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PhillipCapital

Phillip Singapore Monthly

November 2017: *A new era in interest rates*

7 November 2017

Market: STI rebounded strongly in October, by 4.8% to close at year highs. We raised our bottom-up STI year-end target by 5% to 3450, following our recent upgrade of banks' target prices. We will roll-over our 2018 STI target in December. The equity trade on global growth is alive and well. There is no let-up in the current synchronised boom in global economies. Asian electronic exports are up 28% in September and close to 7-year highs. In Europe, German IFO index are at record highs while in the US, retail sales is growing at 5-year highs and wage growth, at 8-year highs. While we revel, there is a secondary effect. We have entered a new era of rising interest rates. In the past decade, US 10-year Treasury yields have plunged from 5.1% to 1.3%. We see multiple pressures point ahead for yields as central banks look to tighten monetary policy. Firstly, the global economy is humming. Secondly, the Fed is tightening and adamant inflation is just around the corner. In a recent speech by the Fed, it still views current weak inflation as transitory. Thirdly, ECB has grudgingly started to reverse its QE by reducing monthly purchases. Fourthly, US is taking a pro-cyclical step to further spruce up its economy with tax cuts. Going by past tightening cycles, it takes around 3 years for US economy to fall into recession from the start of every Fed rate tightening. The Fed first rate hike this round began at end-2015. The biggest beneficiary for higher rates will be the financials, in our view.

Recommendation: We upgraded the banking sector to Accumulate from Neutral recently. It is an almost perfect scenario for banks as we head into 2018. Almost every metric is improving, from rising margins with the pick-up in SIBOR to higher loan volumes supported by an improving economy and property market. Special dividends are also possible with less capital buffers, buoyant wealth management income as clients turn less risk-averse and lower credit cost with stable oil prices and as lumpy write-offs tapper down. A genie could not have granted as many wishes. Our picks for banks will be OCBC and DBS. The other picks in finance will be SGX and Sing Investments & Finance. Another stocks we upgraded to a BUY is Sheng Siong. Yield recommendations continue to be Asian PayTV, Ascendas REIT and CapitaCommercial Trust.

Sector: In addition to our upbeat view on banks, there are initial signs of returning domestic demand. Retail sales were up an encouraging 3.5% in August. Their reading was the best in more than a year. While still early days, a major retailer in Singapore reported an uptick in its September sales, after six quarters of contraction. Multiple industrial indicators in Singapore still point to healthy economic activity including PMI, industrial production and loans growth. This was captured in 3Q17 advance GDP estimate, which was up 4.6%, the fastest in more than three years.

Global Market Watch

Asia-Pacific	Level	1M (%)	YTD (%)
Nikkei 225	22,012	8.1	15.2
KOSPI	2,523	5.4	24.5
CSI 300	4,007	4.4	21.0
HSCEI	11,508	5.5	22.5
Taiex	10,794	4.5	16.6
Hang Seng	28,246	2.5	28.4
Sensex	33,213	6.2	24.7
Nifty	10,335	5.6	26.3
SET	1,721	2.9	11.6
KLCI	1,772	(0.4)	6.5
STI	3,374	4.8	17.1
JCI	5,830	1.8	13.4
Phil Comp	-	2.4	22.3
S&P/ASX 200	5,909	4.0	4.3

US/Europe	Level	1M (%)	YTD (%)
DJIA	23,377	4.3	18.3
NASDAQ Comp	6,728	3.6	25.0
S&P 500	2,575	2.2	15.0
FTSE 100	7,493	1.6	4.9
DAX	13,479	3.1	15.2
CAC 40	5,503	3.3	13.2
Euro STOXX 50	3,674	2.2	11.7
VIX	10	7.0	(27.5)

**Prices as at 31 October 2017*

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FSSTI Top Performers (1 Month)

FSSTI Top Gainers	S$	1M (Δ)	1M (%)	YTD (%)
Keppel Corp	7.600	0.880	13.2	30.6
CCT	1.795	0.165	10.1	25.6
CityDev	12.690	1.080	9.3	54.2
Sembcorp Industries	3.300	0.220	7.3	13.7
DBS	22.970	1.170	5.4	30.7
Yangzijiang	1.570	0.075	5.0	92.0
FSSTI Top Losers	**S$**	**1M (Δ)**	**1M (%)**	**YTD (%)**
Jardine C&C	39.090	(1.750)	(4.3)	(5.2)
SPH	2.660	(0.050)	(1.8)	(24.4)
Jardine Matheson	64.660	(0.370)	(0.6)	18.2
CapitaLand	3.690	(0.020)	(0.5)	21.5
Ascendas Reit	2.680	(0.010)	(0.4)	18.1
CMT	2.030	0.000	0.0	7.2

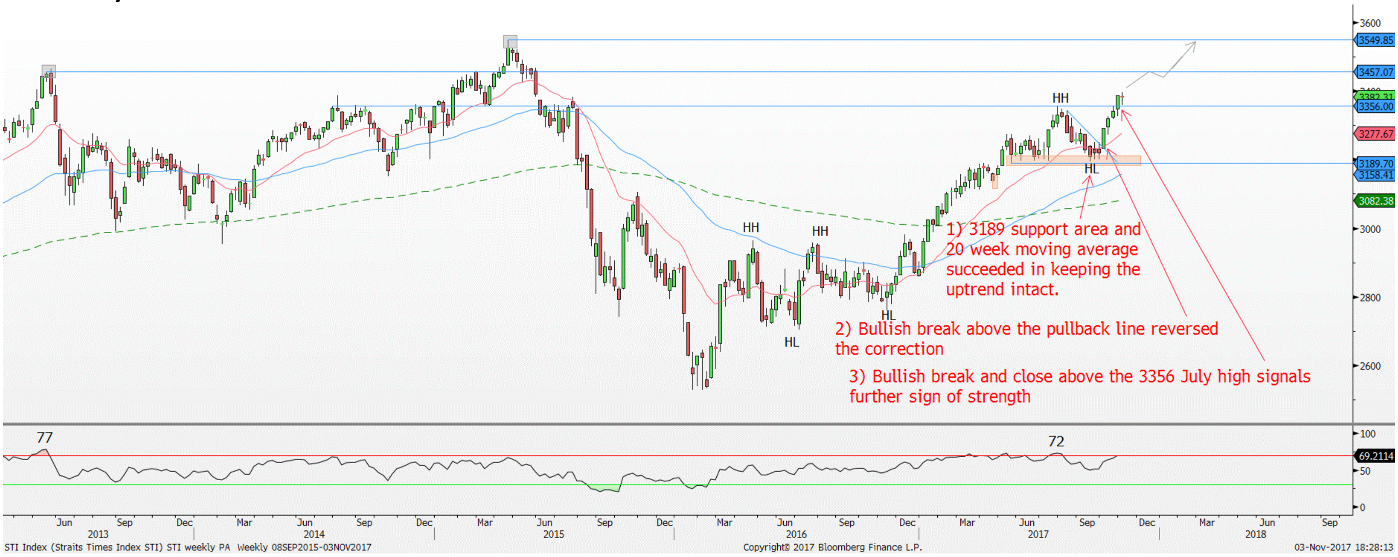
Singapore Indices Market Watch

Singapore Indices	Level	1M (%)	YTD (%)
FTSE ST Straits Time	3,374	4.8	17.1
FTSE ST Financial	976	5.2	25.1
FTSE ST Real Estate	855	3.2	22.4
FTSE ST Industrials	814	2.0	13.3
FTSE ST Consumer Service	741	1.7	0.8
FTSE ST Telecommunicate	944	1.8	2.0
FTSE ST Oil & Gas	404	13.6	21.6
FTSE ST Consumer Good	541	7.7	4.2
FTSE ST Utilities	376	1.5	4.3
FTSE ST Healthcare	1,230	0.4	(14.8)
FTSE ST Technology	243	0.1	11.9
FTSE ST Basic Material	103	8.1	5.5
FTSE ST Mid-Cap	757	3.2	11.5
FTSE ST Catalist	475	4.0	7.6

MCI (P) 74/10/2017
Ref. No.: SG2017_0263

Technical Analysis : Straits Times Index – Broke a new 52-week high 3195

STI Weekly Chart **Current Sentiment: Bullish**

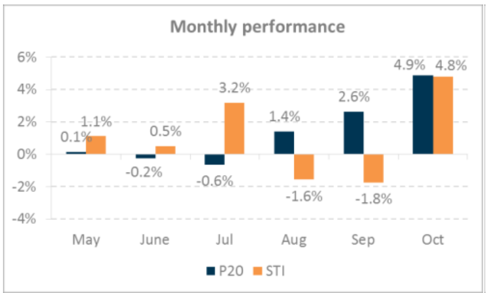


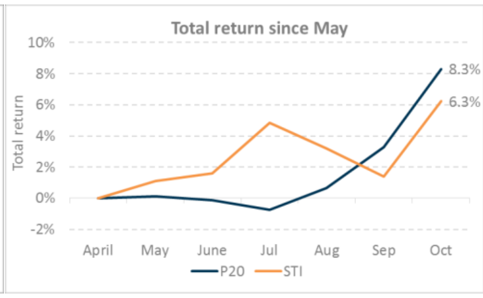
Source: Bloomberg, Phillip Securities Research Pte Ltd

Red line = 20-period moving average, Blue line = 60-period moving average, Green line = 200 period moving average

In the September monthly review report, we emphasised the importance of the 3189 support area. Since then, the 3189 support area held up steadily and succeeded in reversing the STI back into the uptrend. On the weekly timeframe, the 3189 support area also coincided with the 20 week moving average making that area a major pivot point. The subsequent bullish break above the 20 week moving average and downtrend line in the week ended 6 October kick-started the current up leg. Moreover, with October closing above the 3354 July high, the STI has successfully established another new 52-week high. Thus confirming the progress of the uptrend since February 2016 with the formation of the series of higher highs and higher lows.

With the ongoing bullish momentum, expect the STI to head higher next to test the 3457 resistance area followed by 3549.





The Phillip 20 Portfolio - Our top technical picks							
Company Name	**Ticker**	**L**	**Entry Date**	**Entry price**	**Stop Loss**	**Last price**	**Current gain/loss (%)**
BLACKGOLDNATURAL	41H	Long	6-Jul-17	0.137	0.103	0.113	-17.52%
BREADTALK	5DA	Long	2-Nov-17	1.645	1.470	1.585	-3.65%
COGENT	KJ9	Long	22-Mar-17	0.780	0.725	1.015	30.13%
CHASEN	5NV	Long	9-Oct-17	0.093	0.081	0.088	-5.38%
ELLIPSIZ	BIX	Long	3-Aug-17	0.645	0.575	0.845	31.01%
FRENCKEN	E28	Long	20-Jul-17	0.525	0.445	0.595	13.33%
F & N	F99	Long	24-Mar-17	2.220	2.220	2.550	14.86%
GOLDEN ENERGY	AUE	Long	2-Aug-17	0.425	0.360	0.455	7.06%
HANWELL	DM0	Long	13-Sep-17	0.345	0.295	0.320	-7.25%
HAW PAR	H02	Long	18-Aug-17	10.930	10.500	12.150	11.16%
JUMBO	42R	Long	22-Sep-17	0.575	0.525	0.605	5.22%
MIYOSHI	M03	Long	23-Aug-17	0.074	0.062	0.083	12.16%
OUE	LJ3	Long	9-Oct-17	2.010	1.895	2.020	0.50%
PANUNITED	P52	Long	22-Aug-17	0.550	0.500	0.580	5.45%
RIVERSTONE	AP4	Long	12-Jul-17	1.065	0.995	1.065	0.00%
SPH	T39	Long	25-Sep-17	2.750	2.530	2.680	-2.55%
SINGAPORE O&G	1D8	Long	14-Sep-17	0.490	0.420	0.515	5.10%
THAIBEV	Y92	Long	14-Mar-17	0.955	0.825	0.960	0.52%
UMS*	558	Long	29-Sep-17	0.788	0.705	1.045	32.61%

**UMS entry price and stop loss have been adjusted for bonus share issue*

PHILLIP SINGAPORE SECTOR UNIVERSE

Phillip Singapore Sectors (105 companies)	1 Mth Perf.	3 Mth Perf.	YTD Perf.	PSR Recomm	Target % change	Mkt Cap (US$ m)	PE FY16	PE FY17e	PE FY18e	P/BV FY16	Dividend Yield	ROE FY16	EPS Growth FY17e	EPS Growth FY18e
Commodities - Plant./Others	**8.2%**	5.9%	0.3%	Overweight	3.4%	28,361	15.1	14.7	12.9	1.9	1.9%	10.2%	3%	14%
Conglomerate/Utilities	**1.1%**	2.5%	18.9%	Neutral	6.3%	120,328	27.0	24.3	22.1	1.1	2.2%	14.0%	11%	10%
Consumer - F&B/Gaming/Media	**6.0%**	2.3%	18.0%	Overweight	8.3%	47,673	24.8	22.6	21.1	4.3	2.8%	24.8%	10%	7%
Finance	**7.0%**	4.2%	28.0%	Overweight	1.3%	115,554	14.1	12.8	11.5	1.7	2.9%	11.7%	11%	11%
Healthcare	**-1.8%**	-4.1%	-15.1%	Overweight	9.9%	13,816	60.7	50.9	41.7	2.5	0.7%	6.3%	19%	22%
Industrial - Electronics/Others	**7.1%**	17.3%	61.7%	Overweight	8.4%	15,043	23.5	19.7	17.4	4.4	3.2%	20.1%	19%	13%
Property	**4.2%**	4.1%	33.2%	Overweight	7.4%	65,812	15.3	18.5	17.3	1.1	2.4%	10.1%	-17%	7%
REIT - Hospitality	**2.7%**	3.5%	19.2%	N/A	-0.9%	7,125	21.9	19.7	18.6	1.0	6.2%	4.9%	11%	6%
REIT - Industrial	**2.6%**	2.8%	18.9%	Neutral	2.5%	16,732	22.2	17.0	16.0	1.3	6.1%	7.5%	31%	6%
REIT - Office	**3.2%**	2.3%	17.0%	Neutral	-0.2%	12,898	18.8	23.0	22.5	0.9	5.4%	7.1%	-18%	2%
REIT - Retail	**1.6%**	0.6%	11.5%	Neutral	2.5%	16,620	13.0	18.0	17.7	1.0	5.7%	9.2%	-28%	2%
REIT - Others/Foreign/Biz Trust	**1.5%**	-2.1%	11.5%	Overweight	2.8%	7,945	17.8	21.1	19.9	1.0	9.2%	5.2%	-16%	6%
Shipping - Yards/Vessel owners	**9.7%**	12.9%	68.5%	Neutral	-6.3%	7,977	-160.5	22.5	22.2	4.2	7.6%	4.5%	n.m.	1%
Telecommunications	**1.8%**	-5.3%	1.9%	N/A	11.1%	49,397	15.5	15.7	15.0	3.6	4.9%	22.8%	-1%	5%
Transportation	**0.1%**	-4.8%	-1.1%	Reduce	9.0%	18,618	20.1	21.2	21.3	1.7	3.1%	8.4%	-5%	-1%
	3.9%	2.5%	19.9%		5.4%	543,898	18.6	18.0	16.6	2.0	3.2%	13.5%	4%	8%

Best performing sectors in Oct17 were: Shipping, Commodities and Industrial. The gains in shipping were from both SembCorp Marine (+10.6%) and Yangzijiang (+10.1%). Commodities gained on big moves by Olam (16.3%) and Geo Energy (11.1%). Industrial sector increase was led by Hi-P (+38.5%), Micro-Mechanics (23.8%) and AEM (+23.2%). Under our coverage the biggest gainers were Micro-Mechanics (+23.8%), CDL (+14.2%) and SembCorp Industries (+11.1%).

Worst performing sectors in Oct17 were: Healthcare, Transportation and REIT-Others. Healthcare was down due to the decline in IHH (-2.4%). Weakness in transportation was a result of weakness in SIA Engineering (-6.6%) and ComfortDelgro (-2.9%). REIT-Others generally underperformed due to Manulife US-REIT (-1.1%) and Hutchinson Port (unchanged). Major decliners under our coverage include Banyan Tree (-6.8%), SIA Engineering (-6.6%) and Soilbuild (-5.7%).

SUMMARY OF SECTOR AND COMPANY VIEWS

1. Commodities	Overweight with BUY calls on China Aviation Oil (aviation growth in China), Geo Energy (increased production volume) and Golden Energy (volume growth and improved balance sheet liquidity).
2. Conglomerate / Utilities	Neutral. We have an Accumulate on SembCorp Industries. The upcoming strategic review is an opportunity to re-rate the company and remove the inherent conglomerate discount. China Everbright Water is a BUY for their stable pipeline of projects.
3. Consumer	Overweight. Our BUY recommendations are Dairy Farm, Sheng Siong and Old Chang Kee. We upgraded Sheng Siong on the back of rebound in retail spend.
4. Finance	We upgraded the sector from Neutral to Accumulate. OCBC has moved to a BUY whilst UOB is a Neutral. DBS is an Accumulate.
5. Healthcare	Overweight. Our BUY calls are HMI and Singapore O&G (upgraded due to more attractive valuation). We upgraded Raffles Medical from Neutral to Accumulate.
6. Industrial	Overweight. We have BUY calls on 800 Super, Cogent, Nam Lee and Micro-Mechanics.
7. Property	Overweight. Our preference is Singapore centric developers such as CDL. Property sales momentum has been better than expected. We have a Trading BUY recommendation on Wheelock Properties. Other BUYs are Chip Eng Seng and Banyan Tree. For Banyan Tree, Vanke and Accor will open up a significant pipeline of management contracts.
8. REIT – Hosp.	No coverage at present but outlook is turning positive as hotel supply will tail off by 2018.
9. REIT – Ind.	Overweight. We have Accumulate recommendation on Ascendas REIT, and Mapletree Industrial is downgraded to Neutral.
10. REIT – Office	Neutral. Only coverage is CapitaLand Commercial Trust with Accumulate on improving office sector.
11. REIT – Retail	Neutral. Retail spending and rental reversions remain problematic for this sector.
12. REIT - Others	Overweight. We have BUY call on Asian Pay TV. We find the 11% dividend yield and monopolistic conditions extremely attractive.
13. Shipping	Neutral. We have a Reduce on SembCorp Marine.
14. Telecomm.	No coverage at present.
15. Transport.	Neutral. We have a BUY on ComfortDelGro. Whilst, taxi business is under pressure, the operating environment for buses and rail is improving. We have upgraded SIA Engineering to Neutral following the recent share price retracement.

MACRO COMMENTARY

MAS keeps neutral stance

The central bank maintained the rate of appreciation of its Singapore dollar nominal effective exchange rate (S$NEER) policy band at 0%. The width of the policy band and the level at which it is centred remains unchanged.

***Comment**: No surprise on the neutral policy statement. Whether this neutral policy is on "an extended period" was more cryptic. MAS seem to highlight that this neutral policy on an extended period has been around since October 2016. This may imply that this extended period would be coming to an end soon. Other notable difference from April statement was that the growth in Singapore economy should become more even in the quarters ahead.*

The following is MAS outlook summary:

1. *Core inflation - around 1.5% in 2017 and average 1 to 2% in 2018.*
2. *GDP - Should be in the upper half of the 2-3% forecast range in 2017.*
3. *2018 outlook - Singapore economy is likely to expand at a steady, but slightly slower pace in 2018 compared to 2017.*

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Labour market improves further in Q3, job cuts down slightly

The unemployment rate was 2.1% in September after accounting for seasonal variations, down slightly from 2.2% June, preliminary data released by the Ministry of Manpower (MOM). Retrenchments in the third quarter - from July to September - remained at about the same level as in the previous quarter, coming down marginally to 3,600, from 3,640.

***Comment**: Net employment in 3Q17 was down 7k and YTD a negative 15k. This remains a far cry from the average 125k net jobs per year from 2010 to 2014. Echoing recent comments by the MoM, 100k new jobs a year is too high and targeted net employment is 25k to 40k a year. The government is looking to transform the economy from 4% employment growth with little productivity (4 + 0 = 4), to an economy that grows based on 1% employment growth and 2% productivity growth to achieve 3% GDP growth (1 + 2 = 3).*

SECTOR COMMENTARY

PROPERTY

<u>Chip Eng Seng to buy Changi Garden for S$248.8m, 27% above asking price</u>

The purchase price is about 27% above the asking price of S$196mn and S$888 per square foot per plot ratio. The freehold development comprises 60 apartments, 12 penthouses and 12 shops.

***Comment**: The purchase price compares with the average transacted prices (2016-2017) of S$680/psf and S$752/psf for Ballota Park and Edelweiss Park in the vicinity (200-500m from en bloc site). Both projects are completed freehold condominiums. At land price of S$888/psf, after factoring in construction costs and mid-teens margins, launch price could be upwards of S$1,400/psf, representing a close to doubling of vicinity transacted prices. Execution risks are high, but we think positive factors for the new project could include pent up demand in the area with a good catchment of private landed households, and demand (new sale/rental) from increased employment at the new Changi Airport Terminal 4.*

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TRANSPORTATION

Grab bags US$700mn financing, partners SMRT to build region's 'largest car rental fleet'

Grab announced that it has secured debt facilities of up to US$700mn from "leading global and regional banks" - the largest ever debt financing round raised by a South-east Asian startup. Grab added that it has signed an exclusive partnership with SMRT to build the largest and most advanced taxi and private-hire car fleet in Singapore, which will include hybrid and fully electric vehicles.

Comment*: Taxi business in Singapore for the incumbents will remain under pressure from ride-hailing apps. However, a point to note is that both Uber and Grab are still making losses, and investors would expect a return eventually. Failing which, funding will inevitably dry up. Despite the competitive pressure from ride-hailing apps, the taxi business in Singapore for ComfortDelGro remains profitable. Meanwhile, ComfortDelGro had announced a possible tie-up with Uber and we await more details on that collaboration.*

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SATS, AirAsia ink ground-handling pact

SATS will acquire a 50 % stake in AirAsia's Ground Team Red Holdings (GTRH) in exchange for SATS' 80% stake in SATS Ground Services Singapore (SGSS). SGSS is a new ground-handling entity formed to serve customers at Changi Airport's new Terminal 4 - along with S$119.3mn in cash.

Comment*: This move will see both companies take a stake in one another's Ground Handling business. SATS will have an effective stake of 60% in SGSS, and effective 49% stake in GTR Malaysia. AirAsia's exposure to the Singapore Ground Handling business is limited to only Terminal 4; whereas SATS's exposure is in Malaysia where AirAsia operates. According to IATA, 9M 2017 air passenger traffic has grown 10% YoY for the Asia Pacific market, much of it we believe is due to the proliferation of low-cost-carriers. Both SATS and AirAsia are poised to be beneficiaries of this trend.*

RESULTS COMMENTARY

CONSUMER

Sheng Siong Group (Target px: S$1.13 / Upgrade to BUY)

- 9M17 PATMI met our expectations. Trading environment continue to recover. Sales from mature stores extended uptick with 3% growth after six consecutive quarters of contraction before 2Q17.
- Closure of two underperforming stores, i.e. the Verge and The Woodlands Blk 6A stores, should lift profitability in FY17/18e.
- Three new stores to open by end-FY17. New stores coupled with consumer sentiment recovery should continue to drive FY18e growth.

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FINANCE

iFAST Corporation Ltd (Target px: S$1.11 / ACCUMULATE)

- Strong AUA growth contributed by stronger net sales.
- Hong Kong AUA gained from stronger inflows of bonds and unit trusts.
- China operations continue to be loss-making but losses have narrowed.

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Oversea-Chinese Banking Corp (Target px: S$13.48 / BUY)

- NII increased 12% YoY on the back of strong loans growth and higher NIM.
- WM fee income grew 32% YoY partly contributed by the inclusion of Barclay's WM.
- Net trading income weaker YoY and QoQ as volatility remains low.

Singapore Exchange Limited (Target px: S$8.31 / ACCUMULATE)

- New IPOs in FY18 expected to be in the high 20s compared to FY17's 22.
- Equity, FX and commodity derivatives volume expected to be strong in FY18.
- Securities clearing fee spreads were down due to higher trading volumes by MMLPs and higher composition of products such as ETF and DLC.

Sing Investments & Finance Limited (Target px: S$1.725 / ACCUMULATE)

- Sharp increase in interest income and hiring charges after two quarters of decline. We raised our earnings forecast by 10%.
- Loans growth stable QoQ.
- Allowances for bad loans declined 45.6% YoY.

HEALTHCARE

Raffles Medical Group (Target px: S$1.32 / ACCUMULATE)

- 9M17 PATMI were slightly below our expectations, hit by lower renewal of international healthcare plans for expatriates. However, local patient growth remains healthy.
- Expansion projects on-track to commence: RafflesHospital Extension (4Q17), RafflesHospital Chongqing (4Q18) and RafflesHospital Shanghai (4Q19)
- Start-up losses for the new China hospitals are estimated to hit 10-13% of EBITDA p.a. in FY2019-20. We earmarked the two new China hospitals to breakeven in their third year.

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REIT - INDUSTRIAL

Ascendas REIT (Target px: S$2.86 / ACCUMULATE)

- Operationally, portfolio occupancy remains high at 92.0% with healthy WALE of 4.2 years.
- Diversified portfolio with ROFR to Sponsor's portfolio of Business & Science Park properties.
- 33.1% gearing affords ~$1.0 bn of headroom to acquire and grow inorganically.

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Cache Logistics Trust (Target px: S$0.82 / NEUTRAL)

- Recent Rights Issue has brought gearing down to 35.7% from 43.4%; now in a better position to make acquisitions.
- Dispute with Schenker at 51 Alps Avenue has been amicably resolved, with rental topped-up to market rate resulting in no adverse impact to unitholders.
- Key downside risk is the master lease expiry of CWT Commodity Hub (27% by portfolio value as at FY16) in 2018, with an oversupply in the market.

Keppel DC REIT (Target px: S$1.36 / NEUTRAL)

- Long WALE of 9.2 years, with <10% of leases by NLA expiring within the next three years.
- Gearing remains low at 32.1%, with ample debt headroom to grow the portfolio.
- At 1.4x Price-to-NAV, it could be opportune to raise new equity with the next acquisition.

Mapletree Industrial Trust (Target px: S$1.99 / NEUTRAL)

- Expanded Investment Strategy to include overseas data centres, capped at 10% by portfolio value.
- Incorporated 60:40 JV between the REIT and the Sponsor; and acquired a platform of 14 data centres in the USA for US$750 mn at ~7% NPI yield.
- Previous target price achieved and catalysts priced-in.

Soilbuild Business Space REIT (Target px: S$0.64 / REDUCE)

- Multiple tenant defaults plague the portfolio.
- Back-filling of 72 Loyang Way remains challenging; NK Ingredients and KTL Offshore are in default.
- Key downside risk is ability of NK Ingredients and KTL Offshore to top-up security deposit and keep up with rent payments.

REIT - OFFICE

CapitaLand Commercial Trust (Target px: S$1.80 / ACCUMULATE)

- First QoQ rise in average Grade A office rentals in 9 quarters to S$9.1/sqft/mth.
- Divestment proceeds used to top up the rental shortfall from divestments this year.
- Recovery of office rents to mitigate the impact of potential negative reversions in 2018.

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REIT - RETAIL

CapitaLand Mall Trust (Target px: S$2.01 / NEUTRAL)

- Improvements in NPI margins sustained a 1.6% increase in NPI despite flat revenue.
- No signs of recovery in retail sales.
- Selected malls continue to be under pressure in rental reversion, especially in the east.

CapitaLand Retail China Trust (Target px: S$1.64 / NEUTRAL)

- Portfolio occupancy (95.6%) and rental reversions (7.5%) remain healthy.
- Stable average cost of debt at 2.42%.
- Tenant sales slowing, 3Q17 down 2.0% YoY (2Q up 1.9% YoY).

Frasers Centrepoint Trust (Target px: S$2.14 / NEUTRAL)

- Strong rental reversions of 5.1% for FY17 despite a tough operating environment.
- Catalysts for better upcoming performances in Northpoint City North Wing (NPNW) and Changi City Point (CCP).
- Cap rate compression drove NAV increase of 9c/share to S$2.02.
- Rising occupancy costs may make it harder to sustain future rental reversions unless tenant sales improve.

Phillip On The Ground – excerpts from our various conversations

Banking

1. In oil and gas sector, there are more chartering and drilling activity. But no noticeable uptick in charter rates and duration for the charters are still short. Banks do not take possession of the vessels pledged but leave it to the client to operate. To recruit an asset manager to operate the vessel for the bank is not economical.
2. Loans growth has improved in 2017 partly because banks were very cautious last year on the outlook for global economy following uncertainty over Brexit, US Elections and South China Sea. By 4Q16, the cautiouness receded.
3. As a side note, there was an NPL from a steel SOE because it requested to restructure its debt despite payment of principal and interest being current.

Property: Singapore

1. Price the projects so that affordable enough to meet the TDSR. As a result, projects will be smaller but will face the limitation from the 70 sqm average size rule for projects (in the past in was 100 sqm). Need to max out this 70 sqm in order to ensure affordability. So pricing has its limitations. Nevertheless, still prefer mass market than high end because not easy to find $2.5-3m per unit buyer.
2. Demand for a development project is always hard to gauge because many factors and dynamics. So the key is to ascertain localised supply of that area where the developer can have visibility.
3. On the behaviour of en-bloc sellers, very likely most will find a cheaper replacement and use the extra funds for child education rather than invest in another property.

Property: Myanmar

1. Market has stabilised but no sharp recovery. Real estate is broadly slower than in the past. Need to push for scale and lower price points (< US$100k) and target mass market. Banks are now willing to give 12 year loans.
2. The condo law is being redrafted to allow for strata titles and set the foreign ownership at 40%. With strata, a 20 to 30 year mortgage can be introduced.
3. Prior to this law, buyers are sold the right to occupy and not a strata title. Some developers may be taking risk and selling to foreigners on condition when the law is passed, they can take ownership.

Finance: Money lending

1. Able to fund at 60% LTV and average loan size can be S$2mn to $3mn. Despite the higher rates, borrowers tap on this funding source because of the speed of processing within 2 weeks, compared to typical 12 weeks for a bank.
2. The collateral is only 1st charge on properties. Assess the quality and speed of monetizing the property rather than cash-flows like banks.
3. Provisioning policy is more internally and LTV driven unlike unsecured loans, where there is full provision if 60 day non-payment. There is also no capital adequacy requirement like banks.

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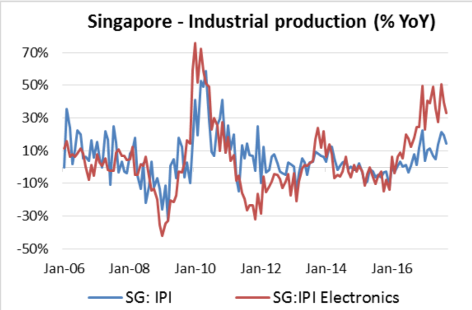
1. SINGAPORE ECONOMICS – industrial production, PMI, property sales robust

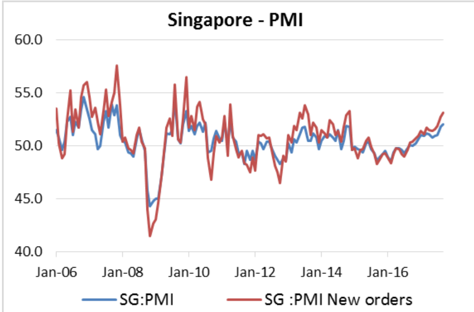
Business Activity

Industrial production in September was slower at 14.6% but ahead of market expectations of 10%. Electronics continue to be fastest growing segment, up 33%. Electronics maintained its stellar pace despite the difficult comps. Recall that electronics rebound began in Jun16 (+20%).

PMI is on its 5th consecutive month of acceleration. PMI is now near to 3-year highs. Electronics PMI is trajectory is even stronger, close to 7-year highs.



	Month	IPI	IPI-Elec
Previous	Aug-17	19.5%	39.4%
Latest	Sep-17	14.6%	33.2%

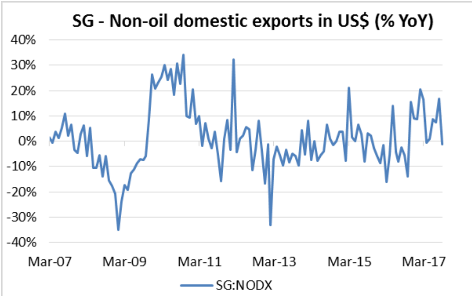


	Month	PMI	Order
Previous	Aug-17	51.8	52.7
Latest	Sep-17	52.0	53.1

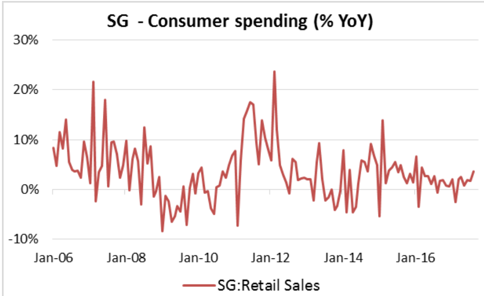
Trade/Consumer

After a solid number in August, exports turned negative in September. This surprising pull back was due to electronics (-8% YoY) and pharma (36%). The reversal is counter to robust exports out of Korea and Taiwan. YTD, NODX is still on track for best performance in 6 years.

Finally, we see some improvement in retail sales, up 3.5% in August. YTD17 retail sales growth is lacklustre, up only 1.5%, a tad above 2016 poor growth of 1.3%.



	Month	SG:NODX
Previous	Aug-17	16.7%
Latest	Sep-17	-1.1%

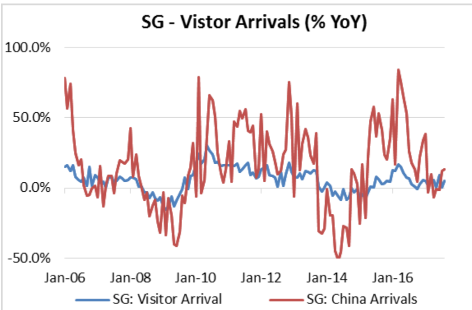


	Month	Retail
Previous	Jul-17	1.7%
Latest	Aug-17	3.5%

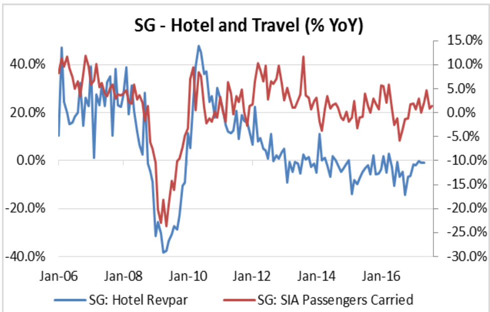
Tourism

Tourist arrival data has been volatile the past few months. It seems to be holding up with 5% growth in August. YTD, arrivals are only up 4%, much weaker than 2016 growth of 7.7%. Arrival from China is gaining strength up 13%YoY. This is significantly off the pace from 2016 pace of growth at 36%.

RevPar is on its 3rd consecutive month of positive YoY. Up 1.4% in August. This is following 13 consecutive month of decline in Singapore. Industry RevPar of $215 is around two year highs. Passenger traffic at SIA continues to be resilient. YTD, passenger traffic is up 2% YoY (2016 +0.4%).



	Month	Visitors	China
Previous	Jul-17	0.6%	12.3%
Latest	Aug-17	5.2%	13.2%



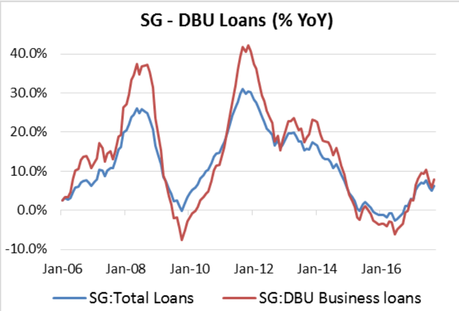
	Month	Revpar	SIA
Previous	Jul-17	1.9%	1.0%
Latest	Aug-17	1.4%	1.4%

Source: CEIC, PSR

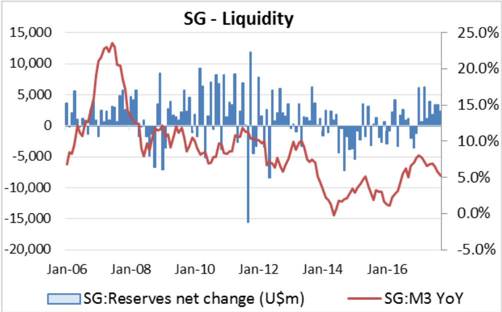
Monetary

After 2 months of deceleration in loans growth, loans growth in Singapore regained strength in September, up 6.2%. This is the 12th month of positive growth in loans and fastest pace in 2 years. Pulling up loans growth is business loans, up 8% YoY. Housing loans maintained its 4.2% YoY growth.

Money supply is slowing to the 3rd consecutive month of slower growth at 5.3% in September. But foreign reserves are up US$28.8b YTD. This is the highest inflows in 7 years.



	Month	Total	Business
Previous	Aug-17	5.1%	5.8%
Latest	Sep-17	6.2%	8.0%

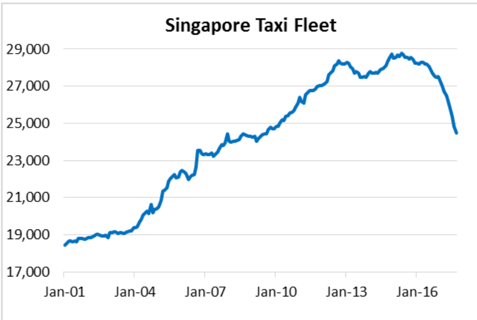


	Month	FX	M3
Previous	Aug-17	3.4	5.8%
Latest	Sep-17	2.3	5.3%

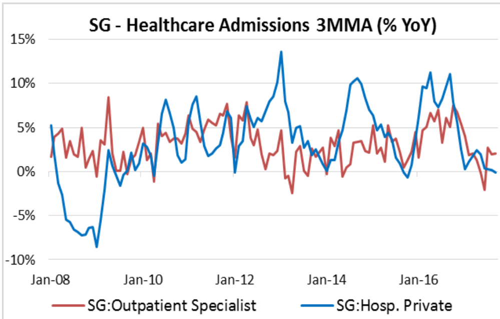
Transport/Healthcare

The taxi fleet is at 8 year lows. More worrying is the pace of decline is accelerating. The decline of ~12% YoY in September is the highest on record and seems to be accelerating. Taxi fleet is falling around 1.5% per month.

Private hospital admissions reversed the positive growth enjoyed in August. The September decline of 1.9% is the worst performance in 8 months. YTD, private hospital admission is only up 0.7% (2016: +10%). The worst performance in 7 years. Public hospitals are taking share with YTD admission growth of 5%. There is a similar weak performance for dental and specialist care admissions.



	Month	% YoY
Previous	Aug-17	-10.9%
Latest	Sep-17	-11.7%



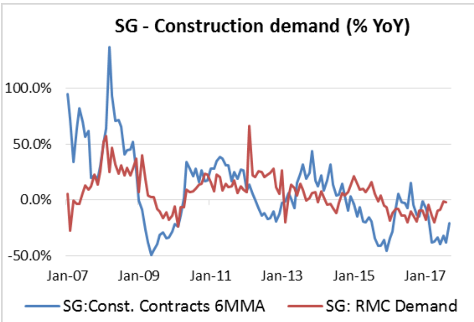
	Month	Pv Hosp	Dental	Specialist
Previous	Aug-17	2.9%	-3.9%	1.4%
Latest	Sep-17	-1.9%	-2.1%	-3.2%

Construction/Property

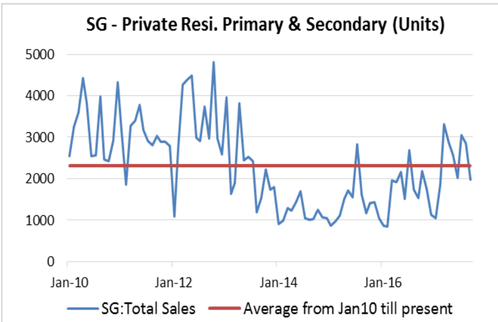
After a nice spike in contracts awarded in July, we saw a major reversal in August. Likewise demand for RMC is still shrinking. August is the 21st straight months of contraction.

YTD property transactions (primary and secondary) are up by 42%. September saw a smaller 29% YoY jump in sales. 2017 average monthly sales of 2393 units is on track for the best performance in 4 years.

** RMC = Ready Mixed concreted Listed RMC producers in Singapore include Pan United, Hong Leong Asia and LaFarge Holcim (Bursa listed).*



	Month	Const	RMC
Previous	Jul-17	60.1%	-1.5%
Latest	Aug-17	-54.8%	-2.4%



	Month	Total	Primary	Secondary
Previous	Aug-17	2838	1489	1349
Latest	Sep-17	1971	894	1077

Source: CEIC, Realis, Bloomberg, PSR

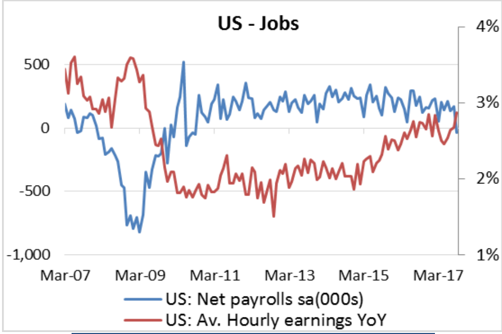
2. US ECONOMICS – PMI, imports, consumer and jobs healthy; Loans still weak

Business Activity / Jobs

US ISM new orders registered its 2nd best reading in 2017. These are strong ISM numbers considering the reading in 2005-2016 ranged between 42 to 59.

Payrolls in September were down 33k partly due to the impact of hurricanes. YTD, monthly net jobs of 176k is close to 2016 pace of 187k per month. The elusive wage growth has finally arrived, up 2.87% in September. This is fastest growth rate in more than 8 years.

	Month	New	New - Inv.
Previous	Aug-17	60.3	4.8
Latest	Sep-17	64.6	12.1

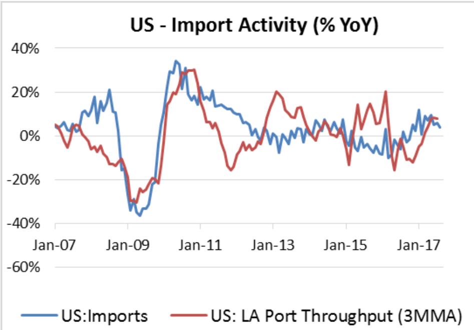


	Month	Payrolls	Hourly
Previous	Aug-17	169	2.68%
Latest	Sep-17	-33	2.87%

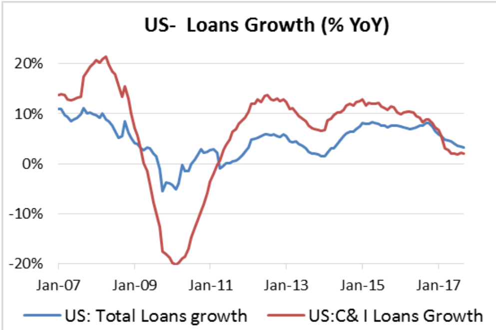
Trade / Banking

Import and port activity remain buoyant. YTD port throughput is up 9%, a major reversal from 2016 decline of 6%. And YTD imports growth of 7% is the best in 5 years.

Loans growth continues to weaken. This is 11th consecutive month of slower loans growth. However, the pace of slower loans seems to be waning. C&I (or business) loans growth has been on a general declining trend for the past 11 months.



	Month	Imports	Port
Previous	Jul-17	5.8%	13.1%
Latest	Aug-17	4.0%	8.0%
	Sep-17	n.a.	28.3%

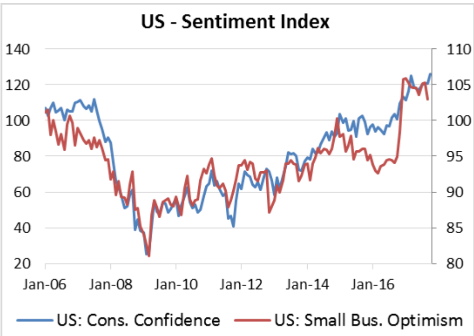


	Month	Total	C&I
Previous	Aug-17	3.5%	2.3%
Latest	Sep-17	3.3%	2.0%

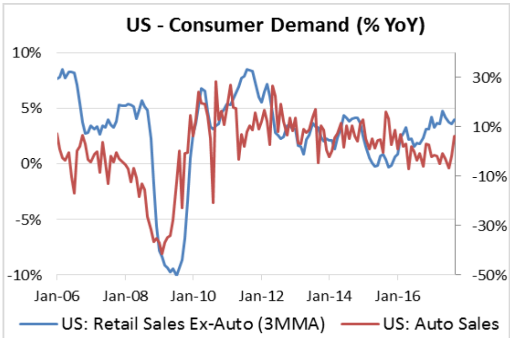
Sentiment / Consumer

Consumer confidence index spiked up in October to almost 17 year highs. Wage growth may have been a contributing factor. Small business index softened marginally from it multi-year highs.

Retail sales excluding auto is healthy. YTD, retail sales is up 4%, this is the fastest pace in 5 years. After 8 consecutive month of decline, auto sales experienced a rebound in September.



	Month	Consumer	Small Biz.
Previous	Aug-17	120.4	105.3
Latest	Sep-17	120.6	103.0
	Oct-17	125.9	n.m.



	Month	Retail	Auto
Previous	Aug-17	4.7%	-1.8%
Latest	Sep-17	4.2%	6.2%

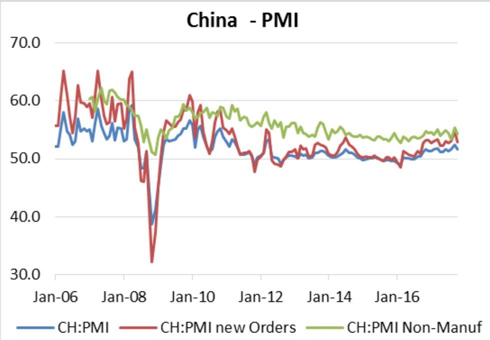
Source: CEIC, PSR

3. CHINA ECONOMICS –PMI and activity indicators (steel, electricity, railway) stable; property is weak

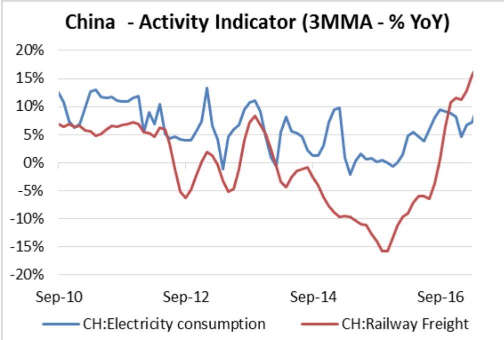
Business Activity

After the strong reading last month, PMI dipped to 51.6 (Consensus: 52). These are still healthy numbers and the tighter environmental controls this winter could a be factor in the moderation in PMI.

Electricity consumption growth recovered in September, to be within YTD electricity consumption of 7%. The fastest for the past 2 years. Railway freight while growing slower in August, is chalking up 7-year high growth rates. YTD rail freight is up 14.6% YoY (2016: -0.18%).



	Month	PMI	NewOrd.	NonManuf.
Previous	Sep-17	52.4	54.8	55.4
Latest	Oct-17	51.6	52.9	54.3



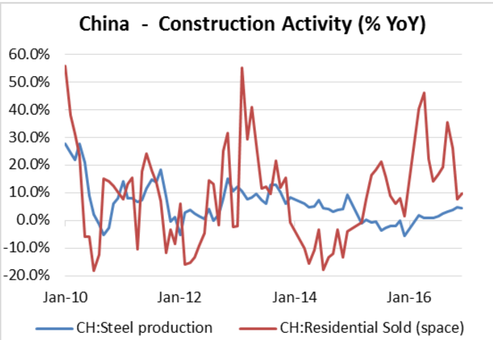
	Month	Elect.	Railway
Previous	Aug-17	6.4%	13.1%
Latest	Sep-17	7.1%	9.2%

Construction/Property/Monetary

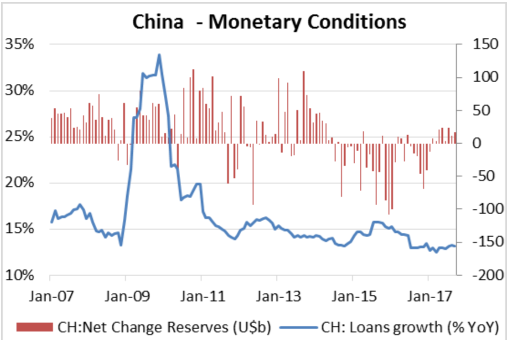
Steel production has started to wane, the 2nd consecutive month of deceleration. Steel production is expected to slow due to the production curbs for this winter. YTD 5.6% growth is still lining up to be the fastest in steel production over the past 3 years.

Property sales reported its first negative reading in 2.5 years, down almost 6%. YTD property sales is up 7.6% less than 1/3 the pace of 2016's 27% jump.

Foreign reserves rose around US$17bn in September, the 8th consecutive month of increase. Loan growth was stable at 13%.



	Month	Steel	Resi.
Previous	Aug-17	8.8%	2.3%
Latest	Sep-17	5.4%	-5.7%



	Month	Reserves	Loans
Previous	Aug-17	10.8	13.2%
Latest	Sep-17	17.0	13.1%

Inflation/Retail

China PPI moderated for the 6th consecutive month, albeit at a slower pace. Meanwhile, CPI rose faster than expected at 1.8% (consensus 1.6%). Falling food prices are now bottoming out. CPI is below 2016 2.1% reading.

China retail sales growth remains stable in August. It has been at 10 to 11% growth range for the past 17 months. Online sales in August of 39%, is the highest on record.

	Month	CPI	PPI
Previous	Aug-17	1.8%	7.2%
Latest	Sep-17	1.6%	6.8%

	Month	Retail	Online
Previous	Aug-17	10.1%	39.4%
Latest	Sep-17	10.3%	40.7%

Source: CEIC, PSR

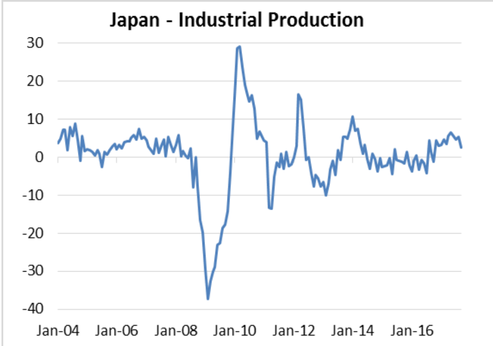
4. GLOBAL ECONOMICS - Electronics accelerating

Germany and Japan

At 109.1, the German IFO expectations index is near 7 year highs. The headline business climate index reading of 116.7 is at record highs.

Japan industrial production in September to 2.5%. This is again ahead of consensus 2% rise. Despite beating consensus, it is the slowest growth this year. Nevertheless, it is the 11th consecutive month of growth.

	Month	IFO
Previous	Sep-17	107.5
Latest	Oct-17	109.1



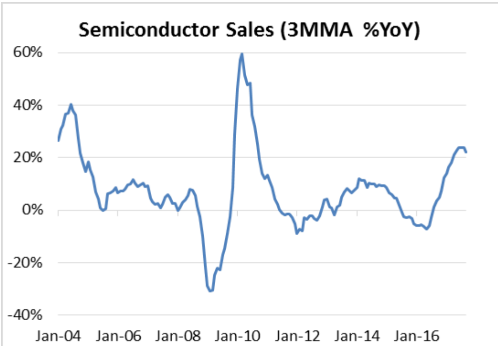
	Month	IPI
Previous	Aug-17	5.3
Latest	Sep-17	2.5

Electronics

Asian electronics exports are on their 5th month of accelerating growth. September is the best export growth performance in almost 7 years.

Semiconductor sales is maintained its vibrancy in Aug17, up 24%. Growth rates are at 7 year highs and 13 consecutive months of YoY growth.

	Month	Exports
Previous	Aug-17	15.5%
Latest	Sep-17	27.9%

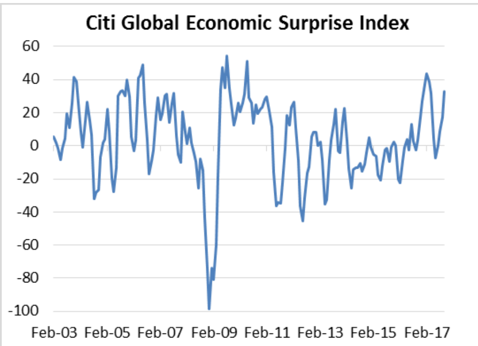


	Month	Sales
Previous	Jul-17	24.0%
Latest	Aug-17	23.9%

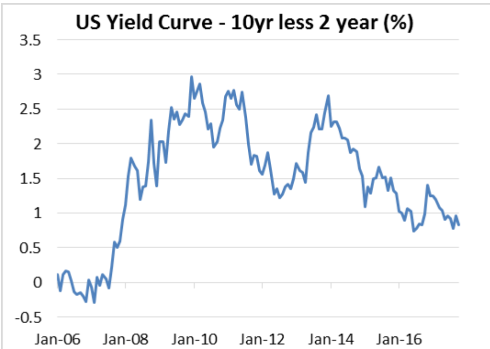
Global growth

The global surprise index peaked in Feb17. It then started to decelerate until June. Since then, it has been on four consecutive months of acceleration. This suggests global growth is still trending faster than expectations.

Yield curve spread continues to fall, but at slower pace. Market look to be pricing in much slower growth for the US economy in the next 18-24 months. The unwinding of Fed balance sheet may help steepen the yield curve.



	Month	Index
Previous	Sep-17	17.5
Latest	Oct-17	33.0



	Month	Yield
Previous	Sep-17	0.95
Latest	Oct-17	0.83

Source: CEIC, Bloomberg, PSR

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