Phillip 2021 Singapore Strategy

Equities in a sweet spot

SINGAPORE | STRATEGY

21 January 2021

Review: The STI was down 11.8% in 2020. It was the worst performer in Asia, coinciding with Singapore's worst GDP contraction on record of -6% to -6.5% in 2020. The pandemic triggered consensus earnings to be slashed around 27% this year. The worst-hit sectors were the pandemic epicentres of transportation (-30%) and hospitality REITs (-20%). Sectors that managed to clock gains were industrials (+9%), industrial REITs (+10%) and healthcare (+30%).

Outlook: We believe Singapore's equity market is in a sweet spot. Our containment of the pandemic will lead to an earlier and more pronounced economic rebound than many countries, where the pandemic is still raging on. Globally, new COVID-19 cases average 561k per day. In Singapore, community cases averaged one per day over the past week. Phase 3 reopening should add to the economic momentum as bigger group activities resume. Other conditions conducive for an equity rally include low interest rates, undemanding valuations and attractive dividend yields. Vaccines and populist fiscal stimulus offer downside protection to global growth, in our view. Approval of Moderna's and Pfizer's vaccines can support 1.8bn doses for 900mn people in 2021. If all the 10 leading vaccines are approved, there is capacity for 9.3bn dosses in 2021, enough to cover two-thirds of the global population and most of the developed markets. Vaccines can bend the infection curve in 2021. Yes, risks remain. The most obvious are vaccine failures to tame mutations of the virus, their side effects or even inefficacy. Other factors that could unsettle markets are monetary-policy misjudgements by the Fed or foreign-policy faux pas by the new U.S. administration. But we think the likelihood of such pitfalls is low.

Recommendation: Sectors we favour in 2021 are hospitality, banks and REITs. We are taking a longer-term stance on hospitality. Pent-up demand for travel is likely to result in a prolonged upcycle for the hospitality industry. Airline stocks may be tantalising after their steep drops amid expectations of a return of travel but we have our concerns. Firstly, competition in the industry has not abated due to support from governments. Secondly, airlines are now even more leveraged than before the crisis. In the banking sector, we expect multiple headwinds to change direction. As our economy comes out of lockdown and loan moratorium ends, we expect the aggressive pre-emptive provisioning to reverse. The next positive could be the MAS' removal of dividend caps. This has already come to pass in some jurisdictions. A corollary tailwind will be better loans growth as economic uncertainties recede. Where REITs are concerned, the pandemic has introduced unwonted volatility for risk-averse yield investors. Both asset values and dividend payments suffered in 2020. With global negative bonds at a record US$17.7tr, the search for yield remains integral to our equity strategy. Our preference is U.S. REITs for their attractive 9% yields. While work-from-home trends had already taken root in the U.S. before the pandemic, average leases of five years should anchor near-term yields, even if some tenants shift more aggressively and permanently to home-based work arrangements.

2020 performance

Figure 1: 40% of the STI was in the red

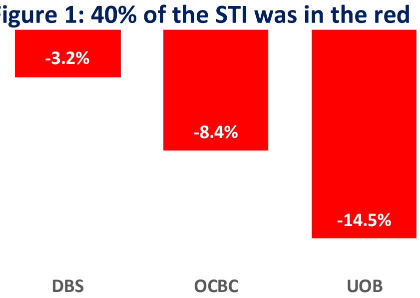


Figure 2: Pandemic-related selling

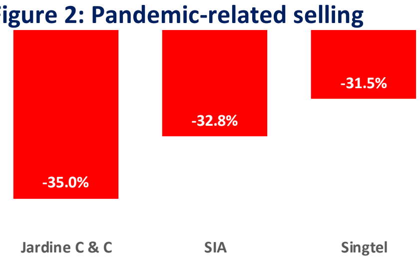
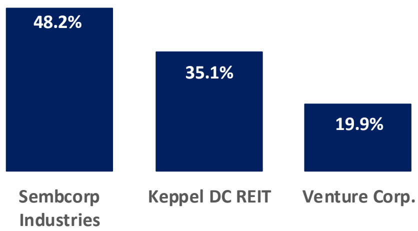


Figure 3: Restructuring and digital



Source for Figs 1-3: PSR, Bloomberg

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The Phillip Absolute 10 Model Portfolio

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
Ascott REIT (New)	3.8%	21.3%	-18.8%	**Buy**	**1.15**	1.080	6%	2,542	3.7%
Asian PayTV	-0.8%	-4.0%	-29.6%	**Buy**	**0.15**	0.119	26%	163	8.8%
Manulife US REIT	0.0%	0.7%	-25.5%	**Buy**	**0.92**	0.745	23%	1,179	8.6%
Dividend / Earnings Growth									
Frasers Centrepoint Tr	6.0%	3.2%	-12.2%	**Buy**	**2.79**	2.46	13%	3,163	5.4%
PropNex	13.0%	31.1%	51.5%	**Buy**	**0.85**	0.78	9%	219	5.1%
Thai Beverage	-0.7%	21.5%	-17.4%	**Buy**	**0.86**	0.74	17%	13,980	3.2%
Re-rating Plays									
CapitaLand	4.8%	21.0%	-12.5%	**Buy**	**3.82**	3.28	16%	12,899	3.7%
ComfortDelgro	1.2%	18.4%	-29.8%	**Buy**	**1.83**	1.67	10%	2,740	3.9%
Keppel Corp. (New)	6.1%	20.9%	-20.5%	**Buy**	**6.12**	5.38	14%	7,405	1.7%
Yoma	3.6%	1.8%	-17.1%	**Buy**	**0.46**	0.29	59%	491	0.0%
Average	3.70%	12.7%	-12.6%				21%	42,239	4.5%

Source: Bloomberg, PSR; * prices as at 31 December 2020, average performance is for illustration purposes only. It is an equal-weighted portfolio of 10 stocks and excludes the cost of monthly rebalancing, transaction fees and dividend income.

2020 REVIEW

The STI was down 11.8% in 2020. It was the worst performer in Asia, coinciding with Singapore's worst GDP contraction on record of -6% to -6.5% in 2020. When we compare the STI to other major asset classes such as corporate bonds, gold and U.S. markets, 2020 was its second (or even third) consecutive year of underperformance, in USD terms (Figure 4).

The pandemic triggered a slash in consensus earnings by around 27% for 2020, primarily due to banks, telcos and aviation (Figure 5). The worst-hit sectors were the pandemic epicentres of transportation (-30%) and hospitality REITs (-20%). Other sectors similarly affected by the pandemic were even worst hit. They included telecommunications (-27%) and ship/marine yards (-37%). Sectors that managed to clock gains were industrials (+9%), industrial REITs (+10%) and healthcare (+30%).

5 themes for 2021

- ✓ A boom in global growth
- ✓ Vaccines to bend the infection curve
- ✓ Interest rates remain conducive
- ✓ Prolonged growth in tourism

5 themes we had for 2020

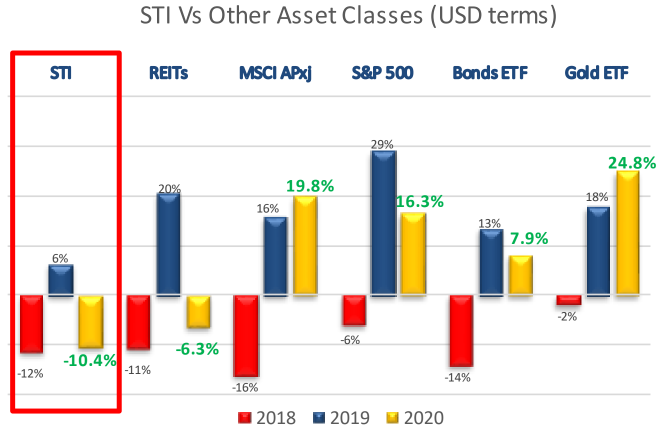
- ✓ Trade ceasefire
- × Recovery in the domestic economy
- ✓ Buoyant electronics sector
- ✓ Binary political events
- × Less momentum from interest rates

OUTLOOK

We believe the Singapore equity market is in a sweet spot. Containment of the pandemic has led to an earlier and more pronounced economic rebound than many countries, where the pandemic is still raging on. Globally, new COVID-19 cases average 561k per day (Figure 6). A positive is the infection curve is bending albeit at very elevated levels. In Singapore, community cases averaged one per day over the past week due to a recent surge (Figure 7). Phase 3 reopening in Singapore should accelerate the economic momentum as restrictions on group activities are further relaxed (Figure 8). Other conditions conducive for an equity rally include low interest rates (Figure 9), undemanding valuations and attractive dividend yields. Vaccines and fiscal stimulus offer downside protection to global growth, in our view. Approval of Moderna's and Pfizer's vaccines can support 1.8bn doses for 900mn people in 2021. If all the 10 leading vaccines are approved, there is capacity for 9.3bn dosses, enough to cover two-thirds of the global population in 2021 (Figure 10). Vaccines can bend the infection curve in 2021.

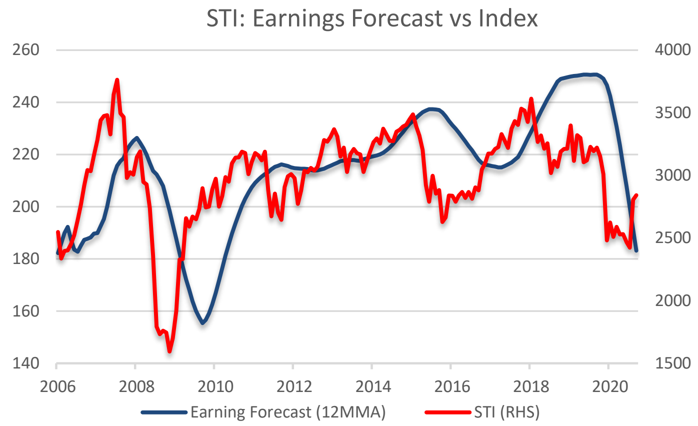
With vaccines dominating all the headlines and an economic boom in 2021 forecast by just about every economist and government, the question is, has everything been priced in? We think No, looking at the large underperformance of our equity market. Yes, risks remain. The most obvious are vaccine failures to tame mutations of the virus, their side effects or even inefficacy. Other factors that could unsettle markets are monetary-policy misjudgements by the Fed or foreign-policy faux pas by the new U.S. administration. But we think the likelihood of such pitfalls is low.

Figure 4: Second year of STI's underperformance



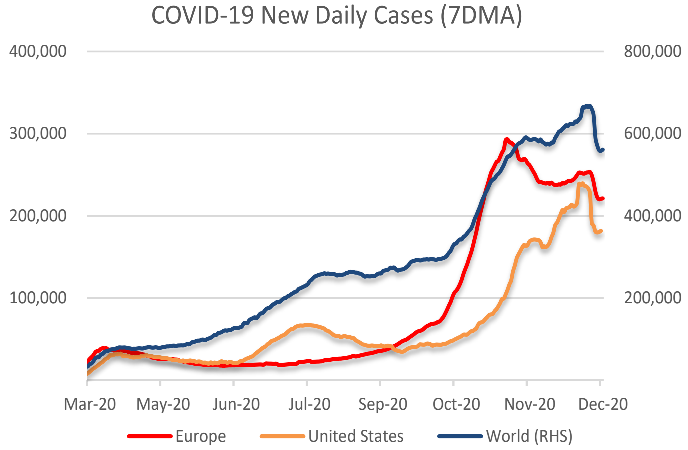
Source: PSR, Bloomberg, *Bonds ETF is iShares Investment Grade Corporate Bonds (LQD), Gold ETF is SPDR Gold Shares (GLD)

Figure 5: FY20 earnings slashed by 27%



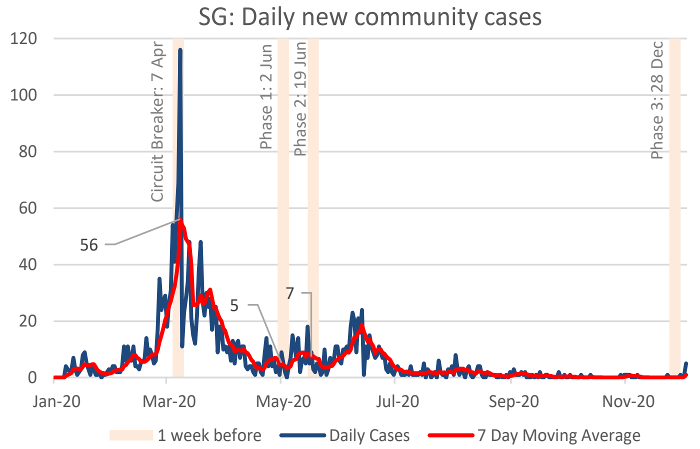
Source: PSR, Bloomberg

Figure 6: Globally new cases have started to turn around



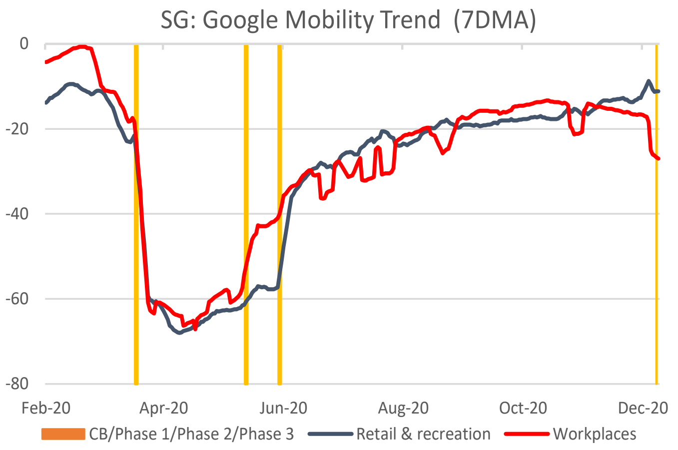
Source: PSR, CEIC, WHO, as at 30Dec20

Figure 7: Singapore has gotten the pandemic under control



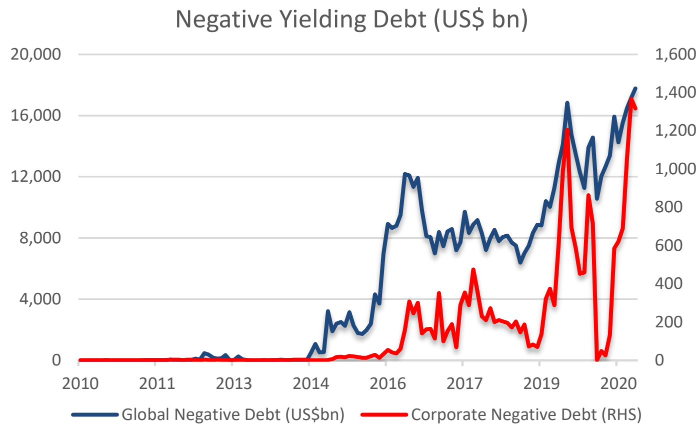
Source: PSR, MOH, as at 31Dec20

Figure 8: Retail sector has recovered to 90% of pre-COVID levels



Source: PSR, Google Mobility

Figure 9: Negative-yielding bonds at a record of US$17.7tr



Source: PSR, Bloomberg

Figure 10: 9.3bn doses possible in 2021 for 5.25bn people or two-thirds of the global population

	Company	Country	Type	Name	Doses / Weeks	Efficacy	Approval	Doses 2021 (mn)
1)	Pfizer/BioNTech	USA/Germany	mRNA	Comirnaty	2 + 3	95.0%	11-Dec-20	1,300
2)	Moderna	USA	mRNA	mRNA-1273	2 + 4	94.5%	18-Dec-20	500
3)	Sinopharm-Beijing	China	Inactivated	BBIBP-CorV	2 + 3	79.0%	30-Dec-20	1,000
	Sinopharm-Wuhan	China	Inactivated	-	-	-	-	-
4)	AstraZeneca/Oxford	UK/Sweden	Adenovirus	AZD1222	2 + 4	90.0%	30-Dec-20	2,000
5)	Sinovac Biotech	China	Inactivated	CoronaVac	2 + 2	> 50%	-	600
6)	CanSino Biologics	China	Adenovirus	Convidecia	1	-	-	200
7)	Gamaleya	Russia	Adenovirus	Sputnik V	2 + 3	91.4%	-	1,000
8)	Novavax	USA	Protein	NVX-CoV2373	2 + 3	-	-	1,400
9)	J&J/Beth	US/Israel	Adenovirus	Ad26.COV2.S	1	-	-	1,000
10)	CureVac	Germany	mRNA	CVnCoV	2 + 4	-	-	300
								9,300

Source: PSR, *New York Times*; Approval dates are from FDA, China and UK; Approved / Limited Use / Phase 3; as at 31Dec20

RECOMMENDATIONS FOR PHILLIP ABSOLUTE 10

The STI's relative performance has been poor. Therefore, it is challenging to simply buy beta to find returns. Our focus is on individual names to generate alpha. With our 10 stocks, we look for balanced returns to avoid excessive volatility in our model portfolio. For our 2021 absolute return portfolio, our top 10 picks - The Phillip Absolute 10 - by category are:

a) **Dividend yields:** Ascott REIT, Asian Pay TV and Manulife US REIT provide the foundation of our portfolio to generate valuable yields. Admittedly, Ascott faces near-term volatility from COVID-19 but we are taking a longer-term stance. We expect the hospitality industry to enjoy a prolonged recovery after COVID. Asian Pay TV pays attractive yields of 8% with upside potential from 5G backhaul income. Manulife pays enviable US$ yields of almost 9% on Class A office assets with a 5-year WALE.

b) **Dividend/Earnings growth:** Fraser Centrepoint Trust offers exposure to very resilient suburban retail malls at major transportation nodes. These malls are being sustained by necessity spending. Expansion in catchment areas and efficiencies gained from its recent acquisition are expected to power its growth. We believe property transactions will rise this year, driving growth for PropNex. After a challenging 2020, we look forward to a volume recovery in 2021 for Thai Beverage.

c) **Re-rating:** CapitaLand was hit hard by their hospitality and retail-mall exposure last year. We expect a recovery plus re-rating from fee-management growth for assets under management. ComfortDelgro is our exposure to a resumption of group and economic activities in Singapore. Keppel Corp's re-rating is expected to come from more aggressive divestments and asset monetisation. Yoma is a proxy for Myanmar's fast-growing economy, consumption and digitalisation of financial services through its KFC franchise, property development and fintech arm, Wave Money.

STI target. Our target for the STI is 3,200. This is based on 14x PE, its 10-year PE ratio average and earnings rebounding 25%, still 10% below pre-COVID levels. The index is trading at 15x PE on depressed earnings.

Figure 11: Phillip Absolute 10

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
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Source: Bloomberg, PSR

2020 performance review: Phillip Absolute 10

Our Phillip Absolute 10 outperformed the STI in 2020. Changes we made during the year were:

1Q20 - Added: Fraser Centrepoint, StarHub; **Deleted:** SGX, DBS
2Q20 - Added: Thai Beverage; **Deleted:** Singtel
3Q20 - Added: Yoma Strategic, Asian PayTV, DBS; **Deleted:** StarHub, Sheng Siong, UOB
4Q20 - Added: ComfortDelGro, Manulife US REIT, SGX; **Deleted:** Ascott REIT, DBS, Venture Corp.
1Q21 - Add: Ascot REIT, Keppel Corp.; **Delete:** NetLink Trust, SGX

Our portfolio suffered tremendously when COVID-19 struck in 1Q20. It took us the next three quarters to recover all the losses. We bore the brunt of the selling from our exposure to Ascott REIT, DBS, Singtel and FCT. Major winners for us were Sheng Siong, Venture Corp, PropNex and Thai Beverage. Sheng Siong was supercharged by a spike in grocery sales during the lockdown. Venture recovered from disruptions in its Malaysian operations with increased dividends and resilient earnings. PropNex gained market share as property sales performed better than expected. Thai Beverage endured an alcohol ban in Thailand and increased regulatory oversight of alcohol consumption in Vietnam to report resilient earnings. The company took aggressive steps to contain cost.

Figure 12: Monthly perf.

	Absolute 10	STI
Jan20	-0.5%	-2.1%
Feb20	-1.6%	-4.5%
Mar20	-16.4%	-17.6%
Apr20	10.1%	5.8%
May20	1.0%	-4.3%
Jun20	1.8%	3.2%
Jul20	-2.4%	-2.3%
Aug20	3.2%	0.1%
Sep20	-2.1%	-2.6%
Oct20	-4.5%	-1.7%
Nov20	11.0%	15.7%
Dec20	3.2%	1.4%
YTD	-0.1%	-11.8%
Out/(Under)perf.		11.6%

Source: Bloomberg, PSR

Sector Narratives

1. **Consumer:** Macro conditions are weak for the Singapore consumer, with a drop in income and record job losses. Stock picks are critical. We prefer essential consumer products such as groceries and affordable F&B.
2. **Finance:** We think banks can be re-rated upwards and outperform. This is premised on an economic recovery and a removal of the asset-quality overhang when loan moratoriums are lifted. It will trigger MAS to roll back dividend caps and pre-emptive bad-debt provisioning in 2020/21.
3. **Healthcare:** Hospital and specialist admissions could remain sub-par without foreign patients as our international borders stay closed. However, elective treatments such as health screening, aesthethics and dental have rebounded strongly due to better health awareness and shift in spend from travel to healthcare. Glove makers face uncertainties over glove demand after the pandemic. The market is already pricing in a decline in glove profits, though profits should still be elevated as hygiene practices by healthcare workers have changed. Other industries are also adopting the use of gloves, for instance, air travel, F&B, etc.
4. **Property:** Demand for property has been resilient through the recession. Some reasons are stable prices after the introduction of the total debt servicing ratio in 2013, rising income and a growing pool of HDB upgraders.
5. **REITs:** Volatility in dividends has shaken confidence in the sector. But we believe the elusive search for yields will draw investors back to REITs, especially with strong Singapore or U.S. currencies backing these payouts.
6. **Technology:** The electronics sector is undergoing a structural boom. Multiple drivers for hardware technology products include more cars using more electronics to meet new emission standards and increased usage of automated driving. 5G rollout is also expected to raise demand for infrastructure and smartphones. A work-from-home economy has led to more cloud spending on communication. Elsewhere, memory demand is supported by the insatiable consumption of streaming entertainment, data analytics and storage.
7. **Telecommunications:** Loss of inbound and outbound roaming revenue has led to the overnight disappearance of 20% of high-margin mobile revenue. The silver lining is, the market has priced in this loss and sector valuations are turning more attractive.
8. **Transportation:** Cancelled holidays and business trips sum up the airline industry this year. We believe air travel will only resume gradually as the pandemic is still raging in many countries and most are not willing to risk imported cases. Our preference is land transportation where the recovery is more evident and there is less reliance on international travellers.

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Technical View - Straits Times Index

STI Struggling to close above 3,000 level

SINGAPORE | STRATEGY REPORT | TECHNICAL ANALYSIS

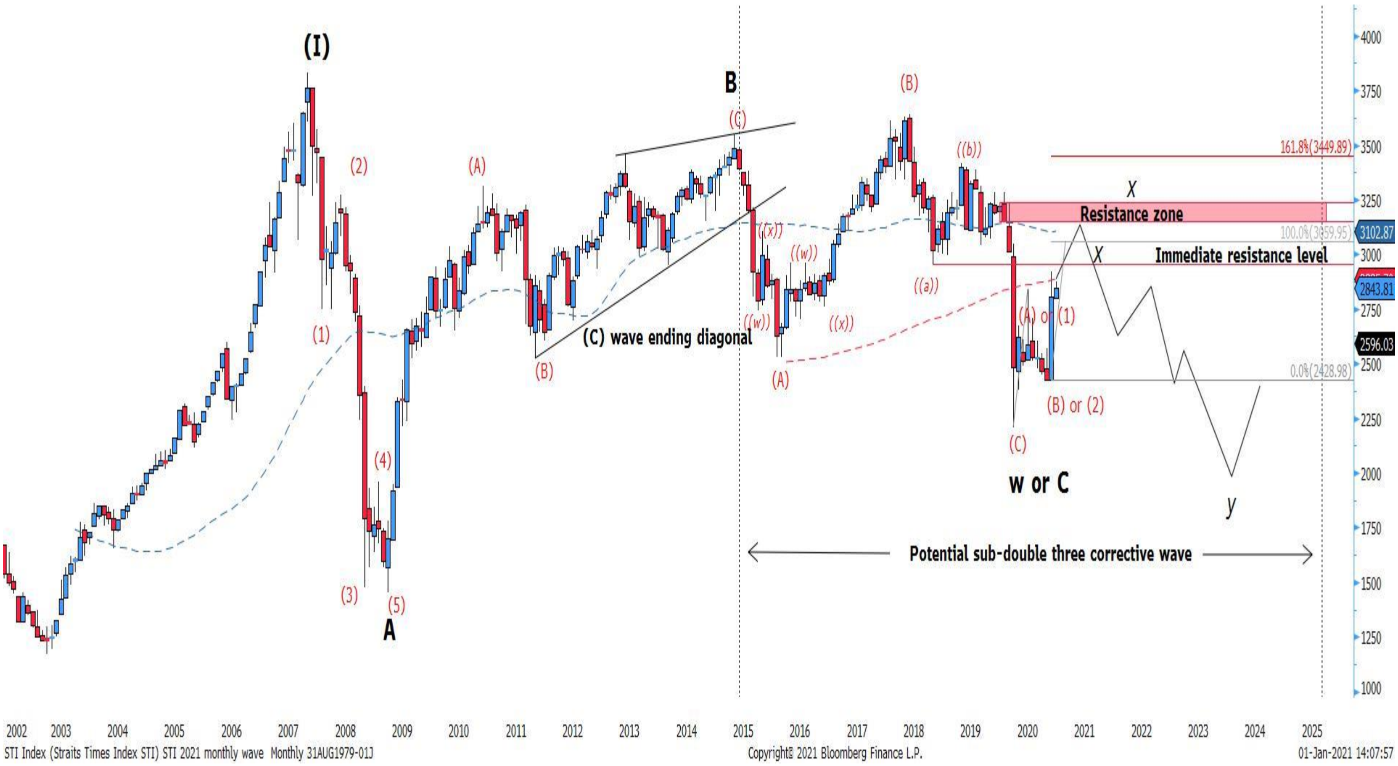
- 2020 has been a wild ride for the STI. Prices slid to 2208 from 3,032 in a single month.
- Subsequent upside remain corrective and the best performing month was in November 2020, where prices rebounded by more than 500 points.
- The failure to return back above 3,000 in 2020 signals a more corrective tone. Technical momentum indicate that 2021 may signal another round of upside above 3,000. However, the rally completion must be completed within Q1, otherwise it will be considered
- a weak rally and the STI can slide further.

Figure 13: Straits Times Index (STI) Monthly chart – Larger 5-wave symmetrical triangle

Zooming out, the STI corrective stance has been developing since 2008 onwards and with prices failed to clear above 3,500 thrice. The most recent attempt was mid-2019 where by prices displayed weakness after hitting the yearly high of 3,429.50. The following major decline occurred in March 2020, signalling a much awaited correction to formed the last leg of the ((C)) wave of the 5-wave triangle.

Based on the triangle wave structure and momentum, the potential upside may face some tough resistance at 3,140-3,254 resistance zone. Another point to note is ((D)) and ((E)) wave is yet to complete. In another words, the corrective stance of Straits Time Index will remain for a prolonged period of time.

Figure 14: Straits Times Index (STI) Monthly chart – Complex wave (II) of the supercycle



Using the wave theory, we can deduce that the momentum and structural trend is quite similar to the 5-wave triangle indicated in Figure 13. In this case, the difference is that the corrective wave (II) of the supercycle is yet to complete and remain as a complex corrective wave.

So far, wave A and B of the cycle phase has completed with the potential wave C starting with a sub-expanded flat which explains that the corrective stance is not over and wave C has a higher probability of a potential sub-double three corrective wave forming. In another words, the resistance zone at 3,140-3,254 remain a high-risk target. The only hope for a new impulsive wave to start is that prices must clear 3,449-3,500 region and should not retrace below 2,843. Failing to achieve this target increase the probability of further corrective actions.

Figure 15 : Straits Times Index (STI) Daily chart – Double zig-zag wave WXY nearing completion

Zooming in to the daily chart, there is a clearer double zig-zag formation with a hinge of a fractal pattern at play. First, the falling wedges in late March was a smaller one and it slowly evolve into a larger version during April and May period. Finally the biggest move was from June to November, which can also be sub-divided into a triple zig-zag move for wave X. Hence, the up move during November 2020 is the strongest in respect to the breakout of the larger falling wedge.

Moving forward, the pennant formation is indicative of a continued rally and prices should not break below the support zone at 2,740-2,800 in order for the bullish rally to continue. The immediate resistance zone at 2,983.12 remain as a short-term threat. Should prices reject the immediate resistance zone, the wave Y will arrive prematurely. However, wave Y(ii) remain our main target price as suggested by the Figure 14 monthly chart.

The weekly wave count shows a clear primary impulse 5 wave structure from 2016 to 2018 with a potential smaller regular flat in the making. Although the symmetrical triangle is displaying a strong impulse bullish continuation, the supply area located below 3600 regions proves to be a strong resistance zone. Therefore the possibility of STI breaking 3600 is highly unlikely. Besides, the corrective wave down that occurred on May 2018 to October 2018 is on a 3-wave corrective pattern, which opens a path to a 3-3-5 flat corrective wave formation instead of the usual 5-3-5 structure. In other words, the symmetrical triangle will have a limited upside rally and it will be a corrective formation instead of an impulse formation

Consumer OVERWEIGHT

- Stellar jump in 2020 grocery sales. Year to October sales catapulted 32%, a 30-fold rise from their historical 5-year CAGR of 1.3%.
- Income dipped 0.6% YoY for the year ended Jun 2020, the worst in more than a decade
- Household wealth still rising despite record GDP contraction, thanks to increased savings of cash and financial assets.
- Overweight Singapore consumer sector, particularly essential products.

2020 Review

2020 was the year of pantry-loading and panic-buying of groceries (Figure 16). April's supermarket sales skyrocketed 75%. When Singapore entered Phase 2 reopening, supermarket sales remained robust. October sales grew 22% YoY. Supermarket CAGR in the past five years (2015-19) was only 1.3%. This implies growth rates were still trending 22x faster than the last five years as we entered 4Q20. Working from home has meant more meals being consumed at home. Eating places' sales contracted another 18% YoY in October.

Still, **Singapore's consumer stocks were down 15.1% in 2020**, dragged down by Dairy Farm (-27.0%), SPH (-48.2%) and Thai Beverage (-17.4%). Sheng Siong stood out with a gain of 25.0%. Its 9M20 net earnings surged 70% YoY - excluding government grants - to S$95mn.

Outlook

It was a dismal year for retail sales in 2020. Year to October, retail sales excluding motor vehicles shrank 16% YoY. May 2020 was the worst month on record, with a collapse of 45% as the country entered circuit breaker. Although we expect improvements in 2021, spending is unlikely to return to pre-pandemic levels. Without tourist arrivals and with weak macro conditions, retail spending would remain tepid. Other factors impinging on consumption include unemployment (Figure 18). Job losses in the past three quarters totalled 173,000. This was equivalent to more than five years of job gains. The service industry shed the most jobs, namely from the retail and F&B segments. Another impediment to spending is a decline in income levels (Figure 19). Our Overweight position is premised on essential consumption which should benefit stocks such as Koufu and Sheng Siong.

Recommendations

We Overweight the consumer sector. As the overall environment remains soft, we recommend selective stock-picking:

- **Koufu's (BUY/TP: S$0.77)** revenue and footfall at its food courts and coffee shops are expected to recover in 2021. Another growth propeller would be its new central kitchen at Woodland. This is expected to generate new income streams such as rental and ingredients and cost efficiencies from scaling up food processing and preparation for its retail stores.

- **Sheng Siong (NEUTRAL/TP: S$1.71)** continues to gain market share in groceries from mall-operated chains and wet markets. We expect revenue to contract in 2021 after unprecedented growth last year. But the company's fundamental merits are intact, namely high pre-pandemic ROEs of 28% and record net cash of S$180mn.

- **Thai Beverage (BUY/TP: S$0.86)** cut costs aggressively in FY9/20 to protect its net profits amid pandemic closures. Its key spirit volume only rose 0.2% in FY9/20 but net earnings were up 15%. We expect FY9/21 volumes to return to growth of 3-4% on the back of economic recovery and absence of the alcohol that occurred in April 2020. We continue to peg valuations to its five-year historical average of 18x PE.

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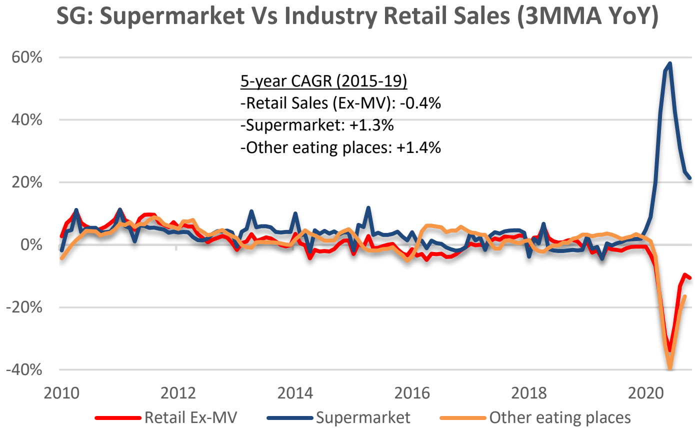
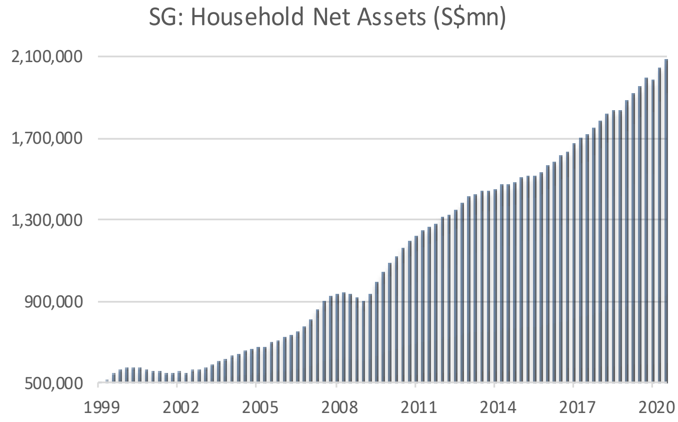
Singapore Consumer Tracker

Figure 16: K-shaped retail sales performance



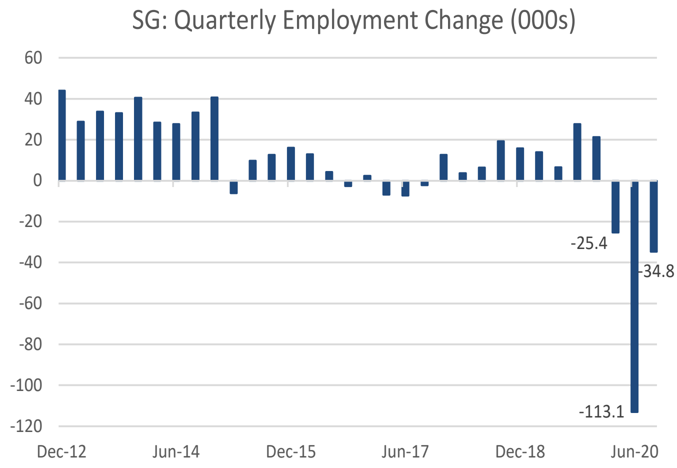
Source: PSR, CEIC, Department of Statistics

Figure 17: Household net assets expanded 7% YoY in 2020



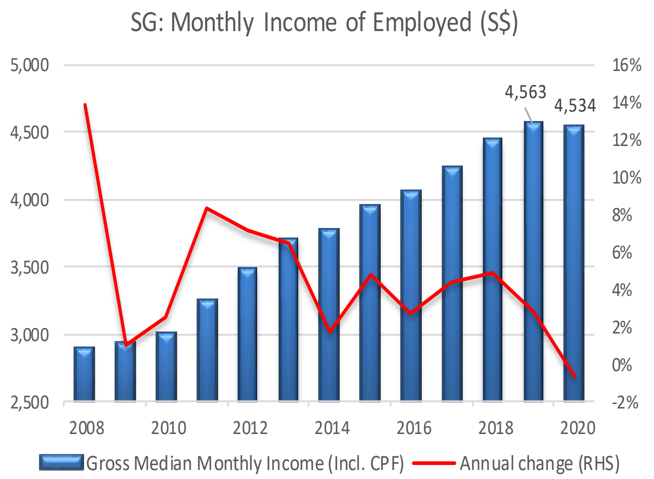
Source: PSR, CEIC, Department of Statistics

Figure 18: Job losses of 173k in past three quarters



Source: PSR, CEIC

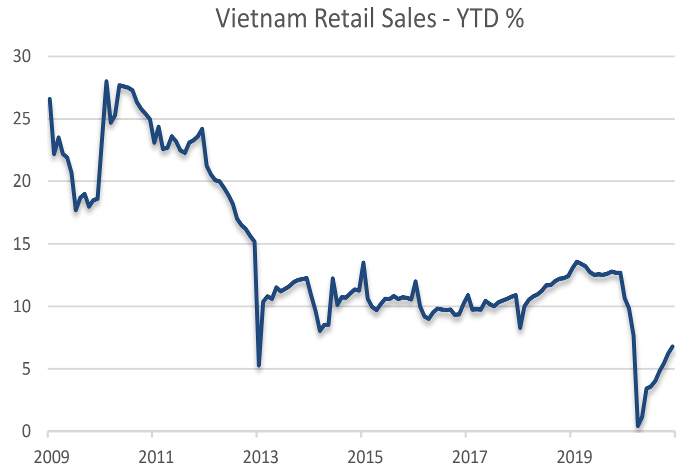
Figure 19 : Income contracted 0.6% in 2021



Source: PSR, CEIC, MOM

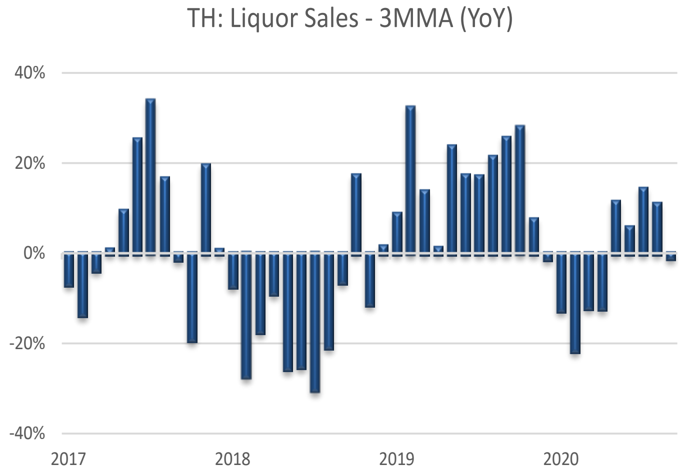
Thailand/Vietnam Consumer Tracker

Figure 20 : Consumer spending stalled this year



Source: PSR, CEIC, General Statistics Office

Figure 21 : Liquor sales recovered in 2H20



Source: PSR, CEIC, Office of Industrial Economics

Conglomerate OVERWEIGHT

- Keppel has identified S$17.5bn of assets for monetisation over time.
- Its 100-day programme is expected to provide clarity on Keppel O&M and remove key overhang.
- Longer-term ROE target of 15% reaffirmed.
- **OVERWEIGHT** Keppel in the sector.

2020 Review

Singapore investment company Temasek's withdrawal of its S$4.1bn partial offer in August this year for Keppel Corp sent its shares 24% lower. Temasek said it did this after Keppel breached a material adverse change clause. Its offer had mandated that Keppel's profit after tax must not fall by more than 20%, over the cumulative four quarters from the third quarter ended September 2019. However, the clause was breached with Keppel's latest results. Its cumulative loss after tax for the year to end-June came in at S$165mn, impacted by S$919mn in provisions for Keppel O&M's contract assets, doubtful debt, as well as share of impairment provision arising from its associate, Floatel. On the bright side, Keppel has launched a strategic review of its O&M unit. An announcement of the review results is expected in mid-January 2021. Ability to provide a clear resolution of its O&M unit would bring stability to the Keppel Group and remove its current overhang.

Outlook

Divestments of Keppel's assets will likely be speeded up in 2021, in line with Keppel's Vision 2030. This will allow the Group to unlock capital for reallocation to new growth areas. In December 2020, Keppel divested its remaining 30% interest in Dong Nai Waterfront City for about 1.95 trillion dong or S$115.9mn in cash. It followed this up with a divestment of its interest in Keppel Bay Tower to Keppel REIT. The agreed valuation was S$657.2mn. Gains from the transaction are estimated at S$14.6mn, for potential booking in FY2021. We believe Keppel will hasten the divestment of other non-core assets, possibly amounting to S$3-5bn in the next three years. Elsewhere, its shipyards that had been affected by COVID-19 disruptions have resumed work. We expect operations to improve in FY21e, underpinned by a strong orderbook. We see the divestment of Keppel O&M to Sembcorp Marine (Non-rated) as the most likely outcome of its strategic review and believe this will lead to a re-rating of its shares.

Recommendation

We are **OVERWEIGHT** on Keppel in the sector, being positive on its long-term outlook. Catalysts are expected from a removal of its O&M overhang.

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Figure 22: S$17.5bn of Keppel Group's assets have been identified for potential monetisation

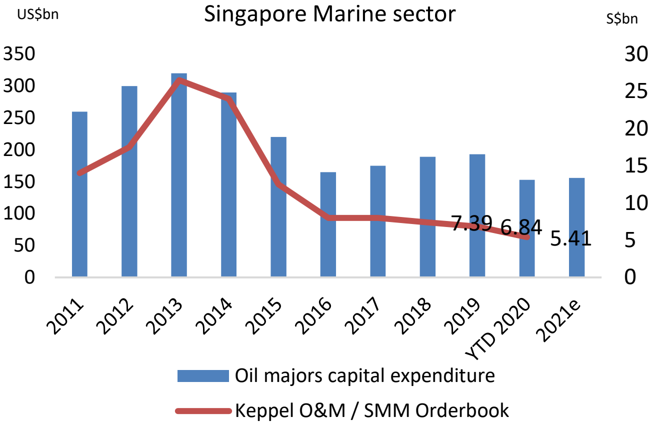
Keppel Group's assets

Assets	Carrying value S$bn
Landbank/projects under development	7.0
Assets for monetisation through REITs / trust or for sale	4.8
Non-core assets (including Keppel O&M's rigs)	3.9
Funds / investments that can be liquidated over time	1.8
Total carrying value	**17.5**

(1) Carrying values of the assets as at 30 June 2020, before taking into account transaction costs, potential tax liabilities, repayment of any asset financing and financing costs

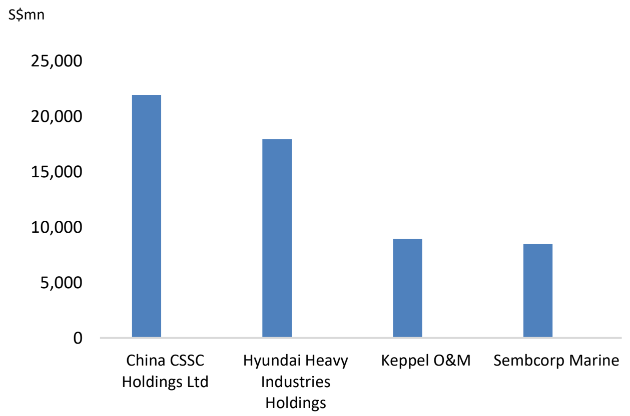
Source: PSR, Keppel Corp

Figure 23: Marine sector to stay in the doldrums as oil prices remain weak. This could prompt a merger between Keppel O&M and Sembcorp Marine



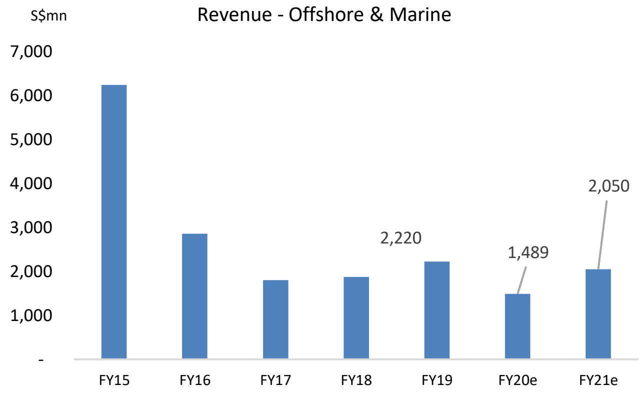
Source: PSR, Keppel Corp, Sembcorp Marine

Figure 24: The merger of Chinese shipyards CSSC and CISC in December 2019 led to the creation of a behemoth.



Source: PSR, Company

Figure 25: Oil-price weakness and COVID-19 disruptions hurt Keppel O&M's FY20e revenue



Source: PSR, Keppel Corp

Figure 26: Keppel's strategic review is expected to nudge it closer to its 15% ROE target

Business Units	Target ROE	2019 ROE
Keppel Offshore & Marine	15%	0.3%
Keppel Land	12%	6.5%
Keppel Infrastructure	15%	22.7%
Keppel Data Centres	18%	15.9%
Keppel Logistics	12%	(16.2%)
Keppel Capital	20%	24.1%
Keppel Urban Solutions	15%	(6.7%)
M1	25%	19.2%
Keppel Corp	**15%**	**6.1%**

Source: PSR, CEIC

Finance NEUTRAL

- Fed's 150bp rate cut in March 2020 felled NIMs for banks. Return of low interest rates to weigh on NII in FY21.
- Loans growth to remain weak as economies exit loan moratoriums.
- Tapering of allowances to ease earnings pressure but normalisation expected only in FY22.
- Lift of dividend cap may boost yields to pre-pandemic 5-6%.
- SGX's 2H20 earnings grew 27% YoY on the back of volatile markets. Stability expected in FY21 following sustained volatility and acquisitions complementing existing businesses.
- Remain **NEUTRAL** on banks. For sector exposure, prefer SGX and UOB on swifter recovery potential.

2020 Review

Banks entered 2020 expecting thinner margins and weak loans growth. These were to be compensated by fee and other non-interest income from wealth management, deals and bonds. However, COVID-19 drastically weakened the operating environment. To cope with the economic stress, the Fed instituted two unplanned rate cuts totalling 150bps in March. Interest rates plunged from 1.77%/1.57% at the start of the year to the current 0.41%/0.22% for 3M SIBOR/SOR. With such low interest rates, banks' NIMs slipped 27bps from 1.80% to 1.53% by 3Q20, levels last seen in 2013.

Circuit breaker in Singapore in 2Q20 to curb the spread of COVID-19 forced banks to close physical branches. This hurt their fee and other non-interest income. The economy screeched to a halt and the quality of loans came under scrutiny. Banks began taking pre-emptive provisions, which ate into their earnings by 24-33% in 9M20. The MAS also asked banks to cut their dividends by 40% to ensure they had sufficient capital to weather the economic fallout.

Market volatility benefitted SGX, whose earnings were up 27% in 2H20. Sustained market activities are expected to hold up its FY21e earnings. An unexpected announcement of the termination of MSCI equity index futures contracts for February 2021 was also promptly followed up with a new licence agreement with FTSE to replace expiring contracts.

Outlook

Operating conditions for banks remain weak heading into 2021:

1) **Low interest rates.** SIBOR and SOR have stabilised at their 6-year lows but we do not expect any rate hikes in the short term (Figure 29).
2) **Weak loans growth.** Loans fell by 2.32% YoY in November while we had modelled low-single-digit growth for FY20 at the beginning of the year. Although consumer loans have improved for four consecutive months, business loans have fallen for eight months straight. We are expecting 2-3% loans growth in FY21e as the Singapore economy gradually recovers.
3) **Heightened credit costs.** At the start of COVID-19, banks guided for 80-130bps of credit costs for FY20-21. Although they front-loaded credit costs by 68-77bps in 9M20, we expect 40-60 bps in FY21e, in accordance with guidance provided by the banks. This is comparable to the peak of a typical credit cycle.
4) **Market activities may taper off.** SGX has benefited from increased market participation in the past year (Figure 34). While monthly SDAV and DDAV continue to grow by double digits YoY, we think the high benchmark set in 2020 will be harder to top in 2021.

Recommendation

Remain NEUTRAL. While an economic recovery is underway, we expect earnings to return to pre-pandemic levels only in FY22. That said, possible re-rating catalysts include a swifter economic recovery which can benefit non-interest income and an upgrade in asset quality as Singapore exits loan moratoriums. The latter would normalise allowances and could lead to more lending by the banks. A lift in dividend cap by the MAS could also boost their yield appeal.

We like SGX (SGX SP, ACCUMULATE, TP: S$9.45) in the sector as new acquisitions could potentially catalyse growth. Current businesses are also likely to hold steady as in the past year. A higher quarterly DPS of 8 cents, from 7.5 cents, has enhanced its attractiveness. For exposure to banks, we prefer UOB (UOB SP, NEUTRAL, TP: S$21.10) due to its lower SPs and better credit quality outlook, which may lead to a faster earnings recovery in FY21.

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Figure 27 : Singapore banks' peer comparison

Stock	PSR Recommendation	Market Cap (USDmn)	Forward P/E Yr0	Forward P/E Yr1	Forward P/E Yr2	Forward P/BV Yr0	Forward P/BV Yr1	Forward P/BV Yr2	Dividend Yield (%) Yr1	Dividend Yield (%) Yr2	ROE (%) Yr0	ROE (%) Yr1	ROE (%) Yr2	Price (Local Currency)	Target Price (S$)	Upside
Singapore																
DBS	Neutral	48,323	10.3	13.6	11.5	1.3	1.2	1.2	3.4	4.3	12.8	9.2	10.4	25.0	22.60	-10%
OCBC	Neutral	34,045	9.8	13.4	10.6	1.0	0.9	0.9	3.2	4.5	10.8	7.0	8.7	10.1	8.93	-11%
UOB	Neutral	28,587	10.4	13.2	11.0	1.2	1.0	0.9	3.5	4.5	11.7	7.4	8.6	22.6	20.45	-9%
	Market Cap Weighted Average:		**10.2**	**13.4**	**11.1**	**1.2**	**1.1**	**1.0**	**3.4**	**4.4**	**11.9**	**8.1**	**9.4**			
Indonesia																
BANK CENTRAL ASI	Non-rated	59,261	28.8	34.0	27.4	4.7	4.6	4.1	1.4	1.3	17.5	13.8	15.7	33850	na	na
BANK MANDIRI	Non-rated	20,959	13.0	17.3	12.0	1.8	1.6	1.4	4.2	3.9	14.2	8.8	12.6	6325	na	na
BANK NEGARA INDO	Non-rated	8,177	9.5	29.5	10.8	1.2	1.1	1.0	1.8	1.5	13.3	3.4	9.2	6175	na	na
BANK RAKYAT INDO	Non-rated	36,523	15.6	26.3	16.7	2.6	2.6	2.4	2.8	2.5	17.7	9.7	15.0	4170	na	na
BANK TABUNGAN NE	Non-rated	1,297	106.0	13.9	9.2	0.9	1.0	0.9	0.7	1.2	0.9	6.5	10.8	1725	na	na
	Market Cap Weighted Average:		**21.9**	**28.5**	**20.5**	**3.4**	**3.3**	**2.9**	**2.3**	**2.1**	**16.6**	**11.0**	**14.5**			
Malaysia																
AFFIN BANK BHD	Non-rated	952	7.7	9.9	8.9	0.4	0.4	0.4	2.3	2.7	5.4	3.8	4.3	1.8	na	na
ALLIANCE BANK	Non-rated	1,121	6.9	11.2	9.8	0.5	0.7	0.7	2.7	3.6	7.2	6.6	7.4	2.9	na	na
AMBANK HLDG BHD	Non-rated	2,732	6.7	10.4	8.0	0.5	0.6	0.5	3.1	4.5	7.4	5.5	6.9	3.7	na	na
BIMB HLDGS BHD	Non-rated	1,899	9.8	11.0	10.6	1.3	1.2	1.1	3.6	3.6	14.4	11.3	11.0	4.3	na	na
HONG LEONG BANK	Non-rated	9,813	11.6	13.7	12.5	1.1	1.3	1.2	2.4	2.9	9.5	9.8	10.1	18.2	na	na
MALAYAN BANKING	Non-rated	23,654	11.8	14.9	13.1	1.2	1.1	1.1	3.9	5.1	10.5	7.6	8.5	8.5	na	na
PUBLIC BANK BHD	Non-rated	19,891	13.7	16.8	15.0	1.7	1.7	1.6	2.4	3.2	13.0	10.6	11.3	20.6	na	na
RHB BANK BHD	Non-rated	5,436	9.3	10.4	9.3	0.9	0.8	0.8	3.9	5.0	10.1	8.0	8.6	5.5	na	na
	Market Cap Weighted Average:		**11.7**	**14.5**	**12.8**	**1.3**	**1.3**	**1.2**	**3.1**	**4.1**	**10.9**	**8.8**	**9.5**			
Thailand																
BANGKOK BANK PUB	Non-rated	7,533	8.5	10.4	8.4	0.7	0.5	0.5	3.4	4.3	8.5	4.9	5.9	118.5	na	na
BANK AYUDHYA PCL	Non-rated	7,655	6.7	9.6	8.7	0.8	0.8	0.8	2.2	2.4	12.8	8.8	8.6	31.3	na	na
KASIKORNBANK PCL	Non-rated	8,916	9.3	12.6	10.4	0.9	0.6	0.6	2.3	2.7	9.9	5.4	6.3	113.0	na	na
KIATNAKIN PHATRA	Non-rated	1,459	9.3	8.6	8.2	1.3	1.0	0.9	5.7	6.3	13.9	11.2	11.1	51.8	na	na
KRUNG THAI BANK	Non-rated	5,166	7.8	9.1	8.9	0.7	0.4	0.4	3.7	4.2	9.1	5.0	5.1	11.1	na	na
KRUNGTHAI CARD P	Non-rated	5,109	18.5	29.5	26.9	5.2	6.8	5.8	1.4	1.5	30.6	24.8	23.8	59.5	na	na
SIAM COMM BK PCL	Non-rated	9,895	10.3	11.2	10.4	1.0	0.7	0.7	4.1	4.5	10.4	6.5	6.7	87.5	na	na
SRISAWAD CORP PC	Non-rated	3,007	24.0	20.6	18.3	5.0	4.1	3.6	1.7	1.9	24.8	21.3	21.0	65.8	na	na
THANACHART CAPIT	Non-rated	1,205	-	5.9	8.4	0.9	0.6	0.6	8.7	7.3	16.4	10.0	7.6	34.5	na	na
TISCO FINANCIAL	Non-rated	2,360	10.9	11.9	11.2	2.0	1.8	1.7	5.6	7.1	18.9	14.9	15.4	88.5	na	na
TMB BANK PCL	Non-rated	3,468	11.3	10.2	9.6	0.8	0.5	0.5	3.1	3.8	4.9	5.3	5.6	1.1	na	na
	Market Cap Weighted Average:		**10.5**	**12.9**	**11.6**	**1.5**	**1.4**	**1.3**	**3.2**	**3.6**	**13.1**	**9.2**	**9.4**			

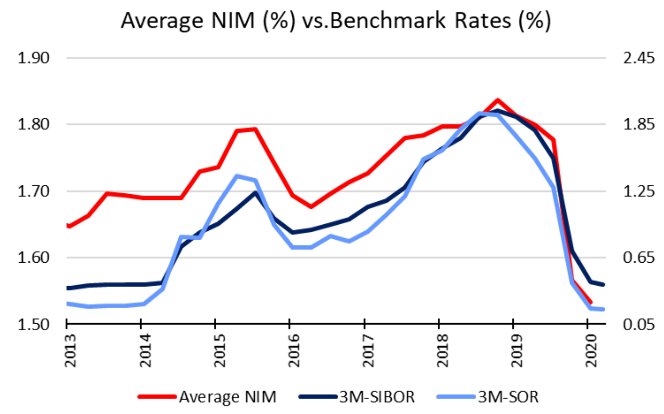
Source: Bloomberg, PSR Extracted as of 2-Jan-21

Figure 28: Front-loaded provisions to taper in FY21

		DBS	OCBC	UOB
Credit cost guidance (bps)		80 - 130	100 - 130	80 - 100
Expected allowances (S$mn)		3,000 - 5,000	2,700 - 3,500	2,200 - 2,800
FY19 (pre-COVID-19)	RLAR reserves	404	876	114
	ECL stage 1 & 2 (GP)	2,511	1,048	1,985
	ECL stage 3 (SP)	2,502	1,397	1,626
	Total reserves	**5,417**	**3,321**	**3,725**
Current	RLAR reserves	-	874	379
	ECL stage 1 & 2 (GP)	4,017 (+ 1,506)	1,863 (+ 815)	2,712 (+ 727)
	ECL stage 3 (SP)	2,969	1,881	1,664
	Total reserves	**6,986 (+ 1,304)**	**4,618 (+ 1,063)**	**4,755 (+ 709)**
	Compared to guidance	31 - 52%	37 - 48%	37 - 47%

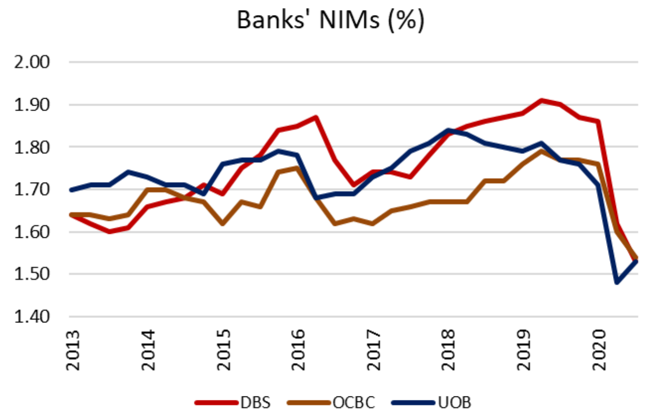
Source: PSR, Companies

Figure 29: Interest rates stabilising at 6-year lows



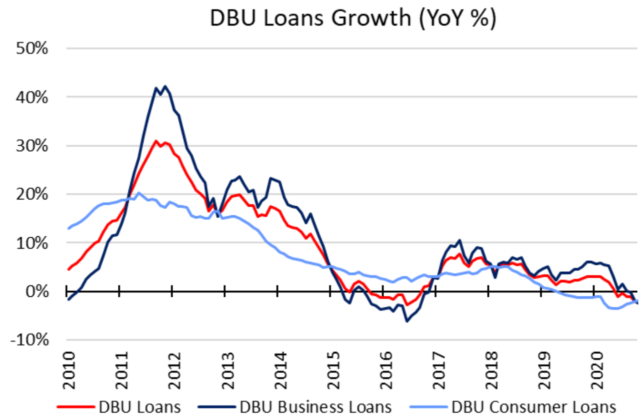
Source: PSR, Companies

Figure 30: NIM collapsed in 2020



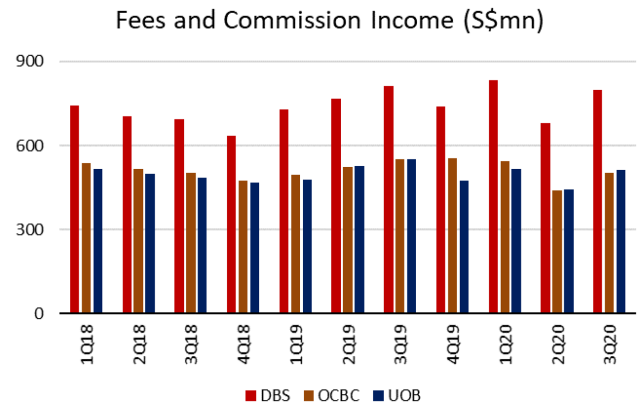
Source: PSR, Companies

Figure 31: Loans have headed south since June 2020



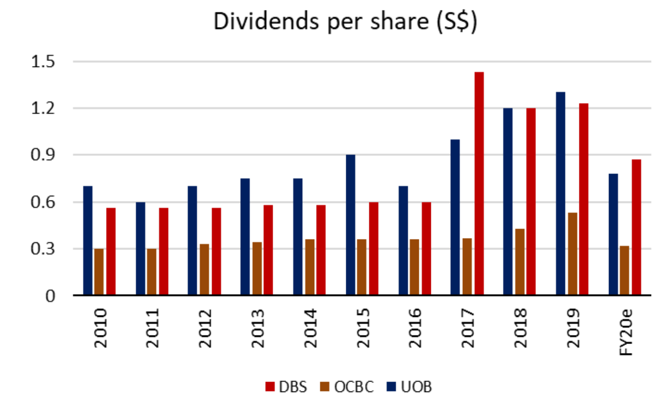
Source: PSR, MAS

Figure 32: Fee income recovering



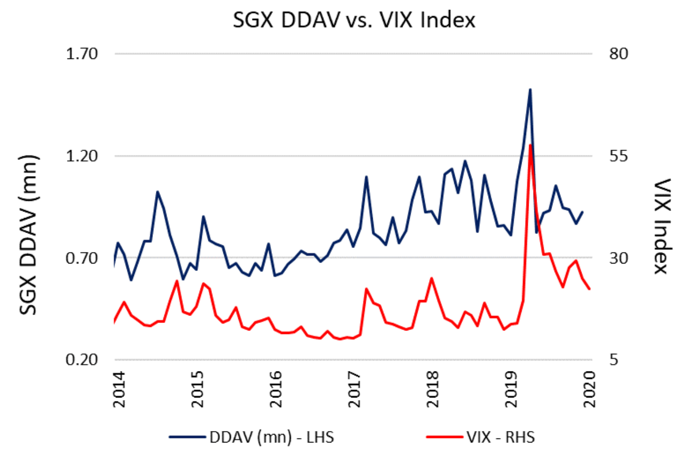
Source: PSR, Companies

Figure 33: 60% dividend cap dropped yields to around 3.5% from 5-6% in FY19



Source: PSR, Companies

Figure 34: Volatility continues to benefit derivatives (DDAV)



Source: PSR, Companies, Bloomberg

Healthcare NEUTRAL

- COVID-19 threw industry into disarray, diverting resources to fighting the health crisis.
- Unknown nature of the virus deterred patient visits for elective and non-essential treatments.
- Travel restrictions hurt medical tourism and upended supply chains for medical supplies distributors.
- Successful containment of virus and development of vaccines to bring back patients in 2021.
- Upgrade healthcare sector to **ACCUMULATE** from NEUTRAL. Top picks are iX Biopharma (IXBIO SP, BUY, TP: S$0.455) and UG Healthcare (UGHC SP, BUY, TP: S$1.35).

2020 Review

COVID-19 stressed the healthcare industry like never before. A lack of understanding of the new virus created aversion to hospital and clinic visits for fear of contracting the virus in medical facilities. Healthcare providers were affected as many elective and non-essential treatments were deferred. Travel restrictions compounded the problem, as medical tourism ground to a halt in Singapore.

Medical supplies distributors, too, were affected by lower demand for medical services and hiccups in their supply chains, which led to higher costs. The initial rush for essential medical supplies such as surgical masks and hand sanitisers also resulted in pre-emptive stocking up at higher costs due to supply shortages.

The pandemic, however, did throw up some winners, as with most crises. The essential nature of medical PPE such as gloves and overalls led to a meteoric spike in demand. This translated to rising average selling prices and order backlogs for manufacturers of medical PPE and COVID-19 test kits.

As COVID-19 came under control in Singapore, patients have started to trickle back to hospitals and clinics for elective, chronic and other non-essential treatments.

Outlook

Successful development of COVID-19 vaccines is expected to improve the operating environment for the industry in 2021:

1. **Pent-up demand for medical services.** Apart from patients returning for deferred treatments, there has been an uptick in aesthetic treatments as well. Patients who may have developed chronic conditions over the past year may also stream into clinics and hospitals as risk aversion to medical facilities subsides.
2. **Telemedicine gains traction.** Digitalisation efforts by healthcare providers may begin to pay off. Telemedicine can offer greater efficiencies through queue management, online consultations etc. These complement existing healthcare services.
3. **Possible recovery of medical tourism.** A potential lifting of travel restrictions may bring back foreign patients, especially with the government's plans to vaccinate the local population by 3Q21.
4. **Demand for medical PPE and test kits to normalise**. FY20 was a bumper year for medical PPE and test-kit manufacturers. While 2021 could be a more normal year, order backlogs should still bolster FY21 earnings.

Recommendation

Upgrade healthcare sector to ACCUMULATE. A return of patients should benefit healthcare providers and distributors alike. Business plans that were halted during the pandemic will likely resume, which can provide additional tailwinds to the sector. Our top picks are as follow:

- **iX Biopharma (IXBIO SP, BUY, TP: S$0.455)**: potential out-licensing deal for Phase 3 of Wafermine™ development and scheduled capacity increase as part of commercialisation efforts may see iX Biopharma achieve breakeven in FY21.
- **UG Healthcare (UGHC SP, BUY, TP: S$1.35)**: we value UGHC on more normalised earnings in FY22e. We already incorporate a 24% decline in ASPs and 25% point drop in GP margins. Volume growth is expected to be its major earnings driver that year.

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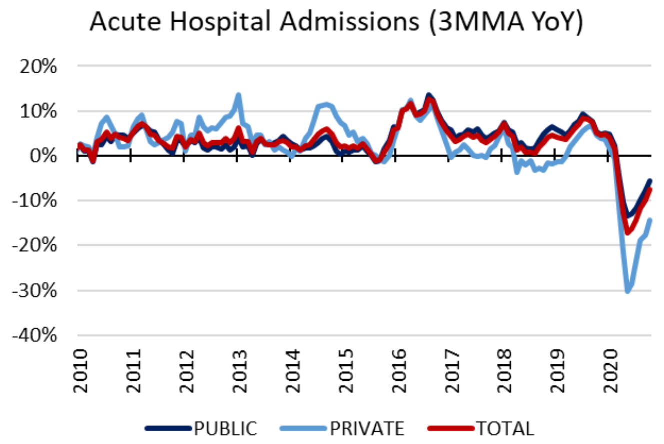
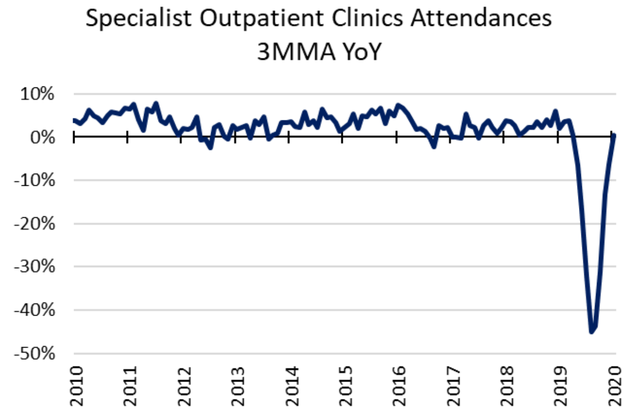
Figure 35: Private hospital admissions more affected by COVID-19 than public



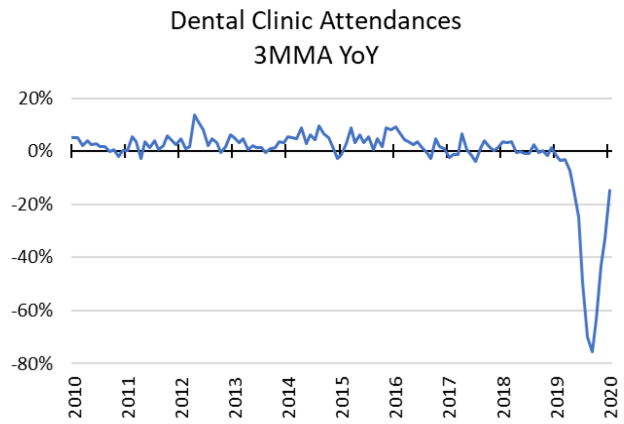
Source: CEIC, PSR

Figure 36: Specialist clinics' attendance recovering to pre-pandemic levels



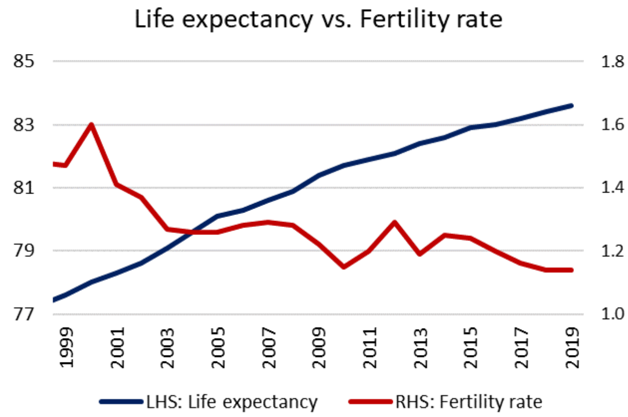
Source: CEIC, PSR

Figure 37: Dental services still 15% lower than pre-COVID levels



Source: CEIC, PSR

Figure 38: Life expectancy continues to lengthen while fertility rates remain at all-time low



Source: CEIC, PSR

Real Estate Investment Trusts (REITs) NEUTRAL

- FTSE SREITs' returns fell 3.6% in 2020. Weakness across sub-sectors, with Keppel DC REIT being the top performer (+38.4%) and First REIT the worst (-74.6%).
- Sector yield spread of 339bps over benchmark 10-year SGS remained close to -0.12 SD.
- Nevertheless, maintain OVERWEIGHT on REITs, with catalysts expected from economic reopening and acquisitions in this lower-interest-rate environment. Sub-sector preferences are Retail and Hospitality. Top picks are Manulife US REIT (MUST SP, Buy, TP US$0.92), Frasers Centrepoint Trust (FCT SP, Buy, TP S$2.79), Ascendas REIT (AREIT SP, Buy, TP S$3.61) and Ascott Residence Trust (ART SP, Buy, TP S$1.36).

2020 Review

SREITs were not spared the brutal market selldown in March. At its trough, the FTSE S-REIT Index shed 35%. COVID-19 and the accompanying economic mayhem cast a pall on SREITS in the first half of 2020. Earnings were eroded by the double whammy of government-mandated/voluntary rental rebates to tenants and weaker sales from mandated business closures during the lockdown. Most businesses turned to remote working while the closure of non-essential businesses pushed consumers towards online shopping. Only the Healthcare and Industrial sub-sectors were resilient, as the majority of their tenants operate in essential services and faced less business disruption than Retail, Commercial and Hospitality. Capital, rental and transaction markets were lacklustre, as real-estate players adopted a wait-and-see approach. The uncertainties widened credit spreads, wiping out savings from lower interest rates.

Phase 2 reopening of the economy returned short-term visibility to the market in 2H20. Fund-raising and transactions picked up. Despite the uncertainties and evolving real-estate landscape, S-REITs raised S$7.8bn from capital markets (2019: S$9.5bn) and S$1.7bn from debt markets (2019: S$3.4bn). M&As were less pronounced in 2020, owing to more volatile market conditions, but picked up towards the end of the year. The merger of CapitaLand Mall Trust (formerly CT SP) and CapitaLand Commercial Trust (formerly CCT SP) to form CapitaLand Integrated Commercial Trust (CICT SP) was completed in September. The ESR-Sabana merger fell through while unitholders of SoilBuild Business Space REIT (SBREIT SP, NR) were offered privatisation. Low interest rates were conducive for REITs, as maturing debt was refinanced at lower rates.

Recovery was uneven, with Healthcare and Industrial leading the way. They had recouped their pre-pandemic price levels by June 2020. Retail, Commercial and Diversified SREITs traded in the -25% to -17% range. Hospitality was the most severely hit, weighed down by border closures. The sub-sector traded at a 35% discount to pre-pandemic levels. Occupancies and rents dipped across the board, reflecting weak business sentiment. 2020 will go down as the year that sped up digital adoption and transformation. COVID-19 accelerated the digital transformation of companies, diminishing the role of offices, retail space and business travel while elevating the importance of data centres and logistics assets. Real-estate players will have to acclimatise themselves to the new landscape.

Retail. Daytime catchment increased for suburban malls, due to work-from-home arrangements throughout 2H20, in line with government recommendations. Central malls were hit on multiple fronts, by their higher percentage of discretionary trade, the disappearance of office workers and an absence of tourist spending. Rental rebates and government wage support helped to defray costs for retailers. Still, weaker sales throughout the year forced some to consider consolidating their operations or moving to a pure e-commerce model. Tenant sales have improved to -10% of 2019 levels although shopper footfall is still down 30% from normal times due to density control. E-commerce cannibalisation has doubled from 7% to 14%. Retail operators have used the downtime to ramp up their digital offerings. They have launched online marketplaces and food-ordering platforms, riding on their existing loyalty programmes. These offer their tenants an omnichannel advantage.

Office. The success of remote working has spurred companies to reconsider their space needs. Financial firms started accepting permanent hybrid work arrangements in October, allowing employees to work remotely up to 40% of the time. Office REIT managers say tenants have reduced leasing space by 10-30% upon renewal. Physical occupancy hovers at 30% in Phase 3.

Industrial. Industrial rents slipped despite an uptick in occupancy. Warehouse occupancies were lifted by stockpiling demand in 1H20 and new demand by 3PLs in 2H20 owing to higher e-commerce volumes. Higher digital adoption solidified the resilience of data centres as future-proof assets, compressing yields further. Industrial assets - excluding business parks - maintained high physical occupancies of 60-70% during the lockdown. Construction slippages delayed the delivery of new supply to 2021, helping to support rents.

Hospitality. Hotel RevPARs dived as countries all over shuttered borders. Monthly international tourist arrivals in Singapore have been down by 99% YoY since March. Most Hospitality S-REITs benefitted from government block-booking of their assets for use as quarantine facilities for returning residents, work permit holders and inbound business travellers. This alternative source of revenue has tapered off in tandem with dwindling returning residents. Hoteliers are looking to fill vacancies with staycation guests, after Singapore gave the green light for staycations. They will be aided by SingapoRediscovers vouchers. Hotels' event-related business such as wedding banquets and MICE bookings have yet to recover fully from capacity restrictions, with many organisers still using video conferencing tools. Despite the establishment of travel agreements with several countries, tourist arrivals remain muted as companies reserve international travel as a last resort, relying on virtual meetings in the interim.

Outlook

All sectors face rental pressure from weaker demand and caution in the market. With interest rates likely to remain low, more acquisitions and fund-raising can be expected in 2021. Two themes have emerged: the search for yields overseas and the chase after scale. Given tight cap rates, REITs have started look abroad for acquisitions. Scale bestows REITs with a wider investible universe and larger debt headroom for development.

Retail (OVERWEIGHT). Weaker demand and lower rents are expected as tenants rationalise costs. Suburban malls should be resilient, as more firms announce permanent hybrid work arrangements. Dominant central and suburban malls, which are located near transport nodes, will be prioritised when retailers consolidate stores. Retail malls are expected to remain a crucial piece of commercial-property infrastructure, providing essential goods and services and a place for people to socialise. F&B sales will be lifted by a relaxation of group size and capacity restrictions under Phase 3, with central malls experiencing a more pronounced recovery due to returning office crowds. Although the lower cost of selling online and consolidation among retailers have dampened demand for retail space, certain trade categories appear to face less e-commerce risks. Landlords are also getting creative with their mall offerings and experiential concepts in order to draw more tenants and shopper footfall.

Office (NEUTRAL). Lacklustre demand and downsizing from the adoption of permanent hybrid work arrangements will likely result in oversupply in the office market in the near term. Rents could remain under pressure. Oversupply will be mitigated by low supply coming online of 0.9mn sq ft on average each year in the next five years. This is below the 10-year average of 1mn sq ft. Additionally, the redevelopment of AXA Towers, Fuji Xerox and the Central mall will take almost 1.2mn sq ft off supply in the central area in 2020/2021. The long-term outlook of the office market is still good as Singapore remains one of the top cities for the location of regional headquarters. This is largely attributed to its political and operational stability, business-friendly policies and educated workforce.

Industrial (NEUTRAL). The outlook for data centres, hi-spec and business parks remains favourable. These asset classes are supported by a growing technology sector and low supply under construction. Warehouses have been benefitting from higher demand from logistics players, given a higher percentage of online sales. Leasing of light industrial factory space may still be muted as global demand is only starting to recover. The outlook for factory assets remains challenging given considerable new supply.

Hospitality (OVERWEIGHT). The hospitality sector faces a long road to recovery. We estimate that the industry may only return to pre-COVID levels in 2023/24, in line with the Singapore Tourism Board's expectation of a 3-5-year recovery timeline. We think that international borders will remain largely closed in 1H21. Economies with sizeable domestic demand such as China, the UK, France, Australia and the US will be the first to recover, in our view. Business travel will be less frequent, as companies may elect to hold business meetings virtually to save costs. MICE demand will likely return, as certain aspects of business engagement and networking cannot be replicated by virtual meetings. Digital adoption has resulted in leaner cost and operating structures for hoteliers, resulting in higher profit margins. Approval of Moderna and Pfizer-BioNTech vaccines have lifted the cloud of uncertainty and provided a visible timeline to recovery. Hospitality counters are still trading at depressed levels and are positioned for a recovery, in our view. A clearer recovery timeline is expected to lift the price overhang for Hospitality REITs.

Recommendation

Remain OVERWEIGHT on SREITs, with sub-sector preferences being Retail and Hospitality on the back of economic reopening. Our least preferred sub-sector is Commercial. We think that the Commercial sector is facing a structural decline due to the greater adoption of remote/hybrid working, which has resulted in office downsizing. Our key recommendations are:

- Manulife US REIT (MUST SP, Buy, TP US$0.92)
- Frasers Centrepoint Trust (FCT SP, Buy, TP S$2.79)
- Ascendas REIT (AREIT SP, Buy, TP S$3.61)
- Ascott Residence Trust (ART SP, Buy, TP S$1.15)

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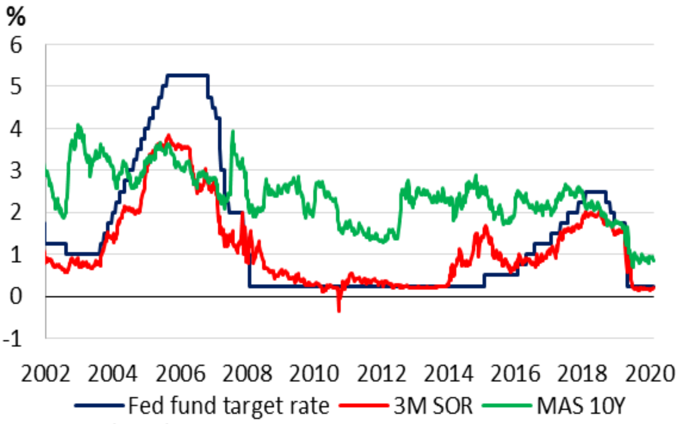
Figure 39: Reference rates have fallen more than 100bps

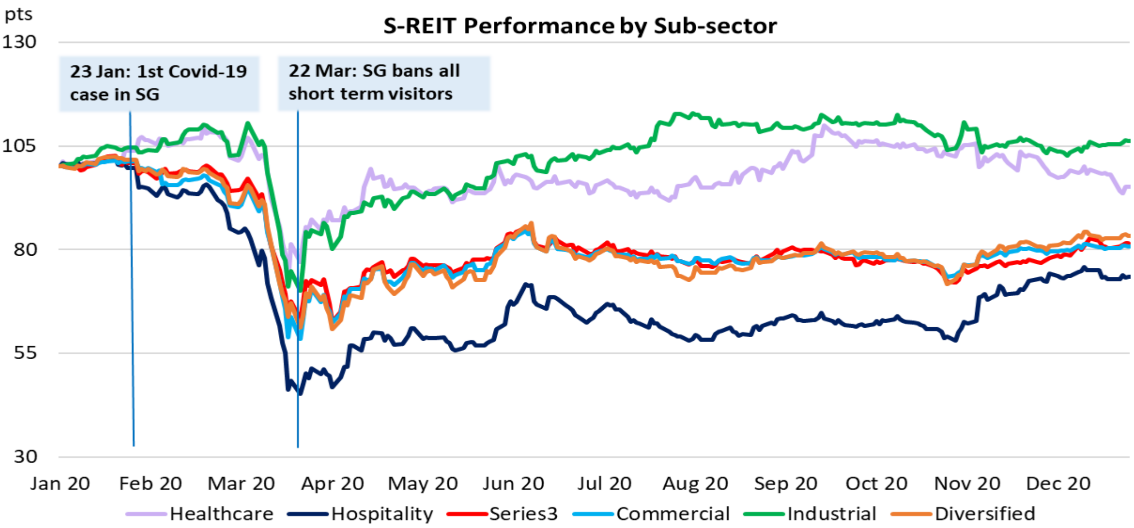


Source: Bloomberg, PSR

Figure 40: S-REIT Index yield spread expensive at -0.12SD

Source: Bloomberg, PSR

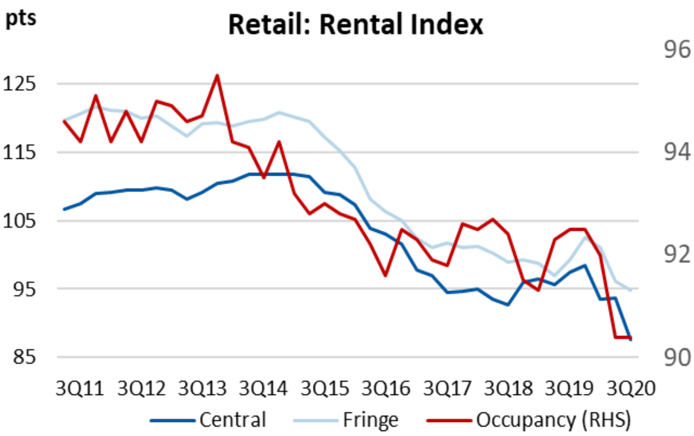
Figure 41: Further economic reopening to benefit Retail and Hospitality, which have been trading at depressed levels



Source: Bloomberg, updated 31 December 2020, Rebased 1 Jan 2020=100

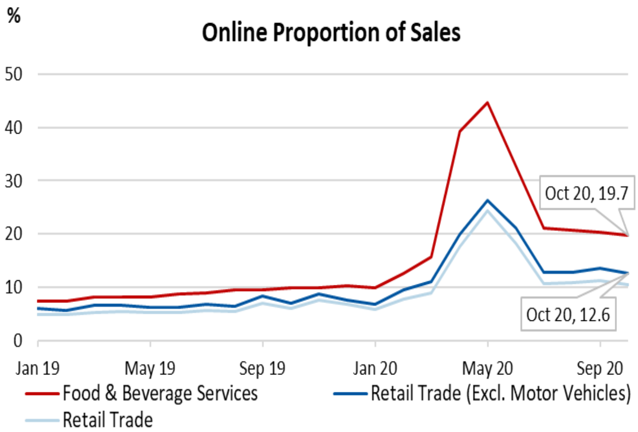
	Healthcare	Hospitality	Retail	Commercial	Industrial	Diversified
Change YTD	-4.9%	-26.6%	-18.5%	-19.2%	6.2%	-16.7%
Max Drawdown	-27.8%	-54.8%	-37.4%	-41.5%	-29.9%	-39.3%

Figure 42: Retail - suburban rents more resilient than central rents



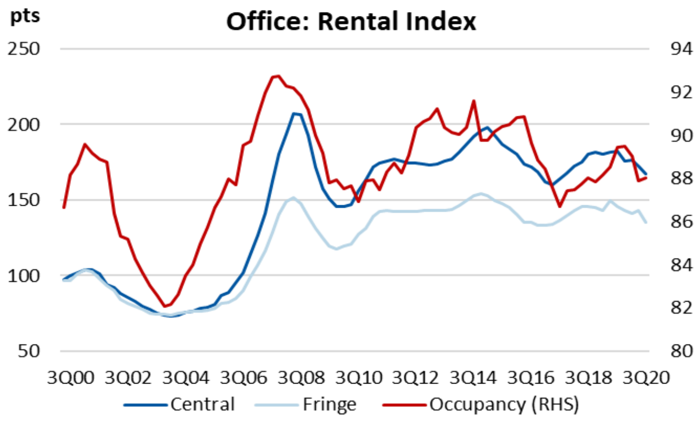
Source: URA (rebased 4Q1998), CEIC, PSR

Figure 43: Percentage of online sales has doubled after COVID



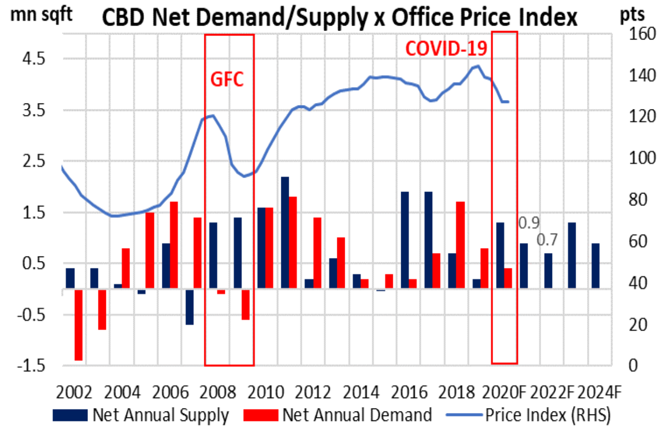
Source: SingStat, PSR

Figure 44: Office – rents and occupancy took a hit



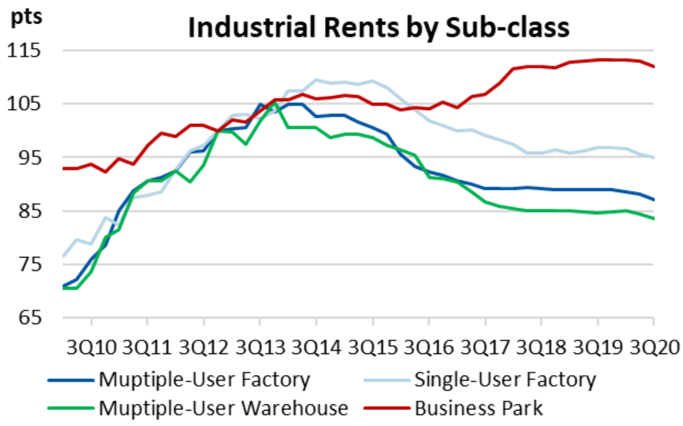
Source: URA (rental index rebased 4Q1998), CEIC, PSR

Figure 45: Redevelopment of AXA, Fuji Xerox and Central mall to offset 2021/22 supply



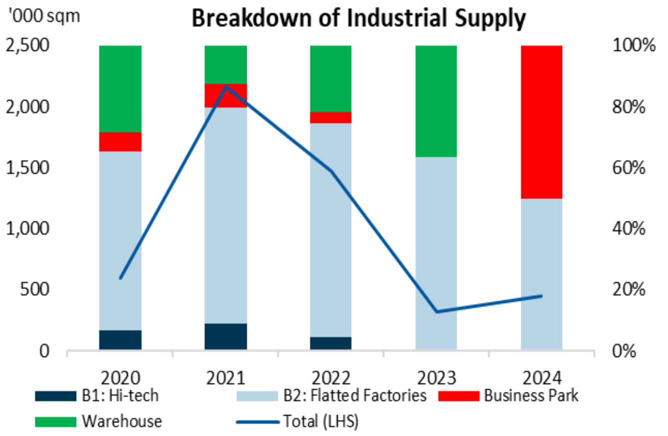
Source: URA, CEIC, CCT, PSR

Figure 46: Industrial – sliding rents across the categories



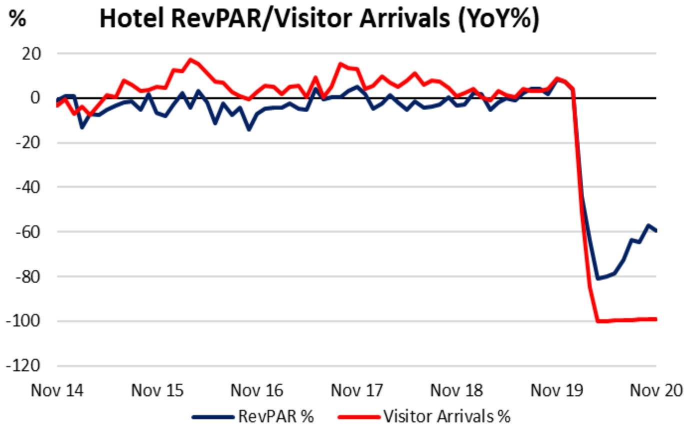
Source, URA (rebased 4Q2012), CEIC, PSR

Figure 47: Industrial - supply to peak in 2021, mostly from light industrial assets



Source: CEIC, URA, PSR

Figure 48: Hospitality - recovery in visitor arrivals and RevPAR



Source: CEIC, PSR

Technology (Hardware) OVERWEIGHT

- Strong outperformance with gains of 23% in 2020.
- Electronic hardware fared well with work-at-home demand for entertainment, shopping, working and communication. Consumer spending also shifted from services to goods.
- Other secular drivers include 5G rollout, data implosion, electrification of cars and cloud computing.
- Maintain **Overweight** on tech sector in Singapore.

2020 Review

Despite the global recession, semiconductor demand in 2020 was up 5.5% (Figure 55). When the pandemic struck in China, the supply chain tripped as several factories had to be temporarily closed. As the virus spread to Southeast Asia, especially Malaysia, movement control only allowed the production of essential products. By late 2Q20, most of the production restrictions had been lifted (Figure 59). Meanwhile, demand for electronics surged as work from home meant huge demand for mobile devices for entertainment, shopping, working and communicating. Another driver was a shift in consumer wallets from services to goods as international borders were shut. As more services and products were consumed or purchased online, capex on cloud computing jumped.

Electronics stocks performed well in the year, with large gains for AEM (+70.8%), Micro-Mechanics (+45.9%), Hi-P International (+31.4%) and Venture Corp. (+19.9%). Stocks that suffered were trade-war-related namely Valuetronics (-28.0%).

Outlook

The outlook for technology is promising, with multiple potential sources of growth.

5G: Global smartphone sales are expected to recover after four years of decline. Sales are expected to increase by a 3% CAGR from 2021 to 2024 (Figure 57. Demand is to be supported by 5G adoption and emerging markets. IDC expects 5G smartphones to account for 29% of all shipments by 2024.

Automotive: With tightening emission standards, more vehicles will need electrification. Electric cars could more than double by 2022 (Figure 58), led by growth in 48V mild hybrid vehicles. Chip content will jump 44%/111% from consumers' migration from non-powertrain cars to mild hybrid/EV cars. Other demand for more electronics in cars includes automated driving, infotainment, sensors, cameras, LED lights, heated seating, etc.

Memory. The memory capacity of DRAM in smartphones is expected to leap from 4GB in 2019 to 8GB in 2025. To support surging processing demand for entertainment, gaming, security and camera images, much larger DRAM capacity would be needed. Demand for NAND in data analytics and storage in phones, consoles and servers is expected to rise 30-35% p.a. from 2019 to 2025 (source: Samsung).

Recommendations

Venture Corp. (NEUTRAL; TP S$18.60) pays dividend yields of 4%, backed by its net cash of S$829mn. We are, however, neutral as earnings have been flat since peaking in 2017. Our target price is based on 16x FY21e PE, its average in the past five years.

Micro-Mechanics (BUY; TP S$2.93) pays dividend yields of almost 5%, supported by net cash of S$25mn and ROEs of 33%. Earnings growth is coming from a recovery in semiconductor sales and new projects from front-end semiconductor customers. Our target price of 18x FY6/21 PE is based on the average of global back-end semiconductor equipment comparables.

JEP Holdings' (REDUCE; TP S$0.158) exposure to aviation has stalled its new orders. To restructure its cost base, JEP is moving more production to Malaysia. It will also pivot to the semiconductor business with the support of parent, UMS Holdings.

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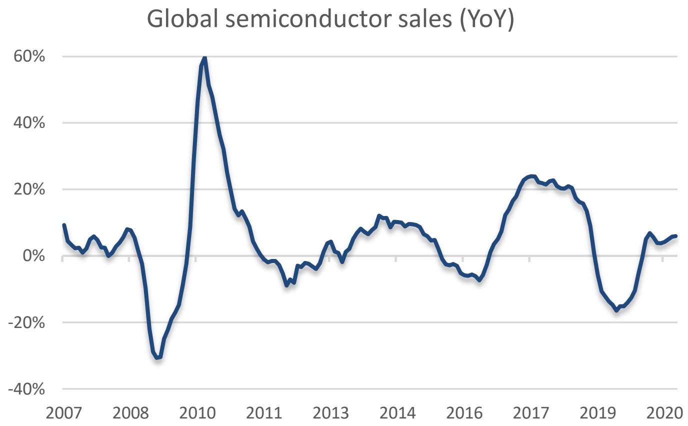
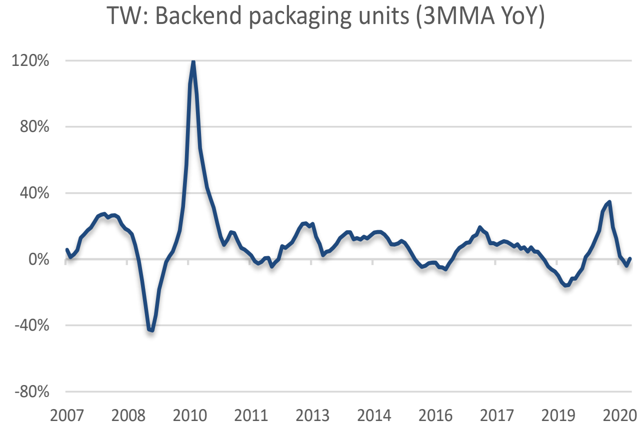
Figure 49: Global semiconductor sales rose 5.5% year to October 2020



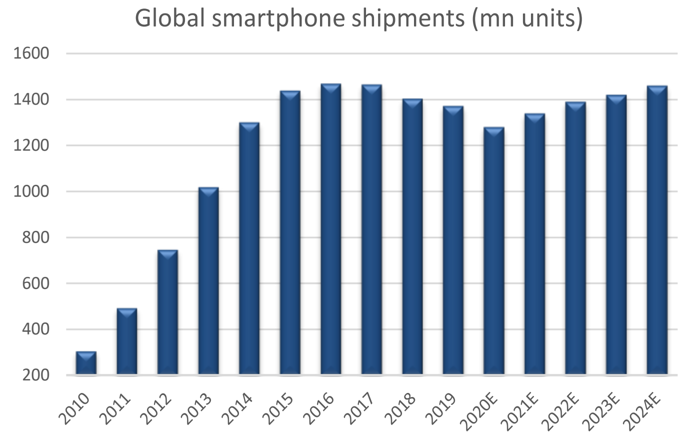
Source: PSR, CEIC, World Semiconductor Trade Statistics

Figure 50: Semiconductor volume proxy up 11% in 2020



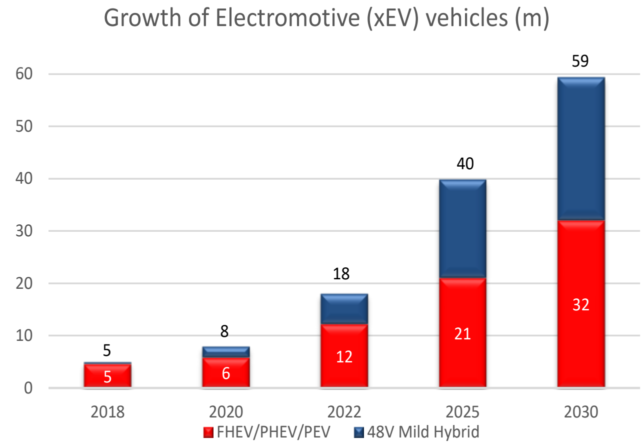
Source: PSR, CEIC, Ministry of Economic Affairs

Figure 51: Smartphones to resume growth over 2020-24



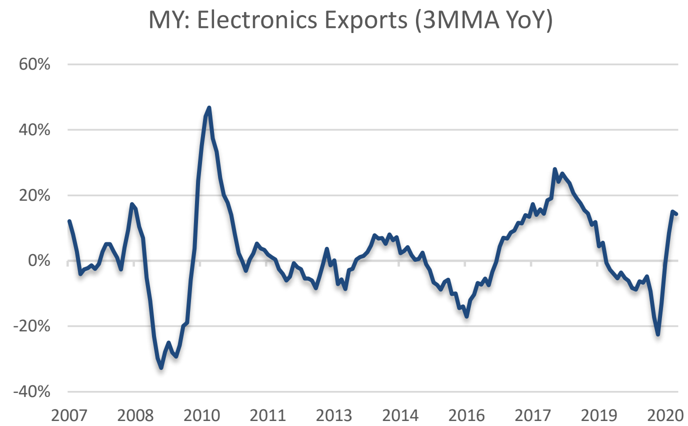
Source: PSR, IDC

Figure 52: Increased electrification of cars



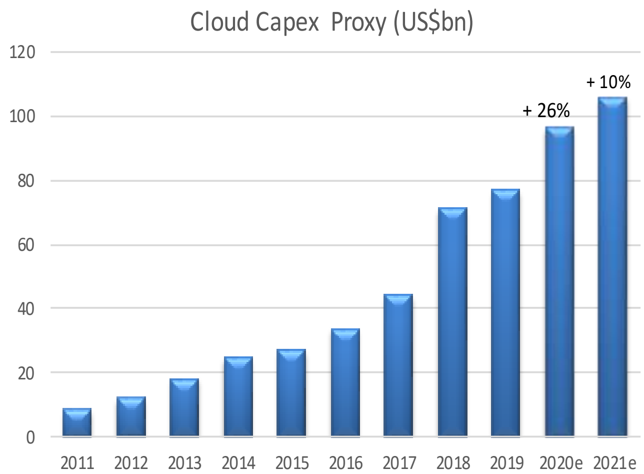
Source: PSR, Infineon

Figure 53: Malaysia's electronics exports have surged after the lifting of its movement control order



Source: PSR, CEIC

Figure 54: Cloud capex* has jumped from a WFH economy



Source: PSR, Bloomberg *Capex of Amazon, Alibaba, Facebook, Google and Microsoft

Telecommunications NEUTRAL

- Accounting for around 20% of mobile revenue, loss of high-margin roaming was the largest drag on telcos' earnings.
- Optus' earnings collapsed 86% in 1HFY21 from weak mobile revenue and stubborn operating costs.
- Valuations turning more attractive after the sector's 27% decline in 2020.

2020 Review

The year started with worries over mobile competition in Singapore and 5G licensing. Such concerns fell wayside with the arrival of COVID-19. The pandemic and resulting closure of international borders led to the loss of high-margin roaming revenue. Roaming is around 20% of mobile service revenue, with outbound traffic to ASEAN and China being the largest contributors. Slower phone sales also meant weak equipment revenue. These factors culminated in a 26% decline in postpaid ARPU to a record low (Figure 61). Prepaid revenue equally stumbled as the majority of customers were foreign workers; some had to leave the country due to the pandemic. Enterprise revenue also fell from execution delays with the lockdown and corporates' delays in IT spending due to the weak economic environment. Pay-TV revenue for StarHub halved in the past four years due to price competition, piracy and over-the-top substitutes (e.g. Netflix) (Figure 65). Revenue started to stabilise after the end of aggressive price promotions and major renewal of 2-year contracts during StarHub's 2019 switch from cable to fibre.

In Australia, Singtel faced earnings pressure as broadband customers that used Optus' network (on-net) shifted to the government-owned NBN. This meant a loss in operating leverage and the burden of running a broadband network with dwindling customers that were transitioning to NBN (Figure 63). As a result of margin loss from on-net to NBN, Optus' earnings were savaged. Its EBIT fell 86% in 1HFY21 (Figure 64).

Due to poor earnings and dividend cuts, Singtel's stock collapsed 31.5%. StarHub's declined by 7.7%. NetLink fared better with a modest gain of 2.1%. Singtel cut its 1HFY21 dividend by 25% to 5.1 cents. StarHub slashed its 1H20 dividend by 45% but guided that full-year dividends would be at least 5 cents.

Outlook

2021 should be a more stable year for telcos. Roaming revenue should mend with a gradual resumption of international travel. Benefits, however, would be partially erased by a loss of government grants. In Australia, a positive will be the removal of costs from Singtel/Optus' existing broadband network. This can materialise as its number of on-net customers is shrinking fast.

There is no incentive for telcos to rush their 5G rollout as major use cases remain elusive. 5G's core value proposition is only its faster speed and lower latency. Connectivity is a commoditised service and prices may suffer when there is excess capacity created from 5G. Enterprises are expected to take the lead in 5G and telcos are dedicating much more resources to building up their IT and industry knowledge. With only two stand-alone 5G operators in Singapore, there is opportunity for a more conducive price environment if there is no irrationality from the oligopoly.

We are neutral on the sector due to expected lacklustre earnings in 2021. That said, valuations are turning more attractive, especially with the support of dividends.

Recommendations

Singtel's (NEUTRAL; TP S$2.44) earnings are unlikely to excite in FY21 due to its roaming and NBN pain points. Dividends could surprise on the upside from the disposal of towers by associate Telkomsel, which may lead to a special dividend.

StarHub's (NEUTRAL; TP S$1.24) dividend yield is 4% at trough earnings. We expect FY21 earnings to stay weak, though valuations are turning attractive, especially with an undervalued and fast-growing cybersecurity business.

NetLink NBN Trust (NEUTRAL; TP S$1.03) is expected to a beacon of stability for the sector in 2021. There were temporary disruptions in installing net fibre connections during the circuit breaker but revenue is well supported by a stable base of 1.43mn residential connections.

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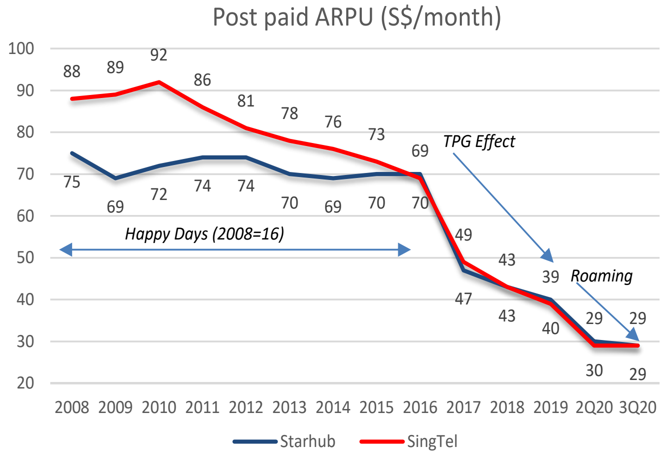
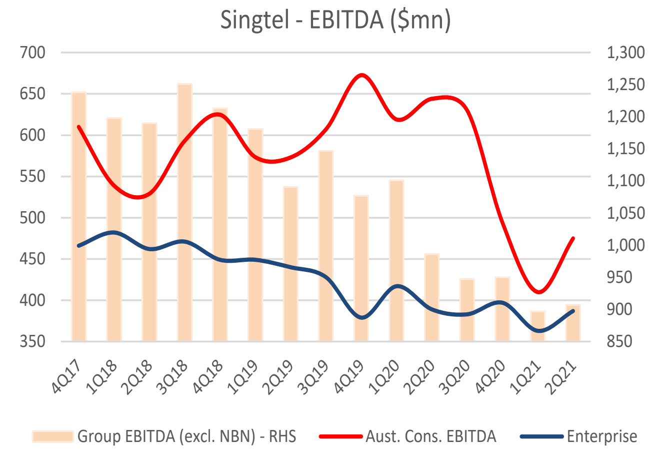
Figure 55: Roaming *and SIM only plan caused ARPU to drop 26%*



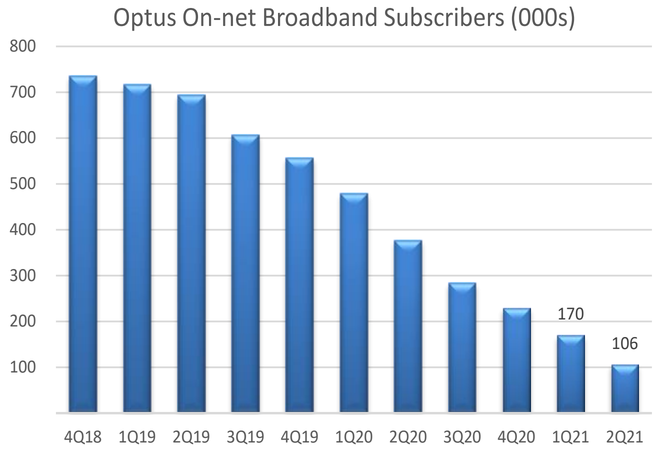
Source: PSR, Company

Figure 56: Singtel's *EBITDA was down 17% from two years ago*



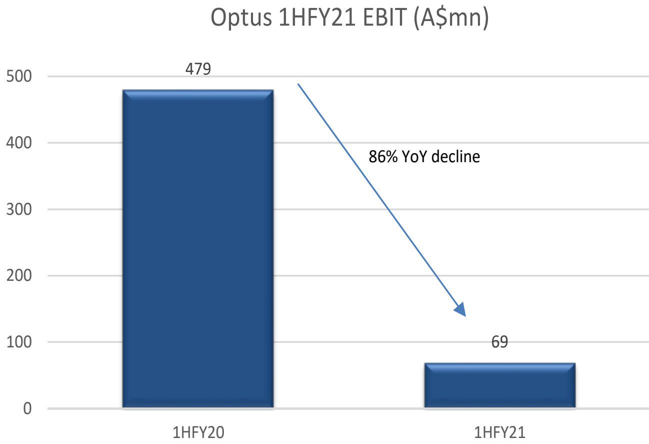
Source: PSR, Company

Figure 57: Optus *can remove on-net broadband costs soon*



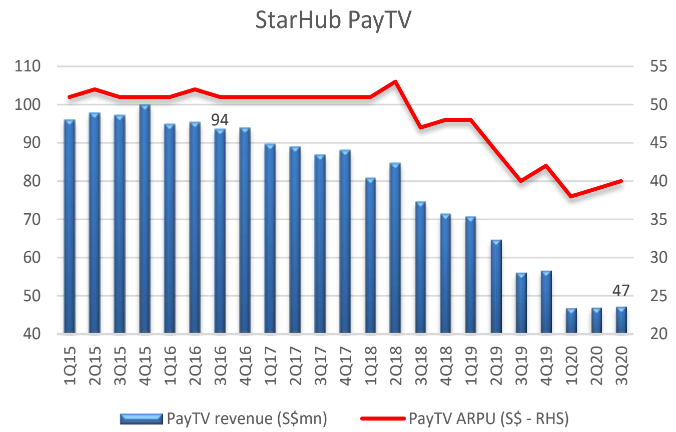
Source: PSR, Company

Figure 58: Optus' EBIT



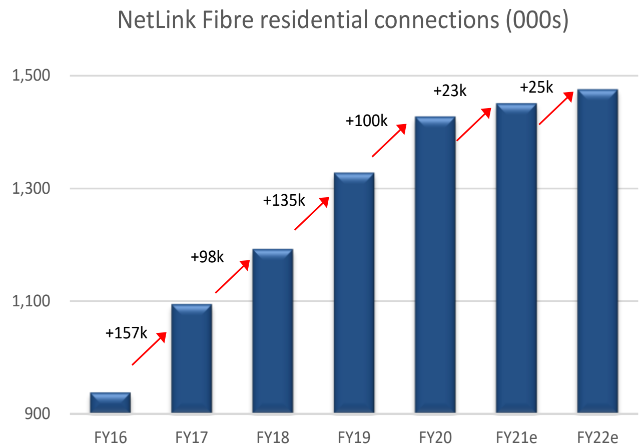
Source: PSR, Company

Figure 59: StarHub's *pay TV revenue has halved in four years*



Source: PSR, Company

Figure 60: *NetLink's fibre connections still growing*



Source: PSR, Company

Transportation – Land NEUTRAL

- Year to November 2020, SBS' rail ridership was down 43%. In its worst month of April, ridership plunged 84% YoY.
- Average distance travelled by taxis still down 19% YoY but indications of a recovery in December.
- Taxi fleet was down 15% year to November 2020, worse than the 7% decline in private hire vehicles.

2020 Review

Lockdown and restrictions of group activities meant less transport to offices, religious gatherings, weddings, meetings, conferences, etc. Border closure worsened traffic levels with a loss of tourist arrivals. Average taxi driving activity or distance declined by 28% in the year (Figure 67). Rail fared worse, with ridership for SBS Transit down 43% from January to November 2020 (Figure 70).

ComfortDelgro spent around S$120mn on rental rebates to its taxi drivers. The government chipped in another S$188mn in subsidies for both taxis and private hire drivers. Despite the multiple subsidies, the industry's fleet of taxis was down 15% to 15.7k (Figure 68).

Outlook

The bulk of the restrictions on group gatherings were only lifted from October, followed by Phase 3 on 28 December. We expect transportation to improve as bigger group activities return. The latest mobility data from Apple show a dramatic rise in transit or rail activity in December, back to pre-COVID levels (Figure 71). Even then, we are not expecting transport volumes to return completely as international borders are still shut and many are still working from home.

Competition from private hire vehicles has intensified this year. The ratio of the private rental fleet to taxis has risen from 4.2 in early 2020 to 4.5. The taxi fleet has shrunken 15% compared to 7% for rented vehicles (Figure 68).

Recommendation

We have an **ACCUMULATE** rating for ComfortDelGro (**TP: S$1.83**). Its share price was down 29.8% in 2020. We believe the market has not priced in an expected rebound in ridership in 2021 and higher fuel prices, which will raise margins for its bus operations. Despite the year's torrid conditions and rental rebates, Comfort generated S$383mn of operating cash flows in the first nine months of 2020.

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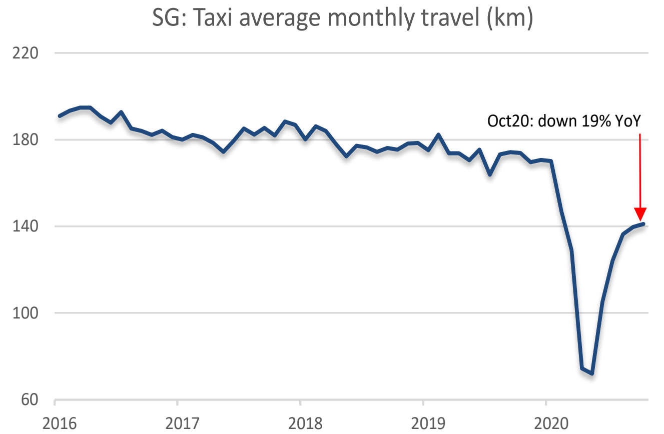
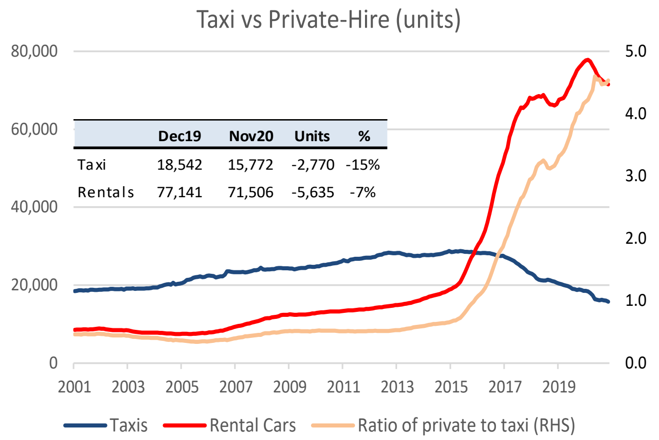
Figure 61: Taxi *distance travelled down 28% year to October 2020*



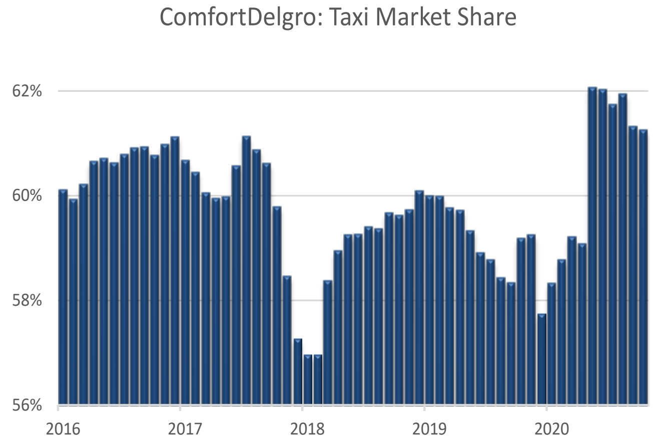
Source: PSR, LTA

Figure 62: Ratio *of rental vehicles to taxis risen from 4.2 to 4.5*



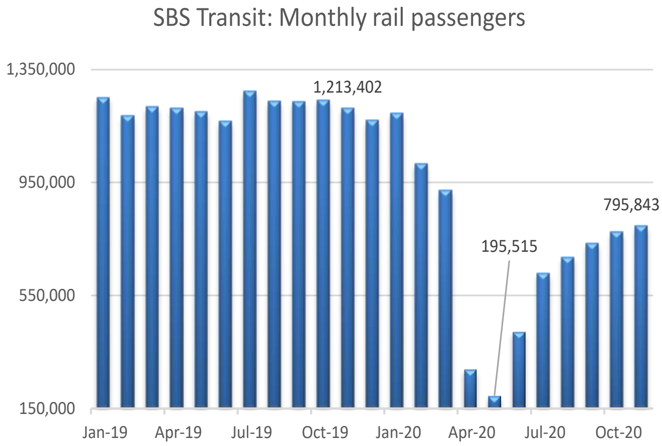
Source: PSR, CEIC, LTA

Figure 63: ComfortDelgro's *taxi market share has improved*



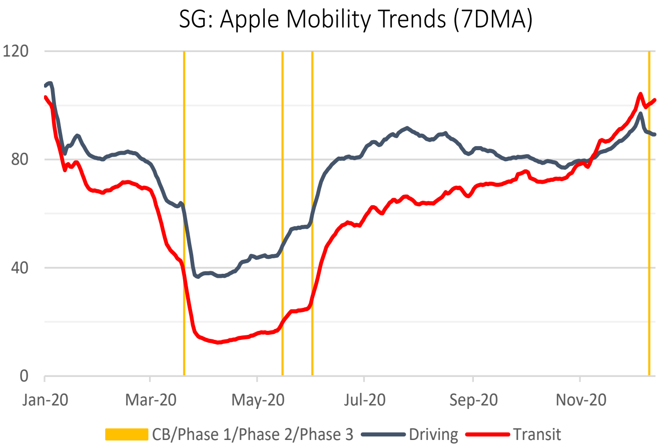
Source: PSR, LTA

Figure 64: SBS' *rail ridership down 43% in 2020*



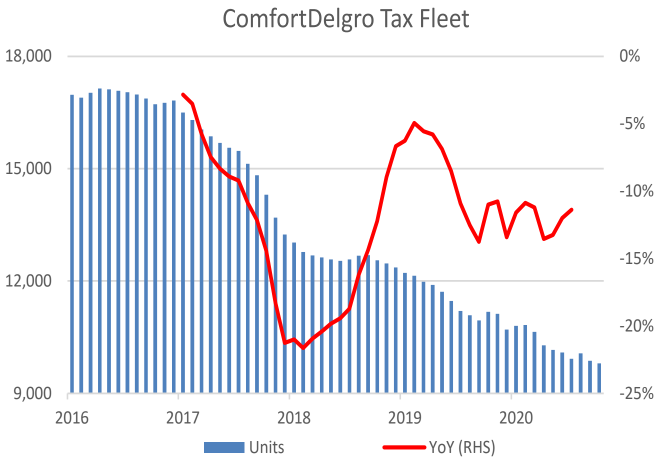
Source: PSR, CEIC, SBS Transit

Figure 65: Dramatic improvement in transit in December



Source: PSR, apple mobility

Figure 66: ComfortDelgro's fleet has been shrinking for several years



Source: PSR, LTA

Transportation – Aviation NEUTRAL

- Year of disaster for aviation with the virtual disappearance of passenger traffic.
- Cargo fared better as consumption shifted to goods and e-commerce.
- According to IATA, a full recovery in air traffic can be expected only in 2024. Some recovery in 2022.

2020 Review

It was a 100-year pandemic that swept the commercial airline industry into historical losses. Based on IATA forecasts, airlines will loss US$118.5bn in 2020. Losses will reduce to US$38.7bn in 2021. A full recovery to 2019 pre-pandemic air travel is only expected in 2024. When 9/11 struck, it took 22 months for US passenger travel to recover (Figure 75).

Visitor arrivals to Singapore average a measly 12,524 per month in November against pre-COVID levels of 1.5mn per month a year ago (Figure 73). Passengers carried by SIA are 40x lower than pre-COVID levels (Figure 74).

Share prices reflect the haemorrhaging losses, with SIA shedding 32.8%, followed by SIA Engineering's -30.1% and SATS' -29.8%.

Outlook

We are not optimistic that air travel will recover in any meaningful way in 2021. Our borders remain shut to minimise imported cases. Our view is to avoid this sector due to the large uncertainty. However, positive news flow can admittedly drive momentum in share prices. SIA raised S$8.8bn in its recent rights issue of ordinary shares (S$5.3bn) and mandatory convertible bonds (S$3.5bn) in June 2020. Around S$1bn was used to refund tickets and S$2bn to repay a loan to DBS. With our estimated burn rate of S$900mn a month, S$5bn has likely been used. SIA is looking to raise more cash through debt and the leaseback of its aircraft. Even if we exit pandemic woes, the airline industry has not consolidated and competition remains rampant. What's worse is airlines are even more leveraged than before COVID 19.

Recommendation

We are **NEUTRAL** on SATS (**TP: S$4.40**). Its recovery has been slow. SATS benefitted from a huge S$152mn government relief in 1HFY21, equivalent to its FY20e PATMI of S$168mn. Any recovery in air travel will only be replaced by a reduction in government grants, in our estimation. The company has cut costs aggressively to cope with this crisis. Headcount is down 24%, with staff costs declining S$167mn or 36% in 1HFY21. We do not expect the handling of vaccines to meaningfully impact earnings.

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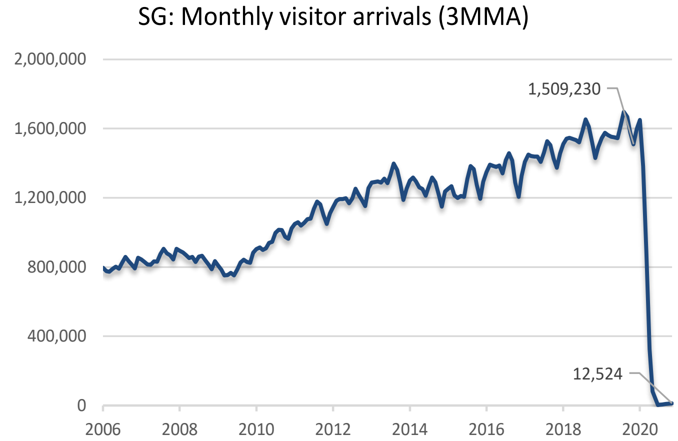
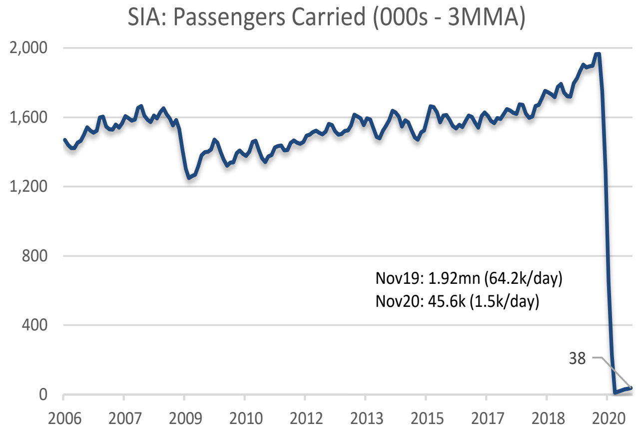
Figure 67: Horrendous collapse in visitor arrivals



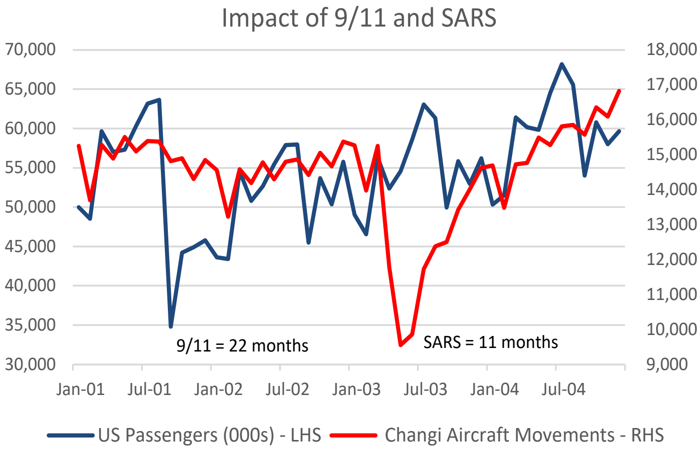
Source: PSR, CEIC, STB

Figure 68: 40x lower than pre-COVID levels



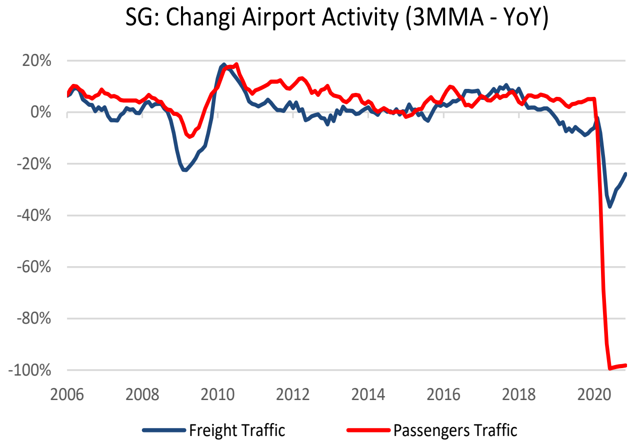
Source: PSR, CEIC, SIA

Figure 69: The industry took 22 months to recover from 9/11



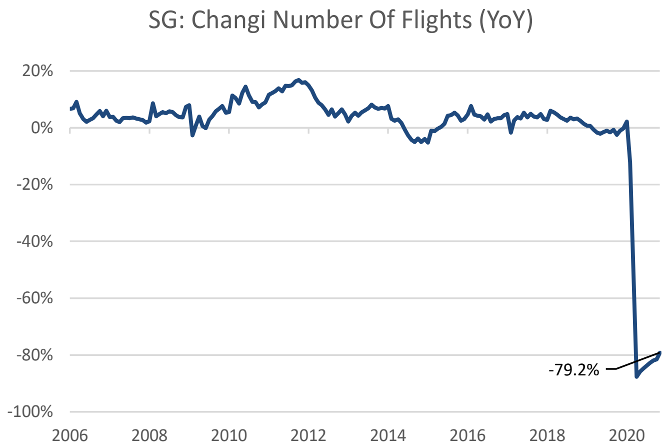
Source: PSR, CEIC, Changi Airport Group, Bureau of Transportation Statistics

Figure 70: Air freight *traffic performed relatively better*



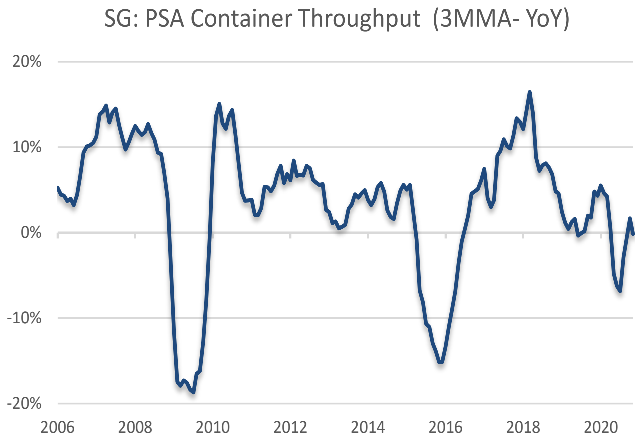
Source: PSR, CEIC, Changi Airport Group

Figure 71: Still very little flying into and out of Changi Airport



Source: PSR, CEIC, Changi Airport Group

Figure 72: In contrast, ports have been resilient



Source: PSR, CEIC, Maritime and Port Authority of Singapore

Ascott Residence Trust

Potentially faster recovery than peers

SINGAPORE | REAL ESTATE (HOSPITALITY) | UPDATE

- Select-service accommodations may be preferred by budget-conscious travellers to defray the higher cost of travel in a post-COVID world.
- Faster recovery for ART than peers given 74% exposure to countries with large domestic markets.
- Maintain ACCUMULATE, with DDM-based target price raised from S$1.08 to S$1.15 after incorporating faster recovery.

Company Background

ART is an owner-operator of serviced residences (SRs) and select-service business hotels. It owned 88 properties totalling 16,000 keys in 15 countries and AUM of S$7.6bn as at 30 June 2020. About 85% of its gross profit is derived from eight key markets: the US, Japan, UK, France, Vietnam, Singapore, China and Australia. ART's SRs, excluding its US properties, are operated under three core brands: Ascott, Citadines and Somerset. The Ascott Limited (TAL, not listed), ART's sponsor, is the wholly-owned hospitality arm of mainboard-listed CapitaLand (CAPL SP, Buy, TP S$3.82).

Investment Merits/Outlook

1. **Select-service accommodations in a sweet spot.** The rise of select service can be attributed in part to a cultural shift in preference to value and indifference to certain services offered at full-service hotels. The cost of travelling in a post-COVID world may increase, as flight tickets price in the cost of complying with safe-distancing and other sanitation measures. Budget-conscious travellers may prefer no-frills, select-service accommodations to offset part of the higher ticket costs.
2. **Galvanising sponsor's brand name and growth trajectory.** Some 71 out of 88 of ART's properties are operated under the Ascott group of brands: Ascott, Citadines, Somerset and Lyf. Corporates prefer to maintain business accounts with large, global hospitality operators as they can enjoy preferential rates and access to a global inventory of hotels. TAL currently has about 112,400 keys under management in 32 countries and plans to operate 160,000 keys by 2023. Ascott-brand properties are expected to benefit from increased brand awareness and booking and loyalty programmes as TAL grows in scale. TAL is one-tenth the size of the Marriott group and one-eighth the size of Hilton, by number of keys under management.
3. **Portfolio rebalancing and M&A growth potential.** Despite COVID-19, ART divested two assets for S$191mn, at 52% and 69% above their respective book valuations in 2H20. We expect redeployment into more resilient, long-stay properties such as its current Japan rental housing. Average length of stay in such rental housing properties is more than a year and these assets have maintained high occupancies throughout COVID-19. Long-stay properties add stability to ART's portfolio. A possible pipeline for ART is CapitaLand's portfolio of 16 multifamily properties in the US, which bear similar characteristics to its Japan rental-housing properties. ART's acquisition growth potential stems from its S$2.2bn debt headroom and right-of-first-refusal (RORF) pipeline of 20 properties.

Recommendation

Maintain ACCUMULATE, with DDM TP raised from S$1.08 to S$1.15 after incorporating faster recovery. We forecast FY21e DPU yields of 5.2%. We expect the industry will only return to pre-COVID levels in 2023/24. While international borders will likely remain closed until 2H21/2022, a relaxation of domestic travel should allow countries with large domestic markets to recover first. We think that ART will recover faster given its 74% exposure to countries with significant domestic markets such as the US, UK, France, Spain and China.

21 January 2021

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.090
FORECAST DIV	SGD 0.076
TARGET PRICE	SGD 1.150
TOTAL RETURN	12.5%

COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN) :	3,108
MARKET CAP (USD mn / SGD mn)	2565 / 3388
52 - WK HI/LO (SGD) :	1.38 / 0.67
3M Average Daily T/O (mn) :	5.07

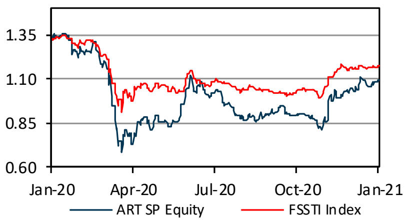
MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	40.23
VANGUARD GROUP INC	2.07
NORGES BANK	1.29

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.8	22.5	0.9
STI RETURN	0.7	15.1	0.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Gross Rev. (S$mn)	514	515	412	500
Gross Profit (S$mn	239	253	185	240
Dist. Inc. (S$mn)	155	185	142	191
P/NAV (x)	0.89	0.87	0.80	0.88
DPU (cents)	7.16	7.61	4.05	5.66
Distribution Yield	6.6%	5.7%	3.7%	5.2%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 8.5%; Terminal g: 1.75%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	**496**	**514**	**515**	**412**	**500**
Direct expenses	(269)	(275)	(262)	(227)	(260)
Gross Profit	**227**	**239**	**253**	**185**	**240**
Net finance (expense)/inc.	(45)	(46)	(50)	(50)	(50)
Manager's fees	(22)	(24)	(23)	(26)	(28)
Others	8	(13)	(6)	(14)	(17)
Net income	167	157	175	95	146
FV changes	87	35	249	-	-
Others	8	(13)	(6)	(14)	(17)
Total return before tax	274	195	261	95	146
Taxation	(52)	(44)	(45)	(16)	(25)
Total return after tax	**148**	**148**	**216**	**79**	**121**
Distribution adjustments	(43)	26	(31)	68	74
Distributable income	152	155	185	142	191
DPU (cents)	**7.09**	**7.16**	**7.61**	**4.05**	**5.66**

Per share data (cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV	1.22	1.22	1.25	1.36	1.24
DPU	7.09	7.16	7.61	4.05	5.66

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Net income	**274**	**195**	**261**	**95**	**146**
Adjustments	(31)	128	(163)	111	112
WC changes	(42)	923	(6)	32	(17)
Cash generated from ops	202	1,246	92	239	241
Others	(20)	(20)	(23)	(9)	(14)
Cashflow from operations	**181**	**1,226**	**69**	**230**	**228**
CFI					
CAPEX, net	(13)	(13)	(14)	(53)	(54)
Net Investments in SR & PP	(379)	11	272	315	(10)
Others	2	1	0	2	3
Cashflow from investments	**(390)**	**(1)**	**259**	**263**	**(61)**
CFF					
Share issuance, net	443	-	-	-	-
Loans, net of repayments	108	(35)	(198)	-	-
Dividends	(197)	(172)	(183)	(146)	(194)
Others	(55)	(47)	(59)	(53)	(53)
Cashflow from financing	**300**	**(254)**	**(440)**	**(199)**	**(247)**
Net increase (decrease) in CC	**119**	**(28)**	**48**	**176**	**(81)**
Ending cash	**255**	**226**	**270**	**439**	**349**
Restricted cash deposits	2	2	5	5	5

Source: Company, Phillip Securities Research (Singapore) Estimates
*NPI and and gross profit are used interchangably

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
SR properties and PPE	4,958	4,728	6,800	7,111	6,903
Others	16	81	28	53	28
Total non-current assets	**4,974**	**4,809**	**6,828**	**7,164**	**6,931**
Trade Receivables	67	57	62	52	63
Cash	257	228	276	444	355
Others	16	81	28	53	28
Total current assets	**519**	**500**	**595**	**500**	**422**
Total Assets	**5,493**	**5,309**	**7,423**	**7,664**	**7,352**
LIABILITIES					
LT Borrowings	1,681	1,835	2,012	1,795	1,813
Others	135	125	503	488	499
Total non-current liabilities	**1,816**	**1,960**	**2,515**	**2,282**	**2,312**
Trade Payables	237	141	175	133	161
ST Borrowings	264	70	337	501	483
Others	135	125	503	488	499
Total non-current liabilities	**1,816**	**1,960**	**2,515**	**2,282**	**2,312**
Total Liabilities	**2,321**	**2,178**	**3,080**	**2,956**	**2,996**
Net assets	**3,172**	**3,131**	**4,342**	**4,708**	**4,357**
Represented by:					
Unitholders' funds	**2,685**	**2,644**	**3,861**	**4,226**	**3,873**
Perpetual securities hold	397	397	396	396	396
Non-controlling interests	89	90	85	87	87

*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.01	0.89	0.87	0.80	0.88
Distribution Yield (%)	5.8%	6.6%	5.7%	3.7%	5.2%
NPI** yield (%)	4.6%	5.1%	3.8%	2.7%	3.6%
Growth & Margins (%)					
Growth					
Revenue	4.4%	3.6%	0.1%	-20.1%	21.6%
Gross profit	2.1%	5.5%	5.5%	-26.8%	29.9%
Net income	11.8%	-6.2%	11.1%	-45.4%	53.3%
DPU	-14.3%	1.0%	6.3%	-46.8%	39.8%
Margins					
Gross profit	45.7%	46.5%	49.1%	44.9%	48.0%
NPAT	44.8%	29.5%	42.0%	19.2%	24.2%
Key Ratios					
Gearing	36.4%	36.7%	31.6%	30.0%	31.2%
ROA	2.9%	2.7%	3.4%	1.0%	1.6%
ROE	6.0%	5.5%	6.6%	1.8%	2.9%

PhillipCapital

StocksBnB.com

Asian Pay Television Trust

Sustainable yields with 5G optionality

21 January 2021

BUY (Maintained)

LAST TRADED PRICE	SGD 0.119
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.150
TOTAL RETURN	34.5%

SINGAPORE | TELECOMMUNICATION | UPDATE

- Attractive dividend yields of 8% well supported by free cash flows.
- 5G data backhaul for mobile operators can provide high-margin revenue streams.
- Maintain BUY with TP of S$0.15, set at 9x EV/EBITDA, a discount to Taiwanese peers.

Company Background

APTT is a business trust that owns Taiwan Broadband Communications Group (TBC). Established in 1999, TBC is Taiwan's third-largest cable TV operator. It operates cable pay TV and broadband services in five franchise areas in Taiwan: South Taoyuan, North Miaoli, South Miaoli, Taichung City and Hsinchu County. It owns the hybrid coaxial cable networks in these areas that cover 1.2mn homes. This last-mile access to homes is cost-prohibitive and difficult to replicate. The company has 716,000 subscribers.

Investment Merits/Outlook

- **DPS of 1 cent well-supported by cash flows.** A 1-cent DPS for an annual payout of S$18mn is well supported by FCF of S$45mn. The remaining cash will be used to pare down onshore debt. Improving FCF is from lower capex - down from S$72mn to S$50mn - as the company will be at the tail end of its aggressive deployment of fibre for its existing network.

- **5G optionality.** When 5G is rolled out in its franchise areas, demand for bandwidth to carry extra mobile data loads should increase. As it is uneconomical for mobile operators to build their fibre networks, they will rely on existing infrastructure. Their options are incumbent Chunghwa Telecom and APTT. APTT will likely be the preferred option because it is not a mobile service competitor. Management has guided that 5G data backhaul will be a key component of its broadband business. This is a high-margin revenue stream due to the minimal variable costs involved as the fibre has already been deployed. We have not modelled 5G in our numbers pending more data points from APTT.

- **Broadband subscriptions to compensate for cable TV weakness.** Cable TV subscriptions have been declining since 2018 due to piracy and the popularity of OTT channels. APTT lost 13,000 cable-TV subscribers in 2020. This was compensated by a 10,000 rise in broadband subscribers and 21,000 increase in premium digital cable TV subscribers.

Recommendation

Maintain BUY and target price of S$0.15. Our TP is set at 9x EV/EBITDA FY21e, a 10% discount to Taiwanese peers. Dividend yields of 8.4% are attractive and should be sustainable.

COMPANY DATA

BLOOMBERG	APTT SP
O/S UNITS (MN) :	1,806
MARKET CAP (USD mn / SGD mn) :	163 / 215
52 - WK HI/LO (SGD) :	0.18 / 0.11
3M Average Daily T/O (mn) :	1.11

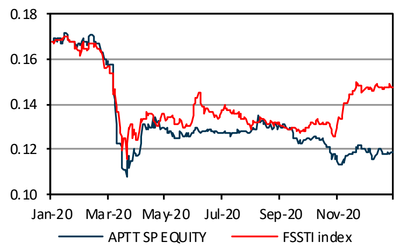
MAJOR SHAREHOLDERS

Temasek Holdings	7.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.3	(2.0)	(22.9)
STI RETURN	1.3	15.9	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS (APTT SP)

Y/E Dec SGDmn	FY18	FY19	FY20e	FY21e
Revenue	313.9	292.7	304.7	293.3
EBITDA	184.3	174.2	181.1	173.3
NPAT	7.4	19.1	20.4	24.2
EPS (cents)	0.52	1.32	1.13	1.34
PER, x	23.1	9.0	10.5	8.9
P/BV, x	0.16	0.16	0.19	0.19
DPU (SGD)	5.18	1.20	1.05	1.00
Dividend Yield	43.5%	10.1%	8.8%	8.4%
ROE	0.7%	1.8%	1.8%	2.1%

Source: Bloomberg, PSR

VALUATION METHOD

EV/EBITDA 9x FY21e

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Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	**334.8**	**313.9**	**292.7**	**304.7**	**293.3**
EBITDA	**201.4**	**184.3**	**174.2**	**181.1**	**173.3**
Depreciation & Amortisation	(63.2)	(78.6)	(86.6)	(86.4)	(80.0)
EBIT	**130.3**	**107.6**	**87.7**	**88.6**	**92.6**
Net Finance Inc/(Exp)	(56.3)	(53.8)	(50.2)	(48.9)	(49.1)
Profit before tax	**65.1**	**30.6**	**34.2**	**35.7**	**39.5**
Taxation	(28.3)	(22.9)	(14.7)	(15.0)	(15.0)
Net profit before NCI	**36.5**	**7.4**	**19.1**	**20.4**	**24.2**
Non-controlling interest	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net profit, reported	**36.5**	**7.4**	**19.1**	**20.4**	**24.2**

Per share data (SGD)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	0.0254	0.0052	0.0132	0.0113	0.0134
DPU	0.065	0.052	0.012	0.011	0.010
BVPU	0.83	0.75	0.75	0.62	0.63

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	**65.1**	**30.6**	**34.2**	**35.7**	**39.5**
Depreciation & Amortisation	63.2	78.6	86.6	86.4	80.0
WC changes	6.9	(8.2)	(4.7)	(6.3)	(7.0)
Net finance inc/(exp)	(56.3)	(53.8)	(50.2)	(48.9)	(49.1)
Tax paid	(19.1)	(16.7)	(9.8)	(10.0)	(10.0)
Others	16.8	21.5	3.6	5.0	5.0
Cashflow from ops	**132.9**	**105.8**	**109.9**	**110.8**	**107.5**
CFI					
CAPEX, net	(85.8)	(73.9)	(71.9)	(65.0)	(50.0)
Others	(13.3)	(12.7)	(20.0)	0.0	0.0
Cashflow from investments	**(99.1)**	**(86.5)**	**(91.9)**	**(65.0)**	**(50.0)**
Share issuance, net	0.0	0.0	0.0	45.0	0.0
Loans, net of repayments	68.3	79.9	3.1	0.0	0.0
Dividends	(93.4)	(93.4)	(17.3)	(19.0)	(18.1)
Others	(0.4)	0.3	1.8	0.0	0.0
Cashflow from financing	**(25.2)**	**(12.8)**	**(12.5)**	**26.0**	**(18.1)**
Net change in cash	**8.6**	**6.4**	**5.5**	**71.8**	**39.4**
CCE, end	**67.7**	**74.1**	**79.6**	**151.4**	**190.8**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	321	328	339	318	289
Others	2,391	2,372	2,391	2,390	2,389
Total non-current assets	**2,712**	**2,700**	**2,729**	**2,708**	**2,678**
Accounts receivables	12	13	12	12	12
Cash	67	74	79	151	190
Inventories	0	0	0	0	0
Others	1	1	1	1	1
Total current assets	**80**	**88**	**92**	**164**	**203**
Total Assets	**2,793**	**2,792**	**2,840**	**2,890**	**2,899**
LIABILITIES					
Accounts payables	22	23	39	38	36
Short term loans	15	6	15	15	15
Others	73	73	62	62	62
Total current liabilities	**109**	**101**	**117**	**115**	**113**
Long term loans	1,380	1,505	1,511	1,516	1,521
Others	114	112	127	127	127
Total non-current liabilities	**1,494**	**1,616**	**1,638**	**1,643**	**1,648**
Total Liabilities	**1,603**	**1,718**	**1,755**	**1,759**	**1,762**
EQUITY					
Non-controlling interests	2	2	2	3	3
Shareholder Equity	**1,190**	**1,074**	**1,085**	**1,131**	**1,138**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (X), adj.	4.7	23.1	9.0	10.5	8.9
P/B (X)	0.1	0.2	0.2	0.2	0.2
EV/EBITDA (X), adj.	7.5	8.7	9.3	8.6	8.8
Dividend Yield	54.6%	43.5%	10.1%	8.8%	8.4%
Growth & Margins					
Growth					
Revenue	4.9%	-6.3%	-6.7%	4.1%	-3.8%
EBITDA	6.4%	-8.5%	-5.5%	4.0%	-4.3%
EBIT	-9.2%	-17.5%	-18.5%	1.1%	4.5%
Net profit, adj.	-38.9%	-79.7%	158.6%	6.5%	18.7%
Margins					
EBITDA margin	60.2%	58.7%	59.5%	59.4%	59.1%
EBIT margin	38.9%	34.3%	30.0%	29.1%	31.6%
Net profit margin	10.9%	2.4%	6.5%	6.7%	8.3%
Key Ratios					
ROE	3.0%	0.7%	1.8%	1.8%	2.1%
ROA	1.3%	0.3%	0.7%	0.7%	0.8%
Net Debt / (Cash)	1,328	1,437	1,448	1,381	1,346
Net Gearing (X)	1.1	1.3	1.3	1.2	1.2

Manulife US REIT

Riding a long WALE

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Portfolio downside protected by long WALE and low expiries in FY21.
- Rental escalations and below-market in-place rents leave room for rental growth.
- Maintain BUY and DDM TP of US$0.92.

Background

MUST was listed on the SGX on 20 May 2016. Since then, it has acquired six properties. As at 31 March 2020, its portfolio comprised nine prime freehold office properties strategically located in Los Angeles, Irvine, Atlanta, Secaucus, Jersey City, Washington D.C. and Virginia. They had a combined asset value of US$2.04bn as at 30 June 2020.

Investment Merits/Outlook

1. **Earnings growth form build-in rental escalations and rental reversion potential.** We expect minimal earnings disruption as MUST's properties are high-quality Trophy and Grade A offices with good amenities. WALE is long at 5.7 years, with 6.7% lease expiries in FY21 (FY22: 17.4%). Declines in occupancy are capped by its low percentage of leases expiring, as most leases in the US do not have break-lease clauses. Although occupancy dipped from 96.5% to 94.3% in 3Q20, it remained above the industry average of 87%. About 96% of MUST's leases have rental escalations of 1.9% p.a. As in-place rents at most of its assets are below market rents or the asking rents of their competitive sets, we expect mild rental growth during renewal. Ancillary retail tenants represent 4.3% of GRI. They may remain shuttered and continue to receive rental rebates, as only 13.5% of the tenants are operating within the buildings.

2. **High rent collection and resilience of US office sector.** Rent collection fell to a low of 94% in 3Q20, due to slow collections from F&B, lifestyle and retail tenants. MUST provided minimal rental deferment and abatement to ancillary tenants, at only 0.3% and 0.2% of its 9M20 revenue. Resilience of the US office sector is supported by the U.S.' relatively higher adoption of flexible and remote working arrangements even before the pandemic and low supply in the pipeline. The legal and finance sectors remain resilient throughout the pandemic, as seen by their lower unemployment rates. These two sectors contribute 22% and 18% to MUST's GRI respectively.

3. **US an early adopter of remote working; only marginal increase in desire to work remotely.** Remote working is not new in the US. Before COVID, companies had already factored in remote/flexible work arrangements in their space requirements. This is unlike Singapore where large financial institutions only recently pivoted from a predominantly office model to allowing their employees to work up to 40% of the time remotely. Rightsizing by Singapore office tenants will, thus, be more pronounced than in the US. But the office is more than a work station. It is an incubator for mentoring, collaboration, innovation and corporate cultures. The value added by offices is reflected in Gensler's US Work from Home Survey 2020. The survey found that 70% of US workers want to work from office the majority of the week. This speaks of the relevance of offices in a mature and remote-work-adjusted office market.

Recommendation

Maintain BUY and DDM target price of US$0.92. MUST offers FY21e DPU yields of 9%.

21 January 2021

BUY (Maintained)

LAST CLOSE PRICE	USD 0.745
FORECAST DIV	USD 0.064
TARGET PRICE	USD 0.920
TOTAL RETURN	32.1%

COMPANY DATA

BLOOMBERG CODE:	MUST SP
O/S SHARES (MN) :	1,583
MARKET CAP (USD mn / SGD mn) :	1179 / 1179
52 - WK HI/LO (SGD) :	1.08 / 0.55
3M Average Daily T/O (mn) :	2.53

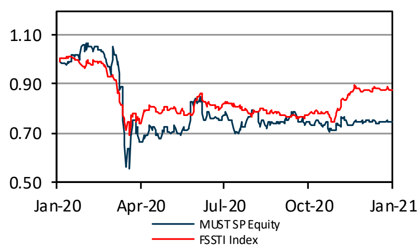
MAJOR SHAREHOLDERS (%)

PRUDENTIAL PLC	5.9%
MANULIFE FINANCIAL CORP	5.5%
DRACHS INV 3 LTD	4.9%
VANGUARD GROUP INC	3.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.0	0.7	(21.4)
STI RETURN	1.3	15.9	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Y/E Mar	FY18	FY19	FY20e	FY21e
Gross Rev. (SGD m	145	178	201	208
NPI (SGD mn)	91	111	126	130
Dist. Inc. (SGD mn)	71	83	101	107
P/NAV (x)	0.90	0.93	0.94	0.95
DPU (cents)	5.57	5.96	6.39	6.70
Distribution Yield	7.48	8.00	8.58	8.99

Source: Company, PSR

VALUATION METHOD

DDM (COE: 9.1%; Terminal Growth: 2%)

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PhillipCapital

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	**92.0**	**144.6**	**177.9**	**201.2**	**208.1**
Property operating expenses	(33.7)	(53.9)	(67.1)	(74.8)	(77.8)
Net property income	**58.4**	**90.7**	**110.8**	**126.3**	**130.3**
Net Finance (Expense)/Inc.	(9.5)	(19.0)	(25.7)	(25.8)	(23.7)
Manager's base fee	(4.7)	(7.1)	(9.7)	(9.7)	(10.0)
Other items	(1.8)	(2.2)	(2.7)	(3.1)	(3.2)
Net income	**42.4**	**62.3**	**72.6**	**87.7**	**93.4**
FV change, derivatives & ppties	31.4	16.9	(13.5)	-	-
Total Return Before Tax	**73.8**	**79.2**	**58.0**	**87.7**	**93.4**
Taxation	(15.8)	(14.7)	(10.5)	-	-
Total Return After Tax	**58.0**	**64.5**	**47.6**	**87.7**	**93.4**
Distribution adjustments	(11.2)	6.5	35.8	13.2	13.5
Income available for distribution	**46.7**	**71.0**	**83.3**	**100.9**	**106.9**

Per unit data

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV (US$)	0.82	0.83	0.80	0.79	0.79
DPU (US cents)	5.77	5.57	5.96	6.39	6.70

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Total Return Before Tax	73.8	79.2	58.0	87.7	93.4
Adjustments	(18.7)	9.3	50.6	37.1	35.1
WC changes	(1.9)	(8.3)	2.6	(0.3)	(0.1)
Cash generated from ops	53.2	80.2	111.2	124.5	128.4
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from ops	**52.2**	**79.9**	**110.1**	**124.5**	**128.4**
CFI					
Purchase of Inv. propty., net	(425.0)	(388.5)	(311.0)	-	-
Capex, net	(9.3)	(10.8)	(45.0)	(3.7)	(3.8)
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from investments	**(434.3)**	**(399.1)**	**(355.5)**	**(3.3)**	**(3.3)**
CFF					
Share issuance, net	288.5	197.2	236.7	-	-
Loans, net of repayments	165.9	208.9	146.1	21.0	-
Interest paid	(8.4)	(17.3)	(23.9)	(24.6)	(22.4)
Distributions	(42.5)	(58.7)	(99.4)	(100.8)	(106.8)
Others	(1.0)	(0.3)	(1.2)	-	-
Cashflow from financing	**393.3**	**323.6**	**252.1**	**(106.1)**	**(131.0)**
Net change in cash	**11.2**	**4.4**	**6.6**	**15.2**	**(5.9)**
Effects of exchange rate	0.1	(0.0)	0.0	-	-
Ending cash	**49.7**	**60.7**	**60.7**	**75.9**	**70.0**

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	1,312.8	1,738.7	2,095.0	2,102.5	2,110.1
Others	-	-	0.5	0.5	0.5
Total non-current assets	**1,312.8**	**1,738.7**	**2,095.5**	**2,103.0**	**2,110.5**
Trade receivables	5.9	9.1	7.6	12.6	11.0
Cash	49.7	54.1	60.7	75.9	70.0
Others	-	-	0.5	0.5	0.5
Total current assets	**56.4**	**64.2**	**71.0**	**91.2**	**83.6**
Total Assets	**1,369.2**	**1,802.9**	**2,166.5**	**2,194.1**	**2,194.2**
LIABILITIES					
Current borrowings	-	109.9	78.9	223.6	186.1
Trade payables	18.2	16.8	26.9	31.2	29.3
Others	-	-	0.5	0.5	0.5
Total current liabilities	**19.2**	**128.9**	**110.9**	**260.0**	**220.6**
Non-current borrowings	458.4	557.3	733.1	609.4	646.9
Others	-	-	0.5	0.5	0.5
Total non-current liabilities	**497.3**	**609.8**	**797.3**	**674.0**	**711.6**
Total Liabilities	**516.5**	**738.7**	**908.2**	**934.0**	**932.2**
Net assets	**852.7**	**1,064.2**	**1,258.3**	**1,260.2**	**1,262.0**
Represented by:					
Unitholders' funds	**852.1**	**1,064.1**	**1,258.2**	**1,260.1**	**1,261.9**
Perp. securities holders	0.6	0.1	0.1	0.1	0.1

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	0.91	0.90	0.93	0.94	0.95
Distribution Yield	7.7%	7.5%	8.0%	8.6%	9.0%
NPI yield	5.4%	5.9%	5.8%	6.0%	6.2%
Growth & Margins (%)					
Growth					
Revenue	n.m.	57.1%	23.0%	13.1%	3.4%
Net property income (NPI)	n.m.	55.4%	22.2%	14.0%	3.1%
Distributable income	n.m.	51.9%	17.4%	21.1%	5.9%
DPU	n.m.	-3.5%	7.0%	7.2%	4.9%
Margins					
NPI margin	63.4%	62.7%	62.3%	62.8%	62.6%
Key Ratios					
Net Debt or (Net Cash)	409	613	751	757	763
Gearing (%)	33.5%	37.0%	37.5%	38.0%	38.0%

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

Frasers Centrepoint Trust

Boon from increased weekday catchment

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Well-located suburban malls will remain highly sought after and prioritised by retailers consolidating their stores.
- Importance of suburban malls heightened by remote working.
- Larger malls benefiting from impending increase in catchment population following government decentralisation plans.
- Maintain BUY and DDM TP of S$2.79 on the back of resilience of necessity-driven suburban malls.

Background

FCT has become the second-largest suburban mall owner after acquiring a remaining 63.1% stake in unlisted ARF on 27 October 2020 for S$1.1bn. It now has 11 suburban shopping malls and one office asset in Singapore, valued at S$6.7bn. Sponsor Frasers Property Limited (FPL SP, NR) has S$33.2bn of residential, retail, commercial, industrial and hospitality assets for potential injection into FCT.

Investments Merits/Outlook

1. **Suburban malls defying weak retail outlook.** FCT's assets are located in suburban residential areas within 1-5 minutes' walk to MRT stations and bus interchanges. About 53.6% of its GRI is taken up by essential services: F&B, services, supermarkets and health and beauty retailers. Household catchments around its malls provide recurring, necessity-driven spending throughout cycles and have proven to be resilient. FCT's malls are dominant in their respective catchments and benefit from proactive mall management. We believe stores located in malls with tenant-supportive ecosystems such as loyalty programmes, online sales channels and transport connectivity will be prioritised by retailers when they consolidate their stores.

2. **Organic growth from increased catchment size and shopper footfall.** With more firms expected to announce permanent hybrid work arrangements, suburban malls should profit from increased weekday daytime catchments in the heartlands. Construction of new public housing around FCT's three largest malls - Causeway Point (CWP), Northpoint North Wing (NPNW) and Waterway Point (WWP) - will increase the number of HDB units by 67.6%. As part of the URA's draft master plan 2019, the northern region of Singapore, comprising Woodlands, Yishun and Punggol, will be developed into a decentralised economic cluster. This will bring more working crowds to malls in the vicinity, namely CWP, NPNW and WWP. The increase in catchment size could potentially lift tenant sales and enhance the desirability of the malls, auguring well for positive rental reversions.

3. **Focus on efficiency and unlocking value.** With the completion of its ARF acquisition, FCT will be consolidating mall management at all its malls. It will also leverage its scale to get better contract terms from third parties. On top of that, it will explore opportunities to add value to its malls during this period of weaker demand, potentially through asset enhancements and reconfiguration of its tenant mix.

Recommendation

Maintain BUY and DDM target price of S$2.79. Necessity-driven spending should help to support FY21e DPU yields of 5.4%. Catalysts for a re-rating are expected from growth in catchments and synergies from scale after its ARF acquisition.

21 January 2021

BUY (Maintained)

LAST DONE PRICE	SGD 2.46
FORECAST DIV	SGD 0.118
TARGET PRICE	SGD 2.79
TOTAL RETURN	18.0%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN) :	1,698
MARKET CAP (USD mn / SGD mn) :	3179 / 4194
52 - WK HI/LO (SGD) :	3.06 / 1.55
3M Average Daily T/O (mn) :	5.37

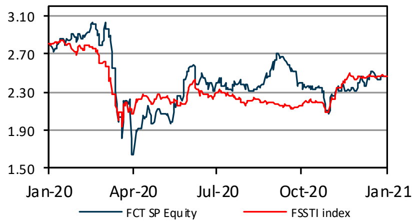
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	40.8%
SCHRODERS PLC	3.8%
VANGUARD GROUP INC	1.7%
T ROWE PRICE GROUP	1.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.0	5.2	(8.9)
STI RETURN	1.3	15.9	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY19	FY20	FY21e	FY22e
Gross Rev (SGD mn)	196	164	392	420
NPI (SGD mn)	139	111	288	307
Dist Inc. (SGD mn)	120	92	224	244
P/NAV (x)	1.11	1.09	1.06	1.06
DPU, adj (Cents)	11.77	9.04	13.36	13.84
Distribution Yield	4.8%	3.7%	5.4%	5.6%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.75%, Terminal Growth 1.5%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Gross Revenue	193	196	164	392	420
Total Property expenses	(56)	(57)	(53)	(104)	(113)
Net Property Income	**137**	**139**	**111**	**288**	**307**
Net Finance (Expense)/Inc	(20)	(24)	(28)	(51)	(50)
Trust expenses	(2)	(2)	(2)	(6)	(6)
Manager's management fees	(15)	(17)	(18)	(33)	(34)
Net Income	**100**	**97**	**65**	**199**	**218**
Share of associate's results	4	13	75	7	4
Share of JV's results	1	5	11	14	14
Other Adjustments	8	8	(8)	10	11
Distribution to Unitholders	**111**	**120**	**92**	**224**	**244**

Per share data

Y/E Sep, SGD	FY18	FY19	FY20	FY21e	FY22e
NAV	2.08	2.21	2.27	2.32	2.33
DPU (Cents)	9.27	11.77	9.04	13.36	13.84

Cash Flow

Y/E Sep, SGD mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Net Income	167	206	152	261	236
Adjustments	(42)	(80)	(54)	(1)	42
WC changes	12	4	(20)	48	0
Cashflow from operating activities	**137**	**131**	**78**	**308**	**278**
CFI					
Capex on inv properties	(15)	(5)	(11)	(9)	(5)
Others	4	(656)	(153)	(1,858)	17
Cashflow from investing activities	**(12)**	**(661)**	**(164)**	**(1,867)**	**12**
CFF					
Share issuance	-	437	-	1,470	-
Distributions to Unitholders	(112)	(114)	(85)	(208)	(224)
Others	(5)	197	186	342	(50)
Cashflow from financing activities	**(117)**	**521**	**101**	**1,604**	**(274)**
Net change in cash	**8**	**(9)**	**15**	**45**	**17**
CCE, end	**22**	**13**	**29**	**73**	**90**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, SGD mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Investment properties	2,749	2,846	2,750	5,901	5,907
Investment in Associates	66	457	696	105	105
Non Current Assets	**2,815**	**3,595**	**3,737**	**6,298**	**6,304**
Trade and Other Receivables	3.0	3.1	9.7	11.8	18.7
Cash and Cash Equivalents	22	13	29	73	90
Current Assets	**25**	**16**	**146**	**85**	**108**
Total Assets	**2,840**	**3,611**	**3,883**	**6,383**	**6,412**
LIABILITIES					
Interest bearing borrowings, non current	596	745	997	1,857	1,988
Others	32	30	31	31	31
Non-Current Liabilities	**627**	**775**	**1,028**	**1,887**	**2,018**
Trade and other payables	46	47	43	92	99
Interest bearing borrowings, current	217	295	255	301	170
Others	16	23	19	20	20
Current Liabilities	**280**	**365**	**317**	**413**	**289**
Total Liabilities	**907**	**1,140**	**1,345**	**2,301**	**2,308**
EQUITY					
Shareholder Equity	**1,934**	**2,471**	**2,538**	**4,082**	**4,104**

Valuation Ratios

Y/E Sep	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	1.19	1.12	1.09	1.07	1.07
Distribution yield	3.7%	4.7%	3.6%	5.4%	5.6%
NPI yield	5.0%	4.9%	4.0%	4.9%	5.2%
Growth & Margins	**FY18**	**FY19**	**FY20**	**FY21e**	**FY22e**
Growth					
Revenue	6.5%	1.6%	-16.3%	138.4%	7.1%
Net property income (NPI)	5.9%	1.5%	-20.4%	160.1%	6.5%
DPU	-21.9%	26.9%	-23.2%	47.7%	3.6%
Margins					
NPI margin	71.0%	70.9%	67.5%	73.6%	73.1%
Net Income Margin	51.7%	49.2%	39.8%	50.9%	51.8%
Key Ratios					
Gearing	28.6%	28.8%	32.2%	33.8%	33.7%
ROA	3.5%	2.7%	1.7%	3.1%	3.4%
ROE	5.2%	3.9%	2.6%	4.9%	5.3%
Interest coverage ratio (x)	6.85	5.82	4.02	5.71	6.19

PropNex Ltd

Market leader recovering

SINGAPORE | REAL ESTATE (AGENCIES) | UPDATE

- Largest real-estate agency with attractive 28% unleveraged ROE business.
- Property transactions expected to grow in 2021 after staying surprisingly resilient in 2020.
- Maintain BUY with a DCF-based target price of S$0.85. Dividend yields of 5% backed by a large cash buffer.

Background

PropNex provides real-estate services such as brokerage (PropNex Realty Pte Ltd), training, property management and consultancy. Listed on 2 July 2018, it is the largest real-estate player in Singapore by number of agents. It owns the rights to its proprietary "PropNex" brand.

Investment Merits/Outlook

1. **Largest real estate agency.** PropNex has an impressive market share of new private residential sales (48%), private resales (45%) and HDB resales (51%). Only its private-rental market share is lower than at around 27%. We believe larger agencies will continue to gain share. With scale, they can secure new launch mandates and provide better marketing and research support to their agents.

2. **Property transactions were resilient in 2020.** New residential units sold in the first eleven months of 2020 were down only 10% despite circuit breaker and various restrictions. Year to September 2020, HDB resale transactions were unchanged while private resales were down 3% YoY. We expect new unit sales to recover as stable prices, low-interest rates and improving sentiment attract more demand. HDB upgraders will likely be a source of demand as resale volumes and prices are expected to climb higher. Demand for HDB should remain healthy, backed by additional government grants for resale buyers offered since late 2019. Delays in completing new HDB BTO flats due to the pandemic should also divert interest to resale.

3. **Attractive dividends backed by large cash buffer.** PropNex is expected to pay a 4-cent DPS for a S$15mn payout in FY20e. This should be well supported by operating cash flows of close to S$30mn and net cash of S$93mn. Capital requirements in this business are minimal, with capex of only S$2mn and fixed assets of S$4mn.

Recommendation

PropNex's appeal lies in its large market share, high ROEs, capital-light business, net cash and attractive dividend yields. Maintain BUY with a target price of S$0.85, based on DCF with an 11% cost of equity.

21 January 2021

BUY (Maintained)

LAST DONE PRICE	SGD 0.780
FORECAST DIV	SGD 0.040
TARGET PRICE	SGD 0.850
TOTAL RETURN	14.1%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN) :	370.0
MARKET CAP (USD mn / SGD mn) :	218 / 289
52 - WK HI/LO (SGD) :	0.8 / 0.43
3M Average Daily T/O (mn) :	0.3

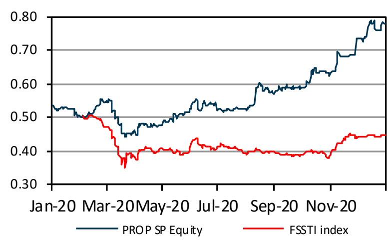
MAJOR SHAREHOLDERS

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	9.1%
SEONG KELVIN FONG KENG	8.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	13.0	31.1	62.1
STI RETURN	1.3	15.9	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Revenue	431.5	419.8	478.4	505.3
Gross Profit	41.4	44.3	51.7	55.1
Operating Profit	26.4	25.6	23.9	25.1
PAT	19.4	20.0	26.9	27.8
P/E (x)	14.9	14.4	10.7	10.4
P/B (x)	4.1	4.0	3.3	2.9
EPS, SGD cents	5.2	5.4	7.3	7.5
DPS, SGD cents	3.5	3.5	4.0	4.5
Dividend yield, %	4.5	4.5	5.1	5.8
ROE	27.6%	27.9%	31.1%	27.6%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 11.0%, Terminal growth 0%)

Financials

Income Statement

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
Revenue	331.9	431.5	419.8	478.4	505.3
Cost of services	(298.1)	(390.2)	(375.5)	(426.7)	(450.2)
Gross profit	33.8	41.4	44.3	51.7	55.1
Staff costs	(8.3)	(12.1)	(12.8)	(13.8)	(13.5)
Finance and other income	2.9	4.2	6.9	7.5	5.2
Other costs and expenses	(6.2)	(7.1)	(12.8)	(11.2)	(11.8)
Operating profit	**22.2**	**26.4**	**25.6**	**34.1**	**34.9**
Profit before tax	**22.2**	**26.4**	**25.6**	**34.1**	**34.9**
Tax	(3.3)	(4.4)	(4.5)	(5.5)	(5.9)
PAT	18.9	21.9	21.1	28.6	28.9
Minority Interest	(2.6)	(2.5)	(1.1)	(1.7)	(1.2)
PATMI	**16.3**	**19.4**	**20.0**	**26.9**	**27.8**

Per share data

SGD cents, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS	4.4	5.2	5.4	7.3	7.5
DPS	2.6	3.5	3.5	4.0	4.5
NAV per share	5.7	19.0	19.4	23.4	27.2

Cash Flow

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
CFO					
PAT	18.9	21.9	21.1	28.6	28.9
Adjustments	4.8	4.7	8.2	8.6	8.7
WC changes	1.1	(0.5)	5.0	(3.4)	0.2
Interest and Taxes paid, others	(1.1)	(3.0)	(5.0)	(5.5)	(5.9)
Cashflow from operations	**23.7**	**23.2**	**29.3**	**28.3**	**31.9**
CFI					
Acquisition of plant and equipment	(1.5)	(1.8)	(1.9)	(2.0)	(2.0)
Others	0.1	0.5	0.8	-	-
Cashflow from investments	**(1.4)**	**(1.3)**	**(1.0)**	**(2.0)**	**(2.0)**
CFF					
Payment of dividends	(10.8)	(13.3)	(19.6)	(13.9)	(14.8)
Others	-	39.4	-	-	-
Cashflow from financing	**(10.8)**	**26.1**	**(22.4)**	**(14.9)**	**(15.8)**
Net change in cash	**11.5**	**48.0**	**5.9**	**11.5**	**14.1**
CCE, end	**27.6**	**75.6**	**81.5**	**93.0**	**107.1**

Balance Sheet

SGD mn, Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PP&E	1.7	2.8	3.5	4.1	4.9
Others	0.0	0.2	5.9	4.1	2.6
Total non-current assets	**1.8**	**3.0**	**9.4**	**8.2**	**7.4**
Trade & other receivables	62.9	63.5	63.5	74.1	78.3
Cash and cash equivalents	27.7	75.7	81.6	93.1	107.2
Total current assets	**90.6**	**139.1**	**145.1**	**167.2**	**185.5**
Total Assets	**92.4**	**142.1**	**154.4**	**175.4**	**192.9**
LIABILITIES					
Trade & other payables	67.2	65.8	71.7	78.9	83.3
Current tax liabilities	(3.2)	(4.9)	(4.3)	(4.3)	(4.3)
Others	0.6	0.9	1.0	1.0	1.0
Total current liabilities	**71.1**	**71.5**	**79.5**	**85.7**	**89.1**
Deferred tax liability	0.1	0.2	0.2	0.2	0.2
Total non-current liabilities	**0.1**	**0.2**	**3.0**	**3.0**	**3.0**
Total Liabilities	**71.2**	**71.7**	**82.5**	**88.8**	**92.1**
EQUITY					
Share capital	0.4	57.5	57.5	57.5	57.5
Merger reserve	0.0	(17.7)	(17.7)	(17.7)	(17.7)
Translation reserve	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	17.1	26.4	28.9	42.0	54.9
Non-controlling interests	3.1	3.5	2.6	4.3	5.4
Total Equity	**21.2**	**70.4**	**71.9**	**86.6**	**100.8**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	17.7	14.9	14.4	10.7	10.4
P/B (x)	13.6	4.1	4.0	3.3	2.9
Dividend Yield (%)	3.4	4.5	4.5	5.1	5.8
Growth & Margins					
Growth					
Revenue	35.4%	30.0%	-2.7%	13.9%	5.6%
Gross profit	76.4%	22.5%	7.1%	16.6%	6.6%
PBT	122.4%	19.0%	-3.0%	33.2%	2.3%
PAT	113.7%	19.3%	3.2%	34.4%	3.2%
Margins					
GP margin	10.2%	9.6%	10.6%	10.8%	10.9%
PBT margin	6.7%	6.1%	6.1%	7.1%	6.9%
PAT Margin	4.9%	4.5%	4.8%	5.6%	5.5%
Key Ratios					
ROE (%)	76.9%	27.6%	27.9%	31.1%	27.6%
ROA (%)	17.6%	13.7%	13.0%	15.3%	14.4%
Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

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Thai Beverage PLC

Managed the pandemic well

21 January 2021

SINGAPORE | CONSUMER| UPDATE

- Rode out the pandemic and lockdown with net profits dipping only 2% in FY20. Generated S$1.4bn of FCF.
- Spirit volume even expanded 0.2% YoY in FY20, benefitting from an 8.9% rebound in 4Q20.
- Maintain BUY with a target price of S$0.86, based on 18x PE, its 5-year average.

Background

Listed on the SGX in 2006, ThaiBev is a leading beverage producer in Thailand and one of Asia's largest beverage producers. It has four businesses: spirits, beer, non-alcoholic beverages (NAB) and food. In 2012, ThaiBev acquired Singapore-based Fraser and Neave (F&N) Limited. It followed this up in October 2017 with its 75% purchase of Myanmar's largest whisky operator, Grand Royal Group. In December 2017, ThaiBev bought a 53.59% stake in Saigon Beer-Alcohol-Beverage Corporation (Sabeco), a leading beer producer in Vietnam. In the same month, it completed its acquisition of 252 KFC franchises in Thailand from Yum Restaurants. Spirits accounted for 86% of its FY20 net earnings, with the balance 9% from F&N/FPL and 3% from beer. Contributions from non-alcoholic beverages and food were not material.

Investment Merits/Outlook

1. **Defying the odds in FY20.** Despite multiple headwinds, net profits in FY20 only dipped 2% YoY. Revenue was hurt by the pandemic, an alcohol ban in April in Thailand and Vietnam's stringent new regulations on alcohol consumption. The company bludgeoned marketing and distribution spending, which dropped 14% YoY or THB4bn (S$180mn).

2. **Spirit demand healthy.** FY20 spirit volume sales increased 0.2% YoY. This was impressive given its extremely tough operating environment. In its recent 4Q20, volumes recovered by 8.9% YoY. Alcohol consumption in major Thai cities was hurt by fewer tourists and migrant workers. But workers returning to their homes - mainly in the north-east - drove consumption in rural areas.

3. **Generated FCF of THB32bn or S$1.4bn in FY20.** FY20 FCF was THB32bn, virtually unchanged from FY19. This was commendable given the tough economic backdrop. Final dividend was raised by 9% to THB0.36.

Recommendation

We maintain our BUY recommendation, with stock catalysts expected from a rebound in spirit and beer volumes as economic growth recovers and dine-in activities resume.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.735
FORECAST DIV	SGD 0.024
TARGET PRICE	SGD 0.860
TOTAL RETURN	20.2%

COMPANY DATA

BLOOMBERG CODE	THBEV SP
O/S SHARES (MN) :	25,116
MARKET CAP (USD mn / SGD mn) :	13965 / 18460
52 - WK HI/LO (SGD) :	0.91/ 0.49
3M Average Daily T/O (mn) :	29.94

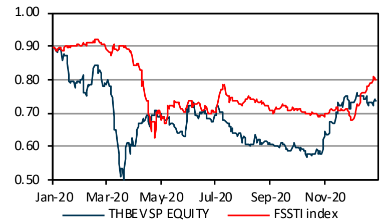
MAJOR SHAREHOLDERS

SIRIWANA COMPANY LIMITED	45.3%
MAXTOP MANAGEMENT CORP	20.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	215	(15.2)
STI RETURN	13	15.9	(8.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep	FY19	FY20	FY21e	FY22e
Revenue (THB bn)	267.4	253.5	266.8	277.1
EBITDA (THB bn)	45.1	47.0	48.6	49.8
NPAT, adj. (THB bn)	23.3	23.2	27.1	27.8
EPS, adj. (THB)	0.93	0.91	1.08	1.11
EPS, adj. (SCents)	3.95	3.86	4.75	4.87
PER, adj. (x)	18.6	19.0	15.5	15.1
P/BV, (x)	3.6	2.9	2.7	2.5
DPS (THB)	0.48	0.46	0.54	0.55
DPS (SCents)	2.11	2.03	2.38	2.44
Div Yield	2.9%	2.8%	3.2%	3.3%
ROE	19.6%	18.0%	18.1%	17.0%

Source: Company Data, PSR

Valuation Method

18x PE FY21e

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Financials

Income Statement

Y/E Sep, THB mn	FY18	FY19	FY20	FY21e	FY22e
Revenue	**229,695**	**267,357**	**253,481**	**266,837**	**277,083**
Gross profit	67,218	77,391	74,860	79,705	82,897
EBITDA	**38,105**	**45,096**	**47,036**	**48,583**	**49,843**
Depreciation & Amortisation	(5,759)	(6,634)	(6,565)	(6,796)	(7,048)
EBIT	**29,030**	**34,279**	**37,208**	**39,586**	**40,595**
Associates & JVs	4,230	4,845	3,256	4,003	4,156
Other items	(3,664)	(1,807)	(1,906)	(975)	(923)
Net Finance Inc/(Exp)	(4,261)	(6,006)	(5,627)	(5,289)	(5,334)
Profit Before Tax	**25,335**	**31,312**	**32,931**	**37,325**	**38,495**
Taxation	(4,609)	(5,229)	(6,866)	(6,719)	(6,929)
Profit After Tax	**20,726**	**26,083**	**26,065**	**30,607**	**31,566**
- Non-controlling interest	2,196	2,810	3,313	3,520	3,788
Net profit, reported	**18,530**	**23,272**	**22,752**	**27,087**	**27,778**
Net profit, adj.	**20,988**	**23,272**	**23,244**	**27,087**	**27,778**

Per share data (THB)

Y/E Sep	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	0.74	0.93	0.91	1.08	1.11
EPS, adj.	0.75	0.90	0.88	1.08	1.11
DPS	0.39	0.48	0.46	0.54	0.55
BVPS	4.82	4.61	5.68	6.22	6.77

Per share data (SGD Cents)

Y/E Sep	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	3.25	4.08	3.99	4.75	4.87
EPS, adj.	3.31	3.95	3.86	4.75	4.87
DPS	1.72	2.11	2.03	2.38	2.44
BVPS	21.25	20.33	25.01	27.39	29.83

Balance Sheet

Y/E Sep, THB mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE	**57,059**	**59,993**	**61,347**	**59,888**	**58,382**
Intangibles	184,390	184,120	193,475	193,475	193,475
Investments in Assoc/JV	78,870	79,345	85,605	89,608	93,764
Others	5,994	6,719	6,777	6,777	6,777
Total non-current assets	**326,313**	**330,178**	**347,205**	**349,748**	**352,398**
Accounts receivables	5,944	6,759	6,777	6,092	6,260
Cash	22,530	24,362	34,695	36,794	40,259
Inventories	42,185	42,876	41,655	46,142	47,881
Others	4,438	3,321	3,187	3,187	3,187
Total current assets	**75,096**	**77,318**	**86,315**	**92,216**	**97,589**
Total Assets	**401,409**	**407,496**	**433,520**	**441,964**	**449,987**
LIABILITIES					
Accounts payables	16,294	20,471	19,306	20,688	21,034
Short term loans	15,136	22,215	64,834	56,834	48,834
Others	6,029	6,123	6,612	6,612	6,612
Total current liabilities	**37,459**	**48,809**	**90,752**	**84,133**	**76,480**
Long term loans	216,804	197,977	152,214	152,214	152,214
Others	6,575	10,389	11,148	11,148	11,148
Total non-current liabilities	**223,379**	**208,366**	**163,363**	**163,363**	**163,363**
Total Liabilities	**260,838**	**257,175**	**254,115**	**247,496**	**239,843**
EQUITY					
Non-controlling interests	19,425	34,466	36,808	38,328	40,116
Shareholder Equity	**121,146**	**115,856**	**142,596**	**156,140**	**170,029**

Cash Flow

Y/E Sep, THB mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
EBIT	29,030	34,279	37,208	39,586	40,595
Depreciation & Amortisation	(5,759)	(6,634)	(6,565)	(6,796)	(7,048)
WC changes	(259)	3,810	177	(2,421)	(1,561)
Tax paid	(6,965)	(6,024)	(5,113)	(6,719)	(6,929)
Others	(3,833)	(224)	(1,572)	(975)	(923)
Cashflow from ops	22,280	38,476	37,265	36,269	38,230
CFI					
CAPEX, net	(6,907)	(5,664)	(4,566)	(5,337)	(5,542)
Others	(185,190)	(2,781)	(2,957)	1,388	1,288
Cashflow from investments	(192,098)	(8,445)	(7,523)	(3,949)	(4,254)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	187,204	(18,760)	(11,937)	(14,677)	(14,622)
Dividends	(16,134)	(12,416)	(13,004)	(15,543)	(15,889)
Others	0	0	(11)	0	0
Cashflow from financing	171,070	(31,176)	(24,951)	(30,220)	(30,511)
Net change in cash	1,252	(1,146)	4,790	2,100	3,465
Effects of exchange rates	335	(740)	726	0	0
CCE, end	**11,516**	**9,630**	**15,147**	**17,247**	**20,712**

Source: Company, Phillip Securities Research (Singapore) Estimates

Valuation Ratios

Y/E Sep	FY18	FY19	FY20	FY21e	FY22e
P/E (X), adj.	22.2	18.6	19.0	15.5	15.1
P/B (X)	3.5	3.6	2.9	2.7	2.5
EV/EBITDA (X), adj.	20.1	14.4	13.6	4.3	4.0
Dividend Yield (%)	1.8%	2.9%	2.8%	3.2%	3.3%
Growth & Margins					
Growth					
Revenue	20.9%	16.4%	-5.2%	5.3%	3.8%
EBITDA	4.1%	18.3%	4.3%	3.3%	2.6%
EBIT	2.3%	18.1%	8.5%	6.4%	2.5%
Net profit, adj.	-19.3%	10.9%	-0.1%	16.5%	2.6%
Margins					
Gross margin	29.3%	28.9%	29.5%	29.9%	29.9%
EBITDA margin	16.6%	16.9%	18.6%	18.2%	18.0%
EBIT margin	12.6%	12.8%	14.7%	14.8%	14.7%
Net profit margin	9.1%	8.7%	9.2%	10.2%	10.0%
Key Ratios					
ROE	16.8%	19.6%	18.0%	18.1%	17.0%
ROA	7.0%	5.8%	5.5%	6.2%	6.2%
Net Debt/(Cash)	209,411	195,830	182,353	172,254	160,789
Net Gearing	149.0%	130.3%	101.6%	88.6%	76.5%

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SINGAPORE | REAL ESTATE | UPDATE

21 January 2021

- Earnings stability from diversified portfolio and high proportion of recurring income.
- Unlocking value by recycling funds from mature, non-core assets to new economy assets.
- Maintain BUY and target price of S$3.82, based on a 20% discount to RNAV.

Background

CAPL is one of Asia's largest diversified real estate groups. Headquartered and listed in Singapore, it owned and managed a global portfolio worth over S$133.3bn as of 30 September 2020. Its portfolio comprises diversified real-estate classes such as commercial; retail; business parks, industrial parks and logistics assets; integrated development; urban development; and lodging and residential. The group is present in more than 200 cities in over 30 countries. While it focuses on Singapore and China, it continues to expand in India, Vietnam, Australia, Europe and the US.

Investment Merits/Outlook

1. **Stability through diversification.** CAPL's diversified portfolio has helped it weather market cycles. While COVID-19 has affected its lodging and retail portfolios, its residential sales have remained strong. Stable industrial, commercial and multifamily assets also mitigate earnings volatility.

2. **Revving up recurring income.** Recurring income is underpinned by its fund management and lodging platform. CAPL earns fees from the management of assets in various REITs and private funds. It also earns contract fees from the management of serviced residences franchised under the Ascott, Citadines, Somerset and Lyf brands. Rental income also comes from investment properties held on books and through its stakes in myriad REITs and funds. About 68.7% of 1H20 revenue was recurring, derived from investment properties (1H19: 90.2%). This provides earnings stability. CAPL's target of increasing AUM from S$71.7bn to S$100bn by 2024 and number of keys under management from 112,400 - 45k still under development - to 160,000 by 2023 will further increase recurring income.

3. **Unlocking value through portfolio reconstitution.** CAPL has committed to divesting S$3bn of non-core assets annually. These are mainly retail assets and proceeds will be reinvested in growth sectors. CAPL and its REITs divested S$3.02bn assets in 2020 and reinvested S$3.3bn in new assets. The latter included an 80:20 JV to develop multifamily properties in the US and a JV to develop and operate logistics projects in Greater Tokyo. The group intends to increase exposure to new economy assets in China to S$5bn, up from S$1.5bn. focusing on business parks, logistics assets and data centres.

Recommendation

Maintain BUY and TP of S$3.82. CAPL trades at an attractive 31% discount to RNAV. Our target price translates to 0.7x FY20e P/NAV. We like CAPL for its high proportion of recurring income and diversification, which provide earnings stability.

BUY (Maintained)

LAST DONE PRICE	SGD 3.28
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.82
TOTAL RETURN	20.1%

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN) :	5,193
MARKET CAP (USD mn / SGD mn) :	10209 / 13709
52 - WK HI/LO (SGD) :	3.97 / 2.51
3M Average Daily T/O (mn) :	8.52

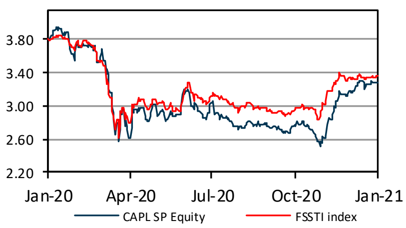
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	51.5%
BLACKROCK INC	5.0%
VANGUARD GROUP	1.9%
NORGES BANK	87.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	3.5	19.3	(10.1)
STI RETURN	0.7	15.1	(8.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	5,602	6,235	5,880	6,217
Gross Profit	2,689	3,000	2,823	2,984
EBIT	3,186	4,079	3,297	3,485
EPS (SGD)	0.42	0.46	0.30	0.40
P/E (x)	7.8	7.1	10.8	8.1
P/BV (x)	0.75	0.72	0.68	0.70
DPS (SGD)	0.12	0.12	0.12	0.06
Div Yield, %	3.7%	3.7%	3.7%	1.9%
ROE, %	9.3%	9.1%	6.7%	8.7%

Source: Company Data, Bloomberg

Valuation Method
RNAV

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Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	**4,618**	**5,602**	**6,235**	**5,880**	**6,217**
Gross Profit	2,024	2,689	3,000	2,823	2,984
Depreciation & Amortisatior	(69)	(63)	(118)	(113)	(131)
EBIT	2,420	3,186	4,079	3,297	3,485
Net Finance (Expense)/Inc	(487)	(636)	(839)	(867)	(859)
Associates & JVs	882	959	989	1,242	1,284
Profit Before Tax	2,816	3,509	4,228	3,672	3,909
Taxation	(469)	(659)	(815)	(661)	(704)
Profit After Tax	2,347	2,850	3,414	2,409	3,206
Non-Controlling Interest	777	1,087	1,278	843	1,122
Net Income, reported	1,570	1,762	2,136	1,566	2,084

Per share data (SGD)

Y/E Dec, SGD	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	0.37	0.42	0.46	0.30	0.40
DPS	0.12	0.12	0.12	0.12	0.06
BVPS	4.33	4.35	4.55	4.82	4.71

Cash Flows

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit for the year	2,347	2,850	3,414	2,409	3,206
Adjustments	(1,504)	(1,700)	(2,263)	(1,845)	(1,631)
WC changes	809	(1,414)	185	(381)	401
Cash generated from ops	2,545	943	2,717	1,592	3,422
Taxes paid, others	(379)	(390)	(471)	(661)	(704)
Cashflow from ops	2,166	553	2,246	931	2,718
CFI					
CAPEX, net	(142)	(88)	(75)	(102)	(88)
Cashflow from investments	(1,770)	(1,356)	(359)	(347)	(676)
CFF					
Dividends paid	(425)	(504)	(501)	(316)	(644)
Cashflow from financing	979	(217)	(767)	(697)	(2,639)
Net change in cash	1,376	(1,019)	1,120	(113)	(597)
Effects of exchange rates	(47)	(60)	(42)	-	-
CCE, end	6,080	5,005	6,061	5,948	5,351

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	840	753	1,059	1,161	1,249
Associates & JVs	10,205	10,180	12,996	13,327	13,668
Investment Properties	36,479	39,446	48,732	49,927	51,093
Others	1,702	1,823	2,934	2,922	2,908
Total non-current assets	**49,227**	**52,201**	**65,721**	**67,336**	**68,918**
Development properties	3,977	5,129	7,725	7,508	7,231
Accounts Receivables	1,462	1,944	2,302	2,024	2,198
Cash balance	6,105	5,060	6,168	5,948	5,351
Others	768	314	431	46	46
Total current assets	**12,312**	**12,446**	**16,625**	**15,526**	**14,825**
Total Assets	**61,539**	**64,648**	**82,346**	**82,862**	**83,742**
LIABILITIES					
Short term loans	2,739	3,193	3,950	4,300	5,800
Accounts Payables	3,067	3,842	5,048	4,233	4,591
Others	3,055	2,360	3,430	3,402	3,402
Total current liabilities	**8,861**	**9,395**	**12,427**	**11,935**	**13,793**
Long term loans	18,956	20,440	27,461	28,161	26,361
Others	1,604	1,505	2,175	2,175	2,175
Total non-current liabilities	**20,560**	**21,945**	**29,636**	**30,336**	**28,536**
Total Liabilities	**29,421**	**31,341**	**42,063**	**42,271**	**42,328**
EQUITY					
Shareholder Equity	18,413	18,953	23,359	23,383	23,824
Non-controlling interest	13,705	14,354	16,026	16,312	16,693
Total Equity	**32,118**	**33,307**	**40,283**	**40,592**	**41,414**

Valuation Ratios

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
P/E	8.9	7.8	7.1	10.8	8.1
P/B	0.76	0.75	0.72	0.68	0.70
Dividend Yield	3.7%	3.7%	3.7%	3.7%	1.9%
Growth & Margins					
Growth					
Revenue	-12.1%	21.3%	11.3%	-5.7%	5.7%
EBIT	46.5%	31.6%	28.0%	-19.2%	5.7%
Net Income, adj.	56.0%	21.4%	19.8%	-29.4%	33.1%
Margins					
EBIT margin	52.4%	56.9%	65.4%	56.1%	56.0%
Net Profit Margin	50.8%	50.9%	54.8%	41.0%	51.6%
Key Ratios					
ROE	8.5%	9.3%	9.1%	6.7%	8.7%
ROA	2.6%	2.7%	2.6%	1.9%	2.5%
Gearing (Total Debt/Total As	0.35	0.37	0.38	0.39	0.38

ComfortDelGro Corp Ltd

Proxy for economic recovery

SINGAPORE | TRANSPORT SERVICES | UPDATE

- Expect recovery in earnings as economies recover and rental waivers are removed, led by Singapore.
- Despite the pandemic, operating cash flows were stable at S$383mn in 9M20. Balance sheet back to net cash.
- Maintain BUY with a target price of S$1.83, based on DCF with a 7.7% WACC.

Background

ComfortDelGro is a global multi-modal land transport operator. Major businesses are public transport, taxis, automotive engineering and inspection and testing. Comfort operates in seven countries. Singapore contributed 66% to 2019 operating profit, Australia 19%, UK/Ireland 10% and China 5%. Vietnam and Malaysia operations are not material. Its 75%-owned listed subsidiary, SBS Transit Ltd, operates rail services and buses in Singapore. Its 67%-owned listed subsidiary, VICOM Ltd, provides inspection and testing services. Comfort has around 60% share of Singapore's taxi and bus markets and 74% share of vehicle inspection and testing. In London, its bus market share is 17%.

Investment Merits/Outlook

1. **Recovery proxy.** Following Phase 3 reopening in Singapore, considerably larger group gatherings and events have been allowed. This should increase ridership in taxis and trains as more religious, social and work activities resume.

2. **Cash flows healthy; back to net cash.** Operating cash flows were S$383mn in 9M20 (9M19: S$407mn). The amount included government relief of S$126mn, which was almost equivalent to the rental waiver Comfort provided its taxi drivers. Comfort returned to net cash of S$115.5mn from net debt of S$115.3mn in 3Q19.

3. **Australia relatively stable despite disruptions.** Earnings in Australia were down 37% YoY to S$15mn in 3Q20. There was minimal impact on scheduled bus services from its lockdown. Earnings suffered due to poor demand for taxis and chartered buses. We expect a gradual recovery as COVID-19 cases tapper off, especially with the arrival of vaccines.

Recommendation

The share price is down 30% from pre-pandemic levels but we expect Comfort to claw back most of its losses. Its market shares for both buses and taxis in Singapore are impressive. It is our preferred transport proxy as the lockdown eases. This is because the rebound in passengers will be more immediate than airlines and pricing more stable in a regulated industry.

21 January 2021

BUY (Maintained)

LAST CLOSE PRICE	S$ 1.67
FORECAST DIV	S$ 0.065
TARGET PRICE	S$ 1.83
TOTAL RETURN	13.5%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,167
MARKET CAP (SGD mn) :	3,618
52 - WK HI/LO (SGD) :	2.39 / 1.32
3M Average Daily T/O (mn) :	12.2

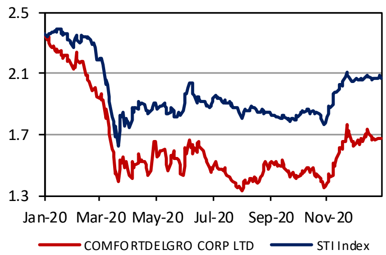
MAJOR SHAREHOLDERS (%)

BMO Financial Corp	7.06
BlackRock Inc	4.57

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.2	18.4	-27.2
STI RETURN	1.3	15.9	-8.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Revenue (S$ mn)	3,906	3,305	3,725	3,791
PATMI, adj (S$ mn)	265	40	187	253
EPS, adj. (cents)	12.2	1.9	8.6	11.7
P/E, adj. (x)	13.6	89.5	19.3	14.3
BVPS (cents)	139	134	140	148
P/B (x)	1.2	1.2	1.2	1.1
DPS (cents)	9.8	1.9	6.5	8.8
Div. Yield (%)	5.9	1.1	3.9	5.2

Source: Bloomberg, PSR

VALUATION METHOD

DCF (WACC: 7.7%; Terminal g: 1.5%)

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Financials

Income Statement

SGD mn, Y/E Dec	FY 18	FY 19	FY 20	FY 21e	FY 22e
Revenue	**3,805.2**	**3,905.7**	**3,304.8**	**3,724.8**	**3,791.1**
EBITDA	**832.0**	**868.8**	**508.5**	**726.7**	**828.3**
Depreciation & Amortisatio	(393.2)	(453.0)	(436.3)	(438.0)	(442.2)
EBIT	**438.8**	**415.8**	**72.1**	**288.7**	**386.1**
Net Finance (Expense)/Inc	0.4	(9.2)	(5.9)	(4.9)	(3.0)
Associates & JVs	0.1	-	-	-	-
Profit Before Tax	**439.3**	**406.6**	**66.3**	**283.8**	**383.1**
Taxation	(80.5)	(88.4)	(12.6)	(53.9)	(72.8)
Profit After Tax	**358.8**	**318.2**	**53.7**	**229.9**	**310.4**
Non-controlling interest	55.5	53.1	13.3	42.6	57.5
PATMI, reported	**303.3**	**265.1**	**40.4**	**187.3**	**252.9**
PATMI, adj.	**303.3**	**265.1**	**40.4**	**187.3**	**252.9**

Per share data (cents)

	FY 18	FY 19	FY 20	FY 21e	FY 22e
EPS, reported	14.0	12.2	1.9	8.6	11.7
EPS, adj.	14.0	12.2	1.9	8.6	11.7
DPS	10.5	9.8	1.9	6.5	8.8
BVPS	140	139	134	140	148

Cash Flow

SGD mn, Y/E Dec	FY 18	FY 19	FY 20	FY 21e	FY 22e
CFO					
PBT	439.3	406.6	66.3	283.8	383.1
Adjustments	-	-	-	-	-
WC changes	(55.0)	(144.0)	94.5	(54.0)	30.9
Cash generated from ops	750.9	704.8	603.0	672.7	859.2
Others	(82.1)	(94.9)	(12.6)	(53.9)	(72.8)
Cashflow from ops	668.8	609.9	590.4	618.8	786.4
CFI					
CAPEX, net	(226.1)	(346.5)	(398.5)	(438.4)	(438.4)
Divd from associates & JVs	11.4	1.0	-	-	-
Others	(423.2)	(21.1)	11.5	10.2	9.9
Cashflow from investments	(637.9)	(366.6)	(387.0)	(428.2)	(428.5)
CFF					
Share issuance, net	3.9	1.3	-	-	-
Loans, net of repayments	215.5	31.3	(100.0)	(100.0)	(100.0)
Dividends	(279.7)	(274.3)	(157.9)	(91.3)	(142.6)
Others	31.3	39.6	(17.4)	(15.1)	(12.8)
Cashflow from financing	(29.0)	(202.1)	(275.3)	(206.4)	(255.5)
Effects of exchange rates	(12.0)	(5.5)	-	-	-
Net increase (decrease) in CCE	(10.1)	8.1	(71.8)	(15.8)	102.4
CCE, end	586.1	594.2	522.4	506.5	609.0

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY 18	FY 19	FY 20	FY 21e	FY 22e
ASSETS					
Cash	586.1	594.2	522.4	506.5	609.0
Accounts Receivables	275.4	318.7	268.2	317.0	270.0
Inventories	138.7	150.7	143.8	141.3	147.2
Prepayments	277.0	255.5	246.5	252.1	264.5
Others	-	-	-	-	-
Total current assets	**1,277.2**	**1,319.1**	**1,180.8**	**1,216.9**	**1,290.7**
PPE	2,691.3	2,706.1	2,697.9	2,727.8	2,753.6
Intangibles	896.4	848.7	848.7	848.7	848.7
Receivables	219.0	284.3	284.3	284.3	284.3
Others	52.8	220.8	191.2	161.6	132.0
Total non-current assets	**3,859.5**	**4,059.9**	**4,022.1**	**4,022.4**	**4,018.6**
Total Assets	**5,136.7**	**5,379.0**	**5,202.9**	**5,239.4**	**5,309.3**
LIABILITIES					
Short term loans	71.1	198.8	198.8	198.8	198.8
Accounts Payables	691.0	670.3	698.4	696.4	698.6
Others	247.2	246.7	246.7	246.7	246.7
Total current liabilities	**1,009.3**	**1,115.8**	**1,143.9**	**1,141.9**	**1,144.1**
Long term loans	414.1	331.3	231.3	131.3	31.3
Others	686.2	922.9	922.9	922.9	922.9
Total non-current liabilities	1,100.3	1,254.2	1,154.2	1,054.2	954.2
Total Liabilities	**2,109.6**	**2,370.0**	**2,298.1**	**2,196.1**	**2,098.3**
EQUITY					
Non-controlling interest	413.5	414.0	427.3	469.8	527.3
Shareholder Equity	**2,613.6**	**2,595.0**	**2,477.5**	**2,573.5**	**2,683.7**

Valuation Ratios

	FY 18	FY 19	FY 20	FY 21e	FY 22e
P/E (x), adj.	11.9	13.6	89.5	19.3	14.3
P/B (x)	1.2	1.2	1.2	1.2	1.1
Dividend Yield	6.3%	5.9%	1.1%	3.9%	5.2%
Growth & Margins					
Growth					
Revenue	6.4%	2.6%	-15.4%	12.7%	1.8%
EBITDA	1.7%	4.4%	-41.5%	42.9%	14.0%
EBIT	7.2%	-5.2%	-82.7%	300.3%	33.7%
Net Income, adj.	4.4%	-12.6%	-84.8%	363.3%	35.0%
Margins					
EBITDA margin	21.9%	22.2%	15.4%	19.5%	21.8%
EBIT margin	11.5%	10.6%	2.2%	7.8%	10.2%
PBT margin	11.5%	10.4%	2.0%	7.6%	10.1%
Net Profit Margin	8.0%	6.8%	1.2%	5.0%	6.7%
Key Ratios					
ROE	11.6%	10.2%	1.6%	7.4%	9.6%
ROA	6.1%	5.0%	0.8%	3.6%	4.8%
Dividend Payout	74.9%	80.0%	100.0%	75.0%	75.0%
Net Debt or (Net Cash)	(101)	(64)	(92)	(176)	(379)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

PhillipCapital

Keppel Corporation

Strategic review of O&M unit and divestments to drive potential re-rating

StocksBnB.com

21 January 2021

SINGAPORE | CONGLOMERATE | UPDATE

- Capital recycling to unlock S$17.5bn to accelerate in 2021 with two additional divestments in December 2020.
- Clarity on Keppel O&M expected in January 2021 to remove a key overhang on the company.
- Longer-term ROE target of 15% intact.
- Maintained BUY with an unchanged TP of S$6.12, with a 10% holding-company discount. Our TP translates to about 1.0x FY21e book value, a slight discount to their 5-year average of 1.05x.

Company Background

Keppel Corp is an investment holding and management company with operations in Offshore & Marine, Infrastructure, Property and Investments.

Investment Merits

1. **Capital recycling to unlock S$17.5bn to accelerate in 2021 with two additional divestments in December 2020**. We expect Keppel to accelerate capital divestments in 2021 and we have already seen two divestments in December 2020 – Divestment of its remaining 30% interest in Dong Nai for about S$115.9mn in cash and divestment of their interest in Keppel Bay Tower to Keppel Reit, based on an agreed property value of S$657.2mn. We believe Keppel will hasten the divestment of other non-core assets amounting to S$3 – 5bn in the next three years.
2. **Clarity on Keppel O&M expected in January 2021 to remove key overhang on company**. We expect an outcome on the ongoing strategic review of its O&M unit later this month. We see the divestment of Keppel O&M to Sembcorp Marine (Non-rated) as the most likely outcome of its strategic review and believe this could potentially lead to a re-rating of their shares.
3. **Longer-term ROE target of 15% intact.** Keppel's shipyards have resumed operations since Singapore's easing, with 15,000 workers back at their worksites as at end-Sep 2020. Recent contract wins have lifted its orderbook above S$4bn. This is expected to support operations over the next two years. In property, Keppel is also expected to divest over S$7bn of assets in the next few years. Proceeds are expected to be re-invested to new growth areas. A key part of its Vision 2030 is breaking down the silos within the Group to achieve OneKeppel. We believe this will enable the Group to achieve greater scalability, better synergies and new profit pools that might not be available to individual business entities, nudging it towards its ROE target.

Outlook

Its strategic reviews and Vision 2030 are expected to put the Group firmly on the road to its ROE target of 15%. This is expected to lead to a strong re-rating of its shares.

Maintained BUY rating with unchanged TP of S$6.12

We maintained our BUY recommendation and target price of S$6.12. Our TP is based on sum-of-the-parts (SOTP) valuation with a 10% holding-company discount. We value its Offshore & Marine division at 0.6x book value, about a 16% discount to peers. We value its Property segment at a 40% discount to RNAV and Infrastructure division at 12x FY21e earnings, in-line with peers. We also value M1 at 12x FY21e earnings, a slight discount to the sector average of 13x. We value Keppel's stake in Sino-Singapore Tianjin Eco-city at 1.5x book value.

BUY (Maintained)

LAST CLOSE PRICE	SGD 5.380
FORECAST DIV	SGD 0.140
TARGET PRICE	SGD 6.120
TOTAL RETURN	16.4%

COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,818
MARKET CAP (USD mn / SGD mn) :	7397 / 9778
52 - WK HI/LO (SGD) :	6.87 / 4.08
3M Average Daily T/O (mn) :	4.61

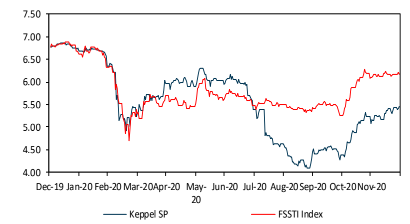
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	21.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.1	20.9	(18.6)
STI RETURN	1.9	(7.9)	1.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$, 'mn)	FY18	FY19	FY20e	FY21e
Revenue	5,965	7,580	6,139	7,089
EBITDA	1,237	1,252	131	995
EBIT	1,065	941	(54)	755
NPAT	961	761	(521)	638
P/NAV (x)	0.8	0.8	0.9	0.8
P/E (x)	9.9	13.3	(18.0)	14.8
ROE (%)	8.2%	6.6%	-4.7%	5.8%

Source: Company, PSR

VALUATION METHOD

SOTP valuation

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Financials

Income Statement

Y/E Dec, ($'mn)	FY18	FY19	FY20e	FY21e
Revenue	**5,965**	**7,580**	**6,139**	**7,089**
Materials and Subcontract costs	(4,175)	(5,267)	(4,297)	(4,927)
Staff costs	(988)	(1,163)	(1,098)	(1,134)
Depreciation and amortisation	(182)	(375)	(317)	(342)
Other items	446	167	(481)	69
EBIT	**1,065**	**941**	**(54)**	**755**
Net finance expenses	(41)	(135)	(177)	(170)
Share of results of associates an	221	147	(85)	225
Profit before tax	**1,246**	**954**	**(317)**	**810**
Taxation	(285)	(192)	(205)	(172)
Net Profit	**961**	**761**	**(521)**	**638**
Net Profit (excl. Impairments)	**961**	**761**	**364**	**638**
Profit attributable to owners	**948**	**707**	**(523)**	**636**

Per share data (S$)

Y/E Dec	FY18	FY19	FY20e	FY21e
BVPS	6.37	6.41	5.90	6.14
DPS	0.30	0.20	0.09	0.14
EPS	0.52	0.39	(0.29)	0.35

Cash Flow

Y/E Dec, ($'mn)	FY18	FY19	FY20e	FY21e
CFO				
Operating profit	**1,055**	**877**	**(79)**	**724**
Adjustments	(494)	117	(117)	375
WC changes	(196)	(1,437)	(399)	(356)
Cash generated from ops	**365**	**(443)**	**(595)**	**743**
Others	(240)	(382)	(382)	(342)
Cashflow from ops	**125**	**(825)**	**(977)**	**401**
CFI				
CAPEX, net	(255)	(517)	(473)	(176)
Others	931	(1,171)	323	220
Cashflow from investments	**677**	**(1,688)**	**(149)**	**45**
CFF				
Dividends paid to owners	(27)	(418)	(164)	(218)
Proceeds from borrowings, net	(390)	3,003	1,289	(878)
Proceeds from equity issuance, n	6	0	-	-
Others	(114)	(239)	(14)	-
Cashflow from financing	**(525)**	**2,346**	**1,111**	**(1,096)**
Net change in cash	**277**	**(167)**	**(15)**	**(650)**
Cash at the start of the period	2,199	2,429	2,235	2,205
Currency translation	(46)	(27)	(27)	(27)
Others	-	-	-	-
Ending cash	**2,429**	**2,235**	**2,205**	**1,555**

*nm - not meaningful

Balance Sheet

Y/E Dec, ($'mn)	FY18	FY19	FY20e	FY21e
ASSETS				
PPE & Investment Properties	5,224	6,684	7,792	8,123
Others	7,497	10,339	10,765	10,765
Total non-current assets	**12,721**	**17,023**	**18,557**	**18,889**
Cash and cash equivalents	1,981	1,784	2,205	1,555
Stocks	5,496	5,543	5,688	5,755
Contract assets	3,213	3,497	2,870	3,510
Others	3,177	3,475	3,449	3,475
Total current assets	**13,867**	**14,298**	**14,212**	**14,295**
Total Assets	**26,588**	**31,322**	**32,769**	**33,184**
LIABILITIES				
Trade and other payables	4,391	4,605	4,394	4,489
ST borrowings	1,481	4,623	5,493	5,082
Others	2,521	2,720	3,601	4,337
Total current liabilities	**8,393**	**11,947**	**13,488**	**13,908**
LT borrowings	6,068	7,034	7,750	7,309
Others	550	694	791	791
Total non-current liabilities	**6,618**	**7,729**	**8,541**	**8,100**
Total liabilities	**15,011**	**19,676**	**22,029**	**22,008**
EQUITY				
Share Capital	1,292	1,292	1,306	1,306
Retained profits	10,021	9,933	9,248	9,668
Others	264	421	187	203
Total equity	**11,577**	**11,646**	**10,740**	**11,176**
Total equity and liabilities	**26,588**	**31,322**	**32,769**	**33,184**

Valuation Ratios

Y/E Dec	FY18	FY19	FY20e	FY21e
P/E (x)	10.1	13.4	-18.2	15.0
P/B (x)	0.8	0.8	0.9	0.9
EV/EBITDA (x)	16.5	16.3	156.0	20.6
Dividend yield (%)	5.7%	3.8%	1.7%	2.7%
Growth & Margins (%)				
Growth				
Revenue	0.0%	27.1%	-19.0%	15.5%
EBITDA	22.0%	1.2%	-89.5%	658.3%
EBIT	33.0%	-11.6%	-105.7%	nm
PBT	182.1%	-23.4%	-133.2%	-355.6%
Margins				
EBITDA margin	20.7%	16.5%	2.1%	14.0%
EBIT margin	17.9%	12.4%	-0.9%	10.6%
Net profit margin	16.1%	10.0%	-8.5%	9.0%
Key Ratios				
ROE	8.2%	6.6%	-4.7%	5.8%
ROA	3.5%	2.6%	-1.6%	1.9%
Net Gearing (%)	46.9%	83.7%	101.7%	95.9%

Source: Company, Phillip Securities Research (Singapore) Estimates

Yoma Strategic Holdings Ltd

Solidly anchored by property and Wave Money

SINGAPORE | REAL ESTATE | UPDATE

- Entrenched foothold in Myanmar's fast-growing and most attractive consumer segments, namely property, mobile finance, F&B and automobile.
- Large property land bank for 10-15 years of sales. Financial services continue to grow as Wave Money doubled its net profit YoY in FY20.
- Maintain BUY and SOTP TP of S$0.46.

Background

Listed on the SGX in 2006, Yoma is a leading conglomerate in Myanmar with businesses spanning real estate, consumer, automotive & heavy equipment, financial services and investments. In November 2019, Ayala Corporation (AC PM, Not Rated) acquired a 20% stake in it at S$0.45/share, valuing the company at S$1,055mn. In May 2020, Ant Financial bought 33% of Yoma's fintech, Wave Money, for US$73.5mn.

Investment Merits/Outlook

1. **Significant unrecognised revenue to support FY21.** Though stay-home measures have been relaxed in several regions and states since 27 December, Yoma F&B may continue to underperform in FY21 as there are still restrictions on dine-ins. That said, unrecognised revenue from Yoma Land and Yoma Motors is expected to contribute 33% to FY21e topline. As of September, Yoma Motors had a revenue backlog of US$10mn from 200+ Mitsubishi units pending recognition. Yoma Land also has unrecognised revenue from the progressive completion of City Loft and its newly-launched Star Villas Phase 1, amounting to US$27mn.

2. **Stellar growth in financial services.** Yoma's fintech Wave Money's FY20 net profit grew 2x YoY. Wave's monthly active users (MAU) and digital revenue continue to grow at double digits MoM. Covering 93% of the country, Wave retains its 90-95% market share in the OTC business. On 13 October, Yoma acquired an additional stake, bringing its effective interest in Wave to 44% from 34%. Coupled with Ant's expertise in fintech, we see abundant opportunities for Yoma to integrate Wave with its other business lines.

3. **FY22e could be bumper year for Yoma Land.** Star Villas Phase 2 will be launched in the coming months following the success of Phase 1. Yoma Central and its newly-launched Star Hub will be due for completion in FY22. Yoma Central is in advanced leasing negotiations with anchor tenants for its office and retail space. Upon completion, it is expected to generate US$90-110mn of recurring revenue. More than 50% of Star Hub's office space has been pre-committed by prominent technology and financial-service companies. Rental yield is estimated in the mid-teens from FY22.

4. **Attractive valuations, affirmed by Ayala's investment at S$0.45/share.** Ayala aims to complete the second tranche of its placement shares in Yoma totalling US$46mn at S$0.45/share within the next six months. Our SOTP target price of S$0.46 implies 58.6% upside potential. Yoma Land and Yoma Financial Services constitute 70% and 18% of Group valuations before net debt and overheads. A conglomerate discount of 20% has been applied.

Recommendation

Maintain BUY with an unchanged target price of S$0.46.

21 January 2021

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.290
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.460
TOTAL RETURN	58.6%

COMPANY DATA

BLOOMBERG CODE:	YOMA SP
O/S SHARES (MN) :	2,237
MARKET CAP (USD mn / SGD mn) :	499 / 660
52 - WK HI/LO (SGD) :	0.36 / 0.16
3M Average Daily T/O (mn) :	3.99

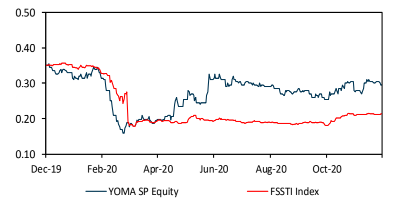
MAJOR SHAREHOLDERS (%)

SERGE PUN	28.1%
AYALA CORPORATION	14.9%
STANDARD LIFE ABERDEEN PLC	7.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.3)	5.4	(15.7)
STI RETURN	(0.3)	15.8	(8.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept (US$'000)	FY19	FY20	FY21e	FY22e
Gross Rev	91,015	103,358	112,494	167,942
Gross Profit	45,289	33,058	46,540	80,978
EBITDA	8,519	(23,021)	16,093	45,000
NPAT	(37,154)	(65,738)	(29,008)	3,167
P/NAV (x)	1.18	1.08	0.80	0.80
P/E (x)	nm	nm	nm	2
ROE (%)	(5.40)	(8.28)	(3.59)	0.39

Source: Company, PSR

VALUATION METHOD

SOTP (20% conglomerate discount)

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Financials

Income Statement

Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
Revenue	**99,631**	**91,015**	**103,358**	**112,494**	**167,942**
Cost of sales	(67,940)	(45,726)	(70,300)	(65,954)	(86,964)
Gross Profit	**31,691**	**45,289**	**33,058**	**46,540**	**80,978**
Finance expenses	(11,896)	(29,605)	(21,599)	(21,599)	(21,599)
Administrative expenses	(53,945)	(50,255)	(55,124)	(57,880)	(60,774)
Other items	80,287	(140)	(18,901)	4,500	4,500
Profit/(loss) before tax	**46,137**	**(34,711)**	**(62,566)**	**(28,440)**	**3,105**
Taxation	(2,042)	(2,443)	(3,172)	(569)	62
Profit/(loss) after tax	**44,095**	**(37,154)**	**(65,738)**	**(29,008)**	**3,167**
EBIT	**58,033**	**(5,106)**	**(40,967)**	**(6,841)**	**24,704**
EBITDA	**67,649**	**8,519**	**(23,021)**	**16,093**	**45,000**

Per unit data

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
NAVPS (US$)	0.38	0.27	0.27	0.36	0.36
EPU (US$ cents)	2.33	(1.96)	(2.61)	(1.30)	0.14

Cash Flow Statement

Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
CFO					
Net income	**45,111**	**(37,154)**	**(65,738)**	**(29,008)**	**3,167**
Adjustments	(73,193)	62,289	73,527	38,199	34,931
WC changes	28,255	(41,007)	40,071	(27,437)	(33,497)
Cash generated from ops	**173**	**(15,872)**	**47,860**	**(18,246)**	**4,601**
Others	(1,551)	(833)	1,046	(569)	62
Cashflow from ops	**(1,378)**	**(16,705)**	**48,906**	**(18,815)**	**4,663**
CFI					
Additions to development propertie	(137,224)	(74,684)	(64,153)	-	-
Additions to IP	(56,510)	(610)	(4,726)	-	-
Additions to PPE	(23,252)	(20,836)	(26,385)	-	-
Others	(44,396)	(39,031)	(44,040)	-	-
Cashflow from investments	**(261,382)**	**(135,161)**	**(139,304)**	**-**	**-**
CFF					
Proceeds from issuance of units	82,150	-	108,573	46,000	-
Proceeds from borrowings, net	105,256	123,338	(6,529)	-	-
Interest paid	(12,511)	(21,768)	(19,605)	(18,552)	(18,552)
Others	40,932	55,382	26,456	-	-
Cashflow from financing	**215,827**	**156,952**	**108,895**	**27,448**	**(18,552)**
Net change in cash	**(46,933)**	**5,086**	**18,497**	**8,634**	**(13,889)**
Cash at the start of the period	63,603	10,776	15,835	35,414	44,048
Currency translation	(1,825)	(27)	1,082	-	-
Others	17,734	14,146	10,944	11,004	11,004
Ending cash	**32,579**	**29,981**	**46,358**	**55,052**	**41,163**

*nm - not meaningful

Balance Sheet

Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Investment properties	366,637	242,960	273,379	273,379	273,379
Land development rights (NC)	210,144	149,130	149,789	149,789	149,789
PPE	71,563	118,347	182,434	160,498	141,200
Others	189,247	147,454	152,362	148,845	165,435
Total non-current assets	**837,591**	**657,891**	**757,964**	**732,511**	**729,803**
Development properties	330,028	290,276	299,465	342,401	404,008
Trade receivables	98,167	76,495	114,313	110,674	99,254
CCE	32,579	29,981	46,418	55,052	41,163
Inventories	26,061	19,287	24,594	16,574	37,708
Others	134,758	149,950	100,861	100,861	100,861
Total current assets	**621,593**	**565,989**	**585,651**	**625,562**	**682,994**
Total Assets	**1,459,184**	**1,223,880**	**1,343,615**	**1,358,073**	**1,412,798**
LIABILITIES					
Trade payables	136,214	75,208	86,502	65,210	134,831
ST borrowings	128,302	106,500	77,201	77,201	77,201
Others	5,313	16,944	10,469	10,469	10,469
Total current liabilities	**269,829**	**198,652**	**174,172**	**152,880**	**222,501**
LT borrowings	185,004	238,796	274,612	274,612	274,612
Others	104,770	98,042	100,897	123,510	109,301
Total non-current liabilities	**289,774**	**336,838**	**375,509**	**398,122**	**383,913**
Total liabilities	**559,603**	**535,490**	**549,681**	**551,002**	**606,414**
Net assets	**899,581**	**688,390**	**793,934**	**807,071**	**806,383**
Represented by:					
Share Capital	674,396	514,736	624,890	670,890	670,890
Retained profits	96,057	51,158	(9,919)	(43,427)	(44,760)
Others	129,128	122,496	178,963	179,608	180,253
Total equity	**899,581**	**688,390**	**793,934**	**807,071**	**806,383**

Valuation Ratios

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	0.71	1.18	1.08	0.80	0.80
P/E (x)	12	nm	nm	nm	2
EV/EBITDA (x)	14	129	-50	71	26
Growth & Margins (%)					
Growth					
Revenue		-8.6%	13.6%	8.8%	49.3%
Gross profit		42.9%	-27.0%	40.8%	74.0%
EBITDA		-87.4%	-370.2%	-169.9%	179.6%
EBIT		nm	nm	-83.3%	-461.1%
Margins					
Gross profit margin	31.8%	49.8%	32.0%	41.4%	48.2%
EBITDA margin	67.9%	9.4%	-22.3%	14.3%	26.8%
EBIT margin	58.2%	-5.6%	-39.6%	-6.1%	14.7%
Key Ratios					
ROE	4.9%	-5.4%	-8.3%	-3.6%	0.4%
ROA	3.0%	-3.0%	-4.9%	-2.1%	0.2%
Gearing (%)	38.4%	43.8%	40.9%	40.6%	42.9%

Source: Company, Phillip Securities Research (Singapore) Estimates

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