Phillip 2020 Singapore Strategy

A domestic recovery

PhillipCapital

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SINGAPORE | STRATEGY

16 December 2019

Review: YTD19, the STI is up 4%. We fell short against the benchmark MSCI Asia Ex-Japan (MAXJ)'s rise of 11% (SGD terms). The STI has underperformed MAXJ in four out of the past five years. We lack the earnings growth and re-rating theme. This has resulted in STI valuations being stuck in a tight range. A new source of fund-flow could be a re-rating trigger. When reviewing sector performance, REITs stood out as the best performer in 2019. We entered 2019 with expectations of two rate hikes. Instead, we faced the "Powell pivot" and experienced three rate cuts in 2019.

Outlook: In 2020, we think the Singapore economy could surprise on the upside. Firstly, the economic backdrop globally is expected to recuperate after two years of deceleration led by the manufacturing sector. Secondly, several key sectors of our economy are starting to recover. Property transaction volumes have rebounded after the malaise post-July 2018 cooling measures. Sales from new launches are up 13% in 2019. The improvement in the property sector supports retail spend and mortgage loans. The construction sector is on the mend with contracts awarded at four-year highs. Thirdly, the macro setting is turning positive. Foreign direct investments in Singapore are at record levels of US$108bn. Employment growth is the fastest in almost five years. There will be several political events to eyeball in 2020. Of course, we have our own Singapore elections. Past elections have not seen any meaningful impact on the stock market. Another notable event will be the Democratic Primaries. If Elizabeth Warren secures the presidential nomination, we can expect a knee jerk sell down in U.S. equities. On the dreaded trade war, our base case is a truce via the Phase 1 deal. We believe the deal has a better chance in this period because i) Trump is heading into Presidential election, of which he will not wish to risk further deceleration in the US economy; ii) Headlining Phase 1 deal to provide both sides with the legroom to claim victory that more concessions and assertion should be attained in Phase 2, and iii) A desire to avoid 15 December punitive tariffs on the U.S. consumer.

STI Target: We are raising our STI target from 3400 to 3700. The improvement in growth and re-rating potential could surprise on the upside. This pegs the market at 15x PE FY20e.

Recommendation: Our model portfolio - Phillip Absolute 10 - outperformed the STI in 2019. Our best performers include SGX, Capitaland, Sheng Siong and Ascott REIT. We are removing SGX due to the share price performance and expectations of reduced (Trump driven) market volatility. We replaced SGX with StarHub. StarHub is on a path to recovery. The problematic pay-TV business should improve with more variable content contracts and a steadier subscriber base. As for mobile, we believe it is past the peak of the competitive intensity. We are replacing DBS with Frasers Centrepoint. 1H20 will be challenging for banks as net interest margins roll-over and loans growth stay tepid. Sheng Siong will deliver consistent earnings growth from new stores and a recuperating retail sector will be helpful. CapitaLand's journey to building more recurrent earnings continues. Venture is our exposure to a rebound in the electronics sector driven by 5G and supply chain de-risking from China to Southeast Asia. We like PropNex's huge market share, attractive yield and recovery in property transaction volumes.

2019 Performance

Figure 1: Banks mix performance.

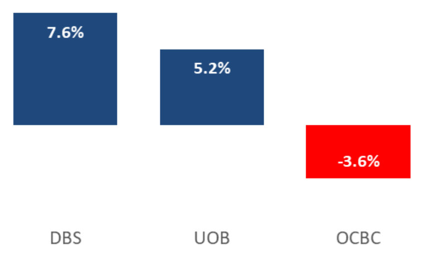


Figure 2: Hong Kong exposure a drag.

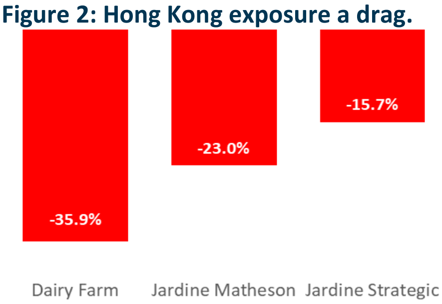
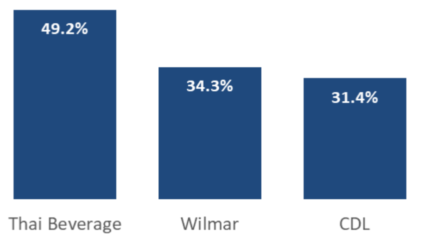


Figure 3: Bottom-up winners.



Source (Fig 1-3): PSR, Bloomberg, (as at 12 Sep'19)

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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	ROE
Yield										
Ascott REIT	0.7%	3.0%	25.9%	**Accumulate**	1.36	1.36	0%	2,192	5.3%	6.1%
NetLink	1.1%	6.2%	23.5%	**Accumulate**	0.99	0.95	5%	2,724	5.5%	2.8%
Dividend Growth										
Frasers Centrepoint (new)	-1.8%	-1.1%	25.0%	**Accumulate**	3.11	2.71	15%	2,240	4.5%	9.4%
UOB	0.1%	0.7%	5.2%	**Accumulate**	27.8	25.84	8%	31,888	3.9%	11.9%
Growth										
PropNex	2.0%	4.0%	8.3%	**Buy**	0.59	0.52	13%	142	7.1%	20.0%
Sheng Siong	0.0%	12.6%	17.9%	**Accumulate**	1.32	1.25	6%	1,390	2.7%	26.7%
Venture	-0.3%	3.4%	13.5%	**Accumulate**	17.18	15.83	9%	3,378	4.4%	16.0%
Re-rating Plays										
CapitaLand	0.8%	5.1%	19.3%	**Buy**	4.20	3.71	13%	13,838	3.2%	8.2%
Starhub (new)	2.9%	10.8%	-17.7%	**Accumulate**	1.58	1.44	10%	1,844	6.3%	31.7%
Singtel	0.3%	9.4%	15.7%	**Accumulate**	3.53	3.39	4%	40,947	5.2%	5.2%
Average	0.6%	5.4%	13.7%				8%	100,583	4.8%	13.8%

Source: PSR, Bloomberg (as of 12 December 2019); performance is for illustration purposes only. Excludes the cost of monthly rebalancing, transaction fees and dividend income.

MCI (P) 056/09/2019
Ref. No.: SG2019_0196

2019 REVIEW

YTD19, the STI is up 4%. We fell short against the benchmark MSCI Asia Ex-Japan (MAXJ)'s rise of 11% (SGD terms). The STI has underperformed MAXJ in four out of the past five years. We lack the earnings growth and re-rating theme. This has resulted in STI valuations being stuck in a tight range. When reviewing sector performance, REITs stood out as the best performer in 2019. We entered 2019 with expectations of two rate hikes. Instead, we faced the "Powell pivot" and experienced three rate cuts in 2019. As the year progressed, the slowdown in the global economy, led by manufacturing-stoked fears of a looming recession swayed by the inverted yield curve and escalation of tariffs between the U.S. and China. Stocks that performed the best were driven more by bottoms-up company-specific drivers rather than a broad macro driver.

5 Themes for 2020

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

OUTLOOK

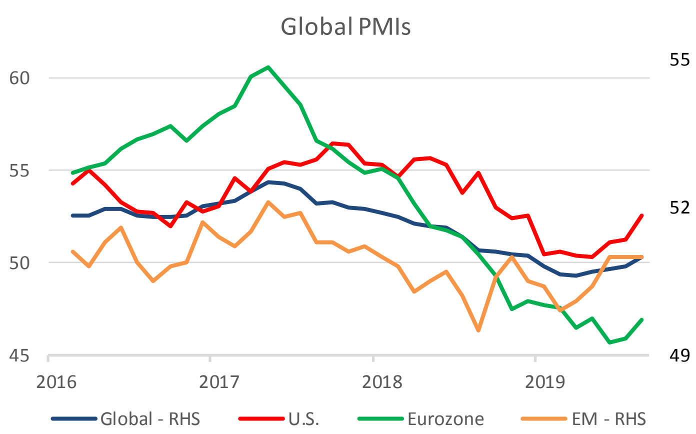
In 2020, we think the domestic Singapore economy could surprise on the upside. Firstly, the economic backdrop globally is expected to recuperate after two years of deceleration led by the manufacturing sector. Secondly, several key sectors of our economy are starting to recover. Property transaction volumes have rebounded after the malaise post-July 2018 cooling measures. Property sales from new launches are up 13% in 2019 and accelerating. The improvement in the property sector supports retail spend and mortgage loans. The construction sector is on the mend with contracts awarded at four-year highs (Figure 8). Even the moribund retail sector is registering some stability (Figure 9). Thirdly, the macro setting is turning positive. Foreign direct investments in Singapore are at record levels of US$108bn (Figure 10). After two consecutive years of decade-low population growth, Singapore manage to eke out an improvement in our population growth (Figure 11).

There will be several political events to eyeball in 2020. Of course, we have our own Singapore elections. Past elections have not seen any meaningful impact on the stock market. Another notable event will be the Democratic Primaries. If Elizabeth Warren secures the presidential nomination, we can expect a knee jerk sell down in U.S. equity markets. Then there are the November Presidential elections. Maybe, only Michael Bloomberg can save the following four years. On the dreaded trade war, our base case is a truce via the Phase 1 deal. We believe the deal has a better chance in this period because i) Trump is heading into Presidential election which he will not wish to risk further deceleration in the US economy; ii) The headline Phase 1, can provide both sides with the legroom to claim victory that more concessions and assertion could be attained in Phase 2; and iii) A desire to avoid 15 December punitive tariffs on the U.S. consumer.

5 Themes we had for 2019

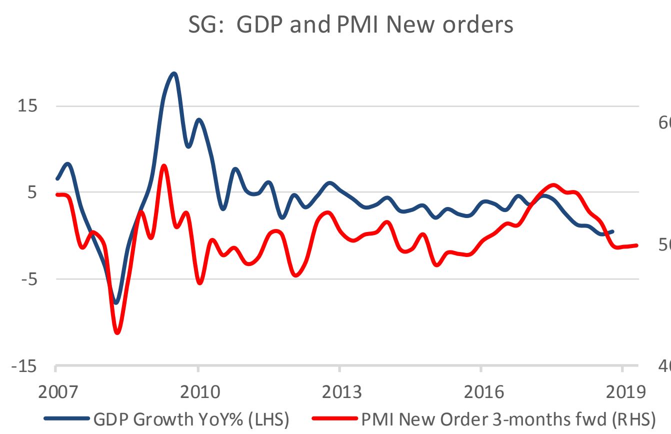
- ✓ Attractive valuations
- ✓ Slower rate hiking cycle
- × Trade truce between U.S.- China
- × US data rolling over
- ✓ Turmoil in U.S. politics

Figure 4: Global PMIs are turning up



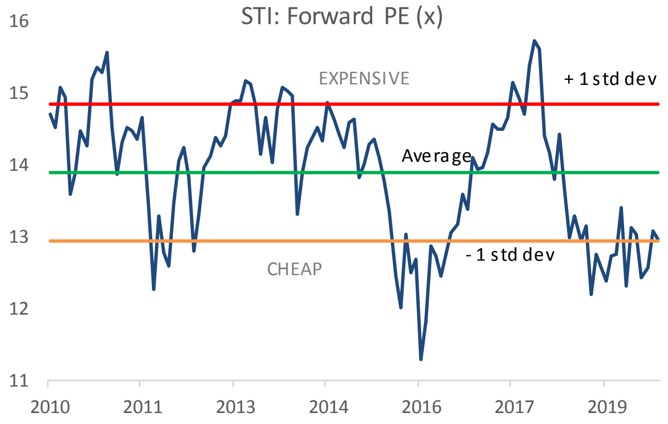
Source: PSR, CEIC

Figure 5: Singapore's GDP bottoming out



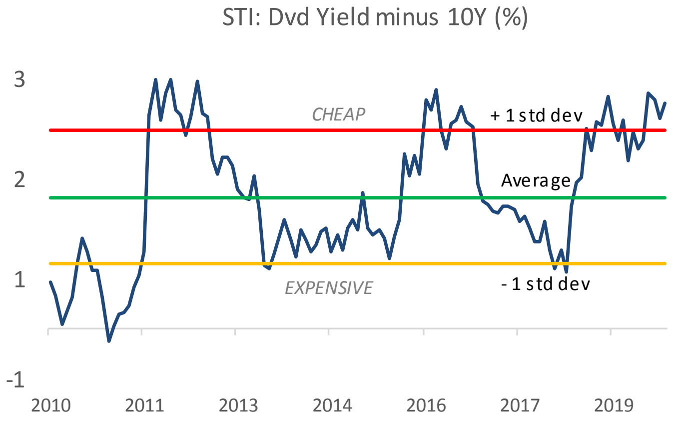
Source: PSR, CEIC

Figure 6: Valuations reflect the low expectations



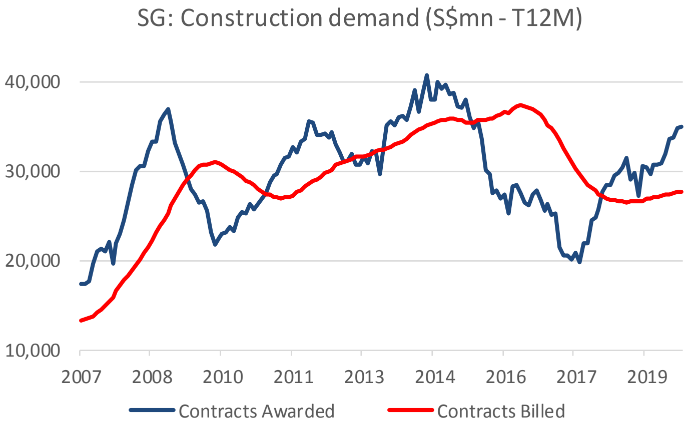
Source: PSR, Bloomberg

Figure 7: Dividend yield attractive against fixed income



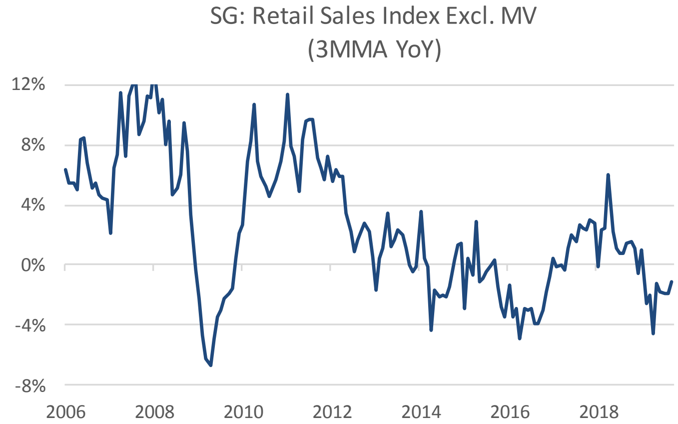
Source: PSR, Bloomberg

Figure 8: Construction back to 4-year highs



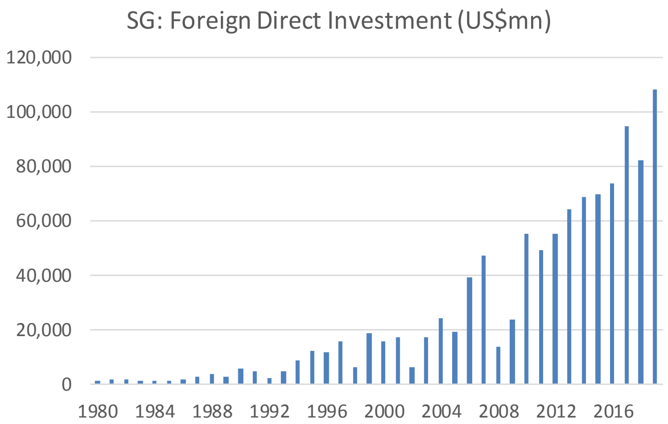
Source: PSR, CEIC

Figure 9: Show climb upwards for retail



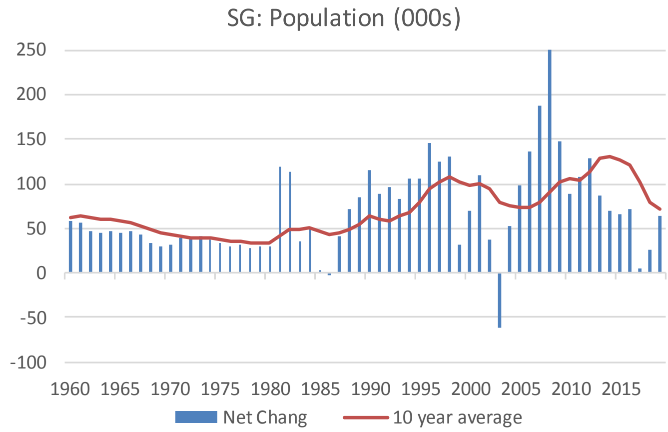
Source: PSR, CEIC

Figure 10: Record FDI for Singapore in 2019



Source: PSR, CEIC

Figure 11: Improving population supports domestic spend



Source: PSR, CEIC

RECOMMENDATION

There is no single underlying theme in our portfolio. Our selection is purely a bottom-up balanced portfolio of stock picks which we hope to generate alpha. We look for balance returns in our model portfolio. For our 2019 absolute return portfolio, our top 10 picks - The Phillip Absolute 10 by categories are:

a) **Dividend Yield:** Ascott REIT and Netlink Trust are the yield anchors to our portfolio. Around 40% of Ascott revenues are income protected (master lease and income guarantees) and the balance is diversified across nine geographies. Netlink is your residential fibre provider monopoly enjoying regulated returns. Incremental to earnings growth will be connections for 5G deployment and penetration in commercial fibre business.

b) **Dividend Growth:** We expect UOB to grow their dividends in view of their 7% earnings growth in FY19e. Frasers Centrepoint is a new addition. Growth will come from the rise in captive HDB population for their malls and likely inorganic growth from a pipeline six suburban mall assets in PGIM fund held by its sponsor.

c) **Growth:** The recovery in HDB transactions and a large number of new property launches will be supportive of PropNex earnings growth in FY20. We expect another year of growth for Sheng Siong as they grow the stores, market share and margins. Venture will ride on the shift in global electronics supply chain into Southeast Asia and an improvement in electronics demand from improving Sino-US trade relationship.

d) **Re-rating:** CapitaLand is scaling up its lodging and asset management fee income. We view this as a higher quality income and will re-rate the valuation of the company. We are expecting Starhub pay-TV operations to improve as customers are locked in two years and the content cost is gradually restructured. We think mobile competition has peaked and intensity will subside. We expect Singtel's associate Airtel to improve group earnings, after a brutal price war, the wireless market in India is currently going through a series of price hikes.

STI target. We are raising our STI target from 3400 to 3700. The improvement in growth and re-rating potential could surprise on the upside. This pegs the market at 15x PE FY20e.

Figure 12: The Phillip Absolute 10

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Source: Bloomberg, PSR

2019 Performance Review - Phillip Absolute 10

Our Phillip Absolute 10 outperformed the STI in 2019. Below were some of the changes we made during the quarters.

1Q19 Add: SGX, Keppel DC REIT, China Sunsine; **Remove:** Chip Eng Seng, Micro-Mechanics, Banyan Tree
2Q19 Add: NetLink Trust, Ascott REIT, Singtel; **Remove:** Ascendas REIT, CCT, Geo Energy
3Q19 Add: DBS, APAC Realty; **Remove:** China Sunsine, Keppel DC REIT
4Q19 Add: Venture Corp, PropNex; **Remove:** ComfortDelGro, APAC Realty

The portfolio was dragged down in 1H19 by some of our growth stocks such as China Sunsine and Geo Energy. Earnings severely disappointed with both stocks. Keppel DC REIT was a hindsight miss, as we took profits too early as we felt valuations were stretched. We switched our income-generating stocks in 2Q19 with NetLink and Ascott REIT. In the 3Q19, we included our first mid-cap stock - real estate agency APAC Realty. We exited ComfortDelGro as taxi industry continues to lose market share to private hire vehicles and rail business was hit by several charges. In 4Q19, we added Venture as a beneficiary of recovery in electronics industry plus swapped APAC Realty with PropNex due to the latter's better execution.

Figure 13: Monthly movements

	Absolute 10	STI
Jan19	7.2%	4.0%
Feb19	0.6%	0.7%
Mar19	-0.7%	0.0%
Apr19	2.2%	5.8%
May19	-2.0%	-8.3%
Jun19	6.5%	6.5%
Jul19	1.6%	-0.6%
Aug19	-3.8%	-5.9%
Sep19	0.0%	0.4%
Oct19	4.2%	3.5%
Nov19	0.2%	-1.1%
Dec19	0.9%	0.0%
YTD	17.6%	4.1%
Out/(Under)perf.	13.5%	

Source: PSR, Bloomberg (as of 12 December 2019)

Sector Narratives

1. **Consumer:** Consistent with our domestic recovery theme, we expect consumer spending to improve in 2020. Wage and job growth will support spending and even an improvement in property sales.
2. **Finance:** We still view banks as dividend growth stocks due to their single-digit earnings growth profile and well-capitalised balance sheets. Nevertheless, we expect 1H20 to be weak for the banks namely from lower interest margins and tepid loans growth. 2H20 should see better performance as the recovery in macro conditions becomes less ominous.
3. **Healthcare:** The hospital admission data has surprisingly turned positive and even medical tourism has been better. However, high valuations and higher risk profile (as the sector ventures overseas) will cap any upside in share prices.
4. **Property:** We have been surprised by the share price performance of property stock especially with the huge uncompleted supply yet to be launched. With 40 to 50 launches a year, take-up rates have understandably been low at 20%. We prefer the real estate agents over developers. Agencies have concentrated market shares, will benefit from improvement in volumes and not underwrite the potential losses from unsold inventory (or the punitive stamp duties).
5. **REITs:** It was a windfall year for REITs. We moved from expecting two rate hikes to receiving three rate cuts in 2019. This five cut swing in expectations will not occur in 2020. My expectations are flat price performance and to just collect your dividends as returns.
6. **Technology:** Pretty bullish on this sector – 3 reasons: (a) recovery in overall global manufacturing; (b) roll-out of new structural technologies like 5G and continued penetration of electronics into mainstream automobiles (infotainment, LEDs, seating, etc) and hybrid vehicles (due to emission standards especially in Europe); and (c) supply chain migration to Southeast Asia - including Malaysia.
7. **Telecommunications:** Not too worried about the fourth mobile operator. If there was a profit opportunity, the service would have already been rolled out and not just an unlimited free trial at present. MVNOs have closed any profit pools left for TPG.
8. **Transportation:** It has been challenging for the taxi industry in Singapore. The number of private hire vehicles is growing at a rate that is equivalent to the current fleet of taxis every 18 months.

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Technical View - Straits Times Index

Limited upside growth with the bear gaining the upper hand

SINGAPORE | STRATEGY REPORT | TECHNICAL ANALYSIS

- Straits Time Index has been ranging since the fall from 3906 points to 1455 point from 2007 Q4 period to 2009 Q2 period.
- The STI Index did make a substantial recovery in Q2 2009 onwards but the index remains below 3700, signalling weak sentiment ahead.
- Fibonacci retracement shows that price has been rejected at the 88.6% of the total range from **3906.16-1455.47.**

The STI's performance has not been making progress since the aftermath of the 2008 Financial crisis. There are traces of recovery but without breaking 2007 high. The STI recovery is not expected to be strong.

STI's performance from 2009 to 2019 has been commendable, touching a new decade high at 3641.65 in May 2018. However, there was a swift reversal and the index closed below 3600 in May 2018. The STI displayed no signs of recovery beyond 3600.

Figure 14: STI highs has been rejected at 78.6% and 88.6% of the Fibonacci level.

STI actually missed a huge upside move when the STI rebounded off the 50% range in 2011 and 2016 respectively, effectively forming a potential double bottom. However, the STI did not manage to break through the neckline resistance at 3600. Instead, the index was capped at 3560.23 without advancing further. This momentum is a tell-tale sign that STI will be facing downside pressure in the next few years as demand is falling.

Figure 15: STI monthly Wave count suggests a ranging sentiment with potential for huge drawdown.

**The Elliott wave count on STI is currently on the regular flat corrective wave, instead of the classic 5-3-5 wave structure of the Elliott wave*

The monthly wave count had a 3-wave sub corrective wave down labelled ((w)), ((x)), completing wave A in Q4 2007 to Q1 2009. The subsequent wave B had a longer period from 2009 – 2018, a period of 10 years. Wave B ended when price terminates near 85.4% at 3541.50. The current wave analysis is in a process of forming a 5-sub corrective wave down to form wave C and the current wave suggests that the index might have a slight bullish recovery towards **3484.10-3541.50** before resuming its 3rd wave of the C leg, which will most likely terminate at the 1500 region.

However, there's a possibility that the index may head lower towards the 3000-point level before reversing to complete the sub (C) wave of wave (ii).

Figure 16: STI weekly wave count shows a clearer sub-wave division.

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.

Summary

In the near term, the STI will most likely have a strong upside to the 3600 regions before it embark on a 5-wave corrective action towards the 3000 level at the minimum based on the weekly wave count. However, we believe that 2020 price momentum will be kept between the range of 2900-3600 and its highly unlikely the STI will reach 1500.

Consumer OVERWEIGHT

- Retail Sales Index ex-Motor Vehicles down 1.5% this year. The worst showing in three years.
- Wage growth of almost 4% together with a 1% rebound in employment will be supportive for consumption.
- Thai Beverage revenue has been hurt by sluggish farm incomes in Thailand. This is the core customer base for brown spirits.
- We have an Overweight on the Singapore Consumer Sector.

2019 Review

Retail spending was weak this year. Worst hit this year were discretionary items such as furniture (-8.1%) and apparel (-3.3%). September was the 8th monthly YoY contraction. The only encouragement we had is that the decline was at the weakest pace in September. Softness was partly due to slower property sales impacting furniture demand. Apparel demand we believe is structural as on-line sales take market share. Three major cosmetics and apparel brands closed (or closing) in Singapore – Sasa, Forever21 and Crabtree & Evelyn. Supermarket sales were modestly better in 2019. It was flat in 2019 against the 1.2% fall in 2018. In terms, of share price performance, the consumer sector is up 12% this year.

Outlook

We are more upbeat in the consumer sector. Wages growth is improving. 3Q19 wage growth was 4.5%, the fastest in almost six-year. The record level of FDI will be also supportive of wages in 2020. Another positive driver to consumption spending will the rise in employment. Employment rose 26,700 in 3Q19, the highest in almost 5-years.

On Thailand, consumer spending, especially by farmers, has been more resilient than expected. Government support programmes and post mourning period has provided a recovery in consumer spending.

Recommendations

We are Overweight the Consumer Sector as we expect a recovery in consumer spending in Singapore.

- **Sheng Siong (ACCUMULATE/TP: S$1.32)** is capturing market share from malls and other supermarkets (Figure 18). The record expansion in 2018/19 will be major revenue and earnings drivers for the company. The company has been able to report record-high margins over the past six years due to a higher contribution of fresh products. Sheng Siong operates with a net cash balance sheet and ROE of 25%.
- **Thai Beverage (REDUCE/TP: S$0.80)** beer business (or Sabeco) is riding on healthy consumer spending in Vietnam (Figure 21). However, any earnings contribution is weighted down by its hefty interest expenses. In FY19, interest expenses for beer division due to the acquisition of Sabeco was US$171mn. Consumer spending in Thailand is stable but off the robust pace in 1H19 (Figure 22).

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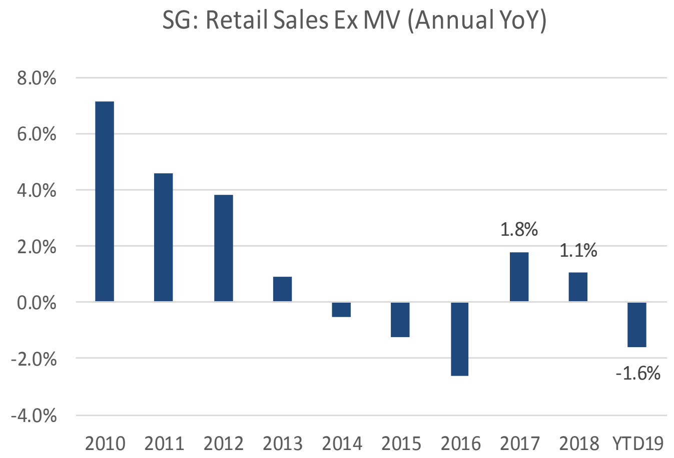
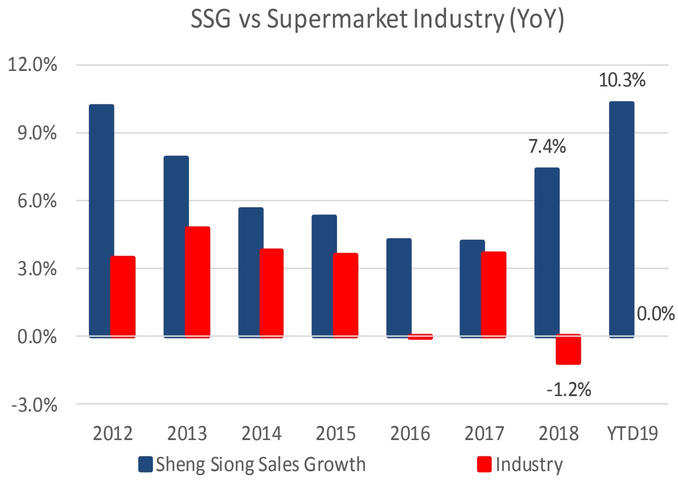
Figure 17: Retail sales weakest in 3 years.



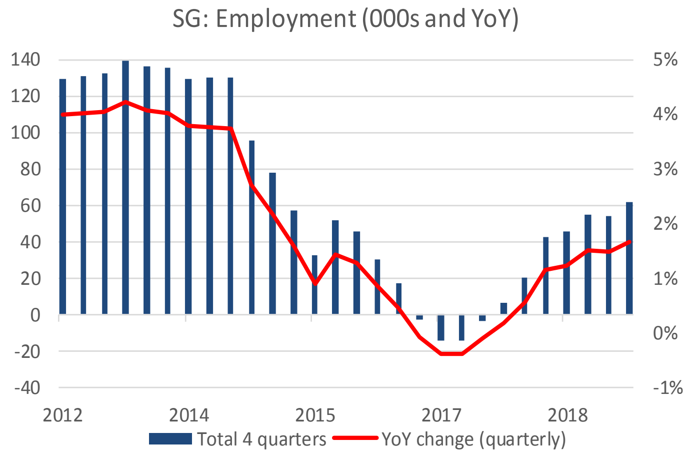
Source: CEIC, PSR

Figure 18: Sheng Siong huge market share gains.



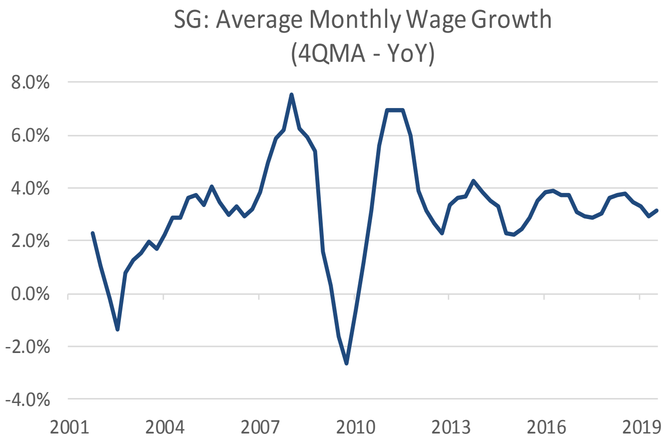
Source: Sheng Siong, CEIC, PSR

Figure 19: Employment is on the mend.



Source, CEIC, PSR

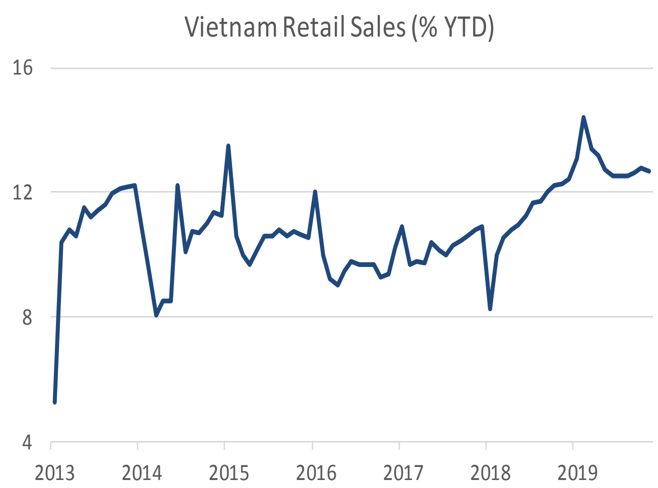
Figure 20: Wages are improving.



Source, CEIC, PSR

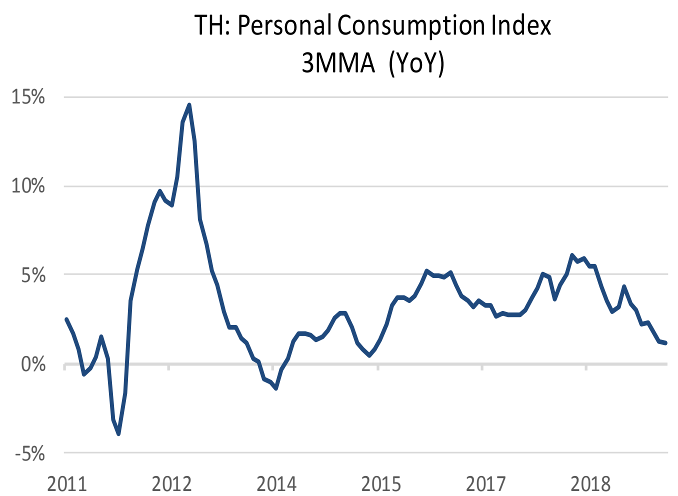
Thailand/Vietnam Consumer Tracker

Figure 21: Attractive consumer market in Vietnam.



Source: CEIC, PSR

Figure 22: Consumption spend slowing post elections.



Source: CEIC, PSR

Finance OVERWEIGHT

- Impact of Fed rate cuts on NIM to be managed by funding cost adjustments to maintain a targeted NIM spread.
- Elevated allowances expected in 2020 mainly due to general provisions as the macro environment readjusts itself to the threats of de-globalisation, protectionism and rivalry for hegemony between the U.S. and China.
- Loans growth similar levels to 2019 as business sentiments remained weighed down by global headwinds.
- Singapore banks' high exposure to Southeast Asia will benefit from inflows into the region for the medium to long term
- We maintain **OVERWEIGHT** for the Singapore Banking Sector.

2019 Review

The backdrop of the first half of 2019 had been generally positive despite the resurgence of U.S.-China trade tensions. The trio presented higher AUM growth of around 8% YoY from affluent clientele, translating to strength in wealth management fees in the first half. Wealth management fees contributed to 35-50% the banks' total fees. Trade war headwinds in the first half saw loans deferred and business confidence affected.

The second half of 2019 saw three 25bps cuts on 31 July, 18 September and 30 October. Since the first rate cut, we saw the 3M SIBOR/SOR peak at 2.00%/1.76% on 31 July before declining to decline from to 1.77%/1.54% at end November. Consequently, all three banks displayed quarterly NIM contraction in 3Q19 of -1bps/-2bps/-4bps for DBS, OCBC and UOB respectively. Southeast Asia was plagued by geopolitical issues as well while countries grapple to contain the negative impacts of slower growth. The latest Singapore bank lending update had seen the average growth in 3Q at 2.1% YoY. However, the silver lining came from strong fees income growth from wealth management, credit card fees and loan-related fees. Earnings have not disappointed.

2020 Outlook

Wealth management will flourish in tandem with Singapore banks' regional expansion. Wealth management's prominence as an earnings driver for the trio to rise as lenders focus on strengthening their customer bases and product offerings, both organically and via acquisitions. Singapore continues to deepen its hold as the leading private banking and wealth management hub, and growth will continue to accelerate as the Singapore banks piggyback along with the rise of Asian entrepreneurs building their empires. AUM growth provides greater visibility of a stable base of fee income, especially since Singapore is seen as a safer country for investors to park their wealth. Wealth management accounted for 9%, 10%, 6% of 9M19 total income for DBS, OCBC and UOB respectively (9M14: 5%, 6%, 6% for DBS, OCBC and UOB respectively).

Weaker NIM across the three big boys in 2020. With the U.S. Federal Reserve's easing monetary policy, the three banks painted a gloomy picture for NIM during the recent results briefing, guiding a 5-10bps contraction for full-year NIM in FY20. The Fed could take on more easing, should trade tensions continue beyond 2019 and into 2020, creating negative impacts on global growth. However, the impact of falling benchmark rates should be manageable with adjustments to funding costs to match the pricing charged on loans to maintain a certain spread on margins. Based on our models, every 5bps cut in NIM will impact around 3-4% of bank's PATMI.

Volatile credit costs. The risk of more pain from higher provisions could be the case moving forward as the macroeconomic environment readjusts itself to the threats of de-globalisation, protectionism and rivalry for hegemony between the U.S. and China. Credit costs will also become more volatile as the banks are now using pro-cyclical quantitative models that are sensitive to economic forecasts. This downturn could allude to the likelihood of higher provisioning for losses from loans, especially for banks with higher exposure to the Greater China region; digging into the banks' profits. Six months of domestic unrest in Hong Kong afflicted substantial pain to its tourism and retail sectors. Hong Kong accounted for 16%/13%/7% of total loans for DBS, OCBC and UOB respectively. Credit cost is guided in the range of 20-25bps for FY20. However, if the current instability in Hong Kong were to sustain, the deterioration in asset quality could be worse than expected.

Subdued loans growth. We expect business sentiments to remain clouded by geopolitical issues and deterioration in economic activity growth, but we remain optimistic on growth in the medium to long term in Southeast Asia as businesses diversify and flows intensify into the region. The banks guided loans growth of low to mid-single-digit in FY20 as compared to mid-single-digit growth expected in FY19e.

Recommendation

We maintain OVERWEIGHT on the Singapore Banking Sector. Interest income is expected to soften in its pace of growth in light of lower interest rates and subdued loans growth situation. However, the extent of these headwinds could be moderated by strengthening growth in fee income and other non-interest income from segments such as wealth management, deals and bonds. Valuations should be supported by robust capital levels and decent dividend yields of c.5% for the sector. Our top pick remains as UOB due to its (i) low exposure to Greater China and Hong Kong, (ii) low NIM sensitivity to falling interest rates, and (iii) defensive wealth management business which targets the mass affluent.

Figure 23: 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	Accumulate	48,596	11.0	10.4	10.4	1.2	1.3	1.3	4.8	4.9	11.6	13.1	12.5	25.7	27.30	6%
OCBC	Accumulate	35,757	10.6	9.9	9.8	1.1	1.1	1.0	4.6	4.7	11.0	11.3	10.7	11.0	11.70	7%
UOB	Accumulate	32,532	10.5	10.3	10.3	1.2	1.2	1.1	4.7	4.9	11.2	11.5	11.0	26.4	27.80	5%
	Market Cap Weighted Average:		**10.7**	**10.2**	**10.2**	**1.2**	**1.2**	**1.1**	**4.7**	**4.8**	**11.3**	**12.1**	**11.5**			
Indonesia																
BANK CENTRAL ASI	Non-rated	56,050	24.8	27.2	24.0	4.2	4.5	4.0	1.1	1.2	18.3	17.7	17.5	31825	na	na
BANK MANDIRI	Non-rated	24,668	13.8	12.6	11.1	1.9	1.8	1.6	3.3	3.6	14.4	14.4	15.4	7400	na	na
BANK NEGARA INDO	Non-rated	10,158	10.9	9.1	8.1	1.5	1.2	1.1	2.8	3.1	14.5	13.8	14.1	7625	na	na
BANK RAKYAT INDO	Non-rated	37,623	13.8	15.0	13.2	2.4	2.6	2.3	2.9	3.1	18.5	18.1	18.7	4270	na	na
BANK TABUNGAN NE	Non-rated	1,619	9.6	16.9	8.1	1.1	0.9	1.0	2.5	1.5	12.3	6.2	11.1	2140	na	na
	Market Cap Weighted Average:		**18.3**	**19.4**	**17.0**	**3.0**	**3.1**	**2.8**	**2.2**	**2.4**	**17.2**	**16.7**	**17.1**			
Malaysia																
AFFIN BANK BHD	Non-rated	916	8.6	7.3	7.5	0.5	0.4	0.4	2.8	3.4	5.9	5.8	5.6	1.9	na	na
ALLIANCE BANK	Non-rated	968	11.8	8.8	7.4	1.1	0.7	0.7	5.4	6.1	9.6	7.8	8.8	2.6	na	na
AMBANK HLDG BHD	Non-rated	2,809	9.1	8.1	7.8	0.8	0.6	0.6	5.4	5.7	8.8	7.9	7.8	3.9	na	na
BIMB HLDGS BHD	Non-rated	1,887	8.8	10.0	9.5	1.2	1.4	1.3	3.6	3.9	14.3	14.6	14.2	4.4	na	na
HONG LEONG BANK	Non-rated	8,897	14.6	13.1	12.3	1.5	1.3	1.2	3.1	3.2	10.8	10.3	10.3	17.0	na	na
MALAYAN BANKING	Non-rated	23,206	12.8	12.0	11.6	1.4	1.2	1.2	6.5	6.8	10.9	10.2	10.2	8.6	na	na
PUBLIC BANK BHD	Non-rated	17,809	17.1	13.3	13.0	2.3	1.7	1.6	3.7	3.8	14.3	13.1	12.7	19.0	na	na
RHB BANK BHD	Non-rated	5,538	9.2	9.5	9.0	0.9	0.9	0.9	4.3	4.4	9.9	10.0	9.8	5.7	na	na
	Market Cap Weighted Average:		**13.6**	**11.9**	**11.5**	**1.6**	**1.3**	**1.2**	**4.8**	**5.0**	**11.7**	**11.0**	**10.8**			
Thailand																
BANGKOK BANK PUB	Non-rated	9,838	11.0	8.1	7.9	0.9	0.7	0.6	4.4	4.6	8.7	8.6	8.3	155.5	na	na
BANK AYUDHYA PCL	Non-rated	7,375	11.4	7.0	7.9	1.2	0.8	0.8	3.8	3.8	10.6	12.0	10.3	30.3	na	na
KASIKORNBANK PCL	Non-rated	11,422	11.5	8.9	9.1	1.2	0.8	0.8	3.0	3.2	10.6	9.9	9.2	144.0	na	na
KIATNAKIN BANK	Non-rated	1,866	9.3	9.4	9.1	1.3	1.3	1.2	7.0	7.2	14.5	13.7	13.7	66.5	na	na
KRUNG THAI BANK	Non-rated	7,504	9.4	7.7	7.6	0.9	0.7	0.7	4.9	5.1	9.6	9.4	8.9	16.2	na	na
KRUNGTHAI CARD P	Non-rated	3,418	15.3	18.3	16.6	4.8	5.2	4.4	2.2	2.5	35.5	31.8	28.9	40.0	na	na
SIAM COMM BK PCL	Non-rated	13,449	11.3	9.3	9.9	1.2	1.0	1.0	5.0	4.9	10.8	11.2	9.9	119.5	na	na
SRISAWAD CORP PC	Non-rated	2,868	18.7	22.5	18.6	4.4	4.9	3.9	0.4	0.5	26.0	24.9	22.9	64.8	na	na
THANACHART CAPIT	Non-rated	2,098	7.4	8.3	8.1	0.9	0.9	0.8	7.0	4.9	12.3	11.5	11.1	55.3	na	na
TISCO FINANCIAL	Non-rated	2,594	9.1	10.7	10.3	1.7	2.0	1.9	7.3	7.4	19.4	18.8	18.9	97.8	na	na
TMB BANK PCL	Non-rated	4,972	8.3	8.6	8.3	1.0	0.7	0.7	4.0	4.3	12.3	7.1	8.1	1.5	na	na
	Market Cap Weighted Average:		**11.1**	**9.6**	**9.5**	**1.4**	**1.3**	**1.1**	**4.2**	**4.3**	**12.8**	**12.2**	**11.4**			

Source: Bloomberg, PSR Extracted as of 13-Dec-19

Figure 24: SGX has a higher than average dividend yield and ROE.

Stock	Currency	Last Price (Local Currency)	Market Cap (USDmn)	Forward P/E Yr 0	Forward P/E Yr 1	Forward P/E Yr 2	Forward P/B Yr 0	Forward P/B Yr 1	Forward P/B Yr 2	EV/EBITDA Yr 0	EV/EBITDA Yr 1	EV/EBITDA Yr 2	Dividend Yield (%) Yr 1	Dividend Yield (%) Yr 2	ROE (%) Yr 0	ROE (%) Yr 1	ROE (%) Yr 2
Asian Exchanges																	
SGX	SGD	9.07	7,185	21.7	24.7	22.2	8.6	8.2	7.6	16.2	16.0	15.3	3.5	3.6	39.9	36.8	35.6
BURSA MALAYSIA BHD	MYR	6.02	1,175	24.6	25.5	24.2	6.6	5.9	5.8	12.5	11.8	11.5	3.7	3.9	25.2	22.2	23.4
JAPAN EXCHANGE GROUP INC	JPY	1,972.00	9,652	21.5	23.7	22.9	3.7	NA	NA	12.0	12.1	11.6	2.6	2.6	16.7	16.2	15.2
ASX LTD	AUD	79.93	10,717	32.4	30.5	29.5	4.0	4.0	4.0	23.1	21.6	20.6	2.9	3.1	12.5	13.0	13.5
	Market Cap Weighted Average:			**25.8**	**26.6**	**25.2**	**5.1**	**3.8**	**3.6**	**17.2**	**16.6**	**15.9**	**3.0**	**3.1**	**21.3**	**20.4**	**20.0**
Large-Cap Asian Exchange																	
HKEX	HKD	252.20	40,754	30.2	33.2	30.0	7.5	7.2	6.9	7.9	7.7	7.0	2.7	3.0	22.6	22.5	23.9
US and European Exchanges																	
LONDON STOCK EXCHANGE GROUP	GBp	6,950.00	32,715	29.4	34.4	30.8	7.0	8.7	5.0	23.7	20.8	19.3	1.0	1.1	13.9	18.0	17.6
DEUTSCHE BOERSE AG	EUR	137.90	29,274	23.5	23.1	21.4	4.6	4.6	4.2	17.7	15.6	14.4	2.2	2.3	18.0	20.8	20.5
EURONEXT NV	EUR	70.00	5,475	16.2	18.7	16.5	5.7	5.3	4.5	15.1	13.9	12.4	2.5	2.9	28.2	29.4	29.2
CBOE GLOBAL MARKETS INC	USD	115.42	12,796	24.7	24.7	23.5	3.9	3.8	3.7	17.1	17.4	16.6	1.2	1.3	13.1	15.6	15.9
CME GROUP INC	USD	203.14	72,798	29.7	29.5	27.4	2.7	2.7	2.6	23.9	23.7	21.7	2.7	3.1	8.1	9.0	9.5
NASDAQ INC	USD	104.13	17,068	18.6	20.9	19.3	3.2	3.1	2.9	15.6	15.5	14.6	1.8	1.9	9.6	14.8	15.8
INTERCONTINENTAL EXCHANGE IN	USD	90.72	50,517	22.8	23.2	21.4	2.9	2.9	2.8	17.0	17.2	16.3	1.2	1.3	12.3	12.2	12.7
	Market Cap Weighted Average:			**25.8**	**26.7**	**24.6**	**3.8**	**4.1**	**3.4**	**20.2**	**19.5**	**18.1**	**1.9**	**2.1**	**12.2**	**14.0**	**14.2**

Source: Bloomberg, PSR Extracted as of: 13-Dec-19

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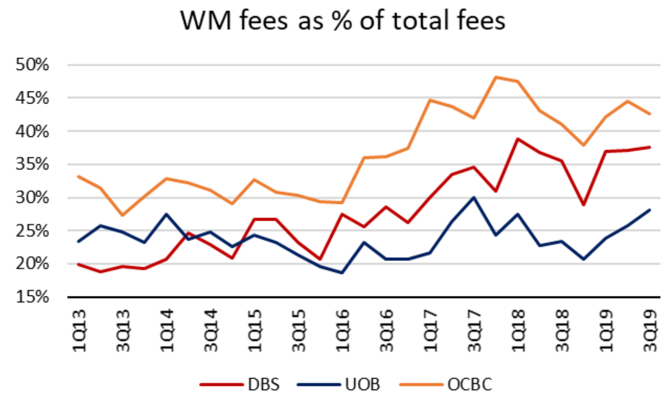
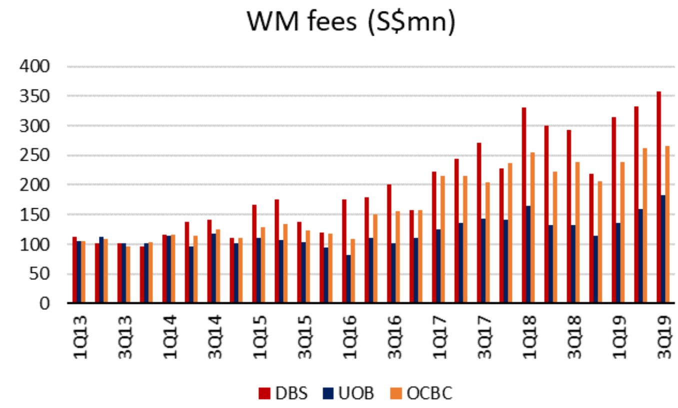
Figure 25: Rising fee contribution from wealth management.



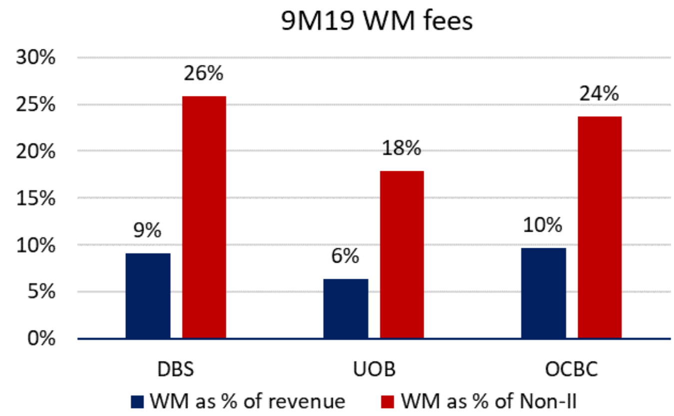
Source: Companies, PSR

Figure 26: DBS and OCBC have a larger wealth managment franchise.



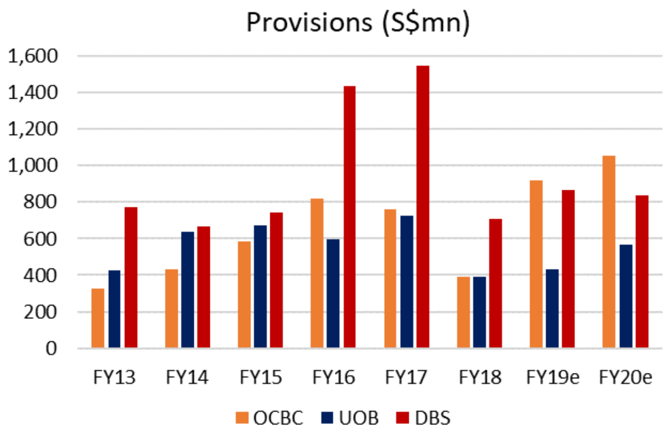
Source: Companies, PSR

Figure 27: WM contributes an average 8.4%/22.3% to total revenues/non-II for DBS, UOB and OCBC.



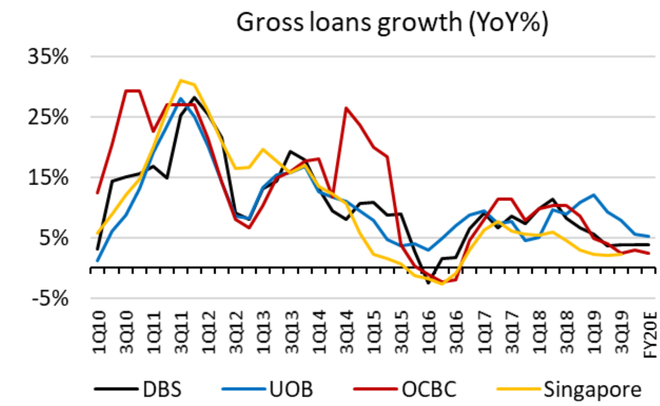
Source: Companies, PSR

Figure 28: Macroeconomic headwinds likely to lead to higher provisioning in FY20.



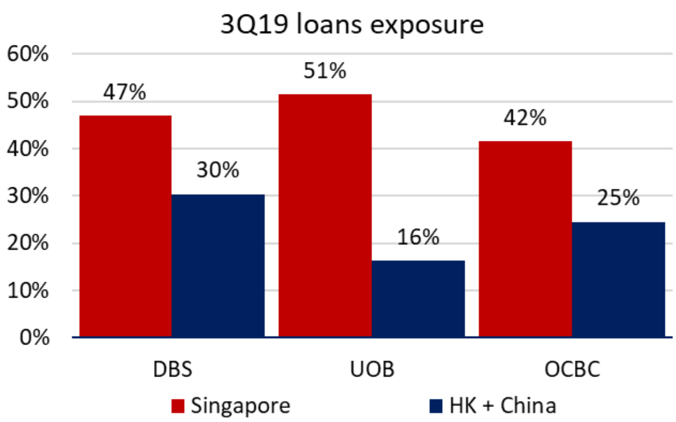
Source: Companies, PSR

Figure 29: Loans growth expected to moderate to low to mid-single-digit in FY20.



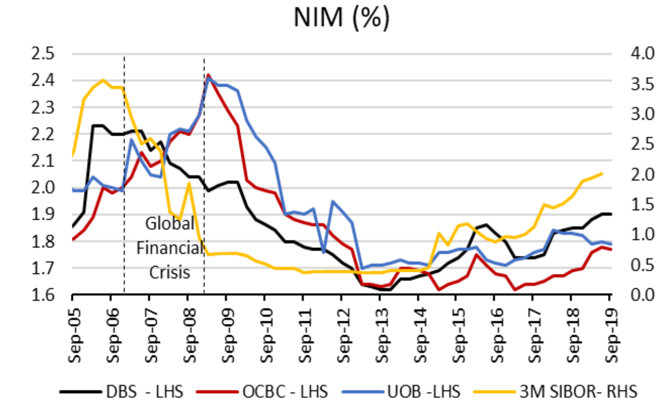
Source: Companies, PSR

Figure 30: UOB has the lowest loans exposure to Greater China and Hong Kong.



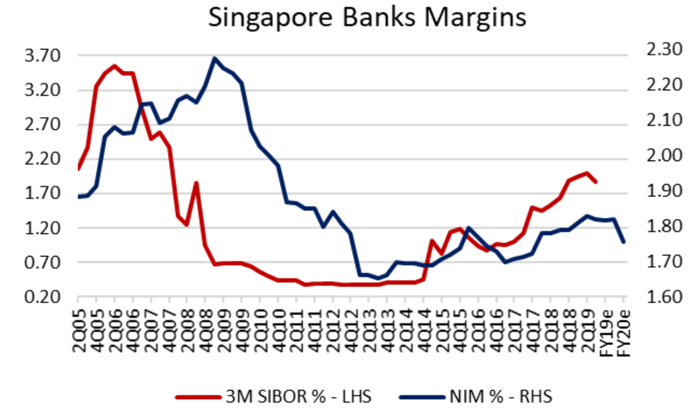
Source: Companies, PSR

Figure 31: NIM contracting in line with falling interest rates.



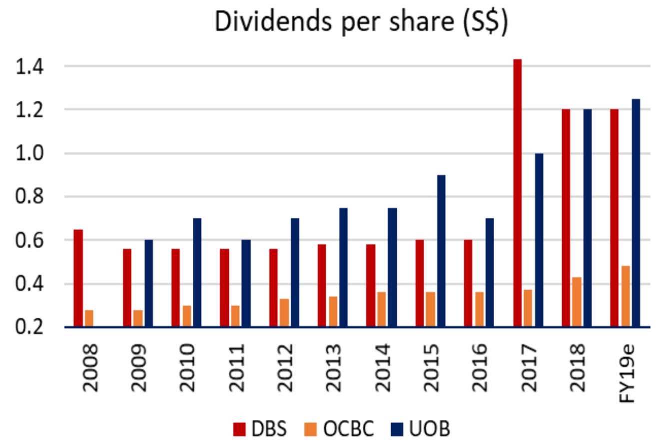
Source: CEIC, Bloomberg, PSR

Figure 32: We forecast NIM to contract an average of 6bps in FY20.



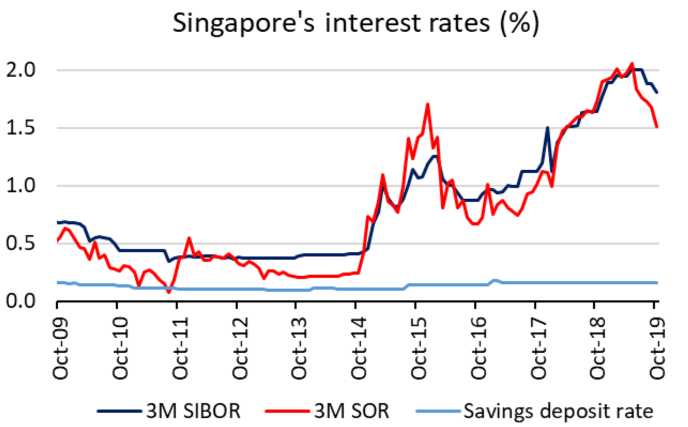
Source: CEIC, PSR

Figure 33: The sector has a dividend yield support of c.5%.



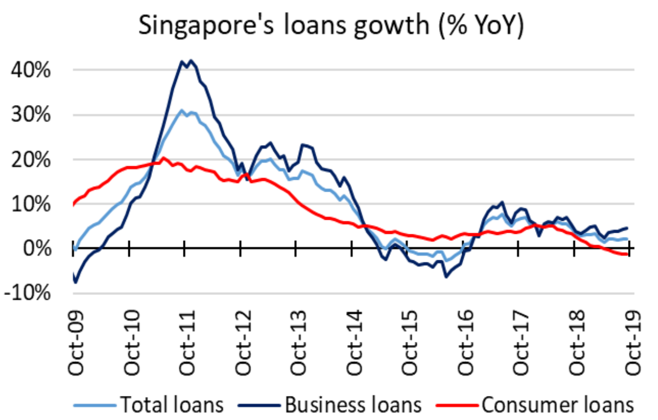
Source: Companies, PSR

Figure 34: 3-month SIBOR and SOR fell 8bps and 4bps YTD as of end October.



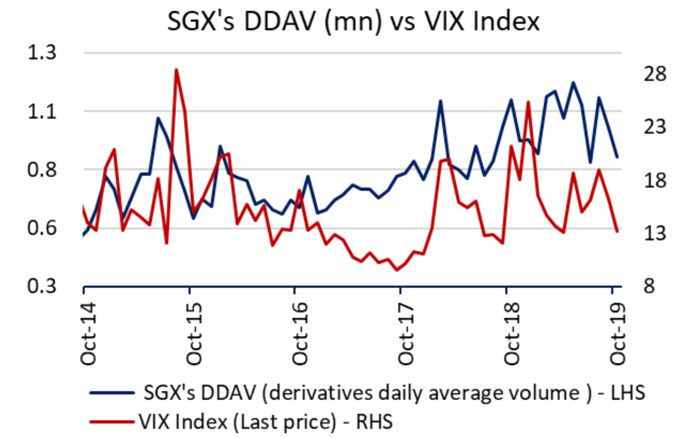
Source: CEIC, PSR

Figure 35: Singapore's loans growth holding steady at 2% YoY since March 2019.



Source: MAS, PSR

Figure 36: October saw lower volatility as compared to the two most volatile months (May and August) this year.



Source: CEIC, PSR

Healthcare NEUTRAL

- Long-term structural drivers such (i) rapidly ageing population; (ii) longer life expectancy; and (iii) rise of lifestyle diseases; remain intact.
- Ability to contain gestational costs according to plan will be crucial in determining the earnings growth of such healthcare companies in the near term.
- Private healthcare sector not sheltered from macroeconomic headwinds where patients may seek out public healthcare for more affordable treatments.
- We maintain the Healthcare Sector at **NEUTRAL**.

2019 Review

While the healthcare sector is generally classified as a defensive sector, the private healthcare sector, on the contrary, is somewhat exposed to macroeconomic headwinds. Factors such as rising costs of living, unemployment and interest rates affect patient's spending power. In times of economic slowdowns, patients may seek out public healthcare for more affordable treatments. The medical tourism scene in Singapore has lost its shine due to the increasing availability of stronger medical capabilities in regional rivals as well as the strengthening Singapore dollar eroding Singapore's price competitiveness. The public sector is also encroaching into medical tourism. On the bright side, the contraction in medical tourism growth seemed to have hit the bottom and has been stabilising for the past year. With China opening up their markets, many healthcare companies have begun expanding into China; and while the massive population size of China seems promising for patient volumes, the healthcare operating environment is extremely regulated and it is uncertain how much time foreign companies would need to stabilise their operations. Thus, the ability to contain gestational costs according to plan will be crucial in determining the earnings growth of such healthcare companies in the near term.

2020 Outlook

Demand for healthcare in Singapore as well as Asia will continue to expand. Long-term structural drivers such as the trifecta listed below - remain intact.

1. **Increasing demand led by a rapidly ageing population.** There are now more than 668 million people over the age of 65, making up 11.6 per cent of the world's population. By 2025, this group is expected to make up a third of a world population that is one billion people larger. As the global population ages, health conditions linked to ageing will drive demand for more and better healthcare services.

2. **Longer life expectancy**. With medical advancements and improved standard of living, life expectancy is only set to increase. The Singapore Department of Statistics forecasts that between 2018 and 2030, the proportion of Singapore residents who are over 65 years is expected to rise from 13% to 27%. With longer longevity, healthcare expenditure will continue increasing. Singapore's annual healthcare expenditure is expected to increase to S$13bn in 2020 from S$9.8bn in 2016, according to projections from the Ministry of Finance.

3. **Rise of lifestyle diseases**. While the medical advancements are adequate in treating communicable diseases, the challenge now is to treat non-communicable diseases such as cancer, heart diseases and diabetes. Even though life expectancy is increasing, that does not mean we are always in good health. In a recent budget speech, the Minister of Health highlighted the rising prevalence of chronic illness due to ageing and unhealthy lifestyle. From 2010 to 2017, diabetes has increased 4%, hypertension up 14% and hyperlipidaemia jumped 33%. More elderly in Singapore are suffering from chronic diseases today as compared to a decade ago.

Singapore's healthcare expenditure continues to increase but competition will be intense especially from the public sector. For instance, government expenditure on health has more than doubled from S$3.9bn in 2010 to S$9.3bn in 2016. The government has built seven hospitals since 2010, raised patient subsidies while expanding clinic services and capacity to meet growing healthcare demand as the population ages. The government has also estimated that Singapore's average annual healthcare spending will increase to almost 3% of gross domestic product (GDP) over the next decade from 2.2% currently, reflecting a gain of nearly 0.8 percentage point of GDP. The private healthcare space will benefit from a certain level of spillover from these additional healthcare stimulants from the government.

Recommendation

We maintain the Singapore Healthcare Sector at **NEUTRAL.** We are positive on the long-term outlook but potential macroeconomic headwinds and gestation costs will put a dampener on near-term growth potential.

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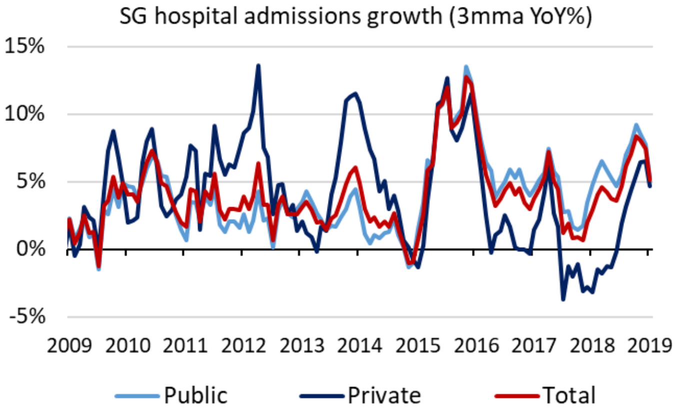
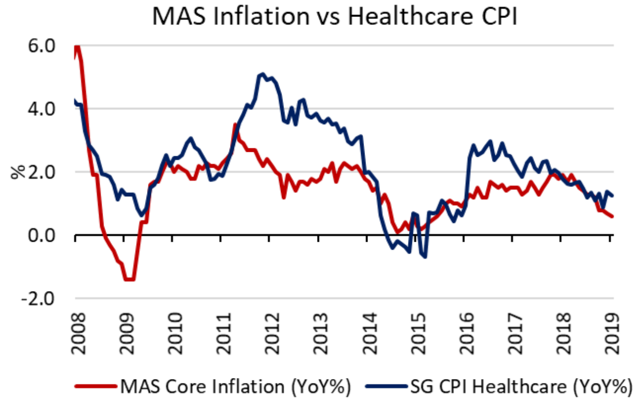
Figure 37: Private healthcare pressured by weak medical tourism as well as competition from public healthcare.



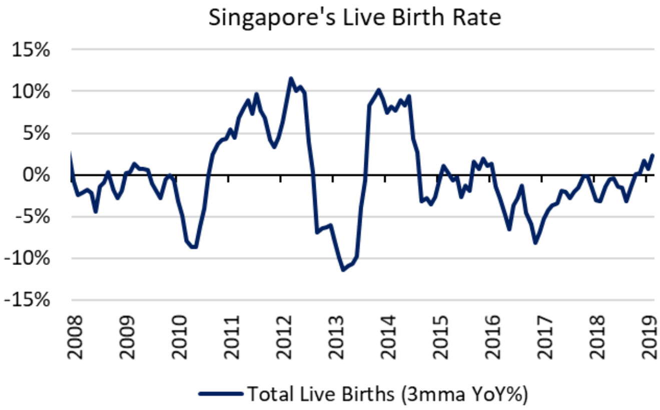
Source: CEIC, PSR

Figure 38: Guidelines were published by the Singapore government to manage healthcare cost inflation.



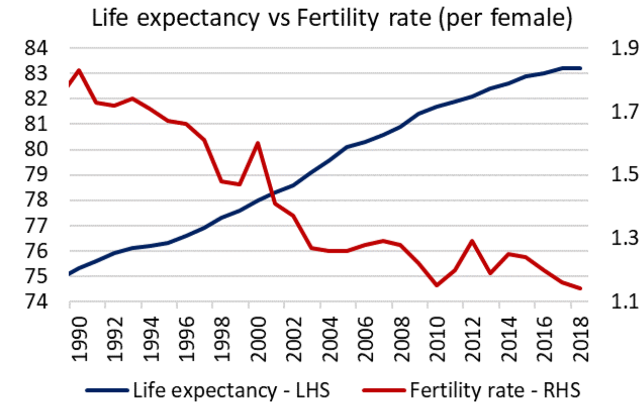
Source: CEIC, PSR

Figure 39: Singapore's birth rate is recovering.



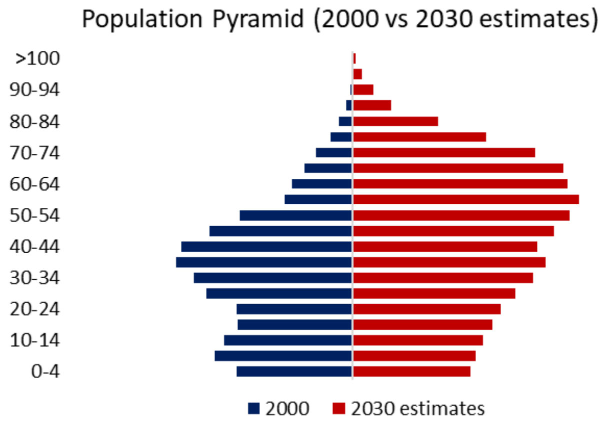
Source: CEIC, PSR

Figure 40: Fertility rate has been gradually declining over the decades and is around 1.20 in recent years.



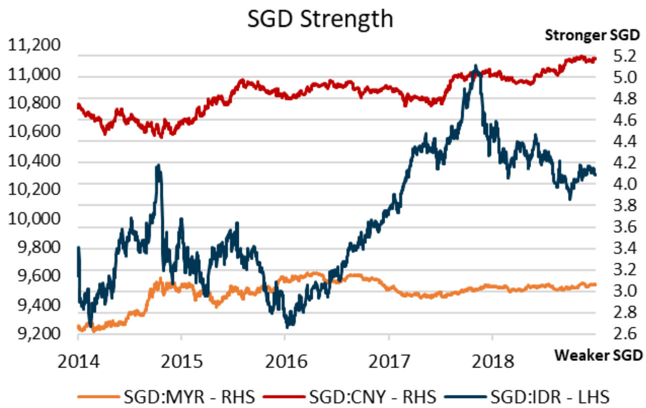
Source: CEIC, PSR

Figure 41: In the future, there will be fewer working adults to support each resident aged >65 years.



Source: CEIC, PSR

Figure 42: Medical tourism largely stable, helped by the recovery of IDR against SGD since record-low in late 2018.



Source: CEIC, PSR

Property Developers — NEUTRAL

- Singapore developers' share recorded a total return of 12.1% YTD with the price index up 2.1% YoY despite the July 2018 cooling measures and subsequent minimum unit size guidelines announced in October 2018.
- We expect the pace of transactions to slow and developers to cut their margin expectations.
- We maintain a **NEUTRAL** outlook on the Property Developers sector, with selective picks on diversified players such as CapitaLand.

2018 Review

We entered 2019 apprehensive about the pronounced c.18,000 units slated to come onto the market - on the back of the July 2018 cooling measures. In spite of the cooling measures, the URA property price index climbed 2.1% and the 9,119 units launched YTD-October clocked a respectable 80% take-up rate, albeit slightly lower than 2018 take-up rate of 94%. The take-up rate for 2019 looks to surpass 2018's figures with YTD9M19's take up rate of 7,312 forming 85% of the average take up in 2017 and 2018. The 33,269 supply in the pipeline and the ABSD's five year sell-by date has property developers under pressure. Frasers Property Limited took a S$9.35mn write-down on net realisable value of properties held for sale to allow for more marketing initiaives while CDL's CEO hopes for the ABSD timeline to be lengthened to allow developers to stagger sales launches to ensure a better-matched supply and demand.

Outlook

Faced with 33,269 units in the construction pipeline versus an average annual demand of 9.4k units, the outlook for the property market looks challenging with developers elbowing among themselves to roll out their launches early, especially in locations with multiple developments. We expect many developers may have to swallow thinner margins. The URA has kept the land supply low with 6,430 units to be launched for 1H20, a twelve-year low, with 1,715 units (26.7% of the GLS units) on the confirmed list. This figure is low compared to the historical semiannual three-year average on confirmed list of 2,535 units. Re-rating catalyst could come from better than projected sell-through rate or increased capital management activities such as capital recycling.

Recommendation

We maintain our NEUTRAL view on the SG Property Developers sector, with the following stock pick in mind.

- **CapitaLand (ACCUMULATE, TP $4.20).** We like CapitaLand for its increasingly recurrent earnings and ability to tap on external capital to grow its fund management and lodging platforms. CAPL's portfolio has been grounded on healthy operating metrics, from occupancy to visitor arrivals/tenant sales, NPI driven revaluation gains and active capital recycling through the divestment of non-core assets.

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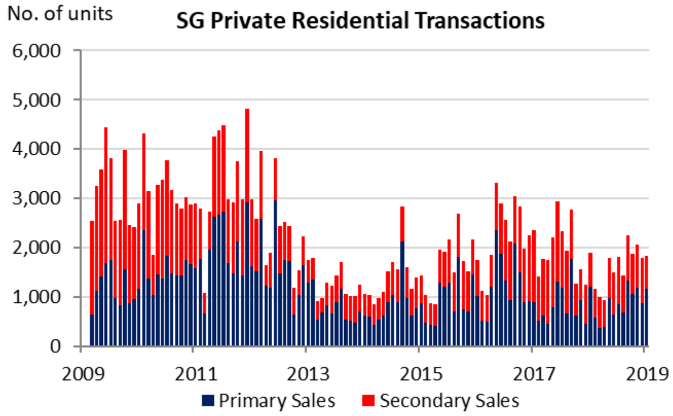
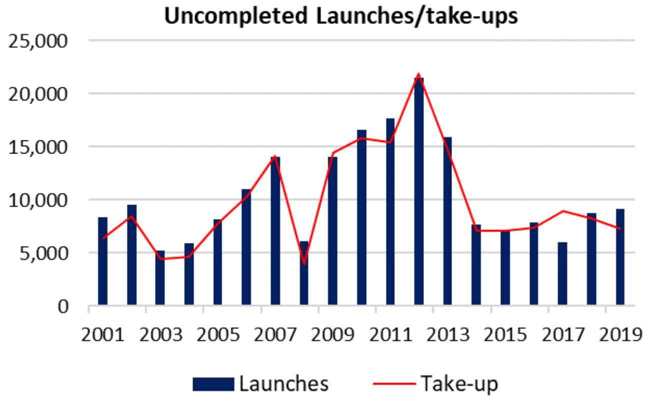
Figure 43: Pace of transactions picked up speed following July 2018 property cooling measures.



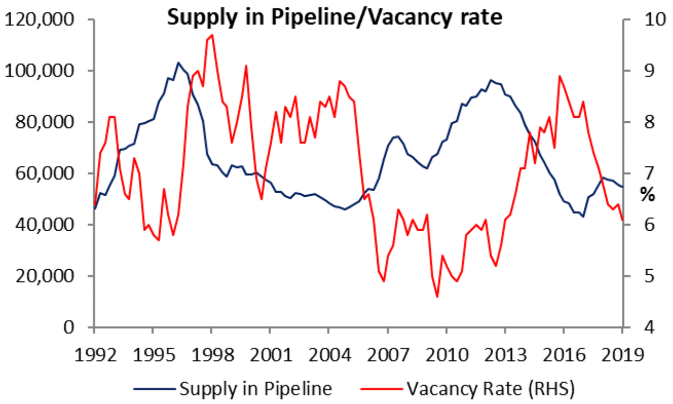
Source: CEIC, URA, PSR

Figure 44: Slower but still-healthy absorption of new launches.



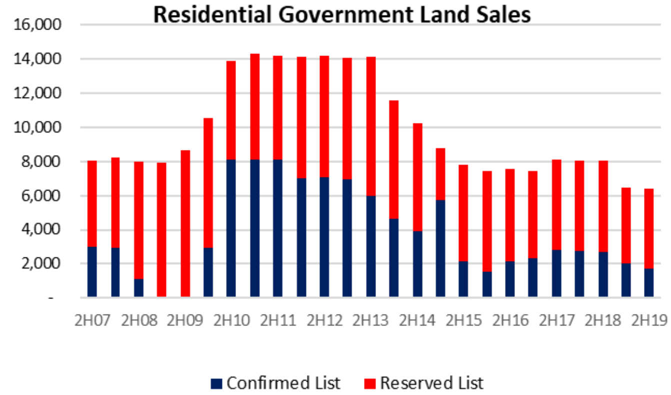
Source: CEIC, URA, PSR

Figure 45: Supply currently at 2.6x average annual demand post TDSR (2013-17) – as compared to 4.4x in 2013.



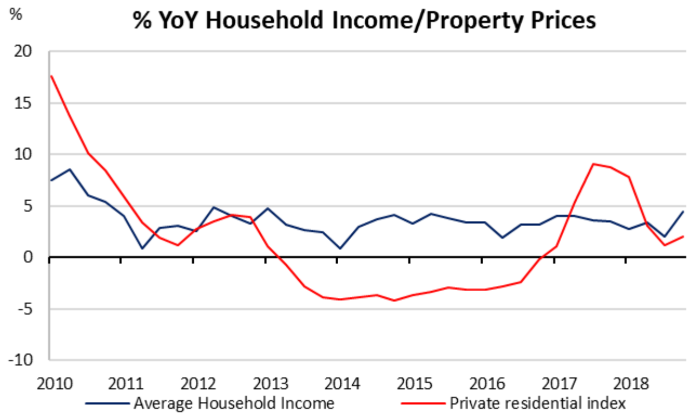
Source: CEIC, URA, PSR

Figure 46: Lowest residential GLS level since 2007.



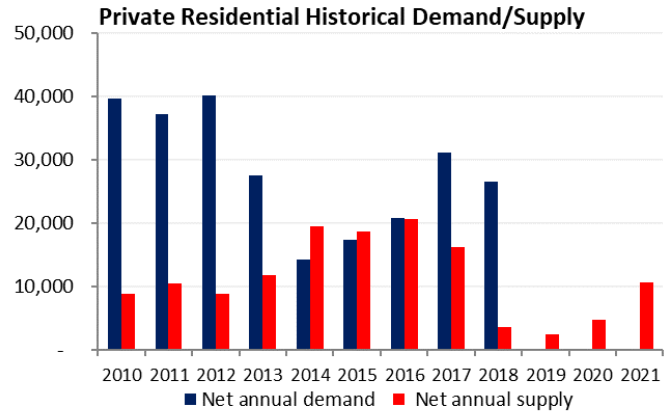
Source: URA, PSR

Figure 47: A measure of affordability of homes, average household income has not kept pace with property prices.



Source: CEIC, URA, PSR

Figure 48: 2019 completions will add considerably to upcoming pipeline.



Source: CEIC, PSR

Property Agencies — OVERWEIGHT

- Post cooling measures, transaction volumes collapsed but 40% of commission revenues were insulated.
- Recovery is underway for new launches but the secondary market is still weak, down 35% this year.
- We are **OVERWEIGHT** the sector as we expect a strong recovery in volume in 2020 driven by at least 44 new property launches, resilient rental market and rebound in HDB transaction following the additional government grant.

2019 Review

It was a tough 2019 for real estate agencies. Total private residential transition is down 18% YTD11/19. Of the four revenue segments for agencies, rental was the strongest (Figure 54), HDB resale was resilient, new launches is beginning to recover and private resale collapsed. Around 40% of the business from HDB and rental was not impacted by the cooling measures. Private resale is down 35% YTD11/19. However, volumes from new launches started to recover in 3Q19, with a jump of 10% YoY. YTD11/19, volumes from new launches are up 6%. An interesting phenomenon this year has been the roll-over of options issued to buyers by developers. To avoid the hefty 12% stamp duty (citizens purchasing the second unit), many purchasers or upgraders need to complete the sale of their home before purchasing the new unit. Despite the availability of a refund, the duty remains a hefty amount.

Outlook

2020 will be a growth year for real estate agencies. The three areas of growth will come from (i) New launches - we expect another significant year of new launches. There is an expected 44 new launches planned in 2020; (ii) Rental - rental commission had been a growth driver for the agencies due to low vacancy rate and limited completed supply; (iii) HDB – the increase in income ceiling eligibility plus additional government grant by as much as S$40,000 for purchase of resale units, will be a positive for secondary transactions. Another boost to HDB transactions will be the expected 25,000 to 30,000 of unit eligible for sale after the five-year minimum occupation period (Figure 52). The challenge will come from private residential resale market. Transactions have been sluggish as bid and ask prices remain wide. There is basically no urgency on either side to transact.

Recommendation

We are OVERWEIGHT on the sector, with the following stock picks in mind.

- **PropNex (BUY, TP $0.59).** Market share in new property transactions continues to climb (Figure 55). PropNex has performed well in new launches with its more aggressive and targeted sales process. We like PropNex for the attractive dividend yield (~7%), net cash balance (S$75mn net cash), impressive market share and high return on equity.
- **APAC Realty (ACCUMULATE, TP $0.55).** Improvement in property transactions and turnaround in their rental income will be positive for the company.

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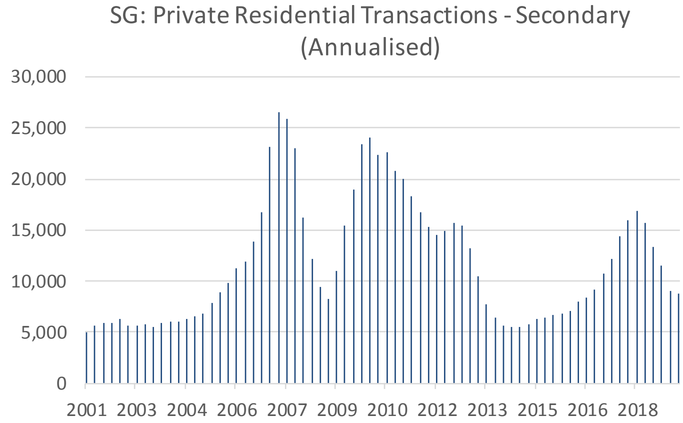
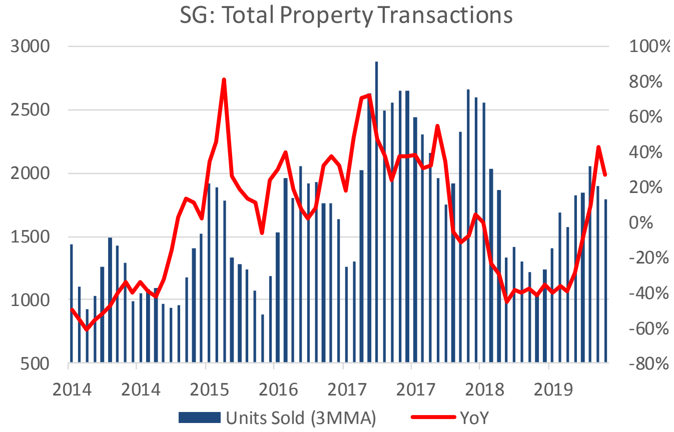
Figure 49: Secondary transaction down 40% in YTD3Q19.



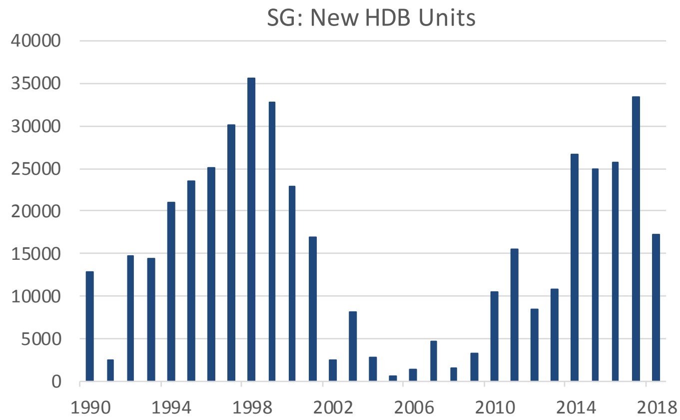
Source: CEIC, URA, PSR

Figure 50: Recovery in total transactions.



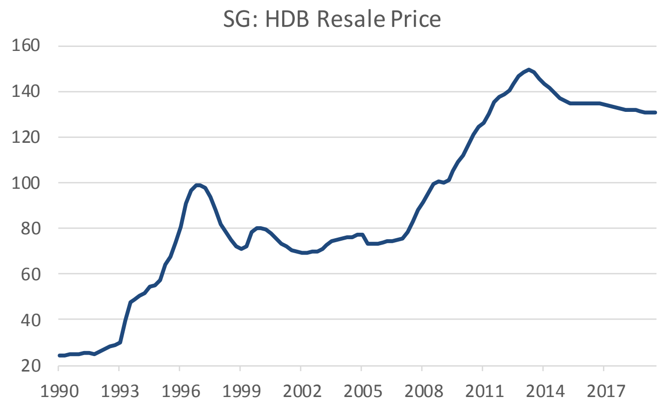
Source: Realis, PSR

Figure 51: 25-30k units available for sale post MOP.



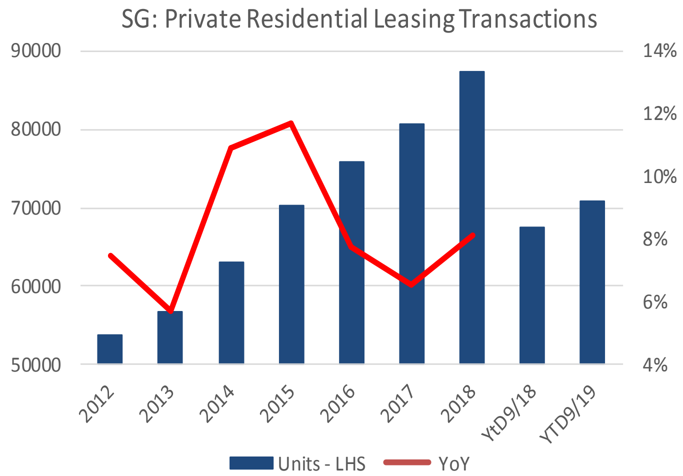
Source: CEIC, URA, PSR

Figure 52: Less equity available for HDB upgraders.



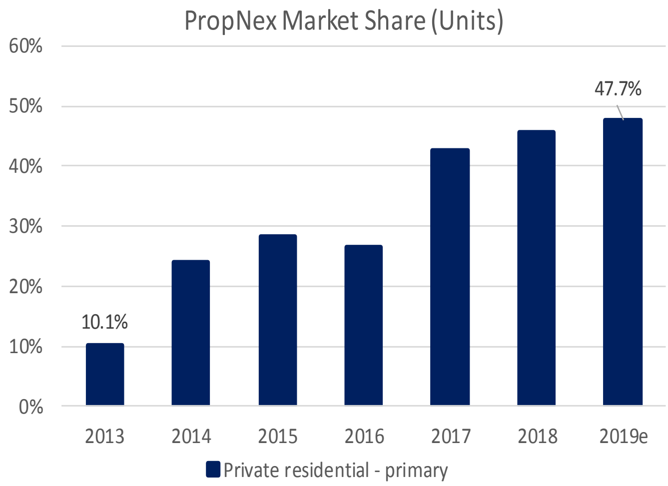
Source: URA, PSR

Figure 53: Still grew in 2019 due to low vacancy rates.



Source: URA, PSR, APAC Realty

Figure 54: Huge consolidation in the industry.



Source: PropNex, PSR

Real Estate Investment Trusts (REITs) NEUTRAL

- FTSE S-REIT total returns gained 26.2% YTD. Strong showing across all sub-sectors, with Keppel DC REIT being the top performer (+61.2% YTD) and Soilbuild Business Space REIT being the worst performer (-2.7% YTD).
- Sector yield spread of 276bps over the benchmark 10-year SGS (10YSGS) yield remains close to the -1 standard deviation level.
- 2019 saw three rate cuts from the Fed totalling 75 basis point to 1.75% with SOR seeing a similar fall of 48 basis points The Fed's dot plot median projections expect the Fed rate to be maintain, to end at 1.625%.
- We maintain our **NEUTRAL** rating on the S-REITs sector, with selective sub-sector preferences on Office and Hospitality.

2019 Review

We entered 2019 with the market anticipating two FED rate hikes, but instead saw three FED rate cuts. The lower interest rate environment was conducive for REITs; the FTSE REIT Index (FSTREI) total return was up 25% YTD-Dec, outstripping the returns on the STI (11%) and FTSE Real Estate Index (FSTREH) (7.5%).

2019 was an active year for the S-REITs sector. We saw the listing of four REITs, raising a total of S$3.0bn, as well as three mergers (one of which is still pending shareholder approval). The lower cost of borrowings made acquisitions more accretive for S-REITs, correspondingly, S-REITs raised a record S$9.5bn in equity in 2019 (2018: S$4.8bn), making up 90% of the total capital raised on the SGX. Including debt instruments and loan facilities, the amount raised by REITs was S$20.2bn. We also saw the inclusion of FLT, FCT, KDC and Manulife US REIT into the EPRA NAREIT Global Developed Index as well as MCT and MLT into the STI.

S-REIT sponsors were instrumental in the driving the performance of REITS; sponsors enabled REITs to grow through sizable portfolio divestments to REITs, as well as teaming up with REITs to jointly acquire assets or embark on redevelopment projects. Sponsor-related transactions account for the larger-quantum transactions - MIT (S$1,900bn for thirteen DC assets), MCT (S$1,580mn for MBC Phase II), FCT (S$864mn for 40% stake in WWP and PGIM), FLT (S$612mn for twelve logistic assets), KDC (S$599mn for KDC4 and 1NN) and CRCT (S$505mn for three malls in China).

Retail – Retail rents and occupancy held steady despite a weak retail sector outlook. Fringe retail assets appear to be more sought after, trading higher YoY and showing clear outperformance over its central counterparts which recorded lower sales prices. Retail REITs under our coverage (FCT and CMT) managed to squeeze out positive rental reversions in the low single digits. 172k sqm (2.8%) increase in retail supply (Funan, Jewel and Paya Lebar Quarter) was well absorbed.
Office – Office rents slowed their ascend while occupancy increased 150bps. Demand was seen from the consultancy, technology and financial services segments.
Industrial – Occupancy registered a meagre 0.2ppt increase while industrial rents remained flat. The industrial sector was the most active with acquisition and redevelopments. REITs with large-sponsor backing pencilled in total returns of 27.7% to 61.32%. MIT and AREIT have embarked on redevelopment projects to reposition some of their light industrial properties to hi-tech assets which commanded higher rents.
Hospitality – Despite little supply coming onto the market, a gloomy economic outlook and absence of biennial events in 1H19 weighed on the hopitality market. Stronger performance in the first four months of 2H19 reversed the sluggish performance and eked out a 1.2% YoY increase in RevPAR YTD-9M19. Pureplay Singapore REITs did not perform as well as compared to REITs with diversified portfolios.

Outlook

With interest rates anticipated to remain at current levels, we expect acquisitions and fund raising activities to continue, albeit at a more measured pace. We will likely see more acquisitions from REITs with large sponsors (CapitaLand, Frasers, Mapletree) as sponsors recycle capital. Two themes have emerged – the search for yield overseas and scale play. Given the tight cap rates, REITs have started look abroad for acquisitions, while scale will bestow enlarged REITs a wider investible universe and larger debt headroom for development.

Retail (NEUTRAL) – Muted supply (c.70k sqm) coming onto the market in 2020 and 2021 should help to support rents and occupancies. We expect malls operating under larger brands to perform well due to their active tenant management and efforts to build customer and tenant stickiness (e.g. loyalty programs).
Office (OVERWEIGHT) – Given the three-year lease renewal cycle and the rental index being above rental index approximately three years ago, positive rental reversions of c.5% to 10% are expected for SREIT's Singapore portfolio. Tapering average supply of 0.8mn sq ft is expected to come onto the market over the next three years which is 20% below the historical three-year average supply of 1.0mn sqft, which should help to prop up occupancy levels and support rents.

Industrial (NEUTRAL) – 1.9mn sqm of space (3.8%) of current industrial stock is slated to come onto the market, with the bulk of it (1.3mn sqm) coming from the light industrial segment. Among the industrial asset classes, hi-tech/hi-spec assets and data centres remain the most resilient. Tepid industrial activity is keeping our expectation tempered.
Hospitality (OVERWEIGHT) – New supply of hotel rooms is tailing off. As seen from the deceleration from 5.3% (three-year CAGR between 2014-2017), to 1.3% at the present (2017-2020). With 2020 being a biennial year, we expect the hospitality sector to benefit from the increase in the pick-up in international tourist arrivals.

Recommendation

We maintain our NEUTRAL rating on the S-REITs sector, with selective sub-sector preferences on Office and Hospitality. Our most preferred sub-sectors are Office and Hospitality due to the respective factors of robust demand and tapering supply. Our least preferred sub-sector is Retail due to falling tenant sales despite higher footfalls, and having the least favourable demand-supply conditions compared to all other sub-sectors. Our key recommendation are:

- **Frasers Centrepoint Trust (ACCUMULATE, TP $3.11)**
- **Ascendas REIT (ACCUMULATE, TP $3.25)**
- **Ascott Residence Trust (ACCUMULATE, TP $1.36)**

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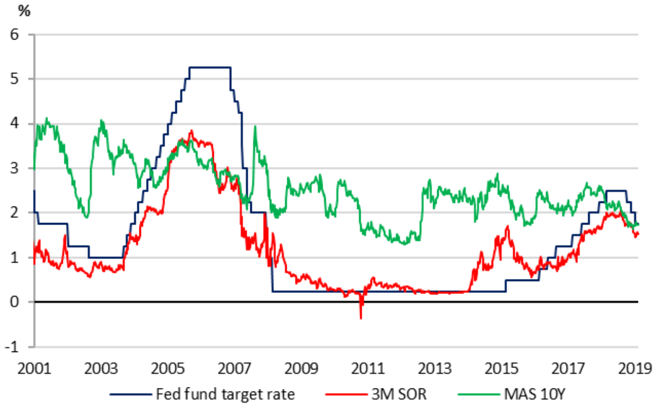
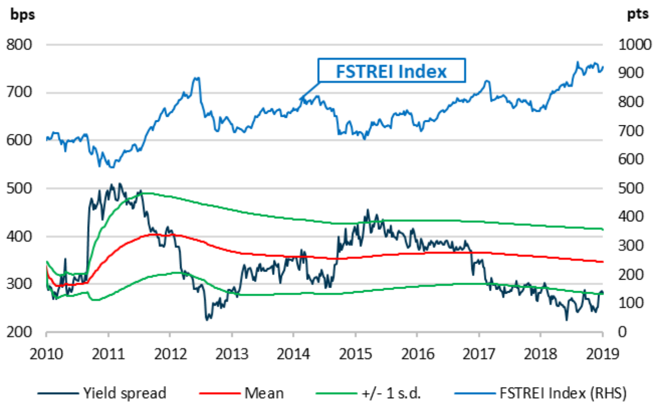
Figure 55: Borrowing base-rate has tracked the Fed Funds Target.



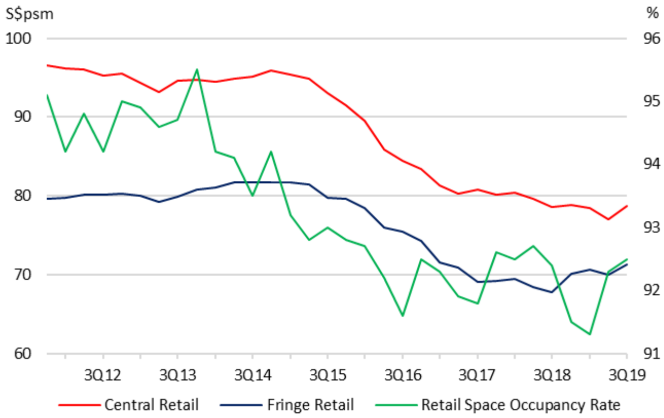
Source: Bloomberg, PSR

Figure 56: S-REIT Index yield spread expensive at -1s.d level.



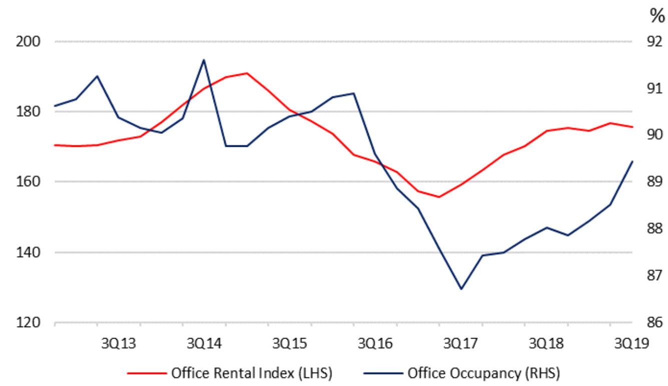
Source: Bloomberg, PSR

Figure 57: Retail – Absorbing supply well despite weak retail outlook.



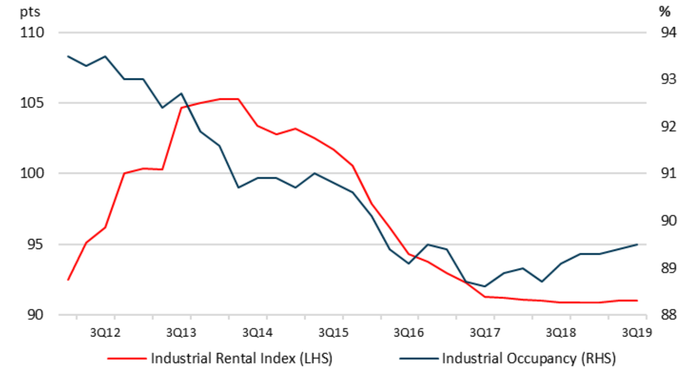
Source: CEIC, PSR

Figure 58: Office - Strong demand underscoring rental recovery.



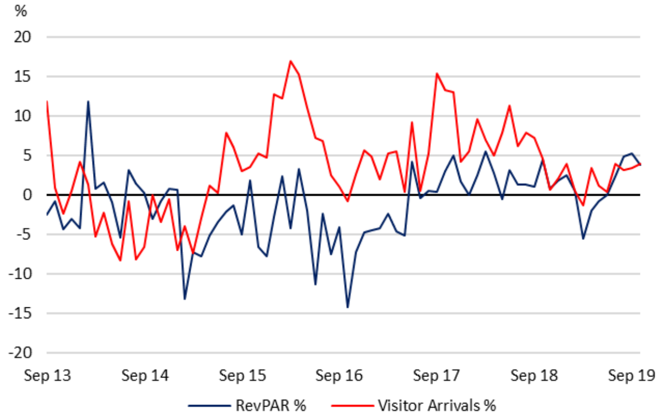
Source: CEIC, PSR

Figure 59: Industrial: Rents holding steady while occupancy improved admist slow leasing activity.



Source: CEIC, PSR

Figure 60: Hospitality: Recovery in visitor arrivals and RevPARs.



Source: CEIC, PSR

Technology (Hardware) OVERWEIGHT

- Deployment of 5G will boost equipment builders and accelerate the replacement cycle for smartphones.
- Expect automotive to be a key driver of electronics demand despite weak global sales.
- Strong semiconductor activities to support growth themes.
- Secular growth in aerospace supply chain with order book backlog of more than 10 years.
- Maintain **Overweight** in the Technology sector in Singapore.

2019 Review

The global electronics supply chain suffered a tailspin when the trade war between the US and China escalated. Companies reduced inventory levels, held back plans to expand capacity and delayed new product launches. The effects of the trade war were not entirely negative. Southeast Asia (SEA) was a key beneficiary of the trade tensions, we observed a major shift in the electronics supply chain from China into SEA; as evident from the massive surge in Malaysia's electronics investments approval. The automotive sector which was the darling for growth, disappointed as global sales plummeted and with forecasts set to decline by 3.1mn units; similar to the global financial crisis (Figure 65). Ridesharing alternatives and expiration of tax incentives, coupled with new emission standards in China contributed to the weakness in the automotive sector. 2019 was a brutal year for semiconductors particularly due to the buildup of inventory, resulting in an oversupply of DRAM and NAND memory chips. There was also a lacklustre demand coming from data centres and declining phone sales, further exacerbated by trade war uncertainties. Nevertheless, we observed a late 2019 recovery led by NAND chips due to increasing average bits per box for both smartphones and personal computers. We attribute the recovery of the broader semiconductor sector to improving trade tensions and the strong demand for 5G related technologies and data centres.

Outlook

We have identified 5 areas of growth for the Singapore technology manufacturing sector in 2020: (i) Transition to 5G technology to accelerate smartphone replacement and 5G network equipment demand; (ii) Increasing electronics components in automobiles to make them smarter, safer and more energy-efficient; (iii) Consumer electronics Internet of Things (IoT); (iv) 10-year order backlog in aerospace; and (v) Buoyant semiconductor activities to support growth themes.

5G: 2020 is the year of global 5G roll-out which is undeniably the largest growth driver for the sector. The deployment of 5G is expected to push the eight largest telco's CAPEX to S$140bn (Figure 63). The availability of a 5G network will lead to a slew of smartphone replacement as consumers are given a reason to upgrade in order to enjoy a faster and superior wireless network. Apple recently forecasted 100mn units of iPhone 12 (5G enabled) shipments globally, an increase from 80mn units for its iPhone 11 series. This could benefit Hi-P International, as we can expect a revenue boost from additional orders from Apple.

Automotive: Due to tighter emissions regulation globally, we anticipate a higher penetration rate of hybrid and electric cars. We expect conventional cars to also adopt more electronics from infotainment, telematics and in-car connectivity. Cars will become smarter, safer and more energy-efficient. Companies like Avi-Tech could benefit from the increased number of tests needed for electronic components, especially for critical applications.

Consumer electronics. We expect smart TVs, 3D programming, video-on-demand content, large displays, and curved OLEDs to drive demand in the consumer electronics space. We also expect demand for gaming technology, set-up boxes and wearables to be strong.

Aerospace: We believe that the industry growth rate will sustain at a CAGR of 4.4% between 2018 to 2037. Low penetration of air travel in emerging economies and a booming middle-class will drive growth. Commercial aircraft deliveries currently have a 10-year backlog of orders (Figure 66).

Semiconductor: We expect the sector to be buoyant to support the various growth themes. In addition, we reckon that the data centre business is recovering in both cloud applications from hyperscale clients and enterprise demand from increasing AI workloads. The increased activities would give rise to the need for new semiconductor equipment at the foundry level, this will ultimately benefit equipment makers such as UMS Holdings.

Recommendations

Venture: (i) To benefit from supply chain disruption through customer and project wins; (ii) Robust balance sheet allows for dividend growth visibility; (iii) Margins may come under pressure; and (iv) Attractive entry point. **Maintain BUY with an unchanged target price of S$17.18.**

JEP: (i) Secular growth of the aerospace industry; (ii) Internal restructuring to shift more production into Malaysia (iii) Streamline cost and secure more customer. **Our target price and recommendation are under review.**

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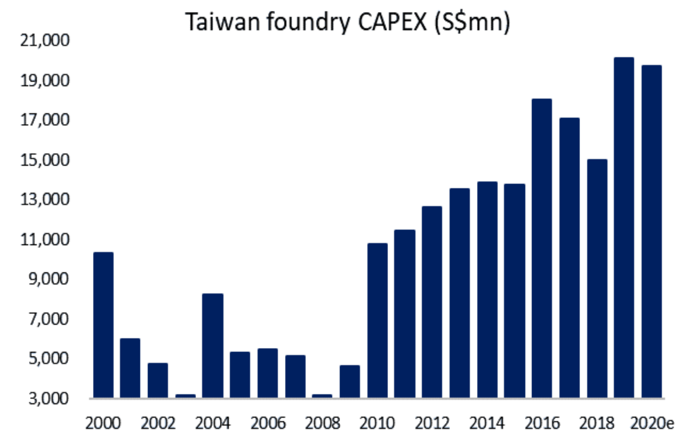
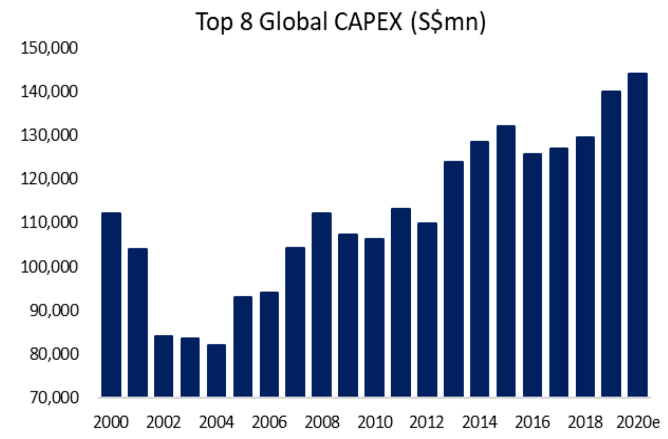
Figure 61: CAPEX to surge by 34% in 2019e.



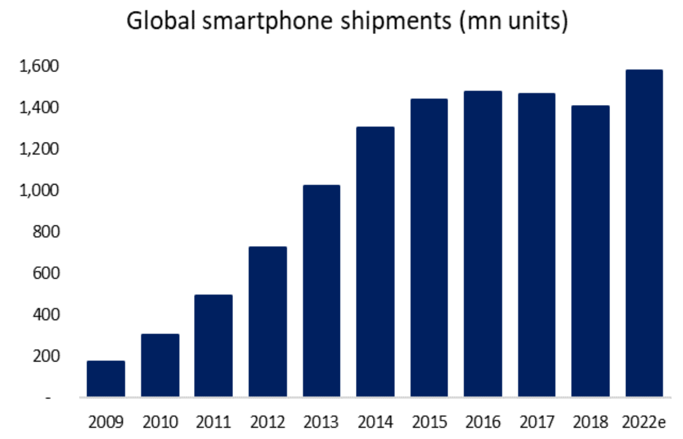
Source: Bloomberg, PSR

Figure 62: 5G steering telco CAPEX higher.



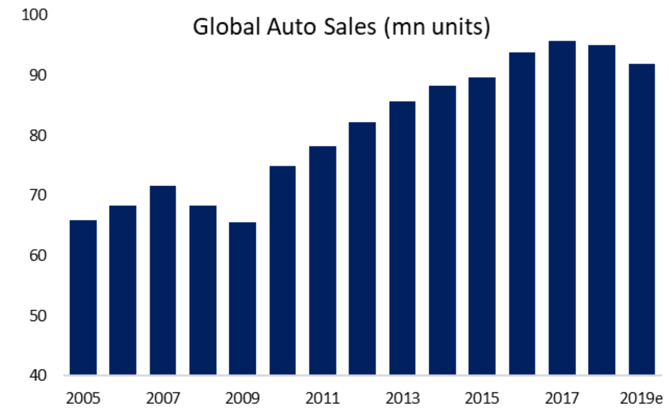
Source: Bloomberg, PSR

Figure 63: 5G to accelerate smartphone replacement.



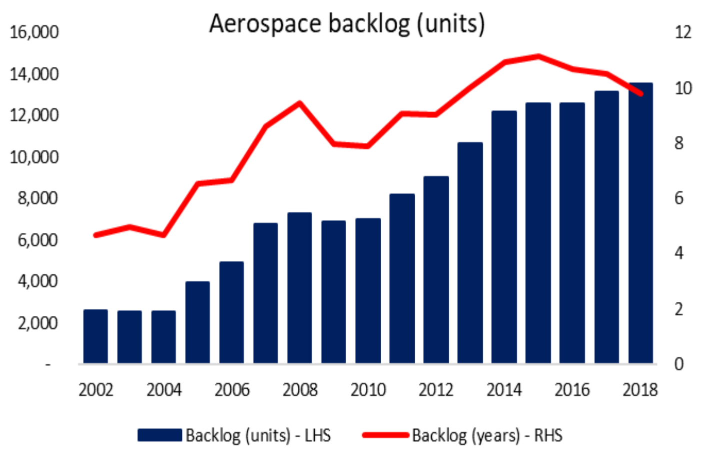
Source: Statista, PSR

Figure 64: Global auto sales expected to dip 3.1mn units - a bigger drop than GFC (mn units).



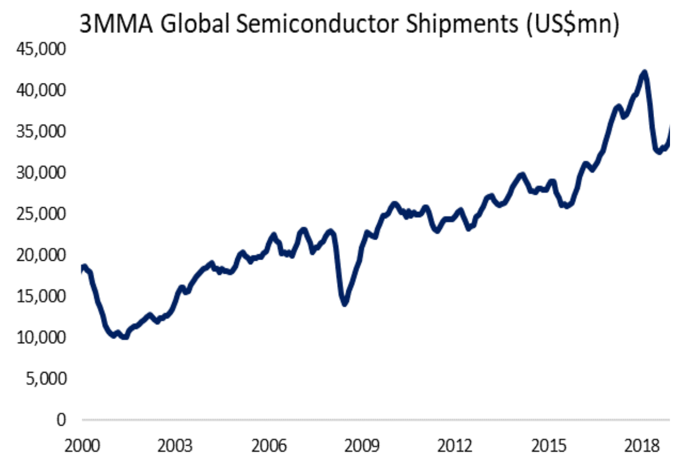
Source: CEIC, PSR

Figure 65: Aerospace backlog units at all time high.



Source: Bloomberg, PSR

Figure 66: Rebound in semicon shipment in 2H19.



Source: CEIC, PSR

Telecommunications OVERWEIGHT

- Higher competition from new entrants in the mobile sector will be contained.
- Anticipate pay-tv to bottom out and stabilise in 2020.
- Enterprise sector should recover in 2020 after the contract renewal cycle and improving business sentiment.
- Four 5G networks could boost the number of NBAP connections for NLT. CAPEX for telcos is expected to be gradual.
- Maintain **OVERWEIGHT** on the Singapore Telecommunications sector.

2019 Review

In 2019, Singapore added three Mobile Virtual Network Operators (MVNOs), bringing the total number of mobile service providers to eleven (seven MVNOs plus four Mobile Network Operators (MNOs)). Consequently, Singtel and StarHub's YTD mobile service revenue declined by 7.4% and 8.8% respectively. Additional MVNOs means more revenue sharing which partially resulted in an industry ARPU contraction of 2.5% (Figure 68). New MNO entrant, TPG Telecom (TPG), delayed its full commercial launch till early 2020, prolonging uncertainty in the wireless market. The pay-tv segment continued to suffer subscriber attrition to Over-the-Top (OTT) players and piracy. The loss of subscribers was further accelerated by StarHub's cable to fibre migration exercise. Industry pay-tv subscribers declined 5.8% YTD to 730k customers (Figure 72). The enterprise business previously expected to be a growth segment for the telcos was not spared from challenges. Industry enterprise revenue was virtually flat due to pricing pressure from contract renewals that began in 2Q19. Erosion of core carriage services was also a drag on revenues. On 17 October, the Infocomm Media Development Authority (IMDA) launched a Call for Proposal (CFP) to facilitate the roll-out of 5G mobile network which is slated to cover half of Singapore by end 2020. IMDA also shared their plans to award four 5G telecom licenses, two of which will be nationwide using the 3.5GHz spectrum band on a standalone basis (SA). The remaining two will be allotted 800MHz of mmWave spectrum deployed on a non-standalone (NSA) localised basis. NetLink Trust (NLT) enjoyed strong residential fibre connections growth of 6.2% YTD, the number of residential connections reached 1.41mn subscribers. Non-residential connections growth was rather muted while Non-Building Address Point (NBAP) connections growth was weaker than our estimates.

Outlook

Even as we expect the launch of TPG and new MVNOs to join the mobile sector in 2020, we are still optimistic about the Singapore telecommunication sector. It is evident that competition will be intense but we expect it to be contained given how much prices have contracted since the news of the entrance of a fourth MNO player. We do not foresee TPG grabbing a significant market share from incumbents in 2020 due to its inferior 4G network. We reckon that mobile prices will remain depressed but it is unlikely for prices to collapse as we believe TPG would need to recoup returns on its Singapore investment for the reinvestment in the roll-out of 5G infrastructure. We are calling the bottom for StarHub's pay-tv business because (i) Cable to fibre migration exercise accelerated customer attrition (new customers have been locked in for two years); (ii) Prices and RPU could improve as promotional initiatives during the migration exercise expire, and (iii) Majority of content has transitioned into a variable cost structure. The enterprise sector could stabilise in 2020 as we move past the contract renewal cycle that has been depressing margins because of pricing pressure. Aside from basic connectivity, we expect demand for cyber-security, data analytics and artificial intelligence (AI) to propel the enterprise sector back into growth. The Singapore government is committed to AI development and identified five sectors to enhance competitiveness and generate economic returns for Singapore. These sectors include: (i) Intelligent Transport and Logistics; (ii) Smart Cities and Municipal Services; (iii) Preventive and customised healthcare; (iv) Optimised Education; and (v) Enhanced Border Security. We believe Singapore's strong commitment to become a smart nation would provide secular growth for the enterprise sector. Last but not least, we maintain our view that 5G CAPEX commitment will be gradual and will not be cause for concern. During times of major technology upgrades, CAPEX/sales would trend around mid-teens and this is well within the telcos' financial resources.

Recommendations

Singtel Limited: (i) Recovery in India accelerated by selling price hikes; (ii) Regional associates returning to growth, (iii) Expect headwinds in core businesses to be contained. **Maintain ACCUMULATE with a higher target price of S$3.53 (prev. S$3.31).**

StarHub Limited: (i) Cyber-security on the path to profitability; (ii) Pay-tv business bottoming out, (iii) Expect higher competition to be contained in the mobile sector. **Maintain ACCUMULATE with an unchanged target price of S$1.58.**

NetLink NBN Trust: (i) Dominance in residential fibre connections; (ii) Expect run-rate growth for residential connections, (iii) 5G will give NBAP connections a boost. **Maintain ACCUMULATE with an unchanged target price of S$0.99.**

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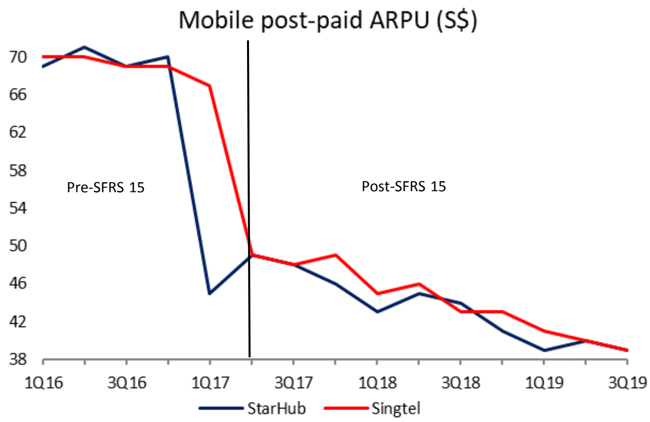
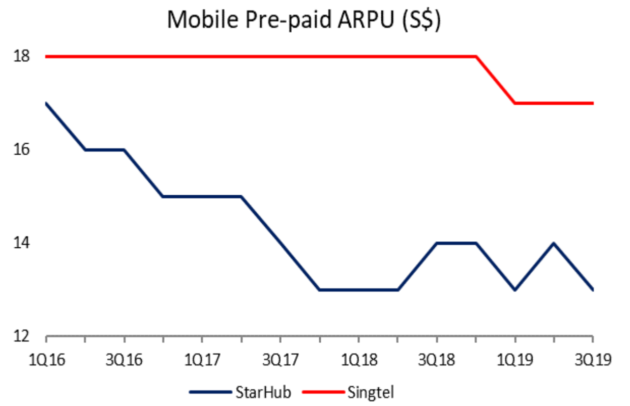
Figure 67: ARPU contracted 10% since 2Q17.



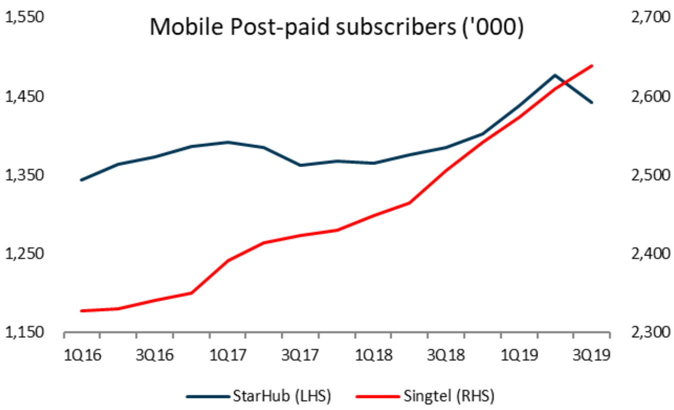
Source: PSR, Company

Figure 68: Relatively stable ARPU.



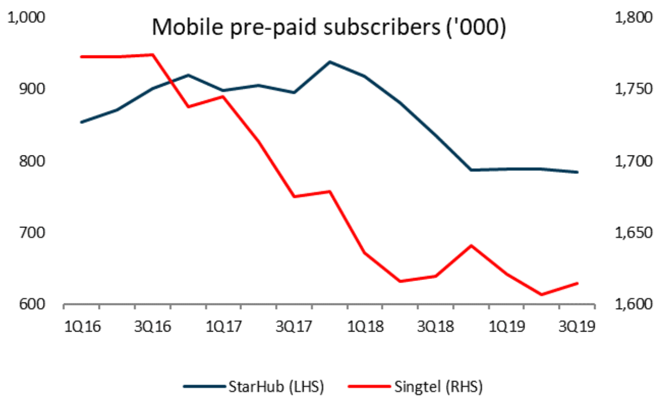
Source: PSR, Company

Figure 69: Increasing post-paid subscribers due to the rise in SIM-only plans.



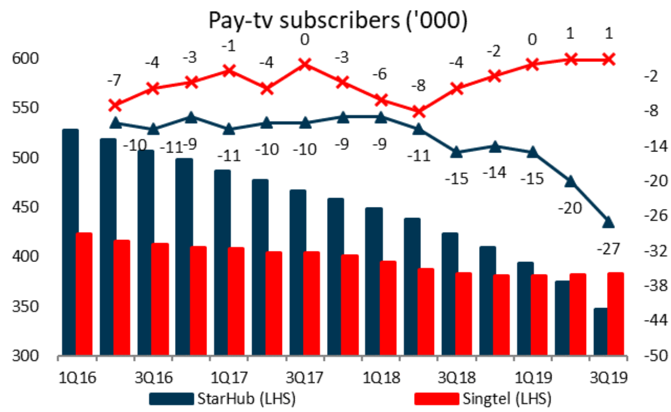
Source: PSR, Company

Figure 70: Declining pre-paid subscribers attributed to the rise of SIM-only plans.



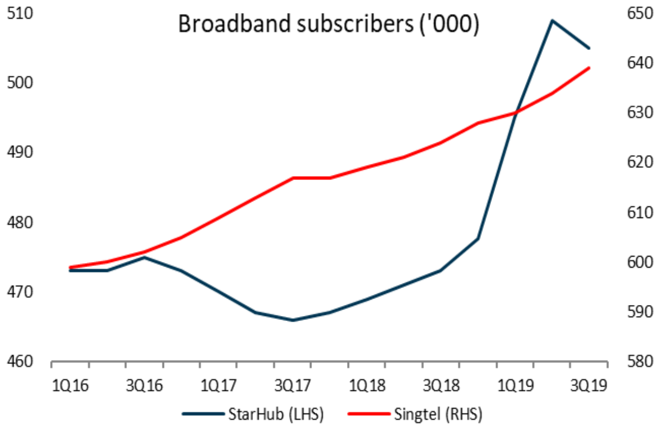
Source: PSR, Company

Figure 71: Decline in subscribers accelerated by StarHub's cable to fibre migration exercise.



Source: PSR, Company

Figure 72: Higher residential fibre connection penetration.



Source: PSR, Company

Transportation – Land NEUTRAL

- Growth for the sector remains muted due to weak Taxi segment.
- +7% fare adjustment to contribute positively to the Rail business, partially offset by license charges.
- The Taxi business is likely to bottom in 2020.

2019 Review

The Public Transport Services segment experienced an 8.3% YoY growth for 9M2019. This was mainly due to the revenue contributions from higher mileage of the new Seletar and Bukit Merah Bus Packages and higher average fares following the +4.3% adjustment on 29 December 2018.

Competition from ride-hailing apps remains elevated. However, it is noted that driver incentives and rider promotions have been reduced for ride-hailing apps. Although the rental car population continues to grow (Figure 75), we are seeing a small turnaround in Taxi fleet growth YoY. The taxi company is also providing more incentives to taxi drivers in order to retain the taxi fleet. The fleet size of private hire cars has increased by more than half of the total taxi fleet. Private hire remains a formidable competitor. The super app status accorded to Grab will entrench their position further in the ride-hailing business.

Outlook

The Public Transport Services segment should remain stable in 2020, underpinned by a stabilising taxi fleet, revenue visibility from new bus packages and higher rail ridership. We expect the taxi fleet to bottom out in 2019 and likely stabilise at low levels in 2020. Downtown Line (DTL) is likely to remain loss-making in 2020 as the +7% fare adjustment effective on 28 December 2019 is partially offset by lower ridership growth (Figure 75) and license charges paid to the Land Transport Authority (LTA). The bus operations remain the most stable part of land transport at present. There is no ridership risk and returns are relatively fixed. The bus segment will also obtain the full-year contribution from the new Seletar and Bukit Merah bus packages which started in 2018. The two bus packages drove SBS Transit's net profit growth by 70% YoY in 2018.

Recommendation

We have an **ACCUMULATE** rating for ComfortDelGro (**TP: S$2.56**), which is likely to reap benefits from the recent Australian bus acquisitions and higher ridership and bus mileage.

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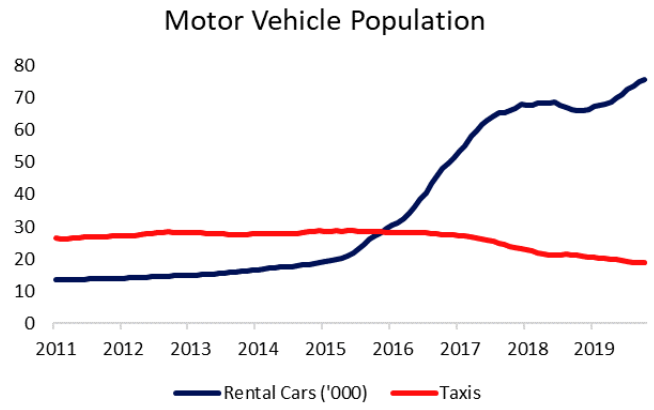
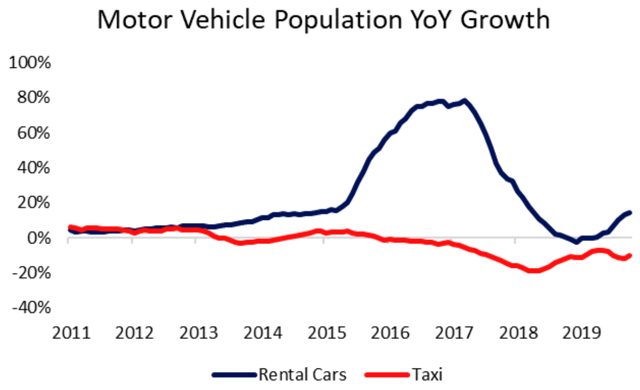
Figure 73: Rental cars population growth has picked up again in 2019.



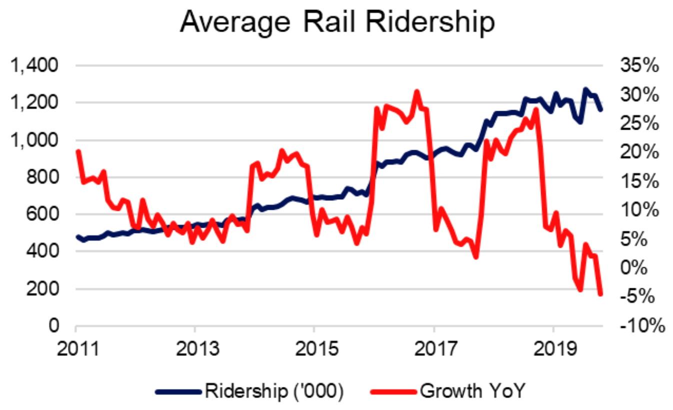
Source: CEIC, LTA, PSR

Figure 74: Initial signs of taxi fleet bottoming.



Source: CEIC, LTA, PSR

Figure 75: Rail ridership growth has contracted 2.4% YoY in 10M 2019.



Source: CEIC, SBS Transit, PSR

Transportation – Aviation NEUTRAL

- Singapore aviation traffic data showed anaemic growth.
- Weak cargo business is likely to recover in a few quarters.
- Long-term driver for SATS Ltd will be expansion into non-aviation market, whose market size is 1.5x larger.

2019 Review

The 10M19 Singapore aviation traffic data showed growth to be lacklustre. Commercial flights declined slightly by 1% YoY, while air freight and cargo fell 6.9% and 6.6% YoY due to the US-China trade war.

Despite weakness in air traffic, **SATS Ltd** (SATS) experienced high volume growth for both its Food Solutions and Gateway Services businesses. Passengers handled increased by 55% YoY for 1HFY20, flights handled was up 124% YoY; while meals served rose 4% YoY. Revenue rose 7.8% for 1HFY20 mainly due to the consolidation of GTR and CFPL. However, cargo remains weak and declined by 2.5% YoY. However, management indicated the fall in cargo volumes was mainly due to its Malaysian subsidiary GTR that started cargo operations in the current quarter. Operating margin for SATS was down 7% YoY due to the high operating leverage nature of cargo and investments in China. The interim dividend of 6 cents declared (52% payout ratio), was unchanged from last year (52% payout ratio).

Operating margin for SATS was affected by the suspension of Jet Airways as the gateway business made a one-time provision of S$3.3mn credit loss in 1QFY20. However, most of the slots have been filled up by other airlines such as Indigo and Vistara.

Outlook

The weak macro and the US-China trade war will have a meaningful impact on air traffic, especially air freight and cargo handling business. However, we expect cargo to recover in the next few quarters. Airlines are looking to outsource their in-house catering business and looking for partners that provide high-quality food catering services. Increasing urbanisation in the region is also expected to drive demand for travel and food. SATS should be a beneficiary of these trends. In addition, SATS has been making investments in technology and new acquisitions such as central kitchens, which should contribute positively after their respective gestation periods.

Recommendation

Our preference is SATS **(Rating: ACCUMULATE, TP: $5.36),** in view of the secular trends of airlines outsourcing their food catering business and increasing urbanisation in the region. Unlike traditional airlines, SATS is well-diversified to weather structural headwinds as 15% of its revenue is derived from non-aviation sources (central kitchens and cruises).

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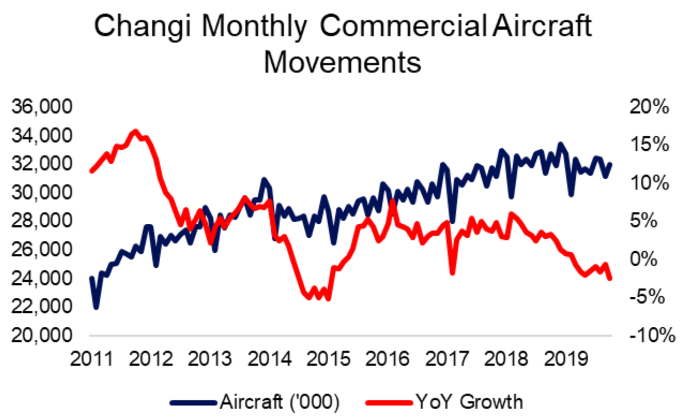
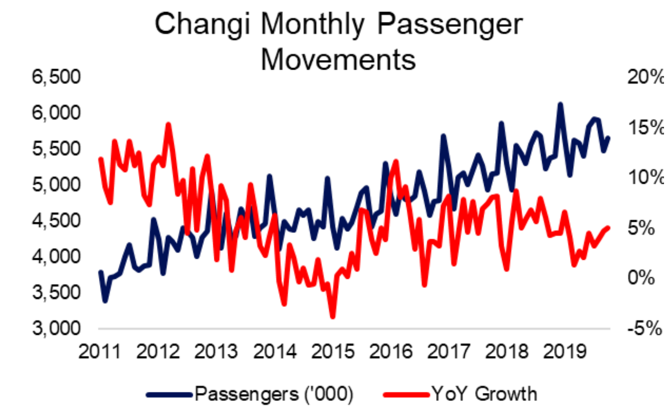
Figure 76: Aircraft Movements was down 1% YoY for 10M 2019.



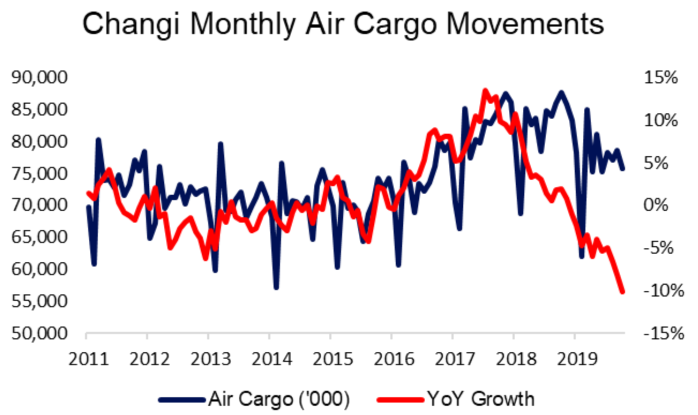
Source: CEIC, Changi Airport Group, PSR

Figure 77: Passenger Movements grew 3.8% YoY for 10M 2019.



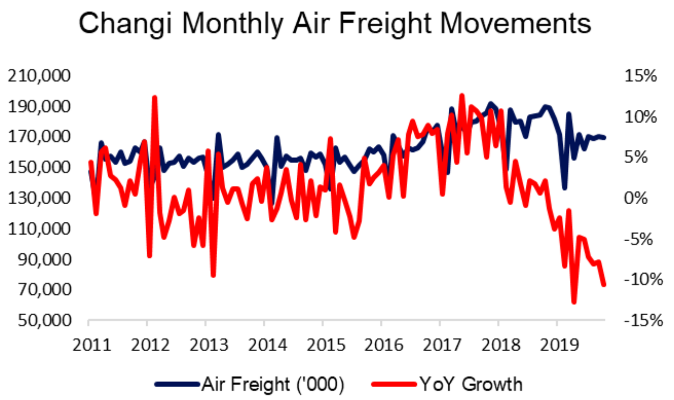
Source: CEIC, Changi Airport Group, PSR

Figure 78: Air Cargo Loaded fell 6.6% YoY for 10M 2019.



Source: CEIC, Changi Airport Group, PSR

Figure 79: Air Freight Loaded fell 6.9% YoY for 10M 2019.



Source: CEIC, Changi Airport Group, PSR

PhillipCapital

Ascott Residence Trust

Steady and unstoppable

Bull and Bear StocksBnB.com

SINGAPORE | REAL ESTATE (HOSPITALITY) | UPDATE

- Income stability through geographic diversification and lease structure.
- A beneficiary of Riding on Sponsor's brand name and rapid growth. Inorganic growth potential with a S$1bn debt headroom and ROFR pipeline of 20 properties.
- Maintain ACCUMULATE with an unchanged target price of S$1.36.

Company Background

Ascott Residence Trust (ART) is an owner-operator of serviced residences (SRs). Post-merger with Ascendas Hospitality Trust, ART will own 88 properties totalling 16,000 keys spanning 15 countries. c.85% of gross profit is derived from its eight key markets – namely, 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. Ascott Limited, ART's sponsor, is a wholly-owned subsidiary and the hospitality arm of Mainboard-listed CapitaLand Limited.

Investment Merits/Outlook

1. **Income stability through geographic diversification and lease structure.** 46% of gross profit is stable, derived from master leases (ML) and management contracts with minimum guaranteed income (MCMGI) while the remaining 54% is derived from management contracts (MC), thus providing growth opportunities. Geographic diversification across 15 countries reduces the impact of country-specific factors affecting corporate and leisure travel.

2. **Riding on Sponsor's brand name and growth trajectory.** Accommodation operators have been aggressively growing scale by increasing the number of keys under management. The number of keys under management by Sponsor, Ascott Limited, has been growing at a CAGR of 36.5%. Ascott Limited currently has c.112,400 keys under management across 32 countries and plans to operate 160,000 keys by 2023. ART will benefit from the increased brand awareness as 71 out of 88 SRs and business hotels are operated under the three Ascott brands – Ascott, Citadines, Somerset and Lyf.

3. **Inorganic growth potential - S$1bn debt headroom, RORF pipeline of 20 properties.** ART has the ability to grow inorganically owing to their right-of-first-refusal (ROFR) pipeline of 20 properties and a sizable debt headroom of c.S$1bn.

4. **Growth in popularity of Serviced Residences and select-service accommodation.** The rise of select-service can be attributed in part to the cultural shift of preference for value and indifference towards certain services offered at full-service hotels. Lower running costs (opex and capex) of select-service accommodations represents higher profit margins for operators. Select-service hotels account for c.63% hotel development pipeline in the US according to STR, a sharp increase from an average of 25% in the early 2000s.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$1.36 with forecasted FY19e/FY20e DPU yield of 5.5%/5.6%. The merger of ART-AHT increases the free float and presents a re-rating catalyst – inclusion into the FTSE Nareit Developed Index.

16 December 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.360
FORECAST DIV	SGD 0.074
TARGET PRICE	SGD 1.360
TOTAL RETURN	5.5%

COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN) :	2,177
MARKET CAP (USD mn / SGD mn) :	2081 / 2873
52 - WK HI/LO (SGD) :	1.34 / 1.05
3M Average Daily T/O (mn) :	4.49

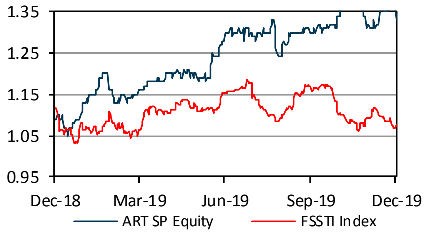
MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	45.01
VANGUARD GROUP	1.70
DIMENSIONAL FUND	1.38

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.8	3.5	27.5
STI RETURN	(1.6)	(7.4)	(1.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Gross Rev. (S$mn)	496	514	521	529
Gross Profit (S$mn)	227	239	239	241
Dist. Inc. (S$mn)	152	155	180	182
P/NAV (x)	1.01	0.89	0.98	0.99
DPU (cents)	7.09	7.16	7.42	7.56
Distribution Yield	5.2%	5.3%	5.5%	5.6%

Source: Bloomberg, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.23%; Terminal g: 1.75%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	**476**	**496**	**514**	**521**	**529**
Direct expenses	(253)	(269)	(275)	(282)	(288)
Gross Profit	**222**	**227**	**239**	**239**	**241**
Net finance (expense)/inc.	(48)	(45)	(46)	(46)	(41)
Manager's fees	(22)	(22)	(24)	26	(24)
Others	(2)	8	(13)	(5)	(9)
Net income	150	167	157	215	169
FV changes	30	87	35	145	-
Others	(2)	8	(13)	(5)	(9)
Total return before tax	180	274	195	360	169
Taxation	(32)	(52)	(44)	(32)	(28)
Total return after tax	**143**	**148**	**148**	**328**	**140**
Distribution adjustments	11	(43)	26	(104)	49
Distributable income	135	152	155	180	182
DPU (cents)	**8.27**	**7.09**	**7.16**	**7.42**	**7.56**

Per share data (cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV	1.33	1.22	1.22	1.39	1.38
DPU	8.27	7.09	7.16	7.42	7.56

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

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Net income	**180**	**274**	**195**	**360**	**169**
Adjustments	56	(31)	128	228	77
WC changes	(12)	(42)	923	(18)	(2)
Cash generated from ops	223	202	1,246	570	244
Others	(23)	(20)	(20)	(18)	(16)
Cashflow from operations	**200**	**181**	**1,226**	**553**	**228**
CFI					
CAPEX, net	17	236	63	238	(52)
Purchase of SR Property	(214)	(628)	-	(59)	-
Others	2	2	(64)	1	1
Cashflow from investments	**(195)**	**(390)**	**(1)**	**180**	**(51)**
CFF					
Share issuance, net	100	443	-	-	-
Loans, net of repayments	19	108	(35)	(70)	-
Dividends	(150)	(197)	(172)	(182)	(186)
Others	(53)	(55)	(47)	(47)	(42)
Cashflow from financing	**(84)**	**300**	**(254)**	**(300)**	**(228)**
Net increase (decrease) in CC	**(79)**	**119**	**(28)**	**433**	**(51)**
Ending cash	**143**	**255**	**226**	**662**	**611**
Restricted cash deposits	-	2	2	2	2

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

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
SR properties and PPE	4,556	4,958	4,728	4,826	4,865
Others	17	16	81	106	131
Total non-current assets	**4,573**	**4,974**	**4,809**	**4,932**	**4,997**
Trade Receivables	69	67	57	66	67
Cash	143	257	228	664	614
Others	17	16	81	106	131
Total current assets	**219**	**519**	**500**	**731**	**681**
Total Assets	**4,791**	**5,493**	**5,309**	**5,663**	**5,678**
LIABILITIES					
LT Borrowings	1,716	1,681	1,835	1,551	1,334
Others	112	135	125	139	152
Total non-current liabilities	**1,827**	**1,816**	**1,960**	**1,690**	**1,486**
Trade Payables	133	237	141	168	171
ST Borrowings	147	264	70	284	501
Others	112	135	125	139	152
Total non-current liabilities	**1,827**	**1,816**	**1,960**	**1,690**	**1,486**
Total Liabilities	**2,109**	**2,321**	**2,178**	**2,147**	**2,162**
Net assets	**2,682**	**3,172**	**3,131**	**3,516**	**3,515**
Represented by:					
Unitholders' funds	**2,201**	**2,685**	**2,644**	**3,029**	**3,027**
Perpetual securities hold	397	397	397	397	397
Non-controlling interests	85	89	90	90	91

*Some numbers may not tally due to rounding errors

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	0.81	1.01	0.89	0.98	0.99
Distribution Yield (%)	6.1%	5.2%	5.3%	5.5%	5.6%
NPI** yield (%)	4.9%	4.6%	5.1%	5.0%	5.0%
Growth & Margins (%)					
Growth					
Revenue	12.9%	4.4%	3.6%	1.4%	1.5%
Gross profit	8.6%	2.1%	5.5%	-0.2%	0.9%
Net income	18.9%	11.8%	-6.2%	37.0%	-21.5%
DPU	3.5%	-14.3%	1.0%	3.6%	1.9%
Margins					
Gross profit	46.7%	45.7%	46.5%	45.8%	45.5%
NPAT	31.1%	44.8%	29.5%	62.9%	26.5%
Key Ratios					
Gearing	39.8%	36.4%	36.7%	32.4%	32.3%
ROA	3.0%	2.9%	2.7%	5.2%	2.3%
ROE	6.5%	6.0%	5.5%	10.0%	4.4%

Clearbridge Health Limited

An early entrant in Asia

SINGAPORE | BANKING | UPDATE

- Penetrating high-growth in Indonesian and Phillippine healthcare markets
- Acquires asset-light healthcare franchises that yield recurrent revenues and revitalised through expansion in capacity, network and capabilities
- Maintain BUY with an unchanged target price of S$0.26. We used a DCF valuation to capture the full benefits of CBH's impressive growth trajectory over the next five years.

Company Background

Clearbridge Health (CBH) began in 2010 with a focus on the medical technology industry. It made its first investment in Biolidics in 2011, listed on the Catalist in December 2018. It then co-founded Sam Lab in 2011. In 2017, CBH acquired Clearbridge Medical Group that owned two medical clinics. CBH listed on December 2017 at S$0.28 a share. 2018 was a watershed year as CBH expanded into high growth markets of Indonesia, by acquiring a renal dialysis operator, and the Philippines, by acquiring a large medical facility. There is a further proposal to acquire 12 clinical diagnostic laboratories in Indonesia.

Investment Merits/Outlook

- **Penetrating high-growth healthcare markets in Indonesia and the Philippines.** CBH has entered the fast-growing healthcare markets in Indonesia and the Philippines through two acquisitions. Both countries rank among the lowest in Asia in terms of the number of hospital beds and health professionals per capita. Healthcare spending in both countries has been growing at around 9 - 10% p.a.

- **Creating a recurrent revenue stream in healthcare.** A key feature of its new Indonesian business is recurring revenue. Renal dialysis is a lifetime treatment, and CBH expanded from 15 hospitals at acquisition to 21 currently and another 13 under renovation.

- **Targeting and revitalising profitable segments.** CBH acquires asset-light, fast-growing healthcare segments. After the acquisition, CBH grows the businesses through expansion in capacity, network and capabilities.

Recommendation

Maintain BUY with an unchanged target price of S$0.26. We used DCF valuation to capture the full benefit of CBH impressive growth over the next five years.

StocksBnB.com

16 December 2019

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.133
FORECAST DIV	SGD 0.000
TARGET PRICE	SGD 0.260
TOTAL RETURN	**95.5%**

COMPANY DATA

BLOOMBERG CODE	CBH SP
O/S SHARES (MN) :	575
MARKET CAP (USD mn / SGD mn) :	57.4 / 77.6
52 - WK HI/LO (SGD) :	0.21 / 0.13
3M Average Daily T/O (mn) :	1.05

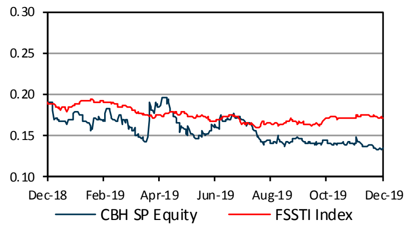
MAJOR SHAREHOLDERS (%)

Chen Johnson	13.4%
Bonvests Holdings Ltd	7.2%
Vorobyev Maxim	6.9%
Chen Chung Ni	5.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(5.7)	(9.5)	(30.4)
STI RETURN	(2.0)	0.4	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, (SGD '000)	FY17	FY18	FY19e	FY20e
Revenue	288	6,135	29,949	38,980
EBITDA	(3,876)	(7,461)	1,510	6,253
NPAT adj.	(801)	(8,610)	(324)	1,591
EPS adj. (S$ Cents)	(0.3)	(1.8)	(0.1)	0.3
P/E (X), adj.	-	n.m.	n.m.	40.7
P/B (X)	-	1.4	1.1	1.1
Div Yield	0.0%	0.0%	0.0%	0.0%
ROE	-1.6%	-16.1%	-0.6%	2.7%

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC 8%, Terminal growth 3%)

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Financials

Income Statement

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	123	288	6,135	29,949	38,980
Purchases	(3)	(241)	(3,250)	(8,985)	(11,694)
Gross profits	**120**	**47**	**2,885**	**20,964**	**27,286**
Operating expenses	(7,245)	(8,374)	(13,701)	(20,993)	(24,597)
EBITDA	**(7,020)**	**(3,876)**	**(7,461)**	**1,510**	**6,253**
Depreciation & Amortisation	(105)	(111)	(1,099)	(1,538)	(3,564)
EBIT	**(7,125)**	**(8,327)**	**(10,816)**	**(29)**	**2,689**
Fair value gains/(losses)	5,109	(2,329)	(7,582)	-	-
Finance costs	(193)	(250)	(329)	(433)	(421)
Profit/(loss) before tax	**(2,209)**	**(10,906)**	**(18,727)**	**(462)**	**2,268**
Income tax credit/(expense)	(735)	2,981	(158)	(1)	5
Profit/(loss) after tax	**(2,944)**	**(7,925)**	**(18,885)**	**(463)**	**2,273**
Minority interest	(993)	(455)	(437)	(139)	682
Net Income, reported	**(1,951)**	**(7,470)**	**(18,448)**	**(324)**	**1,591**
Net Income, adj	**(7,060)**	**(801)**	**(8,610)**	**(324)**	**1,591**

Per share data

Y/E Dec, SG cents	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	(0.9)	(2.5)	(3.9)	(0.1)	0.5
EPS, adj.	(3.4)	(0.3)	(1.8)	(0.1)	0.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	8.0	12.7	9.7	12.0	12.3

Cash Flows

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
<u>CFO</u>					
PBT	**(2,209)**	**(10,906)**	**(18,727)**	**(462)**	**2,268**
Adjustments	(4,382)	4,211	10,257	437	2,625
WC changes	839	(79)	(2,077)	4,902	1,980
Cash flows used in ops	**(5,752)**	**(6,774)**	**(10,547)**	**4,876**	**6,873**
Taxes paid, others	-	-	-	-	-
Cash flows used in ops	**(5,752)**	**(6,774)**	**(10,547)**	**4,876**	**6,873**
<u>CFI</u>					
CAPEX, net	(208)	(2,573)	(1,607)	(2,995)	(1,949)
Net acquisition of subsidiaries	(2,982)	10,635	(8,323)	(8,405)	-
Others	-	-	-	(2,003)	-
Cash flows from investing	**(3,190)**	**8,062**	**(9,930)**	**(13,403)**	**(1,949)**
<u>CFF</u>					
Proceeds from issuance of shares	-	24,640	-	11,343	-
Loans, net of repayments	500	1,637	943	3,131	(1,806)
Dividends	-	-	-	-	-
Others	10,089	(4,190)	(235)	9,706	-
Cash flows from financing	**10,589**	**22,087**	**708**	**24,181**	**(1,806)**
Net change in cash	**1,645**	**23,383**	**(19,755)**	**17,217**	**4,524**
Effects of exchange rate changes	(32)	49	(215)	(215)	(215)
Restricted deposits	-	-	235	2,445	2,445
CCE, end	**4,308**	**27,740**	**8,005**	**18,584**	**21,043**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment in associates	28,174	15,051	13,230	13,230	13,230
PPE	48	2,597	6,625	8,295	8,585
ROU	-	-	-	640	707
Intangible assets	95	106	266	8,883	7,398
Goodwill on consolidation	-	11,002	22,296	22,296	22,296
Others	13,449	7,391	5,648	(2,757)	(2,757)
Non-current assets	**41,766**	**36,147**	**48,065**	**50,587**	**49,459**
Cash and bank balances	4,308	27,740	8,005	18,584	21,043
Trade receivables	25	71	2,050	4,923	6,408
Others	572	4,835	4,642	5,214	5,190
Current assets	**4,905**	**32,646**	**14,697**	**28,721**	**32,641**
Total assets	**46,671**	**68,793**	**62,762**	**79,308**	**82,099**
LIABILITIES					
Borrowings	-	9	470	470	470
Trade payables	69	183	1,007	2,464	2,983
Other payables	4,225	5,540	7,072	7,072	7,072
Others	-	-	669	854	854
Current liabilities	**4,294**	**5,732**	**9,218**	**10,860**	**11,379**
Borrowings	-	1,632	2,419	5,550	5,550
Others	4,748	1,786	3,595	4,487	4,487
Non-current liabilities	**4,748**	**3,418**	**6,014**	**10,037**	**10,037**
EQUITY					
Share capital	28,495	73,897	77,670	89,013	89,013
(Acc loss)/RE	6,245	(10,858)	(30,041)	(30,365)	(28,774)
Others	2,889	(3,396)	(99)	(238)	444
Total equity	**37,629**	**59,643**	**47,530**	**58,411**	**60,683**

Valuation Ratios

Y/E Dec,	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.			n.m.	n.m.	40.7
P/B (X)			1.4	1.1	1.1
EV/EBITDA (X)			0.7	-8.3	0.0
Dividend Yield			0.0%	0.0%	0.0%
Growth & Margins					
Growth					
Revenue		134.1%	2030.2%	388.2%	30.2%
EBITDA		-44.8%	92.5%	-120.2%	314.2%
EBIT		16.9%	29.9%	-99.7%	-9515.5%
Net Income, adj.		-88.7%	974.9%	-96.2%	-590.9%
Margins					
EBITDA margin	-5707.3%	-1345.8%	-121.6%	5.0%	16.0%
EBIT margin	-5792.7%	-2891.3%	-176.3%	-0.1%	6.9%
Net Profit Margin	-5739.8%	-278.1%	-140.3%	-1.1%	4.1%
Key Ratios					
ROE		-2%	-16.1%	-0.6%	2.7%
ROA		-1.4%	-13.1%	-0.5%	2.0%
Interest coverage (X)	(67.9)	(75.0)	(9.8)	(0.0)	0.8
Net gearing (X)	Net cash	0.0	Net cash	Net cash	Net cash

CapitaLand Limited

Ready for takeoff

SINGAPORE | REAL ESTATE | UPDATE

- Gaining critical mass across geographies and asset classes.
- Higher quality and recurrent income forming a larger part of the business.
- Maintain BUY with an unchanged target price of S$4.20.

Background

CapitaLand Limited (CAPL) is one of Asia's largest diversified real estate groups. Headquartered and listed in Singapore, it owns and manages a global portfolio worth over S$131.7bn as of 30 September 2019. CapitaLand's portfolio spans across diversified real estate classes which include commercial, retail; business park, industrial and logistics; integrated development, urban development; as well as lodging and residential. With a presence across more than 200 cities in over 30 countries, the Group focuses on Singapore and China as its core markets, while it continues to expand in markets such as India, Vietnam, Australia, Europe and the USA.

Investment Merits/Outlook

1. **Playing to their strengths and unlocking value in new geographies and assets classes.** CAPL's development business will be focused on the four key markets where they have an established track record and see growth potential – Singapore, China, Vietnam and India. CAPL will be focusing on redevelopment opportunities in Singapore while deepening its presence in Vietnam, China and India by expanding into new asset classes – thereby unlocking the value from the acquisition of Ascendas-Singbridge by riding on its business parks, industrial and logistics expertise and presence in China and India.

2. **Powering up twin drivers of recurring income.** CAPL's recurring income model will be underpinned by the fund management and lodging platform. CAPL earns fees from the management of the asset in the various REITs and private funds, as well as management contract fees from the management of service residences franchised under the Ascott, Citadines, Somerset and Lyf brands. CAPL also earns recurring income from investment property held on their books, and through its respective stakes in the REITs and funds. 83.6% of YTD9M19 EBIT was derived from investment properties and recurring in nature (YTD9M18: 83.5%), providing stability in earnings. CAPL's target of increasing AUM from S$71.7bn to S$100bn by 2024 and number of keys under management from 112,400 (of which c.45k are still under development) to 160,000 by 2023 will further increase the proportion of recurring income.

3. **Residential development in China performing well.** Despite existing price caps in several tier 1 and tier 2 cities, China continues to provide CAPL with an accommodative environment for residential developments, with breakthrough sell-through rates of >99% for certain new projects.

Recommendation

We maintain BUY with an unchanged target price of S$4.20. Our target price translates to a FY19e P/NAV ratio of 0.81x. The outlook is positive as CAPL double-downs on their investment strategy of core-markets development play and grows recurring income through their fund management and lodging platform.

16 December 2019

BUY (Maintained)

LAST DONE PRICE	SGD 3.71
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 4.20
TOTAL RETURN	16.5%

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN) :	5,037
MARKET CAP (USD mn / SGD mn) :	12808 / 17682
52 - WK HI/LO (SGD) :	3.75 / 3.02
3M Average Daily T/O (mn) :	7.24

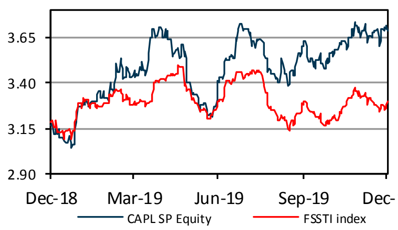
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	51.0%
BLACKROCK INC	5.4%
VANGUARD GROUP	1.8%
NORGES BANK	0.8%
DIMENSIONAL FUND	0.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.3)	(5.7)	8.7
STI RETURN	(1.6)	(7.4)	(1.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e
Revenue	4,618	5,602	5,906	6,253
Gross Profit	2,024	2,689	2,835	3,001
EBIT	2,420	3,186	3,362	3,544
EPS (SGD)	0.37	0.42	0.39	0.42
P/E (x)	10.0	8.8	9.6	8.8
P/BV (x)	0.86	0.85	0.81	0.85
DPS (SGD)	0.12	0.12	0.12	0.13
Div Yield, %	3.2%	3.3%	3.3%	3.4%
ROE, %	8.5%	9.3%	8.9%	8.5%

Source: Company Data, Bloomberg

Valuation Method
RNAV

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Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**5,252**	**4,618**	**5,602**	**5,906**	**6,253**
Gross Profit	1,598	2,024	2,689	2,835	3,001
Depreciation & Amortisation	(66)	(69)	(63)	(88)	(116)
EBIT	1,652	2,420	3,186	3,362	3,544
Net Finance (Expense)/Inc	(453)	(487)	(636)	(857)	(846)
Associates & JVs	708	882	959	719	798
Profit Before Tax	1,907	2,816	3,509	3,224	3,496
Taxation	(403)	(469)	(659)	(580)	(629)
Profit After Tax	1,504	2,347	2,850	2,644	2,867
Non-Controlling Interest	314	777	1,087	687	745
Net Income, reported	1,190	1,570	1,762	1,956	2,121

Per share data (SGD)

Y/E Dec, SGD	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.28	0.37	0.42	0.39	0.42
DPS	0.10	0.12	0.12	0.12	0.13
BVPS	4.22	4.33	4.35	4.55	4.35

Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit for the year	1,504	2,347	2,850	2,644	2,867
Adjustments	(902)	(1,504)	(1,700)	(1,200)	(1,330)
WC changes	2,250	809	(1,414)	1,215	245
Cash generated from ops	3,655	2,545	943	4,033	3,160
Taxes paid, others	(350)	(379)	(390)	(580)	(629)
Cashflow from ops	3,305	2,166	553	3,453	2,531
CFI					
CAPEX, net	(75)	(142)	(88)	(102)	(111)
Cashflow from investments	(71)	(1,770)	(1,356)	3,136	435
CFF					
Dividends paid	(383)	(425)	(504)	(610)	(610)
Cashflow from financing	(2,462)	979	(217)	(4,152)	(2,605)
Net change in cash	772	1,376	(1,019)	2,437	360
Effects of exchange rates	(129)	(47)	(60)	-	-
CCE, end	4,778	6,080	5,005	7,441	7,802

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	781	840	753	1,381	1,375
Associates & JVs	12,617	10,205	10,180	12,894	12,785
Investment Properties	18,998	36,479	39,446	46,134	46,937
Others	1,578	1,702	1,823	2,264	2,089
Total non-current assets	**33,976**	**49,227**	**52,201**	**62,673**	**63,187**
Development properties	4,837	3,977	5,129	7,331	7,071
Accounts Receivables	1,859	1,462	1,944	1,956	2,024
Cash balance	4,793	6,105	5,060	7,441	7,802
Others	277	768	314	485	485
Total current assets	**11,765**	**12,312**	**12,446**	**17,213**	**17,381**
Total Assets	**45,741**	**61,539**	**64,648**	**79,886**	**80,568**
LIABILITIES					
Short term loans	2,373	2,739	3,193	4,351	4,297
Accounts Payables	4,685	3,067	3,842	4,644	4,698
Others	670	3,055	2,360	3,699	1,451
Total current liabilities	**7,728**	**8,861**	**9,395**	**12,694**	**10,446**
Long term loans	12,479	18,956	20,440	27,849	27,503
Others	1,233	1,604	1,505	1,447	1,519
Total non-current liabilities	**13,712**	**20,560**	**21,945**	**29,296**	**29,022**
Total Liabilities	**21,440**	**29,421**	**31,341**	**41,990**	**39,468**
EQUITY					
Shareholder Equity	17,605	18,413	18,953	21,920	25,033
Non-controlling interest	6,696	13,705	14,354	15,975	16,068
Total Equity	**24,300**	**32,118**	**33,307**	**37,896**	**41,100**

Valuation Ratios

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
P/E	13.1	9.9	8.7	9.5	8.7
P/B	0.87	0.85	0.85	0.81	0.85
Dividend Yield	2.7%	3.3%	3.3%	3.3%	3.4%
Growth & Margins					
Growth					
Revenue	10.3%	-12.1%	21.3%	5.4%	5.9%
EBIT	3.9%	46.5%	31.6%	5.5%	5.4%
Net Income, adj.	0.6%	56.0%	21.4%	-7.2%	8.4%
Margins					
EBIT margin	31.4%	52.4%	56.9%	56.9%	56.7%
Net Profit Margin	28.6%	50.8%	50.9%	44.8%	45.8%
Key Ratios					
ROE	6.8%	8.5%	9.3%	8.9%	8.5%
ROA	2.6%	2.6%	2.7%	2.4%	2.6%
Gearing (Total Debt/Total Assets)	0.32	0.35	0.37	0.40	0.39

PhillipCapital

DBS Group Holdings Ltd

Rock and bulwark

SINGAPORE | BANKING | UPDATE

BULL AND BEAR™ StocksBnB.com

- Decent dividend yield of around 4.5% cushions the stock's downsides.
- 30% of DBS' total loans were derived from Greater China and Hong Kong.
- DBS Hong Kong's loans book has a relatively small consumer loans exposure with the majority anchoring from China's State-Owned Enterprises.
- Consistent momentum in the wealth management segment will support a more stable income base.
- Sustained US-China trade tensions and deteriorating global growth outlook paints a sustained dismal outlook for growth.
- Muted NIM outlook on the back of three successive interest rate cuts.
- Maintain ACCUMULATE with an unchanged target price of S$27.30.

Background

DBS Group Holdings Limited (DBS) is the largest bank in Singapore by assets and was initially established by the Singapore government to assume industrial financing activities. DBS offers services including mortgage financing, lease and hire purchase financing, nominee and trustee, funds management, corporate advisory and brokerage. DBS acquired the Asian private banking business of Societe Generale in 2014 and was the only ASEAN bank to be ranked among the world's top 50 private banking brands in 2015.

Investment Merits/Outlook

1. **High dividend yield appeal.** DBS' decent dividend yield cushions the stock's downsides. We forecast dividend yield of 4.5% in FY20e. CET-1 ratio of 13.8% in 3Q19 which is above the regulatory minimum of 9%, provides DPS visibility. DBS has also doubled its dividends between FY16 to FY18.

2. **Larger loan exposure to Greater China and Hong Kong.** As of 3Q19, 30% of DBS' total loans were derived from Greater China and Hong Kong, as compared to 25% for OCBC and 16% for UOB. Given the trade war between China and the US as well as the ongoing political instability in Hong Kong, DBS' larger exposure is a slight negative. However, DBS Hong Kong's loans book has a relatively small consumer loans exposure with the majority anchoring from China's State-Owned Enterprises.

3. **Strength in wealth management.** Wealth management income for 9MFY19 grew 16% to S$2.36bn from S$2.03bn a year ago, while AUM rose 9% to $241 billion. DBS continues to attract net new money inflows from mid-to-ultra high net worth individuals, as well as from the region. The consistent momentum in the wealth management segment will support a more stable income base.

4. **Soft loans growth outlook.** The persistent US-China trade tensions and deteriorating global growth outlook paints a dismal outlook for loans growth. DBS guided FY20e loans growth to have a similar pace as FY19e's 4% YoY and we forecast loans growth of 3.9% for FY20e.

5. **Muted NIM outlook.** On the back of three successive interest rate cuts by the U.S. Federal Reserve, DBS guided NIM to decline by around 7bps in FY20 from FY19's expected average NIM of 1.88%. We pen in our estimate for FY19e/FY20e NIM at 1.89% and 1.82% respectively.

6. **Potential rise in credit costs.** The new Expected Credit Loss (ECL) model requires banks to make adequate provisions whenever there is deterioration in the macro-environment. We expect credit costs to be slightly elevated next year as the risk of slower global growth and sustained domestic unrest in Hong Kong leads to higher ECL.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$27.30.

16 December 2019

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 25.5
FORECAST DIV	SGD 1.2
TARGET PRICE	SGD 27.3
TOTAL RETURN	11.9%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	2,554
MARKET CAP (USD mn / SGD mn) :	48532 / 65615
52 - WK HI/LO (SGD) :	28.64 / 22.8
3M Average Daily T/O (mn) :	3.71

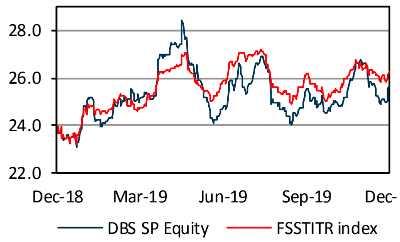
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.0%
Capital Group Cos Inc	5.0%
Vanguard Group Inc	2.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(3.5)	16	13.8
STI RETURN	(2.00)	0.39	7.37

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Total Inc (SGD mn)	11,924	13,183	14,586	15,106
Op Profit (SGD mn)	5,175	6,659	7,406	7,418
NPAT (SGD mn)	4,504	5,653	6,232	6,266
EPS (SGD)	1.69	2.17	2.49	2.40
PER, (X)	15.1	11.8	10.2	10.6
P/BV, (X)	1.4	1.4	1.3	1.2
DPS (SGD)	1.43	1.20	1.20	1.20
ROE	9.9%	12.3%	13.0%	11.8%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9%, g: 2.0%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	7,305	7,791	8,955	9,680	9,684
Fees and Commission	2,331	2,622	2,780	3,014	3,356
Other Non int income	1,853	1,511	1,448	1,892	2,066
Total income	**11,489**	**11,924**	**13,183**	**14,586**	**15,106**
Operating expenses	4,972	5,205	5,814	6,315	6,853
Provisions	1,434	1,544	710	865	835
Operating profit	**5,083**	**5,175**	**6,659**	**7,406**	**7,418**
Associates & JVs	0	0	0	0	0
Profit Before Tax	**5,083**	**5,175**	**6,659**	**7,406**	**7,418**
Taxation	723	671	1,006	1,175	1,152
Profit After Tax	**4,360**	**4,504**	**5,653**	**6,232**	**6,266**
Non-controlling Interest	122	133	76	42	43
Net Income, reported	**4,238**	**4,371**	**5,577**	**6,190**	**6,223**
Net Income, adj.	**4,238**	**4,371**	**5,577**	**6,190**	**6,223**

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.73	1.69	2.17	2.49	2.40
DPS	0.60	1.43	1.20	1.20	1.20
BVPS	16.61	17.85	18.12	19.15	22.03
Dividend Pay-out Ratio	34.6%	84.4%	55.4%	48.1%	50.0%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.1%	14.3%	13.9%	13.8%	15.2%
Tier 1 CAR	14.7%	15.1%	15.1%	15.0%	16.5%
Total CAR	16.2%	15.9%	16.9%	16.8%	18.4%

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash and bal w central banks	26,840	26,463	22,185	28,039	38,336
Due from banks	30,018	35,975	40,178	42,541	44,269
Govt, Bank & Corp Sec & T Bills	78,818	95,342	105,475	117,200	118,493
Derivatives	25,757	17,585	17,029	22,098	22,068
Goodwill and intangibles	5,117	5,165	5,175	5,171	5,171
Property and other fixed assets	1,572	1,233	1,450	1,243	4,259
Loans to non-bank customers	301,516	323,099	345,003	357,274	370,829
JV and Associates	890	783	838	842	849
Other assets	11,042	12,066	13,418	14,904	14,399
Total Assets	**481,570**	**517,711**	**550,751**	**589,313**	**618,671**
Due to banks	15,915	17,803	22,648	23,258	26,177
Deposits from customers	347,446	373,634	393,785	406,705	423,168
Derivatives	24,497	18,003	16,692	21,944	22,068
Other liabilities	15,895	16,615	18,440	23,193	25,066
Other debt securities	27,745	40,716	45,712	57,957	58,663
Subordinated term debts	3,102	1,138	3,599	3,573	3,573
Total liabilities	**434,600**	**467,909**	**500,876**	**536,631**	**558,716**
Shareholder's equity	44,609	47,458	49,045	51,930	59,291
Non-controlling interest	2,361	2,344	830	752	665
Total Equity	**46,970**	**49,802**	**49,875**	**52,682**	**59,956**

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), avg	14.7	15.1	11.8	10.2	10.6
P/B (X), avg	1.5	1.4	1.4	1.3	1.2
Dividend Yield	2.4%	5.6%	4.7%	4.7%	4.7%
Growth & Margins					
Growth					
Net interest income	2.9%	6.7%	14.9%	8.1%	0.0%
Net Fee and Comm Inc	8.7%	12.5%	6.0%	8.4%	11.3%
Total income	5.2%	3.8%	10.6%	10.6%	3.6%
Profit before tax	-3.7%	1.8%	28.7%	11.2%	0.2%
Net income, reported	-4.8%	3.1%	27.6%	11.0%	0.5%
Net income, adj.	-1.9%	3.1%	27.6%	11.0%	0.5%
Margins					
Net interest margin	1.80%	1.75%	1.85%	1.89%	1.82%
Key Ratios					
ROE	10.4%	9.9%	12.3%	13.0%	11.8%
ROA	0.9%	0.9%	1.0%	1.1%	1.0%
RORWA	1.5%	1.5%	1.9%	2.1%	1.9%
Non-interest/total income ratio	36.4%	34.7%	32.1%	33.6%	35.9%
Cost/income ratio	43.3%	43.7%	44.1%	43.3%	45.4%
Loan/deposit ratio	86.8%	86.5%	87.6%	87.8%	87.6%
NPL ratio	1.4%	1.7%	1.5%	1.5%	1.5%

Source: Company, Phillip Securities Research (Singapore) Estimates

PhillipCapital

Frasers Centrepoint Trust

Gotta catch(ment) all

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Resilience in necessity spending, further boosted by larger malls benefiting from the impending increase in catchment population.
- Pipeline assets from Sponsor and PGIM ARF assets are near-term growth drivers.
- Maintain ACCUMULATE with an unchanged target price of S$3.11.

Background

Frasers Centrepoint Trust (FCT) has a market capitalisation of approximately S$3.0bn owns a portfolio of six suburban shopping malls in Singapore and a 40% stake in Waterway Point. FCT's sponsor, Frasers Property Limited, has approximately S$33.2bn of assets across residential, retail, commercial, industrial and hospitality assets classes.

Investments Merits/Outlook

1. **Suburban malls showing resilience in spite of weak retail outlook.** FCT's assets located in suburban residential areas are adjacent to transport hubs (MRT stations and bus interchanges). Necessity spending has proven resilient with FCT's tenant sales per sqft coming in flat YoY (an outperformance compared to the RSI which was negative throughout 2019) despite business disruption due to ongoing works in underground pedestrian links. FCT benefitted from the continued upward trajectory of fringe rents – portfolio rental reversions for FY19 was 4.8%, higher than FY18's 3.2%.

2. **Woodlands and Punggol to benefit from an increase in catchment population owing to the government's decentralisation and intensification efforts.** CWP and NPNW will benefit from URA's draft master plan 2019 - CWP from the repositioning of Woodlands Regional Centre as the largest economic hub and Waterway Point from the addition of business park and university infrastructure aimed at supporting digital economy jobs. The number of HDB units surrounding FCT's three largest malls (CWP, NPNW and WWP) will also increase by 67.6%. The increase in catchment will potentially increase tenant sales and enhance the desirability of the malls, helping to maintain positive rental reversions.

3. **Imminent growth from pipeline of assets.** FCT (24.8%) and Sponsor, FPL (63.1%), have a combined 87.9% stake in PGIM Real Estate AsiaRetail Fund (PGIM ARF), an open-ended fund primarily holding suburban retail assets in SG (6) and Malaysia (2). PGIM's malls bear similar characteristics and yields as FCT's assets but as a private fund, PGIM does not enjoy tax transparency treatment that FCT does. We estimate PGIM's tax rate to be approximately 10%-15%. The investment in PGIM ARF was with the intention of acquiring some of PGIM's assets under the REIT, which will provide higher accretion from the capture of tax savings.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$3.11. Resilience in necessity spending will help to support FY20e 5.5% DPU yield, along with potentially higher variable rents from higher tenant sales as the catchment size increases. Sizable debt headroom of c.S$500mn (assuming 40% gearing) allows for the acquisition of one to two large-sized malls. With a remaining 12.1% of PGIM ARF left to acquire, we believe that the injection of PGIM ARF assets will materialise in the next 12-18 months.

16 December 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.71
FORECAST DIV	SGD 0.121
TARGET PRICE	SGD 3.11
TOTAL RETURN	19.2%

COMPANY DATA

BLOOMBERG CODE:	FCT SP
O/S SHARES (MN) :	1,118
MARKET CAP (USD mn / SGD mn) :	2233 / 3028
52 - WK HI/LO (SGD) :	2.87 / 2.15
3M Average Daily T/O (mn) :	2.95

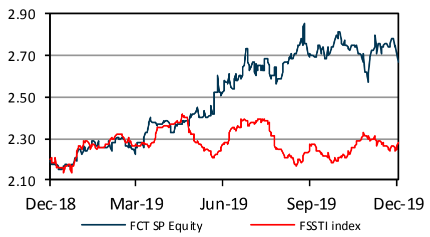
MAJOR SHAREHOLDERS

FRASERS PROPERTY LTD	36.5%
SCHRODERS PLC	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	5.4	1.1	31.2
STI RETURN	(1.9)	(0.6)	8.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY18	FY19	FY20e	FY21e
Gross Rev (SGD mn)	193	196	201	206
NPI (SGD mn)	137	139	169	172
Dist Inc. (SGD mn)	111	120	166	179
P/NAV (x)	1.34	1.30	1.22	1.32
DPU, adj (Cents)	12.01	12.08	14.81	15.99
Distribution Yield	4.4%	4.5%	5.5%	5.9%

Source: Company, PSR

Valuation Method

DDM (Cost of equity 6.55%, Terminal Growth 1.5%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross Revenue	182	193	196	201	206
Total Property expenses	(52)	(56)	(57)	(33)	(34)
Net Property Income	**130**	**137**	**139**	**169**	**172**
Net Finance (Expense)/Inc	(18)	(20)	(24)	(28)	(28)
Trust expenses	(3)	(2)	(2)	(3)	(3)
Manager's management fees	(14)	(15)	(17)	(17)	(18)
Net Income	**95**	**100**	**97**	**121**	**124**
Share of associate's results	4	4	13	20	20
Share of JV's results	1	1	5	28	29
Other Adjustments	11	8	8	7	8
Distribution to Unitholders	**110**	**111**	**120**	**166**	**179**

Per share data

Y/E Sep, SGD	FY17	FY18	FY19	FY20e	FY21e
NAV	2.02	2.08	2.21	2.05	1.82
DPU (Cents)	11.87	12.01	12.08	14.81	15.99

Balance Sheet

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	2,668	2,749	2,846	2,851	2,856
Investment in Associates	65	66	457	458	459
Non Current Assets	**2,733**	**2,815**	**3,595**	**3,488**	**3,495**
Trade and Other Receivables	4.3	3.0	3.1	6.5	6.9
Cash and Cash Equivalents	14	22	13	15	17
Current Assets	**18**	**25**	**16**	**22**	**24**
Total Assets	**2,751**	**2,840**	**3,611**	**3,510**	**3,519**
LIABILITIES					
Interest bearing borrowings, non current	646	596	745	704	969
Others	31	32	30	29	29
Non-Current Liabilities	**677**	**627**	**775**	**733**	**998**
Trade and other payables	33	46	47	56	60
Interest bearing borrowings, current	152	217	295	401	135
Others	17	16	23	23	286
Current Liabilities	**202**	**280**	**365**	**480**	**481**
Total Liabilities	**879**	**907**	**1,140**	**1,213**	**1,479**
EQUITY					
Shareholder Equity	**1,872**	**1,934**	**2,471**	**2,297**	**2,040**

Cash Flow

Y/E Sep, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Net Income	194	167	206	168	182
Adjustments	(74)	(42)	(80)	(13)	(16)
WC changes	2	12	4	(6)	(3)
Cashflow from operating activities	**122**	**137**	**131**	**149**	**163**
CFI					
Capex on inv properties	(28)	(15)	(5)	(5)	(5)
Others	(40)	4	(656)	46	49
Cashflow from investing activities	**(68)**	**(12)**	**(661)**	**41**	**43**
CFF					
Share issuance	-	-	437	-	-
Distributions to Unitholders	(108)	(112)	(114)	(155)	(176)
Others	49	(5)	197	(33)	(29)
Cashflow from financing activities	**(59)**	**(117)**	**521**	**(188)**	**(205)**
Net change in cash	**(5)**	**8**	**(9)**	**2**	**2**
CCE, end	**14**	**22**	**13**	**15**	**17**

Source: Company, Phillip Securities Research (Singapore) Estimates

Valuation Ratios

Y/E Sep	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.34	1.30	1.22	1.32	1.49
Distribution yield	4.4%	4.4%	4.5%	5.5%	5.9%
NPI yield	4.9%	5.0%	4.9%	5.9%	6.0%
Growth & Margins	**FY17**	**FY18**	**FY19**	**FY20e**	**FY21e**
Growth					
Revenue	-1.2%	6.5%	1.6%	2.6%	2.2%
Net property income (NPI)	-0.2%	5.9%	1.5%	21.3%	2.0%
DPU	1.0%	1.3%	0.5%	22.6%	8.0%
Margins					
NPI margin	71.3%	71.0%	70.9%	83.8%	83.7%
Net Income Margin	52.2%	51.7%	49.2%	59.9%	60.1%
Key Ratios					
Gearing	29.0%	28.6%	28.8%	31.5%	31.4%
ROA	3.4%	3.5%	2.7%	3.4%	3.5%
ROE	5.1%	5.2%	3.9%	5.3%	6.1%
Interest coverage ratio (x)	7.35	6.85	5.82	6.03	6.25

PhillipCapital

NetLink NBN Trust Limited

A key player in the 5G roll-out

SINGAPORE | TELECOMMUNICATIONS| UPDATE

- Countercyclical due to resilient business model and dominance in residential connections.
- Expect run-rate growth of 25,000 residential fibre connections per annum.
- NLT is a beneficiary of the 5G roll-out, NBAP could see a boost in the number of connections.
- 5G unlikely to make NLT redundant, NLT infrastructure can accommodate higher speeds.
- Maintain ACCUMULATE with an unchanged target price of S$0.99.

Background

Netlink NBN Trust (NLT) is the only fibre network with nationwide residential coverage in Singapore. NLT designs, builds, owns and operates the passive fibre network infrastructure, which includes ducts, manholes, fibre cables and central offices. As of May 2019, NLT supports close to 1.33mn residential end-user connections and more than 46,000 non-residential end-user connections and 1,587 Non-Building Address Point (NBAP) across Singapore. NLT owns more than 16,000 km of ducts, 62,000 manholes, 76,000 km of fibre cables and 33,000sqm of co-location space.

Investment Merits/Outlook

1. **Dominance in residential fibre connections.** NLT's resilient business model and dominance in the residential fibre end-user connection of 1.41mn allows it to enjoy stable and predictable revenue streams. NLT boasts a strong EBITDA margin of ~70% which translate to a steady cash-flow to support the S$208mn distributions we forecast in FY20e. Distribution yield at our target price is 5.7%.

2. **Beginning of run-rate growth for residential fibre connections.** The number of residential connections grew by 1.9% QoQ (+13.7% YoY). The growth is largely due to StarHub's migration of its cable customers to NLT's fibre. Majority of StarHub's customers have been migrated and the exercise has ceased. There will no longer be contributions from the migration going forward. As such, we expect fibre connections growth to be lower in 2H20e compared to 1H20. There is still modest growth stemming from 25,000 new households a year in Singapore.

3. **5G will give NBAP connections a boost.** The Infocomm Media Development Authority (IMDA) launched a Call for Proposal (CFP) to facilitate the roll-out of 5G mobile network which is slated to cover half of Singapore by end-2020. NLT recently announced that they are supporting TPG Telecom on 5G trials in Singapore Science Park. We expect the roll-out of 5G to benefit the growth of NLT's NBAP connections especially when there is going to be two nationwide networks on a Standalone basis. Mobile Network Operators (MNOs) are likely to engage NLT's extensive fibre infrastructure to lighten their CAPEX. These fibre connections will be used in the MNOs base stations. After factoring that half of Singapore will have to be 5G covered by 2020, we modelled a 36% growth in NBAP connections bringing the total number of NBAP connections to 2,263.

4. **No replacement threat yet.** Although 5G speeds can be faster than fixed fibre we do not see a replacement threat in the short to medium term. The amount of data consumed per household is considerable given that several devices will be connected onto fixed broadband. 5G will be too expensive to use solely for one's connectivity needs. NLT's fibre infrastructure can also accommodate speeds of 1GBps and higher should the telcos choose to upgrade their equipment. We also suspect that in the early stages of 5G implementation, the mobile network will not be able to take the capacity if we would migrate all our connectivity needs from fixed to wireless.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$0.99. There are no changes to our forecasts. Our valuation is based on DCF (WACC 5.9%, Terminal growth 1%).

16 December 2019

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 0.945
FORECAST DIV	SGD 0.052
TARGET PRICE	SGD 0.990
TOTAL RETURN	10.3%

COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN) :	3,897
MARKET CAP (USD mn / SGD mn) :	2714 / 3683
52 - WK HI/LO (SGD) :	0.95 / 0.76
3M Average Daily T/O (mn) :	8.22

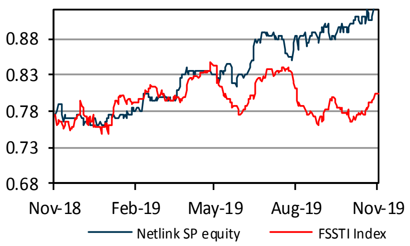
MAJOR SHAREHOLDERS (%)

Singtel Interactive Pte Ltd	24.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	5.1	6.9	27.3
STI RETURN	2.7	(0.8)	9.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	229	354	379	400
EBITDA	167	248	274	285
Net Profit	50	77	88	96
Distribution Yield	3.4%	5.2%	5.6%	5.7%
ROE (%)	1.6%	2.6%	3.0%	3.4%
ROA (%)	1.1%	1.8%	2.1%	2.3%

Source: Company, PSR

VALUATION METHOD

DCF (WACC: 5.9%, Terminal growth: 1%)

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Financials

Income Statement

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
Revenue	**299,160**	**228,587**	**353,580**	**378,965**	**400,224**
Operating Profit	80,765	55,416	86,400	102,607	111,613
EBITDA	**213,776**	**167,275**	**247,876**	**273,869**	**285,366**
Depreciation & Amortisation	143,319	111,811	160,792	170,268	172,653
EBIT	**70,457**	**55,464**	**87,084**	**103,601**	**112,714**
Net Finance Inc/(Exp)	-10,087	-12,180	-19,126	-22,061	-23,513
Profit before tax	70,794	43,809	69,750	83,226	90,945
Taxation	8,636	6,141	7,609	5,201	4,873
Net profit, reported	**79,430**	**49,950**	**77,359**	**88,427**	**95,819**

Per unit data (SGD Cents)

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPU, reported	2.0	1.3	2.0	2.3	2.5
DPU	1.5	3.2	4.9	5.2	5.3
BVPU	78.8	81.5	77.7	75.1	72.3

Cash Flow

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	**70,794**	**43,809**	**69,750**	**83,226**	**90,945**
Adjustments	153,245	124,976	180,143	190,643	194,421
WC changes	-13,781	21,058	2,303	4,350	5,619
Cash generated from ops	210,258	189,843	252,196	278,219	290,985
Tax paid	-5,092	-11,510	-6,061	-7,668	-7,668
Others	-9,592	-19,882	-16,493	-20,376	-21,768
Cashflow from ops	**195,574**	**158,451**	**229,642**	**250,175**	**261,549**
CFI					
CAPEX, net	-117,275	-212,181	-71,100	-90,000	-90,000
Others	-	-1,095,039	6	-	-
Cashflow from investments	**-117,275**	**-1,307,220**	**-71,094**	**-90,000**	**-90,000**
CFF					
Share issuance, net	-	2,334,718	-	-	-
Loans, net of repayments	-	-1,019,477	45,000	44,236	44,697
Distributions	-80,000	-	-221,348	-190,172	-204,411
Others	-	-	-	-	-
Cashflow from financing	**-80,000**	**1,315,218**	**-176,376**	**-145,936**	**-159,714**
Net change in cash	-1,701	166,449	-17,828	14,239	11,835
CCE, end	**15,929**	**166,449**	**148,621**	**162,860**	**174,695**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Accounts receivables	55,532	39,835	46,925	64,588	66,341
Cash	15,929	166,449	148,621	162,860	174,695
Inventories	5,499	3,889	4,738	6,285	6,541
Finance lease receivables	194	208	221	221	221
Total current assets	**80,082**	**238,133**	**233,530**	**266,979**	**280,823**
PPE	3,059,509	3,210,668	3,124,527	3,044,259	2,961,607
Others	1,098,012	928,249	923,744	937,971	937,971
Total non-current assets	**4,157,521**	**4,138,917**	**4,048,271**	**3,982,230**	**3,899,578**
Total Assets	**4,237,603**	**4,377,050**	**4,281,801**	**4,249,209**	**4,180,401**
LIABILITIES					
Accounts payables	87,222	48,374	56,023	79,583	87,211
Deferred revenue	2,387	12,485	21,989	21,989	21,989
Tax payable	13,159	-	1,696.00	1,696.00	1,696.00
Total current liabilities	**102,768**	**60,859**	**79,708**	**105,786**	**113,414**
Long term loans	507,604	588,742	634,554	678,790	723,487
Deferred tax liabilites	546,603	552,827	536,907	524,038	511,496
Total non-current liabilities	**1,064,020**	**1,141,813**	**1,172,241**	**1,217,567**	**1,249,723**
Total Liabilities	**1,166,788**	**1,202,672**	**1,251,949**	**1,323,353**	**1,363,137**
Unitholders' funds					
Unitholders' funds	**3,070,815**	**3,174,378**	**3,029,852**	**2,925,856**	**2,817,264**

Valuation Ratios

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	46.4	73.7	47.6	41.6	38.4
P/B (X)	1.2	1.2	1.2	1.3	1.3
EV/EBITDA (X)	19.5	24.5	16.8	15.3	14.8
Growth & Margins					
Growth					
Revenue	-	-23.6%	54.7%	7.2%	5.6%
EBITDA	-	-21.8%	48.2%	10.5%	4.2%
EBIT	-	-21.3%	57.0%	19.0%	8.8%
Net profit, adj.	-	-37.1%	54.9%	14.3%	8.4%
Margins					
Gross margin	27.0%	24.2%	24.4%	27.1%	27.9%
EBITDA margin	71.5%	73.2%	70.1%	72.3%	71.3%
EBIT margin	23.6%	24.3%	24.6%	27.3%	28.2%
Net profit margin	26.6%	21.9%	21.9%	23.3%	23.9%
Key Ratios					
ROE (%)	2.6%	1.6%	2.6%	3.0%	3.4%
ROA (%)	1.9%	1.1%	1.8%	2.1%	2.3%
Distribution yield (%)	1.6%	3.4%	5.2%	5.6%	5.7%
Net debt/EBITDA (X)	2.3	3.5	2.6	2.5	2.5

Oversea-Chinese Banking Corp Ltd

Reaping from the rise of Asian empires

SINGAPORE | BANKING | UPDATE

- Continuous investments in wealth management initiatives to support earnings visibility while cushioning the impact from lower NIM
- OCBC has the highest CET 1 % as of 3Q19 at 14.4% as compared to 13.8%/13.7% for DBS and UOB and is likely to edge into capital inefficiency territory if unutilised
- OCBC offers a dividend yield of around 4.5%, which cushions the stock's downsides
- FY20 NIM to contract around 5bps due to falling interest rate environment
- Maintain ACCUMULATE with an unchanged target price of S$11.70.

Company Background

Registered in 1932, Oversea-Chinese Banking Corporation Limited (OCBC) is the oldest bank in Singapore, after a merger of three Hokkien lenders. It counts OCBC Securities and Great Eastern Holding Ltd among its subsidiaries. The bank has a presence in 18 countries and territories and is the second-largest financial institution in Southeast Asia (SEA) by assets.

Investment Merits/Outlook

1. **A bright spot in wealth management.** Continuous investments in wealth management initiatives to support earnings visibility while cushioning the impact from lower NIM. Wealth management income for 9MFY19 rose 10% to a record S$2.46bn, up from S$2.24bn a year ago. In addition, 31% of the Group's 9M19 total income stemmed from its wealth management franchise as compared to 30% a year ago. We expect the momentum to be sustained by higher activities from investors as well as organic AUM growth.

2. **Well capitalised.** OCBC has the highest CET 1 % as of 3Q19 at 14.4% as compared to 13.8%/13.7% for DBS and UOB, and is likely to edge into capital inefficiency territory if unutilised. Management suggested that excess capital could be used for acquisitions or offensive purposes. However, if utilised for such purposes, OCBC could be facing potential acquisition risks. We forecast FY19e/FY20e dividend yield at 4.3% and 4.5%.

3. **Pressure on margins.** With the cuts in interest rates, OCBC suggested NIM to contract around 5bps YoY in 2020 and expects one more rate cut in the next year. However, the impact of Fed rate cuts could be cushioned with adjustments to funding costs to match the pricing charged on loans. We forecast FY19e/FY20e NIM at 1.76% and 1.71%.

4. **Potential rise in credit costs.** The new Expected Credit Loss (ECL) model requires banks to make adequate provisions whenever there is deterioration in the macro-environment. Hong Kong has been hit badly by the six months of violent anti-government protests and the U.S.-China trade tension. We expect credit costs to be slightly elevated next year as the risk of slower global growth and sustained domestic unrest in Hong Kong leads to higher ECL.

5. **Flat loans growth.** OCBC guided softer loan growth expectations of 2-3% in FY20e (previously mid-single-digit), given the weak lending environment. We forecast FY20e loans to grow 2.4% YoY.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$11.70.

16 December 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 10.9
FORECAST DIV	SGD 0.5
TARGET PRICE	SGD 11.7
TOTAL RETURN	**12.1%**

COMPANY DATA

BLOOMBERG TICKER	OCBC SP
O/S SHARES (MN) :	4,402
MARKET CAP (USD mn / SGD mn) :	35754 / 48336
52 - WK HI/LO (SGD) :	12.19 / 10.45
3M Average Daily T/O (mn) :	4.56

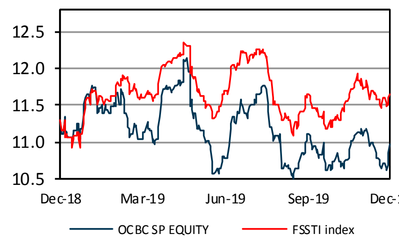
MAJOR SHAREHOLDERS (%)

Selat Pte Limited	12.0%
Lee Foundation Singapore	4.3%
Vanguard Group Inc	2.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.9)	(1.5)	0.5
STI RETURN	(2.0)	0.4	8.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY17	FY18	FY19e	FY20e
Total Income	8,650	9,701	10,511	10,977
Op. Profit	4,512	5,097	5,066	5,173
NPAT, adj.	4,082	4,492	4,571	4,660
EPS (SGD)	1.00	1.06	1.06	1.08
PER, adj. (x)	10.8	10.3	10.2	10.0
P/BV, x	1.2	1.1	1.0	1.0
ROE	9.8%	11.3%	10.6%	10.2%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9%, g: 2%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	5,052	5,423	5,890	6,309	6,315
Fees and Commission	1,638	1,567	2,030	2,158	2,549
Other Non int income	1,799	1,660	1,781	2,043	2,114
Total operating income	**8,489**	**8,650**	**9,701**	**10,511**	**10,977**
Operating expenses	3,789	3,378	4,214	4,529	4,753
Provisions and others	821	760	390	916	1,051
Operating profit	**3,879**	**4,512**	**5,097**	**5,066**	**5,173**
Associates & JVs	396	472	456	593	593
Profit Before Tax	**4,275**	**4,984**	**5,553**	**5,658**	**5,765**
Taxation	629	803	878	894	912
Profit After Tax	**3,646**	**4,181**	**4,675**	**4,764**	**4,854**
Non-controlling Interest	173	99	183	190	194
Net Income, reported	**3,473**	**4,082**	**4,492**	**4,573**	**4,660**
Net Income, adj.	**3,473**	**4,082**	**4,492**	**4,571**	**4,660**

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash bal with central banks	16,559	19,594	18,748	20,349	27,883
Due from banks	39,801	49,377	39,035	36,998	37,369
Debt and equity securities	23,157	25,329	25,542	26,501	26,767
Loans and bills receivable	216,830	234,141	255,193	263,782	270,882
Life Assur. Fund Inv. Assets	61,973	73,927	76,867	79,173	81,548
Others	51,564	52,527	52,158	52,804	53,389
Total Assets	**409,884**	**454,895**	**467,543**	**479,606**	**497,838**
Due to banks	10,740	7,485	7,576	10,320	8,937
Due to non-bank customers	261,486	283,642	295,412	302,967	316,775
Life Assur. Fund Liabilities	61,962	73,755	74,928	77,176	79,491
Debts issued	19,947	32,235	30,272	25,547	26,365
Others	16,107	15,985	15,963	16,431	16,913
Total liabilities	**370,242**	**413,102**	**424,151**	**432,441**	**448,480**
Shareholder's equity	37,007	39,028	42,137	45,719	47,718
Non-controlling interest	2,635	2,765	1,255	1,445	1,640
Total Equity	**39,642**	**41,793**	**43,392**	**47,165**	**49,358**

Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.83	1.00	1.06	1.06	1.08
EPS, adj.	0.83	1.00	1.06	1.06	1.08
DPS	0.36	0.37	0.43	0.48	0.50
BVPS	8.61	9.08	9.68	10.37	10.86
Dividend payout ratio	43%	37%	41%	45%	46%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.7%	13.9%	14.0%	14.3%	14.8%
Tier 1 CAR	15.2%	15.0%	14.8%	15.1%	15.5%
Total CAR	17.2%	17.2%	16.5%	16.9%	17.3%

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	13.1	10.8	10.3	10.2	10.0
P/B (X)	1.3	1.2	1.1	1.0	1.0
Dividend Yield	3.3%	3.4%	4.0%	4.4%	4.6%
Growth & Margins					
Growth					
Net int income	-2.6%	7.3%	8.6%	7.1%	0.1%
Non int income	-2.7%	24.4%	-10.9%	10.2%	11.0%
Pre provision operating profit	-2.7%	14.2%	0.0%	8.3%	4.4%
Operating income	-13.3%	25.8%	4.4%	-0.7%	2.2%
Net income, reported	-11.0%	20.8%	7.1%	1.8%	1.9%
Net income, adj	-11.0%	20.8%	7.1%	1.8%	1.9%
Margins					
Net interest margin	1.67%	1.65%	1.70%	1.76%	1.71%
Key Ratios					
ROE	10.0%	9.8%	11.3%	10.6%	10.2%
ROA	1.0%	0.9%	1.1%	1.1%	1.1%
RORWA	1.8%	1.9%	2.2%	2.2%	2.1%
Non-int/total income ratio	40.5%	37.3%	39.3%	40.0%	42.5%
Cost/income ratio	44.6%	39.1%	43.4%	43.1%	43.3%
Loan/deposit ratio	82.9%	82.5%	86.4%	87.1%	85.5%
NPL ratio	1.3%	1.4%	1.5%	1.4%	1.4%

Source: Company, Phillip Securities Research (Singapore) Estimates

PropNex Ltd

Market leader recovering

SINGAPORE | REAL ESTATE (AGENCIES) | UPDATE

- Largest real estate agency with market share rising to around 46% for primary launches.
- Expect recovery in property transaction volumes.
- Organically expanding agency force and building an overseas footprint.
- Maintain BUY with an unchanged target price of S$0.59.

Background

PropNex Limited (PropNex) is a real estate services company, comprising the brokerage (PropNex Realty Pte Ltd), training, property management and consultancy businesses. PropNex was listed on 2 July 2018 and is currently the largest real estate agency in Singapore, in terms of the number of agents. The Group owns the rights to its proprietary "PropNex" brand and counts Jones Lang LaSalle (JLL) as a shareholder of its PropNex International arm.

Investment Merits/Outlook

1. **Largest real estate agency.** PropNex is the largest real estate agency in Singapore in terms of the number of real estate agents. It has a large market share in new private residential launches (~46%), private resale (~40%) and HDB resale (~47%). Only private rental's market share is lower at 27%. We expect market share to increase further as the agency force expands.

2. **Property transactions are recovering, except resale.** When we split the business into four key segments, only private resale looks the weakest for 2020. (i) Private resale (20% of revenue) is down 27% in 3Q19. There is wide gap in bid and offer prices as there is no urgency on both sides to transact; (ii) HDB resale (17%) will register a recovery next year following an expansion in grants to resale buyers; and (iii) Project marketing (38%) will benefit from a huge pipeline of launches.

3. **Housing demand boosted by higher HDB grants.** The recent relaxation of grants for the purchase of HDB homes will be a boost to the upgraders markets. On 11 September, the authorities raised the income eligibility and size of grants for the purchase of HDB homes. The relaxation was more generous when purchasing resale units. In addition to a rise in income ceiling (from S$5,000 to S$9,000), the size of the grant was increased (from S$120,000 to S$160,000). Around 25,000 HDB units have reached their minimum occupation limit. The grants can help to stimulate the HDB resale market and consequently, the private mass residential market.

4. **Organic growth from expanding agency force and overseas expansion.** As the agency force continues to grow, this provides a foundation to maintain share and grow organically. The number of agents has grown by 15% to around 8,500 this year. We think PropNex is building a foundation overseas as more developers become reliant on agencies to move their product. PropNex's salesforce in Malaysia surged impressively from 60 in March 2018 to 500 at present. Malaysia will still be a small contributor in the next few years but it will be an added driver to growth in future, in our opinion.

Recommendation

Maintain BUY with an unchanged target price of S$0.59.We like PropNex for the high return on equity from the business (20%), large and rising market share of transactions and an attractive dividend yield of 7%. Excluding the net cash of S$73mn, PropNex currently trades at a P/E of 7x.

16 December 2019

BUY (Maintained)

LAST DONE PRICE	SGD 0.520
FORECAST DIV	SGD 0.037
TARGET PRICE	SGD 0.590
TOTAL RETURN	20.7%

COMPANY DATA

BLOOMBERG CODE:	PROP SP Equity
O/S SHARES (MN) :	370
MARKET CAP (USD mn / SGD mn) :	138 / 191
52 - WK HI/LO (SGD) :	0.76 / 0.44
3M Average Daily T/O (mn) :	0.34

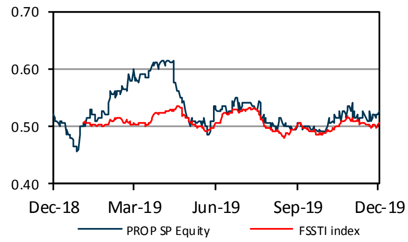
MAJOR SHAREHOLDERS (%)

P&N HOLDINGS PTE LTD	55.6%
ISMAIL MOHAMED	8.6%
SEONG KELVIN FONG KENG	7.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(9.8)	(5.2)	N.A.
STI RETURN	(5.8)	0.4	(6.4)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn	FY17	FY18	FY19e	FY20e
Revenue	3319	4315	367.9	392.6
Gross Profit	33.8	41.4	36.8	39.3
Operating Profit	22.2	26.4	23.0	23.4
PAT	16.3	19.4	17.2	17.5
P/E (x)	11.8	9.9	11.2	11.0
P/B (x)	9.1	2.7	2.3	2.0
EPS, SGD cents	4.4	5.2	4.6	4.7
Dividend yield, %	5.0	5.8	7.1	7.3
ROE	76.9%	27.6%	20.6%	18.5%
ROA	17.6%	13.7%	11.7%	10.8%

Source: Company Data, PSR

Valuation Method

DCF (Cost of equity 8.0%, Terminal growth 0%)

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Financials

Income Statement

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
Revenue	245.0	331.9	431.5	367.9	392.6
Cost of services	(225.9)	(298.1)	(390.2)	(331.1)	(353.3)
Gross profit	19.1	33.8	41.4	36.8	39.3
Staff costs	(7.6)	(8.3)	(12.1)	(11.0)	(12.0)
Finance and other income	2.6	2.9	4.2	4.7	4.7
Other costs and expenses	(4.2)	(6.2)	(7.1)	(7.5)	(8.6)
Operating profit	**10.0**	**22.2**	**26.4**	**23.0**	**23.4**
Share of results in joint venture	-	(0.0)	-	-	-
Profit before tax	**10.0**	**22.2**	**26.4**	**23.0**	**23.4**
Tax	(1.1)	(3.3)	(4.4)	(3.9)	(4.0)
Minority Interest	(1.2)	(2.6)	(2.5)	(1.9)	(1.9)
PATMI	**7.6**	**16.3**	**19.4**	**17.2**	**17.5**

Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	2.5	4.4	5.2	4.6	4.7
DPS	1.7	2.6	3.0	3.7	3.8
NAV per share	4.2	5.7	19.0	22.5	25.5

Cash Flow

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	9	19	22	19	19
Adjustments	2	5	5	5	5
WC changes	0.1	1	(0.5)	(1)	(10)
Interest and Taxes paid, others	-1	-1	-3	4	4
Cashflow from operations	**10**	**24**	**23**	**27**	**19**
CFI					
Acquisition of plant and equipment	(0.3)	(1.5)	(1.8)	(1.7)	(1.8)
Others	0.1	0.1	0.5	-	-
Cashflow from investments	**(0.2)**	**(1.4)**	**(1.3)**	**(1.7)**	**(1.8)**
CFF					
Payment of dividends	-6.665	-10.7566	-13.3	-15.2918	-15.5469
Others	-	-	39	-	-
Cashflow from financing	**-7**	**-11**	**26**	**-15**	**-16**
Net change in cash	**3**	**12**	**48**	**10**	**1**
CCE, end	**16**	**28**	**76**	**86**	**87**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PP&E	0.7	1.7	2.8	2.8	2.8
Others	0.01	0.01	0.19	3.35	3.35
Total non-current assets	**0.7**	**1.8**	**3.0**	**6.1**	**6.1**
Trade & other receivables	34.0	62.9	63.5	55.2	69.1
Cash and cash equivalents	16.1	27.7	75.7	85.8	87.3
Total current assets	**50.2**	**90.6**	**139.1**	**141.0**	**156.4**
Total Assets	**50.8**	**92.4**	**142.1**	**147.2**	**162.5**
LIABILITIES					
Trade & other payables	36	67	66	56	60
Current tax liabilities	-1.2	-3.2	-4.9	-2.6	-2.9
Others	0.6	0.6	0.9	0.7	0.7
Total current liabilities	**38**	**71**	**72**	**62**	**66**
Deferred tax liability	0.03	0.14	0.17	0.09	0.11
Total non-current liabilities	**0.03**	**0.14**	**0.17**	**1.85**	**1.86**
Total Liabilities	**38**	**71**	**72**	**64**	**68**
EQUITY					
Share capital	0.4	0.4	57.5	57.5	57.5
Merger reserve	-	-	(17.7)	-	-
Translation reserve	0.0	(0.0)	(0.0)	-	-
Capital reserve	0.6	0.6	0.6	0.6	0.6
Accumulated profits	10.5	17.1	26.4	29.9	33.4
Non-controlling interests	1.5	3.1	3.5	3.5	3.5
Total Equity	**13**	**21**	**70**	**83**	**94**

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	21.0	11.8	9.9	11.2	11.0
P/B (x)	12.3	9.1	2.7	2.3	2.0
Dividend Yield (%)	3.2	5.0	5.8	7.1	7.3
Growth & Margins (%)					
Growth					
Revenue	20%	35%	30%	-15%	7%
Gross profit	-	76%	23%	-11%	7%
PBT	7%	122%	19%	-13%	2%
PAT	-8%	114%	19%	-12%	2%
Margins					
GP margin	8%	10%	10%	10%	10%
PBT margin	4%	7%	6%	6%	6%
PAT Margin	3%	5%	4%	5%	4%
Key Ratios					
ROE (%)	58%	77%	28%	21%	19%
ROA (%)	15%	18%	14%	12%	11%
Gearing (x)	-	-	-	-	-

PhillipCapital

SATS Ltd

Regional expansion via strategic investments

SINGAPORE | TRANSPORT SERVICES | UPDATE

- Central kitchen business in China and India expected to grow at a CAGR of 4% and 6% respectively from 2017 to 2023. The addressable market for the central kitchen is larger than the whole of the aviation food business in Asia.
- Accretive acquisitions for SATS will increase their presence and accelerate growth in China and India. SATS' S$1bn investments in 3 years will bring S$43.9mn to its bottom line.
- TFK likely to experience a surge of growth in volumes due to the Japan Olympics.
- Cargo is likely to bottom out in the next few quarters. While higher efficiency and cost reduction due to the digital cargo platform will offset the weak cargo volumes.
- Maintain ACCUMULATE with a lower target price of $5.36 (prev. S$5.47).

Background

SATS Ltd. provides gateway services and food solutions. The Company specializes in airfreight, ramp and baggage handling, passenger services, aviation security services, aircraft cleaning, and cruise centre management. It also provides airline catering, institutional catering, aviation laundry, and food distribution and logistics. SATS has a presence across Asia and the Middle East.

Investment Merits/Outlook

1. **Opportunity in the new central kitchen business.** SATS has diversified into the central kitchen business in China and India. The first central kitchen in Kunshan supports restaurants such as Disneyland, Haidilao, Shangri-la Hotel and Luckin Coffee. The addressable market for central kitchen in China alone (S$19.7bn by 2023) is larger than the whole of aviation food business in Asia (S$12bn by 2023). SATS expects the central kitchen business in China and India to grow at a CAGR of 4% and 6% respectively from 2017 to 2023.
2. **Accretive acquisitions to accelerate growth in the APAC aviation market.** SATS acquired 50% of Nanjing Weizhou Airline Food (NWAF), which serves key customers such as China Eastern, China Southern, China Railway and Shenzhen Airline. SATS is also the only independent service provider of inflight catering and ground handling services for Daxing International Airport (DIA), the largest airport in the world, through 2 joint ventures with Capital Airports Holdings. We believe the accretive acquisitions will fit into the channel distribution strategy and expand the presence of SATS in China and India. SATS aims to make further greenfield or brownfield investments of S$1bn over the next 3 years. Based on a FY19e P/E ratio of 22.8, we expect the investments to bring S$43.9mn to SATS' bottom line over 3 years.
3. **TFK to reap short-term benefits from the Japan Olympics.** TFK is gearing up for the Olympics by doubling capacity with a new in-flight kitchen to serve Haneda and Narita Airport. It is likely to benefit in the short-term from the Japan Olympics due to an increase in the number of international flights and passenger volumes.
4. **Cargo likely to bottom in the next few quarters.** Weakness in the cargo volumes is likely to persist for the next few quarters due to macro headwinds. Margins for SATS would be depressed as cargo has high operating leverage. However, investments in the digital cargo platform will help to enhance efficiency and reduce costs, which will help to offset lower volumes in the near-term.

Recommendation

We maintain ACCUMULATE with a lower target price of $5.36 (prev. S$5.47). We like the stock for its regional expansion opportunities. The strong cash flow generation will help sustain the 3.4% dividend yield.

StocksBnB.com

16 December 2019

Accumulate (Maintained)

LAST CLOSE PRICE	S$ 5.08
FORECAST DIV	S$ 0.170
TARGET PRICE	S$ 5.36
TOTAL RETURN	8.9%

COMPANY DATA

BLOOMBERG CODE:	SATS SP
O/S SHARES (MN) :	1,114
MARKET CAP (US$ mn / S$ mn) :	4116 / 5661
52 - WK HI/LO (SGD) :	5.5 / 4.55
3M Average Daily T/O (mn) :	1.58

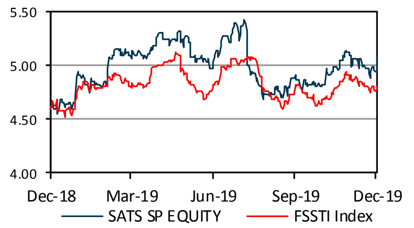
MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS PTE LTD	41.69
BLACKROCK INC	4.99

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.6)	3.2	0.7
STI RETURN	(1.6)	1.4	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY17	FY18	FY19e	FY20e
Revenue (S$ mn)	1,729	1,725	1,828	1,869
PATMI, adj. (S$ mn)	234	236	241	264
EPS, adj. (cents)	21.1	21.1	21.6	23.6
P/E, adj. (x)	23.2	24.3	23.5	21.5
BVPS (cents)	150	157	162	170
P/B (x)	3.2	3.3	3.1	3.0
DPS (cents)	17.0	18.0	17.0	18.0
Div. Yield (%)	3.5	3.5	3.3	3.5

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 7.0%, Terminal g: 2.0%)

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Financials

Income Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**1,698**	**1,729**	**1,725**	**1,828**	**1,869**
EBITDA	**285**	**304**	**305**	**332**	**352**
Depreciation & Amortisation	(70)	(74)	(79)	(82)	(83)
EBIT	**215**	**231**	**226**	**250**	**269**
Net Finance (Expense)/Inc	2.4	3.4	3.3	2.5	2.6
Other items	2.2	9.9	20.7	(1.5)	(0.4)
Associates & JVs	48	65	71	59	64
Exceptional items	(2.1)	-	-	-	-
Profit Before Tax	**265**	**309**	**322**	**310**	**335**
Taxation	(47)	(48)	(56)	(52)	(60)
Profit After Tax	**218**	**261**	**266**	**259**	**275**
- Non-controlling interest	(2.2)	2.9	4.0	10.3	11.0
PATMI, reported	**221**	**258**	**262**	**248**	**264**
Underlying net profit	**218**	**234**	**236**	**241**	**264**

Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	19.9	23.2	23.4	22.3	23.6
EPS, adj.	19.7	21.1	21.1	21.6	23.6
DPS	15.0	17.0	18.0	17.0	18.0
BVPS	139	150	157	162	170

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
PBT	265	309	322	310	335
Adjustments	28	5	1	20	17
WC changes	17	38	(25)	12	(6)
Cash generated from ops	310	352	298	342	346
Others	(37)	(43)	(53)	(52)	(61)
Cashflow from ops	**273**	**309**	**246**	**290**	**285**
CFI					
CAPEX, net	(49)	(86)	(98)	(85)	(85)
Divd from associates & JVs	34	42	25	39	41
Others	(41)	(75)	(109)	(37)	(37)
Cashflow from investments	**(56)**	**(120)**	**(182)**	**(83)**	**(80)**
CFF					
Share issuance, net	(1.7)	4.3	(13.4)	-	-
Loans, net of repayments	0.4	(6.7)	(0.6)	(10.0)	(10.0)
Dividends	(156)	(179)	(192)	(201)	(190)
Others	0.5	8.7	8.8	-	-
Cashflow from financing	**(157)**	**(173)**	**(197)**	**(211)**	**(200)**
Net change in cash	**60**	**17**	**(134)**	**(4)**	**5**
Effects of exchange rates	0.6	2.0	(1.6)	-	-
CCE, end	**490**	**508**	**373**	**369**	**374**

Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	517	539	560	566	571
Intangibles	164	158	158	154	151
Associates & JVs	546	671	849	910	972
Others	50	56	47	47	47
Total non-current assets	**1,276**	**1,423**	**1,613**	**1,677**	**1,741**
Inventories	22	22	23	23	24
Accounts Receivables	277	271	299	302	316
Cash	490	506	373	369	374
Others	22	40	25	26	25
Total current assets	**811**	**839**	**719**	**720**	**740**
Total Assets	**2,087**	**2,262**	**2,332**	**2,397**	**2,481**
LIABILITIES					
Short term loans	110	10	10	10	10
Accounts Payables	309	331	332	351	359
Others	51	69	61	61	61
Total current liabilities	**470**	**410**	**403**	**422**	**430**
Long term loans	1	98	96	86	76
Others	70	80	83	83	83
Total non-current liabilities	**70**	**178**	**179**	**169**	**159**
Total Liabilities	**541**	**588**	**582**	**591**	**589**
EQUITY					
Non-controlling interest	74	88	133	143	154
Shareholder Equity	**1,472**	**1,586**	**1,618**	**1,664**	**1,738**

Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x), adj.	20.1	23.2	24.3	23.5	21.5
P/B (x)	2.8	3.2	3.3	3.1	3.0
EV/EBITDA (x), adj.	14.0	16.6	17.9	16.3	15.3
Dividend Yield (%)	3.8%	3.5%	3.5%	3.3%	3.5%
Growth & Margins (%)					
Growth					
Revenue	-3.1%	1.8%	-0.3%	6.0%	2.2%
EBITDA	15.8%	6.7%	0.3%	8.9%	6.2%
EBIT	20.6%	7.4%	-1.8%	10.3%	7.7%
Net Income, adj.	11.4%	7.4%	0.8%	2.2%	9.3%
Margins					
EBITDA margin	16.8%	17.6%	17.7%	18.2%	18.9%
EBIT margin	12.6%	13.3%	13.1%	13.7%	14.4%
Net Profit Margin	12.8%	13.5%	13.7%	13.2%	14.1%
Key Ratios					
ROE (%)	15.1%	15.3%	14.7%	14.7%	15.5%
ROA (%)	10.7%	10.8%	10.3%	10.2%	10.8%
Net Debt or (Net Cash)	(379)	(397)	(267)	(273)	(288)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Sheng Siong Group Ltd

Expect another year of earnings growth

SINGAPORE | CONSUMER | UPDATE

- Store footprint expanding 8% in FY19/20 is supportive for revenue.
- Growing 10x faster than industry due to market share gains from supermarket malls and wet markets.
- Maintain ACCUMULATE with an unchanged target price at S$1.32.

Background

Sheng Siong Group Ltd (SSG) is the third-largest supermarket chain in Singapore. Listed on SGX in August 2011. It provides daily essentials to mass-market consumers through its convenience and no-frills approach. As of 30 Sep-19, SSG has 57 outlets located in Singapore's heartlands spanning over 512,000 sft.

Investment Merits/Outlook

1. **Store footprint still growing.** After the record expansion of 10 new stores in 2018, we are expecting another 8% rise in footprint for FY19/20. This will provide support for revenue growth. The rise in construction of HDB units has improved on the availability of new shops.
2. **Rising gross margins is an impressive trend.** Gross margins for SSG remains at record levels of around 27%. This is a major improvement from the 22% at IPO in 2011. Fresh food is the highest margin category, as high as 35%. As SSG captures share from wet markets, we expect the sales mix from fresh food to continue expanding. Anecdotally, there are a fewer hawker centres being built together with wet markets. Sales mix from fresh has risen from mid-30% to high 40%.
3. **Operational leverage could surprise on the upside.** In the initial years, operating margins for new stores will be negatively affected by the high fixed cost from rental and labour. We expect operating leverage to turn positive in FY20e when FY18 new stores mature. In general, we believe it takes one to two years for a store to break-even.
4. **E-commerce not encroaching into the mass market.** The impact of online has been relatively muted. Customers are still less willing to buy fresh foods online. Online sales for SSG is a very low single-digit percentage of sales.
5. **Attractive metrics.** SSG offers attractive investment metrics with ROE of 25% and a net cash balance sheet of S$83mn. It also pays a dividend yield of 3%.
6. **China still a learning process.** SSG started their first store in Kunming, China in November 2017. The second store opened in June 2019. SSG is taking a long-term view on China to be better understand the market and develop a brand name before rolling out more stores. Gross margins are lower in China but this can be offset by lower operating cost and capital expenditure.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$1.32 based on 25x PE FY19e. Growth will come from: (i) 8% rise in store footprint in FY19/20e; (ii) market share gains from supermarket malls and wet markets; and (iii) increased productivity or revenue per sft for the stores.

16 December 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.25
FORECAST DIV	SGD 0.037
TARGET PRICE	SGD 1.32
TOTAL RETURN	8.6%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN) :	1,504
MARKET CAP (USD mn / SGD mn) :	1390 / 1879
52 - WK HI/LO (SGD) :	1.28 / 1.02
3M Average Daily T/O (mn) :	1.27

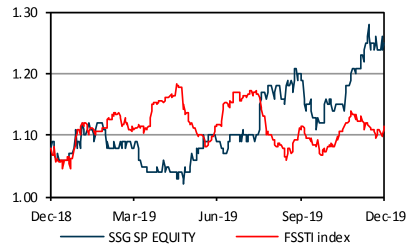
MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	9.3%
LIM HOCK LENG	9.1%
LIM HOCK ENG	9.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.3	4.2	19.5
STI RETURN	(2.01)	0.38	7.35

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD mn)	FY17	FY18	FY19e	FY20e
Revenue	829.9	890.9	988.9	1,058.2
EBITDA	88.8	95.0	127.2	138.8
NPAT (adj.)	69.8	70.8	79.3	89.6
EPS (adj.)	4.64	4.71	5.28	5.96
PER, x (adj.)	26.9	26.5	23.7	21.0
P/BV, x	6.9	6.5	6.0	5.5
DPS (SGD cents)	3.3	3.4	3.7	4.2
Div Yield	2.6%	2.7%	3.0%	3.4%
ROE	26.7%	25.2%	26.3%	27.4%

Source: Company, PSR est.

Valuation Method

P/E Multiple @ 25x

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Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**796.7**	**829.9**	**890.9**	**988.9**	**1,058.2**
Gross profit	204.7	217.4	238.4	266.0	286.8
EBITDA	**81.8**	**88.8**	**95.0**	**127.2**	**138.8**
Depreciation & Amortisation	14.9	14.8	16.5	39.8	39.9
EBIT	**75.6**	**81.9**	**83.8**	**94.8**	**106.9**
Net Finance Inc/(Exp)	0.6	0.2	0.9	0.9	1.0
Profit Before Tax	**76.2**	**82.1**	**84.7**	**95.7**	**107.9**
Taxation	(13.5)	(12.6)	(14.1)	(16.5)	(18.3)
Profit After Tax	**62.7**	**69.5**	**70.5**	**79.2**	**89.5**
Non Controlling Interest	0.0	(0.3)	(0.3)	(0.1)	(0.1)
Net profit, reported	**62.7**	**69.8**	**70.8**	**79.3**	**89.6**
Net profit, adj.	**62.7**	**69.8**	**70.8**	**79.3**	**89.6**

Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	4.17	4.64	4.71	5.28	5.96
EPS, adj.	4.17	4.64	4.71	5.28	5.96
DPS	3.75	3.30	3.40	3.70	4.20
BVPS	16.76	18.00	19.30	20.88	22.65

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	76.2	82.1	84.7	95.7	107.9
Adjustments	14.1	14.7	15.6	38.9	38.9
WC changes	0.8	-9.4	6.9	-0.2	2.8
Cash generated from ops	91.0	87.5	107.1	134.4	149.6
Others	-13.0	-8.9	-14.9	-16.5	-18.3
Cashflow from ops	78.1	78.5	92.2	117.9	131.3
CFI					
CAPEX, net	-89.3	-17.6	-27.9	-29.7	-31.7
Others	0.6	0.2	0.9	0.9	1.0
Cashflow from investments	-88.7	-17.3	-27.0	-28.8	-30.7
CFF					
Share issuance, net	0.0	0.0	0.0	0.0	0.0
Loans, net of repayments	0.0	0.0	0.0	0.0	0.0
Dividends	-54.9	-51.1	-51.1	-55.6	-63.1
Others	0.0	0.0	0.0	0.0	0.0
Cashflow from financing	-54.9	-51.1	-51.1	-55.6	-63.1
Net change in cash	-65.5	10.1	14.1	33.6	37.4
Effects of exchange rates	0.4	-0.1	-0.3	0.0	0.0
CCE, end	**63.5**	**73.4**	**87.2**	**99.8**	**117.4**

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	252.0	254.7	266.2	277.1	288.7
Others	0.0	0.0	0.0	60.0	60.0
Total non-current assets	**252.0**	**254.7**	**266.2**	**337.1**	**348.7**
Accounts receivables	10.4	14.7	13.0	14.9	15.9
Cash	63.5	73.4	87.2	99.8	117.4
Inventories	61.9	60.8	69.9	71.3	76.1
Others	0.0	0.0	0.0	0.0	0.0
Total current assets	**135.8**	**148.9**	**170.1**	**186.0**	**209.5**
Total Assets	**387.8**	**403.6**	**436.3**	**523.1**	**558.2**
LIABILITIES					
Accounts payables	117.5	111.3	125.7	128.7	137.4
Short term loans	0.0	0.0	0.0	30.0	30.0
Others	13.0	16.5	15.4	15.4	15.4
Total current liabilities	**130.5**	**127.8**	**141.1**	**174.1**	**182.8**
Long term loans	0.0	0.0	0.0	30.0	30.0
Others	2.4	2.6	2.9	2.9	2.9
Total non-current liabilities	**2.4**	**2.6**	**2.9**	**32.9**	**32.9**
Total Liabilities	**133.0**	**130.4**	**144.0**	**207.0**	**215.7**
EQUITY					
Non-controlling interests	2.8	2.5	2.1	2.0	1.9
Shareholder Equity	**252.1**	**270.7**	**290.2**	**314.0**	**340.6**

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	30.0	26.9	26.5	23.7	21.0
P/B (X)	7.5	6.9	6.5	6.0	5.5
EV/EBITDA (X), adj.	22.2	20.4	18.9	14.5	13.1
Dividend Yield (%)	3.0%	2.6%	2.7%	3.0%	3.4%
Growth & Margins					
Growth					
Revenue	4.2%	4.2%	7.4%	11.0%	7.0%
EBITDA	12.6%	8.5%	7.0%	33.9%	9.1%
EBIT	13.7%	8.2%	2.4%	13.2%	12.7%
Net profit, adj.	10.3%	11.4%	1.4%	12.1%	13.0%
Margins					
Gross margin	25.7%	26.2%	26.8%	26.9%	27.1%
EBITDA margin	10.3%	10.7%	10.7%	12.9%	13.1%
EBIT margin	9.5%	9.9%	9.4%	9.6%	10.1%
Net profit margin	7.9%	8.4%	7.9%	8.0%	8.5%
Key Ratios					
ROE (%)	25.2%	26.7%	25.2%	26.3%	27.4%
ROA (%)	16.6%	17.6%	16.9%	16.5%	16.6%
Net Debt/(Cash)	-64	-73	-87	-40	-57
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

Singapore Telecommunications Limited

Recovery in India accelerated by price hikes

SINGAPORE | TELECOMMUNICATIONS| UPDATE

16 December 2019

- Airtel raised tariffs by 42% in India this may lift Singtel's NPAT by ~4% assuming a 35% improvement in Airtel's ARPU.
- Regional associates returning to growth and enjoyed first YoY PBT growth in 3yrs.
- Expect headwinds in core businesses to be contained.
- Maintain ACCUMULATE with a higher TP of S$3.53 (prev. S$3.31). We adjusted our FY20e earnings higher by 4% to take into account the price hikes in India.

Background

Singtel is the largest mobile network operator in Singapore and is a leading telecommunications company in the region. Singtel provides a diverse range of services including fixed, mobile, internet, television, info-communications technology and digital solutions. The group structure consists of Consumer, Group Enterprise and Group Digital Life. Optus, a subsidiary of Singtel, is the 2nd largest telecommunications company in Australia. Singtel is also invested in leading companies in the region such as Bharti Airtel (India, South Asia & Africa), Telkomsel (Indonesia), Globe Telecom (Philippines) and Advanced Info Service (Thailand).

Investment Merits/Outlook

1. **Recovery in India accelerated by price hikes.** On 3 December, Bharti Airtel (Airtel) raised tariffs by 42%. This is a first tariff hike since 2016. The decision to hike tariffs was in part due to the Telecom Regulatory Authority of India (TRAI) increasing probability of initiating a consultation to bring rational pricing back to the Indian mobile sector given how prices have been eroding the viability of the sector. Airtel's competitor Reliance Jio (Jio) has been modestly increasing tariffs while Vodafone Idea (VI) recently made announcements to increase tariffs. We believe Airtel's decision to raise tariffs is also due to a hefty US$5bn fine it received due to a difference in opinion of Adjusted Gross Revenue (AGR) with regulators. As such, we forecast Singtel's FY20e NPAT to benefit by ~4% with an assumption of a 35% improvement in ARPU.

2. **Regional associates returning to growth.** Singtel's regional associates contribute ~47% of its earnings, given the size of the contribution it is critical to Singtel's share price. We are encouraged by the first YoY growth (+35%) in 3 years. The growth was largely due to better performance in Telkomsel, Globe, and AIS. We believe that the competition in Telkomsel is improving as it returned to sequential-quarter growth. Both Globe and AIS grew on robust data consumption and a better pricing environment.

3. **Expect headwinds in core businesses to be contained.** On Singapore mobile, we do not foresee TPG Telecom (TPG) grabbing a significant market share from incumbents in 2020 due to its inferior 4G network. We also do not expect prices to collapse as it has already contracted significantly. In Australia, we are encouraged that the industry is adjusting mobile prices upwards. On the enterprise segment, we expect a modest recovery in 2H21e as we move past the contract renewal cycle which has been creating pricing pressures in FY20. We expect weakness in core carriage services to be offset by growth in data analytics, artificial intelligence and IOT. We reckon that Optus' business in the financial sector in Australia could improve as the sector stabilises.

Recommendation

Maintain ACCUMULATE with a higher target price of S$3.53 (prev. S$3.31). We revised our FY20e earnings upwards by 4%. Our target price is based on FY20e 7X EV/EBITDA of Singtel's Singapore and Australia businesses and the valuation of its listed associates. We like Singtel because of an improving outlook of Airtel and other regional associates.

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 3.390
FORECAST DIV	SGD 0.175
TARGET PRICE	SGD 3.530
TOTAL RETURN	9.3%

COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN) :	16,329
MARKET CAP (USD mn / SGD mn) :	40802 / 55356
52 - WK HI/LO (SGD) :	3.56 / 2.83
3M Average Daily T/O (mn) :	22.54

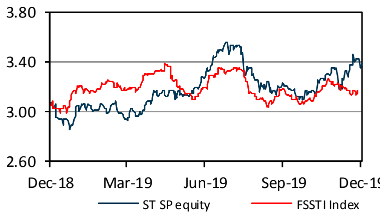
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	52.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.6	4.3	16.3
STI RETURN	(1.9)	(0.6)	8.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	17,268	17,372	16,752	17,015
EBITDA	5,051	4,692	4,448	4,639
Net Profit	5,452	3,071	1,314	2,706
Dividend Yield	6.0%	5.2%	5.2%	5.2%
ROE (%)	18.3%	10.3%	4.7%	9.7%
ROA (%)	11.2%	6.3%	2.7%	5.5%

Source: Company, PSR

VALUATION METHOD

Sum Of Parts

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Financials

Income Statement

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	**16,711**	**17,268**	**17,372**	**16,752**	**17,015**
Operating Profit	4,782	4,792	4,467	4,261	4,376
EBITDA	**4,998**	**5,051**	**4,692**	**4,448**	**4,639**
Depreciation & Amortisation	2,239	2,250	2,222	2,419	2,446
EBIT	**2,759**	**2,801**	**2,470**	**2,029**	**2,193**
Net Finance Inc/(Exp)	(374)	(390)	(393)	(408)	(403)
Profit before tax	4,515	6,155	3,746	1,607	3,300
Taxation	(684)	(703)	(675)	(292)	(594)
Net profit before NCI	**3,831**	**5,452**	**3,071**	**1,314**	**2,706**
Non-controlling interest	22	21	23	7	15
Net profit, reported	**3,853**	**5,473**	**3,095**	**1,322**	**2,721**

Per share data (SGD Cents)

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	23.6	33.5	19.0	8.1	16.7
DPS	17.2	20.5	17.5	17.5	17.5
BVPS	172.8	182.1	182.7	172.4	171.6

Cash Flow

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax	**4,515**	**6,155**	**3,746**	**1,607**	**3,300**
Adjustments	470	(1,099)	879	2,841	1,339
WC changes	(492)	(139)	(126)	14	(74)
Cash generated from ops	4,493	4,916	4,498	4,462	4,565
Tax paid	(834)	(608)	(680)	(292)	(594)
Cashflow from ops	**5,315**	**5,955**	**5,368**	**5,432**	**5,430**
CFI					
CAPEX & IA, net	(2,518)	(3,473)	(1,935)	(2,100)	(3,000)
Others	(2,314)	1,523	(394)	34	51
Cashflow from investments	**(4,832)**	**(1,951)**	**(2,329)**	**(2,066)**	**(2,949)**
CFF					
Share issuance, net	1,602	-	-	-	-
Loans, net of repayments	911	223	174	(200)	730
Dividends	(2,816)	(3,346)	(2,857)	(2,858)	(2,858)
Others	(121)	(886)	(373)	(408)	(403)
Cashflow from financing	**(422)**	**(4,009)**	**(3,056)**	**(3,466)**	**(2,531)**
Net change in cash	60	(5)	(16)	(101)	(50)
CCE, end	**534**	**525**	**513**	**412**	**362**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Accounts receivables	4,924	5,814	5,993	5,451	5,712
Cash	534	525	513	412	362
Inventories	352	397	418	380	396
Others	107	23	155	155	155
Total current assets	**5,918**	**6,759**	**7,078**	**6,399**	**6,626**
PPE & IA	24,966	25,423	25,067	24,748	25,302
Others	17,411	16,314	16,770	17,593	17,593
Total non-current assets	**42,377**	**41,737**	**41,837**	**42,341**	**42,895**
Total Assets	**48,294**	**48,496**	**48,915**	**48,739**	**49,521**
LIABILITIES					
Accounts payables	4,922	5,371	5,817	5,252	5,455
Short term loans	3,343	2,152	2,101	2,101	2,101
Tax payable	296	351	255	255	255
Total current liabilities	**9,272**	**8,429**	**8,794**	**10,514**	**10,717**
Long term loans	8,052	8,668	8,784	8,584	9,314
Deferred tax liabilites	575	536	515	515	515
Others	2,181	1,151	1,012	1,012	1,012
Total non-current liabilities	**10,808**	**10,355**	**10,311**	**10,111**	**10,841**
Total Liabilities	**20,081**	**18,784**	**19,105**	**20,625**	**21,558**
EQUITY					
Non-controlling interests	22	(3)	(28)	(36)	(51)
Shareholder Equity	**28,214**	**29,737**	**29,838**	**28,150**	**28,014**

Valuation Ratios

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	14.4	10.1	17.9	41.9	20.3
P/B (X)	2.0	1.9	1.9	2.0	2.0
EV/EBITDA (X)	13.3	13.0	14.0	14.7	14.3
Growth & Margins					
Growth					
Revenue	-1.5%	3.3%	0.6%	-3.6%	1.6%
EBITDA	-0.3%	1.1%	-7.1%	-5.2%	4.3%
EBIT	-3.7%	1.5%	-11.8%	-17.8%	8.1%
Net profit, adj.	-0.7%	42.3%	-43.7%	-57.2%	105.8%
Margins					
Gross margin	28.6%	27.7%	25.7%	25.4%	25.7%
EBITDA margin	29.9%	29.2%	27.0%	26.6%	27.3%
EBIT margin	16.5%	16.2%	14.2%	12.1%	12.9%
Net profit margin	22.9%	31.6%	17.7%	7.8%	15.9%
Key Ratios					
ROE (%)	13.6	18.3	10.3	4.7	9.7
ROA (%)	7.9	11.2	6.3	2.7	5.5
Dividend Payout (%)	73.1	61.1	92.3	216.2	105.0
Dividend Yield (%)	5.1	6.0	5.2	5.2	5.2

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StarHub Limited

Aligning and shining brighter

SINGAPORE | TELECOMMUNICATIONS | UPDATE

- Expect pay-tv business to improve in FY20e due to the bottoming of subscribers and potential price revisions after the promotional period ends.
- Mobile segment will be faced with greater competition, expect revenues to be resilient with strong MVNO partnership.
- Cyber-security will boost enterprise revenue, anticipate cyber-security to turn profitable by end of FY20e.
- Maintain ACCUMULATE with an unchanged target price of S$1.58. There are no material changes to our forecasts. Valuation is based on a 6X EV/EBITDA multiple.

Background

StarHub Limited was listed on the Singapore Exchange mainboard since 2004 and is the 2nd largest telecommunications provider by market capitalisation in Singapore. StarHub offers communications, entertainment and digital solutions through its extensive fibre and wireless infrastructure. StarHub develops and delivers to corporate and government client solutions such as artificial intelligence, cybersecurity, data analytics, internet of things and robotics. OpenSignal's State of Mobile network awarded StarHub for the fastest 3G & 4G network in Singapore.

Investment Merits/Outlook

1. **Cyber-security could turn profitable.** Ensign grew revenue 135% YoY to S$39mn while losses narrowed S$0.7mn to S$3.7mn. We expect losses to narrow further and for the cybersecurity business to turn profitable by end FY20e. We expect gestation losses and one-off integration expense to taper off as it has been approximately one year since the incorporation of Ensign into StarHub. We believe Ensign will gain scale and ride on the wave of demand in cyber-security. In addition to strong demand, Critical Information Infrastructure (CII) owners are obligated under the Cybersecurity Act to strengthen the protection against cyber-attacks. Such CII include Energy, Water, Banking and Finance, Healthcare, Transport, Infocomm, Media, Security and Emergency Services, and Government.
2. **Pay-tv business bottoming out.** We believe that StarHub's pay-tv business has reached a bottom and should improve in FY20e based on the following 3 reasons: (i) the cable to fibre migration exercise accelerated customer attrition defining a bottom for the number subscribers, new customers are also locked in for two years; (ii) prices and average revenue per user (ARPU) could improve as promotional initiatives expire; and (iii) majority of content has transitioned into a variable cost structure.
3. **Expect higher competition in the mobile sector to be contained.** We are anticipating the launch of TPG Telecom (TPG) and more Mobile Virtual Network Operators (MVNOs) to enter the mobile sector. Considering how ARPU have collapsed 19% vs two years ago we think StarHub's mobile revenue could remain relatively resilient. StarHub has three MVNO partners, one of the highest number of partnerships in the industry. We can expect some benefits from such partnerships as MVNOs target niche segments and wholesale revenue eventually flows back to the Mobile Network Operator (MNO). We believe TPG is unlikely to pose a serious threat given the inferiority of its 4G network.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$1.58. Our valuation is based on a 6X EV/EBITDA multiple. No material changes in our forecasts. We like StarHub as its cyber-security business is at an inflexion point to profitability and improving pay-tv business. StarHub's balance sheet and gearing remain healthy, Net Debt/EBITDA is at 1.9x. StarHub generates a strong CFO to maintain its 9 cents dividend which equates to a 6% yield.

16 December 2019

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 1.430
FORECAST DIV	SGD 0.090
TARGET PRICE	SGD 1.580
TOTAL RETURN	16.8%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN) :	1,732
MARKET CAP (USD mn / SGD mn) :	1825 / 2476
52 - WK HI/LO (SGD) :	1.95 / 1.26
3M Average Daily T/O (mn) :	2.38

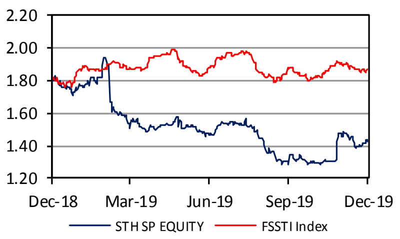
MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	55.8%
Nippn Telegraph & Telephone Corp	9.9%
BlackRock Inc	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(12)	14.2	(14.0)
STI RETURN	(1.9)	(0.6)	8.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e
Revenue	2,411	2,362	2,269	2,235
EBITDA	643	565	567	594
Net Profit	274	201	183	185
Dividend Yield	11.9%	11.2%	6.3%	6.3%
ROE (%)	45.5%	36.3%	31.7%	30.4%
ROA (%)	10.4%	7.6%	7.1%	7.4%

Source: Company, PSR

VALUATION METHOD

EV/EBITDA Multiple

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Financials

Income Statement

Y/E Dec, SGD 'Mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	**2,397**	**2,411**	**2,362**	**2,269**	**2,235**
Operating Profit	425	362	274	256	257
EBITDA	**690**	**643**	**565**	**567**	**594**
Depreciation & Amortisation	265	280	291	311	338
EBIT	**425**	**362**	**274**	**256**	**257**
Net Finance Inc/(Exp)	(26)	(30)	(30)	(41)	(34)
Profit before tax	410	333	245	226	226
Taxation	(69)	(60)	(45)	(43)	(41)
Net profit before NCI	**341**	**274**	**201**	**183**	**185**
Non-controlling interest	0	1	(1)	0	0
Net profit, reported	**341**	**273**	**202**	**183**	**185**

Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	19.8	15.8	11.6	10.6	10.7
DPS	20.0	17.0	16.0	9.0	9.0
BVPS	11.3	34.8	31.9	33.5	35.2

Cash Flow

Y/E Dec, SGD 'Mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	**410**	**333**	**245**	**226**	**226**
Adjustments	258	310	323	348	369
WC changes	(64)	(61)	(81)	(12)	8
Cash generated from ops	604	583	487	563	603
Tax paid	(54)	(65)	(69)	(43)	(41)
Cashflow from ops	**551**	**517**	**418**	**520**	**563**
CFI					
CAPEX	(367)	(296)	(273)	(284)	(279)
Others	(23)	(31)	(62)	3	2
Cashflow from investments	**(389)**	**(327)**	**(335)**	**(280)**	**(277)**
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	300	10	50	93	84
Dividends	(346)	(294)	(277)	(156)	(156)
Others	297	164	14	(133)	(118)
Cashflow from financing	**(50)**	**(130)**	**(263)**	**(289)**	**(274)**
Net change in cash	112	60	(180)	(50)	12
CCE, end	**285**	**345**	**166**	**116**	**128**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD 'Mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Accounts receivables	172	202	283	318	302
Cash	285	345	166	116	128
Inventories	50	72	75	68	67
Amt due from related parties	22	25	18	18	18
Others	212	87	94	94	94
Total current assets	**741**	**1,034**	**931**	**909**	**904**
PPE & IA	1,382	1,428	1,563	1,536	1,477
Others	74	92	31	31	31
Total non-current assets	**1,455**	**1,602**	**1,705**	**1,677**	**1,619**
Total Assets	**2,196**	**2,636**	**2,636**	**2,586**	**2,523**
LIABILITIES					
Accounts payables	708	625	575	590	581
Short term loans	10	120	50	46	42
Amt Due to related parties	67	65	58	58	58
Tax payable	71	126	120	120	120
Total current liabilities	**856**	**1,014**	**872**	**883**	**870**
Long term loans	978	858	978	890	811
Deferred tax liabilites	145	135	132	132	132
Others	20	(1)	32	32	32
Total non-current liabilities	**1,146**	**1,016**	**1,176**	**1,088**	**1,008**
Total Liabilities	**2,001**	**2,030**	**2,048**	**1,970**	**1,878**
EQUITY					
Non-controlling interests	0	4	36	36	36
Shareholder Equity	**195**	**602**	**552**	**579**	**609**

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X)	7.3	9.2	12.5	13.7	13.5
P/B (X)	12.9	4.2	4.5	4.3	4.1
EV/EBITDA (X)	4.7	4.9	6.0	5.9	5.5
Growth & Margins					
Growth					
Revenue	-	0.6%	-2.0%	-3.9%	-1.5%
EBITDA	-	-6.9%	-12.1%	0.5%	4.7%
EBIT	-	-14.7%	-24.5%	-6.3%	0.1%
Net profit, adj.	-	-19.9%	-26.7%	-8.5%	1.1%
Margins					
Gross margin	17.7%	15.0%	11.6%	11.3%	11.5%
EBITDA margin	28.8%	26.7%	23.9%	25.0%	26.6%
EBIT margin	17.7%	15.0%	11.6%	11.3%	11.5%
Net profit margin	14.2%	11.3%	8.5%	8.1%	8.3%
Key Ratios					
ROE (%)	175	45	36	32	30
ROA (%)	16	10	8	7	7
Dividend Yield (%)	14	12	11	6	6
Dividend Payout (%)	101	108	137	85	84

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United Overseas Bank

Respite in volatile times

SINGAPORE | BANKING | UPDATE

- Least exposure to Greater China and Hong Kong loans at 16% (DBS: 30% and OCBC: 25%).
- Well-poised to benefit from supply chain shift into Southeast Asia.
- Increasing efforts to grow its wealth management franchise, particularly the mass affluent, bodes well for stable WM fees growth.
- UOB offers a dividend yield of around 5% which cushions the stock's downsides.
- FY20 NIM to contract 5-10bps due to falling interest rate environment.
- Maintain ACCUMULATE with an unchanged target price of S$27.80.

Company Background

United Overseas Bank was founded in 1935 and is now the third-largest bank by assets in Southeast Asia. Having started out as United Chinese Bank, UOB was renamed in 1965 and it now has over 500 offices across 19 countries and territories. In Singapore, UOB is a market leader in credit and debit cards and loans to SMEs. UOB provides a full suite of financial services: corporate and commercial banking services, investment banking and treasury services, transaction banking services and personal wealth management.

Investment Merits/Outlook

1. **Trade war sanctuary.** UOB's exposure to trade war effects is relatively muted as compared to its peers. As of 3Q19, UOB's exposure to Greater China and Hong Kong loans is 16% (DBS: 30% and OCBC: 25%).

2. **Well-poised to benefit from supply chain shift into Southeast Asia.** There has been a shift in the supply chain from China into SE Asia to avoid the tariffs imposed by the U.S. A rise in businesses investments and activity in SE Asia could provide greater volume to UOB's regional franchise. The bulk of UOB's loan book is anchored out of SE Asia (around 73%), with the majority belonging to Singapore (52%). However, a shift in the supply chain requires more than just a few years to materialise.

3. **Closing the gap in wealth management (WM).** UOB has the least contribution from WM as compared to the other two banks. UOB's WM fees contributed 6%/18% to 9M19 total revenue/ non-interest income, as compared to 9%/26% for DBS and 10%/24% for OCBC. UOB's increasing efforts to grow its wealth management franchise, particularly the mass affluent, bodes well for stable WM fees growth. UOB's wealth management business could be less affected by market volatility due to its target audience being the mass affluent, which generates a more recurring and stable management fee.

4. **Dividend yield support.** UOB offers a dividend yield of around 5% which cushions the stock's downsides. Strong CET1 ratio of 13.7% which is above UOB's internal minimum 13.5% requirement and far above regulatory 9.0%, provides visibility on absolute DPS.

5. **NIM to be a drag.** UOB guided FY20 NIM to contract 5-10bps due to internal projections of 30-50bps decline in benchmark rates for the whole of FY20. However, the impact of Fed rate cuts could be cushioned with adjustments to funding costs to match the pricing charged on loans. We forecast FY19e/FY20e NIM at 1.80%/ 1.74%.

6. **A potential rise in credit costs.** The new Expected Credit Loss (ECL) model requires banks to make adequate provisions as and when there is deterioration in the macro-environment. We expect credit costs to be slightly elevated next year as the risk of slower global growth and sustained domestic unrest in Hong Kong leads to higher ECL.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$27.80.

16 December 2019

ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 25.8
FORECAST DIV	SGD 1.3
TARGET PRICE	SGD 27.8
TOTAL RETURN	12.6%

COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1,668
MARKET CAP (USD mn / SGD mn) :	32527 / 43977
52 - WK HI/LO (SGD) :	27.76 / 23.39
3M Average Daily T/O (mn) :	2.13

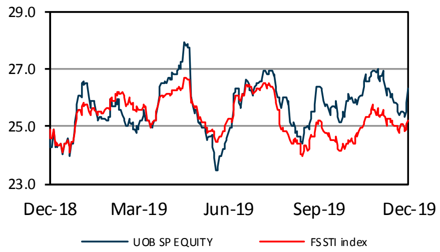
MAJOR SHAREHOLDERS (%)

Wee Investments	8.0%
Wah Hin & Co Pte Ltd	5.2%
Vanguard Group Inc	2.3%
BlackRock Fund Advisors	2.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.4)	(2.2)	9.7
STI RETURN	(2.01)	0.38	7.35

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Total Inc (SGD mn)	8,563	9,115	10,072	10,479
Op Profit (SGD mn)	4,097	4,718	5,124	5,195
NPAT (SGD mn)	3,407	4,019	4,318	4,383
EPS (SGD)	1.94	2.34	2.53	2.57
PER, (X)	13.3	11.0	10.2	10.1
P/BV, (X)	1.3	1.2	1.1	1.1
DPS (SGD)	1.00	1.20	1.25	1.27
ROE	10.1%	11.2%	11.5%	10.9%

Source: Bloomberg, Company, PSR

Valuation Method:

Gordon Growth Model (COE: 9%, g: 2%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Net Int Income	4,991	5,528	6,220	6,663	6,723
Fees and Commission	1,931	1,873	1,966	2,082	2,400
Other Non-int income	1,138	1,162	929	1,327	1,355
Total operating income	**8,060**	**8,563**	**9,115**	**10,072**	**10,479**
Operating expenses	3,697	3,739	4,004	4,519	4,719
Provisions	594	727	393	430	564
Operating profit	**3,769**	**4,097**	**4,718**	**5,124**	**5,195**
Associates & JVs	5	110	106	126	132
Profit Before Tax	**3,774**	**4,207**	**4,824**	**5,250**	**5,327**
Taxation	669	800	805	932	944
Profit After Tax	**3,105**	**3,407**	**4,019**	**4,318**	**4,383**
Non-controlling Interest	12	16	13	17	21
Net Income, reported	**3,093**	**3,390**	**4,006**	**4,301**	**4,363**
Net Income, adj.	**3,093**	**3,391**	**4,006**	**4,301**	**4,363**

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash bal w central banks	24,322	26,625	25,252	22,681	27,447
Due from banks	40,033	52,181	50,800	51,034	54,283
Investment securities	11,640	11,273	13,553	14,018	14,049
Loans to non-bank cust	221,734	232,212	258,627	273,327	285,062
Others	42,299	36,301	39,861	47,032	45,922
Total Assets	**340,028**	**358,592**	**388,093**	**408,093**	**426,763**
Due to banks	11,855	11,440	13,801	15,155	15,288
Due to non-bank cust	255,314	272,765	293,186	308,675	324,001
Debts issued	26,143	25,178	30,606	30,980	31,251
Others	13,674	12,171	12,688	13,069	13,461
Total liabilities	**306,986**	**321,554**	**350,281**	**367,878**	**384,000**
Shareholder's equity	32,876	36,852	37,626	40,008	42,536
Non-controlling interest	169	187	190	207	227
Total Equity	**33,045**	**37,039**	**37,816**	**40,214**	**42,763**

Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.78	1.94	2.34	2.53	2.57
EPS, adj.	1.78	1.94	2.34	2.53	2.57
DPS	0.75	1.00	1.20	1.25	1.27
BVPS (less pref shares)	18.82	20.37	21.31	22.77	24.23
Dividend Pay-out Ratio	42%	52%	51%	49%	50%

Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	13.0%	14.7%	13.9%	14.4%	14.8%
Tier 1 CAR	13.1%	16.2%	14.9%	14.4%	14.8%
Total CAR	16.2%	18.7%	17.0%	16.3%	16.7%

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	14.5	13.3	11.0	10.2	10.1
P/B (X)	1.4	1.3	1.2	1.1	1.1
Dividend Yield	2.9%	3.9%	4.6%	4.9%	4.9%
Growth & Margins					
Growth					
Net interest income	1.3%	10.8%	12.5%	7.1%	0.9%
Non interest income	-1.7%	-1.1%	-4.6%	17.8%	10.2%
Pre provision op profit	0.1%	6.2%	6.4%	10.5%	4.0%
Operating income	-0.3%	8.7%	15.2%	8.6%	1.4%
Net income, reported	-3.6%	9.6%	18.2%	7.4%	1.4%
Margins					
Net interest margin	1.71%	1.77%	1.82%	1.80%	1.74%
Key Ratios					
ROE	10.1%	10.1%	11.2%	11.5%	10.9%
ROA	0.9%	1.0%	1.0%	1.1%	1.0%
RORWA	1.4%	1.7%	1.8%	1.8%	1.7%
Non-int/total income ratio	38.1%	35.4%	31.8%	33.8%	35.8%
Cost/income ratio	45.9%	43.7%	43.9%	44.9%	45.0%
Loan/deposit ratio	86.8%	85.1%	88.2%	88.5%	88.0%
NPL ratio	1.5%	1.8%	1.5%	1.6%	1.5%

Source: Company, PSR

PhillipCapital

BULL AND BEAR™ StocksBnB.com

Venture Corporation Limited

Robust balance sheet supports DPS growth

SINGAPORE | TECHNOLOGY MANUFACTURING| UPDATE

16 December 2019

- A beneficiary of supply chain disruption in China from securing more customers and projects.
- A robust balance sheet with strong cash generation to support dividend growth, we expect FY20e DPS to increase by 14% to S$0.8/share.
- Expect margins to be softer due to pricing pressure from existing customers.
- Valuation is attractive against its peers due to its superior ROE, margins and balance sheet.
- Maintain ACCUMULATE with an unchanged target price of S$17.18. There are no material changes to our forecast. Our valuation is based on a 14x PE multiple.

Background

Venture Corporation Limited (VMS) was founded in 1984 as a global electronics manufacturing services (EMS) provider. Today, VMS capabilities were expanded from assembly and manufacturing into research, design and development, product and process engineering, design for manufacturability, supply chain management, as well as product refurbishment and technical support across a widely diversified range of high-mix, high-value and complex products. Headquartered in Singapore, the Group comprises more than 30 companies with global clusters in Southeast Asia, Northeast Asia, America and Europe and employs over 12,000 people worldwide.

Investment Merits/Outlook

1. **Benefitting from supply chain disruption through customer & project wins.** The on-going electronics supply chain disruption in China due to the Sino-US trade war, allowed VMS to capitalise on its vast SEA production facilities. The disruption has allowed VMS to expand its customer base from c.100 to c.130 and enjoy new project wins within new and existing customers. VMS expects new and several key products launch over the next twelve months. Anticipating these launches, we adjusted both FY19e/FY20e revenue upwards by 2.5% from our previous earnings report. VMS recently acquired a new customer, a young technology company recently listed in the United States with a market capitalisation of ~US$6bn.

2. **Robust balance sheet allows for dividend growth.** Net cash position improved 5% QoQ to S$802mn, cash now makes up 18% of VMS' market capitalisation. We expect VMS to increase dividends in FY20e as it is supported by strong cash flow from operations of S$386mn. We forecast VMS to raise its dividends to S$230mn or an increase of DPS by 14% to S$0.8 /share this is an increase of S$28mn compared to the previous year. Dividend payout ratio rises to 61%.

3. **Margins may come under pressure.** VMS net margins fell 6.7% YoY to 9.8% due to increasing pricing pressure from existing customers. Although only less than 2% of total revenue is directly impacted by the trade war, we suspect the repercussions may be slightly greater. Anecdotally, we gathered that customers have been using the trade war as a reason to pressure the electronics supply chain to lower prices, even if their products are not affected by existing tariffs. We expect this trend to continue and hence expect near-term softness in net margins. VMS still boasts an impressive profit margin of 9.8% (vs 1.5% average U.S. listed peers).

4. **Attractive entry point.** We think it is an attractive entry point now as VMS is currently trading around -1SD of its 10-year mean. Our valuation is based on a 14x PE multiple of FY19e earnings, we peg VMS to the simple average of its US-listed peers. We believe our valuation is conservative given VMS' superior return on equity, profit margin and balance sheet.

Recommendation

Maintain ACCUMULATE with an unchanged target price of S$17.18. There are no changes to our forecast other than raising FY20e dividends by 14%. We like VMS for consistently grabbing market share from its peers and its deep value creation abilities.

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 15.86
FORECAST DIV	SGD 0.70
TARGET PRICE	SGD 17.18
TOTAL RETURN	12.7%

COMPANY DATA

BLOOMBERG CODE:	VMS SP
O/S SHARES (MN) :	288
MARKET CAP (USD mn / SGD mn) :	3504 / 4739
52 - WK HI/LO (SGD) :	19.56 / 13.2
3M Average Daily T/O (mn) :	1.15

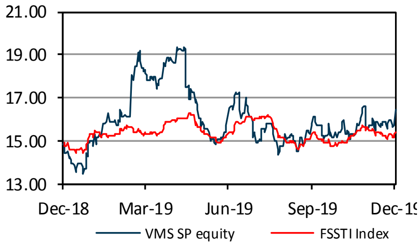
MAJOR SHAREHOLDERS (%)

Wong Ngit Liong	7.0%
Schroders PLC	7.0%
BlackRock Inc	5.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	18	0.1	11.2
STI RETURN	(2.0)	0.4	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar, SGD mn	FY17	FY18	FY19e	FY20e
Revenue	4,005	3,485	3,548	3,673
EBITDA	476	465	446	474
Net Profit	373	370	354	376
Dividend Yield	3.8%	4.4%	4.4%	4.4%
ROE (%)	17.2%	15.7%	14.1%	14.0%
ROA (%)	11.9%	11.5%	10.5%	10.5%

Source: Company, PSR

VALUATION METHOD

14x PE Multiple

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Financials

Income Statement

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
Revenue	**2,874,219**	**4,004,539**	**3,484,603**	**3,548,412**	**3,673,440**
Gross profit	704,800	979,030	955,307	923,368	974,196
EBITDA	**261,869**	**475,815**	**464,676**	**446,346**	**474,476**
Depreciation & Amortisation	-45,111	-31,056	-30,726	-32,194	-34,959
EBIT	**216,758**	**444,759**	**433,950**	**414,152**	**439,517**
Net Finance Inc/(Exp)	-895	-1,012	-982	-260	-322
Profit before tax	215,863	443,747	432,968	413,892	439,195
Taxation	-35,173	-71,048	-62,885	-60,014	-63,683
Net profit, reported	**180,690**	**372,699**	**370,083**	**353,878**	**375,512**

Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	62.7	129.3	128.3	122.7	130.2
DPS	50.0	60.0	70.0	70.0	80.0
BVPS	6.8	7.5	8.1	8.7	9.2

Cash Flow

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax	**215,863**	**443,747**	**432,968**	**413,892**	**439,195**
Adjustments	57,973	42,311	25,920	22,526	28,204
WC changes	-8,161	13,798	-147,351	-6,125	-20,188
Cash generated from ops	265,675	499,856	311,537	430,293	447,212
Tax paid	-33,468	-50,316	-56,331	-60,014	-63,683
Others	-895	-1,012	-982	-260	-322
Cashflow from ops	**231,312**	**448,528**	**254,224**	**370,019**	**383,206**
CFI					
CAPEX, net	-33,506	-36,966	-58,480	-40,000	-40,000
Others	3,107	22,988	9,924	9,800	7,015
Cashflow from investments	**-30,399**	**-13,978**	**-48,556**	**-30,200**	**-32,985**
CFF					
Share issuance, net	18,171	46,211	40,555	0	0
Loans, net of repayments	-54,997	-139,695	-39,988	-8,500	-5,689
Dividends	-138,403	-140,728	-230,021	-201,857	-230,693
Others	12,562	107,895	-7,286	8,000	6,000
Cashflow from financing	**-162,667**	**-126,317**	**-236,740**	**-202,357**	**-230,382**
Net change in cash	38,246	308,233	-31,072	137,463	119,839
CCE, end	**474,728**	**752,447**	**712,826**	**850,289**	**970,127**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD '000	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	203,152	197,860	230,686	238,456	243,427
Others	681,377	670,189	667,755	667,919	668,050
Total non-current assets	**884,529**	**868,049**	**898,441**	**906,374**	**911,477**
Receivables	751,264	794,986	765,940	807,099	834,480
Cash	499,736	752,447	712,826	850,289	970,127
Inventories	622,988	699,630	808,166	777,102	804,483
Others	5	29,093	19,224	19,224	19,224
Total current assets	**1,873,993**	**2,276,156**	**2,306,156**	**2,453,714**	**2,628,315**
Total Assets	**2,758,522**	**3,144,205**	**3,204,597**	**3,360,089**	**3,539,792**
LIABILITIES					
Accounts payables	683,312	841,679	734,239	738,209	772,783
Tax payable	18,234	34,043	40,374	40,374	40,374
Bank loan	92,641	30,828	1,798	1,298	1,609
Others	0	67,873	74,029	74,029	74,029
Total current liabilities	**794,187**	**974,423**	**850,440**	**853,910**	**888,795**
Deferred tax liabilites	1,801	1,718	2,058	2,058	2,058
Total non-current liabilities	**1,801**	**1,718**	**2,058**	**2,058**	**2,058**
Total Liabilities	**795,988**	**976,141**	**852,498**	**855,968**	**890,853**
EQUITY					
Non-controlling Interests	2,419	2,314	2,233	2,255	2,278
Shareholder's Equity	1,960,115	2,165,750	2,349,866	2,501,865	2,646,661

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X)	26.2	12.7	12.8	13.4	12.6
P/B (X)	2.4	2.2	2.0	1.9	1.8
EV/EBITDA (X)	16.5	8.4	8.7	8.7	7.9
Growth & Margins					
Growth					
Revenue	8.2%	39.3%	-13.0%	1.8%	3.5%
EBITDA	16.0%	81.7%	-2.3%	-3.9%	6.3%
EBIT	18.7%	105.2%	-2.4%	-4.6%	6.1%
Net profit, adj.	17.27%	106.3%	-0.7%	-4.4%	6.1%
Margins					
Gross margin	24.5%	24.4%	27.4%	26.0%	26.5%
EBITDA margin	9.1%	11.9%	13.3%	12.6%	12.9%
EBIT margin	7.5%	11.1%	12.5%	11.7%	12.0%
Net profit margin	6.3%	9.3%	10.6%	10.0%	10.2%
Key Ratios					
ROE (%)	9.2%	17.2%	15.7%	14.1%	14.2%
ROA (%)	6.6%	11.9%	11.5%	10.5%	10.6%
Dividend Yield (%)	3.0%	3.7%	4.3%	4.3%	4.9%
Dividend Payout Ratio (%)	79.8%	46.4%	54.5%	57.0%	61.4%

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Important Information