Phillip 2019 Singapore Strategy

Reversal of flows

4 January 2019

SINGAPORE | STRATEGY

Review: 2018 was a turbulent year for the STI, which lost 9.8%. From a peak of 3641 in May, it corrected by 19% over six months to a low of around 3000. Only 6 of 30 STI component stock registered any gains. We had been bullish for 2018. There was momentum in the economy and rising interest rates was positive for our heavily-financial-weighted STI. However, as the year progressed, we ran into a wall of issues. Firstly, a new tail risk surfaced when the U.S. President began a series of tariffs on Chinese goods, sparking tensions between the U.S. and China. Secondly, strength in the US dollar plus rising interest rates triggered a violent retreat of liquidity from emerging markets. Thirdly, China's deleveraging resulted in slower-than-expected growth in its economy. In Singapore, property-cooling measures smothered whatever momentum left in the economy. Singapore's GDP halved from plus 4.6% YoY in 1Q18 to 2.2% in 3Q18. Our initial 3,900 target for the STI bit the dust.

Outlook: The Singapore market is cheap on a historical basis. On a forward PE of 12x or PB of 1x, STI is trading at 1 SD of its 10-year historical valuations. The driver to returns will be a reversal of portfolio outflows back to Asia and Singapore: 1) We are expecting a rolling over of U.S. data. U.S. growth has been boosted by the steepest fiscal stimulus since the GFC; 2) We anticipate more turmoil in U.S. politics. With the Democrats taking over majority in the Lower House, we expect them to launch multiple investigations, with the Mueller probe leading the troupe; 3) Slower economic conditions have tempered the Fed's rate-hike enthusiasm. Commentary is now tilted towards raising rates to that neutral level rather than exceed it. This is a range of 2.5%-3.5%; 4) Final puzzle will be trade negotiations between China and the U.S. We expect a negotiated truce. We are assuming Trump is not dogmatic but deal-driven. He has reversed many hard stances before, from Iran sanctions to war with North Korea. As we approach 2020 U.S. elections, the last thing needed is a disruption to the economy or financial markets, either from a further implosion of global trade or higher consumer product prices.

STI Target: We cut our STI target twice this year, to 3,400 in October. We maintain this target for 2019. This pegs the market at 13.5x (or around its 10-year average valuation).

Recommendation: We advocate a lower-beta equity portfolio for 2019. Our emphasis is on dividend-paying stocks. In our Phillip Absolute 10 for 2019, our top picks are: a) UOB for its attractive dividends, well supported by the bank's excess capital; b) SGX, whose derivatives business is growing as much as 20%; c) On REITs, we opt for Ascendas for its stable dividends, CCT for the attractive demand-supply dynamics for office market and Keppel DC for the structural growth of data centres; d) Growth stock are Geo Energy, as coal production recovers in 2019. Sheng Siong is gaining market share and rolling out record new stores. China Sunsine will maintain healthy earnings growth as supply is constrained by China's strict environmental regulations; e) Re-rating picks are ComfortDelGro and CapitaLand.

2018 Performance

Figure 1: Banks down despite a recovery

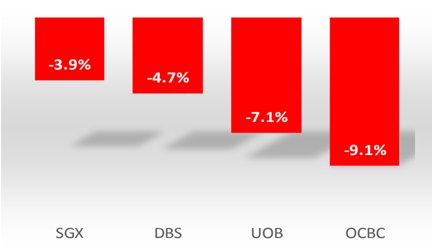


Figure 2: Developers collapsed

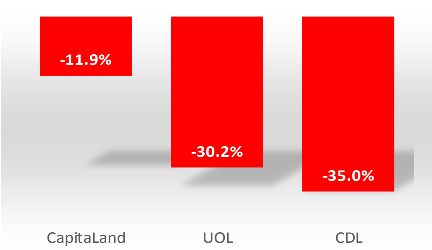
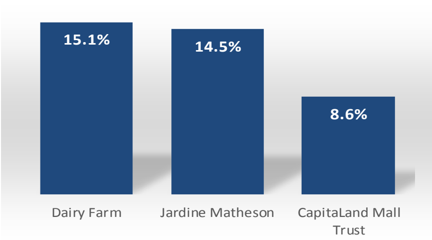


Figure 3: Rare Gainers in STI



Source: PSR, Bloomberg

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The Phillip Absolute 10

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
Ascendas REIT	0.0%	-2.7%	-5.5%	**Accumulate**	2.78	2.57	8%	5,853	6.0%
CapitaLand Comm Trust	0.6%	-1.7%	-9.3%	**Accumulate**	1.90	1.75	9%	4,798	4.8%
Dividend Growth									
Keppel DC REIT	-0.7%	-1.5%	-5.6%	**Accumulate**	1.45	1.35	7%	1,336	5.2%
SGX	-2.3%	-3.0%	-3.9%	**Buy**	9.01	7.15	26%	5,603	4.4%
UOB	-2.3%	-9.3%	-7.1%	**Buy**	32.52	24.57	32%	29,967	4.7%
Growth									
China Sunsine	-2.3%	20.0%	40.0%	**Buy**	1.68	1.26	33%	453	3.6%
Geo Energy	-4.5%	-27.0%	-36.6%	**Buy**	0.245	0.17	46%	172	6.0%
Sheng Siong	-1.9%	-5.4%	14.6%	**Accumulate**	1.13	1.06	7%	1,167	3.1%
Re-rating Plays									
CapitaLand	-0.3%	-7.7%	-11.9%	**Accumulate**	4.00	3.11	29%	9,480	3.9%
Comfort DelGro	2.4%	-11.5%	8.6%	**Buy**	2.69	2.15	25%	3,408	4.8%
Average	-1.1%	-5.0%	-1.7%				22%	62,238	4.6%

MCI (P) 062/10/2018
Ref. No.: SG2019_0001

2018 REVIEW

The year began with worries over rising US Treasuries. But the STI still managed to climb higher as the Singapore economy grew 4.6% in 1Q18. A new uncertainty emerged when President Trump declared that trade wars were good and could be won. His commentary and policies started to rock equity markets. Relative strength of the US economy and dollar began to rattle emerging markets. Argentina and Turkey had to raise interest rates by as much as 68% and 24% respectively to contain their currency devaluation. Despite the above, the STI managed to touch a high of 3641 in early May, propelled by strong banking performances.

As we entered the second half of 2018, the market started to relent to growing signs that global economic growth had peaked. There were also clearer signs that the trade skirmish between the U.S. and China was turning into an all-out trade war. While the immediate economic impact was manageable, with direct global GDP affected at most by 0.5% point, the uncertainty and accompanying caution in spending was more pervasive and damaging. It also did not help our equity market when a new round of cooling measures were slapped on Singapore's residential property market. This sucked out whatever economic momentum was left in the domestic economy

OUTLOOK

Despite the slowing momentum (Figure 4), we still expect positive returns for the Singapore market in 2019. Valuations are attractive. The STI is trading at 12x forward PE or 1 standard deviation its 10-year average (Figure 6). Dividend yields of 4.5% are around the highest after GFC (Figure 7). But attractive valuations alone are not a sufficient trigger for positive returns. We believe a major catalyst in 2019 will be a reversal of funds back into Singapore and Asia.

Firstly, we are expecting U.S. data to roll over. U.S. growth has been boosted above trend, courtesy of a 1.1%-point fiscal stimulus from the Trump tax cut (Figure 8). This is the steepest fiscal boost since GFC.

Secondly, we anticipate more turmoil in U.S. politics. With the Democrats taking over a majority in the Lower House, we expect them to launch multiple investigations, likely with the Robert Mueller probe leading the troupe. The new Lower House Committee on Oversight and Government Reform controlled by the Democrats will "Make Subpoenas Great Again" (Figure 9).

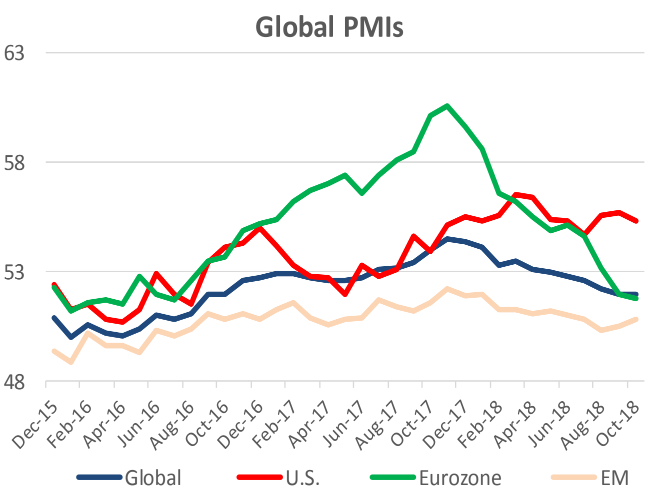
Our 2018 Singapore strategy reports

February 2018: No bond rout
March 2018: Macro nirvana
April 2018: That two-legged tail risk
May 2018: When yield and USD rise
June 2018: A short and long fuse
July 2018: Tail risk to base case
August 2018: Global growth has peaked
September 2018: Guessing the next crisis
October 2018: A new economic cold war

5 Triggers of Turnaround in Flows

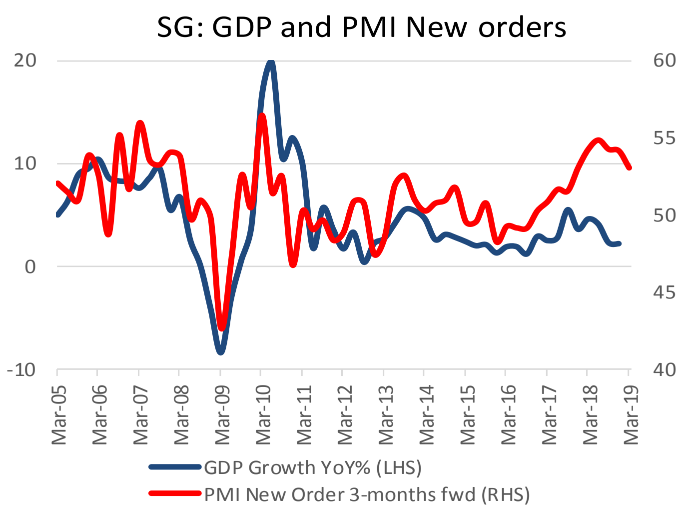
- ✓ Attractive valuations
- ✓ Slower rate hiking cycle
- ✓ Trade truce between U.S.- China
- ✓ US data rolling over
- ✓ Turmoil in U.S. politics

Figure 4: Global PMIs still trending lower



Source: PSR, CEIC

Figure 5: New orders PMI is sliding

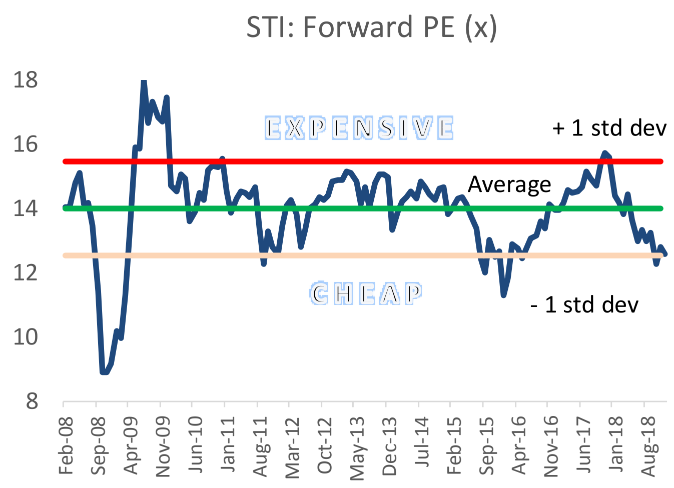


Source: PSR, CEIC

Thirdly, slower economic conditions have tempered the Fed's rate-hike enthusiasm. Commentary is now tilted towards raising rates to its neutral range of 2.5%-3.5% rather than exceeding it. Market expectations are for two hikes in 2019. In the December FOMC meeting, expectations for 2019 inflation and median dot plots have fallen to 1.9% (from 2%) and 2.875% (from 3.1%). The pressure to raise rates has eased. Worry is now on the Fed reducing its balance sheet by US$50bn per month from its initial US$10bn per month target in October 2017. The market is concerned about the effects of this unprecedented quantitative tightening. We are more sanguine. Excess liquidity parked at the Fed by US banks totalling US$1.7tn can potentially absorb the Fed's sale of Treasuries. We doubt the balance-sheet contraction will meaningfully hurt loans growth or money supply in the U.S. More critical is the demand for rather than supply of credit in the U.S.

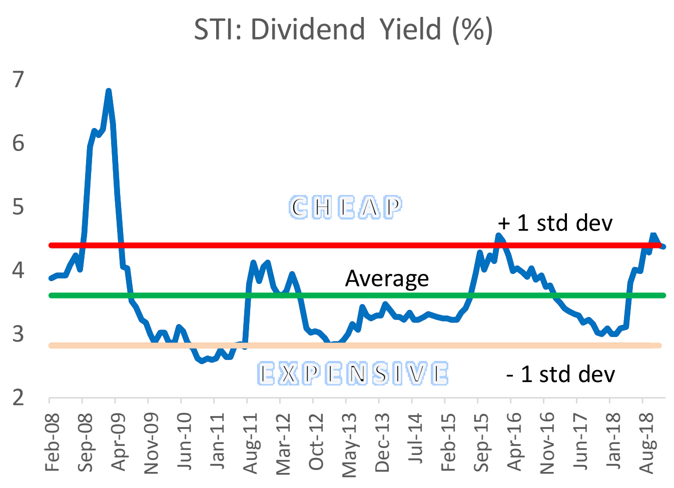
Finally, we expect a negotiated truce between China and the U.S. We are assuming President Trump is not dogmatic but deal-driven. He has reversed many of his hard stances before, from Iran sanctions to war with North Korea. Recall that in August 2017, President Trump declared that any provocation of the U.S. by North Korea would be met with "Fire and Fury". Ten months later, both leaders were shaking hands on TV. Elsewhere, Trump threatened Iran with "consequences…few throughout history have ever suffered before". Less than four months later, the US waived its sanctions for 180 days for major Iranian oil buyers such as China and India. And a month later, it will withdraw troops from Syria. Another reason we expect some trade truce is the approaching 2020 U.S. presidential elections. We think the last thing Trump wants is a disruption to the economy or financial markets, either from the trade war or higher consumer product prices. Trump has repeatedly linked the rally in the U.S. stock market to his Presidency. Another interested party to resolve the dispute with China will be the largest donor to the Republican party and Trump 2016 campaign. He has casinos in Macau.

Figure 6: Valuations attractive on PE



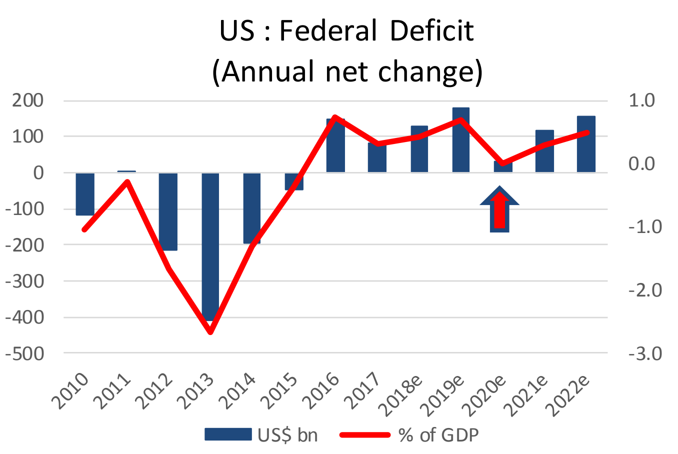
Source: PSR, Bloomberg

Figure 7: …..and dividend yield



Source: PSR, Bloomberg

Figure 8: Fiscal boost will roll-over



Source: PSR, CBO

Figure 9: Expect a slew of investigations

Possible investigations by Committee on Oversight and Government Reform:

1. Trump Tax Returns.
2. Trump Dealings With Russia esp. money laundering.
3. White House staff's personal email use.
4. Use of government property for personal use (or travel).
5. Payments from foreign government to Trump Organization.
6. Family separation policy.
7. Firing of Jeff Sessions as Attorney General.
8. Rebuilding of FBI HQ opposite Trump Hotel.
9. Hush payments to women alleging affairs.

Source: PSR, Various Media

RECOMMENDATION

We advocate a lower-beta equity portfolio for 2019. Until economic data starts to stabilise, our emphasis is on dividend-paying stocks. For our 2019 absolute return portfolio, our top 10 picks - The Phillip Absolute 10 - are:

a) Dividend Yield: Ascendas REIT for yield stability anchored by more than 100 properties. A large part of its portfolio is in resilient business parks or office space and high-tech factories. CapitaLand Commercial Trust is expected to book positive rental reversions from improving demand-supply of office space.

b) Dividend Growth: UOB's attractive dividends should be well supported by its excess capital. Its business is also less exposed to any deceleration in the Chinese economy. SGX's derivatives business is growing by as fast as 20%. Derivatives now account for almost 50% of its revenue, up from 22% in FY11 (Figure 44). Keppel DC is fast expanding its data-centre business through M&As. It can arbitrage the difference in private market yields and its own lower cost of capital.

c) Growth: Geo Energy's coal production should recover in 2019. Sheng Siong is gaining market share and opening a record number of new stores. China Sunsine's healthy earnings growth should be supported by tight supply from China's strict enforcement of environmental regulations.

d) Re-rating: ComfortDelGro's prospects will improve from lower taxi competition and more bus contracts overseas. CapitaLand continuously builds up more recurrent and quality earnings from investment properties and other property asset cum funds under management.

STI target. We cut our STI target twice this year, to 3,400 in October. We maintain this target for 2019. This pegs the market at 13.5x (or around its 10-year average valuation).

Figure 10: The Phillip Absolute 10

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Source: Bloomberg, PSR

2018 Performance Review - Phillip Absolute 10

Our inaugural Phillip Absolute 10 underperformed the STI. The initial drag came from disappointing results and dividends from Asian PayTV. We exited this stock in August. We took profit on DBS and replaced it with OCBC in March. Other stocks in our portfolio that severely underperformed were: (i) Geo Energy - despite healthy coal prices, production and costs were below our expectations; (ii) Micro-Mechanics - the semiconductor down cycle hurt it more severely than expected; (iii) Chip Eng Seng - performed well operationally but cooling measures precipitated a massive de-rating of all property stocks.

Gainers in our portfolio were: (i) ComfortDelGro as competition in taxi industry abate following the exit of Uber; (ii) Banyan Tree, which gained traction from collaboration with new partners Accor and China Vanke.

Figure 11: Monthly moves

	Absolute 10	STI
Jan18	4.9%	3.9%
Feb18	-3.1%	-0.5%
Mar18	-2.7%	-2.6%
Apr18	1.4%	5.4%
May18	-3.1%	-5.1%
Jun18	-4.3%	-4.6%
Jul18	1.5%	1.6%
Aug18	-0.7%	-3.2%
Sep18	1.1%	1.4%
Oct18	-6.1%	-7.3%
Nov18	-1.8%	3.3%
Dec18	-0.5%	-1.6%
YTD	-13.0%	-9.8%
Out/(Under)perf.		-3.2%

Source: Bloomberg, PSR

My Sector Narratives

1. **Commodities – Coal:** 2018 was a disappointment. Production was affected by weather and cost was higher than expected. We exited 2018 with some overstocking at China ports in anticipation of winter demand and avoid a similar shortage of supply last year. For 2019, we expect production to rebound and selling prices resilient as China is still controlling domestic production.

2. **Conglomerate/Utilities:** Demand for power in China was better than expected. India still facing spot prices that are too low to incentivise state electricity boards to sign up longer-term PPA. The weak balance sheet of these state boards remains a structural issue. Singapore still faced with excess power and punitive take-or-pay gas supply contracts.

3. **Consumer:** Despite a recovery in employment for Singapore, consumer spending is still sluggish. Only market share gains and staples registered better-operating performance.

4. **Finance:** Banks reported strong results and performed well in 1H18. The sector was over-owned and most affected by liquidity flows leaving Asian markets especially after cooling measures for Singapore. As the year progressed, there were fewer catalyst. Weak capital markets slowed wealth management income and loans growth have started to decelerate. Entering 2019, banks are clinging on interest margin expansion as key source of growth. But banks are now paying attractive dividends.

5. **Healthcare:** No change in the weak fundamentals stemming from loss of share in medical tourism to Malaysia and Thailand plus loss of share to public hospitals.

6. **Industrial:** Electronic stocks hurt by contraction in volume and lower prices from Apple. 4Q18 will be challenging because the whole supply chain virtually froze or de-risked ahead of Trump-Xi talks in G20 summit. If trade war subsides, we could expect demand to return to the supply chain and the current attract valuations for the sector make them an attractive bet for 2019.

7. **Property:** Even when take-up rates for new projects were healthy, the share prices for developers were sluggish. 2019 will see a rush for the exits by developers so sell as fast and as much as possible before your neighbour launches.

8. **REITs:** Sector performance has been resilient in 2018 despite the constant worries of rising interest rates. Ability of many REITs to hedge the interest rates have provided some comfort to investors. 2019 should be a better year as this rate headwind ease off.

9. **Shipping – Yard:** Just a sector to trade on oil direction. We are still cautious over the fundamentals of this sector. Yard capacity still look excessive and any new jobs aggressively bid up.

10. **Telecommunications:** The arrival of 4th mobile operator into Singapore telco has been well flagged and incumbents have already responded by lowering prices and sacrificing margins. The MVNOs has already carved out whatever price sensitive profit pool in the market.

11. **Transportation:** Competition has structurally lessened with departure of Uber and stricter licensing has reduced the supply of drivers of ride-hailing operators. Downtown Line should start to breakeven, as ridership gains traction.

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Commodities – Coal Mining OVERWEIGHT

- Authorities look to set price controls and supply guarantees in China for 2019
- Indonesia coal sector is suffering from near-term over stocking in China, but its long-term outlook is still upbeat
- Singapore listed coal miners (GEO and GEAR) are expected to grow production by 25% in 2019

2018 Review

The ongoing cut of coal consumption and production in China. According to the 13th Five Year Plan, the authorities in China plan to phase out 800mn tonnes of domestic capacity by 2020. Of which 520mn tonnes was removed 2016/2017. The 2018 target of 150mn tonnes is expected to be met. The balance 130mn tonnes of capacity will likely exit the market by 2019. Therefore, the five-year target could be met a year in advance. Meanwhile, "Battle for a blue sky", the three-year action plan for air pollution released by the State Council in Jul-18, reinforced the targets to curb both coal production and consumption. However, driven by the strong demand for electricity and the slow growth of hydro power supply, thermal coal supply continued to grow amid the wax and wane between domestic production and import. Total coal import to China came in at 271.2mn tonnes (up 9.3% YoY) in 11M18, surpassing 2017 full-year volume of 270.9mn tonnes. Domestic coal production totalled 3.2bn tonnes (up 5.4%) in 11M18. Even though the authorities have been restricting coal imports, the impact was more on the price side rather volume.

Buoyant coal price but a new policy in Indonesia. Indonesia coal market continued to enjoy strong internal and external demand in 2018. Coal export from Indonesia surged by 11% in 9M18. In Sep-18, the authorities raised the production target from 485mn tonnes to 507mn tonnes in 2018. The new domestic market obligation (DMO) enacted early in 2018 caused some headwinds due to a price cap of US$70/tonne (on FOB Vessel basis) for the supply to power sector for the public interest.

Outlook

China: Price control and guarantee of supply are the main themes in 2019. In Nov-18, National Development and Reform Commission (NDRC) ordered electricity companies to sign medium to long-term coal procurement contacts with coal miners to fix 75% of coal purchase (not below the amount secured in 2018). Meanwhile, NDRC encouraged both parties to secure the deals with fixed prices and volumes that last for at least two years. China has been accumulating coal stockpile since 3Q18 in preparation of expected higher demand in winter. The latest coal inventory levels at the ports remained at elevated levels, referring to Figure 17. Therefore, we believe that the supply and demand dynamics will be more stabilise in 2019 and price volatility narrower than in 2018.

Indonesia: Suffering from near-term over-stocking but sound fundamentals is unchanged. The average cash cost for the coal ranges from US$25/tonne to US$35/tonne. The recent price (e.g. 4,200 GAR: US$35/tonne) makes production close to breakeven levels especially the low calorific value (CV) coal miners. The sector will continue to suffer from low selling prices until China relaxes import restrictions. The price correction could last till 1Q19 which is a peak season for coal. However, other importers such as India, Korea, and Japan are still opened to Indonesia coal. India, in particular, increased coal imports by 10.6% YoY to 129nm tonnes in 8M18, of which 50mn tonnes were from Indonesia. Therefore, Indonesia remains the indispensable source of supply of low CV coal in the APAC region. Meanwhile, the authority will continue to boost the domestic coal demand aligning with the 35GW electrification programme. According to the electricity supply business plan (RUPTL) for the period of 2018-2027, 58 greenfield coal-fired power plants are due to come online in the period to 2027. Coal-fire capacity will more than double from 24 GW in 2018 to 51GW in 2027. Consequently, domestic coal consumption is estimated to double from 83mn tonnes in 2018 to 157mn tonnes in 2027. With a robust consumption, we expect 4,200 GAR coal price to hold steady at US$40/tonne in 2019.

Recommendation

Our top pick is Geo Energy Resources. The sales target for 2019 will increase to 10mn-13mn tonnes compared to 7mn-8mn tonnes in 2018. The ramp-up of production will be mainly from recently acquired TBR mine, which will commence operation in 3Q18. The successful refinancing of its US$100mn MTN due in Jan-18 cleared a major overhang in the share price. The company is actively seeking new coal mines to deploy this cash. Besides, the dual primary listing in HKEX is expected to be completed in 2Q19. As of now, the PER of Geo is c.6.0x which is lower than the average regional peers of c.10x. Besides, the company is trading at a dividend yield of 11.7% based on the price of S$0.17. Thus, we feel the stock is undervalued.

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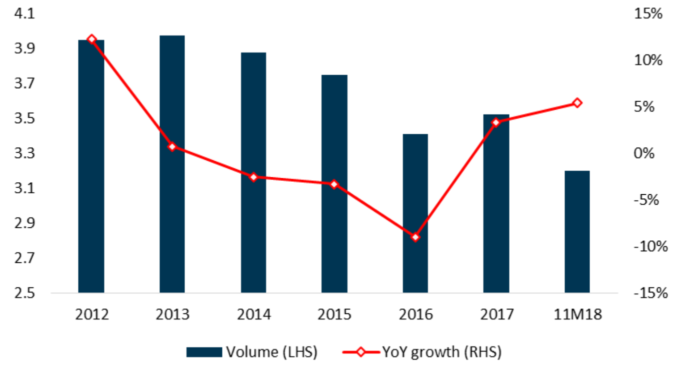
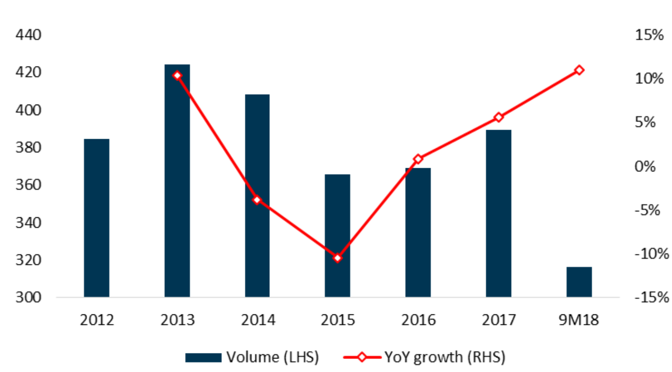
Figure 12: Annual coal production in PRC slowing down



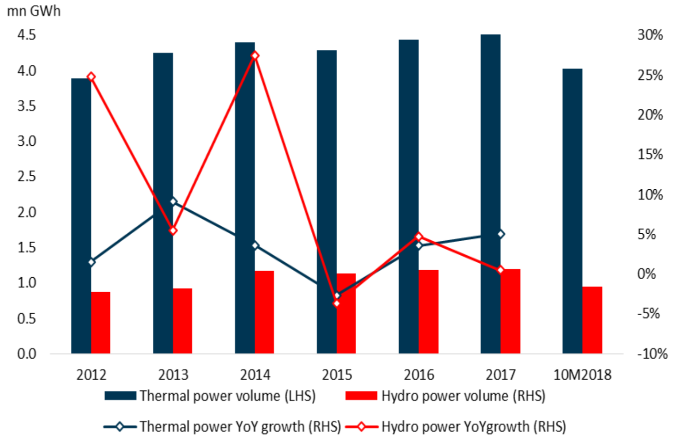
Source: National Bureau Statistics of PRC, PSR

Figure 13: Indonesia coal export substantially grows



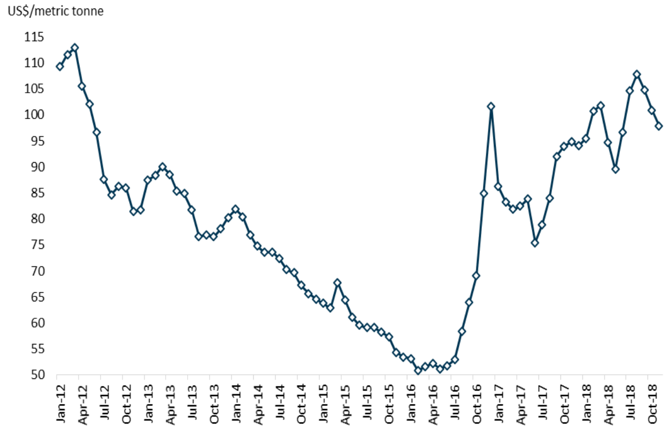
Source: Source: Central Bureau of Statistics, PSR

Figure 14: China power demand continues to expand YoY



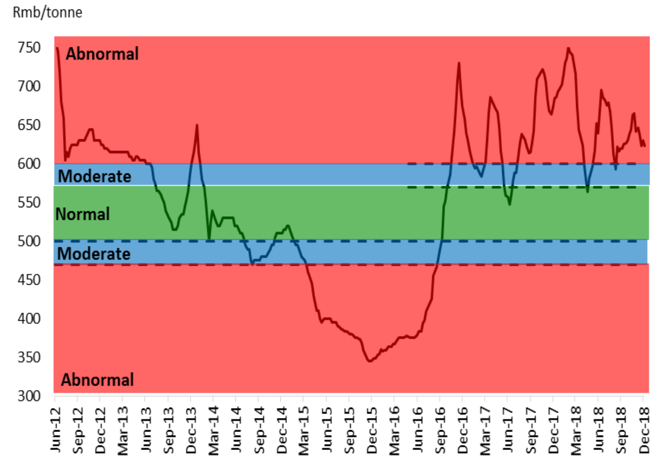
Source: National Bureau Statistics of PRC, PSR

Figure 15: Indonesia coal price reference (HBA)



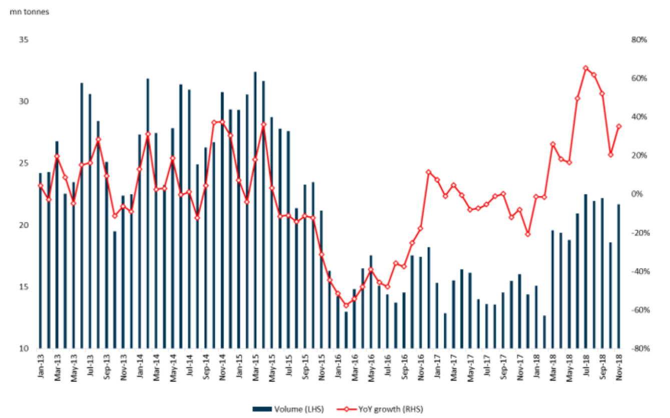
Source: Coalspot.com, PSR

Figure 16: Qinhuangdao 5,500 GAR weekly FOB spot price



Source: Bloomberg, PSR, NDRC price zones (red/blue/green)

Figure 17: Total port coal inventory remains at an elevated level



Source: Bloomberg, PSR

Conglomerate – Utilities NEUTRAL

- Power demand weakens while rectification of water segment continues in China
- Increasing power demand amid buoyant tariffs in India
- A full open retail electricity market in Singapore in 2019

2018 Review

China: Stable growth for electricity but a setback for water. The growth of power generation volume in 11M18 was 6.9% YoY. This is the best growth rate in 5 years. Respectively, the growth of thermal and hydro power was 6.9% YoY and 4.4% YoY during the period. Apart from the support of the stable economy, the extension of winter and summer season led to higher than expected demand for power. The authority has been tightening the environmental protection (EP) sector over the past two years by mandating a "clean-up" of the PPP project library. According to the Ministry of Finance in China, the PPP Center indicated that the Integrated Information Platform showed the removal of 2,428 projects from the library with a total investment of RMB2.9tn as of Oct-18. The clean-up will leave more room for the quality projects for the larger companies.

India: Increasing demand for electricity but suffering from thin spark spread. In 11M18, the total demand for power grew by 6.7% YoY to 1.17mn GWh in India. The operating power capacity only expanded 1.5% to 274.6k MW as of Nov-18, and 57% of which was from thermal power. The average market clearing price of electricity in 11M18 rose around 31%. This is a similar increase of coal prices (New castle port 6,000 GAR as a proxy) during the same period. Therefore, the upswing of both demand and feedstock prices pushed spot tariff higher, but the spark spread (i.e. power margins) remain narrow.

Singapore: competition within the power sector remained intense. In Apr-18, Energy Market Authority commenced the soft launch of Open Electricity Market (OEM) where households and businesses in Jurong can choose to buy electricity from a retailer at a price plan discretionally. OEM began to be extended to all consumers across Singapore by zone from Nov-18. The overall demand for power only lifted by 2.3% YoY in 9M18. The average power reserve margin* slightly dropped from 95% in 2017 to 92% in 10M18. Therefore, an excessive supply of power remained in 2018. The spark spread was below 5-year average level this year.

**The minimum requirement of reserve margin in Singapore is 30%.*

Outlook

China: power demand weakens while rectification of water segment continues. US-China trade tension started in Jun-18 and is expected to prolong into 2019. Full impact of a slow-down will be realised in 2019. China GDP growth will slow down to lower than 6.5%. Accordingly, the growth of demand for power in 2019 is expected to be lower than in 2018. The near-term coal price correction will benefit thermal power companies by lifting margins. Hydro power demand growth in 2019 will be comparable to that in 2018. The clean-up of PPP projects will continue in 2019. Industrial leaders with adequate funding will be benefited by taking over cheap and quality assets.

India: increasing power demand amid buoyant tariffs. "Power for All" is still on track in India and the authorities will continue to improve the infrastructure within the power sector. The strong demand for power can support spot tariffs which corrected in 4Q18 (44% drop from the peak). The relatively high spot rate will be an incentive for power companies and distribution companies to lock in longer-term power purchase agreements.

Singapore: a full open retail electricity market in 2019. According to the rollout plan from EMA, the last zone to launch the OEM programme will be in May-19. Accordingly, it marks that the retail power market is fully liberalised. There will be 700MW of generation capacity to retire in 2019. Projected reserve margin is estimated to fall to 74%. The projected CAGR of electricity demand over the period from 2019 to 2029 is expected to be between 1.4% and 2%. Therefore, the intense competition will persist in 2019.

Recommendation

Our top pick in the utilities sector is China Everbright Water (CEWL). The clean-up mandate is expected to benefit the industry and CEWL in the long run because the quality projects will survive and thrive while the unstainable projects (overleverage, low return, and falsified reporting) will be removed from the market. CEWL has been maintaining good quality control in project acquisitions and operations. As of 3Q18, the group's daily designed capacity reached 5mn+ tonnes which are expected to ramp up annually by 10% to 20%. Moving forward, the group will actively explore and expand to regional markets such as Pearl River Delta and Great Bay Area.

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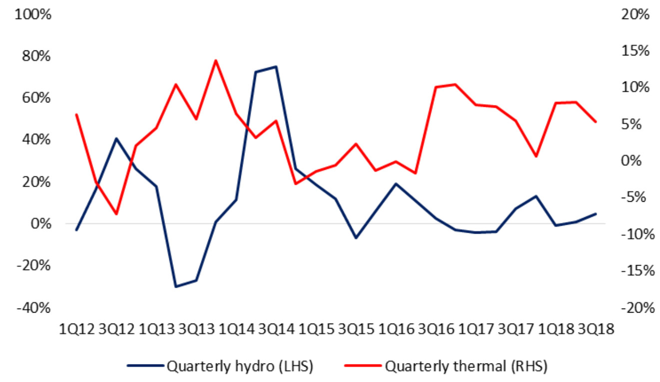
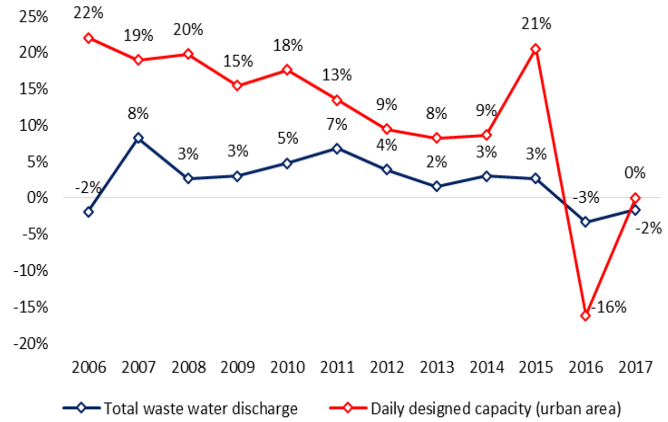
Figure 18: China hydro and thermal power production YoY growth



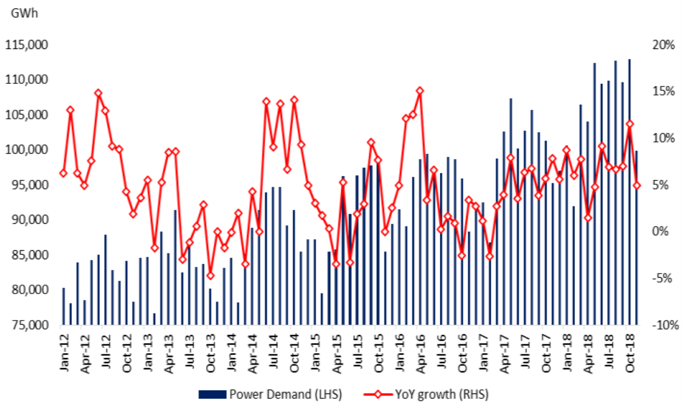
Source: National Bureau Statistics of PRC, PSR

Figure 19: Wastewater treatment sector under rectification



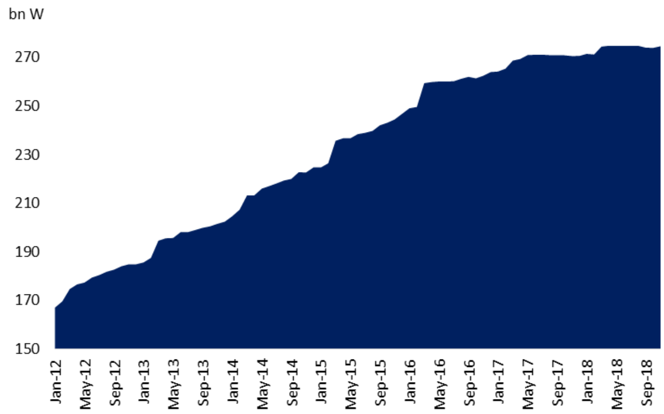
Source: Ministry of Environmental Protection of the PRC, PSR

Figure 20: Increasing power demand in India



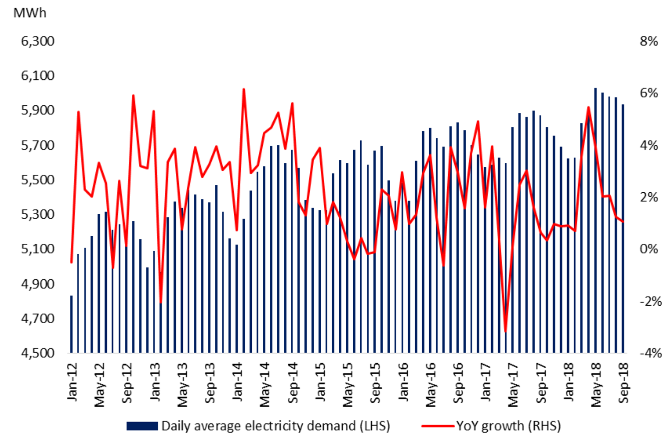
Source: Central Electricity Authority, PSR

Figure 21: Growing installed electricity capacity in India



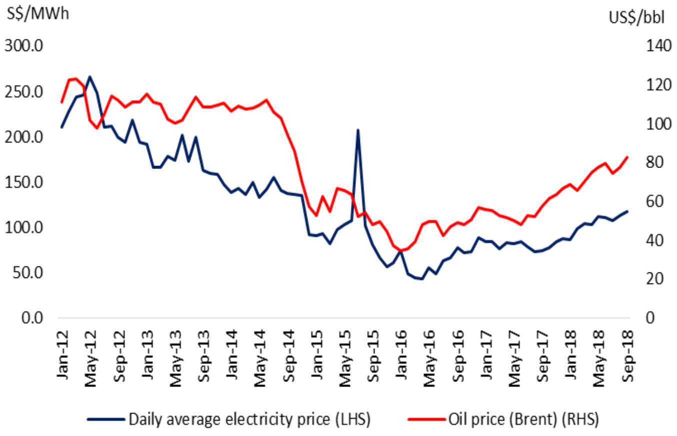
Source: Central Electricity Authority, PSR

Figure 22: Stable growth of power consumption in Singapore



Source: Energy Market Company, PSR

Figure 23: Higher raw material costs drive power price upward



Source: Energy Market Company, Bloomberg, PSR

Consumer OVERWEIGHT

- Retail Sales Index ex-Motor Vehicles is up 1.5%. This is below 2017's 1.8% rise.
- Wage growth of almost 4% together with a 1% rebound in employment will be supportive for consumption.
- Thai Beverage revenue has been hurt by sluggish farm incomes in Thailand. This is the core customer base for brown spirits.
- We have an Overweight on Singapore Consumer Sector.

2018 Review

Consumer spending has been sluggish this year. Retail sales (excluding MV) is up 1.5% this year (2017+1.8%). If we include motor vehicles, retail sales in Singapore was flat in 2018 (2017 +2.3%). By categories, watches and furniture were the best performing in 2018, up 3.9% and 4.3% respectively in 2018. Dining outside did not fare well in 2018. Restaurant and other eating places (coffee shops, food courts) were both down 0.4% and 0.1% respectively.

Outlook

With wages rising 3-4% this year together with employment growth of 1% (2017: -0.1%), we can expect strong consumption spending. The recovery in total jobs by 1.2% YoY in September 2018 quarter is the fastest in nine quarters. Despite the slower sales, most consumer names have been able to raise the margins. Key driver to margin growth has been rising scale especially investments into centralised warehouses or distribution centres.

With regards to Thailand consumers, it has similarly been a tough year. Farm incomes have been improving marginally but not sufficient to stroke up volume growth for Thai Beverage especially in their core brown spirits category. We expect a moderate improvement for Thai Beverage in 2019. Latest data points suggest beers sales have rebounded (Figure 29) and the upcoming elections on 24 February will create an extra "stimulus" for the consumers.

Recommendations

We Overweight the Singapore Consumer Sector due to our ACCUMULATE and BUY recommendations for Sheng Siong and Old Change Kee. We still have SELL recommendation on Thai Beverage as we expect December quarter results to be weak.

- **Sheng Siong (ACCUMULATE/TP: S$1.13)** is capturing market share from malls and other supermarkets (Figure 25). The record expansion in 2018/19 will be major revenue and earnings drivers for the company. The company has been able to report record high margins over the past six years due to higher contribution of fresh products. Sheng Siong operates with a net cash balance sheet and ROE of 25%.

- **Old Chang Kee (Buy/TP: S$0.98)** has undergone a major restructuring of its operations with a new factory to improve efficiency and further automation. The new plant has also improved their ability to launch more innovative products. Recent results have reflected this increase in profitability and sales.

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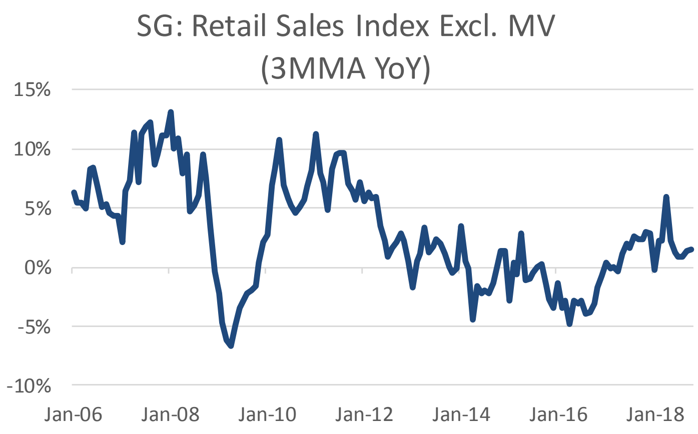
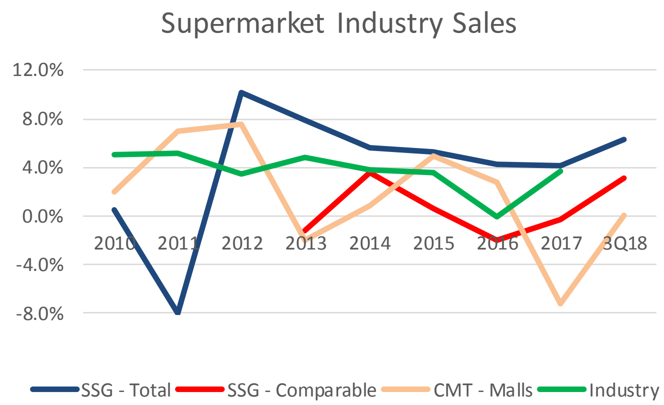
Singapore Consumer Tracker

Figure 24: Retail sales sluggish



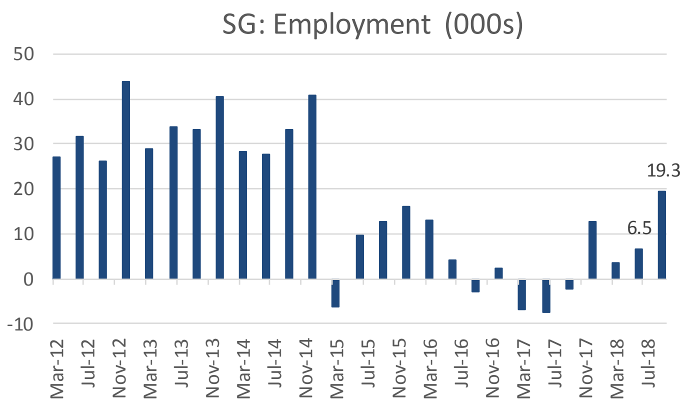
Source: CEIC, PSR

Figure 25: Sheng Siong (SSG) capturing market share



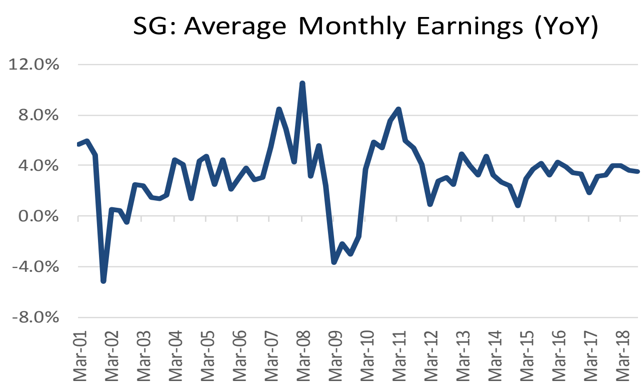
Source: CMT, Sheng Siong, CEIC, PSR

Figure 26: Strongest jobs gains in 15 quarters



Source, CEIC, PSR

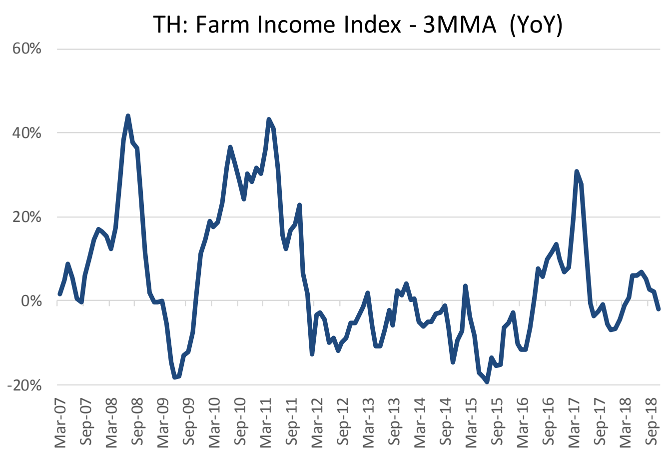
Figure 27: Wages rising 3-4%



Source, CEIC, PSR

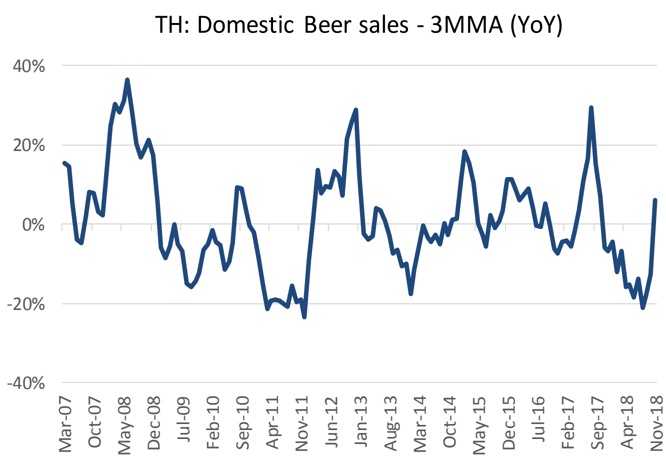
Thailand Consumer Tracker

Figure 28: Farm incomes still weak



Source: CEIC, PSR

Figure 29: Recovery in beer consumption



Source: CEIC, PSR

Finance OVERWEIGHT

- NIM expansion to continue as interest rates rise. There will be a lag especially for fixed-rate loans to reprice. Hence even with a pause in rate hikes, the rise in interest rates will continue to flow-through for the next few years.
- Loan growth to moderate to mid-single-digit pace in 2019 as compared to high single-digit in 2018.
- Credit costs to increase mildly from a low in 2018 but overall asset quality to remain stable. SME loan portfolio the initial source of any deterioration in credit quality.
- Non-interest income to moderate as capital market and investor sentiment swing more into a risk-off mode in 2019.
- We maintain **BUY** for the Singapore Banking Sector.

2018 Review

The first half of 2018 saw the banks' share prices peak in April due to expectations of higher NIM, strong loan growth and lower provisions. Loan growth was led mainly by business and mortgage loans. Building & Construction loan growth picked-up in 1H18 and accelerated in 2H18 due to the drawdown of loans for En bloc and new developments. NIM growth was strong during the year with higher pass-through of interest rates as 3-month SIBOR and SOR rose 50bps and 48bps respectively in 1H18. Weaknesses in loan quality within offshore oil and gas and SME loans has been settled and dealt with in 2017 and early 2018, resulting in extremely low credit costs during the year.

The second half of 2018 saw the banks' share prices take blows from trade war uncertainties, property cooling measures and other global economic events and is now trading near 1 S.D. below 5-year average P/BV ratio. Some banks were clamouring for deposits to shore up their funding positions as interest rates kept climbing higher. Total fixed deposits in the Banking Sector rebounded in September, stimulated by a rebound in deposit growth by government & statutory authorities and non-bank financial institutions. NIM improved across the banks as interest rates enjoyed high pass-through rates with December YTD increase of 76bps for both 3-month SIBOR and SOR. Despite the strengthening economy, the offshore oil and gas sector continues to be marred by low day rates as the travails of the oil and gas sector looks more structural than cyclical. Our FY18e earning has only been trimmed by 1.4%. Earnings have not disappointed.

2019 Outlook

We continue to expect NIM expansion because of firmer pass-through of rising interest rates. Recent commentary from the Federal Reserve suggests we are coming closer to a pause in the interest rate hiking cycle. There is a risk that lesser rate hikes and softer than expected pass-through of interest rates in 2019 could cut short our NIM expectations. Higher funding costs to be expected with the banking sector facing higher competition amidst ample liquidity, especially in pricier fixed deposits (39.0% of total deposits in October); which will result in a squeeze in NIM, albeit in the near term. However, loan repricing will continue to lift loan yields faster than funding costs. With loans pegged to floating and fixed rates taking months and years respectively to reprice, we will continue to see NIM expansion even if there is a pause in interest rate hikes. Hence a large proportion of the rise in interest rates has yet to flow into Singapore banks' books with more expected to flow-through in 2019 and beyond. We expect to see more uplift and pronounced lag in NIM expansion as the fed continues to raise interest rates.

Loan growth expected to moderate at mid-single-digit pace in 2019. With the property cooling measures in place, we expect loans for new property projects and mortgage loans to trend downwards in 2019. Negative sentiments and the onset of punitive measures from the trade war could dampen global economic outlook, thereby weakening business loan growth. Exposure to Greater China will be a source of deceleration stemming from an economic slowdown in China and a volatile trade war. DBS, UOB and OCBC have loans exposure to Greater China and Hong Kong of 31%, 15% and 26% respectively as of 3Q18. UOB is the least exposed to Greater China and Hong Kong due to the presence of Wing Hang bank for OCBC and Dao Heng bank for DBS in Hong Kong.

Overall asset quality to remain healthy although SME loan portfolio might face slight pressure as interest rates rise. The banks are monitoring the SME portfolio for any broad-based deterioration in asset quality, adopting stress tests based on various trade war and interest rate scenarios and are ready to make necessary provisions to avoid lumpy provisions we saw in 2017. We are less worried about the loan quality of the mortgage book as it is well protected by the heightened ABSD rates and tightened LTV ratio in July. Competition for mortgage loans should also keep mortgage pricing in check.

Non-interest income growth to moderate in 2019. The concentration of wealth in Singapore continues to grow and should support the wealth management businesses for years to come while investors' risk-off mode is expected to dampen trading income in 2019. Singapore stands out as a wealth management centre in SE Asia. According to Capgemini Financial Services Analysis, in 2017, APAC contributed US$21.6T to the global HNWI, (equivalent to 41.4% of global HNWI wealth) with Singapore contributing US$633bn, growing 12.8% YoY. There is more room for the banks' wealth management business to thrive with DBS acquiring ANZ's retail and wealth management business in 2018 and OCBC acquiring NAB's private wealth business in 2017. DBS, UOB and OCBC's wealth management business currently contributes 20%, 29% and 9% respectively to their 9M18 total revenue.

Recommendation

We are re-iterating OVERWEIGHT on the Singapore Banking Sector and including it as one of 2019's top picks. Despite expectations of slower loan growth in 2019 due to rising interest rates and punitive impacts from the trade tariffs, the banks provide the best exposure to rising interest rates and NIM will still be on a positive trajectory. There is also dividend yield support of c.5% for the sector. Due to various headwinds in 2019, we have reduced our earnings estimates for the banks by an average of 10.5% for FY2019e.

Our top pick from the Singapore Banking Sector is **UOB** because of (i) continued NIM expansion as interest rates rise in its key markets, (ii) greater potential for higher dividends based on robust capital position and (iii) least exposed to trade war effects from Greater China and Hong Kong.

Figure 30: Peer comparison

	PSR	Market Cap	Forward P/E			Forward P/BV			Dividend Yield (%)		ROE (%)			Share	Target	Upside	YTD
Stock	Recommendation	(S$mn)	Yr0	Yr1	Yr2	Yr0	Yr1	Yr2	Yr1	Yr2	Yr0	Yr1	Yr2	Price (S$)	Price (S$)	(%)	(%)
DBS	Buy	60,703	14.5	10.7	9.7	1.34	1.27	1.19	5.0	5.2	9.5	12.1	12.6	23.79	29.02	0.22	0.42
OCBC	Buy	47,898	12.7	10.1	9.5	1.37	1.16	1.07	3.9	4.2	11.0	11.8	11.8	11.27	13.70	0.22	0.09
UOB	Buy	41,026	13.3	10.3	9.6	1.30	1.13	1.07	4.9	5.1	10.2	11.2	11.4	24.63	32.52	0.32	0.24
Market Cap Weighted Peers' average:			**13.6**	**10.4**	**9.6**	**1.3**	**1.2**	**1.1**	**4.6**	**4.8**	**10.2**	**11.8**	**12.0**				

Source: Bloomberg, PSR

Figure 31: SGX's peer comparison

Stock	Currency	Last Price	Market Cap (USDmn)	P/E Yr 0	Yr 1	Yr 2	P/B Yr 0	Yr 1	Yr 2	EV/EBITDA Yr 0	Yr 1	Yr 2	Dividend yield (%) Yr 1	Yr 2	ROE (%) Yr 0	Yr 1	Yr 2
Asian Exchanges																	
SINGAPORE EXCH	SGD	7.2	5,609.8	21.2	20.4	19.1	8.1	7.0	6.7	14.0	13.6	12.9	4.3	4.5	38.7	34.3	35.7
HKEX	HKD	226.6	36,173.9	39.8	29.9	27.4	7.1	7.1	6.8	5.5	5.5	5.0	3.0	3.3	25.0	24.3	25.5
BURSA MALAYSIA	MYR	6.8	1,336.0	24.4	23.8	23.1	7.3	6.8	6.8	11.7	10.7	10.4	4.9	4.3	28.8	27.6	28.9
JAPAN EXCHANGE G	JPY	1,779.0	8,705.1	20.9	18.8	18.7	3.5	3.2	2.9	10.3	10.6	10.3	3.2	3.2	19.4	18.1	16.8
ASX LTD	AUD	60.2	8,203.6	28.0	24.2	23.3	3.0	2.9	2.9	3.3	3.2	3.1	3.7	3.9	11.3	12.1	12.4
US and European Exchanges																	
LONDON STOCK EX	GBP	4,062.0	18,028.5	24.7	23.7	20.5	4.1	3.9	3.4	15.2	14.4	12.9	1.5	1.7	18.7	16.9	17.1
DEUTSCHE BOERSE	EUR	105.0	22,841.8	20.7	20.1	17.6	4.0	3.9	3.6	14.5	13.4	12.0	2.5	2.8	18.8	19.4	20.9
EURONEXT NV	EUR	50.3	4,033.3	14.9	15.0	13.9	5.0	4.4	3.8	11.5	10.1	9.5	3.1	3.5	40.6	30.5	29.1
CBOE GLOBAL MARK	USD	97.8	10,976.7	49.9	20.7	19.8	3.5	3.4	3.3	16.2	15.1	14.5	1.2	1.3	17.9	16.7	16.8
CME GROUP INC	USD	188.1	67,302.0	27.2	28.1	25.7	2.7	2.9	2.9	25.6	23.2	20.4	2.9	3.0	20.5	9.5	10.3
NASDAQ INC	USD	81.6	13,374.0	19.2	17.0	15.6	2.4	2.4	2.2	13.5	13.0	12.2	2.1	2.3	13.2	13.2	14.0
INTERCONTINENTAL	USD	75.3	42,906.8	24.1	21.2	19.3	2.6	2.5	2.4	16.4	15.8	14.5	1.3	1.4	15.9	11.6	12.0
Market Cap Weighted Peers' average:				**27.8**	**24.2**	**22.1**	**3.8**	**3.8**	**3.6**	**16.1**	**15.0**	**13.6**	**2.4**	**2.6**	**20.0**	**15.6**	**16.3**

Source: Bloomberg, PSR

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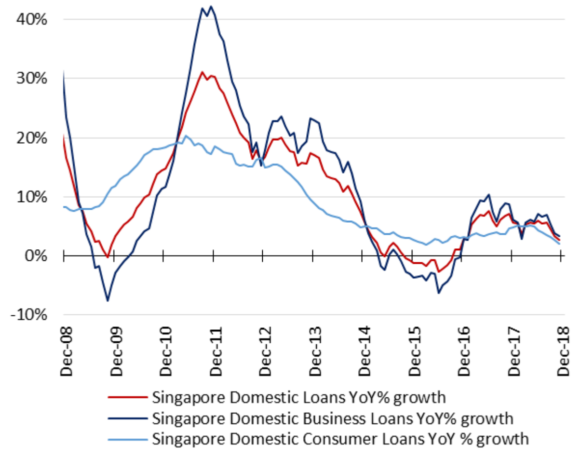
Figure 32: Singapore domestic business loans continue to lead growth while we expect Singapore's loan growth to continue to slow in 2019.

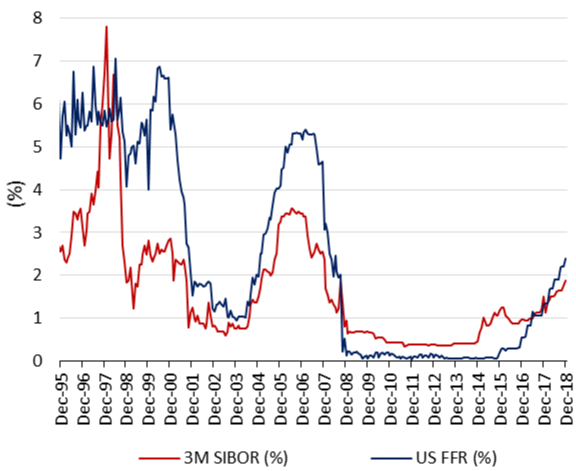


Source: MAS, PSR

Figure 33: Hong Kong's domestic loan growth has been slowing down due to rising interest rates and trade tensions.

Source: CEIC, PSR

Figure 34: The correlation between 3-month SIBOR and US Fed Funds Rate is strengthening.

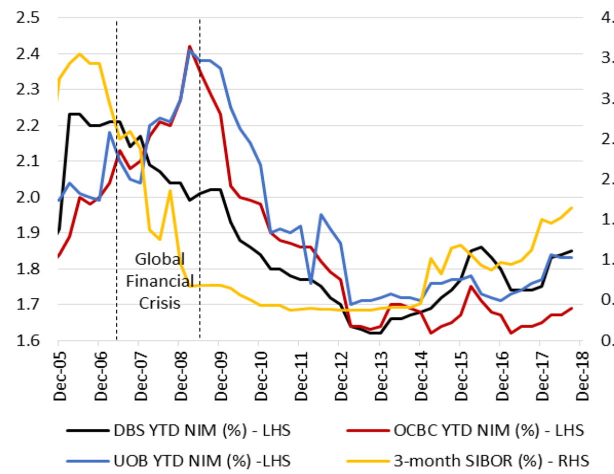


Source: CEIC, PSR

Figure 35: 3-month SIBOR and 1-month SIBOR have both risen by c.76bps YTD as of December.

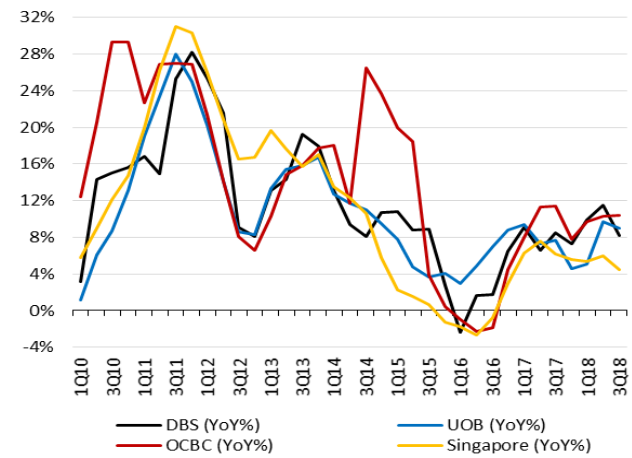
Source: MAS, PSR estimates

Figure 36: NIM of the banks are on an upward trajectory, in line with rising 3-month SIBOR.



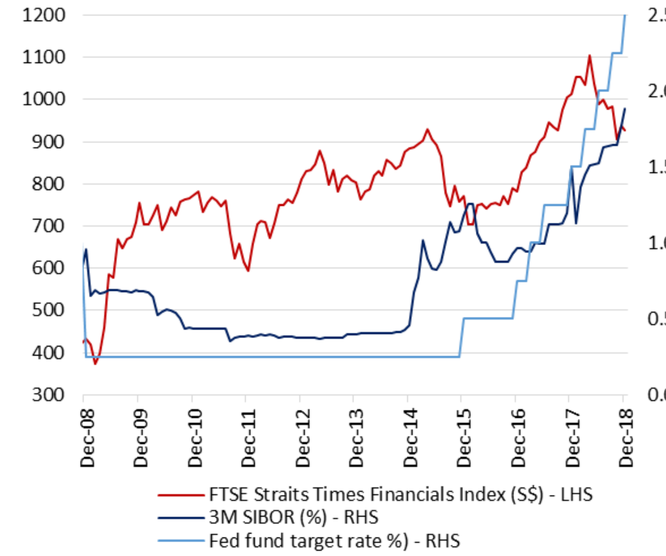
Source: CEIC, Bloomberg, PSR

Figure 37: Loan growth has been slowing down.



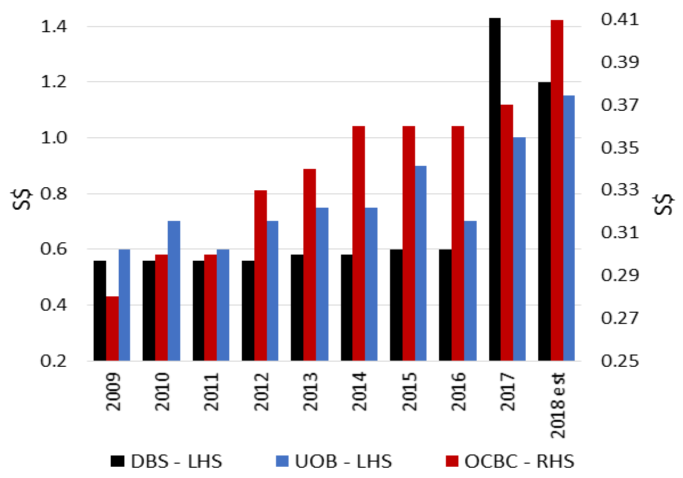
Source: CEIC, Companies, PSR

Figure 38: Rise in interest rates usually benefits banks' earnings due to loan repricing.



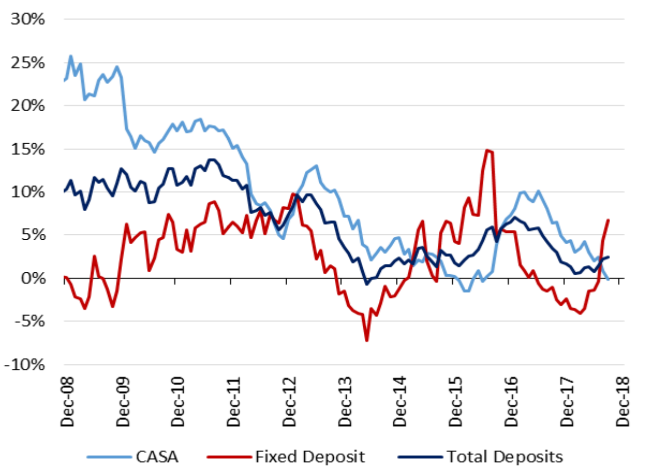
Source: Bloomberg, PSR

Figure 39: In a volatile equity market, the banks continue to be strong dividend growth stocks.



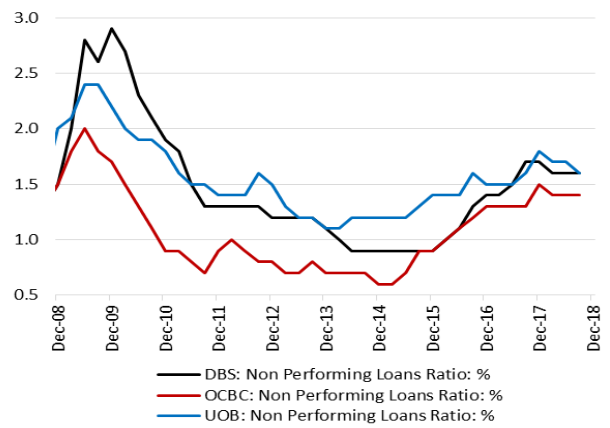
Source: Companies, PSR

Figure 40: Fixed deposits in 2H18 spiked higher than the ten-year average growth of 2.8% YoY.



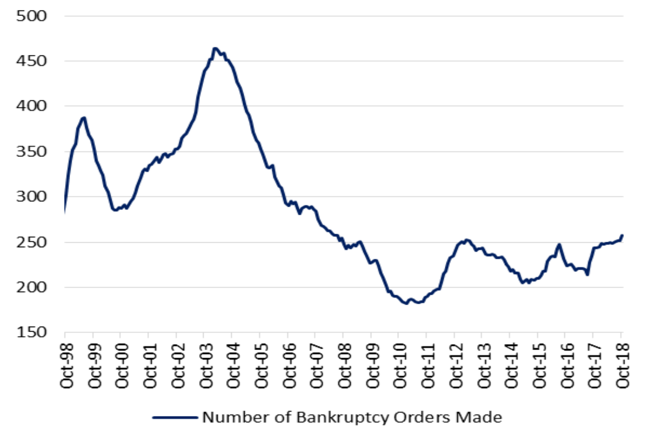
Source: CEIC, PSR

Figure 41: NPL ratio for the three banks has stabilised in 2018 after peaking in 2017.



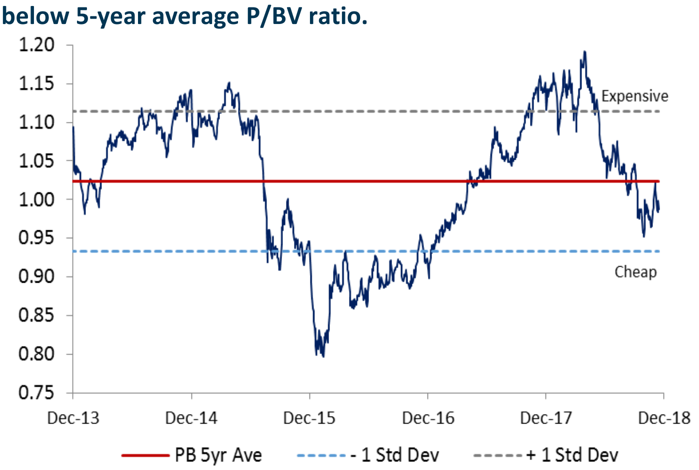
Source: CEIC, PSR

Figure 42: Singapore's bankruptcy orders are on a declining trend.



Source: CEIC, PSR

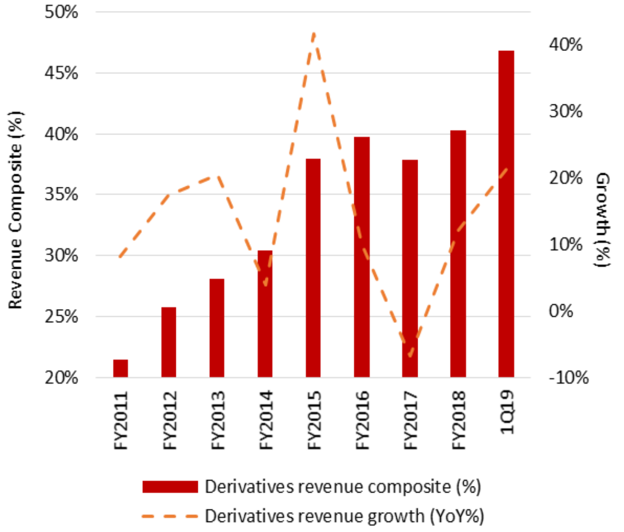
Figure 43: FTSE Financial Index is cheap, trading near 1 S.D. below 5-year average P/BV ratio.



Source: Bloomberg, PSR

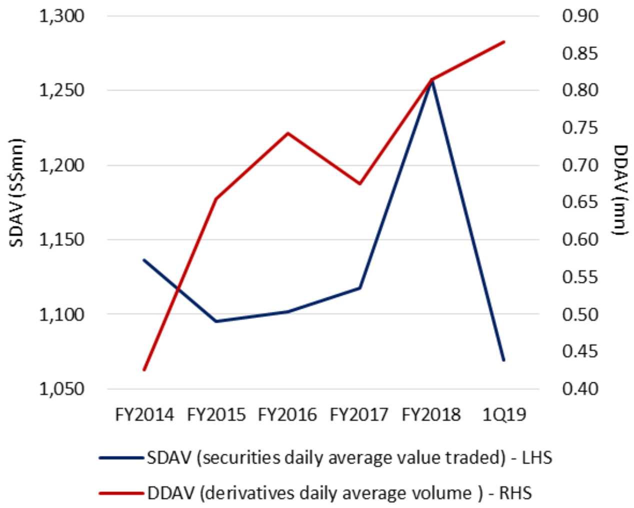
SGX Charts

Figure 44: SGX's derivatives revenue has risen from 22% to almost 50% of total revenue.



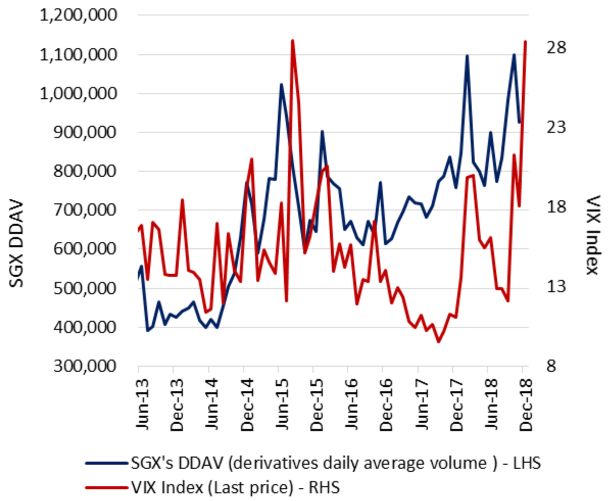
Source: SGX, PSR

Figure 45: SGX'S derivative business will support earnings when securities business is slowing.



Source: SGX, PSR

Figure 46: SGX's derivatives daily average volume has been increasing in line with higher volatility in the VIX Index.



Source: SGX, PSR

Healthcare NEUTRAL

- Slower patient load to be expected from both local and foreign customers.
- An ageing Singapore population will see increased demand for healthcare services.
- Private healthcare companies expanding into overseas market and specialty areas to remain competitive.
- We maintain Healthcare Sector at **NEUTRAL**.

2018 Review

The Singapore Healthcare Sector continues to be hit by slower patient load as global economic uncertainties shunned both local and foreign patients from private healthcare services. Singaporeans are also shifting from private to public healthcare service as well as trend involving more patients preferring outpatient care to inpatient care. All these factors pressured volumes downwards in 2018. However, in 2018's volatile equity environment, the FTSE Healthcare index is the only index to register a positive YTD growth and outperformed the STI index.

2019 Outlook

We expect the slowdown in Singapore's medical tourism to continue. Increasing availability of stronger medical capabilities in regional rivals and the strengthening Singapore Dollar has been eroding Singapore competitive advantage. Medical tourism in Singapore is now more expensive and less attractive to foreign patients. As a result, many healthcare companies such as Raffles Medical Group have been casting their expansion plans overseas to diversify their portfolio. However, the high standards of medical service quality of the Singapore Healthcare sector and the regional diversification should help the Healthcare sector to ride out these headwinds.

Competition from Public Healthcare. Hospital beds from the private, public and not for profit sectors make up 10%, 80% and 10% respectively of the total hospital beds in Singapore. New and upcoming public hospitals in the next five years include the Sengkang General and Community Hospital, Outram Community Hospital, Integrated Care Hub, and Woodlands General Hospital will be an addition of 3,200 acute hospital beds and 1,050 community hospital beds.

The Ministry of Health introduced fee benchmark for the private healthcare sector on 13 November 2018 to provide greater pricing transparency and tackle rising healthcare costs. We do not expect the fee benchmark to have a significant impact on the healthcare stocks under our coverage because of their existing pricing transparency and the cost of their procedures are between the mid to high ends of the industry price range.

Notwithstanding the above, brighter global economic prospects should uplift consumer's sentiment and thus encourage patients to seek quality healthcare services. Long-term structural drivers such as rising affluence and ageing Singapore population remain intact.

Recommendation

We maintain the Singapore Healthcare Sector at **NEUTRAL** on near-term headwinds in Singapore and lowered our earnings estimates for the healthcare stocks under our coverage by an average of 21.7% for FY2019e.

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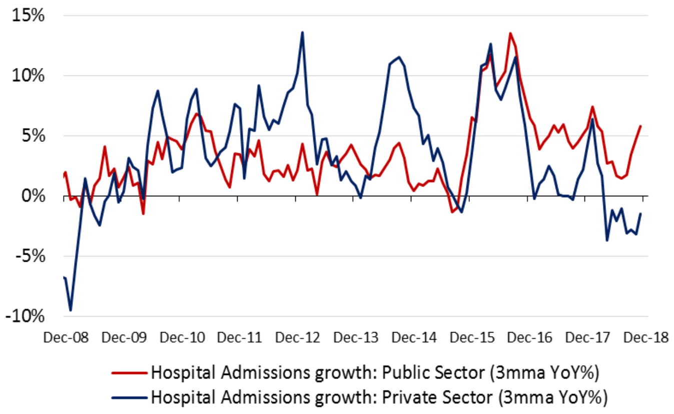
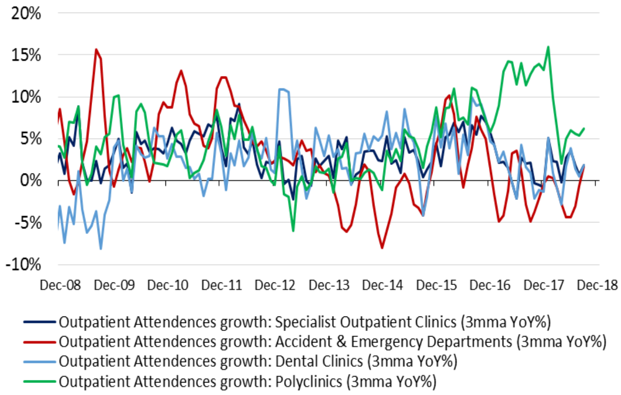
Singapore Healthcare Tracker

Figure 47: Singapore's private hospital admissions faces pressure from weak medical tourism as well as competition from public healthcare.



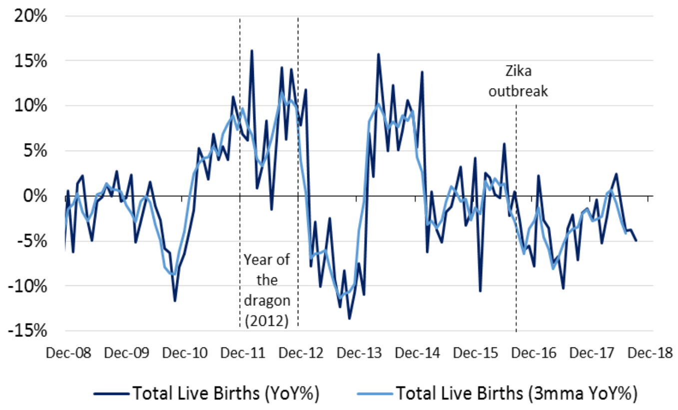
Source: CEIC, PSR

Figure 48: Cautious consumers shifting to Polyclinics



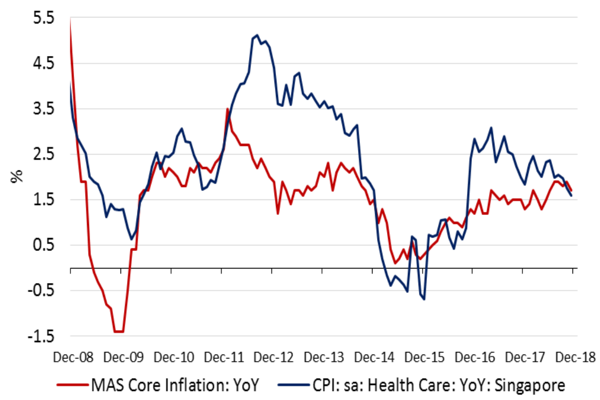
Source: CEIC, PSR

Figure 49: Singapore's birth rate is still recovering



Source: CEIC, PSR

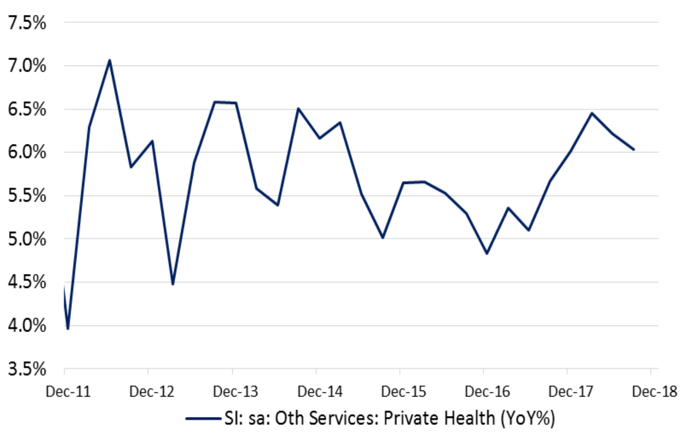
Figure 50: Healthcare costs remain elevated in Singapore



Source: CEIC, PSR

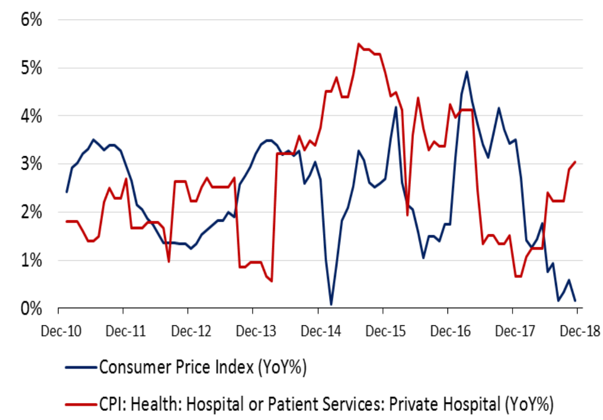
Malaysia Healthcare Tracker

Figure 51: Demand for private healthcare remains robust



Source: CEIC, PSR

Figure 52: Improved healthcare affordability has helped price-sensitive patients switch back to private healthcare.



Source: CEIC, PSR

Property Developers NEUTRAL

- Singapore developers' share prices recorded a negative total return of -13.1% in 2018, with sentiment largely dampened by the July cooling measures and subsequent minimum unit size guidelines announced in October.
- We expect the pace of transactions to slow and developers to cut their margin expectations.
- Our expectations for private residential price is a -1% in 2019, relatively stable by virtue of the higher land prices that had progressively already been locked in.
- We downgrade our view on the SG Property Developers sector to **NEUTRAL**, with selective picks on diversified players such as CapitaLand.

2018 Review

July 6 was no doubt a day of despondence for both developers and individual homebuyers/owners alike. A surprise double-barrelled shelling of higher Additional Buyers' Stamp Duties (ABSD) and stricter Loan-to-Value (LTV) limits once again took out a buoyant residential property market. Interestingly, it had only been four quarters of upcycle before any such cooling measures came into place. Historically, it would have taken at least nine quarters of price increase before any intervention by the government. The steep 9.1% price rebound over those four quarters was a definite consideration – in contrast, it took 16 quarters for prices to moderate down by 12% from the last peak, in mid-2013. Since then, transaction volumes were down 30% YoY in the period post-cooling measures (July-November 2018), a complete reversal from the +26% YoY increase in the same period a year ago. An additional dampener came just three months later in October, when the URA announced a new set of guidelines on the average unit size, among other items, which would take effect for development applications submitted from Jan 17, 2019. All things unchanged, this would raise the total quantum price per unit. A near-term relief for developers is the Urban Redevelopment Authority's (URA) announcement of Government Land Sales (GLS) tenders to be launched in 1H2019. The 6,475 residential units under this GLS list is the lowest since 1H2007. En-bloc transactions have also started to cool, as we observe reserve prices for sites such as Parkview Mansion getting cut in excess of -20%, as the market is increasingly cognisant of developers' waning land banking appetite.

Outlook

Demand could be relatively muted in the near term. Transaction volume has been weakening post-cooling measures. The pool of buyers have shrunk to first-home buyers and en-bloc sellers. Investors are side-lined especially in light of the current rising interest rates environment and slowing economic conditions. Developers are upping their commissions to agents and discounts are already being embedded in sales prices, to move uncompleted inventory. Price movements are expected be flat in 2019, by approximately -1%, as we also factor in the high base during the first 6 months of 2018 (+7.2% YoY for 2H18). We also expect a mismatch in demand and supply. The average annual demand of 9.4k units will pale in comparison to the pending launch of c.18k units (excl. ECs) in 2019 – the biggest launch being "Treasure at Tampines" by Sim Lian Holdings (>2k units). Developers will be elbowing among themselves to roll out their launches early, especially in locations with multiple developments. We expect many developers to have to swallow thinner margins. Judging by how reserve prices for en-bloc sales are being cut and GLS sites are reducing, another possibility could be the temporary suspension of confirmed GLS sites (as what happened in 2009) to allow for adjustment in supply. Looking ahead, a re-rating catalyst would be sustained sell-through rates (Figure 55) for new launches in 2019.

Recommendation

We downgrade our view on the SG Property Developers sector to NEUTRAL, with the following pick in mind:

- **CapitaLand (ACCUMULATE, TP $4.00).** We like CapitaLand for its increasingly recurrent earnings – its portfolio has been grounded on healthy operating metrics, from occupancy to visitor arrivals/tenant sales. 4Q18 will be a bumper quarter for the year for their China residential projects, as evidenced by the c.S$397mn (RMB2bn) of China residential sales recorded in September/October. Launched units in 4Q18 YTD had seen >90% take-up rates. Healthy momentum is expected to persist for the remaining c.1850 units in 4Q18, the release of which will be subject to regulatory approval.

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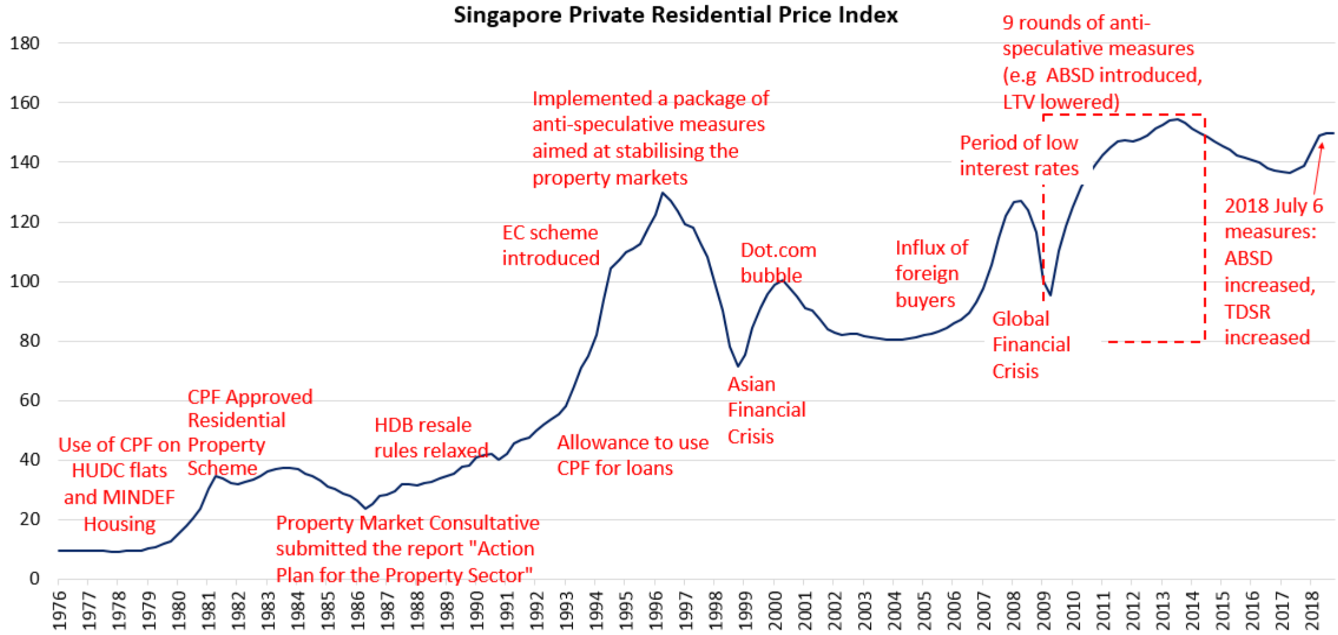
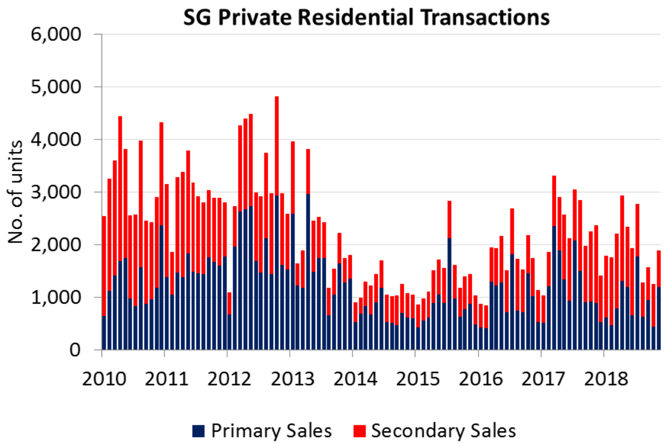
Figure 53: Historically, it would have taken at least nine quarters of price increases before any form of cooling measures take place



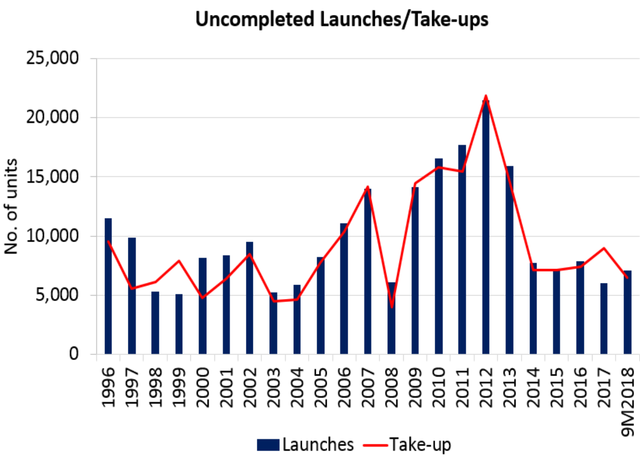
Source: CEIC, URA, PSR

Figure 54: Pace of transactions slowed YoY following July 6 property measures



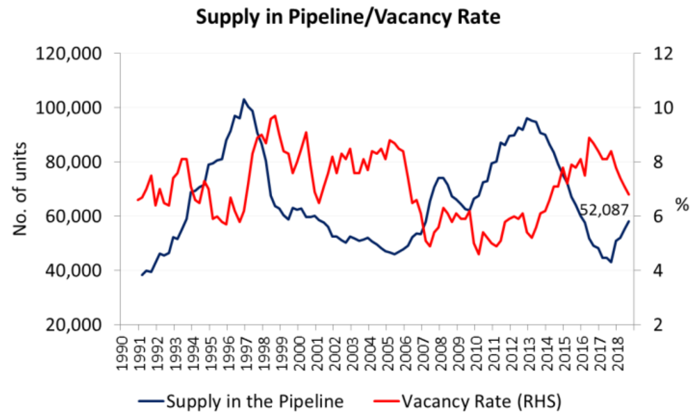
Source: CEIC, URA, PSR

Figure 55: Slower but still-healthy absorption of new launches



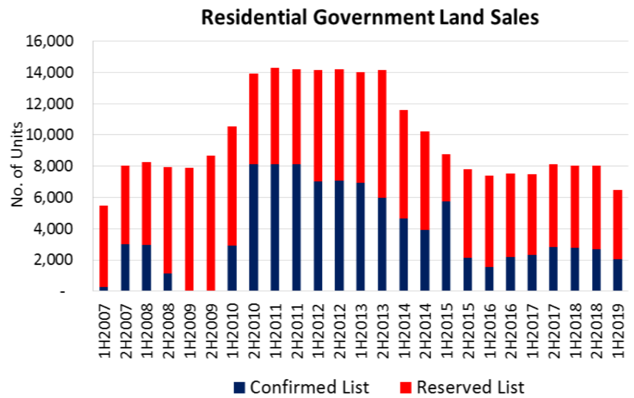
Source: CEIC, URA, PSR

Figure 56: Supply currently at 2.6x average annual demand post TDSR (2013-17) – as compared to 4.4x in 2013



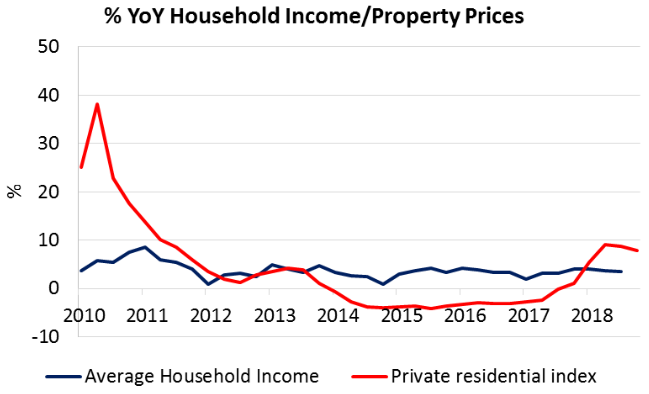
Source: CEIC, URA, PSR

Figure 57: Lowest residential GLS level since 2007



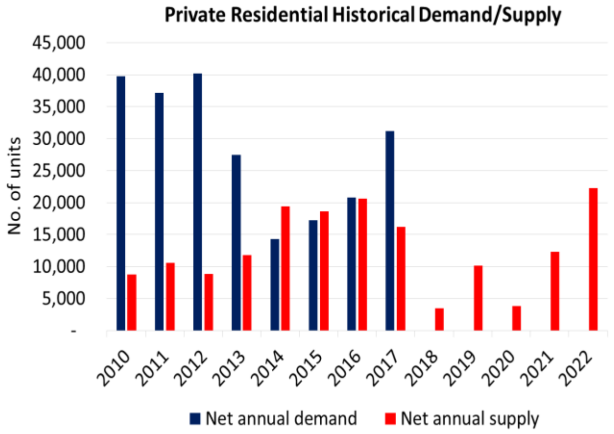
Source: URA, PSR

Figure 58: A measure of affordability of homes, average household income has not kept pace with property prices



Source: CEIC, URA, PSR

Figure 59: 2019 completions will add considerably to upcoming pipeline



Source: CEIC, PSR

Real Estate Investment Trusts (REITs) NEUTRAL

- FTSE S-REIT total returns fell -2.4% YTD. Weakness across all sub-sectors YTD, with CapitaLand Mall Trust being the top performer (+12.7% YTD) and Lippo Malls Indonesia Retail Trust being the worst performer (-46.2% YTD).
- Sector yield spread of 280bps over the benchmark 10-year SGS (10YSGS) yield remains close to the -1 standard deviation (SD) level as at end-November.
- 2018 saw four rate hikes from the Fed totalling 100 basis point to 2.5%. The Fed's dot plot median projections are for two rate hikes in 2019, to end at 3.0%. SOR saw a similar rise of 79 basis points in 2018.
- We maintain our **NEUTRAL** rating on the S-REITs sector, with selective sub-sector preferences on Office and Hospitality.

2018 Review

S-REITs were down in 2018 amid concerns over rising interest rates. Higher rates would water down the attractiveness of REIT yields. And higher finance costs (single biggest cost component at c.15-20% of net property income) would dilute distributable dividends. In light of this, S-REITs have been increasing their hedging activities. An average 78% of debt has been hedged on fixed interest rates as compared to 72% at the start of the year. This largely mitigates higher near-term financing costs, which would have otherwise trimmed our DPU estimates by -1% to -7% (assuming a 100bps increase in interest costs) for the REITs under our coverage. Several REITs such as Mapletree Logistics Trust, Keppel-KBS US REIT, OUE Commercial Trust and CapitaLand Mall Trust tapped the equity capital market through rights or private placement. Others such as Soilbuild REIT and Cache Logistics Trust issued perpetual securities. Large Sponsors acquired more overseas asset: ARA's maiden U.S. acquisition of 38 hotels, CapitaLand's acquisition of 16 U.S. multifamily properties (S$1.14bn), Mapletree Investments' acquisition of a portfolio of logistics properties in the U.S. and Europe (S$1.54bn), and Ascendas-Singbridge's maiden U.S. acquisition of 33 office properties.

Retail – Rents continued its downward trajectory, though occupancy remained relatively stable. Landlords are facing a trade-off between rents and occupancy, the latter of which relies heavily on the occupancy cost metric – which the weak tenant sales and footfall numbers do not uphold for.

Office – Buoyant rental growth underpinned by demand from the consultancy, technology and financial services segments. Capitalisation rates still compressing despite rising interest rates. Occupancy rate also inched up during the year, for both central and fringe areas.

Industrial – Occupancy was range-bound at the cycle's trough. The pace of rent decline narrowed over the three quarters of 2018. Average sub-sector yield increased and valuation (measured by P/NAV) declined over the last 12 months, suggesting risk-aversion by the market.

Hospitality – Strongest YoY RevPAR growth in seven years in Oct 2018 (+9.7%), up on both higher occupancy and higher average room rates. Higher tourist arrivals YoY were also helped by the return of the biennial Singapore Airshow and Singapore's hosting of the 2018 ASEAN Summit.

Outlook

The Fed's dot plot median projections are for two rate hikes in 2019. While higher interest rates are typically negative for the sector, it does not imply a bear cycle, provided the REITs can grow their rents faster – our estimates: by -1% to 5.3% – than the rise of their interest expenses (which can also be managed via fixed debt or interest rate swaps) or manage their capital structure for acquisitions.

Retail (Neutral) – Net supply through 2019 and 2020 still surpassing 5-year historical net annual demand, which would weigh on landlords' rents. Tenant mix re-configuration is key to boosting tenant sales and footfall. A constant worry is occupancy costs that has been creeping up over the years: CMT's 18.7% in FY17 (FY14: 17.6%) and Frasers Centrepoint Trust's 16.6% in FY17 (FY15: 15.3%).

Office (Overweight) – With Grade A rental rates improving over the past five quarters, positive or higher reversions are expected to come about once they surpass expiring rents – which were typically signed c.3 years ago.

Industrial (Neutral) – Tapering supply of space continues into 2019, but tepid industrial activity is keeping our expectation tempered. Consolidation theme among smaller REITs is still in play in 2019: e-Shang Redwood Group (ESR) now has a 5.01% stake in AIMS AMP Capital Industrial REIT and an 11.8% stake in Sabana REIT. ESR also acquired a 60% stake in Blackwood Investment, which has 45%-control of Sabana Real Estate Investment Management Pte. Ltd., the manager of Sabana REIT.

Hospitality (Overweight) – New supply of hotel rooms is tailing off, 3-year CAGR of 1.3% (2017-2020) vs previous 3-year CAGR of 5.3% (2014-2017). However, there are regulations in favour of short-term stay accommodation at private residential properties. This could shift some demand away from hotel rooms and serviced residences. Possible catalyst for industry includes the potential attainment of hotel license for the serviced residences.

Recommendation

Our most preferred sub-sectors are Office and Hospitality due to the respective factors of robust demand and declining capitalisation rates, and tapering supply. Our least preferred sub-sector is Retail due to falling tenant sales and footfall, and with the least favourable demand-supply conditions among all sub-sectors. Our key recommendation: CapitaLand Commercial Trust (ACCUMULATE, TP $1.90), Ascendas REIT (ACCUMULATE, TP $2.78) and Keppel DC REIT (ACCUMULATE, TP $1.45).

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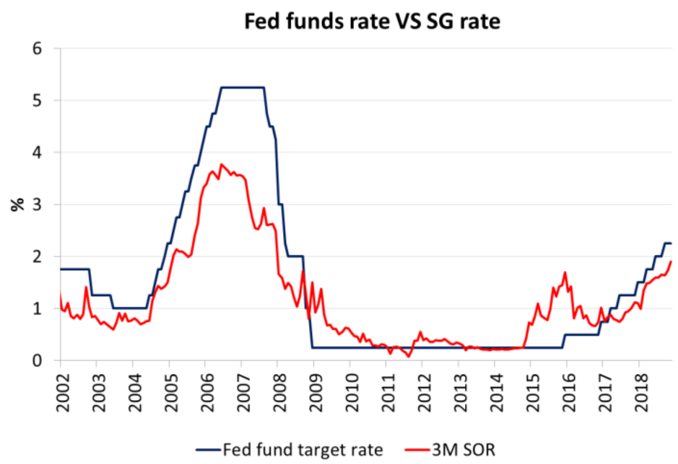
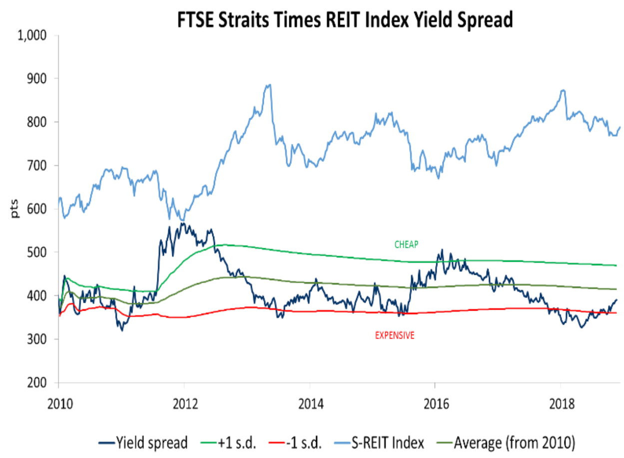
Figure 60: Borrowing base-rate has tracked the Fed Funds Target



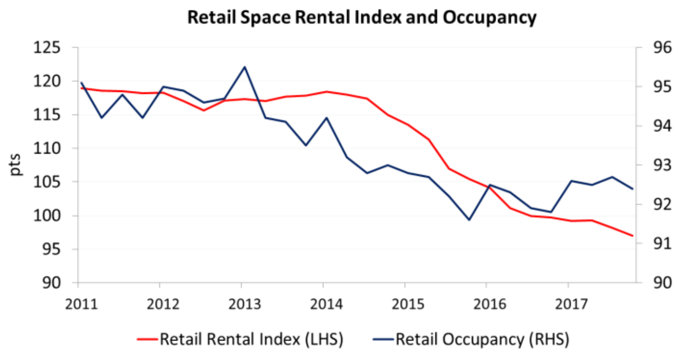
Source: Bloomberg, PSR

Figure 61: S-REIT Index yield spread becoming "fair"



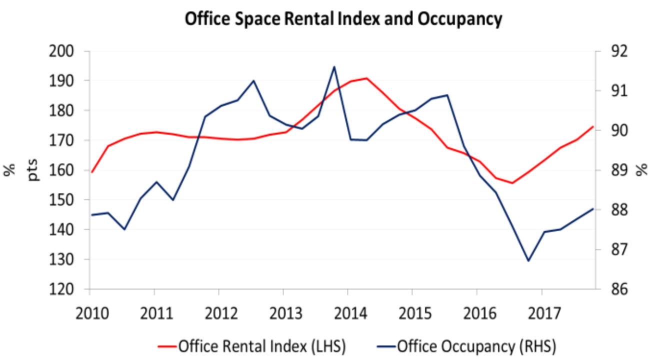
Source: Bloomberg, PSR

Figure 62: Retail - Soft operating environment amid an oversupply



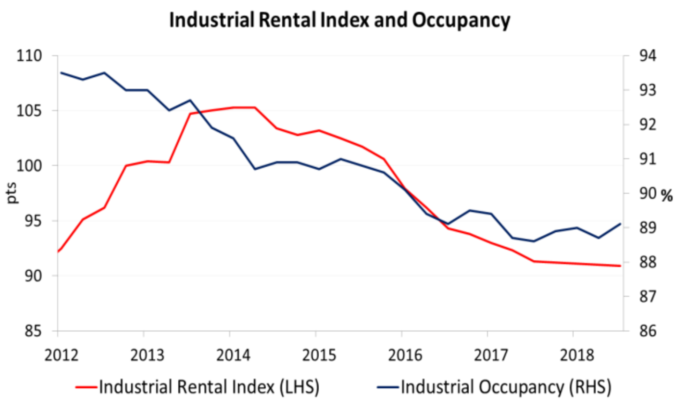
Source: CEIC, PSR

Figure 63: Office - Strong demand underscoring rental recovery



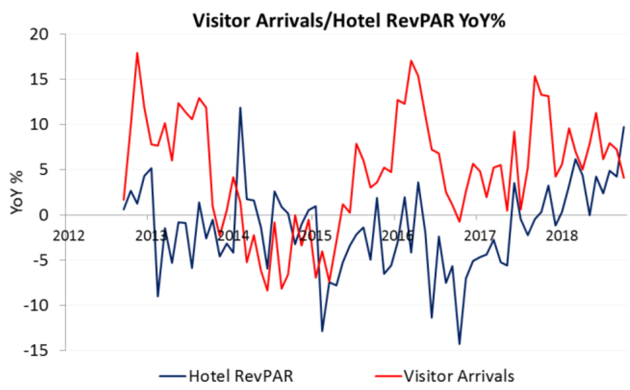
Source: CEIC, PSR

Figure 64: Industrial: Rental decline narrowing amid tapering supply



Source: CEIC, PSR

Figure 65: Hospitality: Recovery in visitor arrivals and RevPARs



Source: CEIC, PSR

PhillipCapital

Shipping – Offshore & Marine NEUTRAL

- Supply glut is expected to last until 2Q19 in the oil market
- Capex and Opex remain tight within the sector
- Gas is on the upswing along with the increasing demand

2018 Review

Oil market: Tiger head, snake tail. In 2018, the global oil market encountered a shakeup when the US became the top oil production country with a yearly volume of 11.5mn bbl/d (11% of global supply). Meanwhile, the geo-political events such as the suspension of sanctions on Iran and assassination of a Saudi Arabia journalist caused oil price to tumble in 2H18. In early Dec-18, OPEC and Russia jointly agreed to cut output by 1.2mn bbl/d (1.2% of global supply) starting from Jan-19. Oil prices – Brent - maintained an uptrend to hit a four-year high of US$80/bbl in Oct-19. However, it was a flash in the pan, as the ongoing ramp-up of production from OPEC and US keep piling inventory levels higher. The upstream drilling and production activities, measured by rig counts and utilisation rate, have been improving along with the rally of oil prices in 9M18. However, the charter rates are still sluggish due to the oil majors' cautious capital and operating expenditures. Charter rates are now short-term in nature and just cover cash operating cost. Exploration and development (E&P) spending from major integrated oil companies is estimated to grow by only 6% YoY to US$186bn this year. And expected to rise 5% to 10% in 2019.

Outlook

Short-term bearish oil market but burgeoning gas market. According to EIA Short-term Energy Outlook (STEO) Nov-18, the oversupply resumed in 3Q18 and is expected to extend till 2Q19. Though there will be 1.2mn bbl/d of crude oil production cut by OPEC and Russia in 1H19, US is estimated to continue to increase output by 11% next year (2018e: 10.9mn bbl/d vs 2019e: 12.1mn bbl/d). The net growth of liquid fuels supply and demand is expected to be -0.9mn bbl/d and 1.5mn bbl/d respectively. Therefore, the market needs to bear with low prices in the 1H19 until the dynamics are back to balance in 2H19. Accordingly, we believe the recovery of upstream E&P activities will slow down or even halt. The charter market continues to be weak. The capex budget for E&P capex will still be tight in 2019. On the other hand, according to the International Energy Agency, the demand for natural gas is expected to grow by 1.6% YoY during the period from 2017 to 2023. By 2022, the global natural gas market is expected to surpass 4tn cubic meters. LNG will be the main driver of inter-regional natural trade growth, and the projects of which will add 140bn cubic meters of liquefaction capacity between 2018 and 2023. Hence, floating LNG (FLNG) will benefit. Based on Westwood's forecast, the total capex for FLNG vessels is estimated to be US$42bn between 2019 and 2024 (CAGR: 14%). The amount is equivalent to the installation of 15 FLNG vessels and 47.9mn tonnes per annum global export capacity. Furthermore, 18 countries are expected to have their first floating import vessels install during the period. The substantial increase in capex of FLNG will begin in 2020

Recommendation

Our only coverage in the offshore and marine sector is Sembcorp Marine, and our recommendation is NEUTRAL. The company has undergone a four-year market downturn. As of 3Q18, the net order book shrank to S$6.4bn compared to S$8.4bn (restated) at Dec-17. The new contracts secured in FY18e is expected to be over S$1bn (but missed our forecast of S$2.5bn) and all new orders YTD were from floaters segment. We expect the new contracts secured in 2019 to be $S2bn, and bulk of which will still come from floaters segment. SMM could be loss-making for the upcoming quarters. Potential projects include FPSO Rosebank and Gravifloat PolyGCL. Repairs and upgrading will remain robust.

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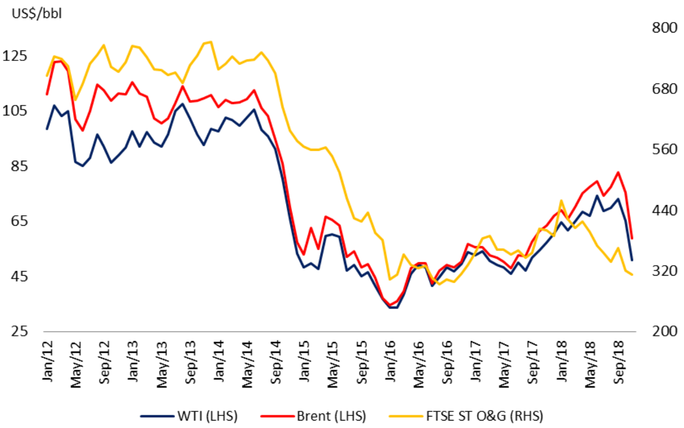
Figure 66: SG Oil&Gas sector performance aligning with oil price

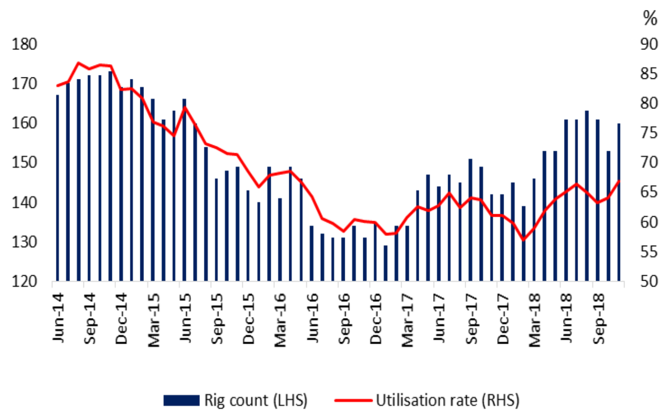


Source: Bloomberg, PSR

Figure 67: Oil resumed contango recently, a bearish signal

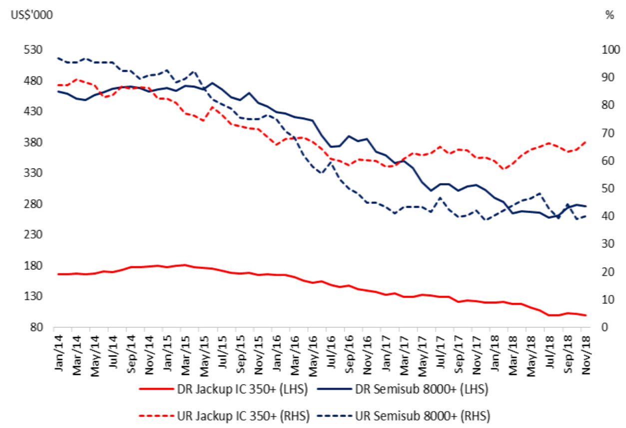
Source: Bloomberg, PSR

Figure 68: Improving rig count and utilisation rate



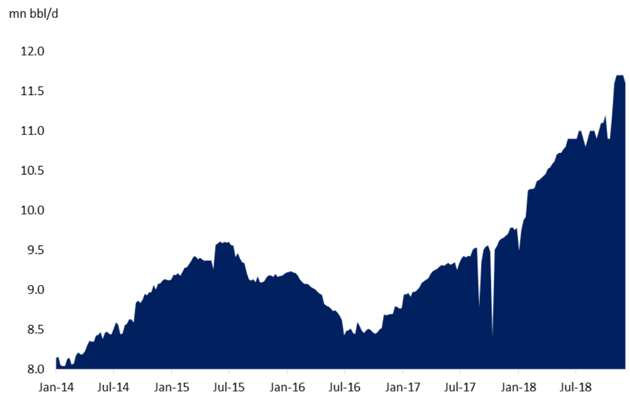
Source: Bloomberg, PSR

Figure 69: Day rate and utilisation remain soft



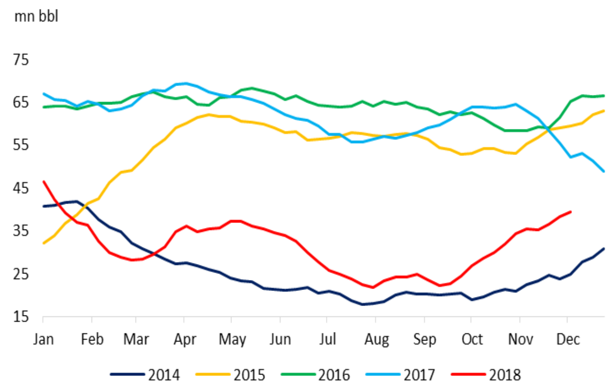
Source: Bloomberg, PSR

Figure 70: US crude oil production hit a new high recently



Source: STEO November, EIA

Figure 71: Weekly US crude oil stockpile trending up



Source: Douglas-Westwood

Telecommunications OVERWEIGHT

- Pay-tv could improve with different cost structure
- StarHub & Singtel looking for growth in Enterprise segment
- M1 Voluntary General Offer pending, likely to go through
- Mobile will continue to face weakness with the impending entrance of TPG Telecom but unlikely to pose serious threat
- We initiate the Singapore Telecommunications sector with an **Overweight** view

2018 Review

The year 2018 has been a torment for the telecommunications sector. The mobile sector has been experiencing downward pressure on ARPU ever since the announcement of TPG Telecom's (TPG) entrance into the Singapore market in 2016. To make matters worse, the mobile sector is going through a structural shift. Smartphone replacement cycle is increasing resulting in higher adoption of SIM-Only plans (lower ARPU) and there is increasing competition from more MVNOs in the price sensitive space in the market. The Pay-tv sector is still plagued by attrition of subscribers contracting almost 65k or 8% YoY. Only light that shines down the tunnel is the enterprise segment. With businesses upgrading their IT infrastructures and moving data to the cloud, StarHub was able to enjoy a 7.2% growth p.a. from FY16 in the enterprise space. Late 2018, StarHub and Certis formed a pure-play cybersecurity business named Ensign to tap on the growing demand of cybersecurity.

Outlook

We are more optimistic for 2019 despite the impending entrance of TPG Telecom, lurking in the shadows. We do not expect TPG Telecom to pose a serious threat to the incumbents. The price sensitive segment which TPG is likely to compete is already crowded with 4 MVNOs. Furthermore, TPG's network is likely to be inferior to the incumbents and their MVNO partners. This should sway consumers from being too eager to switch to the new player in town. TPG announced late December free trials for the first 20,000 customers that register their interest with them. We do not view this as a major threat to the incumbents as it only represent 0.38% of total post-paid customers and even less significant on revenue as these customers are in the most price sensitive category.

We expect the enterprise segment to be a key growth driver for both Singtel and StarHub. We are optimistic that there is market demand to support this growth as the resumption of government smart initiatives takes effect coupled with the growing demand in SME, hospitality and financial services. The enterprise segment will help mitigate the decline in mobile and pay-tv. M1 will be the most vulnerable to TPG Telecom's entrance as 60% of its revenue is derived from Singapore mobile.

The Pay-tv segment could improve if StarHub is able to negotiate with content providers to switch into a variable cost model instead of the current fixed cost model. Singtel is internally phasing out less popular content this should help both telcos to manage the cost for the segment. Both telcos have initiated aggressive cost-cutting measures. This should help alleviate some of the margin pressure. There is much anticipation with regards to the commencement of the 5th generation network. We estimate that this rollout will take place in 2020. However, we do not expect a nationwide rollout as the use case for consumer is still small at this moment. We expect the network rollout to be in phases and tailored to enterprise use cases, as a result CAPEX activities should be gradual and should not be a cause for concern.

Recommendations

Singtel: (i) We expect a turnaround in associates largely driven by recovery in Telkomsel, (ii) TPG Telecom is unlikely to pose a serious threat to the incumbents, (iii) Enterprise business will benefit from resumption of smart nation initiatives. **We initiate coverage on Singtel with a BUY rating and a target price of S$3.40.**

StarHub Limited: (i) Pay-tv business cost structure could improve; (ii) Anticipating growth in enterprise fixed, (iii) S$210mn restructuring exercise will help cushion decline in mobile and pay-tv; (iv) TPG Telecom is unlikely to pose a serious threat to the incumbents. **We initiate coverage on StarHub with an ACCUMULATE rating and a target price of S$1.88.**

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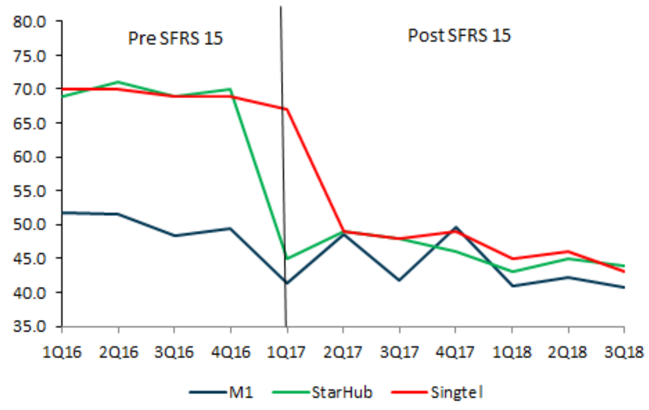
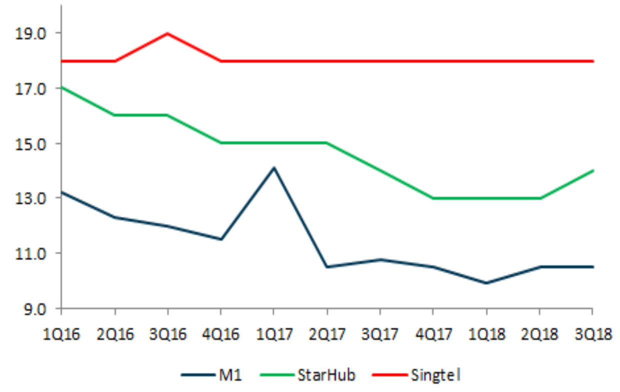
Figure 72: Mobile Post-paid ARPU (S$)



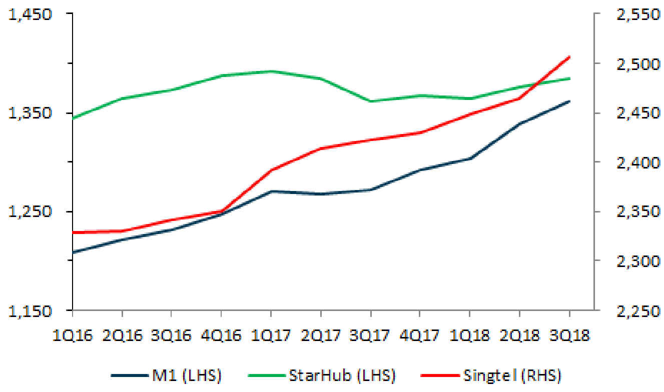
Source: PSR, Company

Figure 73: Mobile Pre-Paid ARPU (S$)



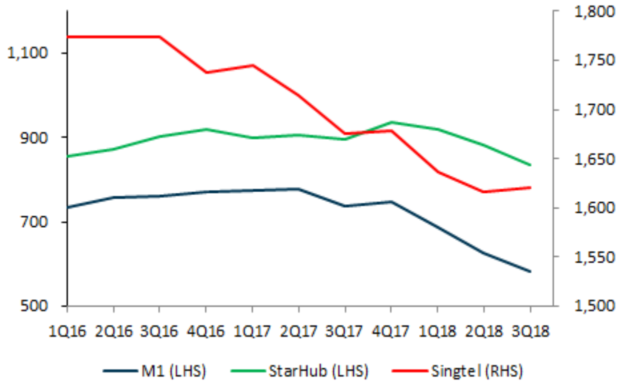
Source: PSR, Company

Figure 74: Mobile Post-paid subscribers (`000)



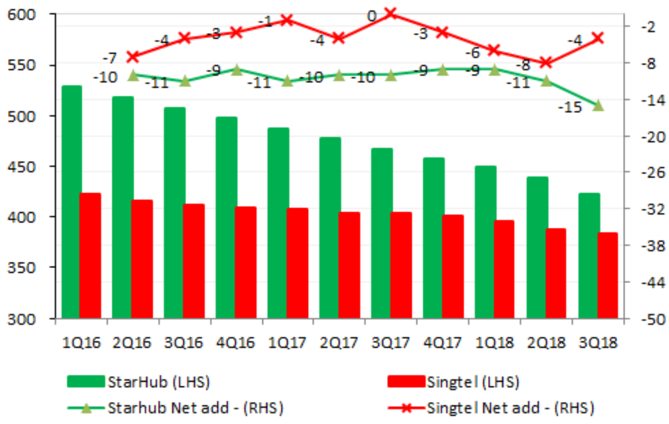
Source: PSR, Company

Figure 75: Mobile Pre-paid subscribers (`000)



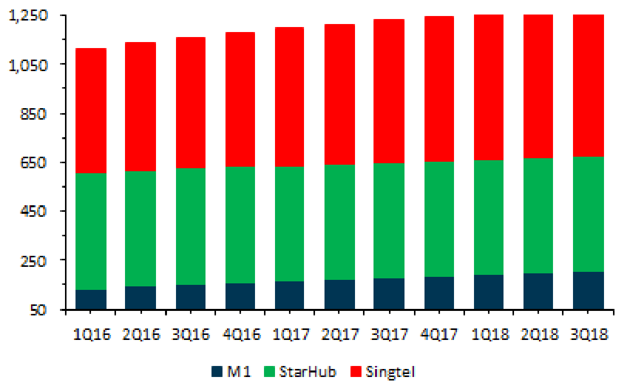
Source: PSR, Company

Figure 76: Pay- TV subscribers (`000)



Source: PSR, Company

Figure 77: Fibre broadband subscribers (`000)



Source: PSR, Company

Transportation – Land OVERWEIGHT

- Public Transport Services remains the key growth factor for the sector, benefitting from the positive restructuring to an asset-light model for both Bus and Rail segments
- +4.3% fare adjustment to contribute positively to the Rail business
- Worst is over for Singapore Taxi business, in our view

2018 Review

The Public Transport Services segment has experienced YoY growth for 9M 2018. Commencement of revenue service for Downtown Line Stage 3 (DTL3) in October 2017 and bus contracts enabled SBS Transit's Public Transport Services to report a $39.83mn segment profit for 9M FY2018, more than double the $17.16mn a year ago.

The North East Line (NEL), Sengkang LRT and Punggol LRT (SPLRT) transited to the New Rail Financing Framework (NRFF) on 1 April. The NRFF is an asset-light model in which the regulator, the Land Transport Authority (LTA), owns all the operating assets. The operator, SBS Transit, is thus relieved of heavy capital expenditure and is expected to focus on asset maintenance and service reliability. The NRFF includes a risk-sharing Revenue Collar structure, and a risk- and profit-sharing Profit Cap and Collar structure. These structures are the same as what was applied to SMRT Corp's North-South and East-West Line when it transited to the NRFF on 1 October 2016.

In the ride-hailing space, Uber was acquired by Grab in March. Competition has become more rational, as driver incentives and rider promotions have been curtailed. The Rental cars population had peaked in June and have started to contract (Figure 78). In contrast, the decline in Taxi population is narrowing. ComfortDelGro had purchased new taxis for the first time in 1.5 years. ComfortDelGro is purchasing 1,200 taxis – most of which are replacements, with a net addition of 300-400. This is on the back of demand from hirers. According to data from the LTA, the number of Taxi Driver's Vocational Licences (TDVL) issued for 10M 2018 had increased +230% YoY to 4,688.

Outlook

The Public Transport Services segment should remain stable in 2019, underpinned by revenue visibility from contracted bus packages and higher Rail ridership. In addition, the +4.3% fare adjustment that was effective 29 December 2018 should benefit the Rail segment and accelerate the turnaround for DTL which is still loss making. Full year contribution from the Seletar bus package which commenced in March 2018 should contribute positively as well.

Go-Jek launched the beta version of its app in Singapore in late November 2018. In the near term, some negative impact to the Taxi industry should not come as a surprise. But we believe that competition with Go-Jek will be less prolonged and less intense compared to the Grab-Uber era. Grab had stated that it would engage in a price war with Go-Jek; we have been commenting in our previous reports that predatory pricing (unrealistic driver incentives and rider promotions) has proved to be an unsustainable model. As such, competition should be more rational this time round. Moreover, the key structural difference is that the pool of drivers who can drive private hire cars full-time is now limited, since the deadline for getting the Private Hire Car Driver's Vocational Licence (PDVL) came into effect at the end of June 2018.

Recommendation

We have a BUY on ComfortDelGro, which has benefitted from the transition to asset-light model for its Bus and Rail business segments.

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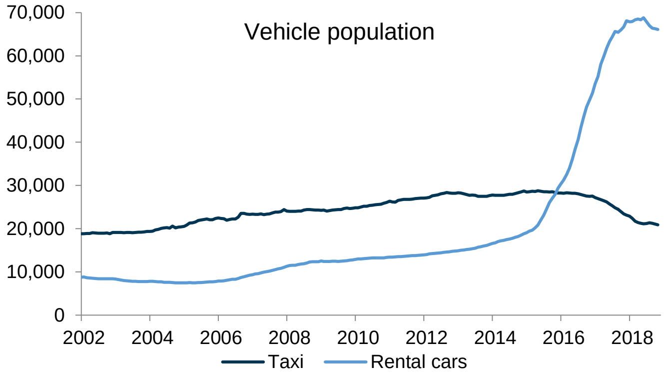
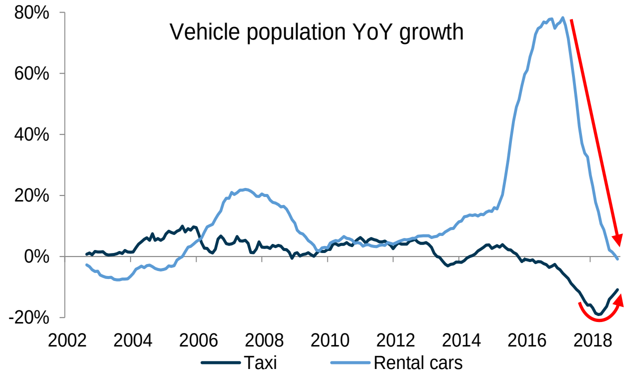
Figure 78: Taxi population stabilised; Rental cars population has peaked



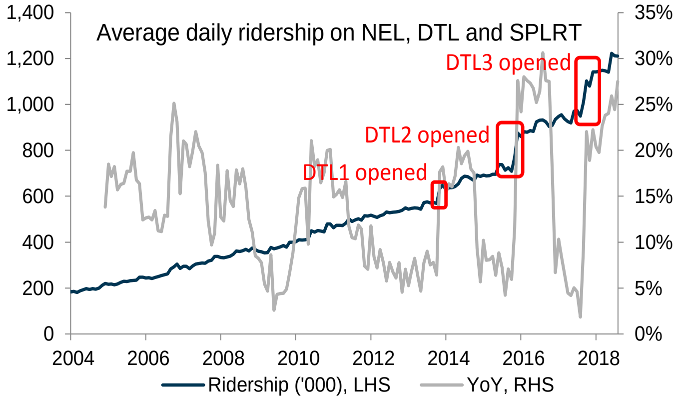
Source: Bloomberg, LTA, PSR

Figure 79: Taxi decline narrowing; Rental cars started to contract



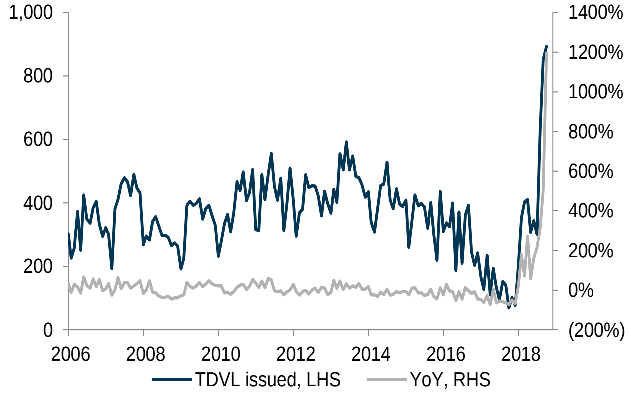
Source: Bloomberg, LTA, PSR

Figure 80: Rail ridership grew +23% YoY for 10M 2018



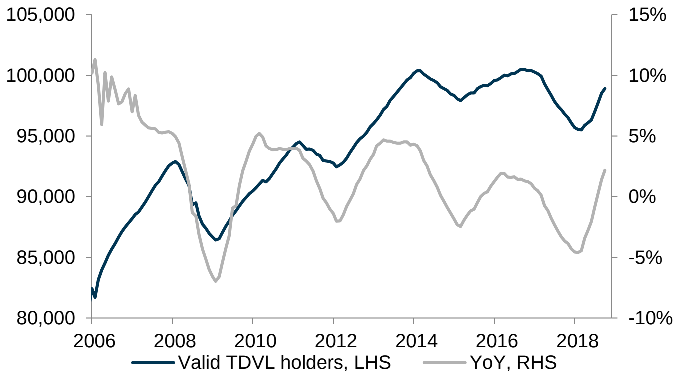
Source: CEIC, SBS Transit, PSR

Figure 81: Number of TDVL issued grew +230% YoY for 10M 2018



Source: LTA, PSR

Figure 82: Number of valid TDVL holders grew +3.0% YTD for 10M 2018



Source: LTA, PSR

Transportation – Aviation NEUTRAL

- Elevated fuel cost is the key impediment for the sector, compressing airline margins
- Long-term expectation for SATS Ltd is volume growth driven by aviation demand and demand for quality food
- SIA Engineering challenged by longer maintenance intervals and lighter work content

2018 Review

Jet fuel price reached its four-year high in October 2018, but eased sharply to a seven-month low in the following month. For the domestic aviation market, 2018 will see a full year operation for Changi Airport Terminal 4, which opened at the end of October 2017. The opening of Terminal 4 expanded Changi Airport's annual passenger handling capacity by 16mn to 82mn. For 11M 2018, aircraft movements, passenger movements and air freight movements grew +3.6%, +5.6% and +1.9% YoY respectively.

SIA Ltd was negatively impacted by +40% YoY higher jet fuel price for 1H FY19. Fuel costs (inclusive of hedging gains) was +20% higher YoY, but revenue only grew +2.5% YoY. Fuel cost remains SIA Group's largest cost component, at 30% of 1H FY19 operating expenses (1H FY18: 27%). Passenger yield for the Group remained under pressure, which was -2.2% lower YoY; but cargo yield was +2.5% higher YoY. Interim dividend of 8 cents declared (48% payout ratio), lower than last year's 10 cents (19% payout ratio).

Revenue growth for **SATS Ltd** (SATS) from both the Food Solutions and Gateway Services businesses. Several YoY operational positives came out of 1H FY19: +13.6% higher air passengers handled, +9.5% higher gross meals produced and +242% higher ship calls handled. In addition, the Kunshan central kitchen (joint-venture with Yihai Kerry) had turned profitable earlier than expected. With the use of operating leverage, the benefits of higher volumes flowed through to the bottom line. However, contribution from associated/JV companies for 1H FY19 was -12.5% lower YoY, due to weakness at Brahim's and PT CAS Group. Interim dividend of 6 cents declared (52% payout ratio), unchanged from last year (52% payout ratio).

The core Company operations of **SIA Engineering Company** (SIAEC) continued to contract, as 1H FY19 revenue was -7.0% lower YoY and operating profit collapsed -47% YoY. However, the weaker operating profit was completely offset by +42% YoY higher contribution from associated/JV companies, resulting in +4.2% higher Group PATMI. Associated/JV companies contributed almost 80% to 1H FY19 earnings (1H FY18: almost 60%). Interim dividend of 3 cents declared (43% payout ratio), lower than last year's 4 cents (60% payout ratio).

Outlook

The opening of Changi Jewel is scheduled for end of March 2019 and should bring about localised benefit of higher capacity and higher aircraft/passenger traffic.

Outlook for airlines remain competitive, due to fuel costs and competition.

The outlook for SIAEC remains challenging, as new-generation aircraft and engines require less frequent maintenance and lighter work content. However, some positives are emerging as there appears to be a pipeline for engine shop visits.

Increasing urbanisation in the region is expected to drive demand for travel and high-quality food. SATS should be a beneficiary of this secular trend. In addition, SATS has been making investments in technology and new ventures, which should contribute positively after their respective gestation periods.

Recommendation

Our preference is for SATS (ACCUMULATE, TP: $5.47), in view of the secular trend of increasing urbanisation in the region that is driving demand for travel and high-quality food. SATS is facing the least severe structural headwinds among the three listed aviation stocks as 14% of its revenue is derived from non-aviation sources (cruise centre and institutional food catering).

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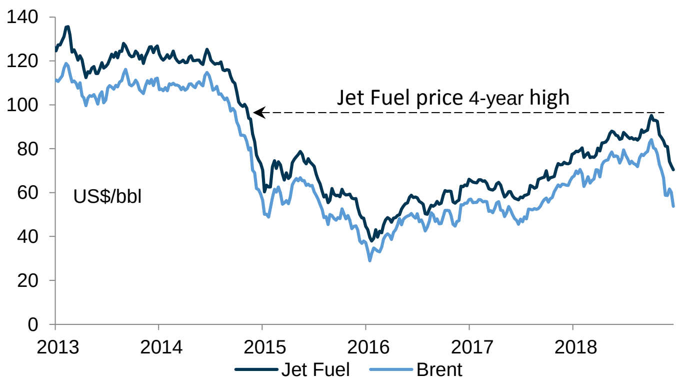
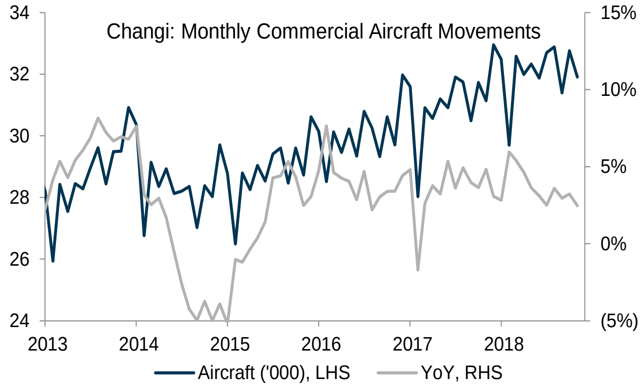
Figure 83: Jet fuel price reached its 4-year high in October



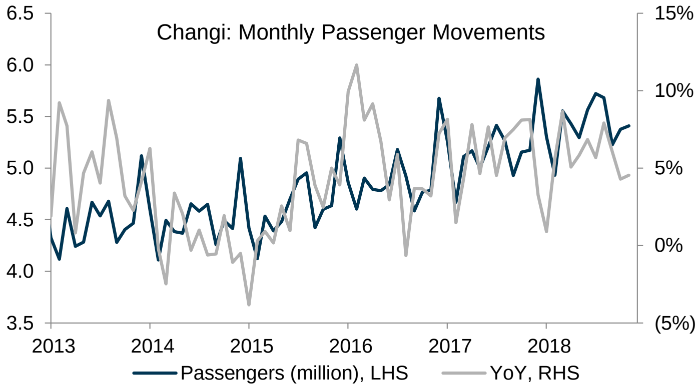
Source: Bloomberg, PSR

Figure 84: Aircraft Movements grew +3.6% YoY for 11M 2018



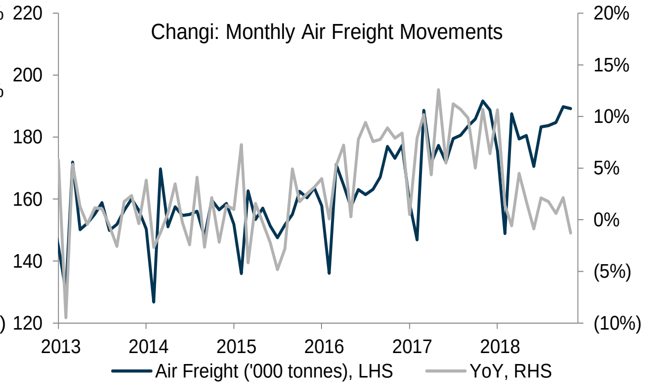
Source: CEIC, Changi Airport Group, PSR

Figure 85: Passenger Movements grew +5.6% YoY for 11M 2018



Source: CEIC, Changi Airport Group, PSR

Figure 86: Air Freight Movements grew +1.9% YoY for 11M 2018



Source: CEIC, Changi Airport Group, PSR

PhillipCapital

Ascendas REIT

The stable giant

StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Track record of DPU growth through strategy of portfolio rebalancing and stability through diversification
- Portfolio diversification across three countries mitigates idiosyncratic risk in any one market
- Accumulate with DDM-derived target price of S$2.86

Background

Ascendas Real Estate Investment Trust ("A-REIT") is the largest *industrial* REIT and second largest REIT listed on the Singapore Exchange by market capitalisation. The REIT's Sponsor, Ascendas-Singbridge Group, is 51:49 jointly-owned by Temasek Holdings and JTC Corporation. The asset values of the 145 properties across Singapore, Australia and UK stood at S$8.7bn, S$1.6bn and S$373mn respectively, as at 30 September 2018.

Investment Merits/Outlook

1. **Exposure to Business & Science Park properties and High-Specifications industrial buildings and Data Centres.** The manager's strategy has been to reposition the portfolio to cater to higher-value manufacturing activities and non-manufacturing activities. 54% of A-REIT's total net property income (NPI) is derived from Business & Science Park and Hi-Specs properties in Singapore. In contrast, Light industrial and Flatted Factories account for only 9.9% of the total portfolio NPI. The Sponsor's pipeline of over S$1bn of Business & Science Park properties offers growth opportunities.

2. **Relatively low gearing affords debt headroom for inorganic growth.** Aggregate leverage of 33.2% is lower than the 35% average among industrial REIT peers. The resultant debt headroom of $1.2bn allows the manager to grow the portfolio by 11% through acquisitions. A-REIT's 3.0% cost of debt is also lower than the 3.2% average among peers.

3. **Long WALE of 14.5 years for the UK portfolio mitigates uncertainty of Brexit.** The earliest lease expiry in the UK portfolio is in FY22, so there is no renewal risk for the next two years. Moreover, the weighted average lease expiry (WALE) of the UK portfolio is longer than A-REIT's total portfolio WALE of 4.3 years. Moreover, increased demand for warehouse space in the UK has been reported, as businesses are stocking up inventory due to concerns over import chaos post-Brexit leading to delays in shipping fulfilment. This has pushed warehouse occupancy higher in UK. A-REIT's exposure to GBP-denominated income is limited to 3% of gross rental income for CY 2019 by our estimate.

Recommendation

Maintain Accumulate with DDM-derived target price of S$2.86. A-REIT has a track-record of growing DPU through rebalancing, and stability through its highly diversified portfolio. We expect yield of ~6% to be reliable.

4 January 2019

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 2.580
FORECAST DIV	SGD 0.155
TARGET PRICE	SGD 2.780
TOTAL RETURN	**12.5%**

COMPANY DATA

BLOOMBERG CODE:	AREIT SP
O/S SHARES (MN) :	3,111
MARKET CAP (USD mn / SGD mn) :	5884 / 8025
52 - WK HI/LO (SGD) :	2.86 / 2.45
3M Average Daily T/O (mn) :	10.88

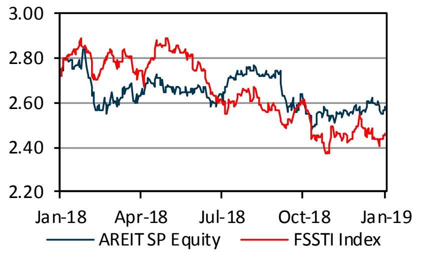
MAJOR SHAREHOLDERS (%)

ASCENDAS PTE LTD	18.9%
BLACKROCK	7.1%
MONDRIAN INVESTMENT PARTNERS LTD	5.5%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	(2.4)	0.3
STI RETURN	(14)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Mar	FY17	FY18	FY19e	FY20e
Gross Rev. (SGD mn)	831	862	889	941
NPI (SGD mn)	611	629	650	688
Dist. Inc. (SGD mn)	446	468	470	481
P/NAV (x)	12	12	12	12
DPU (cents)	15.74	15.99	15.51	15.42
Distribution Yield (%)	6.2	6.1	5.9	5.9

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.9%; Terminal g: 15%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	**761**	**831**	**862**	**889**	**941**
Property expenses	(227)	(220)	(233)	(239)	(253)
Net property income	**534**	**611**	**629**	**650**	**688**
Net Finance (Expense)/Inc.	(77)	(111)	(101)	(115)	(119)
Manager's fees	(60)	(50)	(51)	(54)	(56)
Other items	(23)	(12)	5	(17)	(9)
Net income	**373**	**438**	**483**	**465**	**505**
FV change, derivatives & ppties	8	(30)	14	11	-
Share of JV's results	0.04	0.48	0.51	0.50	0.50
Total Return Before Tax	**381**	**408**	**497**	**477**	**505**
Taxation	(25)	19	(3)	(8)	(7)
Total Return After Tax	**356**	**427**	**494**	**469**	**498**
Distribution adjustments	23	19	(26)	1	(17)
Income available for distribution	**378**	**446**	**468**	**470**	**481**

Per share data (cents)

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
NAV	206.0	206.0	212.0	213.4	213.8
EPU	14.21	14.83	16.40	15.51	15.99
DPU	15.36	15.74	15.99	15.51	15.42

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

Cash Flow

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total return	381	408	497	477	505
Adjustments	94	151	84	134	130
WC changes	11	(24)	(18)	40	4
Cash generated from ops	486	536	564	651	639
Others	(4)	(7)	(25)	(8)	(7)
Cashflow from ops	**482**	**529**	**539**	**643**	**632**
CFI					
CAPEX, net	(158)	(103)	(133)	(121)	(12)
Purchase of Inv. Propty., net	(1,339)	(89)	(166)	(871)	-
Others	4	54	23	10	10
Cashflow from investments	**(1,492)**	**(138)**	**(275)**	**(982)**	**(2)**
CFF					
Share issuance, net	645	155	-	452	-
Loans, net of repayments	920	50	121	483	-
Distributions	(442)	(515)	(309)	(486)	(477)
Others	(96)	(116)	(120)	(77)	(129)
Cashflow from financing	**1,027**	**(426)**	**(308)**	**373**	**(606)**
Net change in cash	**16**	**(35)**	**(44)**	**33**	**24**
Beginning cash	42	56	22	(23)	10
Effects of exchange rate	(1.7)	0.3	(0.7)	-	-
Ending cash	**56**	**22**	**(23)**	**10**	**34**

Balance Sheet

Y/E Mar, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	9,599	9,874	10,119	11,101	11,222
Inv. Propty. Under Devmnt.	-	125	95	109	-
Others	90	72	62	62	62
Total non-current assets	**9,689**	**10,071**	**10,277**	**11,273**	**11,285**
Trade receivables	89	63	28	29	31
Cash	56	22	25	10	34
Others	36	14	24	24	24
Total current assets	**181**	**100**	**77**	**63**	**89**
Total Assets	**9,870**	**10,171**	**10,354**	**11,336**	**11,373**
LIABILITIES					
Borrowings	1,180	824	910	834	834
Trade payables	172	193	144	185	190
Others	44	105	50	50	50
Total current liabilities	**1,396**	**1,122**	**1,104**	**1,069**	**1,075**
Borrowings	2,484	2,576	2,609	3,179	3,179
Others	205	138	142	142	142
Total non-current liabilities	**2,689**	**2,714**	**2,752**	**3,322**	**3,322**
Total Liabilities	**4,085**	**3,836**	**3,855**	**4,391**	**4,396**
Net assets	**5,785**	**6,335**	**6,499**	**6,945**	**6,977**
Represented by:					
Unitholders' funds	5,481	6,031	6,194	6,641	6,673
Perp. securities holders	304	304	304	304	304
Non-controlling interests	0	0	0	(0)	(0)

Valuation Ratios

Y/E Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	16.8	17.0	16.0	16.8	16.3
P/NAV (x)	1.2	1.2	1.2	1.2	1.2
P/DPU (x)	15.6	16.0	16.4	16.8	16.9
Distribution Yield (%)	6.4	6.2	6.1	5.9	5.9
NPI yield (%)	6.1	6.2	6.2	6.1	6.1
Growth & Margins (%)					
Growth					
Revenue	13.0%	9.1%	3.8%	3.1%	5.9%
Net property income (NPI)	15.3%	14.5%	3.0%	3.3%	5.8%
Distributable income	7.7%	18.0%	4.9%	0.3%	2.5%
DPU	5.2%	2.5%	1.6%	-3.0%	-0.6%
Margins					
NPI margin	70.1%	73.6%	73.0%	73.1%	73.1%
Key Ratios					
Net Debt or (Net Cash)	3,608	3,378	3,494	4,003	3,979
Gearing (%)	37.1%	33.4%	34.0%	35.4%	35.3%

Source: Company, Phillip Securities Research (Singapore) Estimates

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

Note: FY18 cash and cash equivalents include a S$48mn bank overdraft

CapitaLand Commercial Trust

Up Up and Away

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Favourable demand-supply conditions to support upward trajectory in rents
- Foray into Germany paves the way for a potentially new overseas pipeline.
- Reduced gearing of 35.3% with higher proportion of debt on fixed rates.
- Maintain ACCUMULATE with a target price of S$1.90.

Background

CapitaLand Commercial Trust (CCT) is Singapore's first and largest commercial REIT with a market capitalisation of approximately S$6.5bn. CCT aims to own and invest in real estate and real estate-related assets which are income producing and predominantly used, for commercial purposes. CCT's deposited property is approximately S$11.1bn as at 30 September 2018 comprising a portfolio of nine prime commercial properties in Singapore and one property in Frankfurt, Germany acquired on 18 June 2018.

Investments Merits/Outlook

1. **Favourable demand-supply conditions to support upward trajectory in rents.** Unlike residential property, the office market is subject a lot less regulatory controls and with improving CBD rents through the quarters, expiring rents at CCT's key properties will increasingly be converted to higher committed rents, thus clocking in positive rental reversions. This is further supported by the dwindling supply of new office properties in the next two years and the continued high demand for office space in Singapore.
2. **Foray into Germany paves the way for CCT's potential overseas pipeline.** CCT had acquired a Grade A freehold office building, Galileo, located in Frankfurt, Germany in June 2018. CCT had disclosed a proposed capital allocation of 10-20% of its deposited property for overseas assets. Gearing currently stands at 35.3% (2Q18: 37.9%) following repayment of bank borrowings from proceeds from divestment of Twenty Anson in Aug 2018. It gives CCT headroom of c.S$520mn (assuming 40% leverage) to pursue inorganic growth. Debt on fixed rates now comprises 92% of total borrowings (2Q18: 85%) with all-in cost of debt of 2.6%.
3. **Value creation and new lease of life at CapitaSpring.** CCT has a 45% interest (JV with CapitaLand and Mitsubishi Estate Co., Ltd) in CapitaSpring (former Golden Shoe Car Park), which is currently undergoing construction and is scheduled to complete in 1H2021. Moving fast on its feet, CCT had already secured J.P. Morgan as its first office anchor tenant. CCT also has a call option of the remaining 55% interest of the commercial component (office, retail, carpark components – excluding serviced residence) within five years from the completion date.

Recommendation

Maintain ACCUMULATE with a target price of S$1.90. Outlook is positive now that AST2, CCT's biggest contributor by GRI (office portfolio), had ramped up occupancy in 3Q18. In addition, CCT will record a 36% increase in rental from HSBC's one-year lease extension at HSBC Building from April 2019, which will push NPI yield from 4% to 6%. Plans for the building thereafter include refurbishment/leasing, divestment and redevelopment. Additional recurring income would also come from a new one-year lease with the State for Bugis Village from Apr 2019 for c.S$1mn. CapitaLand had in October 2018 invested S$27 mn in co-working operator The Work Project Kingdom, which will lease space at Capital Tower and Asia Square Tower 2, in pursuit of the core-flex model at these buildings. The Manager had expressed confidence that the core-flex space combinations will help tenant retention in the long-run.

4 January 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 1.75
FORECAST DIV	SGD 0.084
TARGET PRICE	SGD 1.90
TOTAL RETURN	13.5%

COMPANY DATA

BLOOMBERG CODE:	CCT SP Equity
O/S SHARES (MN) :	3,744
MARKET CAP (USD mn / SGD mn) :	4799 / 6553
52 - WK HI/LO (SGD) :	2.05 / 1.61
3M Average Daily T/O (mn) :	11.17

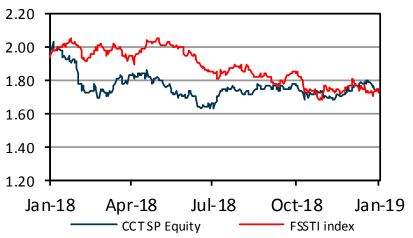
MAJOR SHAREHOLDERS (%)

CAPITALAND	30.0%
BLACKROCK INC	7.4%
SCHRODERS PLC	2.7%
VANGUARD GROUP	2.2%
SUMITOMO MITSUI ASSET MGMT	2.1%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.6	(17)	(5.0)
STI RETURN	(14)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept	FY16	FY17	FY18e	FY19e
Gross Rev (SGD mn)	298.6	337.5	365.1	385.0
NPI (SGD mn)	219.3	265.5	312.7	330.7
Dist Inc. (SGD mn)	269.0	288.9	334.7	379.6
P/NAV (x)	0.93	0.93	0.99	0.99
DPU, adj (Cents)	9.1	8.7	8.4	9.6
Distribution Yield, %	5.5%	5.2%	5.1%	5.8%

Source: Company Data, Bloomberg

Valuation Method

DDM (Cost of equity 6.76%, Terminal Growth 1.85%

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**4,762**	**5,252**	**4,610**	**5,205**	**4,954**
Gross Profit	1,475	1,598	1,838	1,718	1,684
Depreciation & Amortisation	3	3	7	5	5
EBIT	1,590	1,652	2,234	1,926	1,909
Net Finance (Expense)/Inc	(477)	(453)	(487)	(766)	(876)
Associates & JVs	726	708	877	616	629
Profit Before Tax	1,839	1,907	2,624	1,776	1,662
Taxation	(344)	(403)	(298)	(302)	(283)
Profit After Tax	1,495	1,504	2,326	1,474	1,380
Non-Controlling Interest	430	314	775	408	376
Net Income, reported	1,066	1,190	1,551	1,067	1,003

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.25	0.28	0.37	0.25	0.24
DPS	0.09	0.10	0.12	0.12	0.12
BVPS	3.94	4.22	4.33	4.34	4.50

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit for the year	1,495	1,504	2,326	1,474	1,380
Adjustments	(1,081)	(902)	(1,499)	(967)	(1,013)
WC changes	1,548	2,250	961	703	1,023
Cash generated from ops	2,727	3,655	2,510	2,199	2,460
Taxes paid, others	(261)	(350)	(344)	(302)	(283)
Cashflow from ops	2,467	3,305	2,166	1,898	2,178
CFI					
CAPEX, net	(62)	(75)	(142)	(93)	(104)
Cashflow from investments	154	(71)	(1,770)	575	14
CFF					
Dividends paid	(384)	(383)	(425)	(510)	(510)
Cashflow from financing	(1,213)	(2,462)	979	(1,770)	(2,040)
Net change in cash	1,408	772	1,376	703	151
Effects of exchange rates	40	(129)	(47)	-	-
CCE, end	4,153	4,778	6,080	6,782	6,934

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	808	781	840	671	503
Associates & JVs	12,858	12,617	10,197	10,200	10,316
Investment Properties	19,428	18,998	36,479	36,620	37,237
Others	1,332	1,578	1,702	1,607	1,661
Total non-current assets	**34,426**	**33,976**	**49,219**	**49,097**	**49,717**
Development properties	6,936	4,837	4,074	2,789	1,763
Accounts Receivables	1,424	1,859	1,471	1,686	1,646
Cash balance	4,173	4,793	6,105	6,782	6,934
Others	92	277	577	579	580
Total current assets	**12,627**	**11,765**	**12,227**	**11,836**	**10,923**
Total Assets	**47,053**	**45,741**	**61,446**	**60,934**	**60,640**
LIABILITIES					
Short term loans	2,246	2,373	2,739	3,271	3,271
Accounts Payables	4,063	4,685	5,442	5,076	5,033
Others	620	670	622	527	527
Total current liabilities	**6,930**	**7,728**	**8,803**	**8,874**	**8,831**
Long term loans	13,812	12,479	18,956	18,625	18,625
Others	1,373	1,233	1,604	1,403	1,413
Total non-current liabilities	**15,185**	**13,712**	**20,560**	**20,028**	**20,039**
Total Liabilities	**22,115**	**21,440**	**29,363**	**28,903**	**28,870**
EQUITY					
Shareholder Equity	17,905	17,605	18,382	19,057	19,484
Non-controlling interest	7,032	6,696	13,701	12,975	12,287
Total Equity	**24,938**	**24,300**	**32,083**	**32,031**	**31,771**

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	12.5	11.1	8.5	12.4	13.2
P/B (X)	0.79	0.74	0.72	0.72	0.69
Dividend Yield (%)	2.9%	3.2%	3.8%	3.8%	3.8%
Growth & Margins (%)					
Growth					
Revenue	21.3%	10.3%	-12.2%	12.9%	-4.8%
EBIT	8.4%	3.9%	35.2%	-13.8%	-0.9%
Net Income, adj.	-15.0%	0.6%	54.6%	-36.6%	-6.4%
Margins					
EBIT margin	33.4%	31.4%	48.5%	37.0%	38.5%
Net Profit Margin	31.4%	28.6%	50.5%	28.3%	27.9%
Key Ratios					
ROE (%)	6.0%	6.8%	8.4%	5.6%	5.1%
ROA (%)	2.3%	2.6%	2.5%	1.8%	1.7%
Gearing (X)	0.34	0.32	0.35	0.36	0.36

Source: Company, Phillip Securities Research (Singapore) Estimates

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

PhillipCapital

Keppel DC REIT

Hungry for data

BULL AND BEAR™ StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Insatiable appetite for data due to digitalisation for uses such as cloud computing, video streaming and data storage
- Manager has achieved 2018 portfolio target of $2bn, and is keen to continue growing the portfolio
- Accumulate with DDM-derived target price of S$1.45

Background

Keppel DC REIT (KDCREIT) is the only pure-play data centre REIT listed on the Singapore Exchange. KDCREIT's investment mandate has an initial focus on Asia Pacific and Europe, and the current portfolio value of S$2bn spans across Singapore (50.6%), Europe (33.5%), Australia (14.3%) and Malaysia (1.6%). Keppel T&T is the Sponsor of the REIT and has granted Rights of First Refusal (ROFR) to KDCREIT for future acquisition opportunities of its data centre assets.

Investment Merits/Outlook

1. **Demand for data centre space remains robust.** According to KDCREIT, this is underpinned by increasing digitalisation and cloud adoption, data centre outsourcing, and data sovereignty regulations.

2. **Best-in-class among S-REIT peers in capital management and interest rate risk management.** KDCREIT's aggregate leverage of 32.0% is one of the lowest among the industrial REITs. We estimate a debt headroom of S$270mn (assuming 40% leverage), which can be used to grow the existing portfolio by 13.5%. KDCREIT has a weighted average debt maturity of 3.3 years and 86% of debt hedged on fixed rate. These two factors mitigate the impact from rising interest rate by delaying the need to refinance debt, as well as lowering exposure to floating interest rate.

3. **Income visibility and growth potential.** KDCREIT has a weighted average lease expiry (WALE) of 8.5 years by lettable area, which is the longest among industrial REIT peers. This provides income visibility and an expected stable yield of ~5%. KDCREIT has also entered into an agreement with Macquarie Telecom to construct Intellicentre 3 East Data Centre (IC3 East DC) on the vacant land within the Intellicentre 2 Data Centre (IC2 DC) site in Sydney, Australia. This asset is expected to be DPU-accretive and the lease will be on a new 20-year triple net master lease, thus providing income visibility and growth from a blue-chip tenant.

Recommendation

Maintain Accumulate with DDM-derived target price of S$1.45. KDCREIT offers unique exposure to a burgeoning asset class of data centres. We expect yield of ~5.8% to be reliable. However, valuation in terms of P/NAV at 1.3 times is relatively expensive, and demand for cloud solutions must not slow down, in order to justify the premium.

4 January 2019

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.360
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 1.450
TOTAL RETURN	11.8%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN) :	1,352
MARKET CAP (USD mn / SGD mn) :	1,347 / 1,838
52 - WK HI/LO (SGD) :	1.48 / 1.28
3M Average Daily T/O (mn) :	2.11

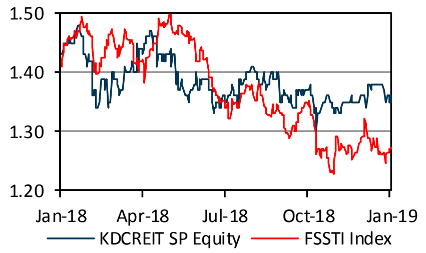
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	29.4%
SUMITOMO MITSUI ASSET MGMT CO	4.8%
VANGUARD GROUP INC	1.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.7)	(1.5)	(0.7)
STI RETURN	(1.4)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Gross Rev. (SGD mn)	99	139	173	186
NPI (SGD mn)	91	125	156	168
Dist. Inc. (SGD mn)	61	82	91	99
P/NAV (x)	1.06	1.05	1.27	1.25
DPU, adj (cents)	6.14	7.12	7.04	7.35
Distribution Yield (%)	6.0	7.0	5.2	5.4

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.0%; Terminal g: 1.5%)

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Financials

FY15 = 12 December 2014 to 31 December 2015

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross rental income	106	97	135	167	182
Other income	2	2	4	6	4
Gross revenue	**108**	**99**	**139**	**173**	**186**
Property expenses	(16)	(8)	(14)	(17)	(18)
Net property income	**91**	**91**	**125**	**156**	**168**
Net Finance (Expense)/Inc	(12)	(11)	(13)	(16)	(17)
Manager's fees	(9)	(9)	(11)	(14)	(16)
Other items	(2)	1	(14)	(6)	(0)
FV change, Invmnt. properties	41	(14)	(9)	-	-
Total Return Before Tax	**110**	**58**	**78**	**120**	**135**
Taxation	(6)	(7)	(7)	(12)	(13)
Total Return After Tax	**104**	**51**	**70**	**108**	**122**
Unitholders	104	51	65	105	119
Non-controlling interest	0	0	5	3	3
Distribution adjustments	(44)	10	17	(14)	(20)
Income available for distribution	**60**	**61**	**82**	**91**	**99**

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV (S$)	0.92	0.95	0.97	1.06	1.08
EPU (cents)	11.80	5.58	5.77	8.20	8.80
DPU (cents)	6.84	6.14	7.12	7.04	7.35

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Total return	104	51	70	108	122
Adjustments	(23)	33	32	28	30
WC changes	(24)	(7)	20	(2)	(5)
Cash generated from ops	56	77	123	134	147
Others	(0)	(1)	(5)	(12)	(13)
Cashflow from ops	**56**	**76**	**118**	**122**	**134**
CFI					
CAPEX, net	(9)	(10)	(12)	(21)	(13)
Purchase of Inv. Propty.	(477)	(111)	(293)	(417)	-
Others	(48)	-	-	-	-
Cashflow from investments	**(533)**	**(121)**	**(305)**	**(438)**	**(13)**
CFF					
Share issuance, net	507	279	-	303	-
Loans, net of repayments	364	189	357	42	-
Dividends	(57)	(58)	(74)	(91)	(100)
Others	(306)	(108)	(273)	(16)	(17)
Cashflow from financing	**507**	**302**	**10**	**238**	**(117)**
Net change in cash	**30**	**257**	**(178)**	**(78)**	**3**
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	38	42

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	1,103	1,226	1,570	2,022	2,035
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	17	19	15	2	2
Total non-current assets	**1,120**	**1,245**	**1,585**	**2,023**	**2,036**
Cash	37	298	118	40	44
Trade receivables	53	39	56	69	76
Others	1	2	4	4	4
Total current assets	**91**	**338**	**178**	**114**	**123**
Total Assets	**1,211**	**1,583**	**1,763**	**2,137**	**2,160**
LIABILITIES					
Trade payables	18	28	48	60	61
Borrowings	34	7	4	4	4
Others	0	0	1	1	1
Total current liabilities	**52**	**35**	**53**	**65**	**66**
Borrowings	338	464	576	618	618
Others	8	10	18	18	18
Total non-current liabilities	**346**	**474**	**594**	**636**	**636**
Total Liabilities	**398**	**509**	**647**	**700**	**701**
Net assets	**813**	**1,074**	**1,117**	**1,437**	**1,458**
Represented by:					
Unitholders' funds	**813**	**1,074**	**1,090**	**1,409**	**1,431**
Non-controlling interest	0	0	27	27	28

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	8.6	18.2	17.6	16.5	15.3
P/NAV (x)	1.10	1.06	1.05	1.27	1.25
P/DPU (x)	14.8	16.5	14.3	19.2	18.4
Distribution Yield (%)	6.74	6.05	7.01	5.21	5.44
NPI yield (%)	8.28	7.81	8.95	8.69	8.30
Growth & Margins (%)					
Growth					
Revenue		-7.9%	40.3%	24.2%	7.7%
Net property income (NPI)		-0.4%	37.6%	24.7%	7.9%
Distributable income		1.1%	34.8%	10.8%	9.0%
DPU		-10.2%	16.0%	-1.1%	4.4%
Margins					
NPI margin	84.8%	91.7%	90.0%	90.4%	90.5%
Key Ratios					
Net Debt or (Net Cash)	334.8	172.7	461.1	580.9	577.4
Gearing (%)	30.7%	29.7%	32.9%	29.1%	28.8%

Source: Company, Phillip Securities Research (Singapore) estimates

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

PhillipCapital

Singapore Exchange Limited

Multi-Asset Strength to Tide SGX Through 2019

StocksBnB.com

4 January 2019

SINGAPORE | FINANCE | UPDATE

- Derivatives volume supported by volatility and investor's need for risk management and hedging.
- Subdued stocks-turnover caused by volatility to place pressure on Securities revenue.
- Post-trade services and Issuer services revenue growth to remain stable.
- Maintain **Buy** with TP of S$9.01.

Company Background

Singapore Exchange is Asia's leading and trusted market infrastructure, operating equity, fixed income and derivatives markets to the highest regulatory standards. As Asia's most international, multi-asset exchange, SGX provides listing, trading, clearing, settlement, depository and data services, with about 40% of listed companies and 75% of listed bonds originating outside of Singapore.

Investment Merits/Outlook

1. **Derivatives thrive on volatility.** With greater volatility, investors' need for risk management increases. SGX has a well-diversified asset class over many equity index products in numerous markets, as well as FX futures (15-16 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 and they have the need to hedge their risks in a volatile global market.

2. **Uncertainties and volatility from the trade war could benefit SGX further in 2019.** In the previous quarter, we saw SGX's derivatives volume spike mainly due to China A50 because of the heightened trade tensions between US and China. Greater volatility creates demand for trading and hedging, and opportunities for arbitrage and speculation.

3. **A rising interest rate environment in 2019 would benefit SGX's collateral management income.** With higher interest rates, SGX will be able to generate more income from higher open interest (therefore more margin) that their customers pay as well as subsequently investing these margin deposits in financial products (such as fixed deposits) with higher yields as interest rates rise.

4. **Room for more growth in the financial futures market.** As more funds move into emerging markets, there is a higher need to hedge their portfolio exposure 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.

5. **We expect Issuer Services to continue as a robust source of revenue.** The main bulk of issuer services revenue comes from the recurring annual fee of all the SGX-listed companies based on market cap. In contrast, the one-off IPO listing fee is not as significant.

Recommendation

Maintain BUY with target price of S$9.01. Any trade war tension and interest rate hikes in 2019 will contribute to volatility and therefore derivatives volume. The SGX-IISL arbitration is currently in a discussion period and proceedings have been deferred until the India Court comes to a decision on the business plan submitted by both SGX and NSE; and remains a financial risk should the injunction prevent SGX from releasing a new product.

BUY (Maintained)

LAST DONE PRICE	SGD 7.15
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 9.01
TOTAL RETURN	**30.4%**

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1,070
MARKET CAP (USD mn / SGD mn) :	5610 / 7652
52 - WK HI/LO (SGD) :	8.5 / 6.72
3M Average Daily T/O (mn) :	2.03

MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.36%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.3)	(19)	0.4
STI RETURN	(1.37)	(5.50)	(6.47)

PRICE VS. STI

Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	801	845	895	952
EBITDA (SGD mn)	460	486	502	526
NPAT (SGD mn)	340	363	383	403
EPS (Cents)	31.8	33.9	35.8	37.7
PER, (X)	23.8	22.3	19.4	18.4
P/BV, (X)	8.2	7.8	6.8	6.9
DPS (Cents)	28.0	30.0	31.5	33.0
Div Yield, (%)	4%	4%	5%	5%
ROE, (%)	33.6%	34.1%	35.2%	36.2%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @25.2x

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Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Securities	205	205	221	213	221
Derivatives	325	303	340	403	447
Others	288	293	284	279	284
Operating revenue	**818**	**801**	**845**	**895**	**952**
Operating expenses	409	399	420	445	477
Operating profit	**409**	**402**	**425**	**450**	**475**
Other gains/(losses)	6	6	11	11	10
Associates & JVs	1	1	1	1	1
Profit Before Tax	**416**	**409**	**437**	**461**	**486**
Taxation	(67)	(69)	(74)	(79)	(83)
Net Income, reported	**349**	**340**	**363**	**383**	**403**
Net Income, adj.	**349**	**340**	**363**	**383**	**403**

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	32.6	31.8	33.9	35.8	37.7
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%	88%

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax and Assoc.&JV	**415**	**407**	**436**	**460**	**485**
Depreciation & Amortisation	60	58	61	52	51
WC changes	17	(21)	(7)	(26)	14
Others	2	3	2	(1)	0
Cash generated from ops	494	447	492	486	550
Tax paid	(70)	(67)	(65)	(79)	(83)
Cashflow from ops	**423**	**380**	**427**	**407**	**467**
CFI					
CAPEX, net	(74)	(60)	(79)	(59)	(72)
Others	11	(87)	(11)	(24)	10
Cashflow from investments	**(63)**	**(147)**	**(90)**	**(84)**	**(62)**
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(332)	(300)	(300)	(401)	(337)
Others	(13)	(9)	(8)	(3)	0
Cashflow from financing	**(345)**	**(308)**	**(308)**	**(404)**	**(337)**
Net change in cash	**15**	**(76)**	**29**	**(81)**	**67**
CCE, end	**806**	**736**	**832**	**640**	**690**

Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	62	80	72	61	62
Software	155	159	174	186	202
Intangible assets	26	64	61	60	59
Goodwill	10	88	89	88	88
Others	55	37	39	112	112
Total non-current assets	**307**	**429**	**435**	**507**	**523**
Accounts receivables	930	815	827	879	926
Cash	806	736	772	640	690
Securities clearing funds	60	60	60	60	60
Others	3	1	22	24	24
Total current assets	**1,799**	**1,613**	**1,680**	**1,603**	**1,700**
Total Assets	**2,105**	**2,041**	**2,115**	**2,111**	**2,223**
LIABILITIES					
Accounts payables	1,013	892	891	903	949
Short term loans	0	0	0	0	0
Others	85	82	95	97	97
Total current liabilities	**1,098**	**973**	**986**	**999**	**1,045**
Long term loans	0	0	0	0	0
Others	18	35	33	31	31
Total non-current liabilities	**18**	**35**	**33**	**31**	**31**
Total Liabilities	**1,116**	**1,009**	**1,019**	**1,031**	**1,077**
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	**990**	**1,033**	**1,096**	**1,080**	**1,147**

Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	22.2	23.8	22.3	20.0	19.0
P/B (X)	7.9	8.2	7.8	7.0	7.1
EV/EBITDA (X), adj.	8.8	9.4	8.9	8.1	7.6
Dividend Yield (%)	3.9%	3.7%	4.0%	4.4%	4.6%
Growth & Margins (%)					
Growth					
Revenue	10.2%	-2.1%	5.5%	6.0%	6.4%
EBITDA	10.0%	-6.8%	12.1%	6.1%	7.1%
EBIT	10.2%	-2.1%	5.5%	5.8%	5.6%
Net profit, adj.	0.0%	-2.7%	6.9%	5.4%	5.3%
Margins					
EBITDA margin	57.3%	57.4%	57.5%	56.1%	55.2%
EBIT margin	50.0%	50.2%	50.3%	50.2%	49.9%
Net profit margin	42.7%	42.4%	43.0%	42.8%	42.3%
Key Ratios					
ROE (%)	35.5%	33.6%	34.1%	35.2%	36.2%
ROA (%)	17.9%	16.4%	17.5%	18.1%	18.6%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, PSR

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

PhillipCapital

United Overseas Bank

Robust Fundamentals to Tackle Headwinds in 2019

BULL AND BEAR™ StocksBnB.com

SINGAPORE | BANKING | UPDATE

- NIM will continue to expand as interest rates rise in key markets.
- Potential for higher dividends based on robust capital position.
- Least exposed to trade war effects from Greater China and Hong Kong.
- Maintain **BUY** with target price of S$32.52.

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. **Rising interest rates in Singapore will drive UOB' NII in FY19;** given that the Federal Reserve is expected raise the rates two times in FY19 and SIBOR's correlation with US rates is high. However, the risk of having a weaker pass-through rate and lesser rate hikes 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.

2. **Potential for higher dividends remain a share price catalyst.** UOB guides dividend pay-out ratio at 50% (inclusive of special dividends, if any), subject to a minimum CET1 ratio of 13.5%. As of 3Q18, UOB's fully loaded CET1 ratio is higher than its peers at 14.1% (DBS: 13.3% and OCBC: 13.6%).

3. **Least exposed to China and trade war repercussions.** UOB's exposure to trade war effects is relatively muted as compared to its peers. As of 3Q18, UOB's exposure to Greater China and Hong Kong loans is 15% (DBS: 31% and OCBC: 26%). The bulk of UOB's loan book is anchored out of SEA, with the majority belonging to Singapore (52%).

4. **NIM expansion to continue despite 3Q18's relatively muted NIM due to the build-up of a stronger funding position in anticipation of higher interest rates and competition for deposits.** Majority of UOB's loan book is pegged to floating rates (c.80%) and the remaining pegged to fixed rates. We expect UOB's NIM to improve as this war chest of funds is progressively deployed as loans.

5. **Loan growth to move at a slower pace at mid-single digit in 2019.** Singapore's loan growth for November 2018 came in at 2.8%, the lowest in two years. Singapore's economic indicators were pointing towards a lacklustre outlook for 2019. UOB has the largest proportion of mortgage loans as compared to total loans at 27% (DBS: 22% and OCBC: 26%).

Recommendation

Maintain BUY rating with a target price of S$32.52 based on Gordon Growth Model. Our top pick from the Singapore Banking Sector is UOB because of (i) continued NIM expansion as interest rates rise in its key markets, (ii) greater potential for higher dividends based on robust capital position and (iii) least exposed to trade war effects from Greater China and Hong Kong.

4 January 2019

BUY (Maintained)

LAST TRADED PRICE	SGD 24.57
FORECAST DIV	SGD 1.15
TARGET PRICE	SGD 32.52
TOTAL RETURN	37.05%

COMPANY DATA

BLOOMBERG TICKER	DBS SP
O/S SHARES (MN) :	1,666
MARKET CAP (USD mn / SGD mn) :	29996 / 40926
52 - WK HI/LO (SGD) :	30.37 / 23.8
3M Average Daily T/O (mn) :	2.40

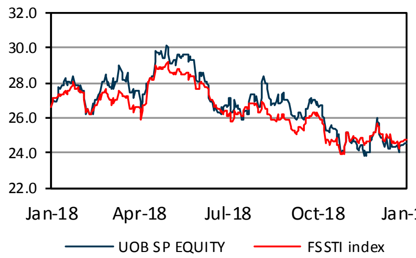
MAJOR SHAREHOLDERS (%)

Wee Investments	7.83%
Wah Hin & Co Pte Ltd	5.16%
Vanguard Group Inc/Wayme	2.14%
BlackRock Fund Advisors	1.55%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.3)	(9.3)	(3.3)
STI RETURN	(1.37)	(5.50)	(6.47)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Total Inc (SGD mn)	8,060	8,778	9,310	10,344
Op Profit (SGD mn)	3,769	4,097	4,861	5,815
NPAT (SGD mn)	3,105	3,407	4,067	4,839
EPS (SGD)	1.82	1.94	2.32	2.78
PER, (X)	11.2	12.7	10.6	8.8
P/BV, (X)	1.1	1.2	1.2	1.1
DPS (SGD)	0.75	1.00	1.15	1.38
ROE, (%)	10.1%	10.1%	11.1%	12.5%

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	FY15	FY16	FY17	FY18e	FY19e
Net Int Income	4,925	4,991	5,528	6,156	6,894
Fees and Commission	1,884	1,931	2,087	2,114	2,390
Other Non-int income	1,239	1,138	1,163	1,040	1,060
Total operating income	**8,048**	**8,060**	**8,778**	**9,310**	**10,344**
Operating expenses	3,596	3,697	3,954	4,059	4,216
Provisions	671	594	727	390	314
Operating profit	**3,781**	**3,769**	**4,097**	**4,861**	**5,815**
Associates & JVs	90	5	110	90	90
Profit Before Tax	**3,871**	**3,774**	**4,207**	**4,951**	**5,905**
Taxation	649	669	800	884	1,066
Profit After Tax	**3,222**	**3,105**	**3,407**	**4,067**	**4,839**
Non-controlling Interest	12	12	16	19	19
Net Income, reported	**3,210**	**3,093**	**3,391**	**4,048**	**4,820**
Net Income, adj.	**3,210**	**3,093**	**3,391**	**4,048**	**4,820**

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Cash bal w central banks	32,306	24,322	26,625	29,076	31,516
Due from banks	28,646	40,033	52,181	49,127	51,767
Investment securities	10,562	11,640	11,273	11,093	11,121
Loans to non-bank cust	203,611	221,734	232,212	253,901	268,437
Others	40,886	42,287	36,294	43,854	44,053
Total Assets	**316,011**	**340,016**	**358,585**	**387,051**	**406,896**
Due to banks	11,986	11,855	11,440	12,403	12,527
Due to non-bank cust	240,524	255,314	272,765	295,689	311,740
Debts issued	20,288	26,143	25,178	27,580	27,856
Others	12,289	13,674	12,171	12,536	12,912
Total liabilities	**285,087**	**306,986**	**321,554**	**348,208**	**365,035**
Shareholder's equity	30,771	32,876	36,852	38,637	41,636
Non-controlling interest	156	169	187	206	225
Total Equity	**30,927**	**33,045**	**37,039**	**38,843**	**41,861**

Per share data

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	1.94	1.82	1.94	2.32	2.78
EPS, adj.	1.94	1.82	1.94	2.32	2.78
DPS	0.9	0.8	1.0	1.2	1.4
BVPS (less pref shares)	17.84	18.82	20.37	21.33	23.13

Supplementary items

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CET1 CAR (%)	13.0%	13.0%	14.7%	14.6%	15.1%
Tier 1 CAR (%)	13.0%	13.1%	16.2%	14.6%	15.1%
Total CAR (%)	15.6%	16.2%	18.7%	17.4%	18.4%

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	10.1	11.2	12.7	10.6	8.8
P/B (X)	1.1	1.1	1.2	1.2	1.1
Dividend Yield (%)	3.7%	3.1%	4.1%	4.7%	5.6%
Growth & Margins (%)					
Growth					
Net interest income	8.1%	1.3%	10.8%	11.4%	12.0%
Non interest income	7.7%	-1.7%	5.9%	-3.0%	9.4%
Pre provision op profit	7.9%	0.1%	8.9%	6.1%	11.1%
Operating income	2.9%	-0.3%	8.7%	18.7%	19.6%
Net income, reported	-1.2%	-3.6%	9.6%	19.4%	19.1%
Margins					
Net interest margin	1.77%	1.71%	1.77%	1.80%	1.90%

Key Ratios (%)					
ROE	11.9%	10.1%	10.1%	11.1%	12.5%
ROA	1.0%	0.9%	1.0%	1.1%	1.2%
RORWA	1.6%	1.4%	1.7%	1.7%	2.0%
Non-int/total income ratio	38.8%	38.1%	37.0%	33.9%	33.4%
Cost/income ratio	44.7%	45.9%	45.0%	43.6%	40.8%
Loan/deposit ratio	84.7%	86.8%	85.1%	85.9%	86.1%
NPL ratio	1.39	1.47	1.78	1.69	1.57

Source: Company, PSR

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

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China Sunsine Chemical Holdings Ltd

Growing production in 2019

SINGAPORE | MINING | UPDATE

- Expect 50% and 12% production growth for insoluble sulphur and TBBS in 2019e
- Expect GPM and NPM sustain at around 30% and 15% in 2019e
- To reach a billion RMB of net cash by FY18. We expect dividends to jump 50% in FY18e

Background

China Sunsine Chemical Holdings Ltd (CSSC) the largest producer of rubber accelerators in the world and the largest producer of insoluble sulphur in China. It is engaged in the production of specialty chemical, rubber accelerators, antioxidant, and insoluble sulphur. Meanwhile, it also produces and supplies heating power for internal usage and to external customers.

Investment Merits/Outlook

1. **New capacity will enter into production in 2019.** 9M18 total sales volume of major products including rubber accelerators, insoluble sulphur (IS) and anti-oxidant grew by 10% YoY to 110.6k tonnes. The utilisation rate of the respective capacity arrived at 95.5%, 127%, and 86.7%. 10k tonnes of the capacity of IS has received the approval for the trial run in Nov-18, and 10k tonnes of that of TBBS was at the finalisation as of Nov-18. With the commencement of operation of both new capacities, the production growth is expected to be 50% and 12% for IS and TBBS respectively.

2. **Stable GPM and NPM owing to the leading position in the niche market.** In 9M18, respective GPM and NPM arrived at a record high of 34.9% and 21.2% (adjusted of one-time credit: 19.3%). Over the past decade, the respective average normalised GPM and NPM is 26% and 11% (8 of 10 years). The stable margins are attributable to the long-term business relationships with top-tier tyre producers and recognised quality by the market.

3. **Expecting a billion of cash hoard by 2018.** As of 3Q18, the cash in hand reached RMB822mn (up 65.8% YTD). We expect the amount of net cash will be more than RMB1bn (closed to one-third of the current market cap) by the end of FY18.CSSC holds zero debt. It is conserving cash in preparation for future capacity expansion.

4. **GP margins are sustainable.** We are expecting FY18e GPM and NPM would be above 30% and over 15% respectively. However, ASP had started to correct since 3Q18 (down 11.1% QoQ) due to the decrease in raw material prices and softer demands. We believe the fall in ASP and cost of raw materials are cyclical. The ramp-up of production will partially offset the drop in prices. CSSC will continue to maintain its leading position in the market. Accordingly, GPM and NPM are expected to sustain at around 30% and 15% respectively in 2019.

Buy with TP of S$1.68

FY18e and FY19e EPS are estimated to be 26.9 SG cents 23.9 SG cents respectively. Based on the required rate of return of 10%, we derive a TP of S$1.68 via FCFE valuation and maintain our BUY call.

4 January 2019

BUY (Maintained)

CLOSING PRICE	SGD 1.240
FORECAST DIV	SGD 0.045
TARGET PRICE	SGD 1.680
TOTAL RETURN	39.1%

COMPANY DATA

Bloomberg Code:	CSSC SP
O/S SHARES (MN) :	491
MARKET CAP (USD mn / SGD mn) :	447 / 609
52 - WK HI/LO (SGD) :	1.65 / 0.91
3M Average Daily T/O (mn) :	1.58

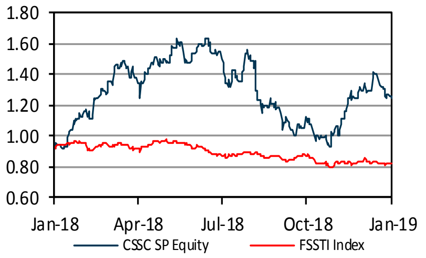
MAJOR SHAREHOLDERS (%)

SUCCESS MORE GROUP	59.7%
CHOON KONG KOH	0.9%
CHENG QIU XU	0.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.3)	20.0	42.3
STI RETURN	(1.4)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, RMB mn	FY16	FY17	FY18e	FY19e
Revenue	2,037	2,738	3,271	3,483
Gross profit	540	788	1,112	1,115
PAT	222	341	640	576
P/E (x)	5.0	6.2	4.8	5.3
P/B (x)	0.8	1.2	1.3	1.1
ROE	16%	20%	27%	21%
ROA	13%	16%	23%	18%

Source: PSR

VALUATION METHOD

FCFE (Cost of Equity: 10.0%; Terminal g: 1.0%)

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Financials

Income Statement

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**1,859**	**2,037**	**2,738**	**3,271**	**3,483**
COGS	(1,367)	(1,497)	(1,950)	(2,159)	(2,368)
Gross profit	**492**	**540**	**788**	**1,112**	**1,115**
EBITDA	**392**	**410**	**567**	**810**	**795**
Depreciation & Amortisation	94	96	90	96	101
EBIT	**298**	**314**	**477**	**714**	**694**
Net Finance (Expense)/Inc	(10)	(4)	-	-	-
PBT	**288**	**310**	**477**	**714**	**694**
Taxation	(92)	(88)	(136)	(73)	(118)
PAT	**195**	**222**	**341**	**640**	**576**

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS (RMB cents)	41.9	47.7	69.4	130.3	117.2
EPS (SG cents)	9.3	10.0	14.8	25.8	23.2
DPS (SG cents)	1.5	1.5	3.0	4.5	4.1
BVPS (RMB)	2.5	2.9	3.5	4.8	5.7
BVPS (SGD)	0.6	0.6	0.8	1.0	1.1

Cash Flow

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	**288**	**310**	**477**	**714**	**694**
Adjustments	102	103	92	66	75
WC changes	133	(124)	(83)	(15)	(83)
Cash generated from ops	**523**	**288**	**486**	**764**	**686**
Others	(93)	(85)	(100)	(73)	(118)
Cashflow from ops	**430**	**203**	**387**	**691**	**568**
CFI					
CAPEX, net	(50.8)	(82.0)	(208.9)	(110.0)	(115.0)
Others	1.2	2.4	3.7	1.5	1.6
Cashflow from investments	**(50)**	**(80)**	**(205)**	**(109)**	**(113)**
CFF					
Loans, net of repayments	(120)	(148)	-	-	-
Dividends	(32)	(33)	(47)	(59)	(112)
Others	(0)	(8)	96	2	-
Cashflow from financing	**(152)**	**(189)**	**50**	**(57)**	**(112)**
Net change in cash	**229**	**(65)**	**231**	**525**	**342**
Effects of exchange rate	(0)	-	(9)	-	-
Ending cash	**340**	**274**	**496**	**1,021**	**1,363**

Source: Company, PSR

Balance Sheet

Y/E Dec, RMB mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	563	549	662	684	699
Others	44	43	41	40	39
Total non-current assets	**606**	**592**	**703**	**725**	**738**
Cash	341	276	500	1,021	1,363
Inventories	142	145	212	203	197
Trade receivables	414	548	638	763	877
Others	83	82	75	93	102
Total current assets	**979**	**1,051**	**1,425**	**2,080**	**2,540**
Total Assets	**1,586**	**1,642**	**2,128**	**2,804**	**3,279**
LIABILITIES					
Trade payables	43	52	71	76	81
Borrowings	145	-	-	-	-
Others	223	229	314	368	389
Total current liabilities	**411**	**281**	**385**	**444**	**471**
Borrowings	-	-	-	-	-
Total non-current liabilities	**-**	**-**	**-**	**-**	**-**
Total Liabilities	**411**	**281**	**385**	**444**	**471**
Total Equity	**1,175**	**1,362**	**1,742**	**2,360**	**2,808**

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	3.9	5.0	6.2	4.8	5.3
P/B (x)	0.7	0.8	1.2	1.3	1.1
EV/EBITDA	1.5	2.1	2.8	2.5	2.2
Growth & Margins (%)					
Growth					
Revenue	-10%	10%	46%	41%	0%
Gross profit	-13%	10%	46%	41%	0%
EBIT	-7%	5%	52%	50%	-3%
PAT	-11%	14%	54%	88%	-10%
Margins					
GP margin	26%	27%	29%	34%	32%
EBIT margin	16%	15%	17%	22%	20%
PAT margin	11%	11%	12%	20%	17%
Key Ratios					
ROE (%)	17%	16%	20%	27%	21%
ROA (%)	12%	13%	16%	23%	18%
Net Debt or (Net Cash)	(196)	(276)	(500)	(1,021)	(1,363)
Gearing (%)	9.1%	0.0%	0.0%	0.0%	0.0%

PhillipCapital

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Geo Energy Resources Ltd

High growth with 5.9% yield

SINGAPORE | MINING | UPDATE

- Expecting a 33.3% ramp-up in production for 2019e
- Capital injection and coal prepayment from Macquarie Bank.
- Attractive dividend yield of 5.9%, third consecutive year of 1 SG cent DPS. Maintain Buy with a TP of S$0.245

Background

Geo Energy Resources Ltd (GEO) is an Indonesian coal producer. Its main business segments comprise of coal mining, coal trading, and related mining services. As of Sep-18, the group has seven mining concessions with more than 100mn tonnes coal reserves.

Investment Merits/Outlook

1. **Expecting significant ramp-up of production in 2019e.** 9M18 sales volume grew 13.5% YoY to 5.9mn tonnes. During the period, the realised average selling price rose by 11.7% YoY to US$44.1/tonne. The estimated sales volume in FY18 is 7.5mn tonnes, comparable to that in FY17. The production miss is due mainly to the disruption on the loading impacted by maintenance work performed by the jetty operators (dredging of the seabed and upgrading of the loading equipment and conveyors). The newly acquired new mine TBR has commenced production in 3Q18. According to the mine plan, SDJ and TBR mine each will produce about 7mn tonnes of coal in FY19e. We believe it will at least achieve 10mn tonnes of sales (up 33.3% YoY) next year.

2. **Favourable deal with Macquarie Bank.** In Nov-18, GEO secured a life-of-mine offtake agreement for TBR mine with Macquarie Bank. The multi-year prepayment facility is structured into three tranches of US$25mn, US$25mn, and US$10mn. Meanwhile, the bank acquired 5% of ordinary shares at a share price of S$0.29 (total capital injection: US15mn). It also subscribed 74mn non-listed, transferable, free warrants with a 2-year expiry at an exercise price of S$0.33.

3. **Attractive dividend yield in the sector.** We expect GEO to maintain a dividend of one SG cents, which implies a 5.9% dividend yield, based on the current price of S$0.168.

4. GEO guided the production target will range from 13mn to 15mn tonnes in FY19. For FY19, we expect a more conservative volume of 10mn tonnes (+33% YoY) and ASP to be US$40/tonne (US$42/tonne FY18e). We expect another acquisition to boost further company's coal reserves. The company has US$205mn cash sitting on its balance sheet as at Sep-18. The primary dual listing in HKEX is expected to be completed in 2Q19. Management expects the listing to translate into more business opportunities into China and access to the Hong Kong capital market.

Buy with TP of S$0.245

FY18e EPS is expected to be 1.7 US cents. Based on a forward PER of 10x (average of regional peers) and the exchange rate (USD/SGD) of 1.37, we maintain our BUY recommendation but with a target price of S$0.245. We expect the earnings to be almost double in 2019e.

4 January 2019

BUY (Maintained)

CLOSING PRICE	SGD 0.171
FORECAST DIV	SGD 0.010
TARGET PRICE	SGD 0.245
TOTAL RETURN	49.1%

COMPANY DATA

Bloomberg Code	GERL SP
O/S SHARES (MN) :	1,399
MARKET CAP (USD mn / SGD mn) :	176 / 239
52 - WK HI/LO (SGD) :	0.29 / 0.16
3M Average Daily T/O (mn) :	2.164

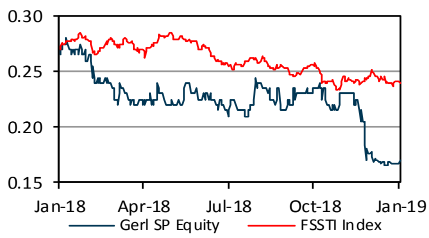
MAJOR SHAREHOLDERS (%)

MELATI CHARLES ANTONN	21.0%
MASTER RESOURCES	15.6%
INTERNATIONAL RES IL	8.4%
THEARE HAW HEAH	5.4%
MACQUARIE BANK LTD	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.5)	(27.0)	(33.7)
STI RETURN	(1.4)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (US$ mn)	182	316	311	410
EBITDA (US$ mn)	53	83	79	111
PATMI (US$ mn)	22	37	24	46
P/E (x)	8.0	7.1	7.3	3.8
P/B (x)	1.5	1.7	1.1	0.9
Dividend yield	4%	4%	6%	6%
ROE	18%	24%	15%	23%
ROA	7%	7%	5%	8%

Source: Company, PSR

VALUATION METHOD

P/E Multiple (PER:10.0x)

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Financials

Income Statement

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**22**	**182**	**316**	**311**	**410**
Gross profit	0	42	78	71	100
EBITDA	**(6)**	**53**	**83**	**79**	**111**
Depreciation & amortisation	5	13	18	15	19
EBIT	**(10)**	**40**	**65**	**64**	**92**
Net Finance (Expense)/Inc	(8)	(6)	(13)	(30)	(30)
PBT	**(18)**	**34**	**52**	**34**	**62**
Taxation	(10)	(10)	(16)	(10)	(15)
PAT	**(28)**	**24**	**37**	**24**	**46**
Loss from discotinued operati	0	(1)	0	0	0
Non-controlling interests	(12)	(0)	(0)	(0)	(0)
PATMI	**(16)**	**22**	**37**	**24**	**46**

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, basic (Cents)	(1)	1.8	2.8	1.7	3.3
EPS, diluted (Cents)	(1)	1.8	2.8	1.7	3.3
DPS (SG cents)	0	1.0	1.0	1.0	1.0
BVPS, basic (Cents)	8	10	12	11	14
BCPS, diluted (Cents)	8	10	12	11	14

Cash Flow

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	(18)	33	52	34	62
Adjustments	16	15	34	42	45
WC changes	23	21	(30)	(69)	(38)
Cash generated from ops	(2)	48	86	76	106
Others	2	(0)	(10)	(22)	(30)
Cashflow from ops	**(0)**	**48**	**76**	**54**	**76**
CFI					
CAPEX, net	(17)	3	(35)	(2)	(3)
Others	(0)	(9)	2	(8)	0
Cashflow from investments	**(17)**	**(6)**	**(33)**	**(10)**	**(3)**
CFF					
Loans, net of repayments	(6)	(2)	213	0	0
Others	(2)	(6)	(26)	(30)	(30)
Cashflow from financing	**(8)**	**(8)**	**187**	**(30)**	**(30)**
Net change in cash	**(26)**	**34**	**229**	**14**	**43**
Effects of exchange rate	(1)	0	0	0	0
Ending cash	**7**	**63**	**262**	**207**	**212**

Source: Company, PSR

Balance Sheet

Y/E Dec, US mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PP&E	132	103	182	170	161
Deferred stripping costs	1	10	8	38	50
Others	13	9	14	36	40
Total non-current assets	**146**	**122**	**204**	**245**	**250**
Cash	12	68	266	212	217
Trade receivables	33	103	51	31	61
Others	24	16	30	41	53
Total current assets	**69**	**188**	**346**	**284**	**331**
Total Assets	**215**	**309**	**550**	**529**	**581**
LIABILITIES					
Borrowings	72	69	288	293	293
Others	3	1	3	4	4
Total non-current liabilities	**75**	**70**	**291**	**297**	**297**
Trade payables	40	107	92	74	81
Borrowings	7	0	0	0	0
Others	0	7	12	2	2
Total current liabilities	**46**	**114**	**104**	**75**	**83**
Total Liabilities	**121**	**184**	**396**	**372**	**380**
Shareholder Equity	**94**	**124**	**153**	**155**	**200**
Non-controlling interests	0.2	0.2	1.3	1.3	1.2

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.M.	8.0	7.1	7.3	3.8
P/B (x)	1.3	1.5	1.7	1.1	0.9
EV/EBITDA	N.M	4	4	4	3
Growth & Margins (%)					
Growth					
Revenue	-58%	N.M.	74%	-2%	32%
EBITDA	N.M.	N.M.	58%	-5%	40%
EBIT	N.M.	N.M.	64%	-1%	43%
PATMI	N.M.	N.M.	65%	-35%	94%
Margins					
Gross margin	N.M.	23%	25%	23%	24%
EBIT margin	N.M.	22%	21%	21%	22%
PATMI margin	N.M.	12%	12%	8%	11%
Key Ratios					
Dividend yield (%)	0%	4%	4%	6%	6%
ROE (%)	N.M.	18%	24%	15%	23%
ROA (%)	N.M.	7%	7%	5%	8%
Net Debt or (Net Cash)	66	1	23	81	76
Gearing (%)	37%	22%	52%	55%	50%

N.M.: not meaningful

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

PhillipCapital

Sheng Siong Group

Record store openings

BULL AND BEAR™ StocksBnB.com

SINGAPORE | CONSUMER | UPDATE

- Expanding at a record 10 stores in 2018. This will provide revenue support for 2019e. Market share gains in supermarkets is another revenue driver.
- Rising gross margins from higher contribution of fresh products.
- Maintain ACCUMULATE with target price at S$1.13 based on 4.93 cents FY18e EPS and 23x 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

1. **Record expansion underway in 2018.** SSG has undergone a record expansion of 10 new stores in 2018. The expansion will support revenue growth in FY19e. There is another 9 new stores likely to be opened in 2019. In addition to store expansion, productivity at the stores has been improving. Store revenue per sft has been rising around 4% p.a. over the past 5-years.
2. **Rising gross margins is an impressive trend.** Gross margins for SSG has been expanding every year for the past 6-years. The expansion has been driven by higher contribution from the 34% GP margin fresh food product segment (vs 19% non-fresh). In fresh food, the underlying trend is to grab 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.
3. **More rational bidding of stores.** Bulk of SSG stores are in HDB estates. Such stores are secured by open bidding. Some store location can be bid as high as S$14 or as low as S$6. The recent round of bidding have seen improved rationality. The authorities appear to focus more other factors rather than pure highest bidder. The affordability of the items offered at the awarded stores is a key consideration.
4. **Threat from e-commerce muted.** We were initially wary of the threat from the entry of e-commerce giant Amazon into Singapore. The impact from Amazon has been muted. Prices offered are comparable to SSG and there less options on fresh products. The area e-commerce is taking share is in heavy and bulky items such as beer, diapers, etc.
5. **Attractive metrics.** SSG offers attractive investment metrics with ROE of 25% and a net cash balance sheet of S$89mn. It also pays a dividend yield of 3%.
6. **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 start by targeting middle-upper class but that has gained little traction. There is now a refocus on mass market and gradually build a brand around this.

Recommendation

Maintain ACCUMULATE with target price at S$1.13 based 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) increase productivity or revenue per sft for the stores.

4 January 2019

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.06
FORECAST DIV	SGD 0.033
TARGET PRICE	SGD 1.13
TOTAL RETURN	9.7%

COMPANY DATA

BLOOMBERG CODE	SSG SP
O/S SHARES (MN) :	1,504
MARKET CAP (USD mn / SGD mn) :	1168 / 1594
52 - WK HI/LO (SGD) :	119 / 0.9
3M Average Daily T/O (mn) :	169

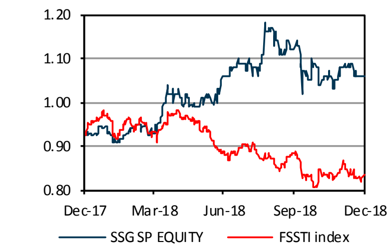
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(19)	(5.4)	18.4
STI RETURN	(113)	(5.97)	(6.83)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (SGD mn)	797	830	892	955
EBITDA (SGD mn)	82	89	94	106
NPAT (adj.)	63	70	69	78
EPS (adj.)	4.17	4.64	4.60	5.18
PER, x (adj.)	25.4	22.8	23.1	20.5
P/BV, x	6.3	5.9	5.5	5.1
DPS (SGD cents)	3.8	3.3	3.3	3.7
Div Yield, %	3.5%	3.1%	3.1%	3.5%
ROE, %	25.2%	26.7%	24.6%	25.8%

Source: Company Data, PSR est.

Valuation Method

P/E Multiple @ 25x

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**764**	**797**	**830**	**892**	**955**
Gross profit	189	205	217	238	252
EBITDA	**73**	**82**	**89**	**94**	**106**
Depreciation & Amortisation	13	15	15	17	18
EBIT	**66**	**76**	**82**	**82**	**93**
Net Finance Inc/(Exp)	1	1	0	1	1
Profit Before Tax	**68**	**76**	**82**	**83**	**94**
Taxation	(11)	(13)	(13)	(14)	(16)
Profit After Tax	**57**	**63**	**70**	**69**	**78**
Non Controlling Interest	0	0	(0)	(0)	(0)
Net profit, reported	**57**	**63**	**70**	**69**	**78**
Net profit, adj.	**57**	**63**	**70**	**69**	**78**

Per share data (SGD Cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	3.78	4.17	4.64	4.60	5.18
EPS, adj.	3.78	4.17	4.64	4.60	5.18
DPS	3.50	3.75	3.30	3.25	3.67
BVPS	16.24	16.76	18.00	19.34	20.85

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	68	76	82	83	94
Adjustments	12	14	15	16	18
WC changes	3	1	-9	10	-4
Cash generated from ops	82	91	87	109	107
Others	(9)	(13)	(9)	(14)	(16)
Cashflow from ops	73	78	79	95	91
CFI					
CAPEX, net	(30)	(89)	(18)	(31)	(29)
Others	1	1	0	1	1
Cashflow from investments	(29)	(89)	(17)	(31)	(28)
CFF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	0	0	0	0	0
Dividends	(49)	(55)	(51)	(49)	(55)
Others	0	0	0	0	0
Cashflow from financing	(49)	(55)	(51)	(49)	(55)
Net change in cash	(5)	(66)	10	15	8
Effects of exchange rates	0	0	(0)	0	0
CCE, end	**126**	**64**	**73**	**89**	**97**

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	178	252	255	269	280
Others	0	0	0	0	0
Total non-current assets	**178**	**252**	**255**	**269**	**280**
Accounts receivables	12	10	15	13	14
Cash	126	64	73	89	97
Inventories	52	62	61	64	69
Others	0	0	0	0	0
Total current assets	**190**	**136**	**149**	**167**	**180**
Total Assets	**368**	**388**	**404**	**436**	**460**
LIABILITIES					
Accounts payables	109	118	111	124	125
Short term loans	0	0	0	0	0
Others	13	13	17	17	17
Total current liabilities	**121**	**131**	**128**	**140**	**142**
Long term loans	0	0	0	0	0
Others	2	2	3	3	3
Total non-current liabilities	**2**	**2**	**3**	**3**	**3**
Total Liabilities	**124**	**133**	**130**	**143**	**145**
EQUITY					
Non-controlling interests	0	3	2	2	2
Shareholder Equity	**244**	**252**	**271**	**291**	**313**

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	28.1	25.4	22.8	23.1	20.5
P/B (X)	6.5	6.3	5.9	5.5	5.1
EV/EBITDA (X), adj.	20.2	18.7	17.2	16.1	14.2
Dividend Yield (%)	3.3%	3.5%	3.1%	3.1%	3.5%
Growth & Margins (%)					
Growth					
Revenue	5.3%	4.2%	4.2%	7.5%	7.0%
EBITDA	11.8%	12.6%	8.5%	5.5%	13.1%
EBIT	17.0%	13.7%	8.2%	0.7%	12.9%
Net profit, adj.	19.3%	10.3%	11.4%	-1.0%	12.7%
Margins					
Gross margin	24.7%	25.7%	26.2%	26.7%	26.4%
EBITDA margin	9.5%	10.3%	10.7%	10.5%	11.1%
EBIT margin	8.7%	9.5%	9.9%	9.2%	9.8%
Net profit margin	7.4%	7.9%	8.4%	7.7%	8.2%
Key Ratios					
ROE (%)	23.6%	25.2%	26.7%	24.6%	25.8%
ROA (%)	15.9%	16.6%	17.6%	16.5%	17.4%
Net Debt/(Cash)	(126)	(64)	(73)	(89)	(97)
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

PhillipCapital

CapitaLand Limited

Steady recurrent earnings and a China tailwind

StocksBnB.com

SINGAPORE | REAL ESTATE | UPDATE

- Bumping up recurring income with acquisition of US multifamily portfolio and development of the third Raffles City integrated project in Shanghai through its RCCIP III fund.
- Healthy same-store tenant sales growth in key markets - Singapore and China.
- Maintain Accumulate with a target price of S$4.00.

Background

CapitaLand (CAPL) is one of Asia's largest real estate companies. Headquartered and listed in Singapore, it is an owner and manager of a global portfolio worth over S$92bn as at 30 September 2018, comprising integrated developments, shopping malls, lodging, offices, homes, real estate investment trusts (REITs) and funds. Present across more than 160 cities in over 30 countries, the Group focuses on Singapore and China as core markets, while it continues to expand in markets such as Vietnam and Indonesia.

Investments Merits/Outlook

1. **Expanding recurring income portfolio.** Recurring income now accounts for 88% of earnings (9M18 EBIT), as investment properties have almost doubled in three years. Operating metrics of the portfolio, from occupancy to visitor arrivals/tenant sales, is stable. CAPL invested in a S$1.1bn portfolio of US multifamily properties and a 70% stake in TAUZIA, Indonesia's leading hotel operator, further boosting its recurring income portfolio. Operating PATMI improved 13.3% YoY in 3Q18 from new properties in Singapore, China and Germany. CAPL had also announced its third Raffles City integrated development in Shanghai via its Raffles City China Investment Partners III (RCCIP III) fund – construction is expected to be completed by June 2019. These are all in line with CAPL's aim of adding S$10bn AUM by 2020 and its overall portfolio reconstitution strategy.
2. **Tailwind from China residential.** Management communicated that 4Q18 will be a bumper quarter for China residential pre-sales, as evidenced by the c.S$397mn (RMB2bn) of China residential sales recorded in September/October. Launched units in 4Q18 YTD saw >90% take-up rates for La Botanica, The Metropolis, The Lakeside, and Parc Botanica. Healthy momentum is expected to persist for the remaining c.1850 units in 4Q18, the release of which will be subject to regulatory approval.
3. **Active capital redeployment.** Acquisition of two prime residential sites in Guangzhou, which will yield c.1300 units by 2021, closely follows the acquisition of a mixed-use site in Chongqing. Fair value gains of S$131.5mn were also recognised from the divestment of CAPL's 70% stake in Westgate. Only Singapore residential exposure would be Pearl Bank Apartments acquired by CAPL in Jan 2018 and the Sengkang Central mixed-use site (JV with City Developments Ltd).

Recommendation

Maintain ACCUMULATE with target price of S$4.00. With the healthy pace of China residential sales and increasingly recurrent nature of its earnings, we believe CAPL is in good stead to continue delivering steady earnings. CAPL has also proven its track record in improving existing recurrent income portfolio, on a same-store sales basis. For context, Singapore retail portfolio saw +2.2% (vs CMT's +0.5%) in YoY tenant sales growth in 9M18, largely driven by ION Orchard. Retail portfolio in China (CAPL's largest retail portfolio) clocked in a robust +20.9% YoY tenant sales growth in 9M18.

4 January 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 3.09
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 4.00
TOTAL RETURN	**33.3%**

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN) :	4,163
MARKET CAP (USD mn / SGD mn) :	9420 / 12863
52 - WK HI/LO (SGD) :	3.88 / 2.98
3M Average Daily T/O (mn) :	6.25

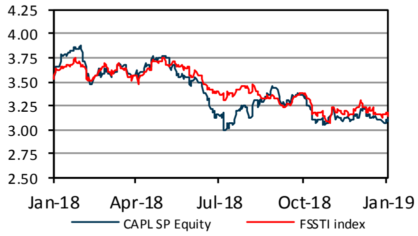
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	-0.3	(7.7)	(9.0)
STI RETURN	(14)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY16	FY17	FY18e	FY19e
Revenue	5,252	4,610	5,205	4,954
Gross Profit	1,598	1,838	1,718	1,684
EBIT	1,652	2,234	1,926	1,909
EPS (SGD)	0.28	0.37	0.25	0.24
P/E (x)	11.0	8.4	12.3	13.1
P/BV (x)	0.7	0.7	0.7	0.7
DPS (SGD)	0.10	0.12	0.12	0.12
Div Yield, %	3.2%	3.9%	3.9%	3.9%
ROE, %	6.8%	8.4%	5.6%	5.1%

Source: Company Data, Bloomberg

Valuation Method
RNAV

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**4,762**	**5,252**	**4,610**	**5,205**	**4,954**
Gross Profit	1,475	1,598	1,838	1,718	1,684
Depreciation & Amortisation	3	3	7	4	5
EBIT	1,590	1,652	2,234	1,926	1,909
Net Finance (Expense)/Inc	(477)	(453)	(487)	(766)	(876)
Associates & JVs	726	708	877	616	629
Profit Before Tax	1,839	1,907	2,624	1,776	1,662
Taxation	(344)	(403)	(298)	(302)	(283)
Profit After Tax	1,495	1,504	2,326	1,474	1,380
Non-Controlling Interest	430	314	775	408	376
Net Income, reported	1,066	1,190	1,551	1,067	1,003

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.25	0.28	0.37	0.25	0.24
DPS	0.09	0.10	0.12	0.12	0.12
BVPS	3.94	4.22	4.33	4.34	4.50

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit for the year	1,495	1,504	2,326	1,474	1,380
Adjustments	(1,081)	(902)	(1,499)	(968)	(1,013)
WC changes	1,548	2,250	961	703	1,023
Cash generated from ops	2,727	3,655	2,510	2,199	2,460
Taxes paid, others	(261)	(350)	(344)	(302)	(283)
Cashflow from ops	2,467	3,305	2,166	1,897	2,178
CFI					
CAPEX, net	(62)	(75)	(142)	(93)	(104)
Cashflow from investments	154	(71)	(1,770)	575	14
CFF					
Dividends paid	(384)	(383)	(425)	(510)	(510)
Cashflow from financing	(1,213)	(2,462)	979	(1,770)	(2,040)
Net change in cash	1,408	772	1,376	702	151
Effects of exchange rates	40	(129)	(47)	-	-
CCE, end	4,153	4,778	6,080	6,782	6,933

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	808	781	840	671	503
Associates & JVs	12,858	12,617	10,197	10,200	10,316
Investment Properties	19,428	18,998	36,479	36,620	37,237
Others	1,332	1,578	1,702	1,608	1,662
Total non-current assets	**34,426**	**33,976**	**49,219**	**49,098**	**49,718**
Development properties	6,936	4,837	4,074	2,789	1,763
Accounts Receivables	1,424	1,859	1,471	1,686	1,646
Cash balance	4,173	4,793	6,105	6,782	6,933
Others	92	277	577	579	580
Total current assets	**12,627**	**11,765**	**12,227**	**11,836**	**10,922**
Total Assets	**47,053**	**45,741**	**61,446**	**60,934**	**60,640**
LIABILITIES					
Short term loans	2,246	2,373	2,739	3,271	3,271
Accounts Payables	4,063	4,685	5,442	5,076	5,033
Others	620	670	622	527	527
Total current liabilities	**6,930**	**7,728**	**8,803**	**8,874**	**8,831**
Long term loans	13,812	12,479	18,956	18,625	18,625
Others	1,373	1,233	1,604	1,403	1,413
Total non-current liabilitie:	**15,185**	**13,712**	**20,560**	**20,028**	**20,039**
Total Liabilities	**22,115**	**21,440**	**29,363**	**28,903**	**28,870**
EQUITY					
Shareholder Equity	17,905	17,605	18,382	19,057	19,484
Non-controlling interest	7,032	6,696	13,701	12,975	12,287
Total Equity	**24,938**	**24,300**	**32,083**	**32,031**	**31,771**

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	12.4	11.0	8.4	12.3	13.1
P/B (X)	0.8	0.7	0.7	0.7	0.7
Dividend Yield (%)	2.9%	3.2%	3.9%	3.9%	3.9%
Growth & Margins (%)					
Growth					
Revenue	21.3%	10.3%	-12.2%	12.9%	-4.8%
EBIT	8.4%	3.9%	35.2%	-13.8%	-0.9%
Net Income, adj.	-15.0%	0.6%	54.6%	-36.6%	-6.4%
Margins					
EBIT margin	33.4%	31.4%	48.5%	37.0%	38.5%
Net Profit Margin	31.4%	28.6%	50.5%	28.3%	27.9%
Key Ratios					
ROE (%)	6.0%	6.8%	8.4%	5.6%	5.1%
ROA (%)	2.3%	2.6%	2.5%	1.8%	1.7%
Gearing (X)	0.34	0.32	0.35	0.36	0.36

Source: Company, Phillip Securities Research (Singapore) Estimates

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

PhillipCapital

ComfortDelGro Corp Ltd

Back on track

Bull and Bear™ StocksBnB.com

SINGAPORE | TRANSPORT SERVICES | UPDATE

- Earnings recovery in FY2019, as Taxi competition becomes rational, DTL loss continue to narrow and new acquisitions contribute positively
- Dividend is sustainable, underpinned by strong balance sheet and positive cash flow
- Maintain Buy; unchanged target price of $2.69

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 contribution to operating profit coming from Singapore (59.3%), Australia (14.9%), UK/Ireland (14.4%) and China (11.4%). 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. The recent acquisition of bus businesses in Singapore, Australia and UK should contribute positively as they gradually integrate into the Group. 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 to be expected for North East Line, due to higher maintenance expenses for the renewal of the line.

2. **Worst is over for Taxi business segment.** After scrapping older taxis over the past one to two years, CDG has embarked on a fleet renewal programme, purchasing 1,200 new taxis, with a net addition of 300-400 taxis. Taxi profits should consequently find a trough, indicating that the worst is over. Competition from the ride-hailing space has become more rational following Grab's acquisition of Uber. Grab has also said that it would not going to engage in a price war with Go-Jek, so we do not think there will be a prolonged exodus of drivers to private-hire cars again. Moreover, the key difference now is the deadline for attaining the Private Hire Car Driver's Vocational Licence (PDVL) at the end of June 2018 has the effect of limiting the available pool of private hire drivers.

3. **Ability to pay sustainable dividend level.** CDG has a dividend policy of at least 50% payout ratio. CDG has paid out an increasing trend from 56% in FY13 to 77% in FY17, over the most recent five years. 1H FY18 interim dividend was 4.35 cents and 67% payout ratio (1H FY17: 4.35 cents, 58% payout ratio). Estimated FY18e full year dividend of 10.40 cents/share approximates to an annualised ~5% yield. Dividend amount payable for FY18e is S$225mn and we believe it is sustainable as it is supported by ~S$370mn of positive free cash flow.

Recommendation

Maintain Buy with DCF-derived target price of $2.69. Transition to asset-light models for Singapore bus and rail has resulted in sustainable positive cash flow. FY17 dividend was 10.4 cents and should be sustainable going forward.

4 January 2019

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.17
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.69
TOTAL RETURN	28.8%

COMPANY DATA

BLOOMBERG CODE:	CD SP
O/S SHARES (MN) :	2,165
MARKET CAP (USD mn / SGD mn) :	3444 / 4698
52 - WK HI/LO (SGD) :	2.51/ 196
3M Average Daily T/O (mn) :	8.82

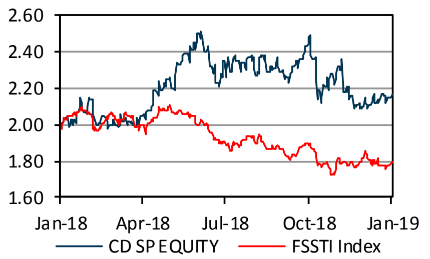
MAJOR SHAREHOLDERS (%)

BLACKROCK	7.0%
SCHRODERS PLC	5.0%
VANGUARD GROUP INC	2.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.4	(11.5)	13.7
STI RETURN	(1.4)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY16	FY17	FY18e	FY19e
Revenue (SGD mn)	4,060	3,971	3,764	3,926
PATMI, adj (SGD mn)	317	290	303	311
EPS, adj. (cents)	14.7	13.4	14.0	14.4
P/E, adj. (x)	19.7	15.3	15.5	15.1
BVPS (cents)	148	140	144	149
P/B (x)	2.0	1.5	1.5	1.5
DPS (cents)	10.3	10.4	10.4	10.4
Div. Yield (%)	3.6	5.1	4.8	4.8

Source: Company Data, PSR est.

VALUATION METHOD

DCF (WACC: 8.3%; Terminal g: 1.0%)

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Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	**4,112**	**4,060**	**3,971**	**3,764**	**3,926**
EBITDA	**840**	**858**	**818**	**819**	**839**
Depreciation & Amortisation	(389)	(396)	(409)	(387)	(396)
EBIT	**451**	**462**	**409**	**433**	**442**
Net Finance (Expense)/Inc	(3)	(1)	12	0	(1)
Associates & JVs	5	5	5	4	3
Profit Before Tax	**452**	**467**	**425**	**437**	**445**
Taxation	(88)	(88)	(77)	(82)	(83)
Profit After Tax	**364**	**378**	**349**	**355**	**362**
- Non-controlling interest	62	61	47	52	51
PATMI, reported	**302**	**317**	**302**	**303**	**311**
PATMI, adj.	**302**	**317**	**290**	**303**	**311**

* FY17 has not been restated for SFRS(I) 15.

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	14.1	14.7	14.0	14.0	14.4
EPS, adj.	14.1	14.7	13.4	14.0	14.4
DPS	9.0	10.3	10.4	10.4	10.4
BVPS	140	148	140	144	149

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
PBT	452	467	425	437	445
Adjustments	253	291	374	382	394
WC changes	(23)	9	(146)	(5)	5
Cash generated from ops	682	766	654	815	844
Others	(82)	(63)	(72)	(82)	(83)
Cashflow from ops	**600**	**703**	**582**	**733**	**761**
CFI					
CAPEX, net	(388)	(388)	(284)	(360)	(321)
Divd from associates & JVs	3	3	7	6	5
Others	13	14	23	(394)	13
Cashflow from investments	**(372)**	**(371)**	**(254)**	**(748)**	**(303)**
CFF					
Share issuance, net	18	13	12	-	-
Loans, net of repayments	(190)	(209)	(52)	89	-
Dividends	(214)	(230)	(283)	(264)	(267)
Others	117	106	(184)	(12)	(14)
Cashflow from financing	**(269)**	**(321)**	**(507)**	**(187)**	**(281)**
Net change in cash	**(41)**	**10**	**(179)**	**(202)**	**177**
Effects of exchange rates	3	(19)	(4)	-	-
CCE, end	**788**	**779**	**596**	**394**	**571**

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	2,909	2,887	2,723	2,830	2,754
Intangibles	673	645	640	913	913
Receivables	268	241	238	238	238
Others	87	98	61	59	58
Total non-current assets	**3,937**	**3,871**	**3,662**	**4,040**	**3,963**
Inventories	75	82	114	124	130
Accounts Receivables	139	237	251	275	287
Prepayments	277	153	195	203	212
Cash	788	779	596	394	571
Others	1	-	-	-	-
Total current assets	**1,280**	**1,251**	**1,156**	**996**	**1,199**
Total Assets	**5,216**	**5,122**	**4,817**	**5,036**	**5,162**
LIABILITIES					
Short term loans	126	169	114	203	203
Accounts Payables	833	771	677	715	746
Others	177	171	154	154	154
Total current liabilities	**1,137**	**1,112**	**945**	**1,072**	**1,103**
Long term loans	432	176	208	208	208
Others	635	643	637	637	637
Total non-current liabilities	**1,067**	**818**	**845**	**845**	**845**
Total Liabilities	**2,204**	**1,930**	**1,790**	**1,917**	**1,947**
EQUITY					
Non-controlling interest	678	717	420	433	441
Shareholder Equity	**2,335**	**2,476**	**2,608**	**2,686**	**2,773**

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x), adj.	20.6	19.7	15.3	15.5	15.1
P/B (x)	2.1	2.0	1.5	1.5	1.5
EV/EBITDA (X), adj.	7.1	6.8	5.1	5.8	5.4
Dividend Yield (%)	3.1%	3.6%	5.1%	4.8%	4.8%
Growth & Margins (%)					
Growth					
Revenue	1.5%	-1.3%	-2.2%	-5.2%	4.3%
EBITDA	5.6%	2.2%	-4.7%	0.2%	2.3%
EBIT	1.9%	2.6%	-11.5%	5.8%	2.2%
Net Income, adj.	6.5%	5.0%	-8.4%	4.5%	2.6%
Margins					
EBITDA margin	20.4%	21.1%	20.6%	21.8%	21.4%
EBIT margin	11.0%	11.4%	10.3%	11.5%	11.3%
PBT margin	11.0%	11.5%	10.7%	11.6%	11.3%
Net Profit Margin	7.3%	7.8%	7.3%	8.1%	7.9%
Key Ratios					
ROE	13.3%	13.2%	11.4%	11.5%	11.4%
ROA	5.8%	6.1%	5.8%	6.2%	6.1%
Dividend Payout	64.0%	70.0%	74.6%	74.2%	72.3%
Net Debt or (Net Cash)	(229)	(434)	(274)	17	(159)
Net Gearing (x)	Net Cash	Net Cash	Net Cash	0.6%	Net Cash

Source: Company Data, PSR est.

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

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