

# Singapore Morning Cuppa

## Top Story

### Dairy Farm (DFI SP, NEUTRAL, TP: USD9.60)

Slow Route To Recovery; Prefer Sheng Siong Company Update

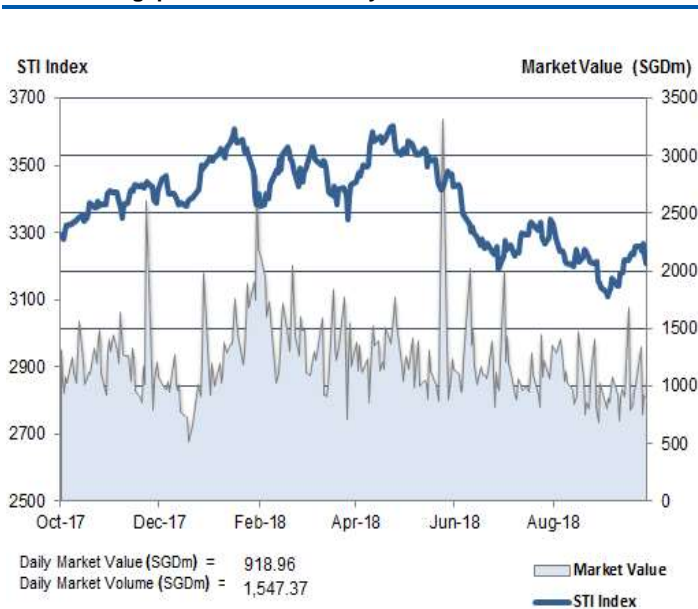
Maintain NEUTRAL, TP of USD9.60, 5% upside. Recently, a post on Facebook suggested there could be a number of Giant store closures, or changes in Singapore. While the post was not made by Dairy Farm, we believe the move is in line with management's guidance to close or relocate underperforming stores. As such, we do not expect to see a strong recovery in its food division in 2H, as the growth of the supermarket industry in Hong Kong and ASEAN remains subdued, and the group is still reviewing its store portfolio. Our top sector pick is Sheng Siong (SSG SP, BUY, TP: SGD1.30).

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*Today's report:* [Dairy Farm : Slow Route To Recovery; Prefer Sheng Siong \(8 Oct 2018\)](#)

*Previous report:* [Dairy Farm : Inadequate Food To Be Healthy And Beautiful \(30 Jul 2018\)](#)

**Chart 1 : Singapore market summary**



Source: Bloomberg

Note: \*As at 5 Oct 2018 closing

**Table 1: Market indices & economic data (5 Oct 2018)**

Indicators	Last Close	Last 3M % chg	YTD % chg
STI Index	3,209.79	(1.1)	1.7
MSCI Singapore Index	364.13	(0.4)	1.9
USDSGD Exchange Rate	1.38	1.3	0.5
Singapore 10YR Bond Yield %	2.60	5.2	8.2
Singapore 3M SIBOR %	1.50	4.3	(4.0)
FTSE ST Real Estate Index	770.92	(2.6)	(3.1)
FTSE ST Mid Cap Index	729.71	2.1	1.5
FTSE ST Small Cap Index	350.55	(4.1)	(2.5)
MSCI Singapore Financials Index	350.32	(2.0)	2.5
Singapore Retail Sales Index (YoY)	-2.60	(3.4)	(8.9)
Singapore Manufacturing Index	52.40	(0.2)	(0.4)
Gold	1,205.60	(4.7)	0.4
Brent Crude Oil (USD/bbl)	82.67	4.1	6.8
WTI (USD/bbl)	74	0.3	8.2
COE (A < 1600cc and Taxis)	28,457	13.8	(5.8)
COE (B > 1600cc)	31,301.00	1.0	(2.2)
Quarterly GDP (YoY) %	3.90	(0.6)	0.3
Inflation Rate (YoY) %	0.70	0.3	0.3
Unemployment Rate %	2.10	5.0	0.0

Source: Bloomberg

**Top BUYs**

	TP (SGD)	Upside (%)	
<b>China Aviation Oil (CAO SP)</b>	1.75	15.1	<ul style="list-style-type: none"> <li>Return to 12.5% earnings growth in 2018 after witnessing a 3.4% decline in 2017</li> <li>Growth to be aided by higher jet fuel supply volume to Chinese aviation market, higher jet fuel and gasoil trading profits and increase in profit from associates</li> <li>Stock is trading at less than 1x 2018F PEG</li> </ul>
<b>DBS (DBS SP)</b>	30.30	17.6	<ul style="list-style-type: none"> <li>Rising Fed Fund rate will widen DBS' NIM more than its peers</li> <li>Efforts at digitisation will help to improve revenue and enhance efficiency over the next few years</li> <li>Newsflow of further hikes in the Fed Fund rate should catalyse DBS share price higher</li> </ul>
<b>Fu Yu Corp (FUYU SP)</b>	0.22	24.3	<ul style="list-style-type: none"> <li>Expect an increase in dividend to SGD0.016 for FY18, implying a yield of 9.2%</li> <li>Sustained improvement in profitability in subsequent quarters aided by high-margin new projects and acceleration in ramp up of projects</li> <li>Expect PATMI to grow by 72% in FY18</li> </ul>
<b>HRnet Group (HRNET SP)</b>	1.18	35.6	<ul style="list-style-type: none"> <li>24% profit growth in FY18 amidst strong growth in North Asia and Singapore across all segments</li> <li>Likely to undertake more acquisitions in the near future and focus on new markets</li> <li>HRNET is also likely to continue its share buyback scheme which should support the share price</li> </ul>
<b>Moya Asia (MHAL SP)</b>	0.13	58.5	<ul style="list-style-type: none"> <li>Likely to undertake an earnings accretive acquisition in 4Q18</li> <li>In talks with the Government to extend its Aquatico concession and an agreement could be finalised soon</li> <li>c.18% profit growth in FY19F aided by uptrend in organic water sales and lower financing cost</li> </ul>
<b>Sheng Siong (SSG SP)</b>	1.30	15.0	<ul style="list-style-type: none"> <li>Eight new stores in 2018, which should support growth during FY18-20F</li> <li>20% increase in distribution centre capacity by 2019 should improve cost efficiencies</li> <li>Earnings to grow at CAGR of 10% over the next three years</li> </ul>
<b>Singapore Medical (SMG SP)</b>	0.56	24.4	<ul style="list-style-type: none"> <li>Lowest P/E valuation amongst its healthcare peers in Singapore</li> <li>Expecting 40% profit growth in FY18, aided by the addition of 6-8 special doctors, opening of new clinics, and expansion of SW1 brand overseas</li> <li>Likely to open the SW1 branch in Vietnam soon as it has already hired two aestheticians</li> </ul>
<b>SingTel (ST SP)</b>	3.70	15.3	<ul style="list-style-type: none"> <li>FY20F EV/EBITDA is at a discount to its historical mean of 13.5x</li> <li>Prospective dividend yield of over 5%</li> <li>Remains our preferred exposure in telecom given its diversified exposure and sustainable dividends</li> </ul>
<b>ST Engineering (STE SP)</b>	3.97	12.5	<ul style="list-style-type: none"> <li>Strong orderbook with 2-year revenue visibility and +4% yield support our positive view on this stock</li> <li>Aerospace to support profit growth through passenger-to-freighter (P2F) conversions and increase in MRO capacity</li> <li>Electronics &amp; Land Systems focusing on smart city-related contracts in and outside Singapore and higher defence exports</li> </ul>
<b>UOB (UOB SP)</b>	33.30	24.7	<ul style="list-style-type: none"> <li>Beneficiary of rising interest rates, which will widen the NIM</li> <li>Expect UOB to record stronger net interest income going forward</li> <li>High CET1 CAR provides scope for more dividends going forward</li> </ul>
<b>Wilmar (WIL SP)</b>	3.69	15.7	<ul style="list-style-type: none"> <li>Largest downstream player in the palm oil processing</li> <li>Wilmar to be a key beneficiary of improving biodiesel and oleo-chemicals demand</li> <li>IPO of its China operations in FY19F to unlock the value of its China consumer business</li> </ul>

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