

Phillip 2Q20 Singapore Strategy

Man vs. Virus: Bet on us

SINGAPORE | STRATEGY

7 April 2020

Review: The STI was down 23% in 1Q20. This was its worst quarterly performance since 2008 and 12th largest 3-month decline. All STI component stocks were down, except SGX. There has been a spike in both derivative and equity volumes. The worst-hit sectors were the transport, hospitality and consumer sectors, with stocks shedding more than 30%.

Outlook: “Man vs virus” was Newsweek’s cover-page headline more than 50 years ago. We have been fighting viruses for decades and should be confident that we can overcome this pandemic. Tremendous resources and attention globally is focused on fighting this virus. Avoid the emotions of greed when prices rise and panic when they collapse. Rather, panic should be replaced by excitement when valuations turn attractive.

There are several reasons to be optimistic on the Singapore market:

- i) **the spread of COVID-19 can be contained** as demonstrated by China and Korea (Figure 5 & 6), albeit at an astronomical economic cost. China’s latest PMI shows a V-shaped rebound in manufacturing after its lock-down;
- ii) **fear among governments and countries helping to contain the spread** through social distancing and lock-downs. At least a quarter of the world’s GDP is already in lock-down;
- iii) **massive fiscal and monetary stimulus underway globally.** These measures cannot stop the spread but place a cushion (not floor) on the downside;
- iv) **historically profitable to buy into such a massive sell-off.** Using a rear-view analysis, buying into such sell-offs generated attractive returns on a 6- and 12-month basis (Figure 11); and v) valuations of the STI are close to or even exceeded global financial crisis levels (Figure 9 & 10). This is not a timing indicator of a bottom but we are buying into very attractive multi-year low valuations. Basically, a bargain. However, for any sustained recovery, the market need to get an indication that new COVID-19 cases globally are bottoming (Figure 7).

Recommendation: The sectors we favour most are banks, REITs and electronics. All three pay good dividend yields and have the balance sheets to support their payouts. Banks’ earnings will be lower due to weaker net interest margins and higher credit costs. But they have sufficient capital buffers to maintain dividends. With interest rates at record-lows, assets that can provide yields will be the most sought-after, such as, REITs. We expect some impact on dividends from rental rebates, but the yields remain attractive. Our model portfolio - Phillip Absolute 10 - outperformed the STI in 1Q20 (-18% vs the STI’s -23%). The worst-hit were our hospitality exposure, Ascott REIT, followed by SingTel and UOB. We have removed SingTel from our model portfolio due to intense competition in Australia after the NBN migration and fears of renewed mobile competition after the Vodafone-TPG merger. We have included Thai Beverage instead. We find its valuations attractive at 12x FY20e PE for a dominant consumer stock with a market share of 90% in the spirits business.

1Q20 Performance

Figure 1: All banks in the red

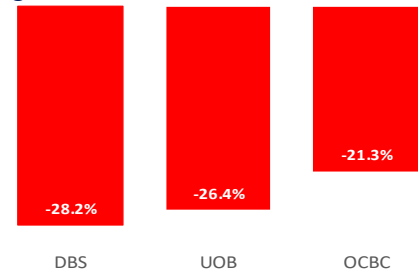


Figure 2: Transport sector in a brace

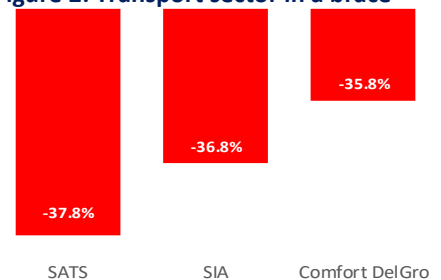
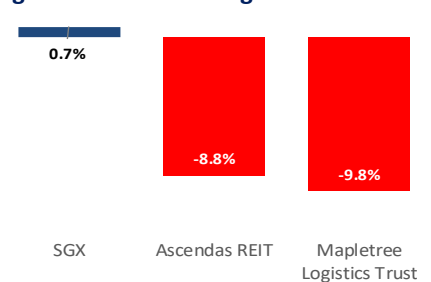


Figure 3: SGX the rare gainer



Source (Fig 1-3): PSR, Bloomberg

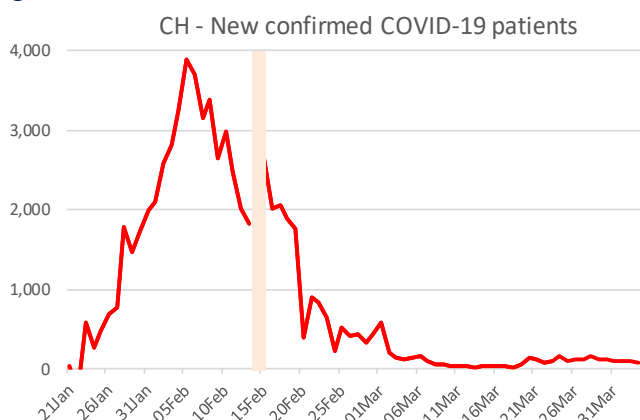
Paul Chew (+65 6212 1851)
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Figure 4: Phillip Absolute 10 Model Portfolio

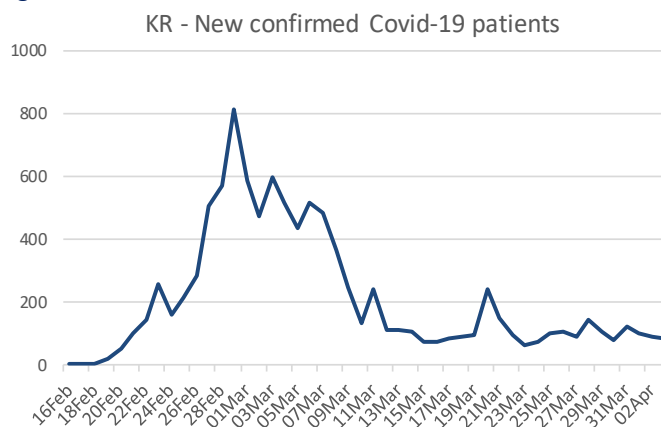
Company	1M	3M	YTD	Rating	Share Px (S\$)	Mkt Cap (US\$m)	Dvd. Yield
Yield							
Ascott REIT	-33.1%	-40.6%	-40.6%	Buy	0.79	1,694	9.6%
NetLink	-7.7%	-4.2%	-4.2%	Neutral	0.91	2,447	5.7%
Dividend Growth							
Frasers Centrepoint Trust	-19.7%	-20.3%	-20.3%	Accumulate	2.24	1,740	5.4%
UOB	-20.5%	-26.4%	-26.4%	Accumulate	19.45	22,502	5.7%
Growth							
PropNex	-16.5%	-11.7%	-11.7%	Buy	0.46	117	7.7%
Sheng Siong	-4.0%	-4.0%	-4.0%	Accumulate	1.19	1,241	3.0%
Thai Beverage (new)	-22.4%	-32.0%	-32.0%	Buy	0.61	10,543	3.5%
Venture Corp.	-17.5%	-16.2%	-16.2%	Accumulate	13.57	2,718	5.2%
Re-rating Plays							
CapitaLand	-19.3%	-24.0%	-24.0%	Buy	2.85	9,991	4.2%
Starhub	-10.7%	-6.3%	-6.3%	Accumulate	1.33	1,597	6.8%
Average	-17.1%	-18.6%	-18.6%			54,590	5.7%

Source: PSR, Bloomberg

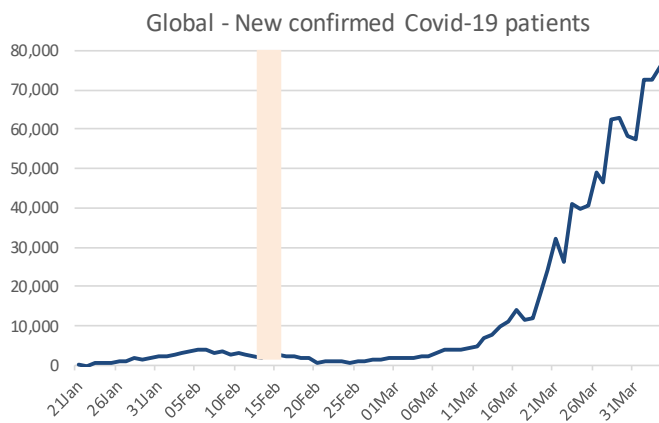
* prices as at 31 Mar 2020, performance is for illustration purposes only.

Figure 5: New cases in China.....


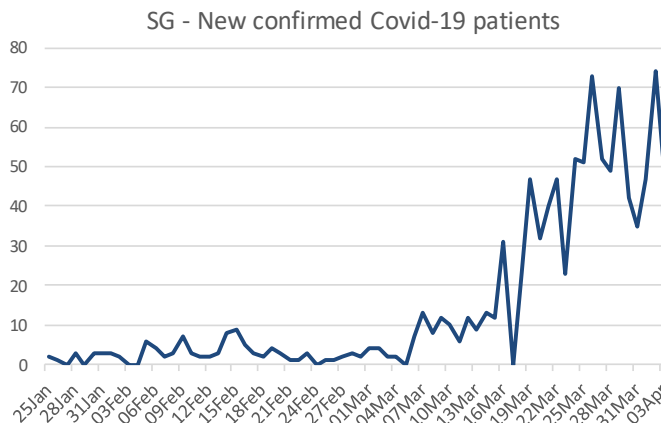
Source: PSR, CEIC, WHO, as at 3Apr20

Figure 6:and Korea have been contained


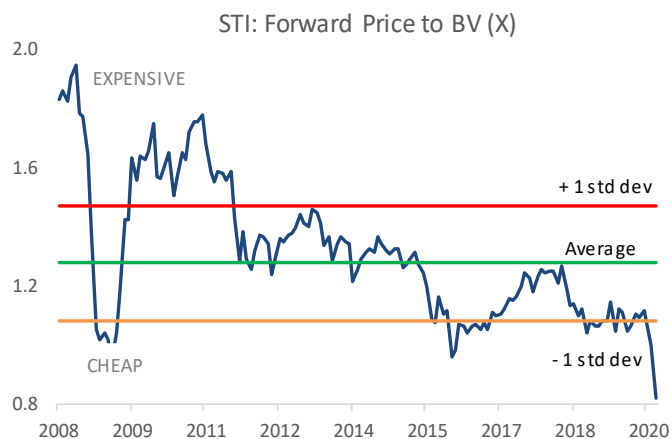
Source: PSR, CEIC, WHO, as at 3Apr20

Figure 7: Globally, new patients still climbing....


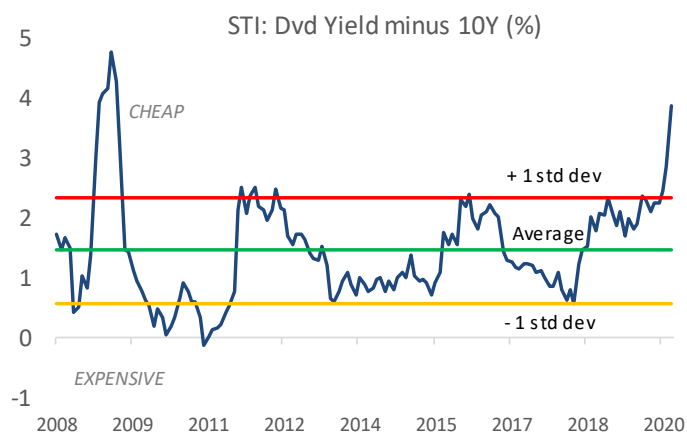
Source: PSR, CEIC, WHO, as at 3Apr20

Figure 8: ...including Singapore


Source: PSR, CEIC, WHO, as at 3Apr20

Figure 9: Valuations at GFC levels on Price to Book


Source: PSR, Bloomberg

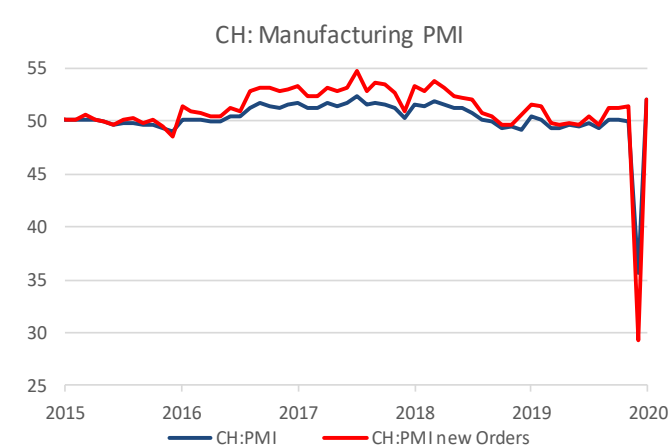
Figure 10: And close to GFC on a dividend yield basis


Source: PSR, Bloomberg

Figure 11: Historically, rewarding to buy into large 3-month sell-offs on 6 and 12 months forward returns

Worst 15	3M Perf.	12M Returns	6M Returns	3M Returns
Nov-87	-45.2%	18.6%	16.4%	8.4%
Dec-87	-43.0%	24.1%	27.5%	11.3%
Oct-87	-40.9%	17.0%	10.1%	4.6%
Oct-08	-38.8%	47.8%	7.0%	-2.7%
Nov-08	-36.8%	57.7%	34.4%	-7.9%
Jun-98	-32.0%	114.8%	38.0%	-6.9%
Sep-90	-31.3%	28.9%	38.6%	9.7%
Oct-90	-29.0%	25.9%	34.4%	9.0%
Aug-98	-26.6%	155.2%	64.9%	65.4%
Dec-08	-25.3%	64.5%	32.4%	-3.5%
Jul-98	-25.0%	111.4%	40.7%	18.7%
Mar-20	-23.0%			
Oct-97	-22.7%	-20.1%	-10.2%	-15.5%
May-98	-22.6%	63.1%	21.3%	-26.6%
Sep-01	-21.4%	0.5%	38.6%	24.4%
Average		50.7%	28.2%	6.3%

Source: PSR, Bloomberg

Figure 12: China experiencing a sharp V-shaped rebound


Source: PSR, CEIC

1Q20 Performance Review - Phillip Absolute 10

Our Phillip Absolute 10 outperformed the STI in 1Q20. It is a modest consolation to the loss of 18.1%. The changes we made in 1Q20 is:

1Q19 Add: SGX, Keppel DC REIT, China Sunshine; **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 Sunshine, Keppel DC REIT

4Q19 Add: Venture Corp, PropNex; **Remove:** ComfortDelGro, APAC Realty

1Q20 Add: Thai Beverage; **Remove:** SingTel

We have not rebalanced our portfolio significantly.

1. Our strategy has always been to be exposed to structurally profitable companies. This has made us avoid airlines, utilities and the oil and gas yards.
2. In the near-term, earnings will no doubt be negatively impacted in FY20e for almost every company. The opportunity is to buy normalised earnings of FY21e.
3. We removed SingTel as competition is turning more intense in Australia in almost all segments. NBN network is hurting enterprise and consumer margins. We worry mobile competition will worsen with Vodafone-TPG merger. Thai Beverage is attractive for the valuations and dominant market share in spirits business.

Figure 13: Monthly movements

	Absolute 10	STI
Jan20	-0.5%	-2.1%
Feb20	-1.6%	-4.5%
Mar20	-16.4%	-17.6%
Apr20		
May20		
Jun20		
Jul20		
Aug20		
Sep20		
Oct20		
Nov20		
Dec20		
YTD	-18.1%	-23.0%

Out/(Under)perf. 4.9%

Source: PSR, Bloomberg

Performance is for illustration only and excludes brokerage, dividends and rebalancing cost.

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