

# Sector Strategy

## Where now, Mister Market

### Report type: Update

- STI decline 1% in April after amazing first quarter run
- Daily average traded volume up 66%, average traded value down 18%
- We expect STI to remain range bound

#### Range trading in April

After the blistering run-up in the first three months, STI fell 1% from 3010 at end-Mar to 2978 at end-April. Market activity though was very active with daily average volume increasing 66% compared to the first quarter. This was mainly concentrated in the penny stocks. Traded value on the other hand fell 18%.

#### STI to remain range bound

We reckon market has regress into a malaise state. This signals to us that the investment mood now is getting more risk adverse. We expect STI to remain range bound on muted economics. We believe corporate profits will drive the market rather than expectations of central banks policies. STI is neither cheap nor expensive, but fairly valued for now we would say.

#### Sectors outlook

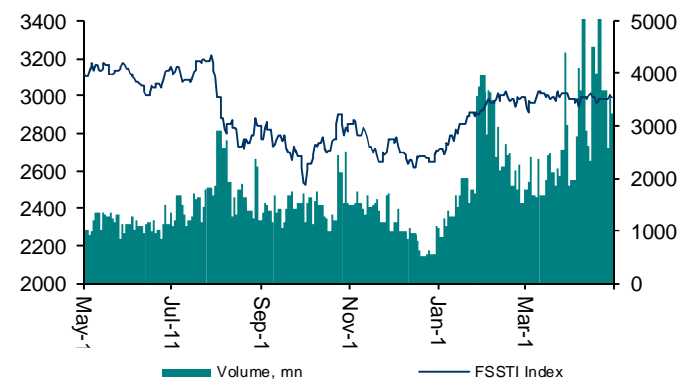
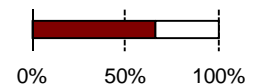
Our sector ratings are essentially unchanged. There was no significant fundamental shift or technical movements that warrant a re-rating. For our stocks coverage, we upgraded our ratings on **Wilmar**, **CDL Hospitality** and **DBS**.

#### Top picks

We remove SATS from our top buy list. SATS share price has gone up 18% since we mentioned the company in our Jan report. However we retain Sembcorp Industries as our top buy. In addition we added SMRT as our top sell counter.

#### FSSTI

Closing	2991
Expected Dividend Yield (%)	3.2%
T12M P/E	9.8
Est P/E	13.9
Market Cap. (USD mn)	552,407
3M Average Daily T/O (mn)	2,792.4
52 w eek range (SGD)	2521.95 - 3227.28
Closing Price in 52 w eek range	



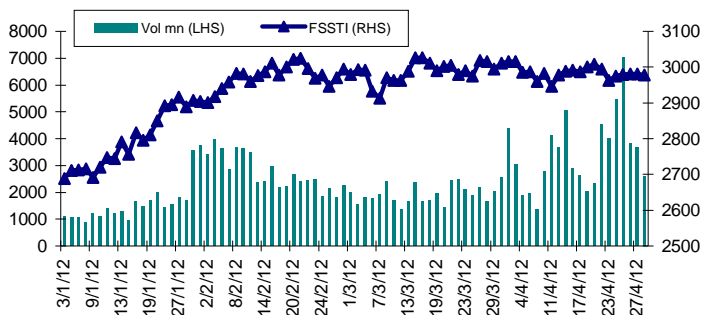
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### Range trading in April

After the blistering run-up in the first three months, STI fell 1% from 3010 at end-Mar to 2978 at end-April. During the month, STI moved within a tight range of 2974-3016. Market activity though was very active with daily average volume increasing 66% compared to the first quarter. This was mainly concentrated in the penny stocks. Traded value on the other hand fell 18%.

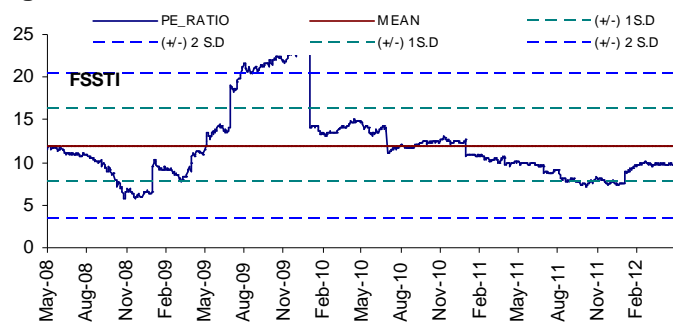
We reckon market has regress into a malaise state. This signals to us that the investment mood now is getting more risk adverse. On a forward PE basis (Fig 3), STI is trading at the 4-year mean of 14x and has been at this level for the past 3 months. We can also observe that -1 S.D is the support level as we can see PE bounces off twice at this level. What has been weighing down the market is uncertainty over the erratic macro outlook. Our economics team has a view that there are considerable economic headwinds. 1Q12 US GDP came in at 2.2%, weaker than the consensus forecasts and a sequential drop from 3% in 4Q11. There will also be large scale fiscal withdrawals in the west. In short we expect reduced government spending in US and Europe. From China, a slowdown this year is a given and we shouldn't read too much into the swinging indicators. What's consistent is Europe as recession this year is a certainty. The upside to this balance is the anticipation of loosening of fiscal policies. However such hopes are getting diminished day by day.

**Fig 1. Market vol and FSSTI**



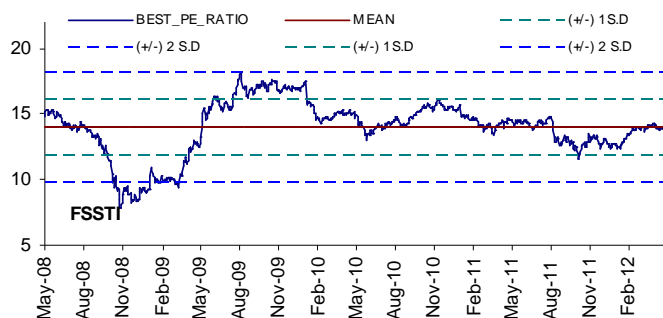
Source: Bloomberg, Phillip Securities Research

**Fig 2. T12M PE**



Source: Bloomberg, Phillip Securities Research

**Fig 3. Forward PE**



Source: Bloomberg, Phillip Securities Research

### STI to remain range bound

We expect STI to remain range bound on muted economics. We believe corporate profits will drive the market rather than expectations of central banks policies. STI is neither cheap nor expensive, but fairly valued we would say. The next leg up or down is dependent on how well corporate profits perform. In the data compile by Bloomberg for the current reporting season to date, 42% reported earnings growth, 40% reported earnings decline and 17% have flat growth, with an average EPS growth of 16.1%. Among the 8 index stocks that have reported, we see an average earnings growth of 29%. Although headline figures look good, we caution that there are more than 1/2 of all companies that have yet to release their results.

### Rating changes

Our sector ratings are essentially unchanged. There was no significant fundamental shift or technical movements that warrant a re-rating. For our stocks coverage, we upgraded our ratings on Wilmar, CDL Hospitality and DBS. On the other hand, we downgrade UOB on valuation concern. We upgraded Wilmar from Reduce to Neutral. We believe fundamental drivers for Wilmar have turnaround. Wilmar had a poor showing for its 4Q11 results whereby it suffered from poor refining and crushing margins. CPO price increases, China soybean crush margin recovery will benefit its respective business segments. Furthermore China inflation easing off allows room for the company to increase retail prices on its consumer products. Therefore we expect fundamental results to improve.

We upgraded CDL Hospitality Trust from Neutral to Accumulate. The strong Singapore tourism industry does not seem to abate even with the macro uncertainty. Tourist arrivals continue to grow. This translated into positive growth for CDL Hospitality as a hotel operator. The Trust reported a good set of 1Q12 results and registered record REVPAR in the quarter, testament of the strong hotel room demand. We upgraded DBS from neutral to accumulate. Share price fell sharply after the Bank Danamon deal. By our estimates, the acquisition provides synergy to DBS to expand in the vast mass market segment in Indonesia and will be earnings accretive from FY2015. Following the window of opportunity to pick up DBS shares, the Bank reported 1Q12 results that beat expectations. Higher NIM, growing loanbook and

increased market activities propel DBS to a record quarterly net profit.

We downgrade UOB from Neutral to Reduce. We feel that market is over-valuing UOB disregarding its FY11 performance which had come in below expectations. The share price has outperformed the broad market and positive earnings surprise is needed to sustain its price performance.

Sector	Rating	Change from previous
Aviation services	Overweight	↔
Offshore & Marine	Overweight	↔
Telecommunications	Neutral	↔
Commodities	Neutral	↔
Properties	Neutral	↔
REITS	Neutral	↔
Financials	Neutral	↔
Transportation	Underweight	↔
S-chips	Underweight	↔

We remove SATS from our top buy list. SATS share price has gone up 18% since we mentioned the company in our Jan report. However we retain Sembcorp Industries as our top buy. In addition we added SMRT as our top sell counter.

#### Sembcorp Ind Ltd

- \$5.08 (Buy), \$6.58 (target price), (date of last report 30/3/2012)
- Valuation: T4Q p/e 11.3, FY12E p/e 12.1, EPS growth (-6.7% in FY12E, +4.8% in FY13E)
- Sembcorp Ind is a conglomerate primarily involved in the utilities, marine and industrial parks businesses.
- Investors who prefer lower beta stock compared to SembMar can consider Sembcorp Ind.
- We think Sembcorp Ind Ltd combines 2 of our investment thesis. Firstly we look for defensive stocks that can cushion the pullback in stock market with reasonable dividend yield. Secondly, we look for companies that can benefit from high oil prices. The utilities and industrial parks businesses provide the stable pillar while its 61% owned subsidiary Sembcorp Marine provides the upside from high oil prices.
- Dividend payout ratio ranges from 30plus% - 50plus% in the last 5 years

#### SMRT Ltd

- \$1.65 (Sell), \$1.31 (target price), (date of last report 2/5/2012)
- Valuation: T4Q p/e 20.6, FY13E p/e 18.3, EPS growth (+12.5% in FY12E, flat in FY13E)
- SMRT is a multi-modal land transport operator with exposures to various modes of operations, including rail, bus & taxi services. A significant part of its profits are generated from its ancillary businesses, such as advertising & rental of commercial spaces.

- SMRT was frequently in the news recently due to frequent train breakdowns and delays
- Significant capex needs in future years resulting in negative free cash flow in FY13.
- Core fare based business faced rising operating expenses, while fare increment looks highly constrain.
- Capital structure will require higher level of debt in future i.e dividend was cut this financial year compared to last year

### Rating changes

Sector	Company	change	Previous rating	Current rating	Previous TP \$	Current TP \$	TP chg	Price \$	1 month price chg	YTD price chg
<b>O&amp;M</b>	Keppel Corp Ltd	-	Accumulate	Accumulate	11.68	11.68	↔	11	0.1%	18.3%
	Sembcorp Marine Ltd	-	Buy	Buy	6.1	6.1	↔	5.1	-3.4%	33.5%
	Cosco Corp	-	Reduce	Reduce	1	1	↔	1.035	-11.2%	18.3%
	Sembcorp Industries Ltd	-	Buy	Buy	6.58	6.58	↔	5.08	-3.8%	25.4%
<b>Commodities</b>	Wilmar Intl Ltd	Upgrade	Reduce	Neutral	4.35	4.98	↑	4.93	0.6%	-1.4%
	Golden Agri-Resources Ltd	-	Accumulate	Accumulate	0.795	0.795	↔	0.725	-7.6%	1.4%
<b>Properties</b>	Keppel Land Ltd	-	Neutral	Neutral	2.79	3.3	↑	3.11	-10.4%	40.1%
	SC Global Developments Ltd	-	Reduce	Reduce	1	1	↔	0.995	-7.0%	0.5%
	OUE Ltd	-	Accumulate	Accumulate	2.83	2.83	↔	2.37	0.9%	12.9%
	Ho Bee Investment Ltd	-	Neutral	Neutral	1.38	1.43	↑	1.35	-4.3%	31.7%
<b>REITS</b>	CapitaMalls Asia Ltd	-	Buy	Buy	1.77	1.75	↓	1.475	-9.8%	30.5%
	Parkway Life REIT	-	Accumulate	Accumulate	1.95	1.975	↑	1.86	3.6%	3.9%
	CDL Hospitality Trust	Upgrade	Neutral	Accumulate	1.53	2	↑	1.94	11.8%	25.6%
<b>S-chips</b>	Sabana Shariah Compliant REIT	-	Buy	Buy	1.05	1.05	↔	0.96	0.5%	9.7%
	Sino Grandness Food Industry Group Ltd	-	Accumulate	Accumulate	0.45	0.49	↑	0.42	3.7%	9.1%
	Ziwo Holdings Ltd	-	Sell	Sell	0.095	0.095	↔	0.113	-4.2%	-5.8%
	Foreland Fabrictech Holdings Ltd	-	Accumulate	Accumulate	0.13	0.13	↔	0.096	-3.0%	-3.0%
	China Sunshin Chemical Holdings Ltd	-	Neutral	Neutral	0.25	0.25	↔	0.265	3.9%	10.4%
	Sunpower Group Ltd	-	Buy	Buy	0.4	0.4	↔	0.27	-8.5%	36.4%
	CombineWill	-	Buy	Buy	1.34	1.34	↔	0.7	-10.3%	-11.4%
	Hu An Cable	-	Buy	Buy	0.26	0.26	↔	0.152	-7.3%	34.5%
<b>Transportation</b>	Heng Yang Petrochem Log Ltd	-	-	Buy	-	0.61	-	0.29	3.6%	-38.3%
	Tiger Airways Holdings Ltd	-	Reduce	Reduce	0.58	0.58	↔	0.7	-9.1%	10.2%
	Singapore Airlines Ltd	-	Accumulate	Accumulate	11.3	11.3	↔	10.66	-1.0%	4.9%
	SMRT Corporation Ltd	-	Sell	Sell	1.33	1.31	↔	1.65	-4.9%	-6.8%
	ComfortDelgro Corporation Ltd	-	Buy	Buy	1.65	1.65	↔	1.485	-4.8%	4.9%
	Neptune Orient Lines Ltd	-	Reduce	Reduce	1.24	1.24	↔	1.26	-11.0%	12.0%
	Singapore Technologies Engineering Ltd	-	Accumulate	Accumulate	3.37	3.37	↔	3.05	-6.2%	13.4%
<b>Aviation service</b>	SATS Ltd	-	Buy	Buy	2.76	2.76	↔	2.59	4.0%	20.5%
	SIA Engineering Company Ltd	-	Buy	Buy	4.86	4.86	↔	3.95	-2.0%	15.2%
	Singapore Telecommunications Ltd	-	Accumulate	Accumulate	3.31	3.31	↔	3.13	-0.6%	1.3%
<b>Telcos</b>	Starhub Ltd	-	Neutral	Neutral	2.9	2.9	↔	3.19	2.9%	9.6%
	M1 Ltd	-	Reduce	Reduce	2.36	2.38	↑	2.43	-4.3%	-2.8%
	DBS Group Holdings Ltd	Upgrade	Neutral	Accumulate	14.5	14.9	↑	14.21	0.2%	23.4%
<b>Financials</b>	Oversea-Chinese Banking Corp Ltd	-	Neutral	Neutral	8	8	↔	8.99	0.8%	14.8%
	United Overseas Bank Ltd	Downgrade	Neutral	Reduce	17.5	17.5	↔	19.03	3.7%	24.6%
	Singapore Exchange Ltd	-	Accumulate	Accumulate	7.34	7.34	↔	6.71	-3.3%	9.5%
	Genting Singapore PLC	-	Accumulate	Accumulate	1.89	1.89	↔	1.73	1.5%	14.6%

\*Previous rating and TP are based on the date of our last sector strategy report



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