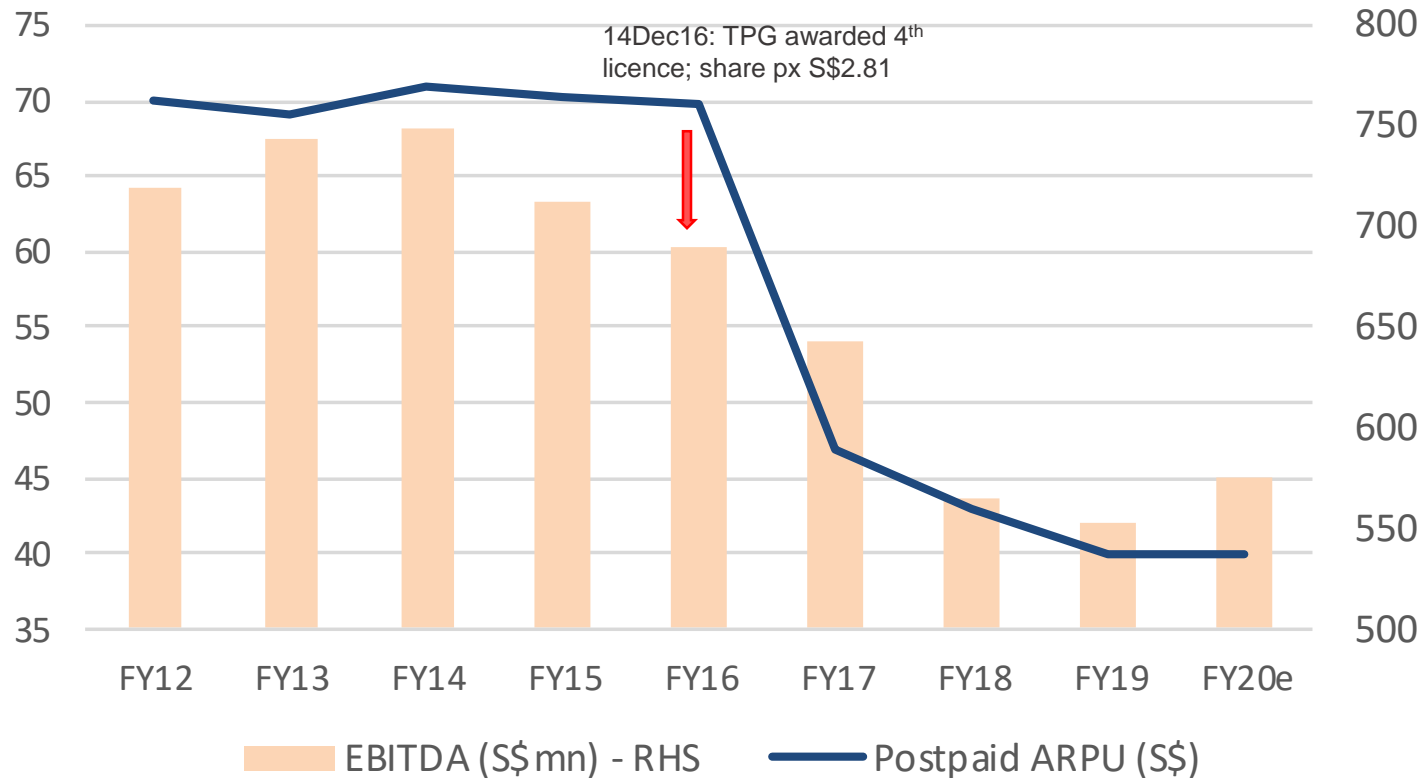


- Extra growth drivers in FY20 – stocking up, home meals and returning Singaporeans
- Other drivers of growth: store expansion of at least 5% + maturing stores productivity in sales per sft plus operating leverage
- Attractive metrics: 25% ROE, S\$76mn net cash, 3.1% dividend yield
- Rating: **ACCUMULATE**; TP: **S\$1.41**

Source: Company, PSR

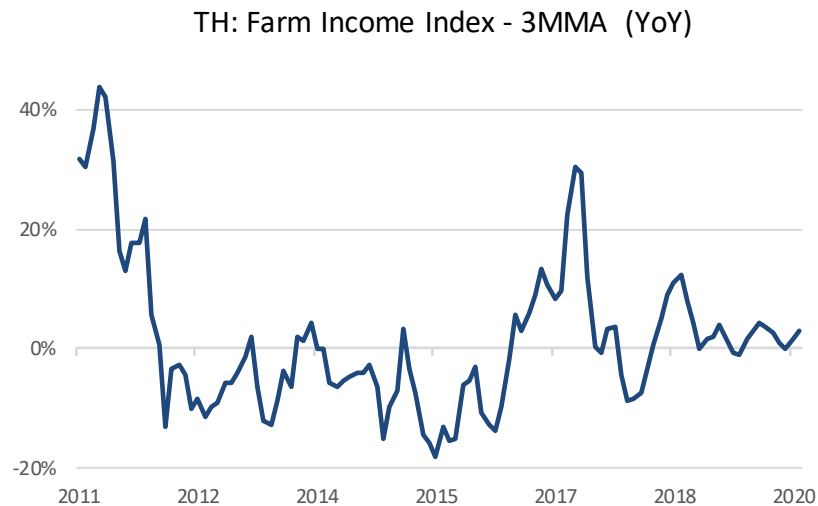
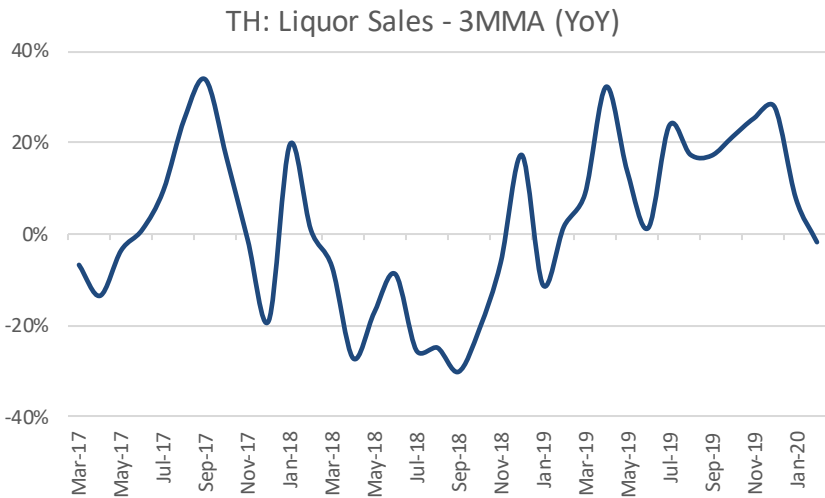
StarHub: Aligning and shining brighter

StarHub Metrics



- Relatively immune to the slowdown; roaming the most exposed
- Pay-TV content to be restructured and bought 2 years
- Cost rationalisation
- Mobile competition turned more stable
- Rationality in 5G joint bid with M1
- **ACCUMULATE**; TP: **S\$1.70**; Dividend yield: 6.9%

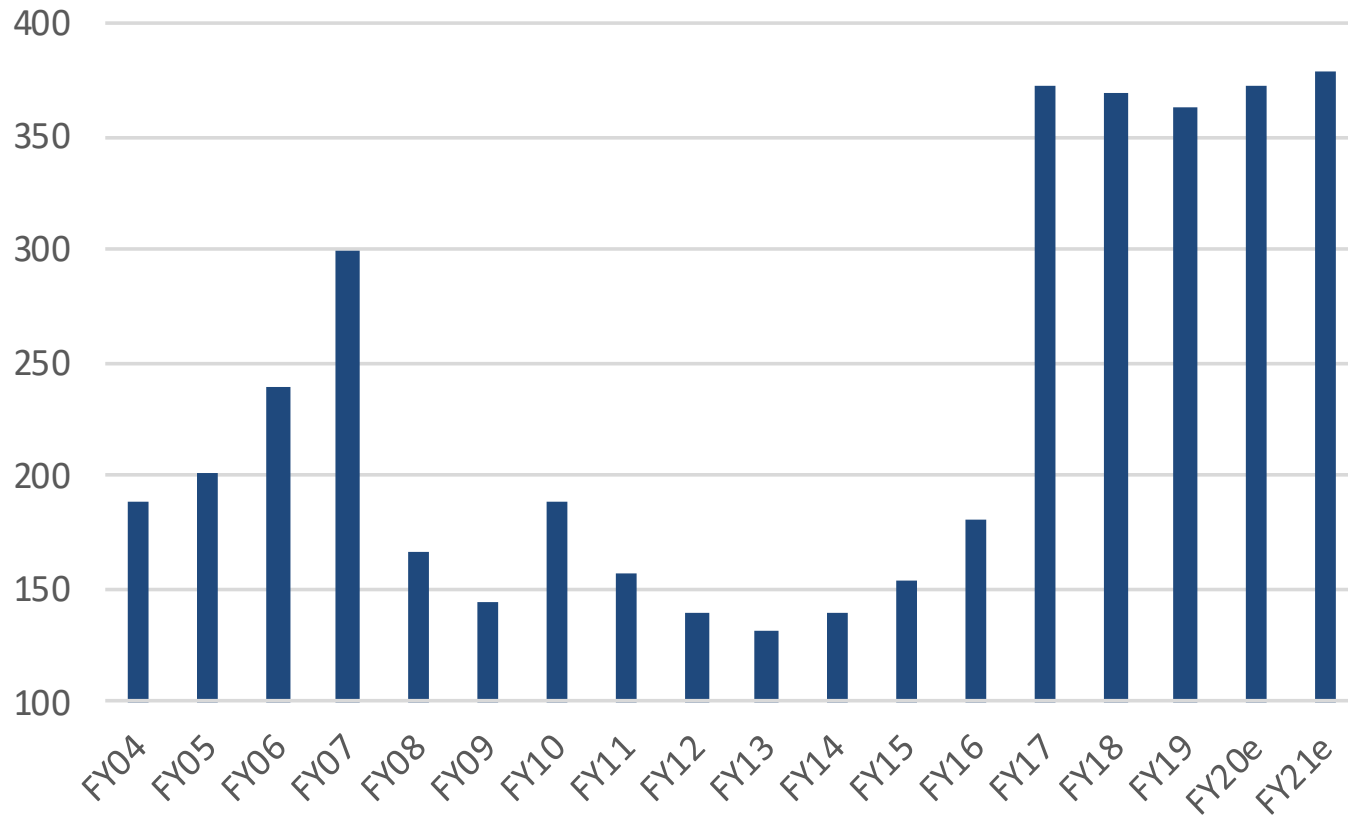
Thai Beverage: Cheap and dominant consumer stock



- > 80% of earnings from spirits business
- Dominant market share – 95% spirits (Thailand) / 70% (Myanmar) and 40% beer (Thailand and VN)
- Sabeco not contributing for now due to high interest expense
- Demand for spirits is stable with farm income stable from government support
- Valuations attractive at 12x FY20e PE
- Rating: **BUY**; TP: **S\$0.95**.

Venture: Always reinventing themselves

Venture PATMI (S\$mn)



Source: Company, PSR

- Growth from outsourcing away from China and new products namely in healthcare sector
- Production in Malaysia should be affected
- 1Q20 will be disrupted
- 10x PE FY20e + 5.3% yield + Net cash of S\$714mn + Dividend yield: 5.7% + ROE 14%
- **ACCUMULATE; TP: S\$18.10;**

RESEARCH EQUITY TEAM

Head of Research Paul Chew paulchewkl@phillip.com.sg	REITs Property Natalie Ong natalieongpf@phillip.com.sg	Property REITs Tan Jie Hui tanjh@phillip.com.sg
China / HK Equity Zheng Jieyuan zhengjy@phillip.com.sg	Technical Analyst Chua Wei Ren chuawr@phillip.com.sg	Research Admin Siti Nursyazwina syazwina@phillip.com.sg

Ask Questions!

Research materials (reports & videos) can all be found at:



StocksBnB.com

*Have an opinion or questions on our reports?
Post them in the comment section of the
report! Or visit the 'Community' page.*

Send "**SUBSCRIBE**" to **9782 8025** to receive latest research reports on WhatsApp

55



Thank you

Ask us anything

Ask our analysts anything about the market, sectors or any stock counters, here:

StocksBnB Community Page

1. Head over to our Community page and ask our analysts anything about the market, sectors or any stock counters.
2. Interact with others- share your knowledge and opinions about a topic.



58