

## Singapore Thematic

### Remaking Singapore: a Never-Ending Process

- Singapore's transformation never stops.** Constrained by space and population size, Singapore (SG) has always had to think smart to meet its challenges. With a clear vision on development and strong leadership, its performance over the past few decades has been remarkable. However, the country is not resting on its laurels and continues to work towards transforming the economy, to better navigate uncharted waters of an increasingly turbulent and uncertain world. We believe government policies that address the demographic changes, disrupt existing industries through introducing technology, and help in building world-class infrastructure, will be some of the key changes that SG will witness over the next decade.
- Real estate sector to evolve amidst demographic changes.** While slowing population growth may seem negative for the real estate sector, we believe declining average household sizes among residents will continue to create annual housing demand of c.20,000 homes, similar to the last decade. Also, increased focus on the creation of retirement villages to cater to an ageing population will keep developers busy over the long term. City Developments, being one of the pioneers in the Singapore real estate sector, is expected to play a key role in this transformation.
- Consumer sector may struggle to adapt to policy and demographic changes.** Tightening foreign worker quotas and limited interest among young citizens to undertake low-paying frontline jobs in service industries will force consumer companies in Singapore to incur higher manpower costs, or undertake capex to introduce automation in their operations. While companies like Sheng Siong, Breadtalk, Jumbo, and Koufu are better prepared for such a change, most businesses would struggle to cope with changes from an ageing population and the advent of e-commerce.
- Disruption in existing industries a long-term positive.** The Government is open to disrupting well-established industries like banking, power and telecommunications by opening up the sectors to new competition and introducing new technology – with a focus on improving service quality, enhancing productivity and lowering long-term operating costs. As the three Singapore banks have already made significant progress in adopting digital technologies, we see limited downside risks from the arrival of digital banks. Amongst the banks, DBS and UOB remain our preferred picks. While rising competition may be a short-term negative for telecom players, deployment of 5G services and participation in Smart Nation initiatives could benefit the incumbents. SingTel is our preferred telecom operator in Singapore.
- Government remains focused on building world-class transport infrastructure.** While Singapore has remained focused on building world-class transport infrastructure since 1996, it has adapted policies to better suit the evolving needs of an ageing population and rising affluence. The latest 2040 Land Transport Master Plan focuses on building a convenient, well-connected and fast transport ecosystem that offers an inclusive infrastructure, and an environment that supports healthy lives. As the Government remains committed to making public transport the preferred mode of travel, we see long-term benefits for players such as ComfortDelGro, which operates the largest public bus service in Singapore.

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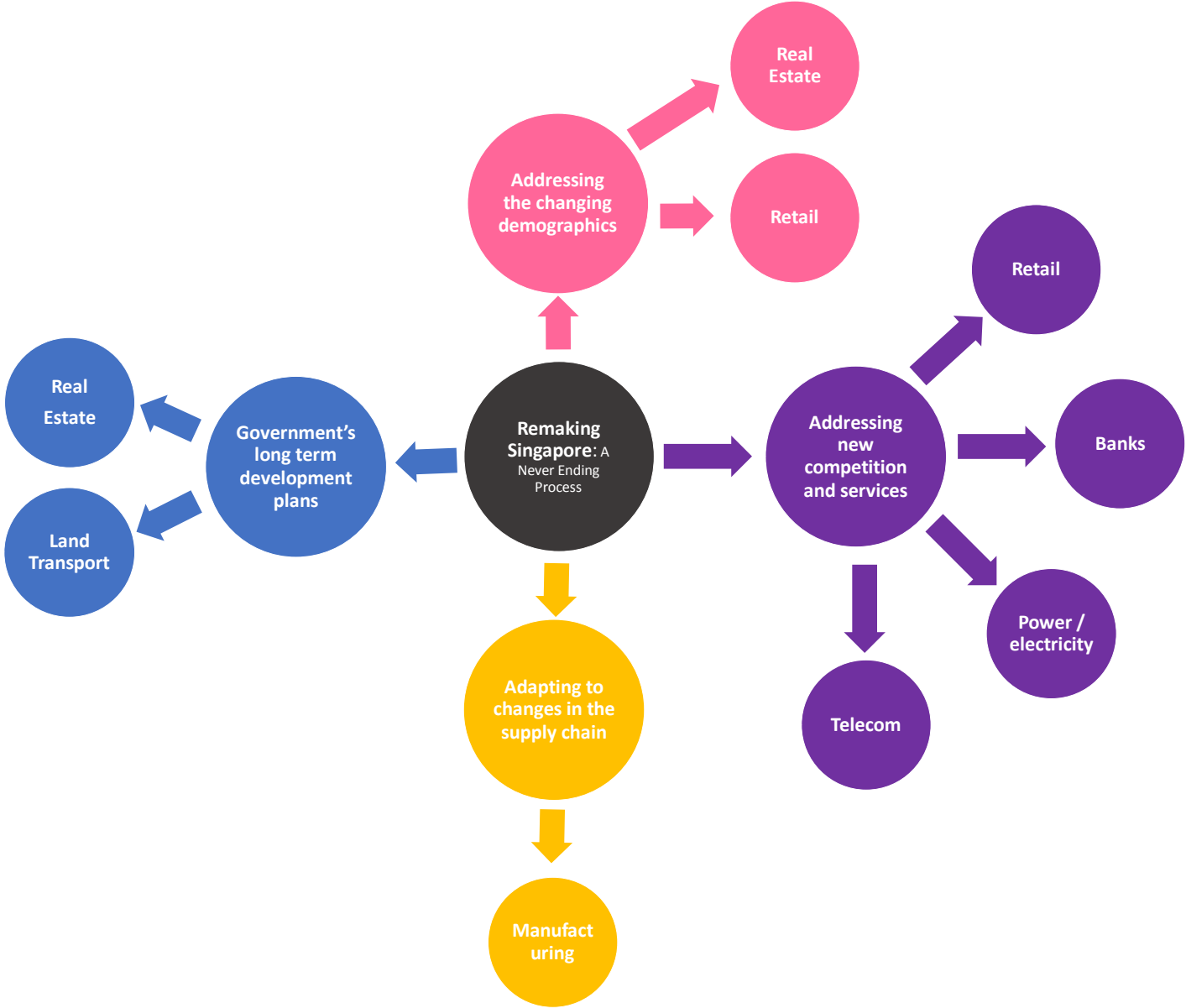
Company Name	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Jumbo Group*	Buy	0.47	23.6	20.3	3.4	3.4
Sheng Siong	Buy	1.32	11.9	22.9	5.7	3.1
UOB	Buy	29.50	19.1	9.5	1.1	5.3
City Developments	Neutral	9.20	(0.9)	16.1	0.8	2.2
ComfortDelGro	Neutral	2.55	3.7	18.7	2.3	3.8
DBS	Neutral	28.30	15.1	9.9	1.3	4.9
SingTel**	Neutral	3.40	6.6	17.6	1.7	5.3

Source: Company data, RHB

Note: \* refers to data based on Sep-19 year end, \*\* refers to data based on Mar-20 year end

# Transforming Singapore

Figure 1: Transformation : the evolution of New Singapore



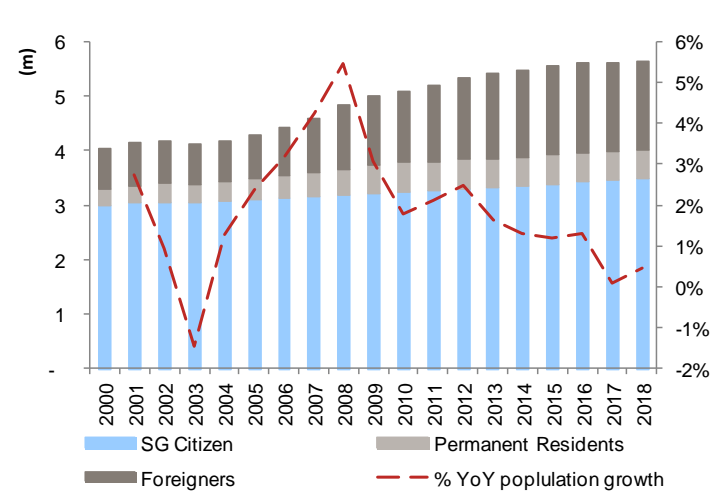
Source: RHB

## Real Estate Sector

### A) Addressing the changing demographics

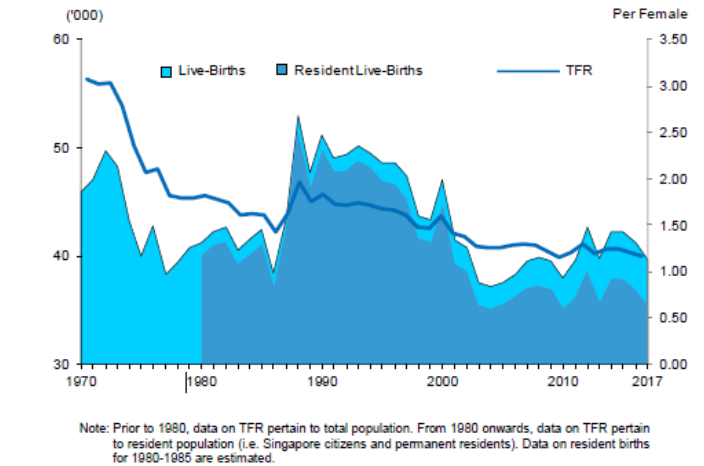
SG's population growth has markedly decelerated over the years on the back of tighter immigration policies and falling birth rates among residents. Over the last five years, population growth has more than halved to a 0.9% per annum (pa) CAGR for 2013-2018 period, compared to a 2.2% pa CAGR in the five years prior to that. Its resident total fertility rate (TFR) dropped to a historical low of 1.14 in 2018, making it among the lowest in the world. Looking ahead, this trend of slower population growth is likely to continue as there are no signs of a turnaround in the resident fertility rate, and government policies generally point towards slower foreign population growth.

Figure 2: SG population growth since 2000



Source: SingStat, RHB

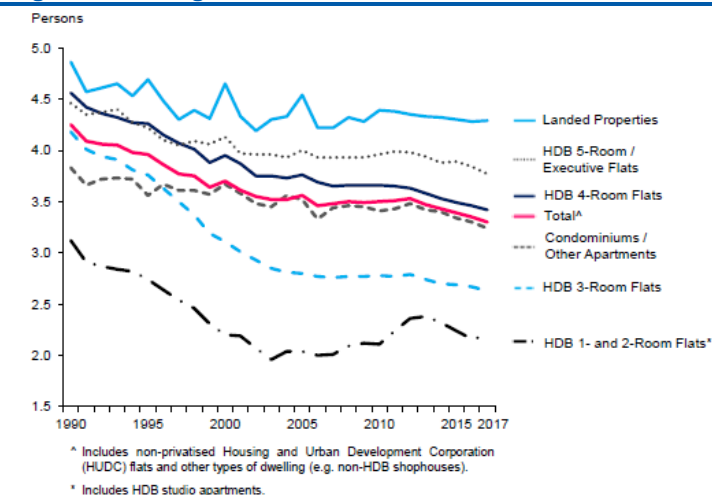
Figure 3: Total live births and total fertility rate (1970-2017)



Source: SingStat, RHB

**Smaller household size to support housing demand.** Slowing population is negative for long-term housing demand, as population growth is the primary demand driver. However, on the positive side, the shrinking average household size among the resident population could offset some of the slowdown in population growth. The average household size among resident households has been on a steady decline since the 1990s, falling to 3.24 persons per household in 2018, from 4.25. Similarly, the home ownership rate (at 91% as of 2018) has also been on a rising trend, probably indicating that younger Singaporeans aspire to live in a self-owned property. Overall, assuming that population growth of 1.25% pa over the next decade and an average household size of 3.20 results in annual housing demand of ~23,000 homes pa, this is similar to the number of households created in the past decade.

Figure 4: Average household size of resident households



Source: SingStat, RHB

Figure 5: Home ownership rates

Year	Tenancy ('000)			Home ownership rate (%)
	Total	Owner	Tenant	
1990	661.7	578.9	78.6	87.5
2000	915.1	841.6	63.4	92.0
2010	1,145.9	998.9	132.5	87.2
2011	1,146.2	1,015.9	103.5	88.6
2012	1,152.0	1,038.2	106.8	90.1
2013	1,174.5	1,062.5	105.7	90.5
2014	1,200.0	1,083.4	109.8	90.3
2015	1,225.3	1,112.4	106.2	90.8
2016	1,263.6	1,149.1	107.6	90.9
2017	1,289.9	1,170.2	109.8	90.7
2018	1,325.3	1,205.8	112.4	91.0

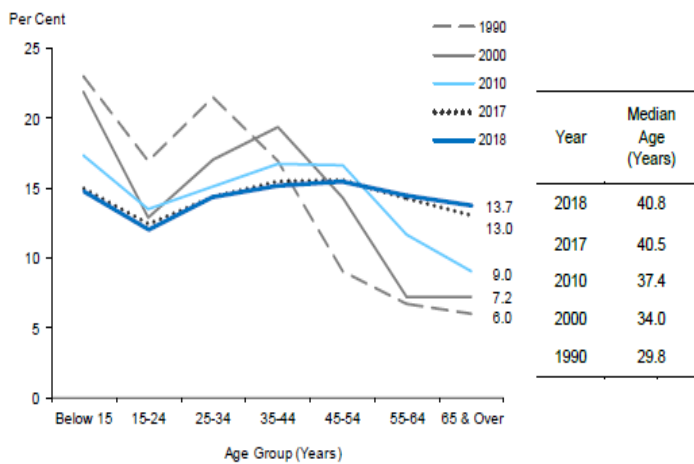
Source: SingStat, RHB

**Ageing population could spur development of more retirement villages.** The median age of the resident population has been on a rise, reaching 40.8 years as of 2018 vs 34.0 years in early 2000. This was due to a variety of factors – a low fertility rate, improving medical care and growing wealth. This has increased the life expectancy rate for the resident population to 83.2 years as at 2018, compared to 78 years in 2000.

Recognising the needs of an ageing population, Singapore’s Housing and Development Board (HDB) developed the country’s first retirement village in Admiralty. Known as Kampung Admiralty (completed in 2017), this first-of-its-kind development in Singapore integrates housing for the elderly with a wide range of social, healthcare, communal, commercial, and retail facilities. The Government is also working on a pilot for first assisted living facilities to be launched in Bukit Batok in 2020. The site will offer seniors the combination of a flat, as well as packaged care services for the elderly.

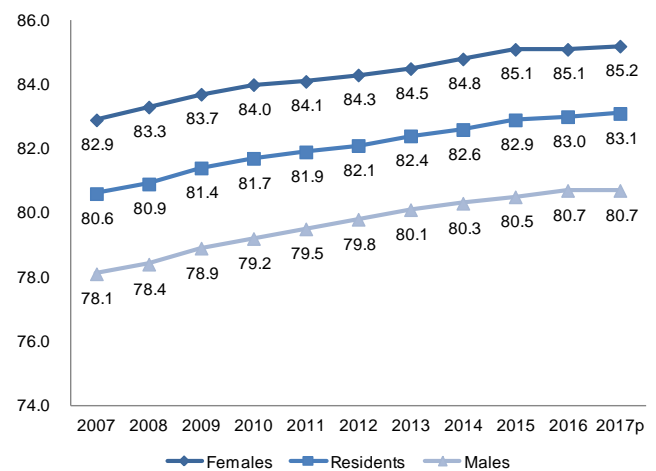
Similarly in 2012, Urban Redevelopment Authority (URA) launched the first sale of site on short-term leases (of 60 years, compared to the typical 99 years) to cater mainly to the needs of retirees. The project, The Hillford, was marketed as a retirement resort. It saw strong demand from buyers, with all 281 units sold within four hours from being launched. With this trend of ageing population expected to continue, one of the key housing themes for the future will be the development of such retirement villages.

**Figure 6: Age distribution of SG’s resident population**



Source: SingStat, RHB

**Figure 7: Life expectancy of the resident population**



Source: SingStat, RHB

**Figure 8: Kampung Admiralty retirement village**



Source: The Straits Time

**Figure 9: Buyers at The Hillford show flat**



Source: Today Online

## B) Government's long-term development plans

### Key themes underpinning URA Draft Master Plan 2019

Keeping in mind the changing demographics, preferences and the need to preserve heritage and build the city in a sustainable manner, URA proposed a draft master plan with five key themes:

- i. Liveable and inclusive communities;
- ii. Local hubs, global gateways;
- iii. Rejuvenating familiar places;
- iv. A sustainable and resilient city for the future;
- v. Convenient & sustainable mobility.

**Liveable and inclusive communities.** The key objective of this theme is to develop a high-quality living environment for people of all ages to live, relax and play. Future residential precincts will have small and sustainable towns that are well-connected, providing community-centric amenities, and inclusive and vibrant public spaces. The housing precincts will also be equipped with a wide range of amenities that are accessible to current and future residents. These include building more childcare and senior care centres and integrating amenities to meet residents' daily needs.

Innovative strategies will be adopted to conserve the natural heritage, and expand the island-wide network of play corridors, parks, sports facilities and green spaces. This will allow residents to have more opportunities to connect with nature, and enjoy a wide variety of recreational experience. The Government will also help in creating endearing spaces that can connect people and foster stronger relationships among the community.

**Figure 10: Upcoming Tengah Town with cycling paths**



Source: URA

**Figure 11: Paya Lebar Quarter – with huge public spaces**



Source: URA

**Local hubs, global gateways.** Under this theme, the Government will plan and set aside suitable land to support efforts in rejuvenating existing industries and the development of new areas of growth. The four key economic gateways are:

- i. Woodlands regional centre, which acts as the northern gateway and will focus on new innovative sectors, eg agri-tech & food, digital tech & cyber security;
- ii. The central business district will continue to grow and become more vibrant, by accommodating a wider range of uses and more jobs and business opportunities for the future economy. Additionally more city living options will be planned;
- iii. The Changi Air Hub will act as the Eastern Hub and will host aviation-related businesses;
- iv. The Western gateway will be anchored by Jurong Lake District, which will focus on high-tech manufacturing industries and improved transport linkages with the operation of the Tuas terminal, which is expected to be ready by 2025.

Figure 12: Woodlands Regional Centre (artist's impression)

Figure 13: Central business district



Source: URA



Source: URA

**Rejuvenating familiar places.** The main objective under this theme would be to retain & enhance the local identity, protect and rejuvenate the built heritage and celebrate the place's history and memories. The Government will work closely with communities to retain the distinctive qualities of local identity areas through setting design guidelines for existing and new developments, and retaining key elements. Some of the key areas identified under this theme include Toa Payoh, Holland Village, Jalan Kayu, Pulau Ubin, Dawson estate, Little India, Kampong Glam, Chinatown, Serangoon Gardens, Seletar, Jalan Besar, Tiong Bahru, and Bukit Timah railway station.

**Convenient and sustainable mobility.** Under this theme, URA will aim to address the impact of climate change on urban life. The Government plans to achieve sustainability by adapting to climate change – protecting Singapore's coastline, mitigating flood risks, ensuring thermal comfort, strengthening food security (to produce 30% of the country's nutritional needs domestically by 2030). To create space for growing needs, the Government plans to tap on underground space, co-location, adaptive lifecycle planning and land reclamation. It will also work on closing resource loops by securing water supply and moving towards cleaner and less energy use (targeting to reduce carbon emission intensity by 36% by 2030), and plan towards zero waste by adopting a circular approach.

Figure 14: Co-location – East Coast Integrated Depot

Figure 15: Underground plans for effective space usage



Source: Land Transport Authority (LTA)



Source: URA

Figure 16: Solar panels at Tengah River



Source: URA

Figure 17: Vertical greenery &amp; farms



Source: URA

**Convenient & sustainable mobility.** The key objective will be to provide improved connectivity, easier access to work and amenities, as well as harnessing new mobility technologies and business models. The Government will create new “RIDE” infrastructure and increase the rail network to ensure that eight out of 10 households are living within a 10-minute walk from a train station, once the planned new rail lines are operational.

Bus connectivity, too, will see a boost, with more integrated transport hubs and new bus services. There will also be dedicated paths to expand the walking and cycling network. The new road designs will also have more space allocated for public transport. There will also be car-light precincts to prioritise pedestrians, cyclists and public transport users. Commuters can look forward to new mobility concepts such as Mobility as a Service (MaaS) and technologies such as autonomous vehicles (AVs) for a more efficient commuting journey.

We believe that the key themes mentioned in URA’s Draft Master Plan 2019 should be positive for property prices, as continuing focus on enhancing infrastructure will make Singapore more liveable in the longer term.

### Development of Greater Southern Waterfront and Downtown South resort

**Greater Southern Waterfront.** The development of Greater Southern Waterfront (GSW) was first discussed in 2013. It found mention in the URA Draft Master Plan 2019 as well. More details on the same were provided in Prime Minister Lee Hsien Loong’s latest National Day Rally address.

The GSW comprises 30km of coastline stretching from the Gardens by the Bay East area to Pasir Panjang. It contains 2,000ha of land – six times the size of Marina Bay and twice the size of Punggol.

Figure 18: Greater Southern Waterfront



Source: Channel News Asia

The GSW will be transformed into a new major gateway and location for urban living along Singapore's southern coast. Development will take place in phases, starting with the former Pasir Panjang Power District, Keppel Club and Mount Faber in the next 5-10 years. However, the full project will be completed beyond 2040, as the prime land will be freed up for redevelopment after PSA moves its city terminals in Tanjong Pagar, Keppel and Pulau Brani to Tuas by 2027, as well as Pasir Panjang terminal by 2040.

About 9,000 housing units, both public and private, will be built on the site of Keppel Golf Club as part of the future GSW. This confirmed for the first time that the mega waterfront development will have Housing Development Board (HDB) flats.

On the housing element, Keppel Club will become one of the first developments in the zone. The private golf club, whose lease expires in two years and which sits on a 44ha plot, is in between two MRT stations and near the Labrador Nature Reserve. The waterfront will also be a commercial node as several big companies have offices near Labrador Park, such as Google, Cisco, and Unilever. The Government plans to develop more office space in the GSW, with the expectation that it will bring in more jobs and enable people to work near where they live, and live near where they work.

**Figure 19: Keppel Club redevelopment**



Source: Straits Times

**Downtown South resort.** New attractions are being planned for Pulau Brani island, similar to Universal Studios Singapore on Sentosa. The island is between the main island of Singapore and Sentosa, near Keppel Harbour. A large part of the island makes up the current Brani Terminal, which is among the PSA city terminals that will move to the Tuas mega port by 2027.

The land will be set aside for the National Trades Union Congress to build a resort as part of the Government's gesture to thank the country's workers for all their contributions to the nation. A Downtown South resort is likely to be built on Pulau Brani. The new resort will allow workers to take their families to quality and affordable recreational amenities.

Other than Pulau Brani, the Government also has plans to rejuvenate Sentosa Island, and redevelop two decommissioned power stations in Pasir Panjang.



**Figure 20: Artist's impression featuring a bird's eye view of developments on Sentosa and Pulau Brani.**



Source: Straits Times

### Dealing with climate change and rising sea levels

Staying on track with the Government's blueprint of building Singapore for the long term to ensure that the country can survive and thrive, PM Lee addressed the issues related to rising sea levels and its impact on Singapore during the recent latest National Day Rally address.

While Singapore has implemented localised measures to protect individual buildings and developments – new developments are required to be built at least 4m above sea level, and this requirement is even higher for critical infrastructure – these solutions will not be enough. Singapore has many older buildings, which cannot be lifted up, or transported to higher ground. In fact, large parts of Singapore are low-lying, and these low-lying areas have to be protected as a whole.

The Government believes that coastal defences need to be built. It has studied Singapore's whole coastline in detail, and divided it into different segments. The Government will ensure that work is prioritised for more "critical" areas such as the City-East Coast and Jurong Island segments. In the city area for instance, there are plans to build a second pump house at the Marina Barrage.

**Figure 21: Polders in the Netherlands**



Source: Straits Times

In order to protect the eastern coastline of Singapore from rising sea levels, two solutions are being considered:

- i. One option – implemented by the Netherlands – is the construction of what the Dutch call “polders”, which is land that is reclaimed from the sea. Polders are created by first building a seawall in the water, before pumping out the water behind the seawall to create dry land. This land can be lower than sea level, but water has to continually be pumped out. A small polder is currently being built at Pulau Tekong to gain some experience operating one. The new land will be used for Singapore Armed Forces (SAF) training.
- ii. Second option – to reclaim a series of islands offshore, from Marina East to Changi. They can be connected by barrages, and a freshwater reservoir similar to Marina Reservoir could be created. Other than tackling the threat of rising sea levels, this strategy could have other benefits for Singapore, such as boosting the nation's water security and increasing land availability.

Calling the rising sea levels a 50-to-100-year problem, PM Lee mentioned that it could cost Singapore around SGD100bn or more to deploy formidable solutions.

## Consumer Sector

### A) Addressing the changing demographics

**Labour structure reforms to hit the retail and food and beverage (F&B) sector.** Singapore Budget 2019 announced the cut in the foreign worker quota for the service sector, with the F&B and retail sectors being the key targets. According to Finance Minister Heng Swee Keat, this was due to the higher growth in S Pass and work permit holders, and that the sub-sectors are still very labour-intensive.

This came six years after the last cut in foreign worker quota in 2013. Following this year, the foreign labour dependency ratio ceiling (DRC) is expected to tighten from 40% to 38% in 2020 and to 35% in 2021; and the S Pass sub-DRC from 15% to 13% in 2020 and then to 10% in 2021. This is negative for all F&B service and retail companies operating in Singapore, as they will need to find ways to employ more Singaporeans or resort to automation.

**Figure 22: Change in DRC or foreign worker quotas for Singapore's service sector**

	DRC	S Pass Sub-DRC
Current	40%	15%
Effective 1 Jan 2020	38%	13%
Effective 1 Jan 2021	35%	10%

Source: Company, RHB

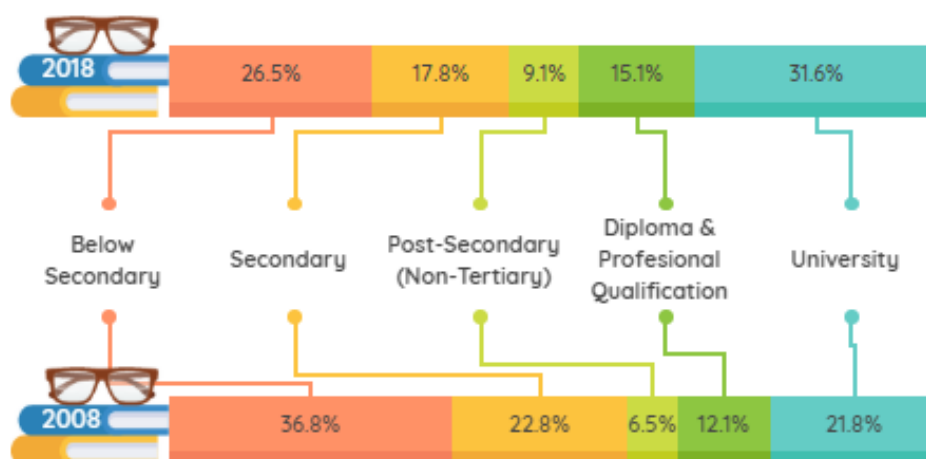
**Change in demographics worsens the availability of labour.** While Heng highlighted that the ultimate goal is to enable Singapore residents to continue to have good jobs and opportunities, we note that the non-professionals, managers, executives and technicians (PMET) jobs are not where Singaporeans want to work. The structure of F&B and retail service jobs – which include long hours and weekend shifts – has been unpopular among the locals.

As such, F&B and retail firms typically find it hard to attract staff. Moreover, over the last 10 years, the proportion of university graduates in Singapore has risen to 31.6% from 21.8%, leaving fewer people interested in taking these frontline jobs. The low pay also turns off retrenched PMET workers who might be better off financially to re-skill and change career paths, than to move to non-PMET roles like that of frontline services.

**Figure 23: Proportion of university graduates in Singapore has risen**

### HIGHEST QUALIFICATION ATTAINED

(of Residents aged 25 years and over)



Source: SingStat

**Best-case scenario is to invest in technology and automation.** To avoid paying higher costs to attract labour, the Government hopes that the service industry will invest in technology and automation. Companies moving in this direction are likely to incur higher capex in the short run. To support this change, Singapore would provide enhanced funding support, productivity solution grants, and expand its scope for up to 70% of out-of-pocket costs for training until 31 Mar 2023.

Retail and F&B players are key losers of the labour reforms, as they would likely incur higher capex or manpower costs after the DRC tightens. However, companies that have already put automation procedures in place are less likely to be hit by the sudden manpower supply crunch come 2020.

Amongst the listed firms under our radar, Sheng Siong (SSG SP, BUY, TP SGD1.32) has introduced hybrid check-out counters in all of its stores as at 2Q19. This would help to reduce manpower reliance and mitigate any potential negatives from the labour crunch in 2020.

BreadTalk (BREAD SP, NEUTRAL TP SGD0.82) built its central kitchen in 2013 to consolidate and automate some manual cooking procedures. The group could look to increase the utilisation of its central kitchen to reduce reliance on its workforce. On the other hand, Koufu (KOUFU SP, NR) has implemented the use of its roaming tray-return robots and payment systems that accept both cash and cashless options to cut down on manpower usage.

**Worst-case scenario: being elderly and poor.** Singapore has an ageing population and a limited social safety net. With growing life expectancy and a rising cost of living, elderly citizens without adequate savings for retirement would have to continue working. As the Government cut the DRC ratio, we may see the service sector tapping on elderly citizens to fill these employment gaps.

As highlighted by a Channel News Asia report "[Ploughing on: The faces and insecurities of Singapore's elderly working poor](#)" dated 7 May 2017, we have increasingly seen elderly citizens taking up frontline roles like food court cleaners, servers and security guards. However, according to the Manpower Ministry, c.23% of persons over 65 in the formal workforce earned less than SGD1,000 a month in 2016. If companies fail to push for automation – and, instead, rely on cracks in the social safety net to fill these roles – we might end up having an ageing population that works hard for very little money to make ends meet.

**Figure 24: Elderly worker in a F&B outlet**



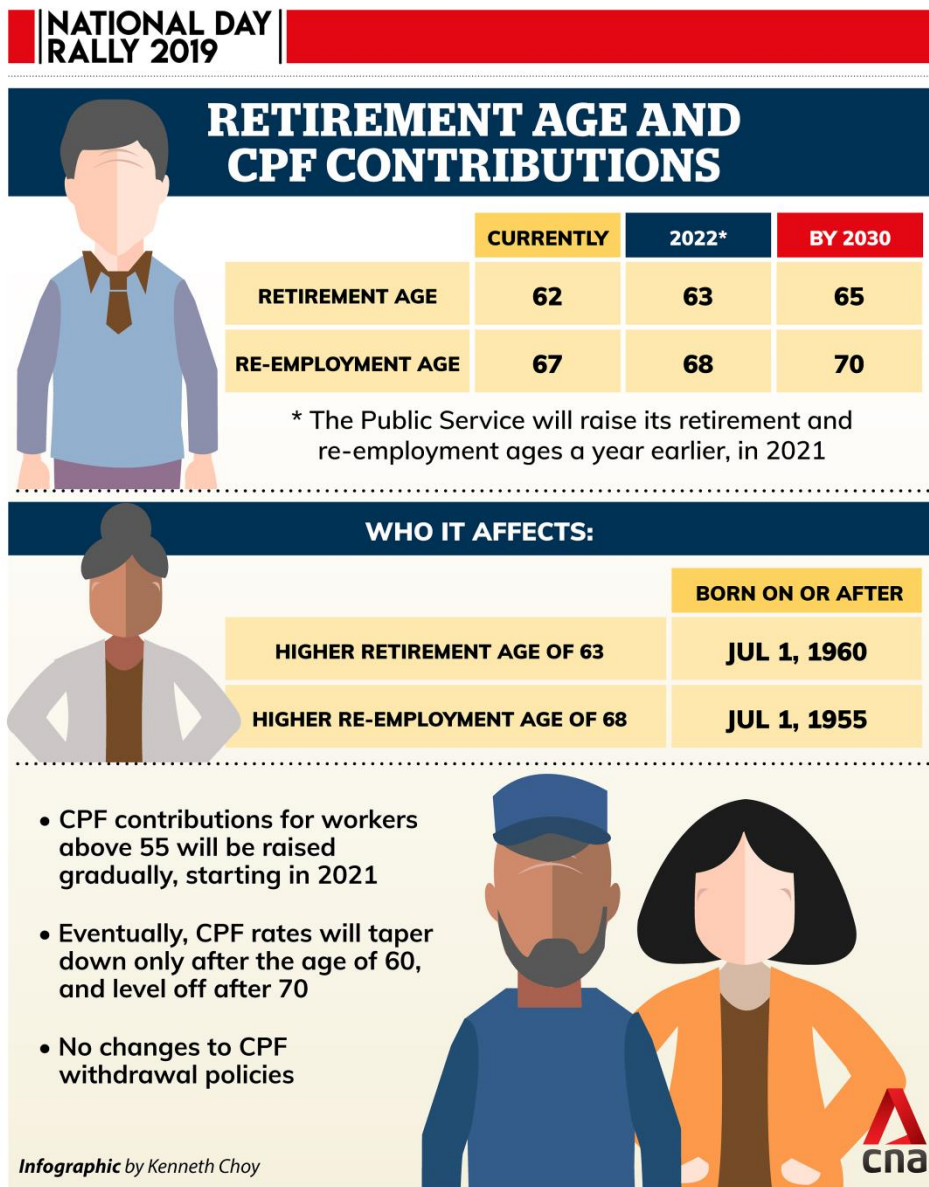
Source: Channel News Asia

### Extending the retirement age and increasing CPF rates for older workers

Singapore will raise the retirement age and re-employment age to 65 and 70 respectively by 2030, alongside increases in the Central Provident Fund (CPF) contribution rates for older workers.

By 2030, the retirement age and re-employment age will be raised to 65 and 70 respectively. The retirement age, which is currently 62, will go up to 63 in 2022. This will further be raised to 65 by 2030. Meanwhile, the re-employment age, which is currently 67, will go up to 68 in 2022, before being raised further to 70 by 2030. The Government will take the lead as a major employer to raise the retirement and re-employment ages in the Public Service in 2021, a year ahead of schedule.

**Figure 25: Extending the retirement age and increasing CPF rates for older workers**



Source: Channel News Asia

Similar to extending the retirement age, the Central Provident Fund (CPF) contribution rates will be raised for workers aged 55 to 70, so that they can build up more retirement savings. As for CPF contribution rates, they now begin to taper down from 37% after workers turn 55. The rates for those aged 55 to 70 will be raised gradually from 2021, until those aged 60 and below enjoy the full CPF rates. The rates will begin to taper down after 60 and level off after 70. These adjustments to CPF rates will also depend on economic conditions.

Although higher CPF contribution rates will impact business costs and competitiveness, businesses will get help to adjust to these new arrangements through a support package which the government will announce in next year's Budget.

## B) Addressing new competition and services

### **Transformation in the retail space – omni-channel transformation is well under way.**

Singapore has some of the greatest ingredients to kick-start the e-commerce industry including high penetration rates for internet, mobile data connections and credit cards. Over the last decade, the retail scene has seen the rise of e-commerce. Traditional brick-and-mortar stores were key losers in early 2012-2016, as they suffered from higher operating costs and increased competition from online players. Many retail brands including *River Island*, *Francofranc*, *Taco Bell*, and *Crabtree & Evelyn* exited Singapore as a result, while others fought tooth and nail to survive.

### **Retailers had lost the first round but for no longer**

**Where we are.** Today, retail exists in hybrid forms. Although e-commerce gave some brick-and-mortar brands a run for their money in the early 2010s, we note brick-and-mortar shops still rule the retail space today, with online spending constituting only 4% of total retail sales in Singapore. Most retail brands have realised that online and offline formats have to go hand-in-hand, to give consumers a seamless shopping experience. Many traditional brick-and-mortar brands have stepped up their game to introduce their own online platforms, with successful examples including *Uniqlo*, *Challenger* and *NTUC Fair Price*, while others have set up an online presence through e-commerce marketplaces such as Lazada.

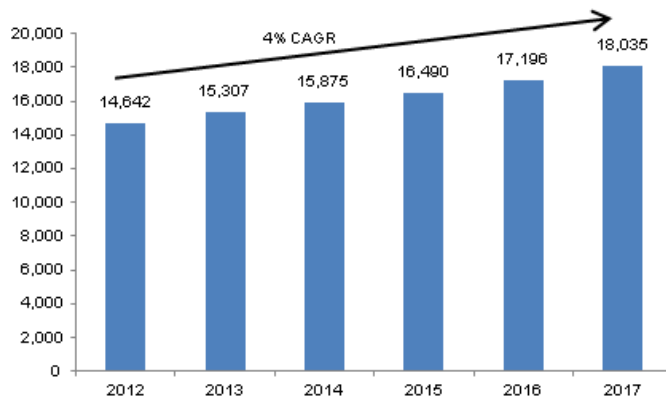
On the other hand, successful online shops like home-grown brands *Love Bonito*, *Naiise* and *Hipvan* have moved to the offline format to set up physical stores to target a wider customer range. In the F&B service space, delivery apps have sprouted to bring restaurants and hawker food to homes.

Retailers have started to see some positives from the transformation, as they benefit from digitalisation and big data to improve sales. The demise of traditional brick-and-mortar brands that failed to embrace change, coupled with a slow economy, and increased supply in retail space have resulted in stable rental rates in the last 3-4 years for the surviving retailers. These retailers also have the option to drive more sales online, should landlords resort to unreasonable rental rate hikes.

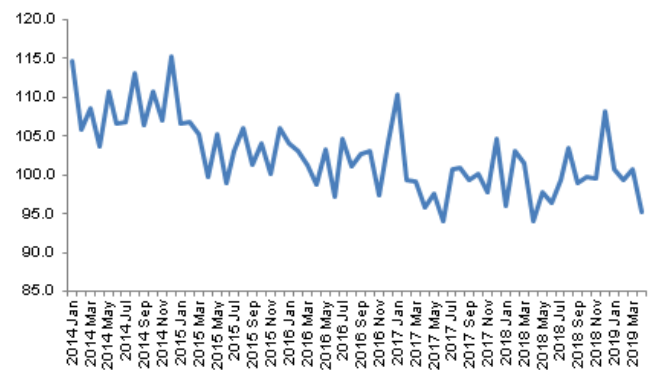
**Consumers stand to benefit the most from rapid reforms in retail.** The rise of e-commerce allows consumers to gain access to a wider range of products around the clock. Consumers could easily compare prices and look for the best deals available. In addition, the transformation into omni-channel retailing allows them to have a seamless shopping experience.

### **F&B segment sees both positive and negative effects from transformation**

**F&B players start to lose.** The rise of e-commerce has resulted in mall operators raising the proportion of F&B tenants. While F&B players benefitted in the earlier years with a wider selection of locations and competitive rental rates, today, the industry is more saturated and faces intensified competition. According to Singstat, the number of licensed F&B retailers in Singapore expanded at a 4% CAGR over 2012-2017, but the F&B services index has remained relatively stagnant. Therefore, F&B players are likely to be squeezed in margins, unless productivity increases or operational costs are reduced.

**Figure 26: Number of licensed food shops has increased at a 4% CAGR over 2012-2017...****Figure 27: ...but the F&B services index remained flattish**

Source: SingStat



Source: SingStat

**Positives from delivery.** F&B players can take advantage of the proliferation of delivery services to reach out to more customers. Amongst the listed firms under our radar, Jumbo (JUMBO SP, BUY, TP SGD0.47) and Koufu (KOUFU SP, NR) have collaborated with delivery services to grow revenue. In fact, Koufu is capitalising on the rise of food delivery services by building a new integrated facility – in which it would rent out space to tenants as mini-central kitchens to cater to additional delivery orders. The facility is expected to be completed in 2H20.

However, depending on the brands and negotiating power of the firms, some F&B players cited that delivery companies charge as high as 20% of revenue – rendering them too expensive to collaborate with – while others may not have additional capacity to service delivery orders.

### Top picks from sector

In general, we think the ongoing transformation offers fewer benefits and poses more challenges to the retail and F&B players. Amongst the Singapore consumer sector, we like Delfi (DELFI SP, BUY, TP: SGD1.68), which is in the consumer goods space and has limited exposure to Singapore. Amongst the retail and F&B names, we like Sheng Siong (SSG SP, BUY, TP SGD1.32), Jumbo (JUMBO SP, BUY, TP SGD0.47) and Koufu (KOUFU SP, NR), which are better-positioned to face the challenges.

## Banking Sector

### A) Addressing new competition & services

**Arrival of the digital banks in Singapore - MAS will issue up to five digital bank licences.** On 28 Jun, Monetary Authority of Singapore (MAS) announced that up to five digital bank licences will be issued in the country, paving the way for non-bank players to break into the local financial services scene. These licences will be issued in addition to any digital banks that the local banking groups may establish under the existing internet banking framework. MAS expects to invite applications for the licences in August.

MAS plans to issue up to two digital full bank licences, under which a wide range of financial services can be provided and deposits taken from retail customers. These are meant for companies with Singapore headquarters, and controlled by Singaporeans. Foreign companies are eligible if they form a joint venture with a local company.

Up to three digital wholesale bank licences, which allow licensees to serve small and medium enterprises (SMEs) and other non-retail segments, will also be issued – these are open to local and foreign players.

Some players such as Grab, Razer, Validus Capital and InstaReM have indicated interest in applying for the digital banking licence in Singapore.

**Figure 28: China's virtual banks**

December 2014	June 2015	June 2016	December 2016	January 2017
Tencent Holdings leads partners to set up Shenzhen-based WeBank with registered capital of three billion yuan. It is the largest shareholder with a 30 per cent stake. The bank's target customers include individuals and small and micro enterprises	Alibaba Group Holding leads partners to establish Zhejiang E-Commerce Bank, or known as MYbank, as the largest shareholder with a 30 per cent stake. With four billion yuan in registered capital, the Hangzhou-based banking venture targets small and micro enterprises, the rural market and smaller financial institutions	Xiaomi wins the approval from the China Banking Regulatory Commission to set up XW Bank with three billion yuan in registered capital. It holds a 29.5 per cent stake in the Chengdu-based lender as the second-largest shareholder while New Hope Group holds 30 per cent as the largest shareholder	Suning Commerce Group secures the approval from the regulator to set up Suning Bank as the largest shareholder with a 30 per cent stake. The Nanjing-based bank has four billion yuan in planned registered capital	Baidu obtains regulatory approval for Baixin Bank, a direct bank without any brick-and-mortar branches. China Citic Bank Corp holds 70 per cent of the Beijing-based lender and Baidu holds the remainder
				
<small>Source: China Banking Regulatory Commission, banks' websites, SCMP research</small>				<small>SCMP</small>

Source: China Banking Regulatory Commission, South China Morning Post

Regulators around the world are grappling with the rise of financial technology and the implications for the banking system. Earlier this year, Hong Kong started issuing virtual banking licenses as a way to shake up retail lenders and compete better with regional economies such as China and India.

MAS said digitalisation isn't new to Singapore's banking industry, noting that local lenders have been allowed to pursue digital-only business models since 2000. All the three local banks are already well-entrenched in using digitalisation in their day-to-day business.

**Singapore banks are well-equipped to compete with digital banks.** The potential entry of digital banks in Singapore will lead to more competition for the three local Singapore banks – which, incidentally, have been transforming digitally in areas such as e-payments, e-fund transfers and use of artificial intelligence. We believe this will enable the trio to offer customers e-services that can compete with such potential digital-only banks.

### Challenges for digital-focused banks

An Accenture report stated that the challenge for digital-focused banks is pivoting from an efficiency focus to growth focus, because only by generating faster revenue growth will these groups have a hope of closing the gap with fintech and bigtech competitors, which are increasingly encroaching into the traditional banking business space.

**It is now easier for bank customers to port their data between service providers.** Singapore's adoption of MyInfo, a central data repository used by banks to sign up customers instantly, is a case in point. While it is true that MyInfo has made it easier for banks to sign up customers, they can also more easily lose customers to competitors. Regulators are already studying ways to make it easy for customers to port their data between service providers, including banks.



**Banks are still big on technology investments.** A recent report from Moody's on Singapore banks described the banks' efficiency gains from digitalisation as insignificant, because they have continued to channel their cost savings back to technology investments.

### DBS has made a significant digital transformation since 2014

**DBS started its digital transformation in 2014 and is an early adaptor.** In 2017, 66% of DBS' open systems were cloud-ready. By end-2018, this had risen to over 80%. The bank's cloud-native applications have nearly doubled to more than 60.

In 2017, DBS launched the world's largest application programming interface (API) platform for a bank. Over the year, with enhancement to this platform, there are now over 350 APIs, enabling third-party brands to integrate with DBS' technologies to make banking simpler. This has allowed DBS to accelerate its ecosystems agenda.

**With the pervasiveness of digital, tech is business and business is tech.** DBS no longer views technology as a support function. Instead, it has organised such that business and technology teams are now co-drivers on 33 platforms, and work together to deliver on shared goals and key performance indicators.

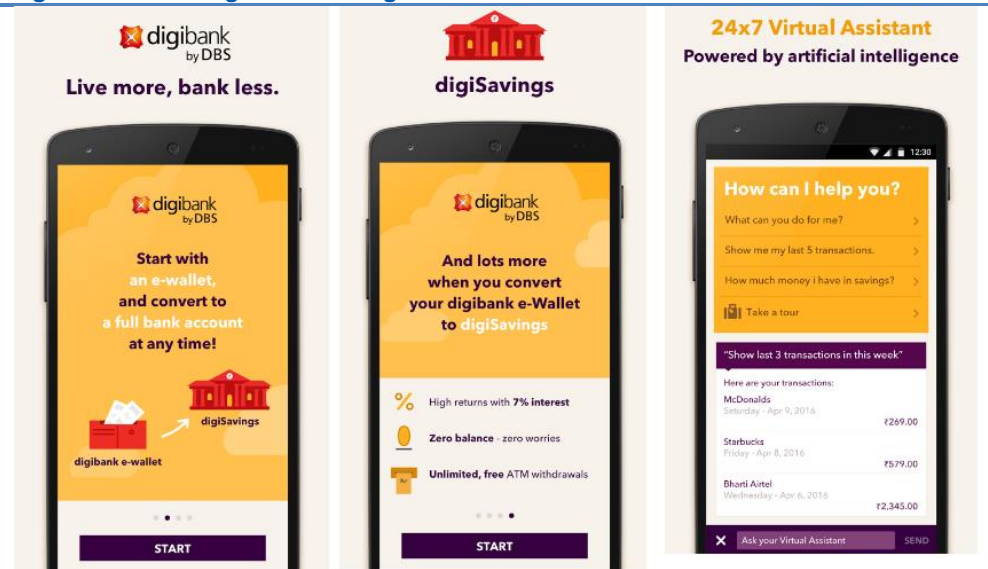
**DBS MAX.** With the QR code becoming a bigger fixture in our daily lives, DBS MAX – Singapore's first mobile-based QR payment collection solution – allows SMEs to improve cash flow, as they receive payments from their customers and vendors instantly.

**Tie-up with partners such as Gojek.** DBS customers that use Gojek in Singapore get access to exclusive promotional codes when using their DBS/POSB credit and debit cards to pay for rides. DBS also partnered lifestyle providers from various sectors including shopping, transport, food and entertainment. In Singapore, the banking group has launched:

- i. DBS Car Marketplace (the largest direct seller-to-buyer car market in Singapore);
- ii. DBS Property Marketplace (which connects tenants and landlords and is the largest of its kind in South-East Asia by a bank)
- iii. DBS Electricity Marketplace.

It has also invested in a mobile and online classifieds marketplace, Carousell, and collaborated to offer financial products and payment services on its platforms across the region. The group also expanded partnerships with telecommunications and data companies to enhance digital bank (digibank) offerings in India and Indonesia.

**Figure 29: DBS' digibank offering in India**



Source: <https://www.digitalvidya.com>

DBS targets to increase digital customer acquisition and grow the digital channel share:

- i. For its digibank customers in India and Indonesia, DBS added >1.2m customers in 2018, and has gained 2.7m customers since the launch;
- ii. Channel share of deposits done digitally was at 53% in 2018, vs 42% in 2017;
- iii. The number of digital customers increased to 2.9m in 2018, from 2.5m in 2017. A digital customer is one who has either (within the past 12 months):
  - Made a product purchase or segment upgrade via a digital channel;
  - Done more than 50% of financial transactions via digital channels; or
  - Done more than 50% of non-financial transactions via digital channels.

### OCBC's digital customers recorded 2-3x more revenue vs non-digital ones

**Oversea-China Banking Corp (OCBC SP, NEUTRAL, TP: SGD11.80) is engaging customers through digital transformation.** OCBC's consistent and deep engagement with customers over the past many years, coupled with the expanded scope of digital capabilities, have led to a substantial rise in digitally-engaged active customers and the rapid growth of financial transactions conducted digitally.

In 2018, it further enhanced the customer experience with the launch of many innovative digital products and expanded digital services. OCBC also provided customers with greater insights and analytics to help them better manage financial goals and grow their businesses.

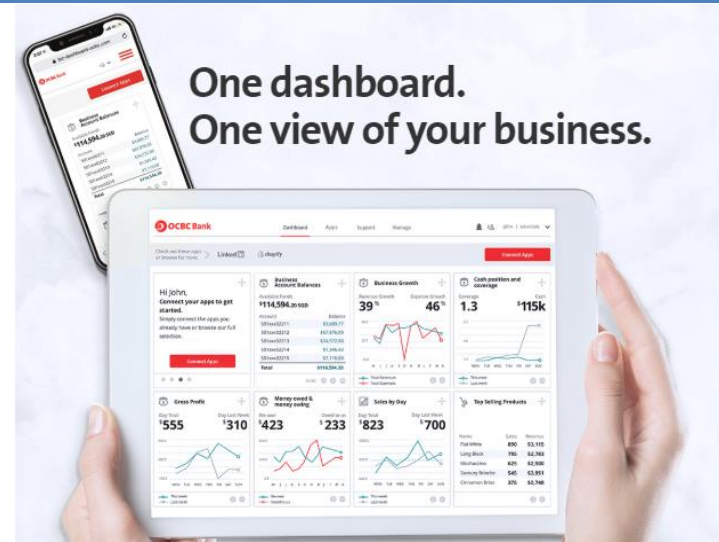
- i. The proportion of OCBC retail customers who are digital customers rose to 49% in 2018, from 36% in 2014. Digital customers are defined as customers who have used Internet/mobile banking at least once in the last three months;
- ii. The proportion of OCBC business customers who are digital customers rose to 62% in 2018, from 36% in 2014.

OCBC's digital retail customers record twice the amount of revenue vs non-digital retail customers, whereas digital business customers record three times the revenue of non-digital business customers.

In 2018, OCBC went further on the following fronts in digitisation:

- i. State-of-the-art regional data centre;
- ii. Instant digital card issuance on Apple Pay;
- iii. Digital instant account opening;
- iv. Robo-investment service;
- v. Digital business dashboard for SMEs to manage business holistically.

**Figure 30: OCBC's digital dashboard for business customers**



Source: OCBC Business Banking

**UOB has a comprehensive digitisation strategy**

UOB’s digitisation strategy incorporates the following, as detailed below.

**Omni-channel experience to meet customers’ universal banking needs:**

- i. Digitised application and approval of consumer products, including housing loans, car loans credit cards and deposits;
- ii. Rise in Mighty app usage (+125% YoY in 2018);
- iii. Leveraging data analytics and machine learning across customer touch points

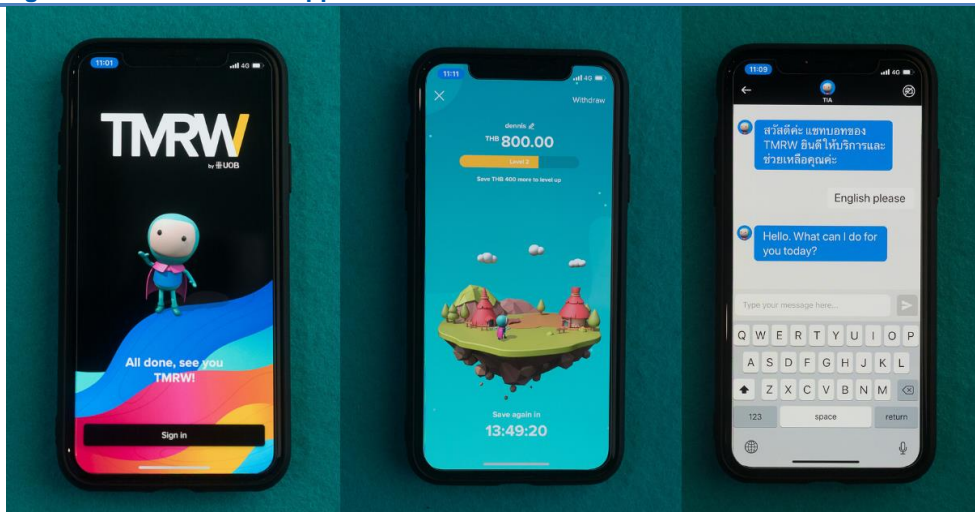
**Digital bank to serve the mobile-first and mobile-only generation:**

- i. Built TMRW in Thailand within 14 months;
- ii. Products including payments, deposits and unsecured credit;
- iii. Targeted five markets with 3-5m customers, and with a steady-state cost-income ratio of ~35%.

**Ecosystem partnerships to forge collaborations and create a multiplier effect:**

- i. Developing unique and innovative solutions to make banking simpler, smarter and safer;
- ii. Enhancing customer engagement by being part of their lives;
- iii. Examples include the regional bancassurance arrangement with Prudential, and the strategic alliance with Grab

**Figure 31: UOB’s TMRW app in Thailand**



Source: Vulcan Post

**Figure 32: UOB’s enhancement of digital capabilities**

Key Statistics <sup>2</sup>	Traditional <sup>1</sup>		Digitally Engaged			
	FY17	FY18	Omni-Channel <sup>1</sup>		Digital <sup>1</sup>	
	FY17	FY18	FY17	FY18	FY17	FY18
% of UOB customers	55%	50%	34%	37%	11%	13%
Average transactions <sup>3</sup>	5	5	30	35	20	24
Average product holdings	1.54	1.54	1.85	1.87	1.48	1.47
% of total revenue	48%	43%	44%	49%	8%	8%

Source: UOB

### We suggest exposure to the Singapore banks

The digitisation efforts of the three Singapore banks will position them well to compete with the impending entry of digital-only banks. Currently, we do not see a threat from digital-only banks taking a significant market share from the three Singapore banks.

**Expect lower CIR due to digitisation efforts.** With respect to cost savings, we believe digitisation efforts will help lower the cost-to-income ratio for the banks over the next few years. This will be positive for their ROEs.

**Maintain BUY on UOB, with a NEUTRAL on DBS.** DBS' SGD28.30 TP is pegged to 1.37x 2020F P/BV, which is derived from a long-term ROE assumption of 13.4%. UOB's SGD29.50 TP is based on 1.24x 2020F P/BV, after we set the long-term ROE assumption at 12.5%. We see net interest income expansion and lower CIR from digitisation driving ROEs over the next few years.

## Power Sector

### A) Addressing new competition & services

#### Open Electricity Market (OEM)

This is an initiative by the Energy Market Authority (EMA) that allows electricity users to enjoy more choices and flexibility when buying power. Users can benefit from competitive pricing and innovative offers from retailers.

With the OEM, users have the choice of buying electricity from:

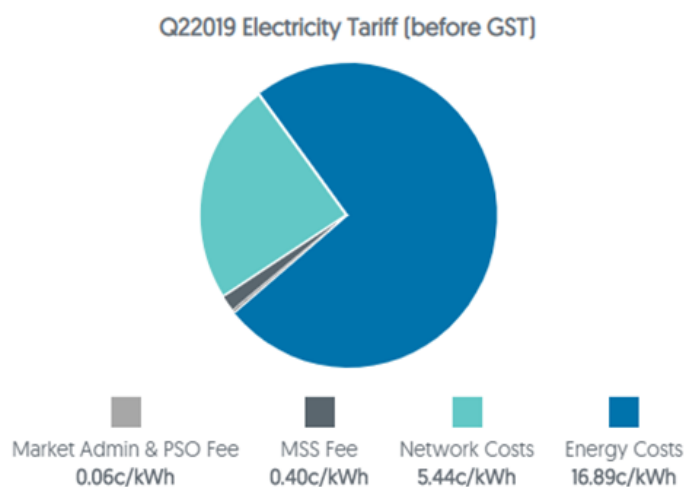
- i. An electricity retailer at a price plan that best meets their needs;
- ii. The wholesale electricity market at half-hourly wholesale electricity prices through Singapore Power (SP Group); or
- iii. SP Group at the regulated tariff rate.

#### Pre-OEM

Initially, Singapore had a single electricity retailer or supplier (SP Services Ltd) serving all consumers. The first wave of liberalisation took place where only consumers with consumption volume of average of 2 megawatt hours (MWh) and above per month could buy electricity from other licensed electricity retailers, whilst the other consumers have to purchase from SP Services Ltd at the regulated tariff rate.

The electricity tariff charged by SP Services Ltd is regulated by EMA, and revised every quarter to reflect the long-term costs of producing and delivering electricity in Singapore, such as the cost of building and operating the power plants, and maintaining the power grid.

**Figure 33: Breakdown of Singapore's electrical tariffs**



Source: SP Group

**Figure 34: Electricity purchasing options upon OEM**

Options	Price of Electricity	To buy from
Regulated Tariff (by default)	Fixed every quarter	SP Group
Electricity Retailer	Depends on retail electricity package offered by retailers	Participating retailers
Wholesale Electricity Market	Half-hourly wholesale electricity prices	SP Group

Source: [openelectricitymarket.sg](http://openelectricitymarket.sg)

#### EM launched in Singapore on Nov 2018

OEM is the final phase of electricity market liberalisation effort in Singapore initiated by EMA. OEM's intention is to gradually introduce competition in electricity generation and retail, so that Singapore would have an electricity market that allows market forces rather than central planning to drive investment, production and pricing decisions. Through OEM, all end-users (including those consuming below 2 MWh per month) are allowed to purchase electricity from different retailers other than just SP Group to enjoy more competitive pricing and innovative offers from retailers in the long run.

**All of Singapore to be covered by end-2019.** Electricity rates offered by retailers typically reflect the current market conditions, level of competition and short-term costs of producing electricity. It changes over time, based on market demand and supply. The nationwide launch of the OEM will be rolled out progressively in four geographical zones and, by the end 2019, all of Singapore would be covered.

**Intensive price competition resulting in more choices and lower prices.** Electricity market liberalisation exerts downward pressure on electricity tariff rates, whereby end-users are able to purchase electricity below the regulated tariff rate, based on their preferred options. Electricity retailers are offering more aggressive pricing to gain market share and enjoy long-term economies of scale.

**A boon to innovative products.** The launching of OEM gave rise to innovative price plans ranging from green energy options to partnerships with other service providers such as supermarkets, telecommunication companies, banks, insurance companies, etc to offer bundled deals and cross-promotions. This could even increase the potential in leveraging digitalisation for technology solutions such as Internet of Things (IoT) applications and asset management tools in the energy industry, as well as the commercial sectors.

**Figure 35: SingTel entered the electricity retail market by tying up with Geneco**

**SINGTELPPOWER | Geneco**

**30% OFF on your power bill & \$70 Online Exclusive Savings!**

We've partnered Geneco, to bring you Singtel Power.  
Reliable service & savings on your power bills. No wonder we're the watt that you want.

Call 1609, visit our Singtel Shops or sign up online today.

**Sign up now**

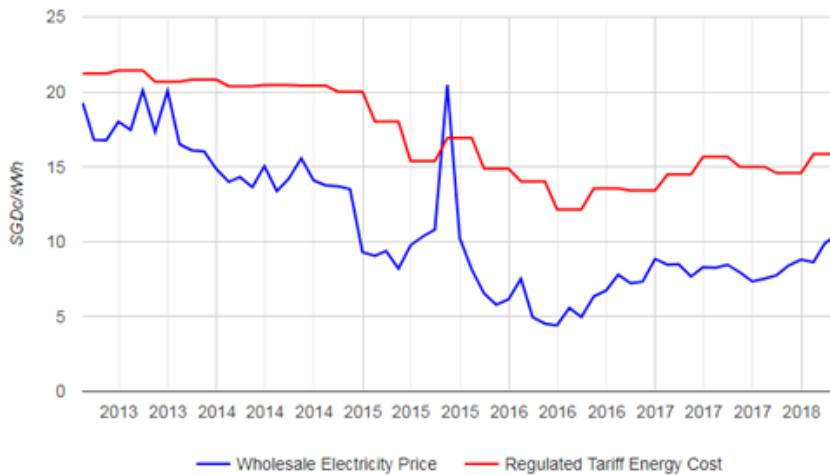
Source: SingTel website

**Better efficiency with higher awareness and more savings.** By having different innovative electricity offers to choose from, consumers can plan their electricity usage to take advantage of lower prices during off-peak times – which may lead to users changing their electricity consumption behaviour to achieve further savings. EMA, citing a Stanford University study, said that every MW reduction of peak demand in Singapore translates to system-wide savings of about SGD1.6m. Through OEM, consumers are also able to track prices and manage their electricity consumption pattern – which would drive them towards wasting less power and generating greater cost savings. It would also lead to greater energy efficiency, as the load on the power generators' gas turbines will be spread out in a more equitable manner.

### Current key winners and losers post launching of OEM

**Contestable consumers are the largest beneficial parties.** Post-OEM, all consumers have options to become contestable consumers, where they can avoid excess payments for electricity over the wholesale electricity price (WEP) – by subscribing to a retailer that offers rates lower than the regulated tariff. Consumers could enjoy higher cost savings from OEM.

**Figure 36: Regulated tariff energy cost vs WEP**



Source: [singaporepowerdesk.com](http://singaporepowerdesk.com)

**Power generation sectors crushed by overcapacity.** According to [singaporepowerdesk.com](http://singaporepowerdesk.com), over 95% of Singapore’s electricity demand is met by modern combined-cycles gas turbine (CCGT) generation.

Prior to 2012, electricity demand was met by production from CCGT and steam turbines (ST). It is more expensive to produce electricity from ST plants than from CCGT plants, as CCGT plants are more efficient. Around that time, in anticipation of higher electricity demand, more power plants were built in Singapore.

After the completion of these additional power plants, electricity demand growth decelerated, then capacity exceeded demand. As electricity production costs from ST plants are higher, a number of ST plants are now standing idle. Electricity prices have also, correspondingly, fallen. Electricity generation companies are struggling with profitability.

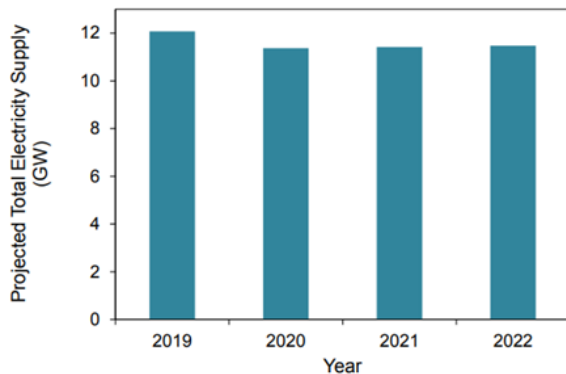
**Electricity demand growth expected to slow down**

**Electricity demand outlook remains soft amidst easing economic growth in the near term.** According to Singapore Electricity Market Outlook (SEMO) 2018, Singapore’s annual system demand for electricity has increased at a 2.4% CAGR over 2007-2017.

However, with decelerating near-term economic growth, the weakening correlation between power demand and economic growth (as industrial users focus on pursuing energy efficiency), and incremental new power demand being met by new solar generation, electricity demand growth is expected to slow down over the next decade.

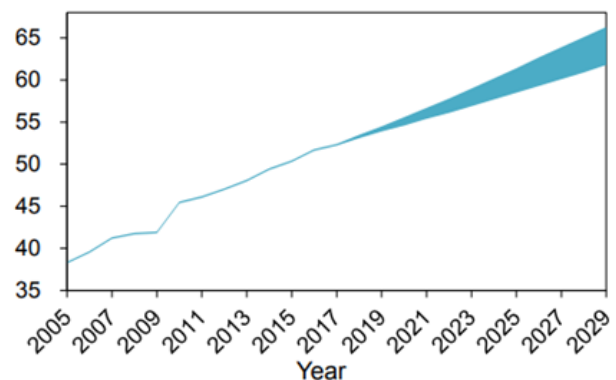
By taking into account demographic changes, rising global temperatures and expected GDP growth rates, EMA has estimated power demand CAGR at 1.4-2% for 2019-2029.

**Figure 37: Projected total electricity supply (capacity)**



Source: Singapore Electricity Market Outlook (SEMO),2018

**Figure 38: Projected annual system demand (TWh)**



Source: Singapore Electricity Market Outlook (SEMO),2018

## Telecom Sector

### A) Addressing new competition & services

#### At the forefront of innovation

Singapore intends to be at the forefront of 5G adoption and development. With the goal to be the leading digital economy, Info-Communications Media Development Authority (IMDA) has taken a highly proactive stance in facilitating the country's digitalisation efforts, which forms part of the broader Smart Nation project. The latter is contained within the three key pillars – digital economy, digital government and digital society – and next-generation technology via various regulatory initiatives. IMDA was also one of the first to assign the 700MHz spectrum to telcos in early 2017.

#### 5G trials started in 2016

SingTel, in collaboration with Ericsson, launched Singapore's first 5G pilot network at one-north, the country's science, business and IT hub in 4Q18, using the trial spectrum provided by IMDA to deliver 5G coverage with enhanced mobile broadband (eMBB) speed and low latency communications. This was followed by a live facility called "5G Garage" where it teamed up with Singapore Polytechnic (SP) and Ericsson on 3.5GHz trials in Jan 2019.

In Nov 2018, StarHub announced that it completed the first pilot of 5G New Radio (NR) on the 3.5GHz band with Nokia, with the demonstration of various industrial and consumer applications. The company had trialled 5G back in 2017, with Huawei using 60-90GHz frequencies and with Nokia on the cm-wave bands (3GHz-30GHz) using Nokia's AirScale platform. Lastly, M1 collaborated with Huawei on 5G trials to showcase the first end-to-end live broadcast of 5G virtual reality (VR) on the 28GHz band in Jun 2018.

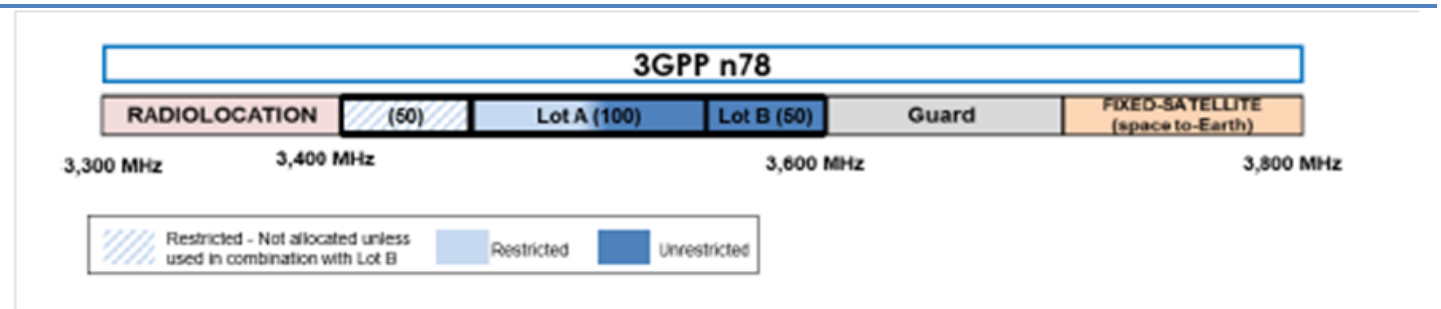
#### IMDA may award 5G licences by end-2019/1Q20 via a beauty contest

Singapore is one of the first Asian markets to unveil plans to award 5G spectrum. The IMDA had, on 7 May, launched a public consultation to seek views on the regulatory framework and policies for 5G, with the deadline for comments fixed for 19 Jun.

As part of the consultation process, the regulator has proposed to assign two nationwide 5G licences comprising 150MHz of 3.5GHz spectrum (100MHz for unrestricted/restricted use and 50MHz for unrestricted use) and 800MHz of the mm-wave band (bundled with the 3.5GHz spectrum). This spectrum will be allocated via a "Call for Proposal (CFP)" or beauty contest - marking a departure from the competitive spectrum auctions held in the past – and is open to existing mobile network operators (MNO).

Interested telcos are to submit their preferences for the 3.5GHz and mm-wave spectrum lots, provide detailed plans for 5G deployment and offer price(s) they are willing to pay for the 3.5GHz (above IMDA's reserve prices). Both spectrum bands would have a duration of 12-15 years to provide sufficient investment certainty, while catering for technological changes.

Figure 39: Proposed assignment of 3.5GHz spectrum



Source: IMDA



Some of the baseline requirements include:

- i. Provision of 5G standalone networks with more than 50% coverage within 24 months from the commencement of the spectrum right, with mm-wave bands put into use within 12 months from the start of the spectrum right;
- ii. 5G wholesale services to be offered to other MNOs/mobile virtual network operators (MVNOs);
- iii. Designing and building trusted and resilient 5G networks to meet IMDA's requirements.

In response to the consultation paper, SingTel has called on the IMDA to offer 5G spectrum for free, as doing so would improve the economics of 5G. The company believes it has "all the right ingredients" to win the rights to offer 5G services.

**Figure 40: Evaluation criteria for the 5G spectrum**

Evaluation Criteria	Elaboration
Network Rollout and Performance (30%)	This criterion will look at applicants' proposed network rollout and performance potential. For example, IMDA will consider the extent of 5G coverage, speed of network rollout, capabilities of the proposed SA network and performance standards beyond the baseline requirements set by IMDA.
Network Design & Resilience (40%)	This criterion will look at whether the proposed 5G network is designed with trust and resilience in mind.
Financial Capability (15%)	This criterion will assess whether the applicants have the financial ability to fund their proposed 5G network rollout and have the means to meet their projected costs.
Offer Price (15%)	This criterion will look at the offer price submitted beyond the base price(s).
Wholesale Arrangements	This criterion will require applicants to commit to providing wholesale arrangements to any MNO or MVNO would may request for this.

Source: IMDA

### Bulk of use cases will be enterprise-centric

We expect the early use cases in Singapore to focus almost exclusively on enterprise verticals, at least in the initial years, as this is likely to offer the strongest revenue potential and monetisation opportunities. The key demand driver, in our view, would come from the various Smart Nation initiatives in support of the digital economy, with commercial values to be found in industries such as manufacturing, healthcare and transport, amongst others.

Some of the strategic national initiatives under the Smart Nation project include an extensive sensor platform and smart urban mobility (autonomous vehicles). The case for consumer-centric 5G use cases in Singapore is less attractive, in our view, given:

- i. Already highly competitive prices and innovative mobile services in the market, supported by a growing number of MVNOs;
- ii. Extensive fibre coverage island-wide;
- iii. Structural issues affecting telcos;
- iv. Concerns over ROIs

Positively, the Big-3 telcos have, in recent years, been placing greater emphasis on enterprise space to mitigate structural weakness and heightened competition in the consumer/retail space.

**Figure 41: nuTonomy autonomous vehicle being tested in Singapore**

**Figure 42: ST Engineering was awarded an SGD7.5m contract from the Government for trials of smart lamp posts in 2018**

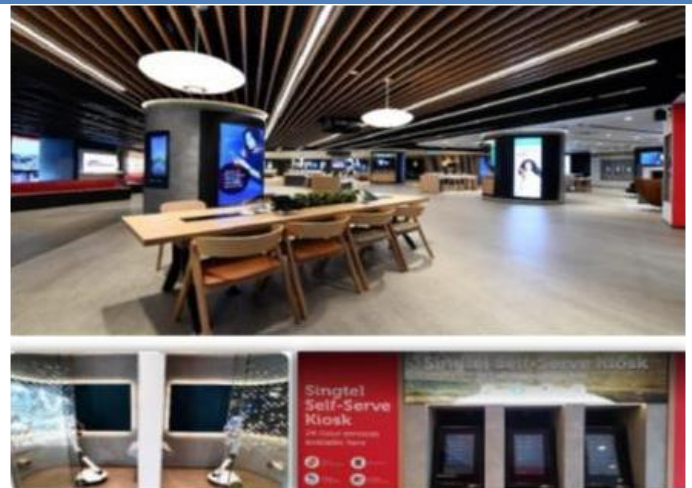


Source: Smart Nation Singapore

Source: Smart Nation Singapore, Mediacorp

**Figure 43: SingTel has a proven track record for Smart City and digital enterprise transformation**

**Figure 44: SingTel's Comcenter store offers new digital experience**



Source: SingTel

Source: SingTel

**Capex set to accelerate when 5G standalone standards are ratified**

Singapore telcos have yet to guide on potential 5G capex, given the evolving eco-system (spectrum, handsets, etc). At its 4QFY19 results briefing, SingTel said it is still early days yet to guide on 5G capex, with mobile/use cases lacking. In our view, the telcos are likely to take a more measured approach to capex, adopting an evolutionary approach using 4G as an overlay to reflect the little commercialisation values in the short-to-medium term.

We believe the harmonisation of 5G standalone standards and specifications by 3GPP in early 2020 will pave the way for greater visibility on industry 5G capex. The latter would be a function of network requirements (the procurement of a new core network and type of spectrum bands used), which could vary over time. According to Fitch Ratings, standalone 5G investments are expected to be significant during 2020-2021, which would see industry capex increase manifold and, in turn, drive up industry net debt/EBITDA.

**All three telcos stand to benefit**

We see the three key operators in Singapore as joint beneficiaries of eventual 5G deployment in the market, given the head-start in piloting various use cases across industry verticals (including manufacturing, transport/logistics and healthcare) and their involvement in Smart Nation and national level digitalisation projects. That said, we see overall investments to be at a measured pace, and selective – due to the still-weak investment case and proposition for 5G.

## Manufacturing Sector

### A) Adapting to changes in the supply chain

#### Relocation of factories

The worsening of the trade dispute between the US and China has made many companies consider relocating their factories from China to other countries, especially in ASEAN. Vietnam and Thailand, as well as Myanmar, are popular options due to the lower labour costs and land costs. Under our coverage, Valuetronics (VALUE SP, NEUTRAL, TP: SGD0.61) has started working with a customer to relocate their production to Vietnam. The rest of the companies under our coverage have factories spread globally – so we do not think they need to actively consider relocation.

**South-East Asia a strong competitor for manufacturing.** The low cost of labour in countries like Myanmar, Cambodia and Laos – coupled with cost-effective manufacturers in Thailand, Vietnam, Indonesia and the Philippines, and higher-end producers in Singapore and Malaysia – makes ASEAN a strong competitor to China for manufacturing. This is especially so, with the surge in labour costs in China and trade tensions between the US and China. South-East Asian nations have committed to establish an ASEAN community where goods, services, capital and labour can move freely between the member states. Australia and New Zealand Banking Group (ANZ) has estimated that the South-East Asian nations could lift intra-regional trade to SGD1trn by 2025. Foreign direct investment into ASEAN from the major economies could surge to SGD106bn in 2025, having already eclipsed investment into China for the first time in 2013.

**Valuetronics has begun porting some production to Vietnam.** The company's management has announced plans to start shifting production for a key customer to a new factory in Vietnam, with more likely to follow if the trade dispute worsens. Samsung Electronics in northern Vietnam employs more than 60,000 people, and is by far the biggest manufacturing entity in Vietnam. Many other Chinese factories are also considering to move production out of China to avoid US tariffs and preserve their US businesses. Foxconn, which assembles Apple's iPhone in China, has plans to shift production from China to countries like India as well as Vietnam.

**Winners of relocation – Venture, Fu Yu, and Frencken.** Fu Yu (FUYU SP, BUY, TP: SGD0.24) and Venture (VMS SP, BUY, TP: SGD16.30) have sizeable manufacturing capabilities in Singapore, as well as in Malaysia – just like Frencken (FRKN SP, BUY, TP: SGD0.82), which also has operations in the Europe. As a result, shifting production from their Chinese factories to overseas locations to avoid US tariffs would be much easier and faster – since it will not require the need to set up a new factory. In addition, they will likely also benefit from the gaining new customers that are considering moving their production base out of China in a short period of time. Our Top Picks within the manufacturing sector include Fu Yu and Frencken. We like Fu Yu due to its strong balance sheet, expanding margins and attractive dividend yield of >8%. We like Frencken for its strong diversification of earnings over the past few years, as well as a potential record FY19F in terms of profitability.

#### Trade war tariffs causes companies to rethink geographical strategy

Since the trade war started in Jan 2018 and tariffs implemented, businesses globally had to rethink their production strategy and supply chain – particularly those who have large operations in China and the US. In fact, according to a survey by the American Chamber of Commerce (AmCham) in Singapore, more businesses are also considering readjusting supply chains away from China and the US.

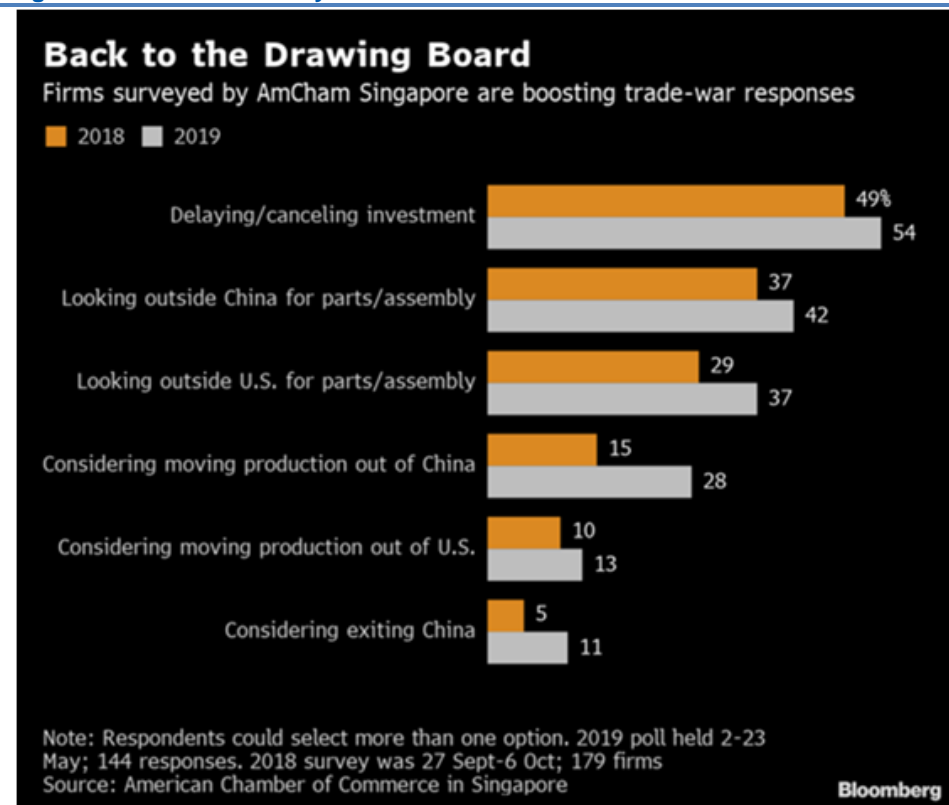
The AmCham survey included 144 respondents, around 90% of which have operations either globally, across the Asia-Pacific, or across South-East Asia. American-based firms made up 61% of all respondents, and manufacturing businesses had a 22% share. Overall, 88% of the respondents see South-East Asia as a more or equally attractive place to do business compared with other regions.

Figure 45: Companies' relocation plans

No.	Company	Business	Expansion/Relocation Plan	Remarks
1	AAC Technology	Hong Kong-listed electronic components producer based in Shenzhen	The firm has new factories in Vietnam and the Philippines (ready in late 2019)	AAC supplies acoustic components for smartphones, and lenses to US phone maker Apple and Huawei, mainly from its production bases in mainland China
2	Luxshare	Shenzhen-listed cable assembly company	Extending its production sites to Vietnam and India (second factory in Vietnam targeted to start production by Jun 2020)	The company has only three percent of its revenue directly linked to the US market
3	Hon Hai	Better known as Foxconn, this is a Taiwanese multinational electronics contract manufacturing company listed on the Taiwan Stock Exchange	Planned to invest worth USD16.6m in Vietnam	Hon Hai has 14 affiliates in India, covering manufacturing, logistics, maintenance, sales and marketing. It also has six affiliates in Vietnam
4	Goertek	Chinese acoustic components company, listed on the Shenzhen Stock Exchange	Goertek announced that its production of Apple's Airpods wireless headphones will move to Vietnam, because of the trade war	GoerTek currently has a production facility in northern Vietnam near Hanoi city making wired headsets for iPhones.
5	Samsung Electronics	World's largest phone producer	Cease operations at one of its mobile phone manufacturing plants in China	Share of the Chinese market shrunk to 1% in 1Q18. Samsung is the largest foreign investor in Vietnam and accounts for around a quarter of the country's total export revenue. Samsung has invested USD17.3bn in eight factories and one research and development centre in Vietnam
6	Ricoh	Japanese office equipment maker listed on Tokyo Stock Exchange	Plans to move output to Thailand	The Americas account for roughly 30% of Ricoh's printer segment revenue

Source: <https://www.asiaone.com/digital/india-vietnam-benefit-tech-war-drives-production-out-china>, other sources, RHB

Figure 46: AmCham survey



Source: Bloomberg

### Rising labour costs - a key driver

Rising labour costs have been driving factory emigration from China since long before Trump's tariffs were in play. For example, minimum hourly wages in major factory hubs of Guangdong province rose from CNY4.12 in 2008 to CNY14.40 last year – particularly low value-added ones like textile factories, have sought even cheaper labour in Southeast Asian countries, like Vietnam and Malaysia.

**Figure 47: Average wages of employed persons in China in manufacturing (in CNY terms)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Wage of Employed Persons (CNY)	20,117	23,671	27,471	31,142	36,386	43,031	47,367	54,094	61,600	64,931	71,130	77,649
% YoY growth		18%	16%	13%	17%	18%	10%	14%	14%	5%	10%	9%

Source: <http://data.stats.gov.cn/>

### Shift to high-end manufacturing

The Central Government established its aim for China to become a centre for high-end manufacturing in 2015 when the State Council released the Made in China 2025 policy. The policy, akin to Germany's Industry 4.0, deployed billions of dollars in funds to upgrade China's manufacturing capabilities as it aims to move from lower-end to higher-end manufacturing. The focus on AI and automated processes has also ramped up significantly.

### Vietnam – a popular destination for factory relocation

The first quarter of 2019 saw foreign investment in Vietnam rise by 86.2%, to USD10.8bn, with Chinese investment accounting for almost half of that, according to the Chinese state-run *Securities Times* newspaper. Vietnam's economy grew 7.1% YoY in 2018 compared to 6.8% in 2017, while it has attracted a plethora of multinational companies, including Intel, Samsung and LG – all of which have made huge investments. New Chinese foreign direct investment in Vietnam, based on approved projects, swelled 5.6x to USD1.56bn between the start of 2019 and 20 May 2019. The January-April figure alone surpassed the full-year total for 2018. Thailand has also seen an upswing in Chinese capital inflows. In the January-March quarter, approved foreign direct investment from China doubled to THB29.3bn.

**Figure 48: Companies planning factory relocation from China to Southeast Asia**

Company (main business)	Places to which production is planned to be shifted
<b>China</b>	
Advanced Technology & Materials (metals, machine tools)	Thailand
Goertek (earphones)	Vietnam
Hangzhou Great Star Industrial (tools)	Vietnam
Jiangsu General Science Technology (tire)	Thailand
KingClean Electric (home electronics)	Vietnam
Lenovo Group (personal computers)	Vietnam
Shenzhen H&T Intelligent Control (home appliances, electric devices)	Vietnam
TCL (home electronics)	Vietnam
Zhejiang Chenfeng Technology (lighting equipment)	India
Zhejiang Hailide New Material (chemicals)	Vietnam
Zhejiang Henglin Chair Industry (furniture)	Vietnam
Zhejiang Jasan Holding Group (textile)	Vietnam
<b>Taiwan</b>	
Compal Electronics (routers, personal computers)	Taiwan, Vietnam
Pegatron (routers, personal computers)	Taiwan, India, Indonesia
<b>Japan</b>	
Ricoh (multifunctional copiers)	Thailand
<b>USA</b>	
Brooks running (running shoes)	Vietnam

Source: [Nikkei](#)

### Not all is rosy in Vietnam

Rising costs of land and labour, bottlenecks at the ports, traffic jams on the roads and quickly diminishing manufacturing capacity are some challenges companies that are looking to shift production to Vietnam might face. It is also getting more difficult to recruit workers around Ho Chi Minh City, while some factories even fight with each other for more workers. With the lack of workers in urban cities, this has driven companies farther out of the traditional manufacturing hubs to more remote parts of Vietnam, where the infrastructure is less developed. Valuetronics, one of the companies under our coverage, has also agreed to shift one of its key customer's production to Vietnam, but further away from the city due to lower land costs and the accessibility of skilled labour.

Figure 49: Motor vehicle and components manufacturing



Source: McKinsey

### Malaysia & Indonesia are also attractive alternatives

Also attractive are Malaysia – a fellow signatory to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which offers preferential access to markets such as Australia, Canada, Japan and Mexico – and Indonesia, where MNCs have been setting up manufacturing bases in the free-trade zone of Batam, a small island an hour's ferry ride from Singapore.

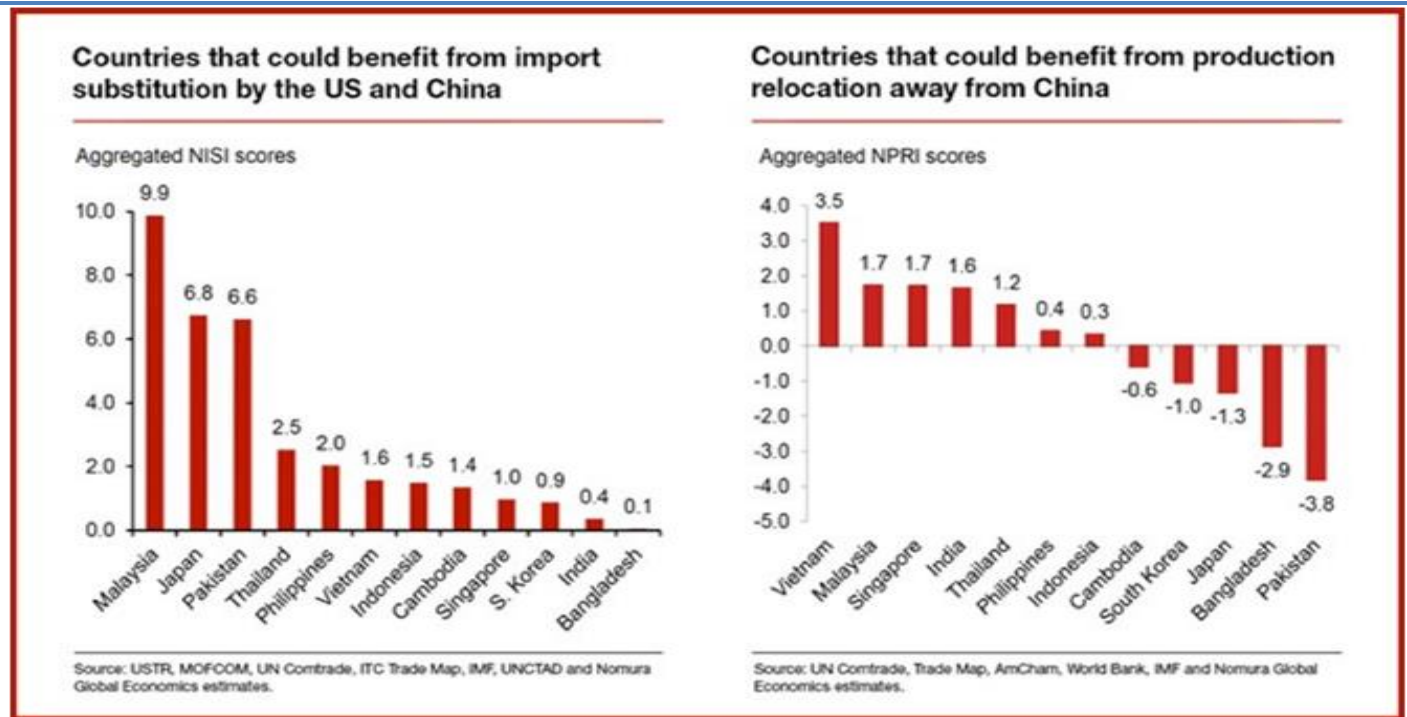
GSS Energy, a company under our coverage, has existing factories in Batam and has shifted into a new facility three times the original capacity. Taiwanese *iPhone* assembly company Pegatron is shifting production away from China to Batam, as a means of avoiding US tariffs. Phillips also has a large plant on the island, producing shavers and irons, among other products.

Figure 50: Top 4 attractive ASEAN countries by cost and quality considerations



Source: McKinsey

Figure 51: Countries that could benefit from the trade war



Source: Economic Development Board (EDB) Singapore

## Land Transport Sector

### A) Government's long term development plans

#### Efforts to transform the sector have been under way since 1996

For Singapore to thrive as a global city, its land transport infrastructure remains critical – especially given the land-locked nature of the country. The country issued its first policy White Paper on building a world-class transport system in 1996. However, with an aim to ensure that the transport system continues to support economic growth, a bigger population, higher expectations and more diverse lifestyles, the Government followed up the initial White Paper with multiple Master Plans.

These Land Transport Master Plans (LTMP) were issued in 2008, in 2013 and the latest one early in 2019. In addition to the Master Plans, in order to ensure that the land transport industry grows and transforms into one that is enabled by technology and a highly competent workforce, the Government announced the Industry Transformation Map for Land Transport sector in 2018.

#### A quick recap of past transformation plans

**Key aspects of the 1996 White Paper on building a world-class land transport system.** After setting up the Land Transport Authority (LTA) in 1995, the Government issued the White Paper with the following key strategies to realise this vision of building a world-class transport system in Singapore:

- i. Integrating transport and land use planning;
- ii. Expanding the road network and maximising its capacity;
- iii. Managing demand of road usage (introduction of Electronic Road Pricing – ERP);
- iv. Providing quality public transport choices.

The government was very clear that it will take 10-15 years to attain this vision of building a world class transport system.

**Key aspects of the 2008 Land Transport Master Plan (LTMP).** Although the delivery on the strategies mentioned in the 1996 White Paper helped the Government deliver a land transport system that has served the residents well, a rapidly-growing population and rising expectations amidst growing affluence would mean that Singapore has to update its development plans for land transport. The LTA also recognised that it had to re-examine the policies to better meet the needs of the greying population and the less privileged and lower income groups, as well as the higher expectations of residents.

With a view to develop land transport for the next 10-15 years, the LTMP 2008 identified three key strategic thrusts areas:

- i. **Making public transport a choice mode.** The most concerning trend that the LTA identified was that public transport mode share during the morning peak hours had declined to 63% in 2004, from 67% in 1997. The Government aims to increase this to 70% by 2020. By 2020, it targets for at least 85% of public transport commuters to complete their journey within 60 minutes during the morning peak hours, from the time they set out on their journey to their destination (ie “door-to-door” journey time), up from 71% in 2008. Average public transport journey times is to be reduced from 1.7 times of that by car in 2008 to 1.5 times by 2020.
- ii. **Managing road usage.** With increasing constraints in road building as Singapore became more densely built up, the Government proposed the following measures to ensure better utilisation of roads:
  - A more effective ERP system;
  - Lower vehicle population growth rate to 1.5% from 2009;
  - Parking policy that will ensure that parking supply in the city will gradually decline over time and parking charges will rise. This will help in restraining car usage;
  - Expand road network by building the 21km North-South Expressway (NSE) at an estimated cost of SGD7-8bn by 2020;
  - Leverage on technology to optimise road capacity.



iii. **Meeting the diverse needs of the people.** In order to build a people-centred land transport system that caters to providing access to amenities and opportunities for communities comprising low-income groups, the elderly, wheelchair users, families with young children, pedestrians and cyclists, the Government proposed the following in the 2008 LTMP:

- Ensure all new and existing MRT stations as well as bus services will be accessible to persons with disabilities/impairments;
- Affordable public transport for lower-income Singaporeans;
- Facilitate cycling through provision of better bicycle parking facilities around MRT stations and bus interchanges, allow foldable bicycles onto buses and trains on a trial basis, close short gaps between the park connectors and transport nodes, and install appropriate road signs to alert motorists to the presence of cyclists;
- Promote environmental sustainability and high quality living environment by improving vehicle emission standards and incentivising the use of more cleaner fuels;

**Key aspects of the 2013 Land Transport Master Plan.** With the rapidly changing economic environment in Singapore, especially after the Global Financial Crisis, the government felt the need to refresh the LTMP within a span of five years. The 2013 LTMP retained the vision of building a “People-Centred Land Transport System”, but with a focus on enhancing commuters’ travel experience. The 2013 LTMP focussed on the following areas of improvement:

- i. **More connections.** The Government planned to build a more comprehensive rail network in Singapore. In order to ensure that commutes are faster and more convenient for commuters, it also planned to provide more walking, cycling and bus routes to connect to the rail network by building more sheltered walkways and cycling paths and expanding the bus network. By 2030, it planned for eight in 10 homes to be within a 10-minute walk of a train station. To achieve this vision, the plan had the following actions:
  - Expanding the rail network by building two new lines and extending existing lines. New lines announced were the Cross Island Line (to be completed by 2030) and the Jurong Region Line (to be completed by 2025).
  - The idea of building a high speed train connection between Singapore and Kuala Lumpur was also proposed in the LTMP;
  - More bus services with addition of 40 new bus services;
  - Facilitating more walking and cycling;
- ii. **Better service.** In order to improve the land transport service, the LTMP proposed the following action points:
  - Improving rail services by adding more trains in service, enhancing the MRT operating performance standards and improving the system reliability;
  - Improving bus services, which included the launch of the Bus Services Enhancement Programme (BSEP), which would result in an increase in the bus fleet by about 20%, equivalent to 800 new buses over the next five years. Of these 800 buses, the government will fund 550 with the remaining funded by the public bus operators;
  - Enhancing the availability of taxis and facilitating the creation of car-sharing ports in HDB estates;
  - Travelling the smart way with the launch of a one-year Travel Free trial on the rail network for those who end their journey before 7.45am on weekdays at 16 designated MRT stations in the city area;
- **Liveable and inclusive community.** In order to ensure that land transport continues to remain inclusive for all sections of society, these were proposed:
  - Barrier-free access of the public transport system be made available to seniors and to those that are less mobile;

- Reduce noise levels by installing noise barriers along MRT lines;
  - Enhance road safety for all users;
  - Reclaim public spaces by introducing car-free/car-less zones within selected commercial and historical areas in the city centre.
- iii. **Reducing reliance on private transport.** With a clear goal of making public transport the preferred mode of travel amidst growing land constraints, the Government decided to take the following steps to reduce the reliance on private modes of transport:
- Reviewing the vehicle growth rate, which was already brought down to 0.5% since Feb 2013;
  - Assess measures to ensure that the Government can provide better stability to the number of Certificate of Entitlement (COE) issues during each bidding period;
  - Deploy the global navigation satellite system-based (GNSS) ERP (ERP2) to ensure better management of traffic on congested roads;
  - Until ERP2 is deployed, continue building new gantries to manage traffic congestion;
  - Work towards a parking policy that balances the negative impact of insufficient parking with the cost of providing too much parking in the land-scarce island state;
  - Aggressively work towards tackling illegal parking;

### The Industry Transformation Map (ITM) from 2018

In 2018, the Government announced the industry transformation map (ITM) for the land transport industry. The ITM acts as the blueprint for growing and transforming the land transport industry into one that is enabled by technology and a highly competent workforce. The ITM ensures that the land transport industry and its workers continue to stay relevant despite long-term challenges such as an ageing population as well as land and fiscal constraints.

It also responds to disruptive technologies such as autonomous vehicles (AVs), big data and artificial intelligence, and harnesses their transformative potential as an opportunity to enhance the land transport system and create even better jobs for the industry.

In order to support the expansion of Singapore's public bus and rail networks, the LTA estimated that the industry will create up to 8,000 new public transport jobs by 2030. LTA will carry out industry manpower planning to identify employment opportunities and formulate targeted workforce interventions. It will also continue to develop the capabilities of the workforce, particularly through up-skilling and re-skilling of our public transport workers.

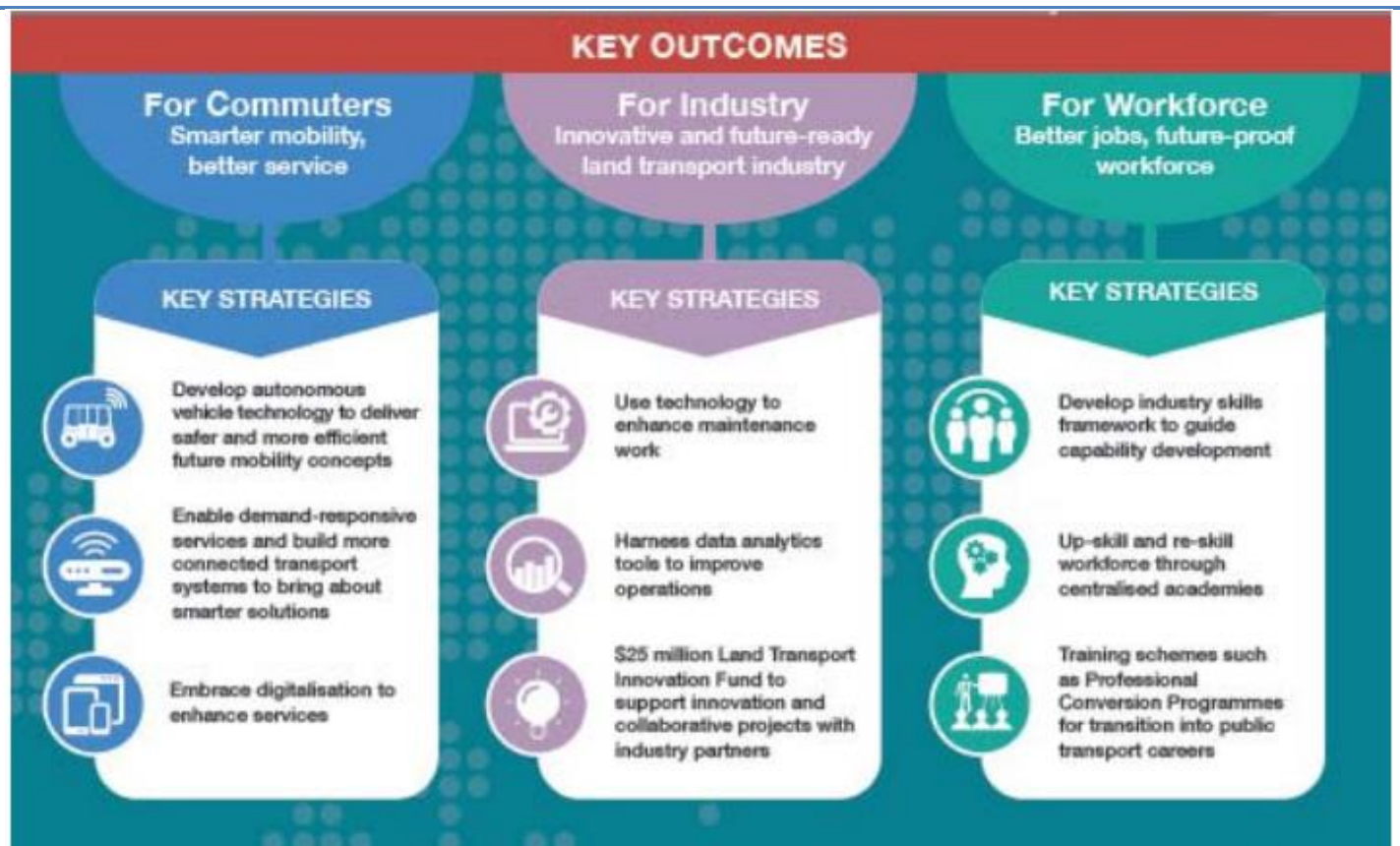
The LTA expects the continuous adoption of technology and innovative solutions to play an integral part in the land transport industry's development. To further encourage mobility-related research and technology trials, the LTA will set aside SGD25m over five years for the Land Transport Innovation Fund to spur innovation and collaborative projects with industry partners.

Figure 52: Land transport ITM targets for 2030



Source: LTA

Figure 53: Key outcomes for land transport ITM



Source: LTA

**The key initiatives identified under the land transport ITM are:**

- i. Creating better jobs and ensuring a future-proof workforce through up-skilling and re-skilling of employees to take on new and better jobs as the industry evolves;
- ii. Foster collaborative research and develop transport solutions with assistance from Nanyang Technological University (NTU), National University of Singapore (NUS), Singapore Institute of Technology (SIT) and Singapore University of Technology and Design (SUTD). Also ensure that SMEs and start-ups get an opportunity to test-bed innovative solutions that have not yet reached market maturity;
- iii. Improve public transport service through better rail condition monitoring, automatic track inspections, deployment of rail enterprise asset management system, provision of common fleet management system for all bus operators to better monitor and manage their operation and deployment of the next generation ERP system (ERP2);
- iv. Explore how autonomous vehicle technology can be applied to bring about new efficiencies and forms of shared mobility. Autonomous buses and dynamically-routed, on demand shuttles were planned to be deployed to enhance transport solutions;
- v. Ensuring transport services remain sustainable through launch of electric car sharing programme (BlueSG) and deployment of electric buses;
- vi. Making land transport future-ready by use of drones for inspection of MRT tunnels, building a data warehouse under LTA to carry out advanced data analytics on travel patterns by car, bus and train as well as provide the public with seamless and convenient access to vehicle-related services through digitalisation;

**Figure 54: BlueSG electric car-sharing service in Singapore**

Source: Enca

**Figure 55: Electric bus being deployed**

Source: Land Transport Guru

**The 2040 Land Transport Master Plan**

The LTMP 2040 charts out the long-term vision, policies and targets that will shape Singapore's land transport system to 2040, and possibly beyond. It describes: a transport network that is convenient, well-connected and fast, a transport ecosystem characterised by gracious behaviour & inclusive infrastructure, and a transport environment that supports healthy lives and enables safer journeys.

**The LTMP 2040 focuses on achieving the following:**

- i. 45-minute journeys to complete peak period journey from home to work and 20-minute journeys to neighbourhood centres by walking, cycling or riding;
- ii. An inclusive land transport with more barrier free systems;
- iii. Healthy lives and safer journeys for everyone.

Figure 56: The LTMP 2040 aims to achieve the following



Source: LTA

**Key strategies to achieve what's being set out in 2040 LTMP:**

- i. Prioritise public, active and shared modes of transport;
- ii. Facilitate more seamless multi-modal travel;
- iii. Bring jobs and amenities closer to homes;
- iv. Nurture a gracious and caring commuting culture;
- v. Develop the capabilities of public transport workers to meet diverse needs;
- vi. Provide infrastructure for better accessibility and barrier-free travel;
- vii. Provide more spaces for public transport, active mobility and community uses;
- viii. Facilitate safer journeys: towards a future with fewer land transport-related fatalities;
- ix. Provide a clean environment: environmental-friendly vehicles and infrastructures.

In order to achieve the 2040 LTMP, the LTA has split the action plan in to short-term, medium-term and long-term initiatives.

**The short-term initiatives to be undertaken between now and 2020 are:**

- i. Complete Thomson-East Coast Line (TEL) Phase 1 & 2;
- ii. Commence feasibility study of new line in the north/north-east region;
- iii. Install priority queues in all MRT stations;
- iv. Pilot priority cabins on a rail line;
- v. Complete upgrading of bus stops to ensure barrier-free access;
- vi. All buses to be wheelchair-accessible;
- vii. Install stroller restraints across entire bus fleet;
- viii. Trial Mobility Assistance for the Visual Impaired and Special Users (MAVIS);
- ix. Trial speed limit reduction from 40km/h to 30km/h in selected silver zones.

**The medium-term initiatives that will be undertaken during 2021 and 2030 are:**

- i. Complete expansion of cycling path network to 700km by 2030;
- ii. Launch pilot of autonomous-enabled services in Punggol, Tengah and Jurong Innovation District;
- iii. Complete TEL Phases 3, 4 and 5;
- iv. Complete TEL Extension to Changi Airport (timeline subject to change);
- v. Complete Jurong Region Line (JRL) Phases 1, 2 & 3;
- vi. Complete Cross Island Line (CRL) in phases (timeline subject to change);
- vii. Implement Transit Priority Corridors – North South Corridor (timeline subject to change);
- viii. Complete Integrated Transport Hubs (ITHs) (timeline subject to change);
- ix. Install priority queues in all bus interchange and ITHs;
- x. Install lifts at 29 more pedestrian overhead bridges;
- xi. Upgrade 2,300 bus stops with elder-friendly seats;
- xii. Build another 20km of noise barriers on existing flyovers of expressways;
- xiii. Complete 50 Silver Zones.

**The long-term initiatives that will be undertaken during 2031 and 2040 are:**

- i. Complete expansion of cycling path network to more than 1,000km by 2040;
- ii. Complete Brickland station;
- iii. Complete Downtown Line (DTL) extension to new Sungei Kadut interchange station in North South Line (NSL);
- iv. Complete Marina South ITH;
- v. Complete another 150km of covered linkway connections to MRT stations, residential areas and amenities;
- vi. Make 100% of public buses run on cleaner energy;
- vii. Work with taxi companies to make 100% of taxi fleet run on cleaner energy;
- viii. Implement dedicated cycling paths and widen footpaths where feasible.

23 August 2019

Consumer Cyclical | Restaurants

## Jumbo (JUMBO SP)

**Buy** (Maintained)

### A Jumbo Example; Maintain BUY

Target Price (Return)	SGD0.47 (+24%)
Price:	SGD0.38
Market Cap:	USD174m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- **Maintain BUY and TP of SGD0.47**, 24% upside plus c.4% yield. Jumbo is a multi-concept food and beverage (F&B) services company with seven brands in 11 cities and 31 outlets. Amidst the Government's move to tighten foreign worker quotas in 2020 and 2021, Jumbo believes it could look to hire more local workers to mitigate the manpower crunch. The group has also teamed up with food delivery services to reach out to more customers.

#### Analyst

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- **A successful example for the F&B industry.** Jumbo looks to hire more local workers post-2020, once the tighter dependency ratio ceiling (DRC) kicks in. According to the group, its cost of hiring local and foreign workers is similar after factoring in foreign worker levies and benefits. By training and nurturing its staff, the group could achieve a higher retention rate. With the rise of many food delivery apps, Jumbo has also collaborated with delivery services including GrabFood, Foodpanda and Deliveroo to raise its revenue. Jumbo was also cited by the Prime Minister during the National Day Rally speech as a successful example of how economic transformation efforts are starting to bear fruit, with firms expanding abroad, and developing their employees.

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	-	(6.2)	(5.0)	(7.3)	(25.5)
Relative	(3.3)	(1.2)	(1.5)	(6.3)	(20.8)
52 week price low/high	0.36 - 0.52				

- **Key drivers.** Earnings would continue to be driven by new store openings and the maturing of Singapore outlets opened this year. We expect *Jumbo Seafood Gallery* to see stronger footfall and sales in 4Q19 post-renovation. The new Jumbo Seafood outlets opened this year (Ion Orchard and Jewel Changi Airport) should continue to ramp up, and contribute positively to bottomline as well. We expect to open one more *Tsui Wah* outlet in Singapore, a second *Jumbo Seafood* restaurant in South Korea and one *Ng Ah Sio Bah Kut Teh* outlet each in Mainland China and Taiwan.

Jumbo Group Ltd (JUMBO SP)



Source: Bloomberg

- **Valuation basis.** We value Jumbo based on DCF valuation with 8.2% cost of equity, 2.5% risk free rate and 2% terminal growth rate.

- **Downside risks** include major recession driving down sales in F&B services, intensifying competition and food safety scandals.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	145	153	165	197	209
Recurring net profit (SGDm)	14.5	11.0	12.0	14.5	16.7
Recurring net profit growth	(6.7)	(23.8)	8.8	21.0	14.8
Recurring P/E (x)	16.6	21.8	20.3	16.6	14.4
P/BV (x)	3.5	3.5	3.4	3.2	3.0
P/CF (x)	20.7	14.9	15.2	11.8	10.5
Dividend Yield (%)	4.5	3.2	3.4	4.2	4.8
EV/EBITDA (x)	8.9	10.8	9.8	8.3	7.3
ROE (%)	22.2	16.9	17.4	19.8	21.3
Net debt to equity (%)	na	na	na	na	na
Interest coverage (x)	na	na	na	na	na

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Singapore	Recurring EPS (SGD)	0.02	0.02	0.02	0.02	0.03
Consumer Cyclical   Restaurants	DPS (SGD)	0.02	0.01	0.01	0.02	0.02
Jumbo Group	BVPS (SGD)	0.11	0.11	0.11	0.12	0.12
Jumbo SP	ROE (%)	22.2	16.9	17.4	19.8	21.3
BUY						
Valuation basis	Valuation metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Our DCF assumptions	Recurring P/E (x)	16.6	21.8	20.1	16.6	14.4
i. COE of 8.2%;	P/B (x)	3.5	3.5	3.3	3.2	3.0
ii. Risk free rate of 2.5%; and	FCF Yield (%)	2.4	4.1	2.9	6.1	7.0
iii. 2% long-term growth.	Dividend yield (%)	4.5	3.2	3.5	4.2	4.8
Key drivers	Income statement (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Our FY19 forecasts are most sensitive to changes in:	Total turnover	145	153	165	197	209
i. Rate of new store openings;	Gross profit	92	96	103	124	132
ii. SSSG; and	EBITDA (adj.)	22	18	20	24	27
iii. Operational expenses.	Depreciation & amortisation	-5	-5	-6	-6	-7
	Operating profit	18	14	15	18	20
	Net interest	0	0	0	0	0
	Pre-tax profit	18	13	13	17	20
	Taxation	-3	-3	-3	-3	-4
	Net profit	15	11	11	14	16
	Recurring net profit	14	11	12	15	17
Key risks	Cash flow (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
The downside risks include:	Change in working capital	-8	1	-2	0	0
i. Slowdown in China economy;	Cash flow from operations	12	16	16	20	23
ii. Surge in manpower cost;	Capex	-6	-6	-9	-6	-6
iii. Intensifying competition; and	Cash flow from investing activities	-6	-11	-9	-6	-6
iv. Food safety issues.	Dividends paid	-14	-11	-8	-10	-12
	Cash flow from financing activities	-14	-10	-8	-10	-12
	Cash at beginning of period	59	51	47	45	49
	Net change in cash	-8	-5	-2	4	5
	Ending balance cash	51	47	45	49	55
Company Profile	Balance sheet (SGDm)	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
Jumbo is a multi-dining concept food and beverages (F&B) company. The Company's network of F&B outlets spans across Singapore and China and have franchises across Asia. Its key brands include <i>Jumbo Seafood</i> , <i>Ng Ah Sio Bak Kut Teh</i> , <i>Chui Huay Lim</i> , <i>Zui Yu Xuan</i> , <i>Chao Ting</i> and <i>Tsui Wah</i> .	Total cash and equivalents	51	47	45	49	55
	Tangible fixed assets	19	21	24	24	23
	Total investments	1	2	1	0	0
	Total assets	83	88	90	96	101
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	15	18	18	21	21
	Total equity	68	70	72	75	80
	Total liabilities & equity	83	88	90	96	101
Key metrics	Key metrics	Sep-17	Sep-18	Sep-19F	Sep-20F	Sep-21F
	Revenue growth (%)	6.1	5.5	7.6	19.5	6.1
	Recurrent EPS growth (%)	-6.7	-23.8	8.8	21.0	14.8
	Gross margin (%)	63.4	62.7	62.7	63.0	63.4
	Operating EBITDA margin (%)	15.3	12.0	12.3	12.2	13.0
	Net profit margin (%)	10.0	7.2	7.3	7.4	8.0
	Capex/sales (%)	4.1	4.1	5.5	3.0	3.0
	Interest cover (x)	na	na	na	na	na



23 August 2019

Consumer Non-cyclical | Retailing

## Sheng Siong (SSG SP)

**Buy** (Maintained)

### From Manual To Auto, Sector Top Pick; BUY

Target Price (Return)	SGD1.32 (+12%)
Price:	SGD1.18
Market Cap:	USD1,283m
Avg Daily Turnover (SGD/USD)	2.0m/1.4m

- **Reiterate BUY with a SGD1.32 TP, 12% upside and 3.1% yield.** Sheng Siong is Singapore's third-largest supermarket chain operator. While the industry is facing rising cost pressures from labour expenses, as at 2Q19, the group has actively rolled out hybrid check-out counters at its 57 stores to reduce manpower reliance. In view of a slowing economy and declining retail sales, we like Sheng Siong for its resilient earnings and steady FCF generation.

- **Sheng Siong to outperform the retail sector, given its automation head-start.** With goals of reducing reliance on foreign workers and improving productivity, the Government announced a cut in the foreign labour dependency ratio ceiling – this takes effect in 2020-2021. This is negative for the retail and food & beverage service companies operating in Singapore, which are typically labour-intensive. We believe Sheng Siong will likely outperform its retail peers in terms of productivity, as it has introduced new hybrid check-out counters at all stores. This is to boost staff efficiencies and reduce manpower needs. The group also invested in more automation at its distribution centre extension, which is expected to go operational this year.

- **Key drivers.** In view of a slowing economy, Singapore's retail sales index has declined 9% YoY in June, while supermarket sales were down marginally, at 0.4% YoY. We expect Sheng Siong's SSSG to track the industry's performance and remain flat to marginally negative. However, near-term earnings growth should be supported by new store openings, as the group has opened 10 new stores in 2018 and is expected to open 6-7 new stores in FY19. The maturing of the 10 stores it opened in 2018 – and sales from new stores opened in 2019 – should contribute to revenue and earnings growth over the next two years.

- **Valuation basis.** We value Sheng Siong based on the average of DCF and P/E multiples. The stock is now trading at 21x FY20F P/E vs a 5-year historical average of 23x. We expect this counter to continue performing well, given its defensive nature against the uncertain macroeconomic outlook.

- **Key downside risks** include squeezed margins if all the new stores are open in the same period – this should lead to a sudden surge in fixed costs at a time when revenue from Sheng Siong's new stores have not ramped up yet.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.3	7.3	11.3	9.3	6.3
Relative	8.0	12.2	14.8	10.3	11.0
52-wk Price low/high (SGD)	1.01 – 1.22				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	829.9	890.9	974.9	1041.5	1079.1
Recurring net profit (SGDm)	67.6	70.8	77.5	84.9	92.2
Recurring net profit growth (%)	7.8	4.7	9.5	9.5	8.5
Recurring P/E (x)	26.2	25.1	22.9	20.9	19.2
P/BV (x)	6.6	6.1	5.7	5.3	4.9
P/CF (x)	22.6	19.2	18.8	16.7	15.8
Dividend Yield (%)	2.8	2.9	3.1	3.5	3.7
EV/EBITDA (x)	17.6	16.8	15.1	13.6	12.3
ROE (%)	25.7	24.3	24.7	25.3	25.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	Recurring EPS (SGD)	0.04	0.05	0.05	0.06	0.06
Retail	DPS (SGD)	0.03	0.03	0.04	0.04	0.04
<b>Sheng Siong</b>	BVPS (SGD)	0.18	0.19	0.21	0.22	0.24
SSG SP	ROE (%)	25.69	24.30	24.74	25.26	25.32
<b>BUY</b>						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
DCF and P/E	Recurring P/E (x)	26.2	25.1	22.9	20.9	19.2
	P/B (x)	6.6	6.1	5.7	5.3	4.9
	FCF Yield (%)	3.4	3.6	4.6	5.6	6.1
	Dividend yield (%)	2.8	2.9	3.1	3.5	3.7
<b>Key drivers</b>	EV/EBITDA (x)	17.6	16.8	15.1	13.6	12.3
i. New store openings;	EV/EBIT (x)	20.8	20.2	18.1	16.1	14.6
ii. SSSG;						
iii. Cost optimisation.						
Key risks	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Slower-than-expected gestation phase;	Total turnover	830	891	975	1,042	1,079
ii. Intensifying competition.	Gross profit	217	238	264	284	297
	EBITDA (adj.)	97	100	110	120	128
	Depreciation & amortisation	15	16	18	19	20
	Operating profit	82	84	92	101	109
	Net interest	0	1	1	1	1
	Pre-tax profit	82	85	93	102	110
	Taxation	-13	-14	-16	-17	-19
	Net profit	70	71	77	85	91
	Recurring net profit	68	71	78	85	92
Company Profile	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Sheng Siong is the third-largest supermarket chain operator in Singapore.	Change in working capital	-9	7	6	3	2
	Cash flow from operations	79	92	94	106	112
	Capex	-18	-28	-12	-7	-5
	Cash flow from investing activities	-17	-27	-12	-7	-5
	Dividends paid	-51	-51	-56	-61	-66
	Cash flow from financing activities	-51	-51	-56	-61	-66
	Cash at beginning of period	64	73	87	113	152
	Net change in cash	10	14	26	38	42
	Ending balance cash	73	87	113	152	193
	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	73	87	113	152	193
	Tangible fixed assets	255	266	260	248	233
	Total investments	0	0	0	0	0
	Total assets	404	436	461	493	522
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	130	144	148	157	162
	Total equity	273	292	313	336	361
	Total liabilities & equity	404	436	461	493	522
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	4.2	7.4	9.4	6.8	3.6
	Recurrent EPS growth (%)	7.8	4.7	9.5	9.5	8.5
	Gross margin (%)	26.2	26.8	27.1	27.3	27.5
	Operating EBITDA margin (%)	11.6	11.3	11.3	11.5	11.9
	Net profit margin (%)	8.1	7.9	8.0	8.2	8.5
	Capex/sales (%)	2.1	3.1	1.3	0.6	0.4
	Interest cover (x)	n.a	n.a	n.a	n.a	n.a

Source: Company data, RHB

23 August 2019

Financial Services | Banks

## United Overseas Bank (UOB SP)

**Buy** (Maintained)

### Building a Digital Bank In Thailand

Target Price (Return) SGD29.50 (+19%)  
 Price: SGD24.76  
 Market Cap: USD29,873m  
 Avg Daily Turnover (SGD/USD) 68m/49m

- **Reiterate BUY with GGM-derived TP of SGD29.50, 19% upside, 5% yield, based on 1.24x 2020F P/BV.** United Overseas Bank is the third-largest bank listed in Singapore. In addition to local operations, it has significant exposure to Malaysia, Thailand and Indonesia. UOB trades at 1.05x 2020F BV, which is lower than the historical 6-year average of 1.24x.
- **We forecast marginally higher net profit by 2021,** driven by mid single-digit loan expansion, partially offset by narrowing NIM on the back of the falling federal funds rate (FFR). Provisions could be trending up as the Singapore economy slows.
- **Deepening customer franchise with digitisation and partnership.** UOB is working on three main prongs: omni-channel experience – to meet customers’ universal banking needs through digitised applications, *Mighty* app usage, and data analytics; digital bank – building TMRW, a digital bank in Thailand, with products including payments, deposits and unsecured credit; and ecosystems partnerships – forging collaborations and creating a multiplier effect.
- **Key drivers.** 2H19 NIM is expected to be flat vs 2Q19, with lagged effects from home mortgage rates’ upward repricing in 1H19 partly offset by the weaker SIBOR expected in 2H19. On the other hand, mid single-digit loan expansion will help in net interest income growth. For 2020 and 2021, wealth management income is seen as a positive driver, but a narrowing NIM will slow net interest income growth.
- **Valuation basis.** We value UOB on a target P/BV multiple. Our long-term ROE assumption of 12.7% is higher than 1H19’s 12% – this is due to digitisation-driven cost efficiencies and less NIM contraction vs peers as UOB suffered from higher deposit costs (and hence unexciting NIM) in the past three quarters. We then derived a 2020F target P/BV of 1.24x, from which our SGD29.50 TP surfaced.
- **Key upside risks include** a slower decline in FFR, and a quick resolution to the US-China trade war, which will brighten economic growth prospects. Downside risks include a worsening of the economic prospects, which could lead to the need for more loan loss provisioning.

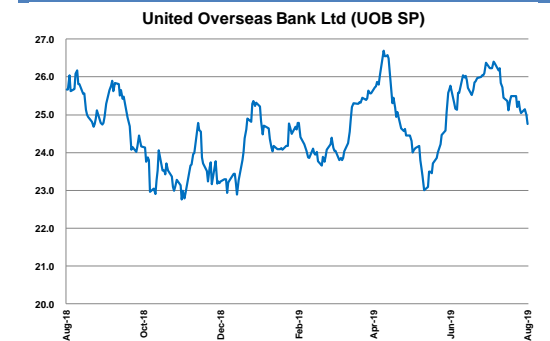
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.5	(8.1)	(0.3)	(4.0)	(7.3)
Relative	(1.8)	(3.2)	3.2	(3.0)	(2.6)
52-wk Price low/high (SGD)	23.39 – 27.76				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (SGDm)	3,390	4,008	4,321	4,248	4,409
Recurring net profit (SGDm)	3,390	4,008	4,321	4,248	4,409
Recurring net profit growth (%)	9.5	18.2	7.8	(1.7)	3.8
Recurring EPS (SGD)	2.06	2.41	2.59	2.55	2.64
BVPS (SGD)	20.37	21.31	22.57	23.69	24.85
DPS (SGD)	1.00	1.20	1.30	1.40	1.45
Recurring P/E (x)	12.0	10.3	9.5	9.7	9.4
P/B (x)	1.22	1.16	1.10	1.05	1.00
Dividend Yield (%)	4.0	4.8	5.3	5.7	5.9
Return on average equity (%)	10.2	11.3	11.7	11.4	11.7
Return on average assets (%)	0.98	1.07	1.09	1.02	1.02

Source: Company data, RHB

23 August 2019

Financial Services | Banks

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	EPS (SGD)	1.99	2.34	2.56	2.52	2.62
Financials	Core EPS (SGD)	2.06	2.41	2.59	2.55	2.64
UOB	DPS (SGD)	1.00	1.20	1.30	1.40	1.45
UOB SP	BVPS (SGD)	20.37	21.31	22.57	23.69	24.85
BUY						
	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
<b>Valuation basis</b>	Recurring P/E (x)	12.0	10.3	9.5	9.7	9.4
Gordon Growth Methodology (GGM)	P/B (x)	1.22	1.16	1.10	1.05	1.00
	Dividend yield (%)	4.0	4.8	5.3	5.7	5.9
	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
<b>Key drivers</b>	Gross loans & advances	236,028	261,707	275,081	287,572	303,501
Our net profit forecast is most sensitive to	Loan impairment allowances	3,816	3,080	3,523	3,794	4,115
i. Changes in NIM;	Net loans & advances	232,212	258,627	271,558	283,778	299,386
ii. Non-interest income growth;	Total assets	358,592	388,092	407,377	423,331	444,554
iii. Credit cost.	Deposits from customers	272,765	293,186	306,379	322,617	338,748
	Total liabilities	321,555	350,281	367,441	381,495	400,667
	Shareholders' funds	36,850	37,623	39,730	41,598	43,611
	Total equity	37,037	37,811	39,937	41,836	43,887
<b>Key risks</b>	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Higher impairment charges;	Net interest income	5,528	6,220	6,554	6,715	6,984
ii. Weaker NIMs;	Non-interest income	3,034	2,897	3,442	3,610	3,945
iii. Softer non-II.	Operating income	8,563	9,116	9,996	10,325	10,929
	Overhead expenses	3,739	4,003	4,463	4,745	5,124
	Pre-provision operating profit	4,824	5,113	5,533	5,580	5,805
	Loan impairment allowances	727	393	365	530	580
	Other impairment allowances	0	0	0	0	0
	Pretax profit	4,207	4,826	5,228	5,140	5,336
	Reported net profit	3,390	4,008	4,321	4,248	4,409
	Recurring net profit	3,390	4,008	4,321	4,248	4,409
<b>Company Profile</b>	Profitability	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
UOB is the third largest Singapore bank by global assets. Its overseas operations are focused in ASEAN.	ROA (%)	0.98	1.07	1.09	1.02	1.02
	ROE (%)	10.2	11.3	11.7	11.4	11.7
	Yield on IEAs (%)	2.91	3.26	3.51	3.45	3.41
	Cost of funds (%)	1.18	1.51	1.79	1.76	1.72
	Net interest margin (%)	1.77	1.82	1.81	1.78	1.77
	Non-II / Total income (%)	35.4	31.8	34.4	35.0	36.1
	CIR (%)	43.7	43.9	44.6	46.0	46.9
	Credit cost (bps)	28	16	14	19	20
	PIOP growth (%)	10.5	6.0	8.2	0.8	4.0
	Net profit growth (%)	9.7	18.4	7.8	-1.7	3.8
	Asset quality	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Gross impaired loans/Gross loans (%)	1.8	1.5	1.5	1.5	1.5
	Loan loss coverage ratio (%)	90.9	87.3	81.4	81.1	82.9
	NPL formation (bps)	124.0	74.0	70.7	71.3	72.2
	Liquidity	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Loan growth (%)	4.7	11.4	5.0	4.5	5.5
	Customer deposits growth (%)	6.8	7.5	4.5	5.3	5.0
	LDR (%)	85.1	88.2	88.6	88.0	88.4
	Capital	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	CET1 ratio (%)	15.1	13.9	14.2	14.9	15.0
	Tier-1 ratio (%)	16.2	14.9	15.1	15.4	15.6
	Total capital ratio (%)	18.7	17.0	17.1	17.4	17.5

Source: RHB, Company data

23 August 2019

Real Estate | Property

## City Developments (CIT SP)

**Neutral** (Maintained)

### A Pioneer In Singapore Real Estate

Target Price (Return) SGD9.20 (-1%)  
 Price: SGD9.28  
 Market Cap: USD6,133m  
 Avg Daily Turnover (SGD/USD) 16.7m/12.1m

- Maintain NEUTRAL and SGD9.20 TP, 1% downside with 2.2% yield.** City Developments is one of the pioneers in Singapore's real estate market, with over 50 years of experience. CDL boasts one of the largest landbanks in Singapore's residential market among the listed developers, and its recent high-end launches have garnered positive response despite challenging market conditions. Yet, near-term headwinds persist across CDL's core operating markets in terms of high residential supply, Brexit uncertainty, and a slowing macro economy.
- CDL likely to play a key role in Singapore's real estate transformation.** In line with Singapore's vision, CDL has been placing greater emphasis on sustainability and is included in 12 global sustainability indexes. Over the years, the group has also been fine-tuning its unit mixes to cater to changing demographic needs and smaller household sizes. An example of this would be its latest launch of Haus on Handy, where the majority (80% of units) are of a smaller size (<850sqf), catering to young millennials. We believe CDL is also likely to play an active role in the Greater Southern Waterfront (GSW) transformation, with the group already having a well-established presence in the Sentosa Cove region.
- Key earnings drivers.** Despite a challenging market, CDL's high-end new launches – Boulevard 88, Amber Park, and South Beach Residences – saw healthy take-ups, supported by a pick-up in foreign buying activity. It sold 515 units in 1H19 (1H18: 658), with a higher total sales value of SGD1.6bn (1H18: SGD1.3bn). Its fund management business is also gaining traction, with successful unwinding of the majority of Profit Participation Securities (PPS) instruments and recent acquisition of manager and stake (12.4%) in SGX-listed IREIT Global for SGD78m. It is currently in the process of privatising its London-listed hospitality subsidiary Millennium & Copthorne Hotels, which, if successful, should be a long-term boost for its recurring income.
- Valuation basis.** Our TP is based on a 40% discount to CDL's RNAV estimate. The discount is to factor in the near-term headwinds in its key real estate markets, Singapore and the UK.
- Key upside risks** are relaxation in Singapore's residential cooling measures and a smooth UK Brexit resolution. Downside risks include prolonged weakness in sales and prices in Singapore, UK and China real estate markets.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.0	(1.0)	11.2	1.5	(0.5)
Relative	14.0	5.8	12.8	5.8	1.6
52-wk Price low/high (SGD)	7.75 – 9.91				

City Developments Ltd (CIT SP)



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,829	4,223	4,478	4,849	4,441
Recurring net profit (SGDm)	538	557	525	530	540
Recurring net profit growth (%)	(17.6)	3.6	(5.8)	0.9	2.0
Recurring EPS (SGD)	0.6	0.6	0.6	0.6	0.6
Recurring P/E (x)	16.5	15.9	16.1	16.7	16.4
P/BV (x)	0.9	0.8	0.8	0.8	0.7
DPS (SGD)	0.18	0.20	0.20	0.20	0.21
Dividend Yield (%)	1.9	2.2	2.2	2.2	2.3
ROAE (%)	5.6	5.6	5.1	5.0	4.7
Net debt to equity (%)	11	29	23	23	21
Interest coverage (x)	12.3	9.6	6.6	7.3	6.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Singapore	Recurring EPS (SGD)	0.58	0.60	0.58	0.58	0.59
Property	EPS (SGD)	0.58	0.60	0.58	0.58	0.59
City Developments	DPS (SGD)	0.18	0.20	0.20	0.20	0.21
Bloomberg CIT SP	BVPS (SGD)	10.22	10.54	11.04	11.21	11.60
	Weighted avg adjusted shares (m)	909	907	909	909	909
Valuation basis	Valuation metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
RNAV methodology	Recurring P/E (x)	16.1	15.5	16.1	15.9	15.6
	P/E (x)	16.1	15.5	16.1	15.9	15.6
	P/B (x)	0.9	0.9	0.8	0.8	0.8
	FCF Yield (%)	8.6	(23.4)	11.3	5.1	7.5
	Dividend Yield (%)	1.9	2.2	2.2	2.2	2.3
	EV/EBITDA (x)	9.2	10.5	10.2	10.3	10.2
	EV/EBIT (x)	11.5	12.9	12.6	12.7	12.7
Key drivers						
i. Successful privatisation and transformation of M&C;						
ii. Rebound in Singapore property market;						
iii. Rapid scale-up of fund management business.						
Key risks						
i. Sharp slowdown in Singapore property market;						
ii. Brexit uncertainty on UK portfolio.						
Company Profile						
City Developments (CDL) is a leading global real estate operating company with a network spanning 103 locations in 29 countries and regions. With a proven track record of over 55 years in real estate development, investment and management, CDL has developed over 43,000 homes and owns over 18m sqf of lettable floor area globally. Its diversified global landbank offers 4.1m sqf of developable gross floor area.						
Income statement (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Total turnover	3829	4223	4478	4849	4441	
Gross profit	1685	1914	1971	2134	2043	
EBITDA	1057	1185	1115	1112	1107	
Depreciation and amortisation	212	215	215	215	215	
Operating profit	800	905	851	808	805	
Net interest	(65)	(94)	(129)	(111)	(119)	
Income from associates & JVs	46	65	49	90	88	
Exceptional income - net	0	0	0	0	0	
Pre-tax profit	780	876	771	786	773	
Taxation	(105)	(215)	(123)	(117)	(117)	
Minority interests	(137)	(103)	(122)	(140)	(115)	
Recurring net profit (adj)	538	557	525	530	540	
Cash flow (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Change in working capital	286	(1531)	505	(285)	(85)	
Cash flow from operations	1076	(600)	1450	628	830	
Capex	(45)	(60)	(500)	(200)	(200)	
Cash flow from investing activities	(91)	(1729)	(736)	(194)	(198)	
Dividends paid	(244)	(285)	(224)	(230)	(232)	
Cash flow from financing activities	(922)	898	(407)	(627)	(421)	
Cash at beginning of period	3567	3599	2162	2470	2277	
Net change in cash	63	(1431)	308	(193)	211	
Ending balance cash	3599	2162	2470	2277	2488	
Balance sheet (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Total cash and equivalents	3776	2289	2819	2626	2837	
Tangible fixed assets	12023	14459	14341	14223	14919	
Intangible assets	2	2	2	2	2	
Total investments	12026	14460	14343	14225	14921	
Total other assets	3702	4136	4117	4486	4006	
Total assets	19503	20886	21278	21336	21764	
Short-term debt	1266	1258	1258	1258	1258	
Total long-term debt	3756	5069	4463	4363	4463	
Other liabilities	2640	2285	2859	2578	2482	
Total liabilities	7662	8612	8581	8200	8203	
Shareholders' equity	1991	1991	1991	1991	1991	
Minority interests	2258	2233	2500	2585	2108	
Total equity	11841	12274	12697	13137	13561	
Net debt	1246	4038	2903	2996	2885	
Total liabilities & equity	19503	20886	21278	21336	21764	
Key metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F	
Revenue growth (%)	(2.0)	10.3	6.0	8.3	(8.4)	
Recurrent EPS growth (%)	(17.9)	3.6	(3.6)	0.9	2.0	
Gross margin (%)	44.0	45.3	44.0	44.0	46.0	
Operating EBITDA margin (%)	27.6	28.1	24.9	22.9	24.9	
Net profit margin (%)	14.1	13.2	11.7	10.9	12.2	
Dividend payout ratio (%)	100.0	100.0	100.0	100.0	100.0	
Capex/sales (%)	1.2	1.4	11.2	4.1	4.5	
Interest cover (x)	7.2	6.2	5.7	5.9	5.6	

Source: Company data, RHB

23 August 2019

Transport | Road & Rail

## ComfortDelGro (CD SP)

**Neutral** (Maintained)

### To Benefit From Growing Transport Network

Target Price (Return) SGD2.55 (+4%)  
 Price: SGD2.46  
 Market Cap: USD3,853m  
 Avg Daily Turnover (SGD/USD) 20.0m/14.5m

- **Reiterate NEUTRAL, SGD2.55 TP, 4% upside and 3.8% yield.** Singapore's largest public bus and taxi fleet operator, ComfortDelGro also operates two mass rapid transit (MRT) and light rail transit lines each. Earnings will be driven by its Singaporean public transport wing and contributions from recently-acquired overseas businesses. Rising operating costs and weak taxi business remain key near-term drags. While we like the defensive nature of CD's earnings and strong FCF generation, the stock looks fairly priced – trading at 18.7x 2019F P/E (5-year average: 15x).
- **CD to benefit from Singapore's long term development of its public transport services.** With a clear goal of making public transport the preferred mode for travel, the Government – via its Industry Transformation Map and 2040 Land Transport Master Plan – has put in place an action plan to rapidly expand MRT lines, improve bus services, and work with taxi firms to make all taxi fleets run on cleaner energy. As the largest public bus operator in Singapore, we see CD benefiting from rapid urbanisation and improved utilisation, as well as a growing public bus network. It is already replacing its old taxis with hybrid ones and is now testing all-electric cars for taxi use.
- **Key drivers.** Near-term revenue growth will be driven by higher bus and rail revenue from Singapore, as well as contributions from acquisitions undertaken in Australia. However, CD expects cost pressures in the public transport business due to higher operating and maintenance costs. Nevertheless, further upside to this division could come from a reduction in rail losses – this is amidst higher fares and improved synergies for its acquired businesses.
- **Valuation basis.** We value CD based on DCF of FCF and corroborate it with its forward P/E multiple. After outperforming the STI 13% YTD, the firm's forward P/E of 17.9x is close to +2SD from its 5-year average. This is on earnings growth of 2% in 2019 and 9% in 2020.
- **Key upside risks:** Additional earnings-accretive acquisitions and a pause in its taxi fleet contraction. Downside risks: Increased competition from ride-hailing players and a sharp decline in margins for the company's existing businesses.

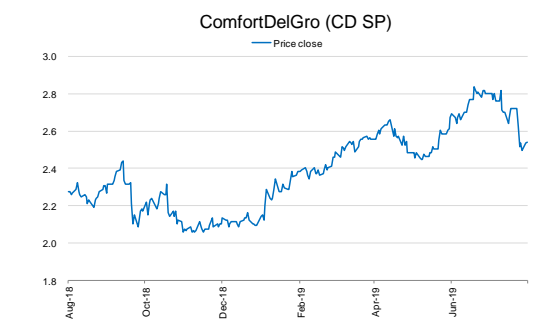
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.4	(12.1)	(0.8)	1.2	6.0
Relative	12.7	(4.6)	1.1	6.0	8.5
52-wk Price low/high (SGD)	2.07 – 2.90				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,576	3,805	3,878	3,999	4,126
Recurring net profit (SGDm)	292	298	304	332	358
Recurring net profit growth (%)	(8.0)	2.2	2.0	9.1	8.0
Recurring P/E (x)	18.2	17.9	18.7	17.1	15.8
P/BV (x)	2.0	2.3	2.3	2.1	2.0
P/CF (x)	8.3	7.1	5.9	6.6	6.3
Dividend Yield (%)	4.2	4.3	3.8	4.1	4.4
EV/EBITDA (x)	6.7	6.9	7.1	6.7	6.3
ROE (%)	9.4	9.8	9.8	10.3	10.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	37.9	38.5	34.8	37.7	40.5

Source: Company data, RHB

23 August 2019

Transport | Road &amp; Rail

## Financial Exhibits

Singapore	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Transport	Recurring EPS (SGD)	0.14	0.14	0.14	0.15	0.17
ComfortDelGro	DPS (SGD)	0.10	0.11	0.10	0.11	0.12
CD SP Equity	BVPS (SGD)	1.21	1.09	1.14	1.22	1.30
Neutral	ROE (%)	9.4	9.8	9.8	10.3	10.5
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
We value CD based on DCF (of FCF) and corroborate it with its forward P/E multiple.	Recurring P/E (x)	18.2	17.9	18.7	17.1	15.8
	P/B (x)	2.0	2.3	2.3	2.1	2.0
	FCF Yield (%)	8.3	7.1	5.9	6.6	6.3
	Dividend yield (%)	4.2	4.3	3.8	4.1	4.4
	EV/EBITDA (x)	6.7	6.9	7.1	6.7	6.3
	EV/EBIT (x)	13.3	13.0	13.2	11.9	10.8
Key drivers	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. More earnings-accretive acquisitions;	Total turnover	3,576	3,805	3,878	3,999	4,126
ii. Higher dividend pay-outs;	Gross profit	-	-	-	-	-
iii. Contributions from acquisitions;	EBITDA (adj.)	813	828	825	859	895
iv. Fare increases boosting its train business;	Depreciation & amortisation	(409)	(394)	(380)	(376)	(377)
v. Pause in taxi fleet contraction;	Operating profit	409	439	445	482	518
vi. Favourable regulations supporting the taxi industry.	Net interest	(11)	(11)	(13)	(13)	(13)
	Pre-tax profit	416	434	451	492	531
	Taxation	(77)	(81)	(90)	(98)	(106)
	Net profit	292	298	304	332	358
	Recurring net profit	292	298	304	332	358
Key risks	Cash flow (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Continuing decline in taxi fleet size;	Change in working capital	(146)	(55)	144	(0)	1
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;	Cash flow from operations	572	669	879	760	789
iii. Sharper-than-estimated decline in margins for existing businesses;	Capex	(394)	(353)	(350)	(350)	(380)
iv. Loss of existing contracts for the public transport business.	Cash flow from investing activities	(254)	(638)	(364)	(328)	(354)
	Dividends paid	(225)	(225)	(240)	(223)	(242)
	Cash flow from financing activities	(507)	(29)	(183)	(235)	(254)
	Cash at beginning of period	779	596	586	918	1,115
	Net change in cash	(193)	(10)	332	197	181
	Ending balance cash	586	586	918	1,115	1,296
Company Profile	Balance Sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
CD, one of largest land transport companies in the world, is a market leader in Singapore and has a significant overseas presence. Its businesses include bus, taxi, rail, car rental & leasing, automotive engineering services, testing services, driving centre, insurance broking services, outdoor advertising, and car dealerships.	Total cash and equivalents	596	586	918	1,115	1,296
	Tangible fixed assets	2,610	2,350	2,471	2,642	2,825
	Total investments	39	30	30	30	30
	Total assets	4,828	5,137	5,323	5,511	5,712
	Short-term debt	114	90	90	90	90
	Total long-term debt	677	691	687	703	722
	Total liabilities	1,790	2,110	2,175	2,191	2,210
	Total equity	3,038	3,027	3,148	3,319	3,503
	Total liabilities & equity	4,828	5,137	5,323	5,511	5,712
Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F	
Revenue growth (%)	(11.9)	6.4	1.9	3.1	3.2	
Recurrent EPS growth (%)	(8.3)	2.0	1.9	9.1	8.0	
Gross margin (%)	-	-	-	-	-	
Operating EBITDA margin (%)	22.7	21.8	21.3	21.5	21.7	
Net profit margin (%)	8.2	7.8	7.8	8.3	8.7	
Capex/sales (%)	11.0	9.3	9.0	8.8	9.2	
Interest cover (x)	37.9	38.5	34.8	37.7	40.5	

Source: RHB, Company data



23 August 2019

Financial Services | Banks

## DBS (DBS SP)

## Neutral (Maintained)

### Digitisation's Positive Offset By Narrowing NIM

Target Price (Return) SGD28.30 (+15%)  
 Price: SGD24.58  
 Market Cap: USD45,420m  
 Avg Daily Turnover (SGD/USD) 110m/80m

- **Reiterate NEUTRAL with SGD28.30 TP, for 15% upside with a c.5% yield, based on 1.37x 2020F P/BV**, although we are in the process of reviewing DBS' TP. DBS is the largest bank listed in Singapore. Besides Singapore, it has significant Greater China operations. It trades at 1.19x 2020F BV, which is close to the historical 6-year average of 1.20x.
- We expect marginal net profit growth over the next two years, driven by mid single-digit loan expansion, partially offset by narrowing NIM on the back of the falling federal funds rate (FFR). With the slowing Singapore economy, provisions could also be on an uptrend.
- **DBS gaining from digitisation efforts.** DBS has executed its digital strategy diligently. It sees digitisation creating opportunities to pre-empt disruptors, disrupt incumbents and improve business profitability. The business model has key capabilities, including: acquiring customers through wider distribution; transacting efficiently via elimination of paper, and creating instant fulfilment; engaging customers via cross-selling and increasing income per customer.
- **Key drivers.** 2H19 NIM should be marginally lower than 2Q19 due to the lagged effects of falling SIBOR on NIM. On the other hand, mid single-digit loan expansion will help in net interest income growth. Wealth management could provide support to earnings as well. For 2020 and 2021, wealth management income is seen as a positive driver, but the narrowing NIM will slow net interest income growth.
- **Valuation basis.** We value DBS on a target P/BV multiple. Our long-term ROE assumption of 13.2% is lower than 1H19's 13.7% – this weakening is due to narrowing NIM, with digitisation-driven cost efficiencies being a positive catalyst. We then derived a 2020F target P/BV of 1.37x, from which our SGD28.30 TP surfaced.
- **Key upside risks include** a slower decline in FFR, and a quick resolution to the US-China trade war, which will brighten economic growth prospects. Downside risks include a worsening of the economic prospects – which could lead to the need for more loan loss provisioning.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.8	(7.7)	(4.5)	(0.9)	(1.6)
Relative	0.5	(2.7)	(1.0)	0.1	3.1
52-wk Price low/high (SGD)	22.65 – 28.64				



Source: Bloomberg

Forecasts and Valuations	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Reported net profit (SGDm)	4,371	5,577	6,340	6,456	6,483
Recurring net profit (SGDm)	4,390	5,625	6,340	6,456	6,483
Recurring net profit growth (%)	3.6	28.1	12.7	1.8	0.4
Recurring EPS (SGD)	1.72	2.20	2.48	2.52	2.53
BVPS (SGD)	17.85	18.12	19.37	20.59	21.73
DPS (SGD)	1.43	1.20	1.20	1.30	1.40
Recurring P/E (x)	14.3	11.2	9.9	9.7	9.7
P/B (x)	1.38	1.36	1.27	1.19	1.13
Dividend Yield (%)	5.8	4.9	4.9	5.3	5.7
Return on average equity (%)	9.7	12.1	12.8	12.4	11.8
Return on average assets (%)	0.89	1.05	1.12	1.10	1.06

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	EPS (SGD)	1.71	2.17	2.47	2.52	2.53
Financials	Core EPS (SGD)	1.72	2.20	2.48	2.52	2.53
DBS	DPS (SGD)	1.43	1.20	1.20	1.30	1.40
DBS SP	BVPS (SGD)	17.85	18.12	19.37	20.59	21.73
BUY						
Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Gordon Growth Methodology (GGM)	Recurring P/E (x)	14.3	11.2	9.9	9.7	9.7
	P/B (x)	1.38	1.36	1.27	1.19	1.13
	Dividend yield (%)	5.8	4.9	4.9	5.3	5.7
Key drivers	Balance sheet (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Our net profit forecast is most sensitive to	Gross loans & advances	327,769	349,645	365,634	378,513	395,619
i. Changes in NIM;	Loan impairment allowances	4,670	4,642	5,106	5,366	5,681
ii. Non-interest income growth;	Net loans & advances	323,099	345,003	360,528	373,147	389,938
iii. Credit cost.	Total assets	517,711	550,751	580,387	598,873	621,344
	Deposits from customers	373,634	393,785	401,661	425,359	446,627
	Total liabilities	467,909	500,876	527,083	542,344	561,734
	Shareholders' funds	47,458	49,045	52,307	55,431	58,325
	Total equity	49,802	49,875	53,304	56,529	59,610
Key risks	Income statement (SGDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Higher impairment charges;	Net interest income	7,791	8,955	9,796	10,055	10,271
ii. Weaker NIMs;	Non-interest income	4,483	4,228	4,928	5,294	5,641
iii. Softer non-II.	Operating income	12,274	13,183	14,724	15,349	15,912
	Overhead expenses	5,205	5,814	6,181	6,614	7,085
	Pre-provision operating profit	7,069	7,369	8,543	8,735	8,827
	Loan impairment allowances	1,894	710	885	920	975
	Pretax profit	5,175	6,659	7,658	7,815	7,852
	Reported net profit	4,371	5,577	6,340	6,456	6,483
	Recurring net profit	4,390	5,625	6,340	6,456	6,483
Company Profile	Profitability	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
DBS is the largest Singapore bank by assets. It also has significant Greater China operations.	ROA (%)	0.89	1.05	1.12	1.10	1.06
	ROE (%)	9.7	12.1	12.8	12.4	11.8
	Yield on IEAs (%)	2.43	2.85	3.05	3.09	3.05
	Cost of funds (%)	0.74	1.07	1.30	1.38	1.36
	Net interest margin (%)	1.75	1.85	1.88	1.86	1.84
	Non-II / Total income (%)	34.7	32.1	33.5	34.5	35.5
	CIR (%)	43.0	44.0	42.0	43.1	44.5
	Credit cost (bps)	60.6	21.3	25.1	25.1	25.6
	PIOP growth (%)	8.5	4.2	15.9	2.2	1.1
	Net profit growth (%)	3.1	27.6	13.7	1.8	0.4
	Asset quality	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Gross impaired loans/Loans (%)	1.7	1.5	1.5	1.5	1.5
	Loan loss coverage ratio (%)	84.7	91.2	86.8	88.1	90.1
	NPL formation (bps)	105	25	40	48	54
	Liquidity	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Loan growth (%)	7.2	6.8	4.5	3.5	4.5
	Customer deposits growth (%)	7.5	5.4	2.0	5.9	5.0
	LDR (%)	86.5	87.6	89.7	87.7	87.3
	Capital	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	CET1 ratio (%)	14.3	13.9	13.9	14.5	14.5
	Tier-1 ratio (%)	15.1	15.1	14.7	14.8	14.9
	Total capital ratio (%)	15.9	16.9	16.4	16.5	16.6

Source: RHB, Company data

23 August 2019

## Singtel (ST SP)

### Transformational Play In a 5G Era

Communications | Telecommunications

**Neutral** (Maintained)

Target Price (Return) SGD3.40 (+7%)  
 Price: SGD3.19  
 Market Cap: USD37,673m  
 Avg Daily Turnover (SGD/USD) 70.39m/50.9m

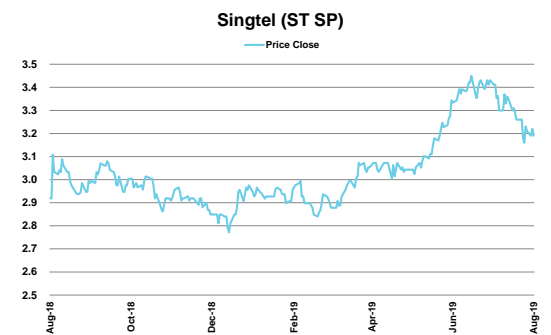
- **Maintain NEUTRAL with SOP-based TP of SGD3.40, 7% upside plus c.5% yield.** Singtel remains our preferred Singapore telco with its earnings diversity and balance sheet strength as key investment merits. We see improvements at its associates and continuing positive execution on cost as earnings catalysts. The >5% prospective dividend yields (committed DPS of 17.5 cents for FY20F) provides certainty on the back of external concerns and the slowing domestic economy.
- **Embracing digitalisation and well positioned for 5G.** Singtel is a major proxy to the ongoing transformation of Singapore's telco sector into a fully digital/5G era. The group's digitalisation process encompasses end-to-end transformation of its core and access network, with a shift in distribution and marketing models to align with improving the overall customer experience. Singtel was the first telco to conduct 5G trials in Singapore back in 2016, and is likely to be the biggest beneficiary of the 5G spectrum to be assigned by the Infocomm Media Development Authority (IMDA) by 1Q20. Its leading exposure to the enterprise segment, Smart Nation projects, as well as investments across many verticals and solutions give it a key competitive advantage, and would see it capitalise on the early use-cases for the enterprise segment.
- **Key driver.** Cost optimisation and efficiencies should continue to be key in mitigating the structural and competitive pressures on its earnings in the medium-term. We see a positive shift in competitive dynamics and data repricing initiatives across Indonesia, Thailand and India (Airtel has witnessed two consecutive quarters of revenue growth) as major earnings re-rating catalysts, on top of lower digital losses. We expect the weakness in Singtel's enterprise business to persist until end-2019 due to the still cautious business environment, and price competition for public sector jobs.
- **Valuation basis.** We value Singtel based on SOP methodology, with most key associates valued at consensus TPs. Our TP of SGD3.40 implies FY20F EV/EBITDA of 12x, close to its 5-year average EV/EBITDA.
- **Key upside/downside risks** are weaker/stronger-than-expected competition in key mobile markets of Singapore, Australia, Indonesia, Thailand and India. The extended gestation period of its adjacent/digital investments, and the protracted decline in enterprise business margins portend additional downside risks.

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	8.9	(9.9)	1.6	4.2	3.6
Relative	5.6	(5.0)	5.1	5.3	8.3
52-wk Price low/high (SGD)	2.83 - 3.56				



Source: Bloomberg

Forecasts and Valuations	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Total turnover (SGDm)	17,268	17,371	17,706	18,012	18,377
Recurring net profit (SGDm)	3,594	2,823	2,988	3,205	3,329
Recurring net profit growth (%)	(7.2)	(21.4)	5.8	7.3	3.9
Recurring P/E (x)	14.6	18.6	17.6	16.4	15.8
P/BV (x)	1.8	1.8	1.7	1.7	1.6
P/CF (x)	8.8	9.8	9.2	9.1	7.2
Dividend Yield (%)	6.2	5.3	5.3	5.3	5.3
EV/EBITDA (x)	12.3	13.3	12.6	11.9	11.1
ROE (%)	12.1	9.5	10.0	10.6	10.4
Net debt to equity (%)	33.4	34.1	31.7	28.7	20.1
Interest coverage (x)	14.1	10.4	13.1	13.9	14.4

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Singtel	Recurring EPS (SGD)	0.23	0.18	0.19	0.20	0.21
Communication	DPS (SGD)	0.21	0.18	0.18	0.18	0.18
ST SP Equity	BVPS (SGD)	1.86	1.87	1.88	1.90	2.00
Neutral	ROE (%)	12.12	9.47	9.97	10.57	10.42
Valuation basis	Valuation metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
We apply an SOP methodology to value Singtel, with most key associates valued at consensus TPs.						
	Recurring P/E (x)	14.6	18.6	17.6	16.4	15.8
	P/B (x)	1.77	1.76	1.75	1.73	1.64
	FCF Yield (%)	6.87	6.96	6.70	6.95	9.85
	Dividend yield (%)	6.2	5.3	5.3	5.3	5.3
	EV/EBITDA (x)	12.3	13.3	12.6	11.9	11.1
	EV/EBIT (x)	11.8	15.6	14.9	13.8	12.8
Key drivers	Income statement (SGDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
i. Monetisation of adjacent/digital investments;	Total turnover	17,268	17,371	17,706	18,012	18,377
ii. Stronger recovery in associate earnings;	Gross profit	4,791	4,466	4,691	4,938	5,085
iii. Receding competition in key mobile markets	EBITDA (adj.)	5,050	4,691	4,893	5,140	5,287
	Depreciation & amortisation	(2,250)	(2,222)	(2,565)	(2,657)	(2,758)
	Operating profit	5,261	4,005	4,156	4,419	4,579
	Net interest	(345)	(355)	(288)	(268)	(268)
	Pre-tax profit	4,916	3,650	3,868	4,151	4,311
	Taxation	(1,343)	(850)	(901)	(966)	(1,004)
	Net profit	3,594	2,283	2,988	3,205	3,329
	Recurring net profit	3,594	2,283	2,988	3,205	3,329
Key risks	Cash flow (SGDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
i. Stronger-than-expected competition in Singapore, Australia, Indonesia and India	Change in working capital	(2,703)	1,192	(1,721)	(2,066)	(808)
ii. Continuing margin pressure on the enterprise business;	Cash flow from operations	6,955	5,368	5,712	5,744	7,264
iii. Larger-than-expected losses from adjacent/digital investments	Capex	(2,349)	(1,718)	(2,200)	(2,100)	(2,100)
	Cash flow from investing activities	(1,951)	(2,329)	(2,200)	(2,100)	(2,100)
	Dividends paid	(2,857)	(2,857)	(2,857)	(2,857)	(2,857)
	Cash flow from financing activities	(4,009)	(3,056)	(2,857)	(2,857)	(2,857)
	Cash at beginning of period	534	529	512	1,167	1,953
	Net change in cash	(5)	(17)	655	786	2,307
	Ending balance cash	529	512	1,167	1,953	4,260
Company Profile	Balance Sheet (SGDm)	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
Singtel is the leading integrated telecommunications operator in the Asia-Pacific region, with class-leading mobile assets in Singapore, Australia, Indonesia, Thailand, Philippines and India, amongst others. It also owns one of the largest cybersecurity outfits in the world.						
	Total cash and equivalents	525	513	1,167	1,953	4,260
	Tangible fixed assets	28,304	27,820	27,455	26,898	26,239
	Total investments	12,783	12,858	12,858	12,858	12,858
	Total assets	48,254	48,915	48,486	48,811	50,581
	Short-term debt	1,824	1,880	1,880	1,880	1,880
	Total long-term debt	8,607	8,784	8,784	8,784	8,784
	Total liabilities	18,600	19,105	18,525	18,481	18,647
	Total equity	29,654	29,810	29,962	30,330	31,934
	Total liabilities & equity	48,254	48,915	48,486	48,811	50,581
Key metrics	Key metrics	Mar-18	Mar-19	Mar-20F	Mar-21F	Mar-22F
	Revenue growth (%)	3.3	0.6	1.9	1.7	2.0
	Recurrent EPS growth (%)	(7.2)	(21.4)	5.8	7.3	3.9
	Gross margin (%)	27.7	25.7	26.5	27.4	27.7
	Operating EBITDA margin (%)	29.2	27.0	27.6	28.5	28.8
	Net profit margin (%)	20.8	16.3	16.9	17.8	18.1
	Capex/sales (%)	13.6	9.9	12.4	11.7	11.4
	Interest cover (x)	14.1	10.4	13.1	13.9	14.4

Source: RHB, Company data

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
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