Singapore Equity Strategy

PhillipCapital
Your Partner In Finance

Phillip Securities Research Pte Ltd

8 March 2013

Industrials (Capital Goods) preferred

We see the most upside for stocks in the Industrials (Capital Goods) sector. Majority of the stocks in this sector have strong order visibility and would benefit from positive long term trends in their niche area of business. Despite the positive outlook, most stocks in the sector remain reasonably priced.

Commodities the wild card

With the high level of Crude Palm Oil (CPO) inventories in the market, we expect near term price pressures that could be a drag on stock sentiments of the Commodities & Supply Chain Managers. However, an unusually large discount of CPO to soybean prices could provide upside surprise as spreads normalize to historical levels.

Still seeking safety of S-REITS & Telcos?

While S-REITS and Telcos are highly valued for their defensive traits, significant yield compression over the past year implies that both sectors are no longer cheap. However, with interest rates remaining at depressed levels, we do not see a correction for these yield plays in the near term. We continue to hold a positive view on Parkway Life REIT as part of its annual rental revisions are pegged to inflation rates.

Property sector unlikely to do well with the impending price correction

Despite low interest rates being conducive to property sales, introduction of the recent property cooling measures suggests that prices would be capped. With our expectation of a 5% correction in residential property prices and office rental rates, we see limited scope for the property sector to continue its outperformance.

Margin pressures weigh on Banks, Transport

We expect sustained NIMs pressure to weigh down on near term performance of the banking counters. While valuations of the large capitalization counters in the Airlines & Shipping sector remain undemanding, downwards pressure on yield continue to impact profitability as oil prices remained high. The Land Transport operators continue to struggle with the lack of fare increase and wage cost inflation.

Update to Top Picks list

We have removed Capitaland from our top pick list and replaced it with Boustead Singapore. While we remain positive on Capitaland, recent cooling measures introduced in Singapore and China could limit its outperformance. Our Head of Research recently initiated on Boustead Singapore and believes that there are hidden gems within the Industrials conglomerate. Despite its recent rally, we believe the re-rating trend is not over as the market appreciates the economic moat that its Geospatial division enjoys as well as its market leadership in industrial property design & build.

Top Picks in the Singapore Market

Company	Rating	Price (S$)	TP (S$)	Upside (%)	M.Cap. (US$'mn)
SIA Engineering	**Buy**	**4.74**	**6.10**	**28.7%**	**4,204**
Valuations		**11**	**12E**	**13E**	
P/E (X)		19.5	19.0	18.0	
P/B (X)		4.2	4.0	3.8	
Dividend yield (%)		4.4%	4.6%	4.6%	
Pan United Corp.	**Buy**	**0.94**	**1.21**	**28.7%**	**421**
Valuations		**11**	**12E**	**13E**	
P/E (X)		15.2	12.0	10.9	
P/B (X)		1.8	1.6	1.5	
Dividend yield (%)		3.7%	4.3%	4.3%	
Boustead Singapore	**Buy**	**1.36**	**1.80**	**32.4%**	**558**
Valuations		**11**	**12E**	**13E**	
P/E (X)		12.5	10.3	11.0	
P/B (X)		2.7	2.5	2.2	
Dividend yield (%)		3.7%	5.1%	4.9%	

Source: Bloomberg, PSR

Analyst
Derrick Heng
Singapore Equity Strategist
derrickhengch@phillip.com.sg
+65 6531 1221

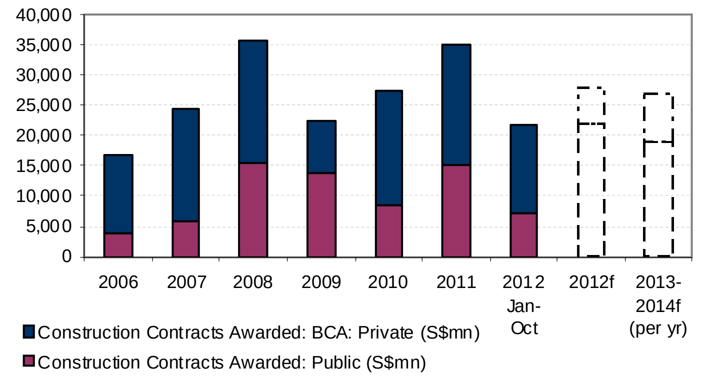
Phillip Research Team
research@phillip.com.sg

Industrials (Capital Goods) Sector

Oil price, a good sentiment gauge for the offshore and marine sector, remains high and could continue to encourage investments into the sector. Our analyst expects S$5.9bn in order wins for Keppel Corp in 2013 with semi-sub orders as a key driver. With its strong order book of S$12.8bn, the offshore and marine business has good revenue visibility till 2019. While demand outlook remains conducive, the ongoing tightening of foreign labour supply could impact the profitability of its business in Singapore.

Two of our top picks in the Singapore Market, Boustead SP & Pan United, should benefit from positive medium term trends in their niche area of business (see PSR Coverage Overview for details). Furthermore, valuations for these counters are attractive at c.10X FY13/14E P/E and offers support from dividend yields of >4%.

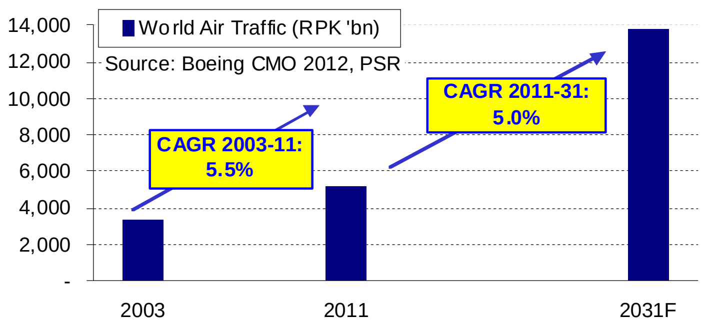
Fig 1. Construction demand expected to remain high



Source: CEIC, BCA, PSR est.

We believe that the Aviation Service providers, SIAEC, STE & SATS, would benefit from structurally higher demand for air travel and record aircraft deliveries into the region over the decades ahead. The sector provides an excellent blend of growth and yield for investors in their stock.

Fig 2. Global air traffic to grow by 5% a year

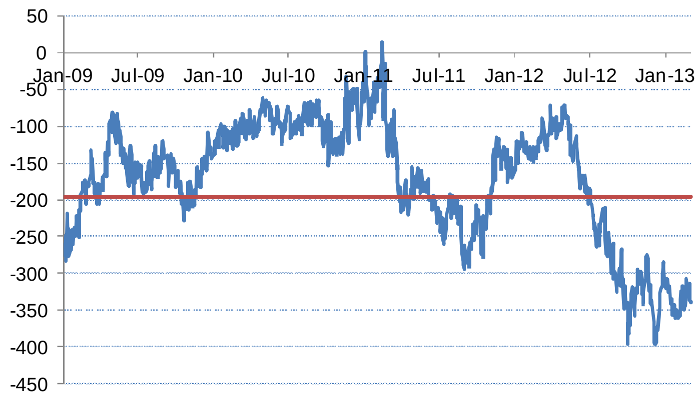


The S-Chips under our coverage, Hu An Cable & Sunpower, are trading at extremely cheap valuations of 3-4X FY13/14E P/E and only half of their forecasted book value. However, significant decline in profits in FY12 (Hu An: -56%; Sunpower: -27%) and weaker demand outlook for their products (mainly capital goods) have capped upside on their stock. Sunpower's market price had been capped at 20cents due to selling down of the share holding by its substantial shareholder, Artur Jurczakowski (10% to 5%).

Commodities & Supply Chain Managers

Our analyst expects downward price pressures in the near term from the high level of CPO inventory in Malaysia. However, we observed that CPO prices are trading at an unusually large discount to soybean oil (a substitute for CPO) prices, which could drive a pick up in demand for CPO. Moreover, changes in the US tax regime could drive higher CPO imports to the country as biodiesel, providing potential upside to demand.

Fig 3. CPO at a greater discount to soybean oil price than historical average of US$196/MT (US$/MT)



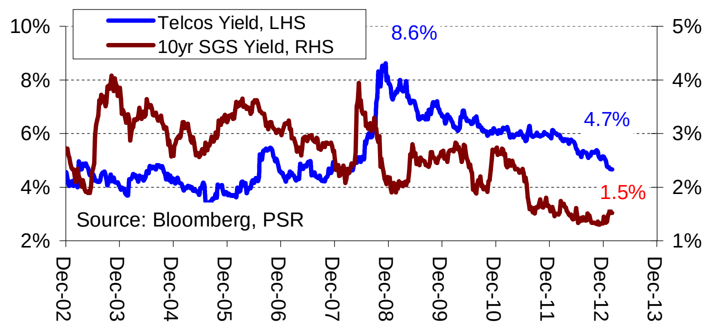
Source: Bloomberg, PSR

Between the two stocks under our coverage, we prefer Golden Agri. to Wilmar International as we expect the former to be a key beneficiary of potential recovery in CPO prices. Furthermore, we see positive long term prospects for Golden Agri. as they leverage on their market dominance to expand into the downstream business.

Telecommunications Sector

The Telecommunication Sector benefitted from the flight to safety over the past year due to the attractiveness of its stable dividend payouts. With the upcoming spectrum auction, LTE roll-out and 3G network enhancements, we expect CAPEX to be elevated for the Telcos and do not expect a significant increase in dividend payout for the year ahead. Our analyst believes that Starhub could face lower profitability for its PayTV business due to risk of churn from its sports package and potentially higher content cost for the BPL package. We prefer SingTel over Starhub & M1 due to better growth potential with its overseas exposure.

Fig 4. Telcos trading at an average yield of 4.7%

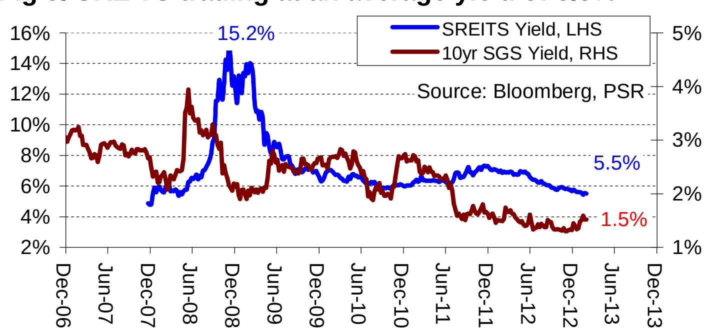


REITS Sector

Despite the strong rally last year, S-REIT has continued to outperform the STI YTD. Against the backdrop of low interest rate levels and tepid economic growth, high yielding income stocks such as REITs should continue to do well in 2013. However, valuations of S-REITs are now rich and we opine that investors should be selective in picking their exposure in this sector. With high level of inflation in Singapore, we reckon that REITS with underlying properties with annual rental escalation clauses, which is pegged to the CPI, should have a favourable earnings outlook. Furthermore, the recently announced budget plans to tighten foreign labour supply could keep inflation rates high over the next few years.

We believe that Parkway Life REIT, our top pick in the sector, would benefit from this trend. The REIT's properties in Singapore (64% of gross profit) have annual rental revisions that are pegged to 1% above the increase in CPI level. The trust also has a sizeable portfolio in Japan (33 nursing homes and medical facilities) that is undergoing Asset Enhancement Initiatives (AEI) to enhance their value. With the retention of ~S$3mn for capital expenditure and "Refurbishment AEI" concept in place, we expect DPU to surprise on the upside in 2013. Besides organic growth opportunities, the trust is also well-positioned to acquire new properties with debt headroom of $175mn (based on gearing of 40%). Despite a 50% premium over its book value, we believe that its defensive model and sustainable DPU levels should justify for the valuation premium.

Fig 5. SREITS trading at an average yield of 5.5%



Property Sector

Following the latest round of property cooling measures (including higher downpayment, higher stamp duty for the second & subsequent property purchases), we expect buying sentiments for the whole spectrum of mass-market to high-end residential properties to be affected. Coupled with the strong supply pipeline of new launches and physical completions, developers will be under pressure to unload their inventories on hand. For the office sector, the demand environment remains weak as companies remain conservative in increasing their headcount. Furthermore, the ample supply of new office space available over the next 3yrs could exert downwards pressure on rental rates. Given the outlook as described above, we expect residential property prices and office rents to correct by ~5% in 2013.

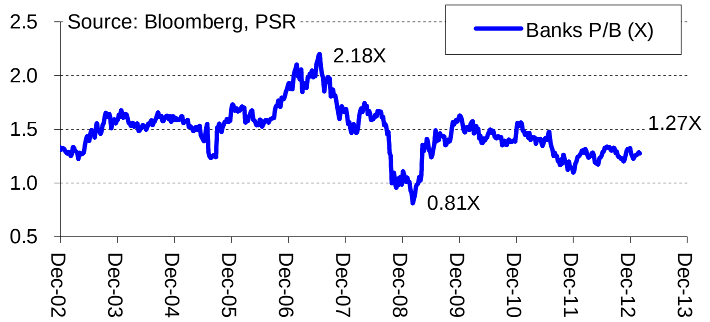
Capitaland is our preferred stock in the property sector. The company's portfolio of assets is geographically well diversified across the core markets of Singapore and China. It also has an excellent mix of various asset classes: residential, retail malls, serviced residence and office. We expect the company to benefit from the current economic recovery in China and the nation's focus on consumption as a key economic driver. Based on the company's total assets across Singapore and China, we estimate that its exposure to residential sector is limited to less than 15% in each market. We also like Ho Bee Investment, which is a value stock that is trading at ~30% discount to its book value. We expect The Metropolis, its office development project slated for completion in 2013, to provide revaluation gain that could lift its NAV and strengthen its recurring income streams.

Banking & Financials Sector

The Singapore banks guided for single digit loans growth for 2013, in-line with registered loans growth rate in 2012. While the higher LTV ratios recently announced by the Singapore government during its annual budget speech would reduce car loans for the banks, we believe that the impact is minimal as car loans comprise of merely 6.0% of Singapore's total consumer loans. However, we expect property cooling measures announced in Jan 2013 to have a bigger impact on loans book growth as they make up approximately 74% of the loans book for the local consumer market. With the strong pipeline of infrastructure developments, we expect building & construction loans to be a key driver for the banks.

Based on the latest results announcement, all 3 banks reported significant NIMs pressure with UOB demonstrating the sharpest sequential decline among them (UOB: -8bps, OCBC: -5bps, DBS: -5bps). On a relative valuation basis, OCBC is the most expensive stock among the local banks at 1.3X FY13E BVPS. Among the 3 local banks, we prefer UOB over DBS & OCBC due to 1) inexpensive valuations based on historical P/B valuations and 2) strong growth of Fees and Commission which is expected to be sustained. We expect SGX to benefit from the recent improvement in market sentiments and trading volume.

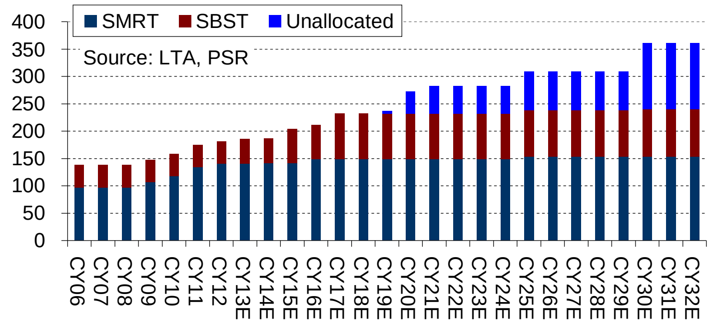
Fig 6. Banks trading at below historical average of 1.58X on sustained NIMs pressure



Land Transport Sector

The Land Transport Sector has often been cited as defensive plays that pay consistent level of dividends. While that is a valid historical observation, we opine that the transport operators are currently facing an unprecedented level of uncertainty in their fare based businesses. The bus business remains in the red for many quarters and yet the Public Transport Council (PTC) aims to keep fares low. The Land Transport Authority (LTA) recently announced an update to double the existing rail network by 2030. While improved connectivity would lead to an increase in rail ridership, we remain skeptical that operators would benefit from this expansion and expect inflationary pressures to continue impacting sector profitability in the year ahead. Between the two operators, we prefer ComfortDelGro over SMRT for its geographical diversification and cheaper stock valuations.

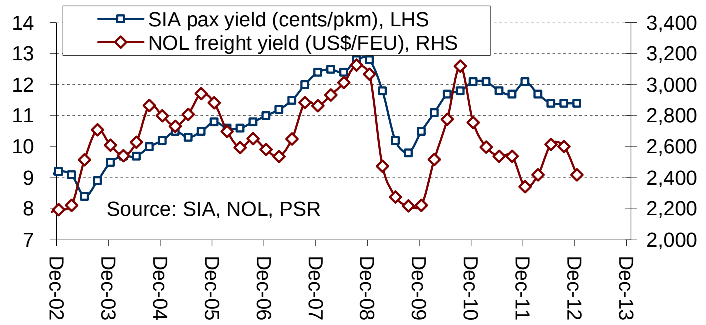
Fig 7. Rail network to double by 2030



Airlines & Shipping Sector

The operating environment remains challenging for the cyclical airline and shipping companies. Weak demand outlook and competitive businesses environment continued to pressure profitability. While we believe that the worst is over for the three companies under our coverage, valuations for NOL and Tiger Airways remain unattractive. We believe that negatives are priced into the depressed stock price of SIA.

Fig 8. Yields at airlines and shipping lines remain under pressure



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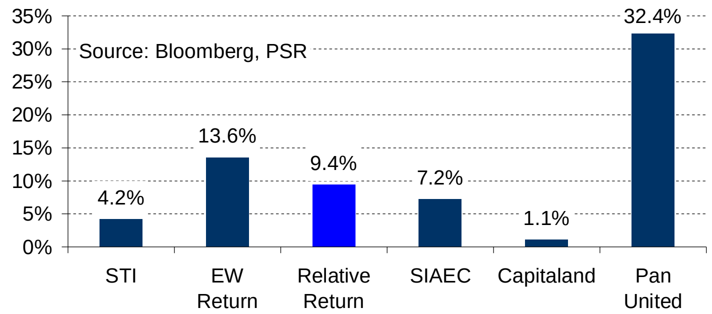
PSR Coverage Overview

We have removed Capitaland from our top pick list and replaced it with Boustead Singapore. While we remain positive on Capitaland, recent cooling measures introduced in Singapore and China could limit its outperformance. Our Head of Research recently initiated on Boustead Singapore and believes that there are hidden gems within the Industrials conglomerate. Despite its recent rally, we believe the re-rating trend is not over as the market appreciates the economic moat that its Geospatial division enjoys as well as its market leadership in industrial property design & build..

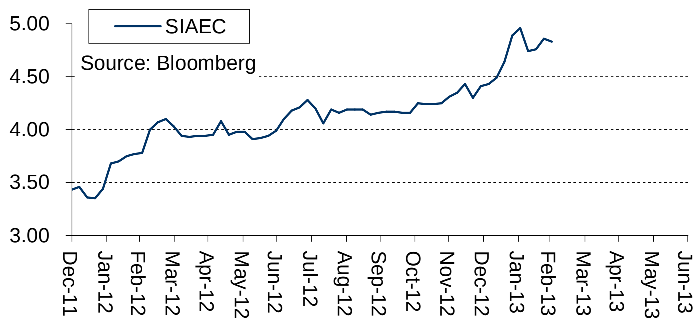
Fig 9. Outperformance concentrated at Pan United



#1: SIA Engineering Company Ltd

We believe that SIA Engineering Company (SIAEC) is a key beneficiary of the aviation growth story in the region. Over the next decade, a record number of planes would be delivered into the region and demand for maintenance work is expected to increase. We also expect SIAEC to benefit from the record aircraft orders by the Singapore Airlines Group. Furthermore, we believe that the economic moats in its engine maintenance JVs have not been fully appreciated by the market and could be a source of upside to future earnings. The free cash generating nature of the business is a key feature of the stock.

Fig 10. Stock Price of SIAEC

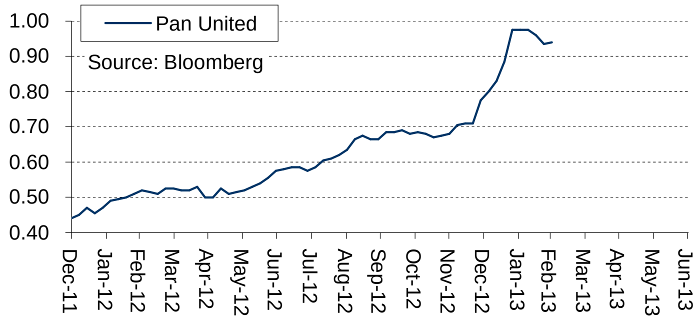


#2: Pan United Corp

When betting on Singapore's struggle to close the infrastructure gap, why bet on individual contractors when you can bet on a dominant supplier? Pan United's Basic Building Materials (BBM) division, which commands a 29% and 33% market share in cement and ready mixed concrete in Singapore, would be an almost guaranteed exposure to a strong and visible pipeline of public works till 2019, as Singapore struggles to close the infrastructure gap after a decade of population expansion.

Its Ports & Logistics division has a 51.3% stake in a top 10 river port in China, Changshu-Xinghua Port. CXP has a compelling combination of location (Yangtze Delta, and a captive audience in the Suzhou-Wuxi-Changshu industrial region), depth (13.3m, 100k dwt), and size (1.7km berth, 1mil sqm). Its ports are well utilized as testified by its near 50% ebitda margins, CXP should continue to grow with China's economic expansion. We believe that an increased stake in CXP is a potential catalyst to the stock, as 38% owner Macquarie Infrastructure Fund is looking to divest, and Pan United has right of first refusal

Fig 11. Stock Price of Pan United

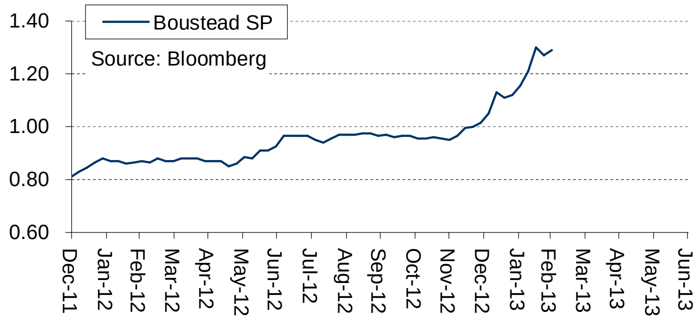


#3: Boustead Singapore

Boustead's Geospatial Technology Division's (~30% PBT) exclusive distribution & service agreements in Australia, Singapore, Malaysia and Indonesia, with the global leader in GIS (geographic information systems) - ESRI Inc., is a gem of a business. ESRI's global dominance (60% global market share for governments) and exclusive relationship with Boustead implies almost no competition in those markets. Geospatial is set to change Boustead's earnings profile to more recurring income.

Its industrial real estate design & build business (~60% PBT) enjoys a strong pipeline of work and has market leadership as only 1 of 3 full turnkey service providers. Its energy related engineering business (~10% PBT) is only 1 of 4 globally in direct fired heat processors and waste heat recovery units, but competitive bidding by main contractors have caused a margin squeeze at subcontractors, like Boustead. The waste water engineering business (0% PBT) could provide upside surprise after a significant contract win in Taiwan.

Fig 12. Stock Price of Boustead SP



Company	Investment View	Business Risks	Valuation
Commodities & Supply Chain Managers			
Golden Agri. Resources	Golden Agri. is one of the largest Crude Palm Oil (CPO) producers in the region. The group's CPO production metrics are among the best in class and we believe that the stock offers the best upstream exposure to the CPO value chain.	• Unpredictable weather conditions have a significant influence on CPO production. • Volatile market price of CPO. • High inventory level due to logistics issues.	• Accumulate. We believe that GAR will be most geared to any potential rise in CPO prices. • S$0.685 based on a blended model of 12.5X P/E (FY13E) and DCF valuations (COE: 8.8%, terminal g: 3.0%).
Wilmar International	Wilmar International is an integrated agribusiness group. The company is also among the top oilseed crushers and branded cooking oil players in China. Its exposure to developing markets such as China, India and Southeast Asia offers a good exposure to rising wealth in their consumer markets. We think that the company's large scale of operations allows them to differentiate themselves as a low cost supplier.	• Overcapacity in China's soybean crushing sector. • Price control measures on cooking oil in China. • Overcapacity in Indonesia's palm oil refining sector.	• Neutral. We believe that margins from Oilseeds & grains division could have stabilized and we may see improvement in FY13. • S$3.79 based on a blended model of 14.0X P/E (FY13E) and DCF valuations (COE: 8.2%, terminal g: 3.0%).
Consumer Goods			
Genting Singapore	Genting Singapore is best known for its $6.6 billion, 49 hectares integrated resort, Resorts World Sentosa in Singapore. More than 70% of its revenue is derived from the gaming segment. Contributors to the non-gaming segment, in order of significance are Universal Studios, Hotel, and Marine Life Park.	• Cyclical and seasonal factors result in wide variations in gross gaming volume. • Luck factor (an unpredictable variable) has a major impact on win rate, which will in turn affect gaming revenue. • Regulatory risks are significant.	• Neutral. Funding cost of preferred securities is not recovered by new opportunities. The outlook for FY2013 has improved with stronger VIP volumes and new VIP customers in 4Q12, while current economic environment seems more positive. • S$1.41 based on 13x FY13E EV/EBITDA.
Combine Will Int.	ODM/OEM customers are world-top players in fast-food, FMCG, and toys. High labour costs and OEM "squeeze" are affecting margins. Mould business is down with the economy. Very low trading volumes, probably due to an overhang from its TDR-listing failure and current market obsession with debt-leverage have affected its stock price.	• Whenever OEM-squeeze cycle hits, the stronger companies take such opportunity to consolidate. Hence, margins and bottom-line suffer during this part of the cycle.	• Buy. RIV values it at S$1.85 but our target price is adjusted down by 50% for market's debt-obsession to S$0.93.

Banking & Finance			
DBS	DBS enjoys the lowest cost of funds among its local peers due to a higher proportion of CASA deposits inherited from its previous acquisition of POSB. The group also has the strong backing of Temasek Holdings as its majority shareholder. We expect increasing contribution from transaction banking, wealth management, SME business, and profit contributions from its overseas subsidiaries to drive the business of DBS over the next few years.	• Net Interest Margins (NIMs) pressure from intense competition. • Unfavorable foreign regulatory policies.	• Accumulate. DBS is well positioned to benefit from China's economic recovery, and significant presence in China's trade partners in the ASEAN region. • S$15.80 based on 1.16X FY13E P/B.
OCBC	The group has a strong wealth management business following the acquisition of ING's private wealth business. It is also the only local bank with an insurance business through Great Eastern. OCBC has a strong SME client base in Singapore. We expect increasing contribution from transaction banking, wealth management, and profit contributions from its overseas subsidiaries to drive the business of OCBC over the next few years.	• Net Interest Margins (NIMs) pressure from intense competition. • Unfavorable foreign regulatory policies.	• Reduce. We think that OCBC's exceptional outperformance this year, including those from the divestment of its investment in APB and FNN, are likely non-recurring in FY13E. • S$8.84 based on 1.25X FY13E P/B.
UOB	UOB has a good geographical diversification across many ASEAN countries, including being the only Singapore bank with a significant presence in Thailand. UOB has a strong SME client base in Singapore. We expect increasing contribution from transaction banking, wealth management, and profit contributions from its overseas subsidiaries to drive the business of UOB over the next few years.	• Net Interest Margins (NIMs) pressure from intense competition. • Unfavorable foreign regulatory policies.	• Accumulate. We think that UOB's diversified presence in growing ASEAN countries, together with its presence in China, stands to benefit from China's economic recovery. • S$20.95 based on 1.35X FY13E P/B.
SGX	SGX has a monopoly over the local exchange business as the only stock exchange in Singapore. The business is highly profitable and generates high levels of Free Cashflows. SGX is also establishing itself as the largest offshore venue for Asian equity derivatives. We expect High Frequency Trading (HFT) and increased trading activities from the creation of the ASEAN Link to drive trading volume for the exchange in the next few years.	• Weak market confidence could lead to lower trading volume. • Lower number of listings due to postponing of IPOs till market conditions improves significantly.	• Accumulate. Trading activities have picked up significantly since the start of the year. We expect trading activities to maintain at elevated levels, leading to higher Securities revenue. Contributions from Derivatives have also been on a strong uptrend, providing additional and diversified source of revenue. • S$7.88 based on 26X FY13 P/E

Property (Developers)			
CapitaLand	CapitaLand is one of Asia's largest real estate companies with a property portfolio diversified across countries and asset classes. It is also one of the world's leading serviced residence owner and operator. It has a proven track record as property manager, as well as a property fund manager. Despite having been in acquisition mode for the past 2 years, its financial capacity remains strong and is ready for further acquisitions. It has a strong pipeline of assets for divestment in the next 3 to 4 years and with 1/3 of assets located in China, it could benefit from the potential bottoming out of China's economy.	• Policy risks remain for residential property markets in China and Singapore. • Over paying for land could increase the risk of impairment.	• Accumulate. $4.05 based on 5% discount to RNAV of $4.26.
CapitaMalls Asia	CMA is a shopping mall developer, owner and manager. It has interests in and manages a pan-Asian portfolio over 100 shopping malls. It has a strong shopping malls development pipeline, which will be completed over the next 3 years. Other upsides could come from potential divestment of stabilised malls in its portfolio. CMA could also benefit from the trend of rising affluence in the region, with its exposure to developing markets, such as China, Malaysia and India.	• Economic slowdown in China could weaken retail consumption. • Longer than expected gestation periods for new malls to optimize their operations would lead to high operating expenses. • Risk of asset devaluation in India and Japan.	• Neutral. $2.11 based on 15% discount to RNAV of $2.48.
Ho Bee	The company owns a portfolio of luxury residential properties in Sentosa Cove and other prime areas in Singapore. Its major office development, The Metropolis, will be completed in 2013. This major project could provide NAV growth through revaluation gain upon its completion and improve recurring income in 2014 and beyond.	• Slow sales in the high-end residential segment, high inventory of residential projects located at Sentosa Cove. • FY13 earnings quality is deteriorating due to slow residential sales and a series of divestment of investment properties over the past 2 years.	• Buy. $2.29 based on 40% discount to RNAV of $3.82.

Keppel Land	Keppel Land is a prime office, residential and township developer in Asia, with its current focus in the Singapore, China, India, Vietnam and Indonesia markets. It has a strong track record in building waterfront residential developments and top-notch office towers. It has established itself as a reputable township developer in China and Vietnam. Keppel Land could also benefit from growth in emerging markets, such as Indonesia and Myanmar.	• Its China residential sales have not caught up with the market recovery. • Slow recovery in the property market for Vietnam.	• Neutral. $4.24 based on 20% discount to RNAV of $5.30.
Overseas Union Enterprise	The company holds a portfolio of quality hotels and office towers in Singapore's prime locations. Following the completion of office developments (OUE Bayfront and One Raffles Place Tower 2) and major AEI to its hotels (Mandarin Orchard and Mandarin Gallery), recurring income streams for OUE have improved. We believe that its share price is undervalued, as Mandarin Orchard is stated at depreciated value on its balance sheet. The intrinsic value of the stock could be unlocked through a sale of Mandarin Orchard or by floating it to a hospitality REIT.	• Slow sales in its only residential project – Twin Peaks. • The anchor tenant for DBS Towers will be vacating by end 2012, ability to fill up the vacant space is vital to minimize income disruption.	• Accumulate. $3.07 based on 30% discount to RNAV of $4.38.
Global Logistic Properties	GLP is Asia's largest provider of modern logistics facilities, with market leaderships in China, Japan and Brazil. It has a strong pipeline of development projects in the largest emerging markets (China and Brazil), which could benefit from robust consumption trends and strong growth in their economies. The ongoing expansion of its fund management platform will also provide income streams from asset management and development fees. The company's gearing have improved after asset divestments to J-REIT. This improved balance sheet strength would allow the company to pursue growth opportunities in the future.	• Foreign exchange risk of CNY and JPY (the sharp decline of the JPY is an exemplification of this risk). • Inflationary pressures in Japan could affect its profitability as rental rates are fixed. • Weaker than expected economic recovery that could soften leasing activities and development starts.	• Neutral. S$ 2.77 based on 0% discount to RNAV.
Stamford Land	Australia, where it owns/operates 7 of 8 hotels, has favourable supply/demand fundamentals for the sector. We noted a bid of S$1bn for Stamford Land's assets in 2008 and hold out for a re-run of this scenario. It pays regular dividends, which has upside if it earns higher property development profits.	• The A$ (vs S$) may not be as positive as the analyst believes that the A$ could be impacted in a liquidity crisis situation. • An economic slowdown will affect its hotel earnings.	• Buy. RNAV, based on nearby valuation or 14X hotel earnings, is also our target price S$0.76. • A similar offer to that in 2008 would result in a valuation of S$1.20.

SingXpress Land	Investment-banking approach to property development has encouraged partners to participate in all its projects. An S$60m condominium development project had been fully sold with another similar project yet to be launched. Its DBSS project is currently 30% sold with the EC project to follow. Haiyi's conversion to 62% ordinary shareholder did not achieve 90% acceptance in a General Offer.	• High-end projects are currently experiencing difficult sales and the projects of SingXpress Land would be affected if the weaker sales sentiment flows down to the rest of the property market.	• Our original RNAV of S$0.019, after adding conversion money of S$94.4m, interest at 3% saved on this S$94.4m; and, diluting share base from 4.9b to 12.9b – becomes S$0.016. RNAV on projects remain unchanged.
Global Premium Hotel	Stable earnings from its hotel operations (one mid-tier hotel and economy-tier hotels with market share of 12.2%). It is currently building another hotel to serve the mid-tier segment. We believe that the market has not fully appreciated the potential of its multi-prong profit-earning hotel developments. The company is able to build new projects with a 12% cash-down. Even though GPH is trading at a discount to the valuations of REITs, we believe that it is able to pay strong dividend yields like one.	• The hotel supply glut, when it happens (not there yet). • A debt squeeze would curtail its profit from hotel development.	• Buy. Between 70% and 80% of book, it trades at a discount to REITs' valuation. Merton model values it at S$0.305. Higher, if 16%-30% more shares are issued to work that multi-pronged profit-earning potential in hotel development.
Property (REITS)			
CDL Hospitality Trust	CDL Hospitality Trust provides excellent exposure to the tourism growth story in Singapore, where majority of the Trust's assets are located. Tourism receipts are expected to grow with the Singapore Tourism Board (STB) targeting for 17mn visitors in 2015. While demand for hotel rooms is expected to increase, the potential pipeline of future hotel completions is likely to pressure room rates.	• Visitor arrivals are likely to slow down amid uncertainties in the global economies and coupled with the novelty of integrated resorts seemed to be wearing off. • Room rates are likely to feel the brunt of competitive environment given expected supply in 2013. International companies, in particular, remained cautious on accommodation budget.	• Neutral. We see little upside in the near term, due to the challenging outlook in 2013. The stock could re-rate should the hospitality market turn out to be better than expected. • S$2.130 based on DDM (discount rate: 8.5%, terminal g: 2%)
Parkway Life REIT	Parkway Life REIT offers stable distributions to its unit holders. Its exposure to the defensive healthcare sector leads to stable cashflows from the underlying assets. The REIT's Singapore hospital properties have CPI-linked rental revisions that would protect the real value of its income.	• Properties in Japan may be susceptible to natural disasters. However, they are less prone to earthquake as the property structures are seismic-proof. Furthermore, this risk is mitigated by property insurance.	• Accumulate. Parkway Life REIT with resilient earnings and a defensive business model that will continue to outperform amidst weak economic environment. • S$2.450 based on DDM (discount rate: 6.3 %, terminal g: 1.5%)

Sabana S.C. Ind. Trust	We believe that Sabana REIT has a unique value proposition as the only Shari'ah Compliant REIT with Gulf Cooperation Council States (GCC) standards listed in Singapore. This would allow Sabana REIT access to Islamic equity markets as a source of funding. Its portfolio of industrial properties is located at strategic locations in Singapore.	• Non-renewal of some master leases, upon expiry at the end of 2013, may result in lower occupancies. However, this could be offset by positive rental reversions from the new master leases. • Waning manufacturing sector may undermine the demand for industrial space. • Ample supply of industrial properties in 2013 could dampen rental rates.	• Neutral. Sabana REIT is among the highest yielding S-REITS. • Clarity on the renewal of expiring master leases in 2013 may offer re-rating on the stock, possibly in 2Q13. • S$1.190 based on DDM (discount rate: 10.0%, terminal g: 1.2%)
Industrials (Capital Goods)			
SATS	We see SATS as a key beneficiary of Singapore Tourism Board's efforts to promote tourism in the country. Liberalization of airspace within ASEAN would drive aviation traffic at Changi Airport, where the company has an 80% share of the inflight catering and ground handling market. We believe that consistent dividend distribution is the key highlight of the stock. Furthermore, SATS is seeking to take on a more aggressive capital structure, which could lead to structurally higher level of dividend payout.	• Decline in attractiveness of Changi Airport as an air hub. • Inability to pass on higher food and staff cost. • Competitive threat from 3rd ground handler ASIG.	• Accumulate. We believe that SATS could perform well in the future, as the market begins to price in prospects of structurally higher dividend payout. • S$3.33 based on DCF (WACC: 7.8%, terminal g: 1%)
SIA Engineering Company	We believe that SIA Engineering Company (SIAEC) is a key beneficiary of the aviation growth story in the region. Over the next decade, a record number of planes would be delivered into the region and demand for maintenance work is expected to increase. We also expect SIAEC to benefit from the record aircraft orders by the SIA Group. Furthermore, we believe that the economic moats in its engine maintenance JVs have not been fully appreciated by the market and could be a source of upside to future earnings. The free cash generating nature of the business is a key feature of the stock.	• Decline in attractiveness of Changi Airport as an air hub. • Structurally lower growth of the SIA group.	• Buy. SIAEC is one of our top picks in the Singapore market. • S$6.10 based on DCF (WACC: 6.9%, terminal g: 2%)

ST Engineering	STE's strong order book of S$12.1bn (as of 31Dec12) provides good revenue visibility for the Group. STE offers a unique exposure to the defence industry of Singapore and is an anchor customer of the country's Defence Ministry. The Aerospace business is well positioned to benefit from the outsourcing trend of MRO work by airlines. The stock has a track record of paying out at least 90% of its profits to shareholders and is valued for its dividend yield.	• Forward integration by Aircraft & Engine OEMs. • Reduction in defence budget for Singapore.	• Accumulate. The global dash for yield is likely to drive up valuations for dividend plays like STE. Furthermore, expectations of a major US defence contract win could drive valuations higher. • S$4.50 based on a blended model of DCF (WACC: 6.7%, terminal g: 3%) & 22.8X P/E (FY12/13E).
Keppel Corp	Keppel Corp is one of the largest Singapore-based conglomerates, engaging in 4 core businesses of Offshore & Marine (O&M), Infrastructure, Property and Investments. It is also one of the world's leading builders of jack-ups and semi-subs with market share of ~40% and ~26% respectively. Balance sheet is strong and dividend yield is ~4%.	• Significant downtrend in oil prices. • Greater than expected depreciation of the USD against the SGD. • Execution of contracts.	• Accumulate. We believe Keppel is well positioned to improve its productivity and is able to leverage on competencies of its satellite yards in the region to meet heavier workload requirements. • S$12.38 based on Sum of the Parts (SOTP) valuation.
Hu An Cable	The power sector in China contributes half of its customer base. The company is also moving towards a different mix of HV and UHV cables in its product line. It is also among the top 10 wire & cable manufacturer in China. However, we note the recent underperformance in operating performance relative to its peers. The current low copper prices & project delays are affecting the company's profits.	• Poor copper price undermines profit, if fixed costs are not contained. • Project delays are another concern.	• RIV values it at S$0.203, but our target price is adjusted down by 24% from here for market's debt-obsession to S$0.164.
Sunpower Group	A heat-technologies based manufacturer that supplies to top energy & chemical customers in China and globally. Share price has been affected by a substantial shareholder that sold down from 11% to the current 6%. Current market obsession with debt-leverage also affects share price.	• Earnings fell in FY12, but not as badly as other sectors in China. Project non-acceptance (or delay) and bad debts are concerns.	• Buy at S$0.20 or under. RIV values it at S$0.274 but our target price is adjusted down by another 9% for market's debt-obsession to S$0.25.

Pan United Corp.	When betting on Singapore's struggle to close the infrastructure gap, why bet on individual contractors when you can bet on a dominant supplier? Pan United's Basic Building Materials (BBM) division, which commands a 29% and 33% market share in cement and ready mixed concrete in Singapore, would be an almost guaranteed exposure to a strong and visible pipeline of public works till 2019, as Singapore struggles to close the infrastructure gap after a decade of population expansion. Its Ports & Logistics division has a 51.3% stake in a top 10 river port in China, Changshu-Xinghua Port. CXP has a compelling combination of location (Yangtze Delta, and a captive audience in the Suzhou-Wuxi-Changshu industrial region), depth (13.3m, 100k dwt), and size (1.7km berth, 1mil sqm). Its ports are well utilized as testified by its near 50% ebitda margins, CXP should continue to grow with China's economic expansion. We believe that an increased stake in CXP is a potential catalyst to the stock, as the 38% owner Macquarie Infrastructure Fund looks to divest.	• Global players in ready mixed concrete (Cemex, YTL) could enter the SG market aggressively and challenge Pan United's BBM dominance.	• Buy. At 4c FY12 DPS translates into 4.3% yield at S$0.94 at time of writing. We forecast FY13E DPS to be 4c as well. Based on our raised TP from S$0.88 to S$1.21, that translates as 3.3% yield. For FY14E we anticipate that DPS could rise to 4.5c. • Pan United continues its strong track record of generating free cash and roughly paying 50% of earnings as dividends while retaining the rest for new investments. Proof in point: FY12 DPS was raised to 4c from FY11's 3.5c as EPS grew 42%y-y. We forecast that DPS may rise to 4.5c by FY14E. Rising dividends on market leading/resilient business models are likely to prove a rerating force. Our DCFE derived TP takes this into account.
Boustead Singapore	Boustead's Geospatial Technology Division's (~30% PBT) ***exclusive*** distribution & service agreements in AU, SG, MY and ID, with the global leader in GIS (geographic information systems) - ESRI Inc., is a gem of a business. ESRI's global dominance (60% global market share for govts) and exclusive relationship with Boustead implies almost no competition in those markets. Geospatial is set to change Boustead's earnings profile to more recurring income. Its industrial real estate design & build business (~60% PBT) enjoys a strong pipeline of work and has market leadership as only 1 of 3 full turnkey service providers. Its energy related engineering business (~10% PBT) is only 1 of 4 globally in direct fired heat processors and waste heat recovery units, but competitive bidding by main contractors have caused a margin squeeze at subcontractors, like Boustead. The waste water engineering business (0% PBT) could provide upside surprise after a significant contract win in Taiwan.	• Immediate risks are to the Energy business as main EPC contractors are bidding competitively, thus forcing sub-contractors like Boustead to accept lower margins. Thankfully the energy business is only 10% PBT. • An outside risk would be an US18.8m contingent liability in the event Boustead is not released from guarantees provided during its Libya project. Common sense dictates that they should be released under "force majeure" due to the civil war.	• Buy. As 9M EPS already forms 79% of our forecast, we expect our FY EPS target of 13.5c to be met. As the company typically pays 50% of EPS as dividends, DPS is likely to rise to 7c (FY3/13f) from 5c (FY3/12). At time of writing, the current price of S$1.31 translates to an attractive forward yield of 5.3%. • Our DCFE derived TP is S$1.80 and reflects Boustead's strong track record (and future ability) of throwing off free cash as its business models have either wide economic moats or market leadership. Consequently, we believe that the stock is on a re-rating trend.

Industrials (Transportation)			
SIA	SIA faces competitive threats from the growth of Low Cost Carriers (LCC) at its home base. The SIA group has responded by introducing a long haul LCC, Scoot in mid 2012. SIA also holds a 33% stake in another LCC, Tiger Airways. We view this development positively as it would allow the group to tap into a wider market spectrum and is a credible response to competitive pressures at its home base.	• Value destroying acquisitions. • Significant cannibalization of premium traffic by its LCCs.	• Buy. SIA is currently trading at near crisis valuation on a P/B basis. While the outlook for SIA is not particularly exciting, we argue that negatives are already built into the price. • S$13.00 based on 1.1X P/B (FY14E).
Tiger Airways	The Group's international operations out of Singapore are well positioned for growth with the ongoing liberalization of airspace within Asia. However, its domestic operations in Australia face intense competition from incumbents and have rarely been profitable. We expect operational strength to improve in the year ahead as Tiger Airways recovers from the high profile grounding July 2011. We view the ongoing divestment of its Australian operations to Virgin Australia positively.	• Unsuccessful execution by JVs. • Prolonged losses in Australia.	• Sell. Tiger Airways is one of the most expensive airlines in the region on various valuation matrices. We opine that valuations are unjustifiably high given the lack of earnings visibility and challenging business outlook for the Group. • S$0.65 based on SOTP (FY14E)
NOL	Financial performance for NOL had been poor due to the oversupply of vessels in the container shipping industry. With the negative global trade outlook, we expect demand to be outpaced by supply growth in the near term. On the positive note, NOL is currently undergoing a restructuring exercise to improve its competitiveness. Rational competition by major industry players is likely to prevent a collapse of freight rates in 2013.	• Trade protectionism. • Chronic oversupply for the container shipping industry. • High level of orders for vessels stimulated by the record low new build prices.	• Neutral. While the outlook for NOL appears challenging, we argue that negatives are already built into the price. • S$1.32 based on 1.05X P/B (FY13E)
SMRT	We expect SMRT's rail business to suffer from structurally lower profitability, following a series of high profile disruptions in Dec 2011. In the near term, we expect high CAPEX requirements to erode Free Cash generation. SMRT cut its dividend payouts in response to lower profits and we do not foresee dividend growth in the near term. We believe that the loss making bus business is not sustainable in the long run.	• Unfair fare review mechanism to operators. • Structurally higher maintenance expense.	• Sell. We believe that the stock of SMRT is unjustifiably pricey given the negative near term outlook for the group. • S$1.41 based on a blended model of DCF (WACC: 5.6%, terminal g: 0%) & 15X P/E (FY13/14E).

ComfortDelGro	We view ComfortDelGro's geographical and business diversity positively. While we have a negative view on the near term outlook for Singapore's fare based businesses, ComfortDelGro's exposure is relatively small at a quarter of sales and <5% of profits. However, we expect start up losses for the Downtown Line to impact profitability in the near term.	• Value destroying Mergers & Acquisitions. • Unfair fare review mechanism to operators.	• Neutral. We expect stability and resilience of its earnings to be highly valued in times of macro uncertainty. • S$1.83 based on 15X P/E (FY13E)
Heng Yang Petrochemical	A leading storage & transportation provider (tanks & jetties) to PRC/MNC businesses in liquid petrochemicals. The company has present capacity of 265,000m^3. Expansion plans of >750,000m^3 have started. No major market transaction to catalyze the share price. As newer capacity gets going, margins would be lower as depreciation is being absorbed. A rare asset, no doubt, but M&A activity is also lacking.	• Prolonged economic slowdown may affect earnings. • Debt squeeze would delay expansion plans. • Delays in issuance of land permits. • Building contractor default. • Contractor fatality relating to site management.	• Buy. RIV values it at S$0.40, but our target price is adjusted down by another 33% for market's debt-obsession to S$0.27.
Technology & Communications			
SingTel	SingTel offers excellent exposure to the telecom sector with its diverse range of products and solutions. It is the largest telecommunications service provider in Singapore and has significant contributions from Optus in Australia. The group also holds strategic stakes in various regional mobile associates that offers geographical diversification and growth. SingTel is also leading the market with a shift to increase its digital presence.	• High levels of CAPEX from upcoming spectrum auction could be a drag to FCF. • Foreign exchange exposure. • Weak performance from regional mobile associates.	• Neutral. Data monetizing may be gaining traction, while positive impact may be felt should data prices be raised. Bharti continues to weigh down the Group's performance, but may turnaround. High capex is also required in Singapore and Australia. • S$3.31 based on Sum of the Parts valuation.
Starhub	Starhub is one of only three telecommunications service providers in Singapore. The healthy competitive landscape allows the company to enjoy high EBITDA margins and generate high levels of Free Cash Flows. The company has a strong Pay TV franchise and offers a wide variety of popular contents. We expect monetization of data usage to provide uplift to the sector's Average Revenue Per User (ARPU) in the next few years.	• High levels of CAPEX from upcoming spectrum auction could be a drag to FCF. • Loss of Pay TV content to competitor, while increasingly higher content cost may reduce Pay TV margins.	• Reduce. Unmet expectations of dividend increase, with a lower dividend yield compared to M1, may impact the share price. Pay TV margins may also face margin compressions moving forward. • S$3.61 based on DCF (WACC: 8.3%, terminal g: 1%)

M1	M1 is one of only three telecommunications service providers in Singapore. The healthy competitive landscape allows the company to enjoy high EBITDA margins and generate high levels of Free Cash Flows. We expect monetization of data usage to provide uplift to the sector's Average Revenue Per User (ARPU) in the next few years. The lack of multiple product offering is likely to be M1's disadvantage against its local peers.	• High levels of CAPEX from upcoming spectrum auction could be a drag to FCF • Recent disruption of telephone services, lasting more than 60 hours, may lead to a short-term higher churn rate.	• Neutral. We expect the attractive dividend yields to support current share price. Data monetizing may be gaining traction, while positive impact may be felt should Data prices be raised. • S$2.41 based on DCF (WACC: 8.1%, terminal g: 0%)

Singapore Market Sector Comparables

Company	Rating	FYE	Price	TP	Upside	Market	Ent.	Equity Multiple (X)						Dividend Yield (%)		
Market price as of:						Cap.	Value	Net Income			Book Value					
7-Mar-13					(%)	(US$'mn)	(US$'mn)	11	12E	13E	11	12E	13E	11	12E	13E
Commodities & Supply Chain Managers																
Golden Agri. Resources	Accumulate	Dec	0.61	0.69	12.3%	6,280	7,557	11.0	15.5	13.4	0.8	0.7	0.7	3.0%	2.0%	2.3%
Wilmar International	Neutral	Dec	3.47	3.79	9.2%	17,800	38,575	11.7	15.3	12.9	1.3	1.2	1.2	1.8%	1.4%	1.5%
Consumer Goods																
Genting Singapore	Neutral	Dec	1.54	1.41	-8.4%	15,087	15,031	18.3	30.5	30.6	3.1	2.1	2.0	0.6%	0.6%	0.6%
Combine Will Int.	Buy	Dec	0.70	0.93	34%	19	69	3.5	3.8	2.2	0.2	0.2	0.2	0.0%	0.0%	0.0%
Banking & Finance																
DBS	Accumulate	Dec	15.49	15.80	2.0%	30,316	n.m.	12.5	11.3	11.0	1.3	1.2	1.1	3.6%	3.6%	3.6%
OCBC	Reduce	Dec	10.24	8.84	-13.7%	28,187	n.m.	15.4	12.4	13.4	1.6	1.4	1.3	2.9%	3.2%	3.2%
UOB	Accumulate	Dec	19.73	20.95	6.2%	24,918	n.m.	13.4	11.1	11.2	1.4	1.2	1.2	3.0%	3.5%	3.5%
SGX	Accumulate	Jun	7.69	7.88	2.5%	6,594	6,080	27.0	25.4	22.0	9.9	9.4	8.7	3.5%	3.5%	3.8%
Property (Developers)																
Capitaland	Accumulate	Dec	3.73	4.05	8.6%	12,717	23,399	27.6	27.9	21.3	1.1	1.1	1.0	2.1%	1.9%	1.3%
Capitamalls Asia	Neutral	Dec	2.01	2.11	5.0%	6,274	8,153	57.5	28.3	37.4	1.3	1.2	1.2	1.5%	1.5%	1.5%
Ho Bee	Buy	Dec	1.90	2.29	20.8%	1,037	1,297	7.7	7.5	11.9	0.8	0.7	0.6	2.1%	2.6%	2.1%
Keppel Land	Neutral	Dec	4.05	4.24	4.7%	5,020	6,611	7.9	13.1	20.1	1.1	1.0	1.0	4.9%	3.0%	2.0%
OUE	Accumulate	Dec	2.81	3.07	9.3%	2,051	3,664	18.5	25.1	29.7	0.8	0.8	0.8	4.6%	3.9%	1.8%
GLP	Neutral	Mar	2.570	2.770	7.8%	9,805	13,610	38.9	31.8	26.8	1.6	1.4	1.3	0.4%	0.8%	0.0%
Stamford Land	Buy	Mar	0.57	0.76	34.5%	391	632	9.1	n.a.	n.a.	0.9	n.a.	n.a.	7.1%	n.a.	n.a.
SingXpress Land#	Neutral	Mar	0.017	0.016	-5.9%	175	284	128.7	59.1	35.3	5.2	3.7	3.4	0.0%	0.0%	0.0%
Global Premium Hotels	Buy	Dec	0.270	0.305	13.0%	228	607	12.6	15.0	14.3	0.5	0.9	0.7	0.0%	5.2%	5.6%
Property (REITS)																
CDL Hospitality Trust	Neutral	Dec	2.06	2.13	3.4%	1,603	1,975	11.3	16.4	17.5	1.3	1.3	1.3	5.4%	5.5%	5.8%
ParkwayLife REIT	Accumulate	Dec	2.40	2.45	2.1%	1,164	1,534	14.2	12.6	22.1	1.6	1.5	1.5	4.0%	4.3%	4.4%
Sabana S.C. Ind. Trust	Neutral	Dec	1.25	1.19	-4.8%	643	972	9.1	10.8	15.1	1.2	1.1	1.1	7.6%	7.4%	7.6%

Source: PSR est.

*12E refers to FYE Dec 2012, FYE Mar 2013, FYE Jun 2013

#adjust for pref shares conversion to ord shares. Project valuation remains constant. Conversion $ and interest added to valuation.

Singapore Market Sector Comparables (continued)

Company	Rating	FYE	Price	TP	Upside	Market	Ent.	Equity Multiple (X)						Dividend Yield (%)		
Market price as of:						Cap.	Value	Net Income			Book Value					
7-Mar-13					(%)	(US$'mn)	(US$'mn)	11	12E	13E	11	12E	13E	11	12E	13E
Industrials (Capital Goods)																
SATS	Accumulate	Mar	2.91	3.33	14.4%	2,596	2,572	18.2	17.6	16.3	2.1	2.3	2.3	8.9%	5.2%	5.5%
SIA Engineering	Buy	Mar	4.74	6.10	28.7%	4,204	3,876	19.5	19.0	18.0	4.2	4.0	3.8	4.4%	4.6%	4.6%
ST Engineering	Accumulate	Dec	4.24	4.50	6.1%	10,505	10,226	24.8	22.7	21.3	7.4	6.9	6.5	3.7%	4.0%	4.2%
Keppel Corp	Accumulate	Dec	11.78	12.38	5.1%	17,040	22,827	14.3	11.1	12.1	2.8	2.3	2.1	3.7%	6.1%	4.0%
Hu An Cable	Buy	Dec	0.12	0.164	33.3%	85	100	3.0	7.2	3.4	0.5	0.5	0.4	5.7%	5.7%	5.7%
Sunpower Group	Buy	Dec	0.20	0.250	27.6%	52	97	3.5	5.3	4.0	0.7	0.6	0.5	1.5%	1.5%	1.5%
Pan United Corp.	Buy	Dec	0.94	1.21	28.7%	421	438	15.2	12.0	10.9	1.8	1.6	1.5	3.7%	4.3%	4.3%
Boustead Singapore	Buy	Mar	1.36	1.80	32.4%	558	414	12.5	10.3	11.0	2.7	2.5	2.2	3.7%	5.1%	4.9%
Industrials (Transportation)																
SIA	Accumulate	Mar	10.92	13.00	19.0%	10,264	7,160	37.5	30.6	15.0	1.0	1.0	0.9	1.8%	1.5%	2.7%
Tiger Airways	Sell	Mar	0.70	0.65	-6.5%	458	776	(5.8)	(15.8)	21.8	2.3	2.7	2.4	0.0%	0.0%	0.0%
NOL	Neutral	Dec	1.19	1.32	11.4%	2,459	5,591	(5.1)	(6.3)	9.8	0.9	1.1	0.9	0.0%	0.0%	3.4%
SMRT	Sell	Mar	1.62	1.41	-12.7%	1,970	2,023	20.5	19.5	20.0	3.1	3.0	3.0	4.6%	4.3%	4.6%
ComfortDelGro	Neutral	Dec	1.90	1.83	-3.7%	3,213	3,735	17.0	16.1	15.6	2.1	2.0	1.9	3.2%	3.4%	3.5%
Heng Yang Petrochem.	Buy	Dec	0.21	0.27	28.6%	33	47	12.8	5.0	3.6	0.7	0.5	0.4	0.0%	0.0%	0.0%
Technology & Communications																
SingTel	Neutral	Mar	3.49	3.31	-5.2%	44,625	50,484	15.1	14.8	13.3	2.4	2.3	2.2	4.5%	4.6%	4.9%
Starhub	Reduce	Dec	4.19	3.61	-13.8%	5,768	6,076	22.8	20.0	20.0	n.m.	n.m.	n.m.	4.8%	4.8%	4.8%
M1	Neutral	Dec	2.83	2.41	-14.8%	2,078	2,291	15.8	17.6	16.5	8.0	7.4	7.0	5.1%	5.2%	5.2%

Source: PSR est.

*12E refers to FYE Dec 2012, FYE Mar 2013, FYE Jun 2013

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Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

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Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Joshua Tan
Head of Research
Global Macro, Asset Strategy
+65 6531 1249
joshuatan@phillip.com.sg

Derrick Heng
Deputy Head of Research
SG Equity Strategist &
Transport
+65 6531 1221
derrickhengch@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Travis Seah
Investment Analyst
REITs
+65 6531 1229
travisseahhk@phillip.com.sg

Ken Ang
Investment Analyst
Financials, Telecoms
+65 6531 1793
kenangwy@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Roy Chen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1535
roychencz@phillip.com.sg

Nicholas Ong
Investment Analyst
Commodities, Offshore & Marine
+65 6531 5440
nicholasonghg@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

AUSTRALIA
PhillipCapital
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (03) 9629 8288
Fax (03) 9629 8882
Website: www.phillipcapital.com.au