Phillip 2Q21 Singapore Strategy

Music is still playing

SINGAPORE | STRATEGY

1 April 2021

Review: Alas, the STI turned in a respectable performance in 1Q21. Its 11.3% gain outperformed most global equity indices and asset classes, except commodities (Figure 4). Leading the rally were cyclical stocks: shipping, transportation and finance. REITs were the major underperformers (Figure 2). DPUs in FY20 were cut by 16%. The recovery in most sub-sectors such as retail, office and industrial was lacklustre. Rising interest rates further dampened investor appetite for the sector.

Outlook: We remain positive on equity markets. Global economic momentum is picking up and we see signs of reflation everywhere, notably in commodity and housing prices. Global PMI is above pre-pandemic levels (Figure 8), container imports into the US surged 32% (Figure 9) in the first two months of this year and several commodities are at around decade-highs such as copper, tin, iron ores, soybeans and palm oil. On the flip side, rising interest rates have created nervousness and periodic selling in the market. There is concern that the Fed will tighten monetary policy earlier than the 2024 projection. We are more sanguine.

Firstly, rising interest rates historically coincided with major rallies in equity markets (Figure 10). The real equity bears are recessions. Secondly, despite the recent spike in interest rates, monetary policy remains ultra-accommodative. With the U.S. economy expected to jump 6.5% in 2021, current 10-year yields of 1.7% will hardly hinder economic activities. In past periods when U.S. economic growth topped 5%, interest rates were as high as 6%, or 2.5% in real terms (Figure 11). Finally, we do not expect the Fed to pre-emptively tighten monetary policy, a mistake it made in late 2018. Instead, the Fed has repeatedly communicated that it is far from its goal of maximum employment. Any rise in inflation is expected to be transient due to reopening and base effects. The Fed is telling us, the music will still be playing, so investors should keep dancing.

Recommendation: Singapore's economic recovery is nascent. Its easing of large group gatherings and workers returning to office are still underway. Externally, global growth should tick up as COVID-19 vaccinations gather pace (Figure 7). Biden's massive fiscal stimulus in the U.S. is another accelerant for global growth, on top of large base effects following the unprecedented economic fallout in 2Q/3Q last year. Cyclical sectors such as electronics, commodities and banks should be the first beneficiaries of this recovery. We expect a multi-year boom for electronics from demand for autos, 5G, IoT, data analytics, cloud computing, gaming and of course, bitcoin mining. The upsurge in commodities is spurred by China's re-leveraging and reinvestment cycle. We still favour banks. Banks' head fake in accelerating loan provisions last year due to the pandemic and loan moratoriums is unravelling. Earnings should spike in FY21e (Figure 12). As the economy recovers, we expect loan growth to return, followed by fee income and later interest rates (or margins). Another bonus for investors would be a normal resumption of dividends if the MAS allows. Singapore banks now have a CET 1 of 14.6%, against their preference of 13%. Special dividends that are double the level of 2019 are possible, in our opinion. While we like most cyclical sectors and recovery prospects, optimism over international travel looks inflated to us. SIA's market cap is at a decade-high (Figure 14), despite considerably more leverage and relatively unchanged global competition. Among the REIT sectors, we favour U.S. offices. Yields are attractive at 8% and confidence in the US$ and employment is returning. Land transportation should recuperate from increased taxi and rail traffic as the workforce returns. We recently initiated coverage of two building-material stocks: BRC Asia and Pan United. We expect a rebound of as much as 31% in contracts for the construction sector in 2021, after the paralysis last year (Figure 15). Both building-material stocks have material market shares and are poised to secure a slice of the construction contracts, regardless of which contractors win.

1Q21 performances

Figure 1: Blockbuster banks

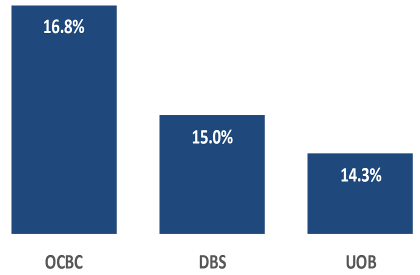


Figure 2: Defensives out of favour

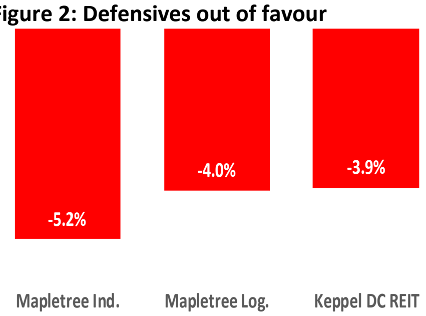
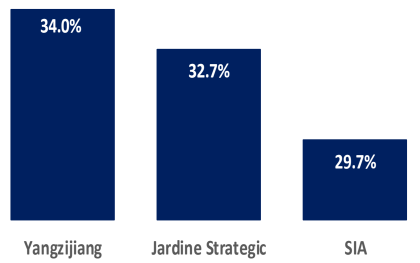


Figure 3: Deep cyclicals all the rage



Source (Fig 1-3): PSR, Bloomberg, 31Mar21

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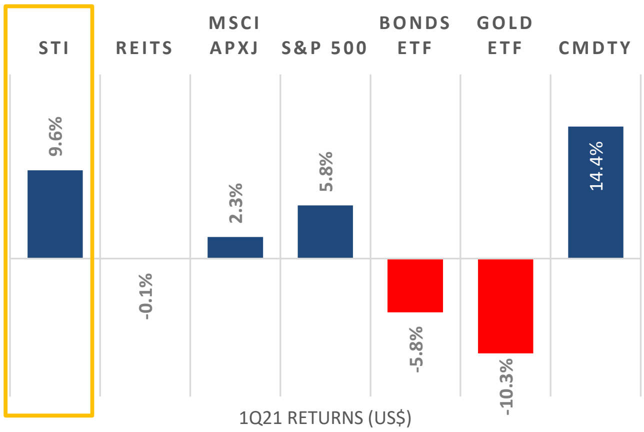
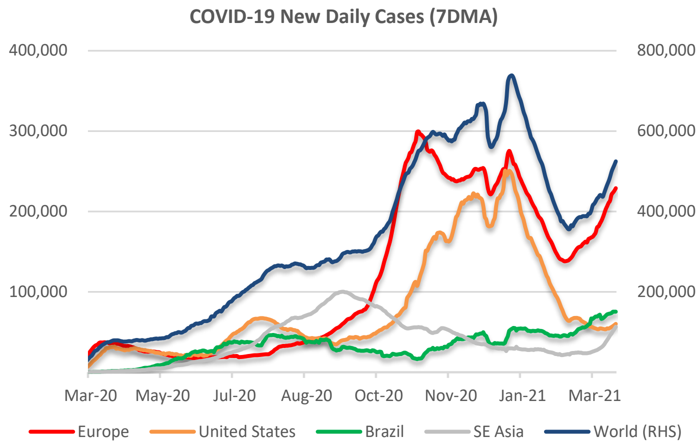
Figure 4: STI outperformed major equities, bonds and gold in 1Q21



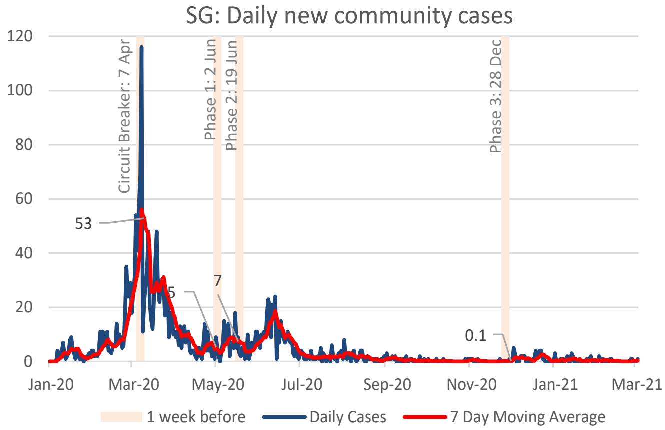
Source: PSR, Bloomberg. as at 31 March 2021 (Asian Time)

Figure 5: Shape of pandemic not totally clear



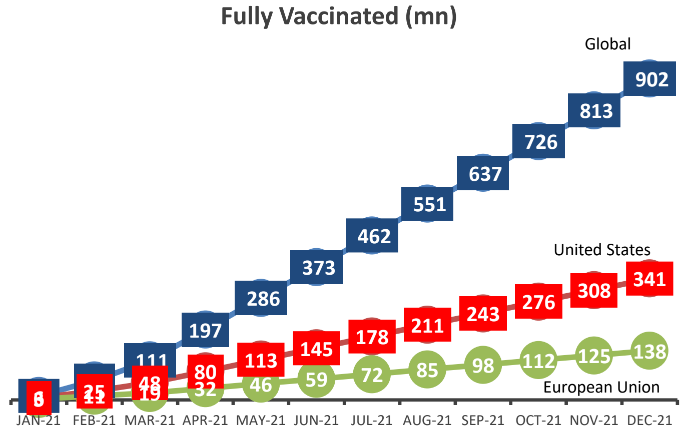
Source: PSR, CEIC, WHO, as at 29 March 2021

Figure 6: Three community cases in past seven days



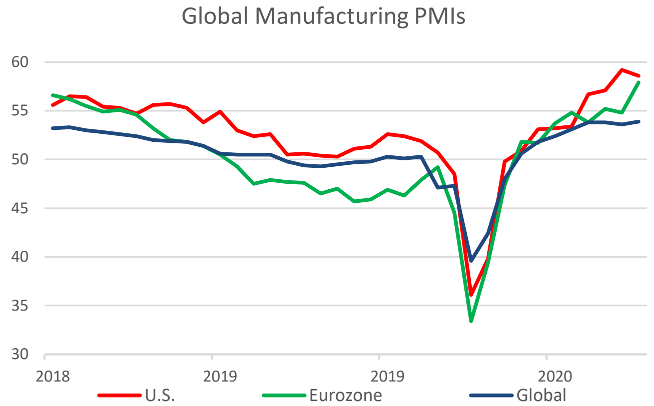
Source: PSR, MOH, as at 31 March 2021

Figure 7: Vaccinations accelerating in advanced countries e.g. U.S.



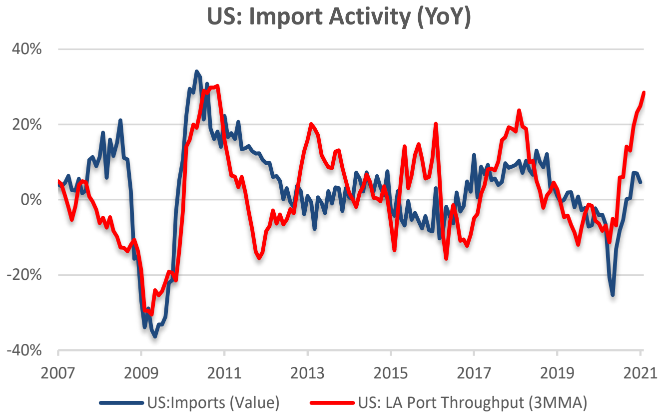
Source: PSR, CEIC, Our World in Data, linear extrapolation of average vaccinations

Figure 8: PMIs are above pre-pandemic levels



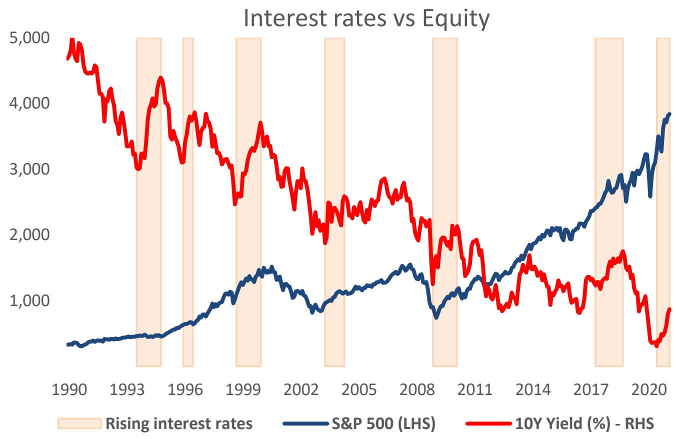
Source: PSR, CEIC, Markitt

Figure 9: U.S. imports booming, before Biden stimulus



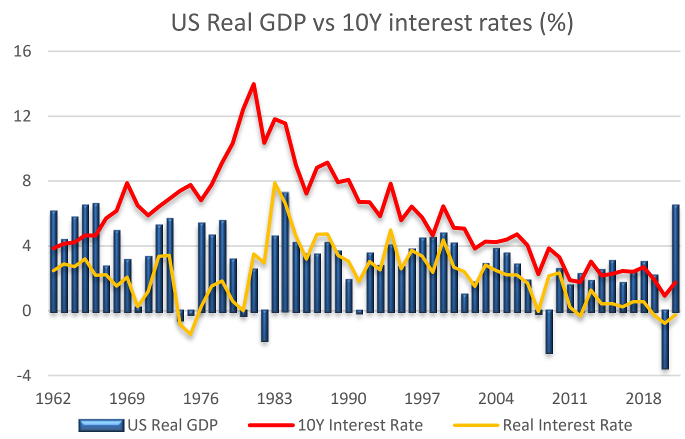
Source: PSR, CEIC, Port of Long Beach, US Census Bureau

Figure 10: Rising interest rates are great for equities, just look below



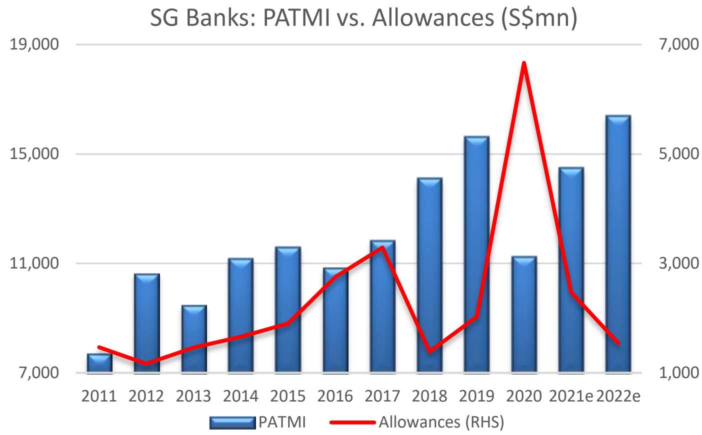
Source: PSR, CEIC

Figure 11: Interest rates never so low with such a spike in U.S. GDP



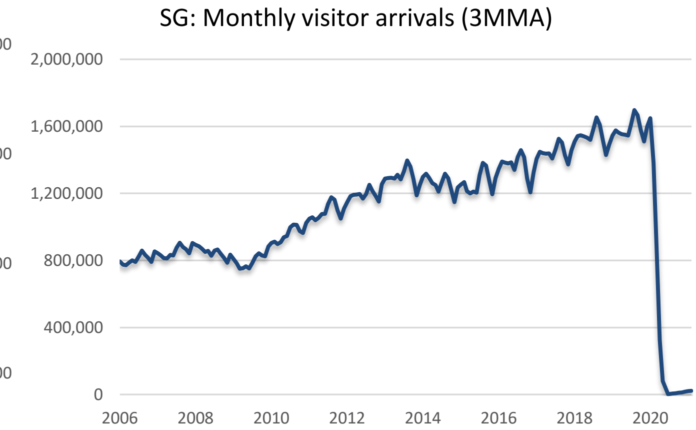
Source: PSR, CEIC

Figure 12: Banks' head fake in provisions or credit costs



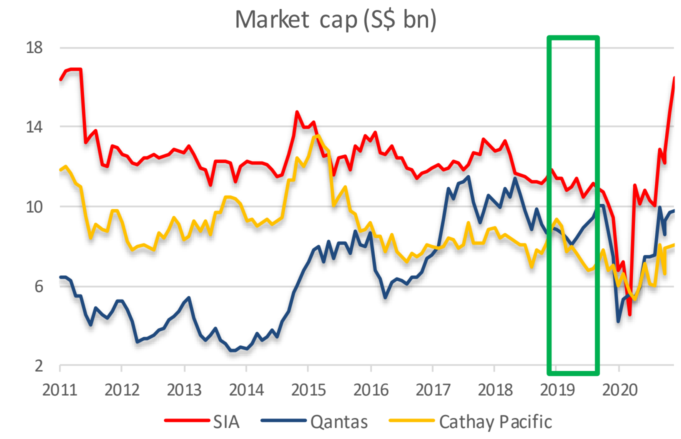
Source: PSR, Companies

Figure 13: Please come to Singapore



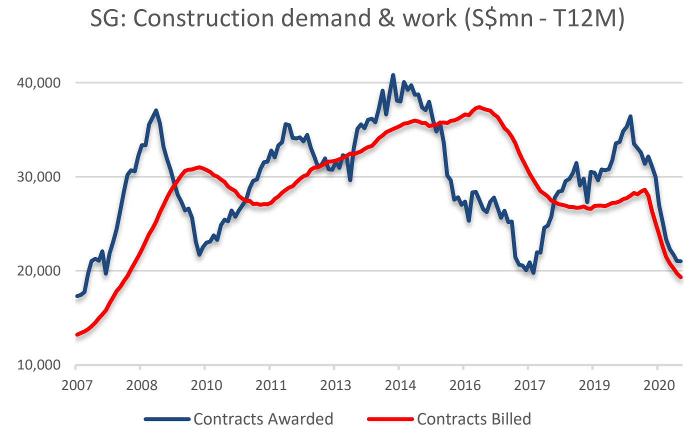
Source: PSR, CEIC, STB

Figure 14: A few more pandemics and you have a record SIA market cap



Source: PSR, Bloomberg

Figure 15: Construction contracts expected to surge in 2021



Source: PSR, CEIC, BCA

Phillip Absolute 10

Our Phillip Absolute 10 underperformed the STI in 1Q21 (Figure 16). Our model portfolio declined 3.7% against the STI's 11.3% gain. We were bludgeoned by a 52% decline in Yoma's share price. We still believe our thesis on Yoma was sound. Myanmar was growing fast. Yoma had a 10-year property-development land bank, profitable fintech business with a 2x growth rate and a US$73mn cash infusion from Alipay, a nationwide KFC franchise and a conglomerate looking to inject US$155mn into the group at a 38% premium to share price. Unfortunately, it was a painful lesson of sacrificing political risk for growth in emerging markets.

3Q20 - Add: Yoma Strategic, Asian PayTV, DBS; **Delete:** StarHub, Sheng Siong, UOB
4Q20 - Add: ComfortDelGro, Manulife US REIT, SGX; **Delete:** Ascott Residence Trust, DBS, Venture Corp.
1Q21 - Add: Ascott Residence Trust, Keppel Corp; **Delete:** NetLink Trust, SGX
2Q21 - Add: Q&M Dental; **Delete:** Yoma

Strategy commentary: REITs took a beating as cyclicals were the major outperformers. We keep existing REITs in our portfolio for their yields and portfolio stability. An easing of work arrangements and group gatherings in Singapore should prop up retail and office REITs. We added Q&M as an alpha bet on the basis of organic growth from its dental-clinic expansion by at least 20% p.a. for the next two years. Sales of COVID-19 PCR test kits and lab tests are expected to provide new earnings streams.

Deletions from our model: We have removed Yoma from our portfolio. We do not envisage any positive outcome in the near term for the Myanmar economy. Protests and paralysis in the country continue, with no resolution in sight.

Figure 16: Monthly movements

	Absolute 10	STI
Jan21	-0.8%	2.1%
Feb21	-6.4%	1.6%
Mar21	3.7%	7.3%
Apr21		
May21		
Jun21		
Jul21		
Aug21		
Sep21		
Oct21		
Nov21		
Dec21		
YTD	-3.7%	11.3%
Out/(Under)perf.		-15.0%

Source: Bloomberg, PSR, Performance is for illustration only and excludes brokerage, dividends and monthly rebalancing costs.

Stock commentaries

Company	Comments
1. Ascott Res. Trust	Diversified by geography and lease structure of hospitality assets. Plans to double long-stay portfolio of PBSA and rental housing to 15% to further mitigate tourism-related volatility. Forecasting FY21e DPU yield of 4.2%.
2. Asian PayTV	Current dividend yield of around 9% (or S$18mn) well supported by free cash flows of S$50mn. There is an added optionality of selling 5G backhaul fibre services to mobile operators.
3. Manulife US REIT	Long WALE of 5.3 years and 2% p.a. rental escalations on 96% of leases. Offers attractive FY21e DPU yield of 8.3%.
4. FCT	Suburban malls provide recurring, necessity-driven spending, with 54% of retailers in essential-service trades. Forecast stable DPU yields of 4.6% for FY21e.
5. PropNex	Property transactions resilient despite the recession and pandemic. Company enjoys an enviable residential market share of 53% and attractive 33% ROE business backed by net-cash balance sheet of S$105mn.
6. Thai Beverage	Valuations attractive, at 14x PE /for a consumer company with a 90% share of Thailand's spirits market.
7. CapitaLand	Demerger is an opportunity to re-rate the company on higher valuations for real-estate fee and rental-based income.
8. ComfortDelgro	Our exposure to the domestic economic recovery. Easing of group and work-place restrictions adds visibility to the recovery. Stock is 30% below pre-pandemic levels.
9. KeppelCorp	Trading at a 15% discount to NAV, Keppel is transitioning away from rig-building business to an asset-light business with a respectable 15% target ROE for the entire Group.
10. Q&M Dental	Largest dental clinic chain in Singapore expanding dental clinics by a 22% CAGR in 2021 and 2022. Earnings from COVID-19 PCR lab tests and kit sales are expected to be a material contributor in 2021.

Figure 17: Phillip Absolute 10 for 2Q21

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
Ascott Residence Trust	8.1%	-0.9%	-0.9%	**Buy**	**1.17**	1.070	9%	2,479	2.8%
Asian PayTV	-2.8%	-10.9%	-10.9%	**Buy**	**0.15**	0.106	42%	142	9.4%
Manulife US REIT	10.6%	-2.0%	-2.0%	**Buy**	**0.84**	0.73	15%	1,162	8.8%
Dividend / Earnings Growth									
Frasers Centrepoint Tr.	-2.4%	0.0%	0.0%	**Buy**	**2.93**	2.46	19%	3,108	3.7%
PropNex	19.8%	24.4%	24.4%	**Buy**	**1.00**	0.97	3%	267	3.6%
Thai Beverage	0.7%	0.7%	0.7%	**Accumulate**	**0.86**	0.74	16%	13,827	2.7%
Re-rating Plays									
CapitaLand	18.2%	14.6%	14.6%	**Buy**	**4.38**	3.76	16%	14,553	2.4%
ComfortDelgro	6.2%	2.4%	2.4%	**Buy**	**1.83**	1.71	7%	2,756	1.6%
Keppel Corp.	4.7%	-1.1%	-1.1%	**Buy**	**6.12**	5.32	15%	7,203	1.3%
Q&M Dental (new)	7.6%	36.2%	36.2%	**Buy**	**0.73**	0.64	14%	375	1.4%
Average	7.0%	7.1%	7.1%				16%	43,393	3.9%

Source: Bloomberg, PSR ^ Dividend yields are historical for all stocks

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