

# Phillip Singapore Strategy

*Too hungry for yield*



StocksBnB.com

## SINGAPORE | 3Q19 STRATEGY

12 July 2019

**Review:** STI was up 3.4% in 2Q19. It was a volatile quarter, with two positive months sandwiched between May's major sell-down. The largest gainers were REITs and specific stocks such as Singtel (recovery in regional associates) and Wilmar (IPO plans in China) – Figure 1. Markets rallied on a reversal of the Fed's interest-rate stance and hopes of a trade resolution. Trump doused all such optimism by raising tariffs on Chinese imports. This against a backdrop of already weak global growth. REITs rallied in the quarter on market expectations that interest rates have peaked, globally. The Fed will be cutting interest rates while the ECB has signalled the restarting of quantitative easing. Central banks' back-stop has returned.

**Outlook:** We expect a range-bound market in 3Q19. The global economy is still drifting lower (Figure 4). The market is rallying on monetary stimulus in the U.S. plus fiscal stimulus from China. Our worry is, expectations of lower interest rates have been too aggressive Market is pricing in around three interest rate cuts this year by the Fed (Figure 9). There is room for disappointment. On the trade dispute between the U.S. and China, we expect it to taper down. As the U.S. President heads into the 2020 presidential election, he needs a strong economy and stock market. This should shackle him from more belligerent trade tariffs. Corporate America is also pushing back. China can permanently switch to its own domestically produced technology - semiconductor and operating software. Moreover, US companies are exposed to Chinese retaliation with their estimated US\$400bn worth of sales in China.

**STI Target:** We maintain our STI target of 3600, in-line with historical 14x PE. A 4Q19 rally is possible when there is a revival in global growth, improved trade relations and easier monetary policies.

**Recommendation:** The Phillip Absolute 10 model portfolio was up 6.6% in 2Q19 (1H19: +14.2%). Our yield and dividend growth recommendations were the outperformers. Growth and finance stocks disappointed again. Nevertheless, we maintain both UOB and SGX in our portfolio. SGX should report healthy earnings on the back of its robust derivatives business. Keppel DC REIT has breached our target price. We replace it with DBS Group Holdings. We raised our weighting on financials this quarter. Banks offer decent dividend yields of almost 5%, and we expect the dividends to grow. Interest margins can creep up because of the delayed repricing of loans. Worth noting that SIBOR has in fact risen 6bps in 2Q19. Trading income will get a boost from the global rally in bonds. Loans growth is the weak spot, but that is already well-known. We removed China SunSine and replaced it with APAC Realty. We cut back on our exposure to REITs. We believe interest rate expectations have overshot with the expected three rate hikes this year in the U.S. Rental reversions or organic growth in Singapore is muted. Inorganic growth is available but at much steeper valuations.

### 2Q19 Performance

Figure 1: STI winners this quarter

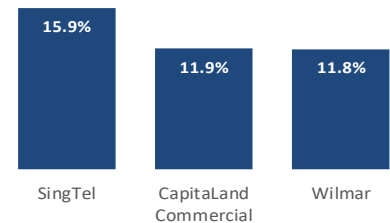


Figure 2: Banks still sulking

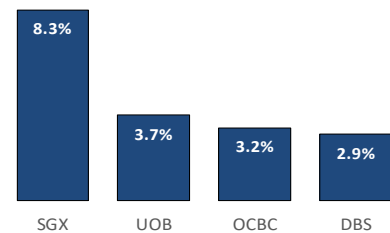
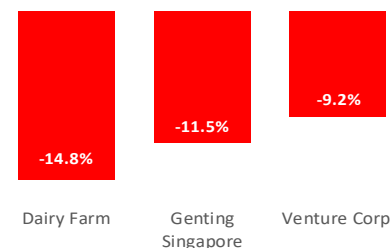


Figure 3: Of the 9 largest 2Q19



Source: PSR, Bloomberg

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Head of Research

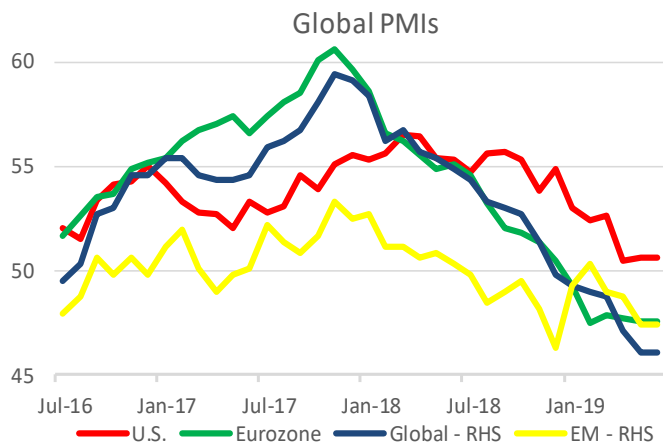
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### The Phillip Absolute 10

Company	1M	3M	YTD	Rating	Target Px (\$S)	Share Px (\$S)	Upside	Mkt Cap (US\$m)	PE	P/BV	Dvd. Yield	ROE
<b>Yield</b>												
Ascott REIT	4.8%	10.2%	20.4%	Accumulate	1.36	1.30	5%	2,085	20.0	1.0	5.5%	5.9%
NetLink	7.2%	7.2%	16.3%	Accumulate	0.93	0.89	4%	2,558	41.6	1.1	5.3%	2.5%
<b>Dividend Growth</b>												
DBS (new)	6.9%	2.9%	9.6%	Accumulate	29.00	25.96	12%	48,918	10.9	1.3	4.6%	11.5%
SGX	7.3%	8.3%	10.8%	Accumulate	8.09	7.92	2%	6,248	22.2	8.7	3.8%	37.2%
UOB	11.2%	3.7%	6.3%	Accumulate	30.9	26.13	18%	32,146	10.4	1.2	3.8%	11.4%
<b>Growth</b>												
Sheng Siong	0.9%	5.8%	3.8%	Buy	1.30	1.10	18%	1,220	21.6	5.3	3.1%	24.0%
<b>Re-rating Plays</b>												
APAC Realty (new)	6.0%	-14.5%	19.1%	Buy	0.65	0.53	23%	139	8.3	1.3	3.8%	17.6%
CapitaLand	9.6%	-3.3%	13.5%	Accumulate	4.00	3.53	13%	13,114	15.5	0.7	3.4%	9.0%
ComfortDelGro	8.1%	3.5%	23.7%	Accumulate	2.99	2.66	12%	4,248	18.0	2.2	3.9%	11.5%
Singtel	9.4%	15.9%	19.5%	Accumulate	3.66	3.50	5%	42,148	18.5	1.9	5.0%	10.4%
Average	7.2%	4.0%	14.3%				11%	152,823	18.7	2.5	4.2%	14.1%

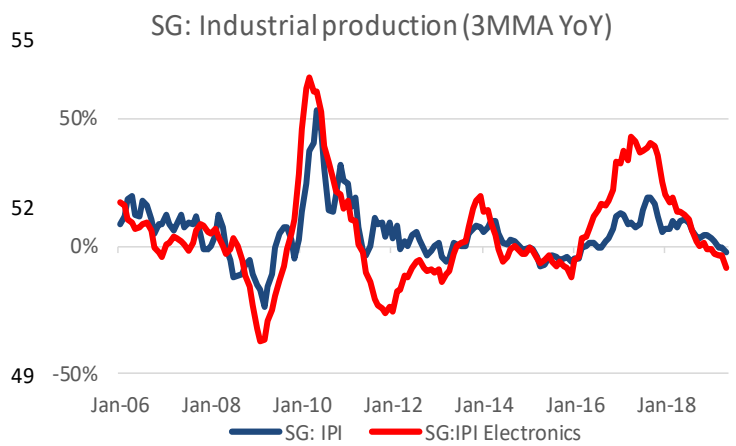
Source: Bloomberg, PSR; \* Share prices as at 30 June 2019

Figure 4: Global PMI keep drifting lower



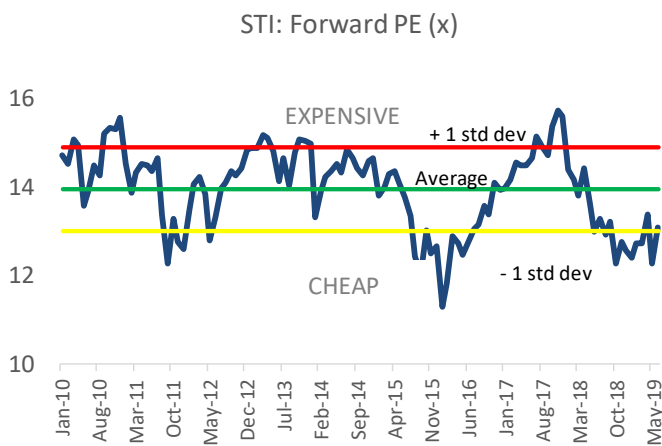
Source: PSR, CEIC

Figure 5: Singapore is not immune to the slowdown



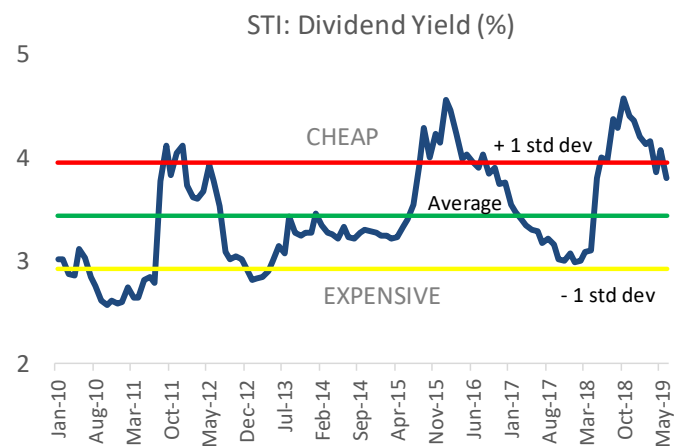
Source: PSR, CEIC

Figure 6: PE valuation at the lower bound



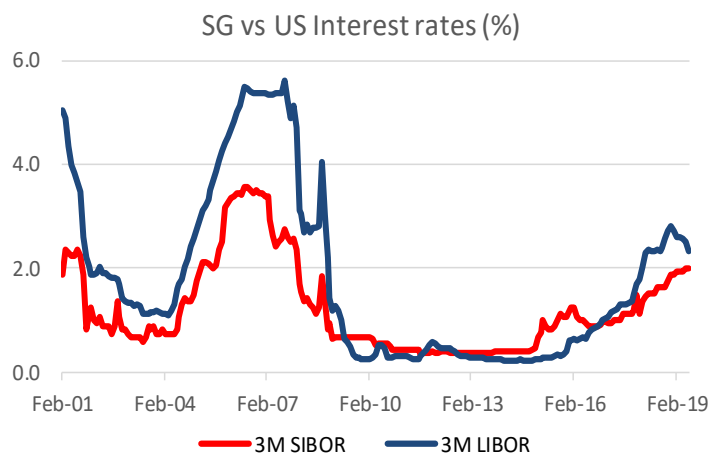
Source: PSR, Bloomberg

Figure 7: Dividend yield is still above the historical average



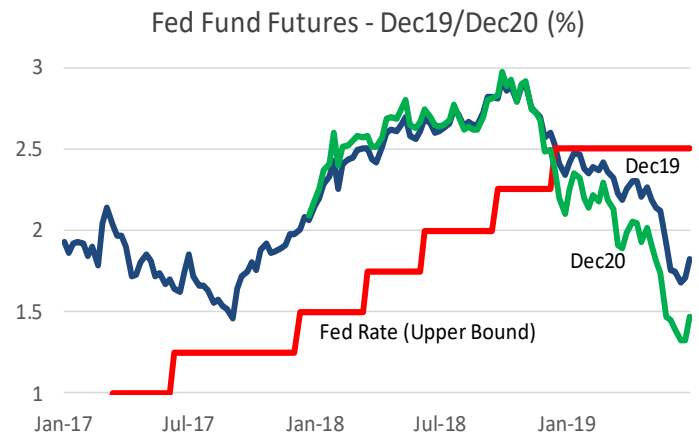
Source: PSR, Bloomberg

Figure 8: 3-month SIBOR has been resilient



Source: PSR, Bloomberg

Figure 9: Interest rate expectations have overshot



Source: PSR, Bloomberg

**Figure 10: The Phillip Absolute 10**

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Source: Bloomberg, PSR

Removed – China SunSine, Keppel DC REIT

Added – DBS, APAC Realty

**2Q19 Performance Review - Phillip Absolute 10**

The Phillip Absolute 10 model portfolio was up 6.6% in 2Q19 (1H19: +14.2%). Our yield and dividend growth recommendations were the outperformers. Growth and finance stocks disappointed again. China SunSine's growth is capped by a weaker product selling price. Finance stocks are under pressure from lacklustre momentum in loans, plus expectations that interest rates will trend lower. Ironically, SIBOR has decoupled from the drop in US interest rates. Over the past SIBOR interest rates had in fact risen by 6 bps. We maintain both UOB and SGX in our portfolio. SGX should report healthy earnings on the back of its robust derivatives business. Keppel DC REIT has breached our target price. We replace it with DBS Group. We raised our weighting on financials this quarter. Banks offer decent dividend yields of almost 5%, and we expect the dividends to grow. Interest margins can creep up because of the delayed repricing of loans. Trading income will get a boost from the global rally in bonds. Loans growth is the weak spot but that is already well-known.

We removed China SunSine and replaced it with APAC Realty. We cut back on our exposure to REITs. We believe that interest rate expectations have overshot. Three rate hikes this year in the U.S. have been priced in. Rental reversions or organic growth in Singapore is muted. Inorganic growth is available but at much steeper valuations.

We will be replacing China SunSine and Keppel DC REIT with:

- (i) DBS Group - We expect earnings upside from healthy margins as SIBOR interest rates have been resilient. Trading income will benefit from global rally in bonds.
- (ii) APAC Realty - An oligopoly that enjoys high returns on capital and is expanding overseas. It pays an attractive dividend yield of 9% with a net cash balance sheet.

**Figure 11: Monthly performance**

	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		
Aug19		
Sep19		
Oct19		
Nov19		
Dec19		
YTD	14.2%	8.2%

Out/(Under)perf. 5.9%

Source: Bloomberg, PSR

# Ascott Residence Trust

Solid portfolio with catalyst ahead

SINGAPORE | REAL ESTATE (HOSPITALITY) | UPDATE

- Income stability through geographic diversification and lease structure.
- Beneficiary of Riding on Sponsor's brand name and rapid growth. Inorganic growth potential - S\$880mn debt headroom, ROFR pipeline of 20 properties.
- DPU accretive proposed combination with Ascendas Hospitality Trust (AHT).
- ACCUMULATE with a target price of S\$1.36.

## Company Background

Ascott Residence Trust (ART) is an owner-operator of serviced residences (SRs) with 79 properties totalling 11,426 keys spanning 14 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 (market cap S\$15.3bn).

## Investment Merits/Outlook

- Income stability and through geographic diversification and lease structure.** 41% of gross profit is stable, derived from master leases (ML) and management contracts with minimum guaranteed income (MCMGI) while the remaining 59% is derived from management contracts (MC), thus providing upside potential. Geographic diversification across 14 countries reduces the impact of country-specific factors affecting corporate and leisure travel.
- 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.102,000 keys under management across 32 countries and plans to operate 160,000 keys by 2023. ART will benefit from the increased brand awareness as the 79 SRs and business hotels are operated under the three Ascott brands – Ascott, Citadines and Somerset.
- Inorganic growth potential - S\$880 debt headroom, ROFR 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\$880mn, which can potentially lift DPU by 10.9%
- 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 means 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.
- DPU accretive proposed combination with Ascendas Hospitality Trust (AHT).** ART unitholders can expect DPU accretion of c.2.5% from the combination, along with other positive externalities such as possible inclusion to the FTSE NAREIT index.

## Recommendation

Maintain ACCUMULATE with an unchanged target price of S\$1.36. Our target price does not include the effects of the ART-AHT combination, which is pending unitholder approval.



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12 July 2019

## ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.310
FORECAST DIV	SGD 0.072
TARGET PRICE	SGD 1.360
TOTAL RETURN	9.3%

## COMPANY DATA

BLOOMBERG CODE:	ART SP
O/S SHARES (MN):	2,175
MARKET CAP (USD mn / SGD mn):	2095 / 2849
52 - WK HI/LO (SGD):	1.31 / 1.05
3M Average Daily T/O (mn):	3.61

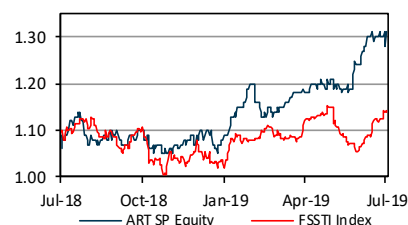
## MAJOR SHAREHOLDERS (%)

CAPITALAND LTD	44.96
VANGUARD GROUP	1.68
DIMENSIONAL FUND	1.33

## PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	5.6	11.0	31.6
STI RETURN	7.3	3.4	8.2

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Gross Rev. (\$\$mn)	496	514	521	529
Gross Profit (\$\$mn)	227	239	239	241
Dist. Inc. (\$\$mn)	152	155	175	178
P/NAV (x)	1.01	0.89	0.95	0.96
DPU (cents)	7.09	7.16	7.19	7.25
Distribution Yield	5.4%	5.5%	5.5%	5.5%

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
<b>Gross revenue</b>	<b>476</b>	<b>496</b>	<b>514</b>	<b>521</b>	<b>529</b>
Direct expenses	(253)	(269)	(275)	(282)	(288)
<b>Gross Profit</b>	<b>222</b>	<b>227</b>	<b>239</b>	<b>239</b>	<b>241</b>
Net finance (expense)/inc.	(48)	(45)	(46)	(44)	(41)
Manager's fees	(22)	(22)	(24)	26	(24)
Others	(2)	8	(13)	(9)	(10)
Net income	150	167	157	214	168
FV changes	30	87	35	135	-
Others	(2)	8	(13)	(9)	(10)
Total return before tax	180	274	195	483	168
Taxation	(32)	(52)	(44)	(26)	(28)
<b>Total return after tax</b>	<b>143</b>	<b>148</b>	<b>148</b>	<b>457</b>	<b>140</b>
Distribution adjustments	11	(43)	26	(226)	45
Distributable income	135	152	155	175	178
<b>DPU (cents)</b>	<b>8.27</b>	<b>7.09</b>	<b>7.16</b>	<b>7.19</b>	<b>7.25</b>

### Per share data (cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV	1.33	1.22	1.22	1.38	1.37
DPU	8.27	7.09	7.16	7.19	7.25

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

### Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
<b>Net income</b>	<b>180</b>	<b>274</b>	<b>195</b>	<b>483</b>	<b>168</b>
Adjustments	56	(31)	128	81	74
WC changes	(12)	(42)	923	(18)	(2)
Cash generated from ops	223	202	1,246	546	241
Others	(23)	(20)	(20)	(14)	(16)
<b>Cashflow from operations</b>	<b>200</b>	<b>181</b>	<b>1,226</b>	<b>532</b>	<b>225</b>
<b>CFI</b>					
CAPEX, net	17	236	63	238	(52)
Purchase of SR Property	(214)	(628)	-	(59)	-
Others	2	2	(64)	1	1
<b>Cashflow from investments</b>	<b>(195)</b>	<b>(390)</b>	<b>(1)</b>	<b>180</b>	<b>(51)</b>
<b>CFF</b>					
Share issuance, net	100	443	-	-	-
Loans, net of repayments	19	108	(35)	(70)	-
Dividends	(150)	(197)	(172)	(179)	(182)
Others	(53)	(55)	(47)	(45)	(42)
<b>Cashflow from financing</b>	<b>(84)</b>	<b>300</b>	<b>(254)</b>	<b>(294)</b>	<b>(224)</b>
<b>Net increase (decrease) in CCI</b>	<b>(79)</b>	<b>119</b>	<b>(28)</b>	<b>418</b>	<b>(50)</b>
<b>Ending cash</b>	<b>143</b>	<b>255</b>	<b>226</b>	<b>643</b>	<b>594</b>
Restricted cash deposits	-	2	2	2	2

Source: Company, Phillip Securities Research (Singapore) Estimates

\*NPI and gross profit are used interchangeably

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
SR properties and PPE	4,556	4,958	4,728	4,826	4,865
Others	17	16	81	106	131
<b>Total non-current assets</b>	<b>4,573</b>	<b>4,974</b>	<b>4,809</b>	<b>4,932</b>	<b>4,997</b>
Trade Receivables	69	67	57	66	67
Cash	143	257	228	646	596
Others	17	16	81	106	131
<b>Total current assets</b>	<b>219</b>	<b>519</b>	<b>500</b>	<b>712</b>	<b>663</b>
<b>Total Assets</b>	<b>4,791</b>	<b>5,493</b>	<b>5,309</b>	<b>5,645</b>	<b>5,660</b>
<b>LIABILITIES</b>					
LT Borrowings	1,716	1,681	1,835	1,551	1,334
Others	112	135	125	136	149
<b>Total non-current liabilities</b>	<b>1,827</b>	<b>1,816</b>	<b>1,960</b>	<b>1,688</b>	<b>1,483</b>
Trade Payables	133	237	141	168	171
ST Borrowings	147	264	70	284	501
Others	112	135	125	136	149
<b>Total non-current liabilities</b>	<b>1,827</b>	<b>1,816</b>	<b>1,960</b>	<b>1,688</b>	<b>1,483</b>
<b>Total Liabilities</b>	<b>2,109</b>	<b>2,321</b>	<b>2,178</b>	<b>2,145</b>	<b>2,160</b>
<b>Net assets</b>	<b>2,682</b>	<b>3,172</b>	<b>3,131</b>	<b>3,500</b>	<b>3,500</b>

### Represented by:

<b>Unitholders' funds</b>	<b>2,201</b>	<b>2,685</b>	<b>2,644</b>	<b>3,012</b>	<b>3,011</b>
Perpetual securities hold	397	397	397	397	397
Non-controlling interests	85	89	90	91	92

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	0.95	0.96
Distribution Yield (%)	6.3%	5.4%	5.5%	5.5%	5.5%
NPI* yield (%)	4.9%	4.6%	5.1%	5.0%	5.0%

### Growth & Margins (%)

<b>Growth</b>					
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%	36.0%	-21.4%
DPU	3.5%	-14.3%	1.0%	0.4%	0.8%
<b>Margins</b>					
Gross profit	46.7%	45.7%	46.5%	45.8%	45.5%
NPAT	31.1%	44.8%	29.5%	87.6%	26.4%

### Key Ratios

Gearing	39.8%	36.4%	36.7%	32.5%	32.4%
ROA	3.0%	2.9%	2.7%	7.3%	2.3%
ROE	6.5%	6.0%	5.5%	14.2%	4.4%

# NetLink NBN Trust Limited

## Defensive with an attractive yield

### SINGAPORE | TELECOMMUNICATIONS | UPDATE

- NLT's dominance in the residential fibre segment allows stable and predictable cash-flows
- Expect strong growth in residential connections due to expansion into new estates, and StarHub's cessation of its cable network and dual connections per household.
- 5G represents an opportunity for NLT. NBAP connections could see a boost from the roll-out of more base stations for 5G.
- CAPEX guided to be higher in FY20e, which is positive under the RAB model.
- Downgrade to ACCUMULATE with an unchanged target price of S\$0.93. No changes in our forecasts. The downgrade is due to recent share price movements. Our valuation is based on DCF (WACC 6%, Terminal growth 1%).

#### 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. Stable and predictable revenue streams.** We like NLT because of its resilient business model and its dominance in the residential fibre end user connection. The recurring base of 1.33mn residential connections allows NLT to enjoy stable and predictable revenue streams. NLT boasts a high EBITDA margin of ~70% which translate to a strong cash-flow to support the S\$208mn distributions we forecast in FY20e. Distribution yield at our target price is 5.7%.
- 2. Growth in residential fibre connection is supported by demand.** We expect higher residential connections as NLT progressively rolls out its fibre network into new estates such as Punggol, Tengah and Sengkang. New homes built now have four fibre access points to cater to the growing demand for connectivity. Separate use cases (e.g. gaming) saw some households subscribing to dual broadband connections. We believe the remaining 52,000 customers on StarHub's Hybrid Fibre Coaxial network should have migrated over to NLT's fibre network. We have incorporated a 10% growth in residential connections in FY20e.
- 3. 5G represents an opportunity.** A standalone 5G network would require almost double the base stations. The NBAP segment could see a boost stemming from higher demand for fibre connection in the roll-out of 5G base stations. Management shared that they expect positive demand for NBAP connections in FY20e.
- 4. Higher CAPEX in FY20e is positive.** NLT is incentivised under the Regulated Asset Base (RAB) model to increase capital expenditure for the improvement and expansion of its fibre network. CAPEX in FY20e is guided to be higher than FY19 (S\$87mn), yearly maintenance CAPEX is approximately S\$40-S\$60mn per year. These costs can be recovered under the RAB model through price reviews every 5 years. NLT has 3 years left before the next review.

#### Recommendation

Downgrade to ACCUMULATE with an unchanged target price of S\$0.93. There are no changes to our forecasts. The downgrade is due to recent share price movements. Our valuation is based on DCF (WACC 6%, Terminal growth 1%).



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12 July 2019

### ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 0.880
FORECAST DIV	SGD 0.053
TARGET PRICE	SGD 0.930
TOTAL RETURN	11.7%

#### COMPANY DATA

BLOOMBERG CODE:	NETLINK SP
O/S SHARES (MN) :	3,897
MARKET CAP (USD mn / SGD mn) :	2545 / 3449
52 - WK HI/LO (SGD) :	0.9 / 0.74
3M Average Daily T/O (mn) :	13.04

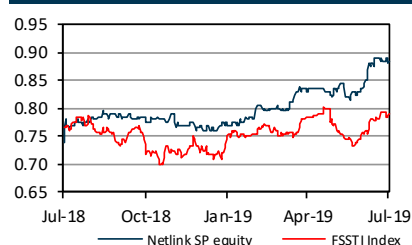
#### MAJOR SHAREHOLDERS (%)

Singtel Interactive Pte Ltd	24.8%
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#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	5.4	9.2	26.3
STIRETURN	4.8	2.1	6.2

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Mar, SGD mn	FY 18	FY 19	FY 20e	FY 21e
Revenue	229	354	382	391
EBITDA	167	248	268	275
Net Profit	50	77	92	96
Distribution Yield	3.7%	5.5%	6.1%	6.0%
ROE (%)	16%	2.6%	3.1%	3.4%
ROA (%)	1%	18%	2.2%	2.3%

Source: Company, PSR

#### VALUATION METHOD

DCF (WACC: 6%, Terminal growth: 1%)

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**Financials**
**Income Statement**

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
<b>Revenue</b>	<b>299,160</b>	<b>228,587</b>	<b>353,580</b>	<b>381,920</b>	<b>390,734</b>
Operating Profit	80,765	55,416	86,400	107,369	111,983
<b>EBITDA</b>	<b>213,776</b>	<b>167,275</b>	<b>247,876</b>	<b>268,276</b>	<b>275,121</b>
Depreciation & Amortisation	143,319	111,811	160,792	160,505	162,517
<b>EBIT</b>	<b>70,457</b>	<b>55,464</b>	<b>87,084</b>	<b>107,771</b>	<b>112,603</b>
Net Finance Inc/(Exp)	(10,087)	(12,180)	(19,126)	(22,190)	(23,633)
Profit before tax	70,794	43,809	69,750	87,266	90,716
Taxation	8,636	6,141	7,609	4,961	4,814
<b>Net profit, reported</b>	<b>79,430</b>	<b>49,950</b>	<b>77,359</b>	<b>92,226</b>	<b>95,530</b>

**Per unit data (SGD Cents)**

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPU, reported	2.0	1.3	2.0	2.4	2.5
DPU	1.5	3.2	4.9	5.3	5.3
BVPU	78.8	81.5	77.7	75.2	72.3

**Cash Flow**

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
<b>Profit before tax</b>	<b>70,794</b>	<b>43,809</b>	<b>69,750</b>	<b>87,266</b>	<b>90,716</b>
Adjustments	153,245	124,976	180,143	181,010	184,405
WC changes	(13,781)	21,058	2,303	4,418	5,211
Cash generated from ops	210,258	189,843	252,196	272,693	280,332
Tax paid	(5,092)	(11,510)	(6,061)	(7,668)	(7,668)
Others	(9,592)	(19,882)	(16,493)	(20,505)	(21,888)
<b>Cashflow from ops</b>	<b>195,574</b>	<b>158,451</b>	<b>229,642</b>	<b>244,520</b>	<b>250,776</b>
<b>CFI</b>					
CAPEX, net	(117,275)	(212,181)	(71,100)	(85,000)	(80,500)
Others	-	(1,095,039)	6	-	-
<b>Cashflow from investments</b>	<b>(117,275)</b>	<b>(1,307,220)</b>	<b>(71,094)</b>	<b>(85,000)</b>	<b>(80,500)</b>
<b>CFE</b>					
Share issuance, net	-	2,334,718	-	-	-
Loans, net of repayments	-	(1,019,477)	45,000	48,228	44,377
Distributions	(80,000)	-	(221,348)	(190,172)	(207,748)
Others	-	-	-	-	-
<b>Cashflow from financing</b>	<b>(80,000)</b>	<b>1,315,218</b>	<b>(176,376)</b>	<b>(141,944)</b>	<b>(163,370)</b>
Net change in cash	(1,701)	166,449	(17,828)	17,576	6,906
<b>CCE, end</b>	<b>15,929</b>	<b>166,449</b>	<b>148,621</b>	<b>166,197</b>	<b>173,103</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

**Balance Sheet**

Y/E Mar, SGD '000	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Accounts receivables	55,532	39,835	46,925	65,092	64,768
Cash	15,929	166,449	148,621	166,197	173,103
Inventories	5,499	3,889	4,738	6,334	6,386
Finance lease receivables	194	208	221	221	221
<b>Total current assets</b>	<b>80,082</b>	<b>238,133</b>	<b>233,530</b>	<b>270,868</b>	<b>277,503</b>
PPE	3,059,509	3,210,668	3,124,527	3,049,022	2,967,005
Others	1,098,012	928,249	923,744	923,744	923,744
<b>Total non-current assets</b>	<b>4,157,521</b>	<b>4,138,917</b>	<b>4,048,271</b>	<b>3,972,766</b>	<b>3,890,749</b>
<b>Total Assets</b>	<b>4,237,603</b>	<b>4,377,050</b>	<b>4,281,801</b>	<b>4,243,634</b>	<b>4,168,252</b>

**LIABILITIES**

Accounts payables	87,222	48,374	56,023	80,203	85,143
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
<b>Total current liabilities</b>	<b>102,768</b>	<b>60,859</b>	<b>79,708</b>	<b>103,888</b>	<b>108,828</b>
Long term loans	507,604	588,742	634,554	682,782	727,159
Deferred tax liabilities	546,603	552,827	536,907	524,278	511,796
<b>Total non-current liabilities</b>	<b>1,064,020</b>	<b>1,141,813</b>	<b>1,172,241</b>	<b>1,207,840</b>	<b>1,239,735</b>
<b>Total Liabilities</b>	<b>1,166,788</b>	<b>1,202,672</b>	<b>1,251,949</b>	<b>1,311,728</b>	<b>1,348,563</b>

**Unitholders' funds**

<b>Unitholders' funds</b>	<b>3,070,815</b>	<b>3,174,378</b>	<b>3,029,852</b>	<b>2,931,906</b>	<b>2,819,689</b>
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**Valuation Ratios**

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	43.4	69.0	44.6	37.4	36.1
P/B (X)	1.1	1.1	1.1	1.2	1.2
EV/EBITDA (X)	18.4	23.1	15.9	14.8	14.5

**Growth & Margins**

<b>Growth</b>					
Revenue	-	-23.6%	54.7%	8.0%	2.3%
EBITDA	-	-21.8%	48.2%	8.2%	2.6%
EBIT	-	-21.3%	57.0%	23.8%	4.5%
Net profit, adj.	-	-37.1%	54.9%	19.2%	3.6%
<b>Margins</b>					
Gross margin	27.0%	24.2%	24.4%	28.1%	28.7%
EBITDA margin	71.5%	73.2%	70.1%	70.2%	70.4%
EBIT margin	23.6%	24.3%	24.6%	28.2%	28.8%
Net profit margin	26.6%	21.9%	21.9%	24.1%	24.4%

**Key Ratios**

ROE (%)	2.6%	1.6%	2.6%	3.1%	3.4%
ROA (%)	1.9%	1.1%	1.8%	2.2%	2.3%
Distribution yield (%)	1.7%	3.7%	5.5%	6.0%	6.0%
Net debt/EBITDA (X)	2.3	3.5	2.6	2.5	2.6

# DBS Group Holdings Ltd

Decent growth and yield

SINGAPORE | BANKING | UPDATE

- NIM expansion to continue as interest rates remain elevated in Singapore and lagged repricing from longer-term loans.
- Loans growth expected to be slower but asset quality is healthy.
- Dividend yield play provides a more defensive option for investors.
- Maintain ACCUMULATE with an unchanged target price of S\$29.00.

## Background

DBS Group Holdings Limited and its subsidiaries provide a variety of financial services. The Company offers services including mortgage financing, lease and hire purchase financing, nominee and trustee, funds management, corporate advisory and brokerage. DBS Group is the largest bank in SE Asia.

## Investment Merits/Outlook

- Higher earnings sensitivity to interest rates with the largest CASA base.** Among the banks, DBS has the largest Current and Savings Account (CASA) balance. CASA is the cheapest source of funding with low savings deposit rates. With the largest share of low-cost funds, DBS has the cheapest cost of funds while repricing its loans at higher interest rates, resulting in the highest NIM amongst the Singapore banks.
- Last NIM rally.** As we reach the end of the interest rate cycle, we expect a couple more quarters of margin expansion. By blending in the effects of rising cost of funds and the lagged effect of loan repricing we pen in our estimate for FY19e NIM at 1.90%.
- Higher interest rates in Singapore and Hong Kong to drive NIM expansion.** DBS is a beneficiary of higher interest rates in Hong Kong given its larger Greater China franchise. However, the risk of having a weaker pass-through rate and rate cuts in 2019 could cut short our NIM expectations. A rise in interest rates could place pressure on the banks' SME loan portfolio and any broad-based deterioration in SME loan quality could be a sign of an economic downturn.
- Unexciting loans growth in FY19 due to property cooling measures and slowing economic growth.** We expect the property cooling measures and rising interest rates to limit consumer loans growth in 2019. Mortgage growth has been slowing ever since the peak in May last year and given the bulk of consumer loans come from mortgage loans, consumer loan growth will be unexciting this year. We forecast FY19e loans growth at 5.4% YoY.
- Dividend yield play provides a more defensive option for investors** because they usually hold up well during market corrections. DBS' robust business supports its commitment to pay increasing dividends. We forecast dividend yield of 4.7% in FY19e.
- Higher IT spending to streamline systems may delay meaningful cost-to-income ratio improvements in the medium term.** However, we expect this trend to reverse when tech-related savings and new revenue begin to flow through in the long term.

## Investment Action

Maintain ACCUMULATE with target price of S\$29.00. Despite the softer expectation of loans growth due to market headwinds, we expect a couple more quarters of NIM expansion due to loan repricing. Looking forward, the asset quality is expected to be stable and greater cost efficiencies from the company's digitalisation efforts should provide upside to earnings. DBS remains attractive with FY19e dividend yield of 4.7%.



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## ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 25.4
FORECAST DIV	SGD 1.2
TARGET PRICE	SGD 29.0
TOTAL RETURN	19.0%

## COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN):	2,555
MARKET CAP (USD mn / SGD mn):	48499 / 65745
52 - WK HI/LO (SGD):	28.64 / 22.65
3M Average Daily T/O (mn):	4.35

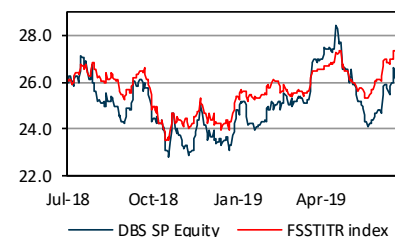
## MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	30.0%
Capital Group Cos Inc	4.3%
Vanguard Group Inc	2.3%

## PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.6	(2.7)	2.1
STIRETURN	4.78	2.10	6.18

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19e	FY 20e
Total Inc (SGD mn)	11,924	13,183	14,366	15,819
Op Profit (SGD mn)	5,175	6,659	7,212	7,999
NPAT (SGD mn)	4,504	5,653	6,114	6,808
EPS (SGD)	169	2.17	2.42	2.48
PER, (X)	15.0	11.7	10.5	10.2
P/BV, (X)	1.4	1.4	1.3	1.1
DPS (SGD)	143	120	120	140
ROE	9.9%	12.3%	12.6%	12.2%

Source: Bloomberg, Company, PSR

## Valuation Method:

Gordon Growth Model (COE: 9%, g: 2.5%)

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Research Analyst

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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	9,628	10,415
Fees and Commission	2,331	2,622	2,780	2,979	3,336
Other Non int income	1,853	1,511	1,448	1,759	2,068
<b>Total income</b>	<b>11,489</b>	<b>11,924</b>	<b>13,183</b>	<b>14,366</b>	<b>15,819</b>
Operating expenses	4,972	5,205	5,814	6,334	6,921
Provisions	1,434	1,544	710	820	898
<b>Operating profit</b>	<b>5,083</b>	<b>5,175</b>	<b>6,659</b>	<b>7,212</b>	<b>7,999</b>
Associates & JVs	0	0	0	0	0
<b>Profit Before Tax</b>	<b>5,083</b>	<b>5,175</b>	<b>6,659</b>	<b>7,212</b>	<b>7,999</b>
Taxation	723	671	1,006	1,098	1,191
<b>Profit After Tax</b>	<b>4,360</b>	<b>4,504</b>	<b>5,653</b>	<b>6,114</b>	<b>6,808</b>
Non-controlling Interest	122	133	76	45	45
<b>Net Income, reported</b>	<b>4,238</b>	<b>4,371</b>	<b>5,577</b>	<b>6,068</b>	<b>6,763</b>
<b>Net Income, adj.</b>	<b>4,238</b>	<b>4,371</b>	<b>5,577</b>	<b>6,068</b>	<b>6,763</b>

### Per share data (SGD)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.73	1.69	2.17	2.42	2.48
DPS	0.60	1.43	1.20	1.20	1.40
BVPS	16.61	17.85	18.12	19.54	23.63
Dividend Pay-out Ratio	34.6%	84.4%	55.4%	49.7%	56.4%

### Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	14.1%	14.3%	13.9%	12.7%	14.8%
Tier 1 CAR	14.7%	15.1%	15.1%	13.8%	16.0%
Total CAR	16.2%	15.9%	16.9%	15.4%	17.9%

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash and bal w central banks	26,840	26,463	22,185	35,422	32,139
Due from banks	30,018	35,975	40,178	44,624	46,436
Govt, Bank & Corp Sec & T Bills	78,818	95,342	105,475	109,141	110,311
Derivatives	25,757	17,585	17,029	14,985	13,250
Goodwill and intangibles	5,117	5,165	5,175	5,170	5,170
Property and other fixed assets	1,572	1,233	1,450	1,366	6,294
Loans to non-bank customers	301,516	323,099	345,003	362,902	387,546
JV and Associates	890	783	838	837	849
Other assets	11,042	12,066	13,418	14,155	14,375
<b>Total Assets</b>	<b>481,570</b>	<b>517,711</b>	<b>550,751</b>	<b>588,603</b>	<b>616,370</b>
Due to banks	15,915	17,803	22,648	35,233	39,655
Deposits from customers	347,446	373,634	393,785	413,122	426,237
Derivatives	24,497	18,003	16,692	15,089	13,250
Other liabilities	15,895	16,615	18,440	21,127	21,387
Other debt securities	27,745	40,716	45,712	46,903	48,324
Subordinated term debts	3,102	1,138	3,599	3,566	3,566
<b>Total liabilities</b>	<b>434,600</b>	<b>467,909</b>	<b>500,876</b>	<b>535,040</b>	<b>552,418</b>
Shareholder's equity	44,609	47,458	49,045	52,803	63,271
Non-controlling interest	2,361	2,344	830	760	681
<b>Total Equity</b>	<b>46,970</b>	<b>49,802</b>	<b>49,875</b>	<b>53,563</b>	<b>63,952</b>

### Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), avg	14.7	15.0	11.7	10.5	10.2
P/B (X), avg	1.5	1.4	1.4	1.3	1.1
Dividend Yield	2.4%	5.6%	4.7%	4.7%	5.5%

### Growth & Margins

#### Growth

Net interest income	2.9%	6.7%	14.9%	7.5%	8.2%
Net Fee and Comm Inc	8.7%	12.5%	6.0%	7.2%	12.0%
Total income	5.2%	3.8%	10.6%	9.0%	10.1%
Profit before tax	-3.7%	1.8%	28.7%	8.3%	10.9%
Net income, reported	-4.8%	3.1%	27.6%	8.8%	11.4%
Net income, adj.	-1.9%	3.1%	27.6%	8.8%	11.4%

#### Margins

Net interest margin	1.71%	1.75%	1.85%	1.90%	1.94%
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#### Key Ratios

ROE	10.4%	9.9%	12.3%	12.6%	12.2%
ROA	0.9%	0.9%	1.0%	1.1%	1.1%
RORWA	1.5%	1.5%	1.9%	1.9%	1.9%
Non-interest/total income ratio	36.4%	34.7%	32.1%	33.0%	34.2%
Cost/income ratio	43.3%	43.7%	44.1%	44.1%	43.8%
Loan/deposit ratio	86.8%	86.5%	87.6%	87.8%	90.9%
NPL ratio	1.4%	1.7%	1.5%	1.4%	1.3%

Source: Company, Phillip Securities Research (Singapore) Estimates

# Singapore Exchange Limited

## Derivatives remain SGX's forte

### SINGAPORE | FINANCE | UPDATE

- Volatility is a favourable backdrop for derivatives with SGX's DDAV spiking 32.9% YoY in 4Q19.
- Diversified product suite sets SGX apart from other domestic-centric exchanges.
- While HKEX's launch of A-share contracts may pose headwinds, a larger trading ecosystem from both exchanges may limit downside.
- Maintain ACCUMULATE with an unchanged TP of S\$8.09. We believe that volume, fees and open interest will continue to see growth.

#### Company Background

As a multi-asset exchange operating equity, fixed income and derivatives markets to the highest regulatory standards, SGX is a vertically integrated business that provides listing, trading, clearing, settlement, depository and data services. With about 40% of listed companies and 80% of listed bonds originating outside of Singapore, SGX is Asia's most international and connected exchange. Offering a full suite of derivatives products across Asian equity indices, commodities and currencies, SGX is the world's most liquid international market for the benchmark equity indices of China, India, Japan and ASEAN.

#### Investment Merits/Outlook

- Volatility - a very favourable backdrop for derivatives.** With increased volatility due to trade uncertainties and geopolitical tensions, investors tend to hedge more. In 4Q19, SGX's DDAV spiked 32.9% YoY due to the resurgence of trade uncertainties. The heightened trade tensions between the US and China may have also contributed to SGX's China A50 index futures volume surge of 82.3% YoY. We believe market volatility will keep derivatives volume firm by creating demand for trading and hedging, and opportunities for arbitrage and speculation.
- Diversified product suite.** SGX has a well-diversified asset class over many equity index products in numerous markets, as well as FX futures (16 pairs) and commodities. SGX's diversity of products sets it apart from other domestic-centric exchanges because the majority of SGX's customers are international clients with high demand to hedge their risks in the global market.
- HKEX's introduction of MSCI China A Index Futures.** SGX's derivatives business contributed to 50% of total revenue in 9M19, with the main driver being FTSE China A50 Index Futures, which accounted for 45% of total trading volume YTD. While HKEX's launch of A-share contracts may pose headwinds, a larger trading ecosystem from both exchanges may limit downside.
- Room for growth in the financial futures market.** As more funds move into emerging markets, there is a higher need to hedge their portfolio exposures in countries such as China, India and Indonesia. As the emerging market portfolio grows, the demand for hedging increases and the financial futures market will grow in tandem.

#### Recommendation

Maintain ACCUMULATE with an unchanged TP of S\$8.09. We believe that volume, fees and open interest will continue to see growth. Stock market volatility driven by trade tensions, rising interest rates and geopolitical events should benefit derivatives turnover as seen from the record highs in derivatives volume in the past few quarters. The boost in derivatives business volume and product offerings will be more than sufficient in supporting earnings growth. We like SGX because of its diversified earnings and stable dividends.


**StocksBnB.com**

12 July 2019

### Accumulate (Maintained)

LAST DONE PRICE	SGD 7.93
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.09
<b>TOTAL RETURN</b>	<b>6.0%</b>

#### COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1070
MARKET CAP (USD mn / SGD mn) :	6286 / 8537
52 - WK HI/LO (SGD) :	8.05 / 6.72
3M Average Daily T/O (mn) :	2.93

#### MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.4%
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#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.1	9.2	13.5
STIRETURN	4.39	2.30	7.32

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E June	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	801	845	903	1,026
EBITDA (SGD mn)	460	486	517	557
NPAT (SGD mn)	340	363	389	432
EPS (Cents)	318	33.9	36.4	40.4
PER, (X)	25.0	23.4	218	19.6
P/BV, (X)	8.6	8.2	7.7	7.8
DPS (Cents)	28.0	30.0	31.5	33.0
Div Yield	3.5%	3.8%	4.0%	4.2%
ROE	33.6%	34.1%	35.7%	38.1%

Source: Bloomberg, Company, PSR

#### Valuation Method

P/E Multiple @21.4x

**Tin Min Ying (+65 6212 1863)**
**Research Analyst**

## Financials

### Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Securities	205	205	221	181	178
Derivatives	325	303	340	446	537
Others	288	293	284	263	247
<b>Operating revenue</b>	<b>818</b>	<b>801</b>	<b>845</b>	<b>890</b>	<b>962</b>
Operating expenses	409	399	420	438	483
<b>Operating profit</b>	<b>409</b>	<b>402</b>	<b>425</b>	<b>452</b>	<b>479</b>
Other gains/(losses)	6	6	11	12	9
Associates & JVs	1	1	1	-1	1
<b>Profit Before Tax</b>	<b>416</b>	<b>409</b>	<b>437</b>	<b>463</b>	<b>488</b>
Taxation	(67)	(69)	(74)	(80)	(84)
<b>Net Income, reported</b>	<b>349</b>	<b>340</b>	<b>363</b>	<b>384</b>	<b>405</b>
<b>Net Income, adj.</b>	<b>349</b>	<b>340</b>	<b>363</b>	<b>384</b>	<b>405</b>

### Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	32.6	31.8	33.9	35.9	37.8
DPS	28.0	28.0	30.0	31.5	33.0
BVPS	91.2	92.5	96.5	102.4	100.9
Payout ratio	86%	88%	88%	88%	87%

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
<b>Profit before tax and Assoc.&amp;JV</b>	<b>415</b>	<b>407</b>	<b>436</b>	<b>464</b>	<b>487</b>
Depreciation & Amortisation	60	58	61	58	45
WC changes	17	(21)	(7)	(29)	17
Others	2	3	2	(2)	1
Cash generated from ops	494	447	492	491	550
Tax paid	(70)	(67)	(65)	(80)	(84)
<b>Cashflow from ops</b>	<b>423</b>	<b>380</b>	<b>427</b>	<b>411</b>	<b>467</b>
<b>CFI</b>					
CAPEX, net	(74)	(60)	(79)	(50)	(59)
Others	11	(87)	(11)	(29)	9
<b>Cashflow from investments</b>	<b>(63)</b>	<b>(147)</b>	<b>(90)</b>	<b>(79)</b>	<b>(51)</b>
<b>CFE</b>					
Loans, net of repayments	0	0	0	0	0
Dividends	(332)	(300)	(300)	(401)	(337)
Others	(13)	(9)	(8)	(9)	0
<b>Cashflow from financing</b>	<b>(345)</b>	<b>(308)</b>	<b>(308)</b>	<b>(411)</b>	<b>(337)</b>
<b>Net change in cash</b>	<b>15</b>	<b>(76)</b>	<b>29</b>	<b>(78)</b>	<b>79</b>
<b>CCE, end</b>	<b>806</b>	<b>736</b>	<b>832</b>	<b>612</b>	<b>673</b>

Source: Company, PSR

### Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	62	80	72	52	49
Software	155	159	174	181	196
Intangible assets	26	64	61	59	58
Goodwill	10	88	89	87	87
Others	55	37	39	147	147
<b>Total non-current assets</b>	<b>307</b>	<b>429</b>	<b>435</b>	<b>526</b>	<b>537</b>
Accounts receivables	930	815	827	765	773
Cash	806	736	772	612	673
Securities clearing funds	60	60	60	60	60
Others	3	1	22	24	24
<b>Total current assets</b>	<b>1,799</b>	<b>1,613</b>	<b>1,680</b>	<b>1,460</b>	<b>1,531</b>
<b>Total Assets</b>	<b>2,105</b>	<b>2,041</b>	<b>2,115</b>	<b>1,987</b>	<b>2,067</b>

### LIABILITIES

Accounts payables	1,013	892	891	793	804
Others	85	82	95	97	97
<b>Total current liabilities</b>	<b>1,098</b>	<b>973</b>	<b>986</b>	<b>889</b>	<b>900</b>
Others	18	35	33	31	31
<b>Total non-current liabilities</b>	<b>18</b>	<b>35</b>	<b>33</b>	<b>31</b>	<b>31</b>
<b>Total Liabilities</b>	<b>1,116</b>	<b>1,009</b>	<b>1,019</b>	<b>920</b>	<b>931</b>

### EQUITY

Non-controlling interests	0	0	0	0	0
<b>Shareholder Equity</b>	<b>990</b>	<b>1,033</b>	<b>1,096</b>	<b>1,080</b>	<b>1,148</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	24.3	25.0	23.4	22.1	21.0
P/B (X)	8.7	8.6	8.2	7.7	7.9
EV/EBITDA (X), adj.	9.7	9.9	9.4	9.0	8.4
Dividend Yield	3.5%	3.5%	3.8%	4.0%	4.2%

### Growth & Margins

<b>Growth</b>					
Revenue	10.2%	-2.1%	5.5%	5.4%	8.0%
EBITDA	2.1%	-2.0%	5.7%	5.0%	2.6%
EBIT	10.2%	-2.1%	5.5%	6.4%	5.8%
Net profit, adj.	0.0%	-2.7%	6.9%	5.7%	5.4%
<b>Margins</b>					
EBITDA margin	57.3%	57.4%	57.5%	57.3%	54.4%
EBIT margin	50.0%	50.2%	50.3%	50.8%	49.8%
Net profit margin	42.7%	42.4%	43.0%	43.1%	42.1%

### Key Ratios

ROE	35.5%	33.6%	34.1%	35.3%	36.3%
ROA	17.9%	16.4%	17.5%	18.7%	20.0%

Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
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# United Overseas Bank

## Resilience in a volatile environment

### SINGAPORE | BANKING | UPDATE

- We expect UOB's mortgage rate repricing to support NIM expansion.
- Potential Fed rate cut should not have a material impact on FY19's NIM due to the lagged effect of loan repricing
- Least exposed to trade war effects from Greater China and Hong Kong.
- Maintain ACCUMULATE with an unchanged target price of S\$30.90.

#### Company Background

United Overseas Bank was founded in 1935 and has a well-established regional presence in Singapore, Malaysia, Indonesia, Thailand and China. 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. End of interest rate cycle.** We believe the pause in interest rate hikes from the U.S. will limit the upside for NIM expansion. As we reach the end of the interest rate cycle, 2Q19 results may be the last NIM rally for the year. Nonetheless, we expect UOB's mortgage rate repricing to support NIM expansion. We forecast full-year NIM of 1.82%, in line with flat NIM guidance.
- 2. Lagged impact from higher interest rates.** If the fed starts cutting rates this year, there should not be material impact on FY19's NIM due to the lagged effect of loan repricing but FY20's NIM may be cut back as a result. We maintain NIM for FY19e at
- 3. Tepid loans growth expectations.** Latest statistics from MAS showed sluggish domestic loans growth of 2.08% YoY for May. One caveat would be mortgage shrinkage in Singapore. The property cooling measures creates a risk of intensifying mortgage competition amongst banks which may result in NIM disappointment. UOB's proportion of mortgage loans to total loans stands is the largest at 25% (DBS: 21% and OCBC: 25%). We pen in FY19e loans growth estimate at 5.9%, in line with the mid-single-digit guidance.
- 4. Least exposed to trade war repercussions.** UOB's exposure to trade war effects is relatively muted as compared to its peers. As of 1Q19, UOB's exposure to Greater China and Hong Kong loans is 16% (DBS: 30% and OCBC: 24%). 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.
- 5. Long term beneficiary of the potential shift in supply chain investment and capacity strategy into SEA.** There has been widespread sentiment that businesses' supply chain may shift from China into ASEAN to avoid trade war repercussions as well as to ride on the back on the region's growth. A rise in businesses investments in SEA could provide greater volume to UOB's regional franchise. The bulk of UOB's loan book is anchored out of SEA, with the majority belonging to Singapore (52%). However, a shift in requires more than just a few years.

#### Recommendation

Maintain ACCUMULATE rating with an unchanged target price of S\$30.90 based on Gordon Growth Model. We like UOB because of (i) NIM support as interest rates remain elevated in its key markets, (ii) attractive yield, and (iii) least exposed to trade war effects from Greater China and Hong Kong.



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12 July 2019

### ACCUMULATE (Maintained)

LAST TRADED PRICE	SGD 26.4
FORECAST DIV	SGD 1.2
TARGET PRICE	SGD 30.9
TOTAL RETURN	21.5%

#### COMPANY DATA

BLOOMBERG TICKER	UOB SP
O/S SHARES (MN) :	1668
MARKET CAP (USD mn / SGD mn) :	32734 / 44374
52 - WK HI/LO (SGD) :	28.27 / 23.39
3M Average Daily T/O (mn) :	2.83

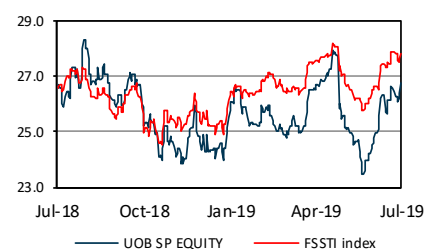
#### MAJOR SHAREHOLDERS (%)

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

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.3	2.1	2.4
STI RETURN	4.78	2.10	6.16

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19e	FY 20e
Total Inc (SGD mn)	8,563	9,115	9,859	10,474
Op Profit (SGD mn)	4,097	4,718	5,101	5,450
NPAT (SGD mn)	3,407	4,020	4,299	4,593
EPS (SGD)	1.94	2.35	2.47	2.58
PER, (X)	13.6	11.2	10.7	10.3
P/BV, (X)	1.3	1.2	1.2	1.1
DPS (SGD)	1.00	1.20	1.23	1.29
ROE	10.1%	11.2%	11.4%	11.4%

Source: Bloomberg, Company, PSR

#### Valuation Method:

Gordon Growth Model (COE: 9%, g: 3%)

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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	6,699	7,003
Fees and Commission	1,931	1,873	1,966	2,110	2,427
Other Non-int income	1,138	1,162	929	1,050	1,044
<b>Total operating income</b>	<b>8,060</b>	<b>8,563</b>	<b>9,115</b>	<b>9,859</b>	<b>10,474</b>
Operating expenses	3,697	3,739	4,004	4,355	4,577
Provisions	594	727	393	402	447
<b>Operating profit</b>	<b>3,769</b>	<b>4,097</b>	<b>4,718</b>	<b>5,101</b>	<b>5,450</b>
Associates & JVs	5	110	107	126	132
<b>Profit Before Tax</b>	<b>3,774</b>	<b>4,207</b>	<b>4,825</b>	<b>5,227</b>	<b>5,582</b>
Taxation	669	800	805	928	989
<b>Profit After Tax</b>	<b>3,105</b>	<b>3,407</b>	<b>4,020</b>	<b>4,299</b>	<b>4,593</b>
Non-controlling Interest	12	16	13	17	22
<b>Net Income, reported</b>	<b>3,093</b>	<b>3,390</b>	<b>4,007</b>	<b>4,283</b>	<b>4,571</b>
<b>Net Income, adj.</b>	<b>3,093</b>	<b>3,391</b>	<b>4,007</b>	<b>4,283</b>	<b>4,571</b>

### Per share data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	1.82	1.94	2.35	2.47	2.58
EPS, adj.	1.82	1.94	2.35	2.47	2.58
DPS	0.75	1.00	1.20	1.23	1.29
BVPS (less pref shares)	18.82	20.37	21.31	22.41	23.42
Dividend Pay-out Ratio	41%	52%	51%	50%	50%

### Supplementary items

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
CET1 CAR	13.0%	14.7%	13.9%	14.2%	14.6%
Tier 1 CAR	13.1%	16.2%	14.9%	14.2%	14.6%
Total CAR	16.2%	18.7%	17.0%	16.2%	16.6%

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Cash bal w central banks	24,322	26,625	25,252	34,865	39,867
Due from banks	40,033	52,181	50,800	49,587	52,744
Investment securities	11,640	11,273	13,553	12,208	12,235
Loans to non-bank cust	221,734	232,212	258,627	273,807	285,972
Others	42,299	36,301	39,861	43,671	42,630
<b>Total Assets</b>	<b>340,028</b>	<b>358,592</b>	<b>388,093</b>	<b>414,139</b>	<b>433,447</b>
Due to banks	11,855	11,440	13,801	13,173	13,288
Due to non-bank cust	255,314	272,765	293,186	320,704	336,604
Debts issued	26,143	25,178	30,606	26,927	27,162
Others	13,674	12,171	12,688	13,069	13,461
<b>Total liabilities</b>	<b>306,986</b>	<b>321,554</b>	<b>350,281</b>	<b>373,872</b>	<b>390,515</b>
Shareholder's equity	32,876	36,852	37,626	40,060	42,704
Non-controlling interest	169	187	190	207	228
<b>Total Equity</b>	<b>33,045</b>	<b>37,039</b>	<b>37,816</b>	<b>40,266</b>	<b>42,932</b>

### Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	14.7	13.8	11.4	10.9	10.4
P/B (X)	1.4	1.3	1.3	1.2	1.1
Dividend Yield	2.8%	3.7%	4.5%	4.6%	4.8%

### Growth & Margins

Growth					
Net interest income	1.3%	10.8%	12.5%	7.7%	4.5%
Non interest income	-1.7%	-1.1%	-4.6%	9.2%	9.8%
Pre provision op profit	0.1%	6.2%	6.4%	8.2%	6.2%
Operating income	-0.3%	8.7%	15.2%	8.1%	6.8%
Net income, reported	-3.6%	9.6%	18.2%	6.9%	6.7%
Margins					
Net interest margin	1.71%	1.77%	1.82%	1.82%	1.84%

### Key Ratios

ROE	10.1%	10.1%	11.2%	11.4%	11.4%
ROA	0.9%	1.0%	1.0%	1.0%	1.1%
RORWA	1.4%	1.7%	1.8%	1.7%	1.8%
Non-int/total income ratio	38.1%	35.4%	31.8%	32.1%	33.1%
Cost/income ratio	45.9%	43.7%	43.9%	44.2%	43.7%
Loan/deposit ratio	86.8%	85.1%	88.2%	85.4%	85.0%
NPL ratio	1.5%	1.8%	1.5%	1.6%	1.5%

Source: Company, PSR

# Sheng Siong Group

## New stores and market share gains

### SINGAPORE | CONSUMER | UPDATE

- Record 10 new stores in 2018 and market share gains will drive revenue growth.
- EBIT margins will creep up as new stores mature.
- Maintain BUY with a target price at S\$1.30 based on 25x forward PER.

#### Background

Sheng Siong Group Ltd (SSG) is the third largest supermarket chain in Singapore. It provides daily essentials to mass-market consumers through its no-frills approach. As of 30 Sep-18, SSG has 51 outlets located in Singapore's heartlands spanning over 430,500 sft.

#### Investment Merits/Outlook

- Sales growth of 10% in 1Q19.** The major store expansion of 10 new stores in 2018 and at least another 3 in 2019 will raise store footprint by 40%. The expansion will support revenue growth in FY19/20e. We expect upside in store openings because closed bids with lower accompanying rents are becoming more frequent. New stores typically experience the sharpest growth in the initial 3 to 4 years of opening. Another support for growth will be store productivity or revenue per sft. It has been rising between 3-4% p.a. SSG sales growth of 10% was against an industry contracting 1.1% in 1Q19.
- Gross margins will still creep up.** Gross margins for SSG has been expanding every year for the past 6 years. The expansion has been driven by higher contribution from the 35% GP margin fresh food product segment (vs 19% non-fresh). Since listing, SSG has pushed up fresh food mix from 30% to 45% of sales. In fresh food, the underlying trend is to grab market share from traditional wet markets through better convenience, prices and quality. Other contributing factors to margins are the establishment of central warehouses and strong bargaining power due to the size and concentration of supermarket chains in Singapore.
- Operating expenses will pressure earnings in the near-term.** The downside of new stores will be the elevated operating cost in the initial years. It can take 6 to 24 months for a new store to break-even. New stores will require a significant fixed cost regardless of sales such as a basic crew of 20-25 staff per store, utilities and rent.
- Threat from e-commerce contained.** The impact from e-Commerce has been on bulky items (such as beer and diapers) and the more premium supermarkets in Singapore. SSG targets customers that are the most price sensitive. Customers are still worried about purchasing fresh products online. SSG has its own e-commerce business. It is profitable but contributes to a very tiny part of the business at the moment (~1% of sales).
- Attractive metrics.** SSG offers attractive investment metrics with ROE of 25% and a net cash balance sheet of S\$87mn. It also pays a dividend yield of 3%.
- China still a work-in-progress.** SSG has only 1 store operating in China. The company is still looking for the right model in China. It is looking to expand another store in Kunming in 2H19.

#### Recommendation

Maintain BUY with a target price at S\$1.30 based on 25x forward PE multiple. Growth will come from a (i) 40% rise in number of stores over the next two years; (ii) higher contribution of fresh products to overall margins; (iii) increasing productivity or revenue per sft for the stores.



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12 July 2019

### BUY (Maintained)

LAST CLOSE PRICE	SGD 1.09
FORECAST DIV	SGD 0.037
TARGET PRICE	SGD 1.30
<b>TOTAL RETURN</b>	<b>22.7%</b>

#### COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN):	1,504
MARKET CAP (USD mn / SGD mn):	1231 / 1669
52 - WK HI/LO (SGD):	1.19 / 1.01
3M Average Daily T/O (mn):	1.79

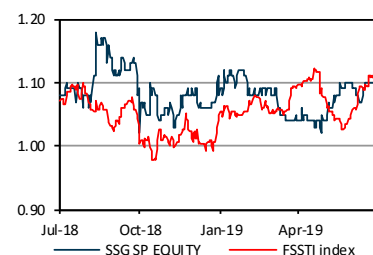
#### MAJOR SHAREHOLDERS

SS HOLDINGS	29.9%
LIM HOCK CHEE	11.3%
LIM HOCK LENG	11.3%
LIM HOCK ENG	11.3%

#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.9)	6.6	4.2
STIRETURN	4.78	2.10	6.16

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	829.9	890.9	953.3	981.9
EBITDA (SGD mn)	88.8	95.0	106.7	111.9
NPAT (adj.)	69.8	70.8	78.6	85.9
EPS (adj.)	4.64	4.71	5.23	5.72
PER, x (adj.)	23.5	23.1	20.9	19.1
P/BV, x	6.1	5.6	5.2	4.9
DPS (SGD cents)	3.3	3.4	3.7	4.1
Div Yield	3.0%	3.1%	3.4%	3.8%
ROE	26.7%	25.2%	26.0%	26.4%

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
<b>Revenue</b>	<b>796.7</b>	<b>829.9</b>	<b>890.9</b>	<b>953.3</b>	<b>981.9</b>
Gross profit	204.7	217.4	238.4	252.6	262.2
<b>EBITDA</b>	<b>81.8</b>	<b>88.8</b>	<b>95.0</b>	<b>106.7</b>	<b>111.9</b>
Depreciation & Amortisation	14.9	14.8	16.5	18.1	18.7
<b>EBIT</b>	<b>75.6</b>	<b>81.9</b>	<b>83.8</b>	<b>93.8</b>	<b>102.6</b>
Net Finance Inc/(Exp)	0.6	0.2	0.9	0.6	0.7
<b>Profit Before Tax</b>	<b>76.2</b>	<b>82.1</b>	<b>84.7</b>	<b>94.4</b>	<b>103.3</b>
Taxation	(13.5)	(12.6)	(14.1)	(16.1)	(17.6)
<b>Profit After Tax</b>	<b>62.7</b>	<b>69.5</b>	<b>70.5</b>	<b>78.4</b>	<b>85.7</b>
Non Controlling Interest	0.0	(0.3)	(0.3)	(0.2)	(0.2)
<b>Net profit, reported</b>	<b>62.7</b>	<b>69.8</b>	<b>70.8</b>	<b>78.6</b>	<b>85.9</b>
<b>Net profit, adj.</b>	<b>62.7</b>	<b>69.8</b>	<b>70.8</b>	<b>78.6</b>	<b>85.9</b>

### Per share data (SGD Cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	4.17	4.64	4.71	5.23	5.72
EPS, adj.	4.17	4.64	4.71	5.23	5.72
DPS	3.75	3.30	3.40	3.70	4.10
BVPS	16.76	18.00	19.30	20.83	22.44

### Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
<b>Profit before tax</b>	<b>76.2</b>	<b>82.1</b>	<b>84.7</b>	<b>94.4</b>	<b>103.3</b>
Adjustments	14.1	14.7	15.6	17.5	18.0
WC changes	0.8	-9.4	6.9	-1.5	1.1
Cash generated from ops	91.0	87.5	107.1	110.4	122.3
Others	-13.0	-8.9	-14.1	-16.1	-17.6
<b>Cashflow from ops</b>	<b>78.1</b>	<b>78.5</b>	<b>93.0</b>	<b>94.4</b>	<b>104.8</b>
<b>CFI</b>					
CAPEX, net	-89.3	-17.6	-27.9	-28.6	-29.5
Others	0.6	0.2	0.9	0.6	0.7
<b>Cashflow from investments</b>	<b>-88.7</b>	<b>-17.3</b>	<b>-27.0</b>	<b>-28.0</b>	<b>-28.8</b>
<b>CFF</b>					
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	-55.5	-61.5
Others	0.0	0.0	0.0	0.0	0.0
<b>Cashflow from financing</b>	<b>-54.9</b>	<b>-51.1</b>	<b>-51.1</b>	<b>-55.5</b>	<b>-61.5</b>
<b>Net change in cash</b>	<b>-65.5</b>	<b>10.1</b>	<b>14.9</b>	<b>10.9</b>	<b>14.5</b>
Effects of exchange rates	0.4	-0.1	-0.3	0.0	0.0
<b>CCE, end</b>	<b>63.5</b>	<b>73.4</b>	<b>88.0</b>	<b>98.9</b>	<b>113.4</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	252.0	254.7	266.2	276.7	287.5
Others	0.0	0.0	0.0	0.0	0.0
<b>Total non-current assets</b>	<b>252.0</b>	<b>254.7</b>	<b>266.2</b>	<b>276.7</b>	<b>287.5</b>
Accounts receivables	10.4	14.7	13.0	14.4	14.8
Cash	63.5	73.4	87.2	98.2	112.8
Inventories	61.9	60.8	69.9	69.1	71.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Total current assets</b>	<b>135.8</b>	<b>148.9</b>	<b>170.1</b>	<b>181.7</b>	<b>198.5</b>
<b>Total Assets</b>	<b>387.8</b>	<b>403.6</b>	<b>436.3</b>	<b>458.4</b>	<b>486.0</b>
<b>LIABILITIES</b>					
Accounts payables	117.5	111.3	125.7	124.8	128.2
Short term loans	0.0	0.0	0.0	0.0	0.0
Others	13.0	16.5	15.4	15.4	15.4
<b>Total current liabilities</b>	<b>130.5</b>	<b>127.8</b>	<b>141.1</b>	<b>140.2</b>	<b>143.6</b>
Long term loans	0.0	0.0	0.0	0.0	0.0
Others	2.4	2.6	2.9	3.1	3.3
<b>Total non-current liabilities</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>
<b>Total Liabilities</b>	<b>133.0</b>	<b>130.4</b>	<b>144.0</b>	<b>143.3</b>	<b>146.9</b>
<b>EQUITY</b>					
Non-controlling interests	2.8	2.5	2.1	1.9	1.7
<b>Shareholder Equity</b>	<b>252.1</b>	<b>270.7</b>	<b>290.2</b>	<b>313.2</b>	<b>337.4</b>

### Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	26.2	23.5	23.1	20.9	19.1
P/B (X)	6.5	6.1	5.6	5.2	4.9
EV/EBITDA (X), adj.	19.3	17.7	16.4	14.5	13.6
Dividend Yield (%)	3.4%	3.0%	3.1%	3.4%	3.8%

### Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth</b>					
Revenue	4.2%	4.2%	7.4%	7.0%	3.0%
EBITDA	12.6%	8.5%	7.0%	12.3%	4.9%
EBIT	13.7%	8.2%	2.4%	12.0%	9.4%
Net profit, adj.	10.3%	11.4%	1.4%	11.0%	9.4%
<b>Margins</b>					
Gross margin	25.7%	26.2%	26.8%	26.5%	26.7%
EBITDA margin	10.3%	10.7%	10.7%	11.2%	11.4%
EBIT margin	9.5%	9.9%	9.4%	9.8%	10.5%
Net profit margin	7.9%	8.4%	7.9%	8.2%	8.8%

### Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE (%)	25.2%	26.7%	25.2%	26.0%	26.4%
ROA (%)	16.6%	17.6%	16.9%	17.6%	18.2%
Net Debt/(Cash)	-64	-73	-87	-98	-113
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

# APAC Realty Ltd

Ushering in an ERA of growth

## SINGAPORE | REAL ESTATE (AGENCIES) | UPDATE

- Established agency organically growing its agency force.
- Building an international presence through the ERA regional master franchise rights for 17 countries. Announced in Feb 2019 strategic partnerships with ERA Indonesia and ERA Thailand.
- Non-brokerage income stream with GP margins of 88% (brokerage 10%) to provide some buffer to the transaction business.
- Maintain BUY with a target price of S\$0.65.

### Background

ERA Realty Network Pte Ltd (ERA Realty), a wholly-owned subsidiary of APAC Realty Limited (APAC Realty), was established in 1982 and is among the top two real estate brokerages in Singapore. APAC Realty's wholly-owned subsidiary Realty International Associates Pte Ltd (RIA) operates training programmes and courses for real estate agents and also undertakes valuation work on behalf of clients. APAC Realty holds the ERA regional master franchise rights for 17 countries in Asia Pacific as well as the master franchise rights for Coldwell Banker – one of the most established US real estate franchising companies – in Singapore. Prior to its listing on the SGX Mainboard in Sep 2017, the Group was part of Hersing Corporation Ltd (Hersing) – which was listed on the SGX-ST in 1998 and privatised in 2012. Northstar subsequently acquired Hersing's subsidiaries and incorporated APAC Realty in 2013.

### Investment Merits/Outlook

- Established market player.** ERA Realty is a household name in the real estate brokerage scene in Singapore since 1982. Notwithstanding the consolidation activities in the agency market, the group consistently held the leading position in market share of transacted units across all segments. ERA Realty has not consolidated any agency to-date, underscoring its ability to organically grow its agent base.
- Meaningful international presence.** APAC Realty holds the ERA regional master franchise rights for 17 countries, nine of which are existing ERA sub-franchisees. In Feb 2019, the Group announced a partnership with ERA Indonesia to fund the purchase of the Indonesia country master franchise operations from its current shareholders. In addition, the Group entered into a strategic cooperation agreement to directly own the ERA master franchise rights for Thailand. These sets in motion future overseas expansion plans, to eventually diversify its earnings base out of Singapore.
- Non-brokerage income stream to lend a buffer.** APAC Realty's non-brokerage revenue from training, property valuation and management arms account for 15.8% of FY2018 gross profit. The gross margins for the brokerage and non-brokerage segments are at 10.7% and 88%, respectively. The Group's acquisition of ERA APAC Centre, via acquisition of shares in HC Home, in June 2018 will build up the non-brokerage income. While revenue from the brokerage segment will continue to be the mainstay, recurring income from its non-brokerage stream helps lend a buffer especially in property down-cycles.

### Recommendation

APAC Realty is poised to flourish from its imminent entry into overseas markets as well as its strong presence in Singapore – which it holds the second biggest market share in terms of agents. Further, the asset-light nature of the brokerage business and the variable pay structure of most of its salesforce allows APAC Realty to maintain or grow their high ROE. APAC Realty is still trading below its peak, at a P/E of 9.1x. Maintain BUY with a target price of S\$0.65.



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12 July 2019

### BUY (Maintained)

LAST DONE PRICE	SGD 0.54
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 0.65
<b>TOTAL RETURN</b>	<b>27.8%</b>

### COMPANY DATA

BLOOMBERG CODE:	APAC SP Equity
O/S SHARES (MN):	355
MARKET CAP (USD mn / SGD mn):	141 / 192
52 - WK H/L/O (SGD):	0.69 / 0.44
3M Average Daily T/O (mn):	0.95

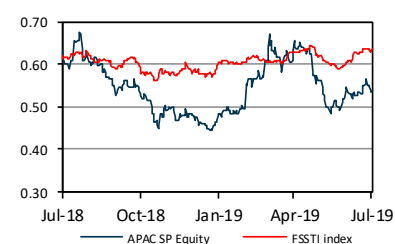
### MAJOR SHAREHOLDERS (%)

TAN CHOON HONG	71.8%
FIL INVESTMENT MANAGEMENT	4.3%
QILIN ASSET MANAGEMENT	3.4%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.9)	(14.8)	(8.4)
STI RETURN	4.8	2.1	6.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD (mn)	FY 17	FY 18	FY 19 e	FY 20 e
Revenue	401	424	437	460
Gross Profit	55	53	57	60
Operating Profit	29	29	33	36
PAT	26	24	28	30
P/E (x)	6.7	7.9	6.8	6.3
P/B (x)	1.3	1.2	1.6	1.7
EPS, SGD cents	8.0	6.8	7.9	8.6
Dividend yield, %	3.7	8.3	8.0	8.7
ROE, %	19%	17%	23%	27%
ROA, %	11%	9%	10%	11%

Source: Company Data, PSR

### Valuation Method

DCF (Cost of equity 7.2%, Terminal growth 0%)

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## Financials

### Income Statement

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
Revenue	288	401	424	437	460
Cost of services	248	346	371	380	400
<b>Gross profit</b>	40	55	53	57	60
Personnel cost	11	14	13	13	13
Other costs and expenses	11	12	11	11	11
<b>Operating profit</b>	18	29	29	33	36
Share of results in joint venture	-	(0.01)	(0.02)	-	-
<b>Profit before tax</b>	18	29	29	33	36
Tax	(2)	(4)	(5)	(5)	(5)
<b>Profit after tax</b>	16	26	24	28	30

### Per share data

SGD cents, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS	22.5	8.0	6.8	7.9	8.6
DPS	-	2.0	4.5	4.3	4.7
NAV per share	29.8	41.9	45.1	34.7	31.2

### Cash Flow

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Profit before tax	18.1	29.4	29.2	33.0	35.8
Adjustments	4	4	3	4	4
WC changes	3	4	(16)	(0)	(15)
Interest and Taxes paid, others	(3)	(3)	(5)	(4)	(5)
<b>Cashflow from operations</b>	23	35	11	33	20
<b>CFI</b>					
Acquisition of investment ppty	-	-	(73)	-	-
Purchase of PP&E	(0.1)	(0.5)	(0.4)	(0.4)	(0.4)
Others	-	(0)	(0)	-	-
<b>Cashflow from investments</b>	(0.1)	(0.7)	(74)	(0.4)	(0.4)
<b>CFE</b>					
Change in loans and borrowings	(19)	(18)	58	(16)	(15)
Payment of dividends	-	-	(14)	(15)	(17)
Others	-	28	-	-	-
<b>Cashflow from financing</b>	(19)	10	43	(31)	(32)
<b>Net change in cash</b>	4	44	(19)	1	(12)
<b>CCE, end</b>	18	62	43	44	32

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

SGD mn, Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
Investment property	-	-	73	72.8	72.8
PP&E	1.4	1.2	1.1	1.0	0.9
Intangible assets	101	100	99	99	98
Others	0.4	0.4	0.4	0.4	0.4
<b>Total non-current assets</b>	<b>103</b>	<b>102</b>	<b>174</b>	<b>173</b>	<b>172</b>
Trade & other receivables	49	72	64	64	83
Cash balance	18	62	43	44	32
Others	0.3	0.2	2.3	0.2	0.2
<b>Total current assets</b>	<b>67</b>	<b>134</b>	<b>109</b>	<b>108</b>	<b>115</b>
<b>Total Assets</b>	<b>170</b>	<b>236</b>	<b>283</b>	<b>281</b>	<b>287</b>
<b>LIABILITIES</b>					
Trade & other payables	63	92	71	73	77
Loans and borrowings	6	-	3	3	3
Provision for taxation	4	5	5	5	5
Others	1.7	2.0	1.8	1.8	1.9
<b>Total current liabilities</b>	<b>75</b>	<b>98</b>	<b>81</b>	<b>82</b>	<b>86</b>
Loans and borrowings	12	-	55	70	85
Deferred taxation	5	4	4	4	4
<b>Total non-current liabilities</b>	<b>17</b>	<b>4</b>	<b>59</b>	<b>75</b>	<b>90</b>
<b>Total Liabilities</b>	<b>91</b>	<b>103</b>	<b>140</b>	<b>157</b>	<b>176</b>
<b>EQUITY</b>					
Share capital	71	99	99	99	99
Accumulated profits	8	34	44	24	12
Non-controlling interests	-	-	0.04	-	-
<b>Total Equity</b>	<b>79</b>	<b>133</b>	<b>143</b>	<b>123</b>	<b>111</b>

### Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	2.4	6.7	7.9	6.8	6.3
P/B (x)	1.8	1.3	1.2	1.6	1.7
Dividend Yield (%)	-	3.7	8.3	8.0	8.7
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	24%	39%	6%	3%	5%
Gross profit	28%	38%	-4%	8%	5%
PBT	75%	63%	-1%	13%	9%
PAT	87%	63%	-6%	16%	9%
<b>Margins</b>					
GP margin	14%	14%	12%	13%	13%
PBT margin	6%	7%	7%	8%	8%
PAT Margin	6%	6%	6%	6%	7%
<b>Key Ratios</b>					
ROE (%)	20%	19%	17%	23%	27%
ROA (%)	9%	11%	9%	10%	11%
Gearing (x)	0.23	-	0.40	0.60	0.79

# CapitaLand Limited

Better, Faster, Stronger



StocksBnB.com

12 July 2019

## 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 Accumulate with an unchanged target price of S\$4.00.

### 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\$103bn as of 31 March 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. Gaining critical mass across geographies and asset classes.** CAPL completed its acquisition of Ascendas-Singbridge (ASB) on 30 June 2019, immediately bringing CAPL a new asset class – industrial parks. It will raise CAPL exposure to emerging markets, such as India – which it previously did not have an investment management platform. The enlarged entity will now have an improved scale in acquiring assets or winning projects. CAPL's management had expressed confidence in boosting its post-transaction NAV, mainly via the combined fund management platform as well as the combined development pipeline.
- 2. Stability from recurring income.** CAPL's move into a primarily recurring income model has borne fruit, with recurring income from investment properties comprising 84% of 1Q19 EBIT. In addition, ASB will add c.30% of recurring income from its two REITs, one business trust and seven private funds and expand its REITs and funds AUM base in excess of 20%.
- 3. Residential development in China performing well.** Despite existing price caps in several tier 1 and tier 2 cities, China continues to provide CAPL an accommodative environment for residential developments, with breakthrough sell-through rates of >99% for certain new projects. CAPL's presence in China will be complemented with that of ASB's presence within the industrial park space in China.

### Recommendation

The outlook is positive as we see upside in CAPL's and ASB's operational synergy that will absorb the modest NAV dilution. We maintain our ACCUMULATE rating with an unchanged target price of S\$4.00. Our target price translates to a FY19e P/NAV ratio of 0.81x.

## ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 3.70
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 4.00
TOTAL RETURN	11.4%

### COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN):	5,037
MARKET CAP (USD mn / SGD mn):	13748 / 18639
52 - WK HI/LO (SGD):	3.75 / 3.02
3M Average Daily T/O (mn):	8.8

### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	40.4%
BLACKROCK INC	7.0%
VANGUARD GROUP	2.0%
NORGES BANK	0.9%
STATE STREET CORP	0.8%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	11.5	3.1	24.3
STIRETURN	4.8	2.1	6.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E	Dec, SGD mn	FY 17	FY 18	FY 19e	FY 20e
Revenue	4,618	5,602	5,593	5,855	
Gross Profit	2,024	2,689	2,684	2,811	
EBIT	2,420	3,186	2,938	3,145	
EPS (SGD)	0.37	0.42	0.42	0.45	
P/E (x)	10.0	8.8	8.9	8.2	
P/BV (x)	0.9	0.9	0.8	0.7	
DPS (SGD)	0.12	0.12	0.12	0.12	
Div Yield, %	3.2%	3.3%	3.3%	3.4%	
ROE, %	8.5%	9.3%	7.9%	8.2%	

Source: Company Data, Bloomberg

### Valuation Method

RNAV

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## Financials

### Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Revenue</b>	<b>5,252</b>	<b>4,618</b>	<b>5,602</b>	<b>5,593</b>	<b>5,855</b>
Gross Profit	1,598	2,024	2,689	2,684	2,811
Depreciation & Amortisation	3	7	11	7	8
<b>EBIT</b>	<b>1,652</b>	<b>2,420</b>	<b>3,186</b>	<b>2,938</b>	<b>3,145</b>
Net Finance (Expense)/Inc	(453)	(487)	(636)	(923)	(931)
Associates & JVs	708	882	959	630	650
<b>Profit Before Tax</b>	<b>1,907</b>	<b>2,816</b>	<b>3,509</b>	<b>2,644</b>	<b>2,863</b>
Taxation	(403)	(469)	(659)	(450)	(487)
<b>Profit After Tax</b>	<b>1,504</b>	<b>2,347</b>	<b>2,850</b>	<b>2,195</b>	<b>2,377</b>
Non-Controlling Interest	314	777	1,087	461	499
<b>Net Income, reported</b>	<b>1,190</b>	<b>1,570</b>	<b>1,762</b>	<b>1,734</b>	<b>1,878</b>

### Per share data (SGD)

Y/E Dec, SGD	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.28	0.37	0.42	0.42	0.45
DPS	0.10	0.12	0.12	0.12	0.12
BVPS	4.22	4.33	4.35	4.55	5.24

### Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Profit for the year	1,504	2,347	2,850	2,195	2,377
Adjustments	(902)	(1,504)	(1,700)	(1,125)	(1,246)
WC changes	2,250	809	(1,414)	1,072	218
Cash generated from ops	3,655	2,545	943	3,453	2,687
Taxes paid, others	(350)	(379)	(390)	(450)	(487)
<b>Cashflow from ops</b>	<b>3,305</b>	<b>2,166</b>	<b>553</b>	<b>3,003</b>	<b>2,200</b>
<b>CFI</b>					
CAPEX, net	(75)	(142)	(88)	(102)	(111)
<b>Cashflow from investments</b>	<b>(71)</b>	<b>(1,770)</b>	<b>(1,356)</b>	<b>149</b>	<b>55</b>
<b>CFF</b>					
Dividends paid	(383)	(425)	(504)	(520)	(525)
<b>Cashflow from financing</b>	<b>(2,462)</b>	<b>979</b>	<b>(217)</b>	<b>(1,981)</b>	<b>(2,261)</b>
<b>Net change in cash</b>	<b>772</b>	<b>1,376</b>	<b>(1,019)</b>	<b>1,171</b>	<b>(6)</b>
Effects of exchange rates	(129)	(47)	(60)	-	-
<b>CCE, end</b>	<b>4,778</b>	<b>6,080</b>	<b>5,005</b>	<b>6,176</b>	<b>6,169</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	781	840	753	582	414
Associates & JVs	12,617	10,205	10,180	10,141	10,284
Investment Properties	18,998	36,479	39,446	40,279	41,078
Others	1,578	1,702	1,823	1,782	1,780
<b>Total non-current assets</b>	<b>33,976</b>	<b>49,227</b>	<b>52,201</b>	<b>52,784</b>	<b>53,556</b>
Development properties	4,837	3,977	5,129	4,705	4,445
Accounts Receivables	1,859	1,462	1,944	1,852	1,895
Cash balance	4,793	6,105	5,060	6,176	6,169
Others	277	768	314	289	289
<b>Total current assets</b>	<b>11,765</b>	<b>12,312</b>	<b>12,446</b>	<b>13,022</b>	<b>12,798</b>
<b>Total Assets</b>	<b>45,741</b>	<b>61,539</b>	<b>64,648</b>	<b>65,806</b>	<b>66,354</b>
<b>LIABILITIES</b>					
Short term loans	2,373	2,739	3,193	3,200	3,400
Accounts Payables	4,685	3,067	3,842	4,398	4,399
Others	670	3,055	2,360	1,451	1,451
<b>Total current liabilities</b>	<b>7,728</b>	<b>8,861</b>	<b>9,395</b>	<b>9,050</b>	<b>9,250</b>
Long term loans	12,479	18,956	20,440	19,884	19,883
Others	1,233	1,604	1,505	1,447	1,519
<b>Total non-current liabilities</b>	<b>13,712</b>	<b>20,560</b>	<b>21,945</b>	<b>21,331</b>	<b>21,402</b>
<b>Total Liabilities</b>	<b>21,440</b>	<b>29,421</b>	<b>31,341</b>	<b>30,381</b>	<b>30,653</b>
<b>EQUITY</b>					
Shareholder Equity	17,605	18,413	18,953	21,831	22,829
Non-controlling interest	6,696	13,705	14,354	13,593	12,873
<b>Total Equity</b>	<b>24,300</b>	<b>32,118</b>	<b>33,307</b>	<b>35,424</b>	<b>35,702</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
P/E	13.2	10.0	8.8	8.9	8.2
P/B	0.88	0.85	0.85	0.81	0.71
Dividend Yield	2.7%	3.2%	3.3%	3.3%	3.4%

### Growth & Margins

	FY16	FY17	FY18	FY19e	FY20e
<b>Growth</b>					
Revenue	10.3%	-12.1%	21.3%	-0.2%	4.7%
EBIT	3.9%	46.5%	31.6%	-7.8%	7.0%
Net Income, adj.	0.6%	56.0%	21.4%	-23.0%	8.3%

### Margins

	FY16	FY17	FY18	FY19e	FY20e
EBIT margin	31.4%	52.4%	56.9%	52.5%	53.7%
Net Profit Margin	28.6%	50.8%	50.9%	39.2%	40.6%

### Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
ROE	6.8%	8.5%	9.3%	7.9%	8.2%
ROA	2.6%	2.6%	2.7%	2.6%	2.8%
Gearing (Total Debt/Total Assets)	0.32	0.35	0.37	0.35	0.35

# ComfortDelGro Corp Ltd

## Expanding footprint and digging heels in

### SINGAPORE | TRANSPORT SERVICES | UPDATE

- Earnings to be underpinned by the improvement in Public Transport Services segment and growth overseas.
- Taxi segment is turning around from stricter regulations on private drivers, renewal into a more cost competitive vehicle fleet and a more dynamic fare model.
- Maintain ACCUMULATE with a higher target price of \$2.99.

#### Background

ComfortDelGro Corp Ltd (CDG) is a global multi-modal land transport operator. Its major business segments include Public transport services, Taxi, Automotive engineering and Inspection and testing. CDG operates across seven countries with contributions to operating profit coming from Singapore (59%), Australia (16%), UK/Ireland (21%) and China (4%). Vietnam and Malaysia do not contribute materially. CDG's 75%-owned listed subsidiary, SBS Transit Ltd, operates Public transport services in Singapore of Rail and Buses. Its 67%-owned listed subsidiary, VICOM Ltd, provides inspection and testing services.

#### Investment Merits/Outlook

- 1. Stable Public Transport Services segment.** The bus business segment is on tendered contracts without ridership risk or fare-revenue risk. Singapore bus operations will record the full year effect from the Bukit Merah tender that commenced 4Q18. The rail segment is expected to improve as losses for Downtown Line (DTL) continue to narrow since the commencement of DTL3 service in October 2017. However, some margin pressure is expected for North East Line, due to higher maintenance expenses for the renewal of the line.
- 2. Seeking growth abroad.** CDG has been in the Australia market as a private bus operator since 2005. In 2018 they expanded their footprint through the acquisition of four bus operators. The credibility and track record that CGD has built in Australia gives them an advantage in bidding for bus routes and an incumbent advantage in securing renewal of existing routes. Opportunities to expand into new territories (Perth and Adelaide) exist, which CDG intends to pursue.
- 3. Fighting back in the Taxi business segment.** Taxi booking fulfilment was up 7.4%/11% in FY2018/1Q19 and daily average excess booking demand during peak hours stand in the thousands. This is encouraging for the Taxi segment in Singapore. Initiatives like dynamic pricing through ComfortRIDE (currently in testing phase) addresses existing taxi drivers' concerns of missing out on higher fares during peak hours as well as help CDG to capitalise on the excess demand from the booking platform. This will help remove one possible incentive of switching to driving as a private hire under Grab or GoJek as taxi drivers can now benefit from both street hail as well as enjoy fares that are more competitive during peak periods. This initiative will likely benefit CDG in terms of retaining their existing drivers and capturing commissions from private drivers using ComfortRIDE. Another initiative is the renewal of the current taxi fleet with hybrid vehicles that are cheaper and more fuel efficient for drivers.

#### Recommendation

Maintain ACCUMULATE and raise our DCF FCF derived target price to \$2.99. We lowered our WACC by 67bps to 7.63% to reflect the lower interest rate environment and de-risking of the taxi business owing to more favourable government policies. We also raise our growth rate from 1% to 1.5% to reflect our higher growth expectations. Our target price is an implied FY19e forward dividend yield 4.3% and a forward P/E multiple of 17.5 times.



StocksBnB.com

12 July 2019

#### Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.82
FORECAST DIV	SGD 0.119
TARGET PRICE	SGD 2.99
TOTAL RETURN	10.2%

#### COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN):	2,166
MARKET CAP (USD mn /SGD mn):	4013 / 5501
52 - WK HI/LO (SGD):	2.73 / 2.07
3M Average Daily T/O (mn):	7.65

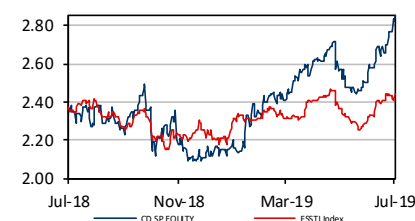
#### MAJOR SHAREHOLDERS (%)

BLACKROCK	6.95
VANGUARD GROUP INC	2.65
CAPITAL GROUP	1.38

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(1.9)	7.5	11.9
STI RETURN	(1.8)	1.1	(5.3)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	3,576	3,805	3,988	4,116
PATMI, adj (SGD mn)	290	303	342	376
EPS, adj. (cents)	13.4	14.0	15.8	17.4
P/E, adj. (x)	14.8	15.4	18.0	16.4
BVPS (cents)	140	140	145	150
P/B (x)	1.4	1.5	2.0	1.9
DPS (cents)	10.4	10.5	11.9	13.0
Div. Yield (%)	3.5	3.5	4.0	4.3

Source: Company Data, PSR est.

#### VALUATION METHOD

DCF (WACC: 7.63%; Terminal g: 1.5%)

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## Financials

### Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>Revenue</b>	<b>4,060</b>	<b>3,576</b>	<b>3,805</b>	<b>3,988</b>	<b>4,116</b>
<b>EBITDA</b>	<b>858</b>	<b>818</b>	<b>833</b>	<b>883</b>	<b>909</b>
Depreciation & Amortisation	(396)	(409)	(394)	(390)	(380)
<b>EBIT</b>	<b>462</b>	<b>409</b>	<b>439</b>	<b>493</b>	<b>529</b>
Net Finance (Expense)/Inc	(1)	12	0	2	11
Associates & JVs	5	5	0	0	0
<b>Profit Before Tax</b>	<b>467</b>	<b>425</b>	<b>439</b>	<b>495</b>	<b>541</b>
Taxation	(88)	(77)	(81)	(96)	(103)
<b>Profit After Tax</b>	<b>378</b>	<b>349</b>	<b>359</b>	<b>400</b>	<b>437</b>
- Non-controlling interest	61	47	56	57	61
<b>PATMI, reported</b>	<b>317</b>	<b>302</b>	<b>303</b>	<b>342</b>	<b>376</b>
<b>PATMI, adj.</b>	<b>317</b>	<b>290</b>	<b>303</b>	<b>342</b>	<b>376</b>

### Per share data (cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	14.7	14.0	14.0	15.8	17.4
EPS, adj.	14.7	13.4	14.0	15.8	17.4
DPS	10.3	10.4	10.5	11.9	13.0
BVPS	148	140	140	145	150

### Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
PBT	467	425	439	495	541
Adjustments	291	374	367	384	355
WC changes	9	(146)	(55)	(0)	(0)
Cash generated from ops	766	654	751	879	895
Others	(63)	(72)	(82)	(96)	(103)
<b>Cashflow from ops</b>	<b>703</b>	<b>582</b>	<b>669</b>	<b>784</b>	<b>792</b>
<b>CFI</b>					
CAPEX, net	(388)	(284)	(226)	(321)	(325)
Divd from associates & JVs	3	7	1	0	0
Others	14	23	(413)	7	14
<b>Cashflow from investments</b>	<b>(371)</b>	<b>(254)</b>	<b>(638)</b>	<b>(314)</b>	<b>(311)</b>
<b>CFF</b>					
Share issuance, net	13	12	4	-	-
Loans, net of repayments	(209)	(52)	216	(114)	-
Dividends	(230)	(283)	(280)	(279)	(320)
Others	106	(184)	31	(10)	(9)
<b>Cashflow from financing</b>	<b>(321)</b>	<b>(507)</b>	<b>(29)</b>	<b>(403)</b>	<b>(329)</b>
<b>Effects of exchange rates</b>	<b>(19)</b>	<b>(4)</b>	<b>(12)</b>	<b>-</b>	<b>-</b>
<b>Net change in cash</b>	<b>(8)</b>	<b>(183)</b>	<b>(10)</b>	<b>67</b>	<b>151</b>
<b>CCE, end</b>	<b>779</b>	<b>596</b>	<b>586</b>	<b>653</b>	<b>804</b>

Source: Company Data, PSR est.

### Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
PPE	2,887	2,723	2,691	2,807	2,717
Intangibles	645	640	896	902	909
Receivables	241	238	219	219	219
Others	98	61	53	53	53
<b>Total non-current assets</b>	<b>3,871</b>	<b>3,662</b>	<b>3,860</b>	<b>3,981</b>	<b>3,897</b>
Inventories	82	114	139	145	150
Accounts Receivables	237	251	275	289	298
Prepayments	153	195	277	290	300
Cash	779	596	586	653	804
Others	-	-	-	-	-
<b>Total current assets</b>	<b>1,251</b>	<b>1,156</b>	<b>1,277</b>	<b>1,377</b>	<b>1,551</b>
<b>Total Assets</b>	<b>5,122</b>	<b>4,817</b>	<b>5,137</b>	<b>5,358</b>	<b>5,449</b>

### LIABILITIES

Short term loans	169	114	90	76	76
Accounts Payables	771	677	691	759	782
Others	171	154	228	228	228
<b>Total current liabilities</b>	<b>1,112</b>	<b>945</b>	<b>1,009</b>	<b>1,063</b>	<b>1,086</b>
Long term loans	176	208	480	380	380
Others	643	637	621	772	737
<b>Total non-current liabilities</b>	<b>818</b>	<b>845</b>	<b>1,100</b>	<b>1,151</b>	<b>1,116</b>
<b>Total Liabilities</b>	<b>1,930</b>	<b>1,790</b>	<b>2,110</b>	<b>2,214</b>	<b>2,203</b>

### EQUITY

Non-controlling interest	717	420	414	419	416
<b>Shareholder Equity</b>	<b>2,476</b>	<b>2,608</b>	<b>2,614</b>	<b>2,725</b>	<b>2,830</b>

### Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/E (x), adj.	20.4	14.8	15.4	17.5	16.0
P/B (x)	2.0	1.4	1.5	1.9	1.8
Dividend Yield (%)	3.4%	3.5%	3.5%	4.0%	4.3%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	-1.3%	-11.9%	6.4%	4.8%	3.2%
EBITDA	2.2%	-4.7%	1.8%	6.0%	3.0%
EBIT	2.6%	-11.5%	7.2%	12.4%	7.3%
Net Income, adj.	5.0%	-8.4%	4.4%	12.9%	9.8%
<b>Margins</b>					
EBITDA margin	21.1%	22.9%	21.9%	22.1%	22.1%
EBIT margin	11.4%	11.4%	11.5%	12.4%	12.9%
PBT margin	11.5%	11.9%	11.5%	12.4%	13.1%
Net Profit Margin	7.8%	8.1%	8.0%	8.6%	9.1%

### Key Ratios

ROE	13.2%	11.4%	11.6%	12.8%	13.5%
ROA	6.1%	5.8%	6.1%	6.5%	7.0%
Dividend Payout	70.0%	74.6%	74.9%	75.0%	74.9%
Net Debt or (Net Cash)	(434)	(274)	(16)	(197)	(348)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

# Singapore Telecommunications Limited

## Regional associates driving recovery

### SINGAPORE | TELECOMMUNICATIONS | UPDATE

- Improving regional associates driving the recovery in Singtel's operations.
- Recent revisions in mobile offerings have narrowed TPG Telecom's opportunity in Singapore
- Opportunity in monetising the digital business from a successful listing could see Singtel unlocking S\$3.6bn in value or S\$0.22 to its share price.
- Downgrade to ACCUMULATE with an unchanged target price of S\$3.66. No changes to our estimates. The downgrade is due to recent share price performance. Our target price is based on FY20e 7X EV/EBITDA of Singtel's Singapore and Australia businesses and the valuation of its listed associates.

#### Background

Singtel is the largest mobile network operator in Singapore and the 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 2<sup>nd</sup> 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

- Regional associates are driving recovery.** The competitive landscape in the region is improving. In India, the launch of *Airtel Thanks* alongside with the minimum recharge plans has led ARPU to improve 18% QoQ. In Indonesia, regulators have relaxed SIM card limit per operator from 3 to 5, this has helped reduce churn rates. Globe expects continued data monetisation and for the competition to be softer. Over in Thailand, operators have phased out lowly priced data plans this should improve ARPU. Advanced Info Services (AIS) is anticipating subscriber growth. The regional associates have recovered substantially (up ~17% YTD). Recovery is led by Bharti Airtel (up ~18% YTD) and Telkomsel (up ~12% YTD). We expect the recovery to continue in 2H19.
- The window of opportunity for TPG has narrowed considerably.** When Infocomm Media Development Authority (IMDA) announced that TPG Telecom (TPG) would be Singapore's 4<sup>th</sup> mobile network operator (MNO) in 2016, there was a huge unaddressed opportunity in the SIM-only segment. MNOs and Mobile Virtual Network Operators (MVNOs) have now closed the gap through recent revisions of their mobile offerings. The revisions have specifically targeted the SIM-only segment which we expect TPG to contest in. The price sensitive SIM-only space is crowded with competition. With the latest entry of Grid mobile and redONE, there are now 11 mobile operators in Singapore compared to 4 in 2016. The increased competition has a marginal impact on Singtel since some revenue flows back to the MNO, and mobile service revenue in Singapore contributes only 9% of total revenue in FY19.
- Opportunity in monetising the digital business.** Singtel plans to unlock value in its digital business (Amobee) within the next three years either through an IPO or private investors. Average industry revenue multiple is at 6.4X applying a 50% discount a successful listing could see Singtel unlocking approximately S\$3.6bn, which could add S\$0.22 to its share price.

#### Recommendation

Downgrade to ACCUMULATE with an unchanged target price of S\$3.66. There are no changes in our estimates. The downgrade is due to recent share price performance. 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 the improving outlook of its regional associates and its stable dividend yield of 5%.



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12 July 2019

### ACCUMULATE (Downgraded)

CLOSING PRICE	SGD 3.500
FORECAST DIV	SGD 0.175
TARGET PRICE	SGD 3.660
TOTAL RETURN	9.6%

#### COMPANY DATA

BLOOMBERG CODE:	ST SP
O/S SHARES (MN):	16,329
MARKET CAP (USD mn / SGD mn):	42329 / 57479
52 - WK HI/LO (SGD):	3.56 / 2.83
3M Average Daily T/O (mn):	22.76

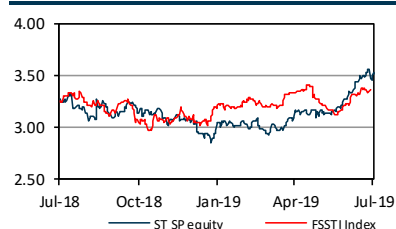
#### MAJOR SHAREHOLDERS (%)

Temasek Holdings Pte Ltd	52.4%
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#### PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	7.3	11.4	14.1
STIRETURN	4.4	2.3	7.3

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Mar, SGD mn	FY 18	FY 19	FY 20e	FY 21e
Revenue	17,268	17,372	17,825	18,359
EBITDA	5,051	4,692	4,782	4,927
Net Profit	5,452	3,071	3,234	3,408
Dividend Yield	5.9%	5.0%	5.0%	5.0%
ROE (%)	13.3%	10.3%	10.7%	11.1%
ROA (%)	11.2%	6.3%	6.6%	6.8%

Source: Company, PSR

#### VALUATION METHOD

Sum Of Parts

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Research Analyst

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## Financials

### Income Statement

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
<b>Revenue</b>	<b>16,711</b>	<b>17,268</b>	<b>17,372</b>	<b>17,825</b>	<b>18,359</b>
Operating Profit	4,782	4,792	4,467	4,540	4,696
<b>EBITDA</b>	<b>4,998</b>	<b>5,051</b>	<b>4,692</b>	<b>4,782</b>	<b>4,927</b>
Depreciation & Amortisation	2,239	2,250	2,222	2,357	2,496
<b>EBIT</b>	<b>2,759</b>	<b>2,801</b>	<b>2,470</b>	<b>2,425</b>	<b>2,431</b>
Net Finance Inc/(Exp)	(374)	(390)	(393)	(384)	(401)
Profit before tax	4,515	6,155	3,746	3,809	4,006
Taxation	(684)	(703)	(675)	(575)	(598)
<b>Net profit before NCI</b>	<b>3,831</b>	<b>5,452</b>	<b>3,071</b>	<b>3,234</b>	<b>3,408</b>
Non-controlling interest	22	21	23	18	18
<b>Net profit, reported</b>	<b>3,853</b>	<b>5,473</b>	<b>3,095</b>	<b>3,253</b>	<b>3,426</b>

### Per share data (SGD Cents)

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	23.6	33.5	19.0	19.9	21.0
DPS	17.2	20.5	17.5	17.5	17.5
BVPS	172.8	182.1	182.7	185.1	188.6

### Cash Flow

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
<b>Profit before tax</b>	<b>4,515</b>	<b>6,155</b>	<b>3,746</b>	<b>3,809</b>	<b>4,006</b>
Adjustments	470	(1,099)	879	973	922
WC changes	(492)	(139)	(126)	(25)	(101)
Cash generated from ops	4,493	4,916	4,498	4,757	4,826
Tax paid	(834)	(608)	(680)	(575)	(598)
<b>Cashflow from ops</b>	<b>5,315</b>	<b>5,955</b>	<b>5,368</b>	<b>5,805</b>	<b>5,694</b>
<b>CFI</b>					
CAPEX & IA, net	(2,518)	(3,473)	(1,935)	(2,500)	(3,289)
Others	(2,314)	1,523	(394)	70	78
<b>Cashflow from investments</b>	<b>(4,832)</b>	<b>(1,951)</b>	<b>(2,329)</b>	<b>(2,430)</b>	<b>(3,211)</b>
<b>CFE</b>					
Share issuance, net	1,602	-	-	-	-
Loans, net of repayments	911	223	174	(270)	726
Dividends	(2,816)	(3,346)	(2,857)	(2,858)	(2,858)
Others	(121)	(886)	(373)	(384)	(401)
<b>Cashflow from financing</b>	<b>(422)</b>	<b>(4,009)</b>	<b>(3,056)</b>	<b>(3,511)</b>	<b>(2,533)</b>
Net change in cash	60	(5)	(16)	(137)	(50)
<b>CCE, end</b>	<b>534</b>	<b>525</b>	<b>513</b>	<b>376</b>	<b>326</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Mar, SGD 'Mn	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Accounts receivables	4,924	5,814	5,993	5,801	6,163
Cash	534	525	513	376	326
Inventories	352	397	418	405	427
Others	107	23	155	155	155
<b>Total current assets</b>	<b>5,918</b>	<b>6,759</b>	<b>7,078</b>	<b>6,737</b>	<b>7,071</b>
PPE & IA	24,966	25,423	25,067	25,211	26,004
Others	17,411	16,314	16,770	16,845	17,278
<b>Total non-current assets</b>	<b>42,377</b>	<b>41,737</b>	<b>41,837</b>	<b>42,056</b>	<b>43,282</b>
<b>Total Assets</b>	<b>48,294</b>	<b>48,496</b>	<b>48,915</b>	<b>48,792</b>	<b>50,352</b>
<b>LIABILITIES</b>					
Accounts payables	4,922	5,371	5,817	5,588	5,871
Short term loans	3,343	2,152	2,101	2,101	2,101
Tax payable	296	351	255	255	255
<b>Total current liabilities</b>	<b>9,272</b>	<b>8,429</b>	<b>8,794</b>	<b>8,565</b>	<b>8,848</b>
Long term loans	8,052	8,668	8,784	8,514	9,240
Deferred tax liabilities	575	536	515	515	515
Others	2,181	1,151	1,012	1,012	1,012
<b>Total non-current liabilities</b>	<b>10,808</b>	<b>10,355</b>	<b>10,311</b>	<b>10,041</b>	<b>10,767</b>
<b>Total Liabilities</b>	<b>20,081</b>	<b>18,784</b>	<b>19,105</b>	<b>18,606</b>	<b>19,615</b>
<b>EQUITY</b>					
Non-controlling interests	22	(3)	(28)	(47)	(64)
<b>Shareholder Equity</b>	<b>28,214</b>	<b>29,737</b>	<b>29,838</b>	<b>30,233</b>	<b>30,801</b>

### Valuation Ratios

Y/E Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	15.0	10.5	18.6	17.7	16.8
P/B (X)	2.0	1.9	1.9	1.9	1.9
EV/EBITDA (X)	13.7	13.5	14.5	14.2	13.9

### Growth & Margins

<b>Growth</b>					
Revenue	-1.5%	3.3%	0.6%	2.6%	3.0%
EBITDA	-0.3%	1.1%	-7.1%	1.9%	3.0%
EBIT	-3.7%	1.5%	-11.8%	-1.8%	0.3%
Net profit, adj.	-0.7%	42.3%	-43.7%	5.3%	5.4%
<b>Margins</b>					
Gross margin	28.6%	27.7%	25.7%	25.5%	25.6%
EBITDA margin	29.9%	29.2%	27.0%	26.8%	26.8%
EBIT margin	16.5%	16.2%	14.2%	13.6%	13.2%
Net profit margin	22.9%	31.6%	17.7%	18.1%	18.6%

### Key Ratios

ROE (%)	13.6	18.3	10.3	10.7	11.1
ROA (%)	7.9	11.2	6.3	6.6	6.8
Dividend Payout (%)	73.1	61.1	92.3	87.8	83.4
Dividend Yield (%)	4.9	5.8	5.0	5.0	5.0

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