14 December 2018

Singapore Strategy 2019

Buy Selectively & Stay Defensive!

Stocks Covered: 57
Ratings (Buy/Neutral/Sell): 34 / 22 / 1
Last 12m Earnings Revision Trend: Negative

Slowdown in global economic growth and an uncertain trade outlook amidst tensions between China and the US will translate into a volatile 2019 for the STI. While the 12.7x forward P/E and 4.2% dividend yield make the STI's valuations look compelling, we recommend investors stay selective and focus on buying stocks that offer stable earnings, strong balance sheets, and sustainable dividends. The consumer and industrials sectors are preferred defensive sectors that outperformed after peak GDP growth in previous economic cycles. Our end-2019 STI target is 3,300, implying an 11% TSR.

Slowing economic growth with elevated uncertainties. The STI, which is down 12% YTD in USD terms, could remain under pressure in 2019 amidst slowing GDP growth in Singapore. We note that STI returns follow the country's GDP growth closely. We forecast 2019 GDP growth at 2.8%, easing from an estimated 3.2% in 2018. Singapore's equity market is expected to remain volatile amidst uncertainties over trade tensions between China and the US, given the country's high dependence on trade for economic growth.

Market valuations are inexpensive… Trading at 12.7x 1-year forward P/E, the STI's valuation sits at its -1SD band, which has only been tested twice since the global financial crisis – each time, the market witnessed a sharp rebound. Forward yield of 4.2%, which is at +1SD above historical average, is looking attractive as well. Compelling valuations, along with expectations of a moderate appreciation in the SGD, should bring long-term investors back into the market.

…but prefer to stay selective & defensive. Amidst an uncertain economic outlook and elevated market volatility, we prefer defensive sectors like consumer and industrial, as well as focus on a bottom-up stock picking strategy:

i. **Sector rotation into defensives.** Our study of previous economic cycles reveals that industrial and consumer sectors tend to outperform the broader market after the peak of economic growth in Singapore. In both sectors, we prefer companies that offer earnings growth visibility and/or sustainable high dividends. Sheng Siong and Wilmar are our top consumer picks, while we like STE amongst industrials on revival of its profit growth;

ii. **Remain OVERWEIGHT on banks.** Banks offer +10% growth and +5% dividend yields despite recent slower loan growth. We see limited downside risk after the recent price correction, and prefer UOB over DBS for more reasonable valuations and the likelihood of higher dividend payout;

iii. **Selective REITs.** Prefer REITs that are beneficiaries of improving economic activity, and/or have strong balance sheets. Prefer industrial and hospitality REITs, with Ascendas and CDL Hospitality as Top Picks.

iv. **Opportunistic SMID cap ideas.** Amongst small and mid-cap stocks under our coverage, we expect Silverlake Axis, HRnetgroup, FuYu and Singapore Medical Group to deliver strong returns in 2019.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Ascendas REIT*	Buy	2.90	13.3	12.8	1.2	6.6
CapitaLand	Buy	4.00	27.0	12.6	0.7	4.1
CDL Hospitality	Buy	1.80	18.4	12.1	1.0	6.1
DBS Group Holdings	Buy	29.80	25.2	10.7	1.3	5.0
Delfi Ltd	Buy	1.59	16.1	24.9	2.8	2.0
Fu Yu Corp	Buy	0.23	21.7	13.2	0.9	8.5
Genting Singapore	Buy	1.23	26.8	13.9	1.5	3.6
HRnetgroup	Buy	1.18	49.4	14.6	2.3	3.2
Manulife US REIT	Buy	0.92	21.9	11.6	0.9	7.3
Sheng Siong Group	Buy	1.27	16.5	23.3	5.7	2.8
Silverlake Axis**	Buy	0.65	60.5	15.2	6.1	4.9
Singapore Medical Group	Buy	0.56	36.6	15.8	1.4	-
ST Engineering	Buy	3.97	15.4	19.7	4.7	4.4
Starhill Global**	Buy	0.80	19.4	10.1	0.7	7.2
United Overseas Bank Ltd	Buy	30.80	25.0	9.9	1.2	4.7
Venture Corp Ltd	Buy	19.00	29.6	11.7	1.8	4.8
Wilmar International	Buy	3.58	14.0	11.3	0.9	3.5

Source: Company data, RHB *Note: * refers to Mar (FY19), ** refers to Jun (FY19)*

Singapore sector ratings:

Overweight	Consumer, REITs, Banks
Neutral	Healthcare, Plantations, Real Estate, Technology, Telecom
Not rated	Materials, Offshore & Marine

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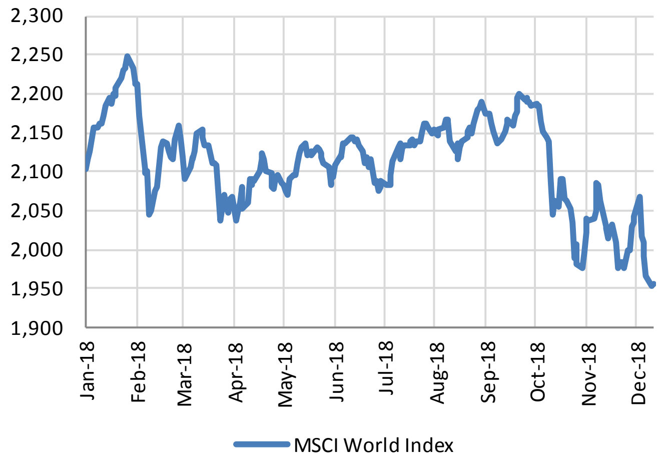
2018: The (Not So) Exciting Year!

Weakness prevailed across global markets

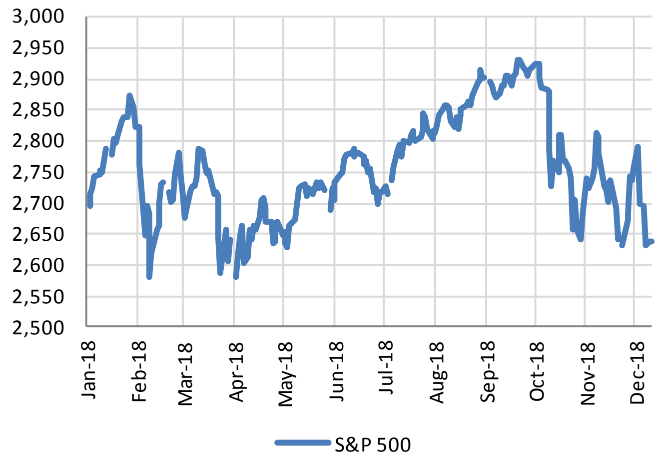
What seemed like a strong start to 2018 was transformed by weakness in global equities as investors grappled with issues relating to slowing global growth, strengthening USD, currency crises in some emerging markets, geopolitical tensions, and to top it all – escalating trade tensions between the US and China. Thanks to relatively strong US economic growth numbers and tax cut-related boost to corporate earnings in 2018, the S&P 500 Index (SPX) managed to outperform global equities in 2018.

Figure 1: MSCI World Index



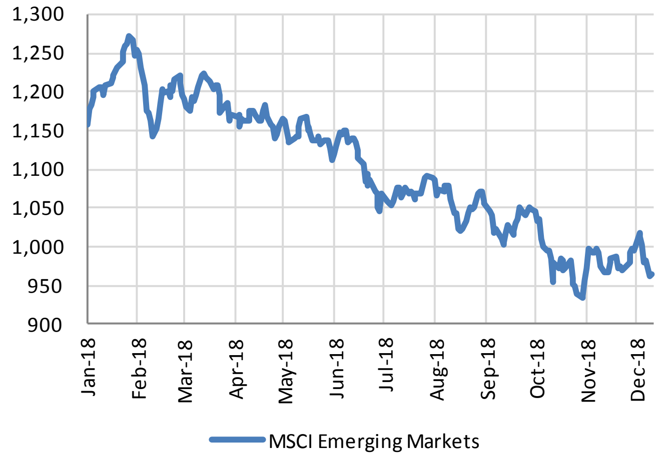
Source: Bloomberg

Figure 2: S&P 500



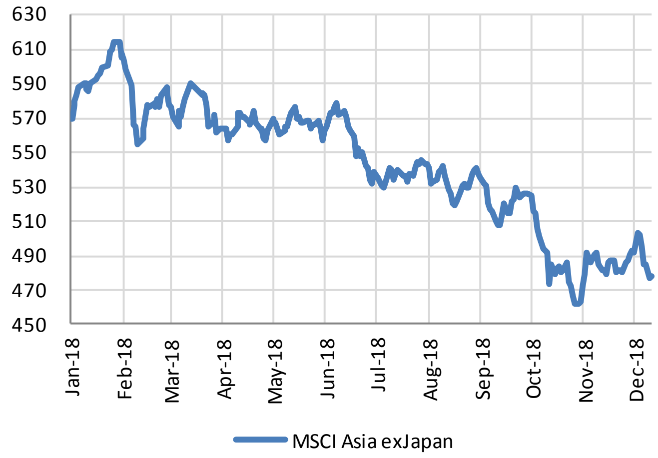
Source: Bloomberg

Figure 3: MSCI Emerging Markets



Source: Bloomberg

Figure 4: MSCI Asia ex Japan



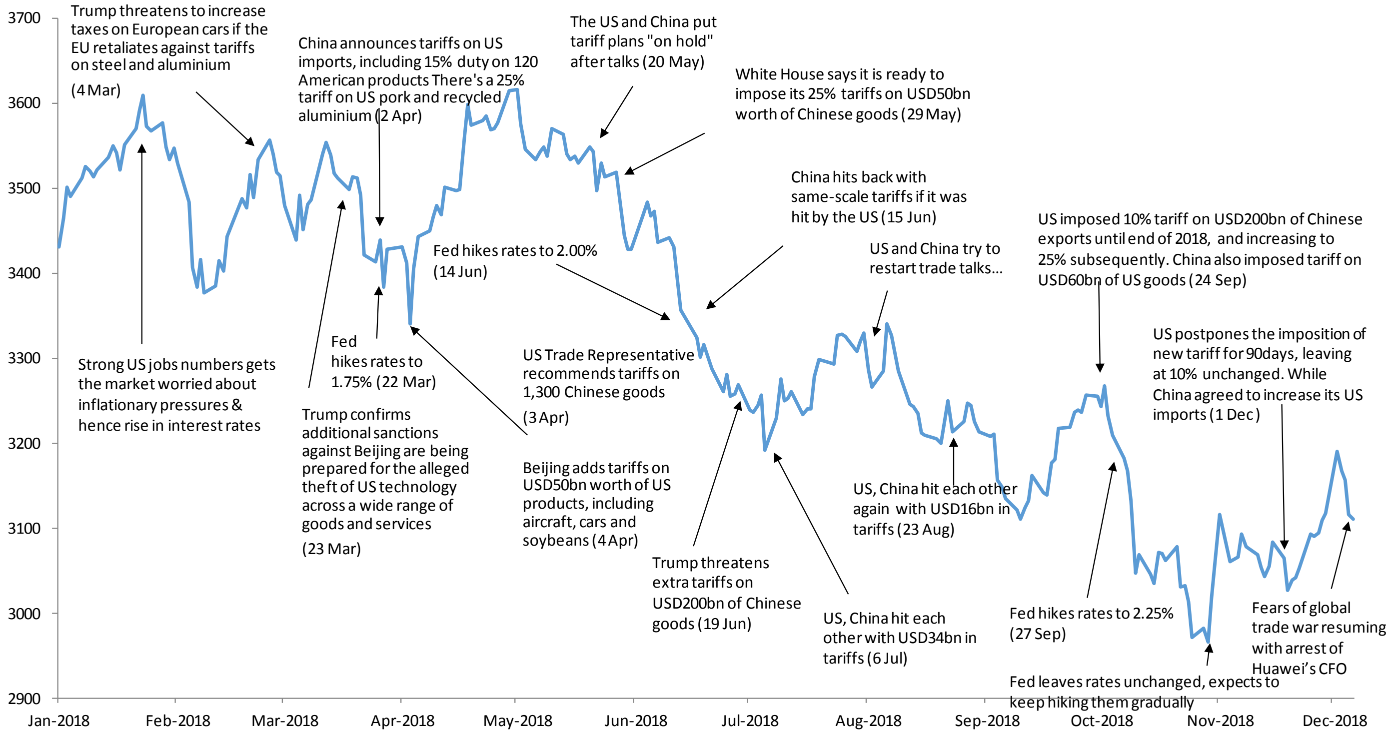
Source: Bloomberg

Singapore equities mirrored global equity weakness

The Singapore market could not escape the weakness in global equity markets. A strong share price performance from the banking sector and the addition of Venture to the STI propelled it to a record high from 2007 to early January. But concerns over higher-than-expected rises in US interest rates leading to a stronger USD and hence weaker SGD, along with the potential impact from the trade war between the US and China, dragged the STI lower.

While investors were coming to terms with the likely impact from the trade war and slower economic growth in Singapore, property cooling measures implemented by the Government caught the market by surprise. Investors are now staring at slower loan growth for banks and weaker earnings for property developers, which will likely have a trickledown effect on private consumption.

Figure 5: Global events that impacted the STI



Source: Bloomberg, RHB

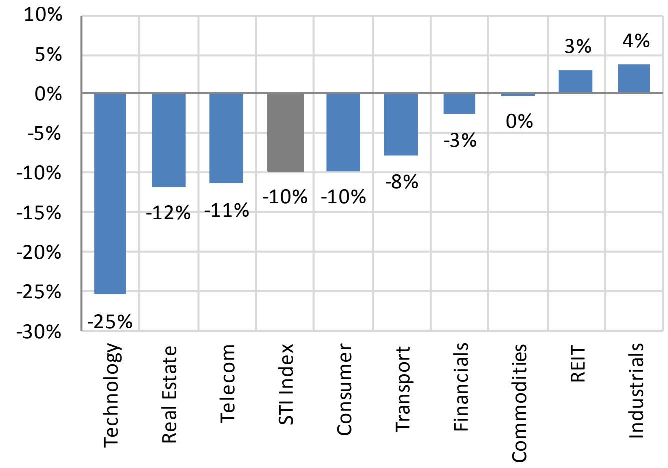
Figure 6: Local events that impacted the STI

Source: Bloomberg, RHB

YTD in SGD and USD terms, STI's REIT and industrial sectors have delivered positive returns. The positive share price performances for REITs were largely aided by CapitaLand Mall Trust (CT SP, NEUTRAL, TP: SGD2.14), which delivered 12% (SGD) and 9% (USD) returns YTD. For industrials, Jardine Matheson (JM SP, NR) and ST Engineering (STE SP, BUY, TP: SGD3.97) delivered positive share price returns.

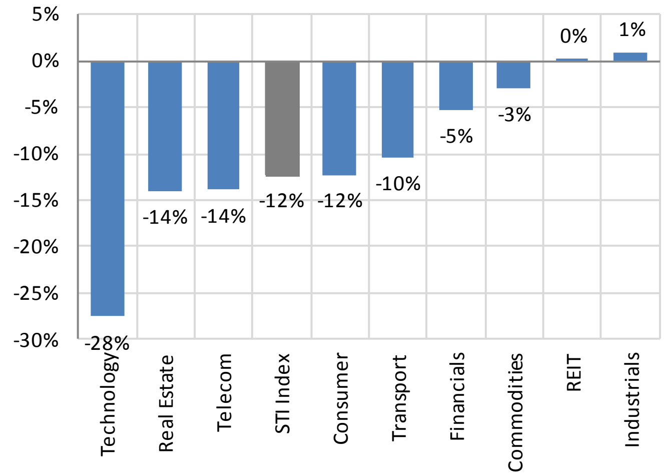
YTD, Jardine Matheson has delivered 13% returns in SGD terms, and 9% returns in USD terms. STE has delivered 10% returns in SGD terms, and 7% returns in USD terms.

Figure 7: STI's YTD sector performance (SGD returns)



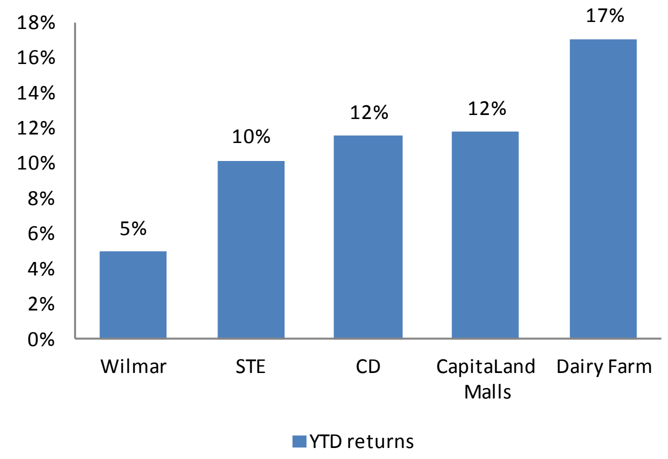
Source: Bloomberg

Figure 8: STI's YTD sector performance (USD returns)



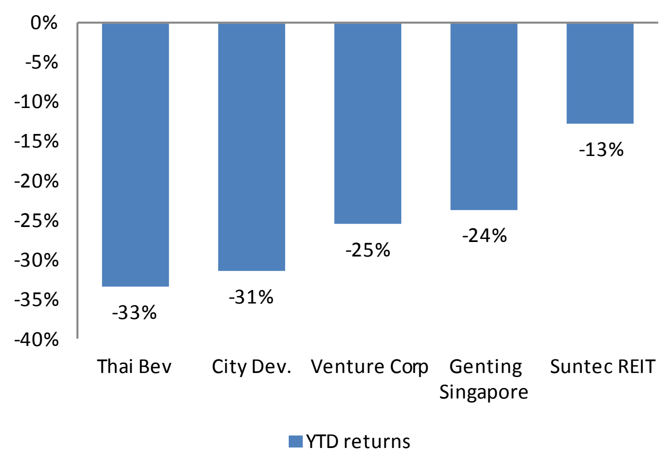
Source: Bloomberg

Figure 9: Top large cap YTD performers – RHB coverage



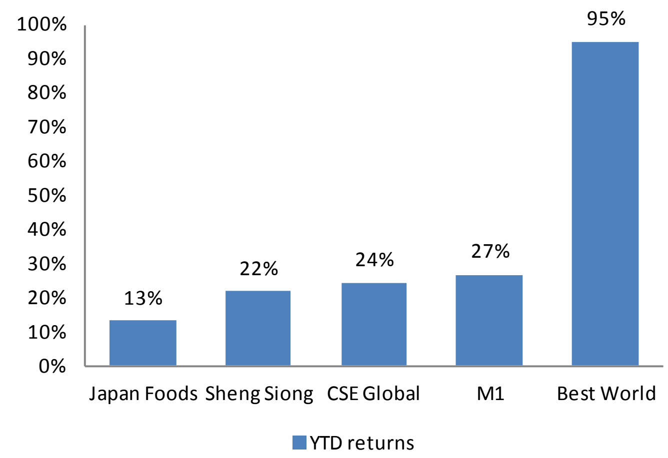
Source: Bloomberg

Figure 10: Worst large cap YTD performers – RHB coverage



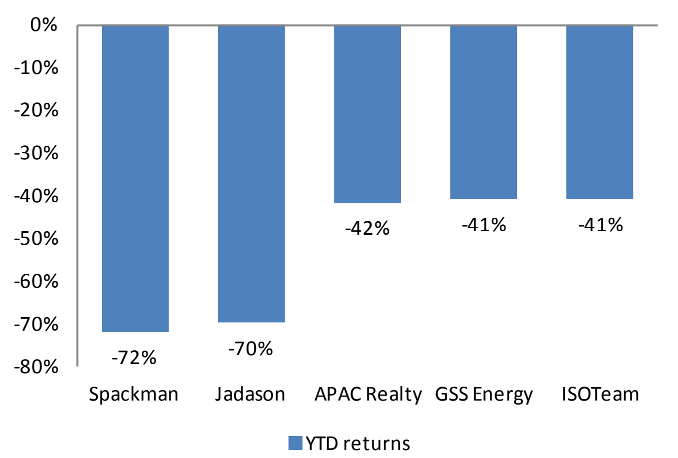
Source: Bloomberg

Figure 11: Top SMID cap YTD performers – RHB coverage



Source: Bloomberg

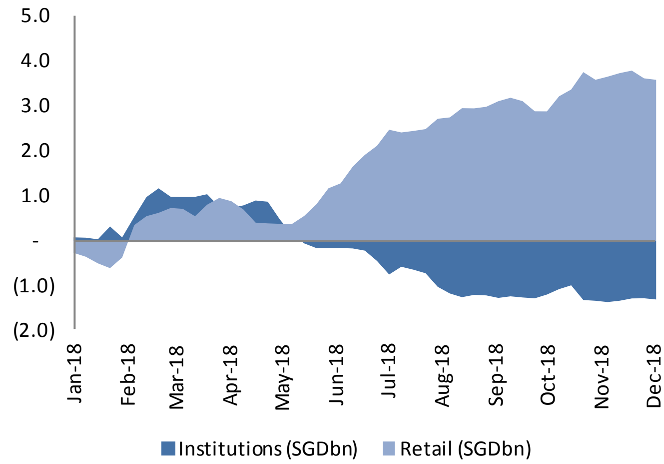
Figure 12: Worst SMID cap YTD performers – RHB coverage



Source: Bloomberg

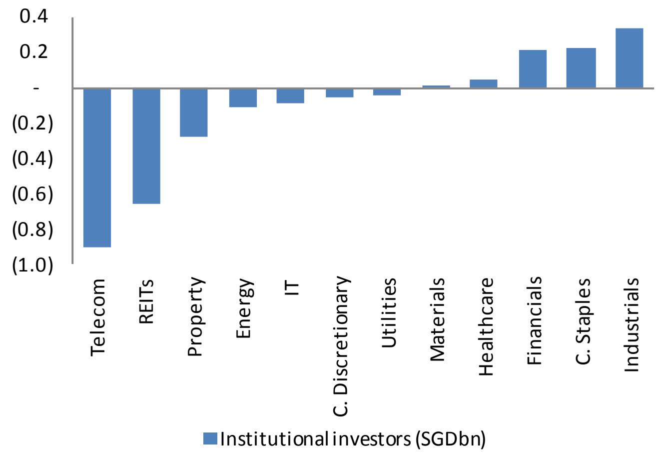
In 2018, while institutional investors, who largely focus on liquid mid- to large-cap names and more specifically index stocks, were cumulative net sellers in the Singapore market, we saw strong cumulative buying by retail investors. As seen in Figure 13, retail investors bought SGD1.3bn worth of stocks vs SGD3.6bn worth of Singapore stocks sold by institutional investors in 2018. Despite being overall net sellers in the Singapore market, institutional investors were small net buyers of banks, consumer staples and industrials.

Figure 13: Retail investors were buying all year in 2018



Source: SGX

Figure 14: Institutional investors were buying into banks, consumer staples and industrial sectors



Source: SGX

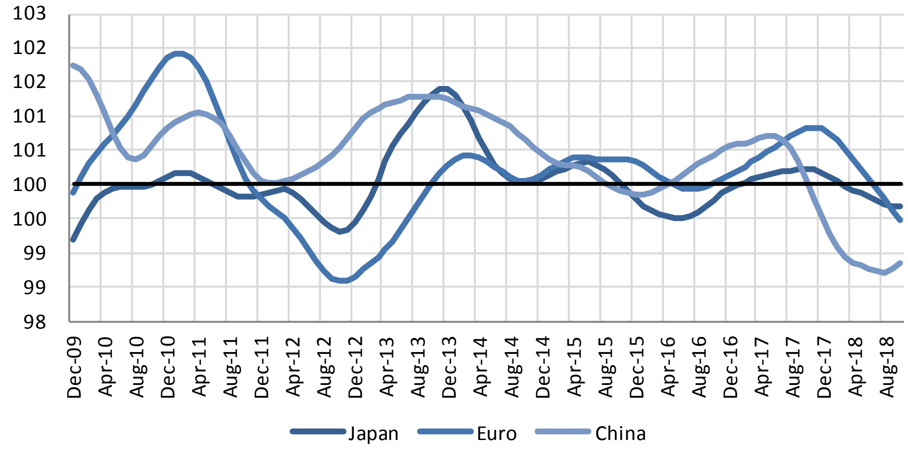
2019: What To Expect

Global economic slowdown, now evident in the US as well

Based on OECD leading indicators, signs of slowdown in Japan and the Eurozone were visible at the start of 2018. While US economic growth was strong in 2018, some of the forces supporting its growth are expected to fade going forward.

Based on Bloomberg consensus estimates, US economic growth is expected to slow to 2.6% in 2019 and 1.9% in 2020, from 2.9% in 2018. Trade tension between the US and China, which remains an uncertainty heading into 2019, could have a significant impact on the magnitude of slowdown in US economic growth. While the likely inversion of the US yield curve is indicating rising risk of recession in the US sometime in the future, we believe that this isn't the base case scenario.

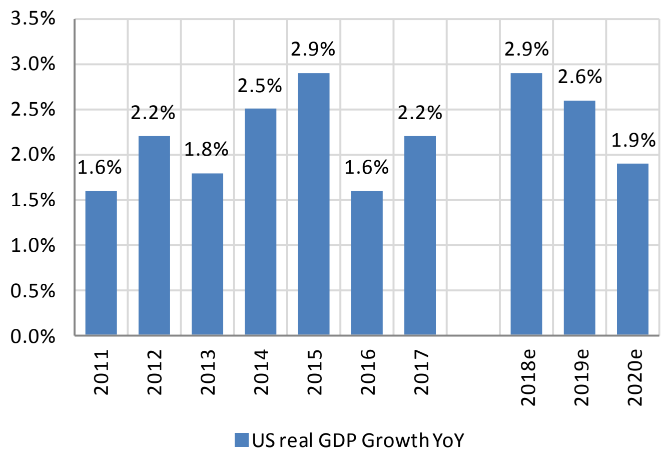
Figure 15: OECD composite leading indicators



Source: OECD

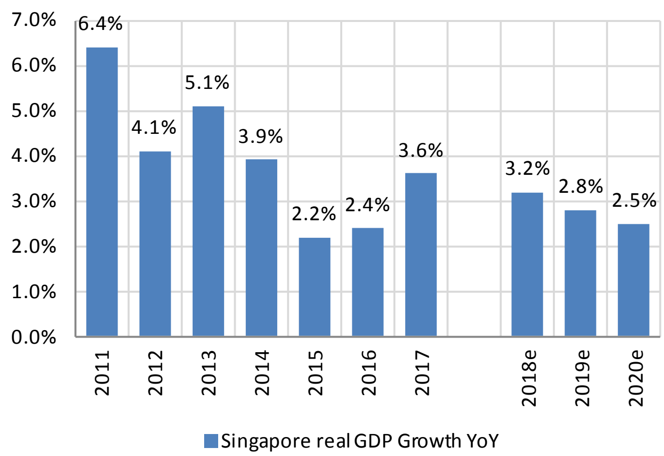
We believe equity prices relate more to improving or worsening economic indicators, rather than just good or bad economic indicators. With global economic slowdown in the background, which is already causing a lot of nervousness and apprehension amongst investors, we believe equity markets will continue to remain fragile. Investor sentiment could see a much wider swing in 2019, assuming the market volatility persists.

Figure 16: US real GDP growth (YoY)



Source: Bloomberg

Figure 17: Singapore GDP growth (YoY)



Source: Bloomberg, RHB

Note: 2018 & 2019 estimates are RHB forecasts. 2020 is the Bloomberg estimate.

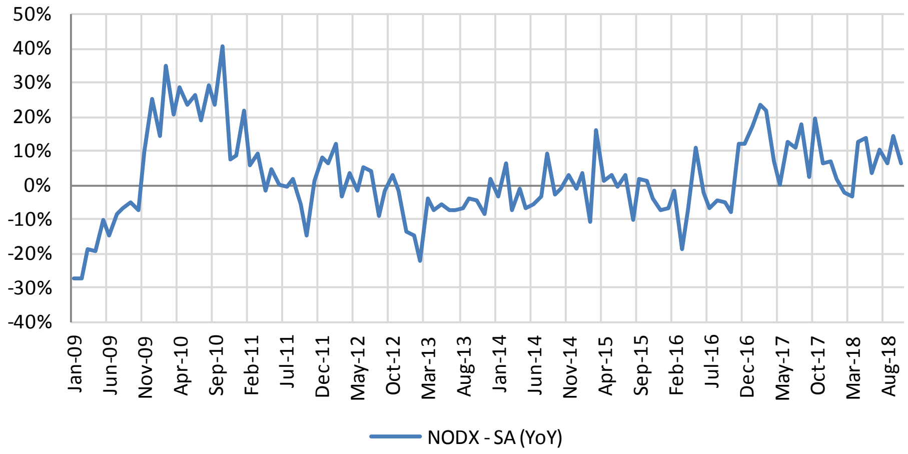
We expect Singapore to register positive growth in 2019. However, GDP growth will most likely drop to 2.8% in 2019, a slowdown from 3.2% expected this year. We expect weaker growth in exports to be mitigated by positive domestic demand, especially private consumption and investment.

Slower manufacturing and NODX growth for Singapore

The subdued GDP growth for Singapore is expected to come on the back of a marked slowdown in manufacturing growth, which is expected to moderate to 3.8% in 2019 from an expected 7.3% in 2018. Sub-segments, such as semiconductor and precision engineering industries, are expected to turn weaker in 2019. This is a reflection of a global electronics down cycle from the high growth seen in 2017.

We also expect exports to moderate in 2019, as the dimmer outlook for advanced and regional economies should translate into a more modest external environment for Singapore. While global demand will still expand, the rate of growth in 2019 will be less assertive. We note that historically, STI's earnings growth has had a positive correlation to Singapore's non-oil domestic exports (NODX).

Figure 18: Singapore's non-oil domestic export growth is expected to moderate



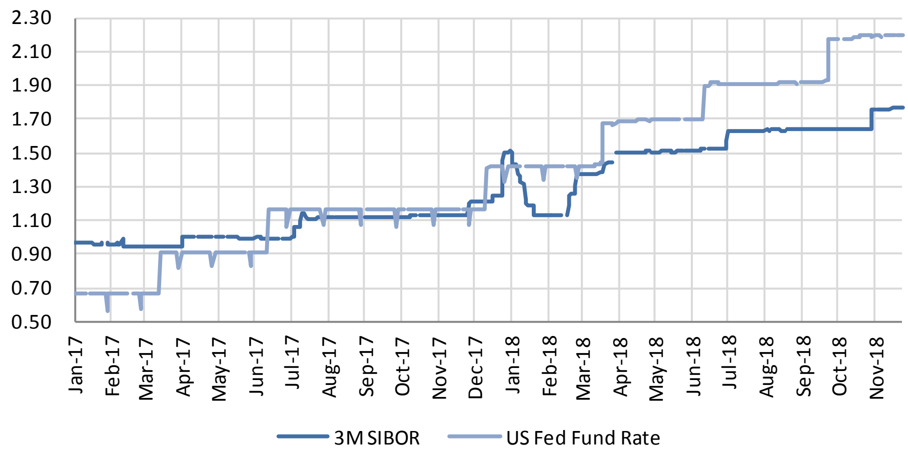
Source: Bloomberg

Rising interest rates – but less than earlier expected

During September's Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (US Fed) left its federal funds rate (FFR) projections unchanged, ie the FOMC continued to project one more rate hike in 2018, and three in 2019. However, the prospects for slowing global economic growth, fading US fiscal stimulus, and volatile financial markets all point to more caution.

We believe there will be room for greater flexibility on the timing of any tightening, with delays being a modest possibility. We believe the US Fed could lift rates once during next week's FOMC meeting and indicate a moderation in further rate hikes through a revised "dot plot" release. Markets have already started pricing in a single quarter rate hike between Dec 2018 and Dec 2019 vs the September expectation of two quarter rate hikes.

Figure 19: Singapore's SIBOR has historically mirrored movements in US FFR



Source: Bloomberg

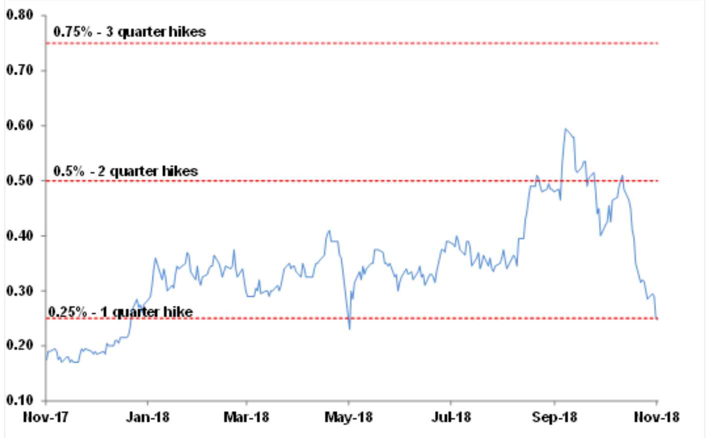
Historically, Singapore's 3-month SIBOR has mirrored the moves in the US FFR with some lag. While slowing of the US FFR hike should be good news for markets, we believe it could moderate the expansion in Singapore banks' net interest margin during 2019.

Modest gains in the SGD could support local equity market

Lower highs for the USD (*from RHB's FX Markets – 2019 Outlook and Strategy*)

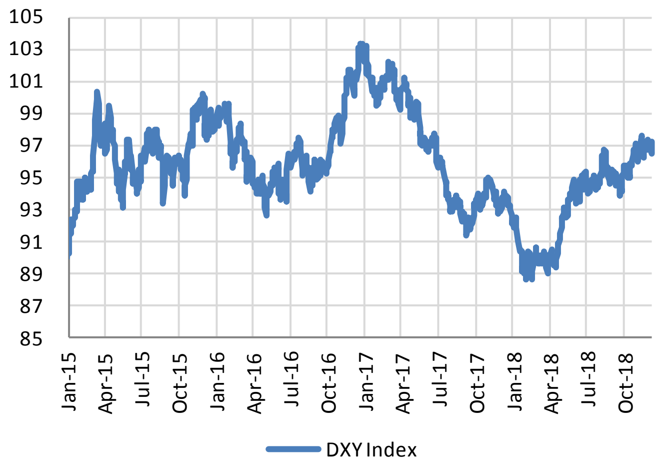
If rate hike expectation is a driving force for the USD, that argument seems to be fading of late. While there was significant expectations being built up for a sustained tightening by the Fed when the accommodative word was left out of the communiqué in the September FOMC, market pricing, however, is gradually switching towards some form of lethargy in arguing for sustained tightening of monetary policy by the Fed. We see less room for fresh USD-positive surprises as 2018 rate hikes have put the FFR closer to its terminal value.

Figure 20: Eurodollar futures (Dec 2019/Dec 2018 bps)



Source: Bloomberg, RHB

Figure 21: DXY Index



Source: Bloomberg

We believe there will be room for greater flexibility with regards to the timing of any tightening, with delays a modest possibility. A mechanical approach to tightening may not be well-suited to meet upcoming challenges beyond 2018. The fact that Eurodollar futures are repricing rate hikes by the Fed (Dec 2018 vs Dec 2019 contracts) suggests that from an initial two quarter rate hikes, the market is repricing it to a single quarter hike.

That said, for the DXY Index itself, lower highs are likely to be the next permanent feature for the currency. From its heydays of peaking north of 100, the index is showing lethargy – even being in the 90-95 range is becoming a struggle of late. The big question is whether there are fresh legs for the currency to move further north. We believe this is becoming extremely difficult.

Our belief that a tightening monetary policy by the Fed will drive the USD higher is gradually fading, and this in turn could provide the well-needed reprieve for emerging market (EM) asset classes if the USD shows an inclination to retrace or even to stabilise at the low 90s in its index. Until then, the low highs for the USD are a more likely scenario going forward.

SGD: gains over 2018, but performance to lag regional currencies (*from RHB's FX Markets – 2019 Outlook and Strategy*). Our SGD view is premised upon a broadly weaker USD in the year ahead, counterbalanced by lower propensity for further Monetary Authority of Singapore (MAS) tightening alongside continued volatility on the global trade front.

However, we expect gains in the SGD to be less stellar than other Asia ex-Japan peers. Firstly, the regional safe haven status of the currency would imply lower beta of the SGD (ie less sensitive to currency drivers). This would put it in a position to reap a lower upside during a recovery, relative to higher beta peers around the region.

Secondly, we also hold a relatively cautious view on the trade war, where Singapore is heavily exposed on this front. Given the above, we eye a lower propensity for further MAS tightening in its April and October policy reviews, with the central bank likely to take into account non-inflationary factors in deciding the SGD nominal effective exchange rate (S$NEER) policy.

Our economics team is currently eyeing another round of S$NEER tightening in Apr 2019, before standing pat in the Oct 2019 review. Interestingly, the 90-day truce between the US and China will end right before the MAS Apr 2019 decision, implying any decision on its SGD NEER policy will be heavily influenced by the outcome of the trade deal.

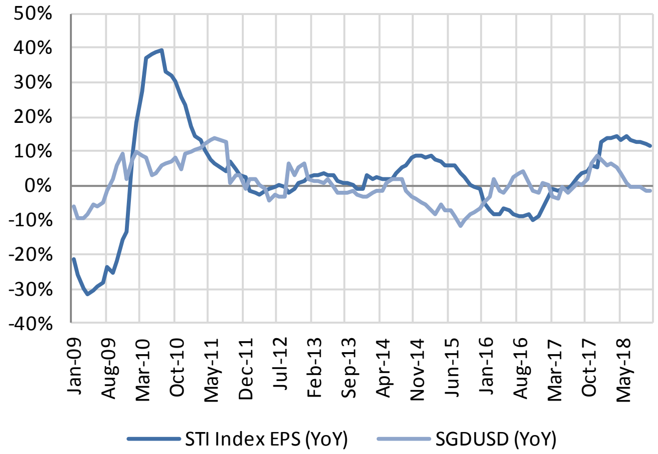
Figure 22: RHB's FX forecasts

	Q1 19	Q2 19	Q3 19	Q4 19
USD/JPY	111.00	110.00	109.00	108.00
EUR/USD	1.1700	1.1800	1.1900	1.2000
GBP/USD	1.2600	1.2700	1.2900	1.3000
AUD/USD	0.7200	0.7300	0.7400	0.7500
USD/MYR	3.9500	3.9000	3.8500	3.8000
USD/SGD	1.3600	1.3500	1.3400	1.3300
USD/IDR	15,200	15,100	15,000	14,800
USD/THB	32.20	32.00	31.70	31.50
USD/CNH	6.8300	6.7700	6.7200	6.7000
USD/CNY	6.8500	6.8000	6.7500	6.6700

Source: RHB

Since 2017, we have witnessed a strong correlation between the strength of the SGD against the USD and the STI's performance. In 2018, the STI's decline coincided with a weakening of the SGD, as investors booked gains registered in Singapore stocks during 2017. Although it is far from being the only reason to invest in any market, we believe expectations of more moderate gains in the SGD could get investors interested again in quality Singapore-listed equities.

Figure 23: USD/SGD's impact on STI earnings



Source: Bloomberg, RHB

Figure 24: USD/SGD and STI performance

Source: Bloomberg, RHB

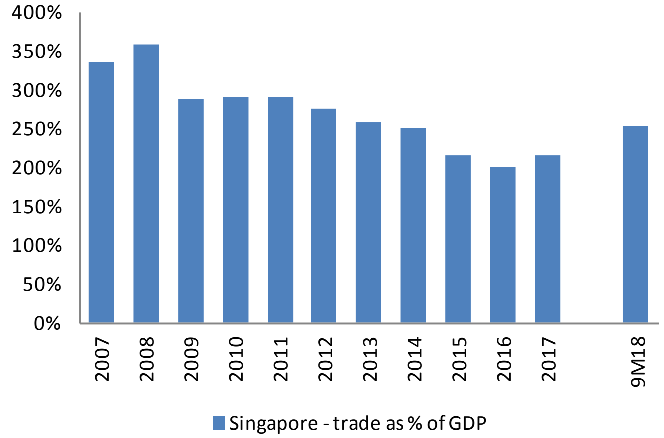
Uncertainty over trade tensions

Singapore's economic growth is highly dependent on exports, as evident from the fact that its total trade is more than two times the country's GDP. An escalating trade war between China and the US would have a direct impact on Singapore's economy and in all likelihood, STI earnings growth as well.

A prolonged trade war will hurt economic growth and result in further cuts to corporate earnings, which could be negative for the Singapore market.

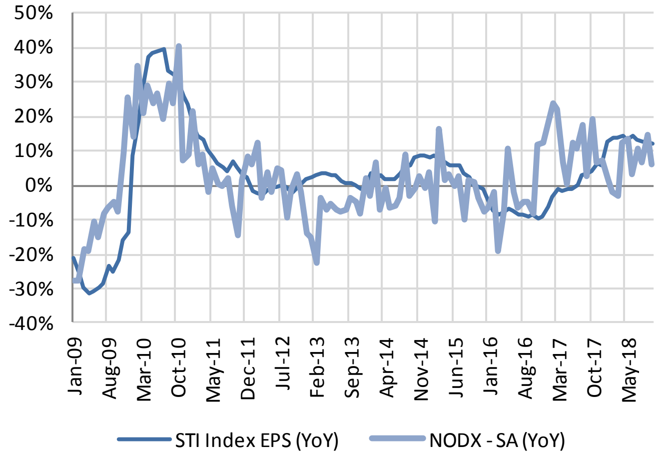
We foresee any indications of easing trade tensions to translate into a relief rally for the Singapore market – similar to the one witnessed after a 90-day moratorium on incremental tariffs was announced post the Donald Trump-Xi Jinping trade talks at the G-20 meeting. However, such a rally would be short-lived if a resolution to the trade war is not certain.

Figure 25: Total trade as % of GDP - Singapore



Source: Bloomberg, RHB

Figure 26: STI EPS growth positively correlated to NODX



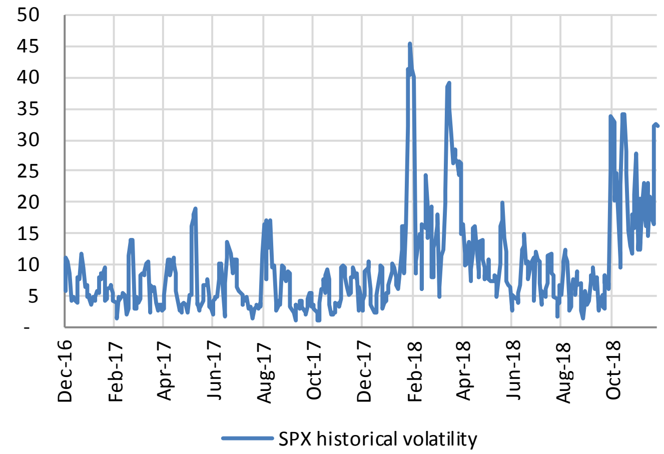
Source: Bloomberg, RHB

Volatile equity markets

The level of anxiety in equity markets suggests that investors may be especially likely to overreact to bad news, creating an especially unstable investing environment. We believe market volatility is a 2018 theme that is likely to persist in 2019.

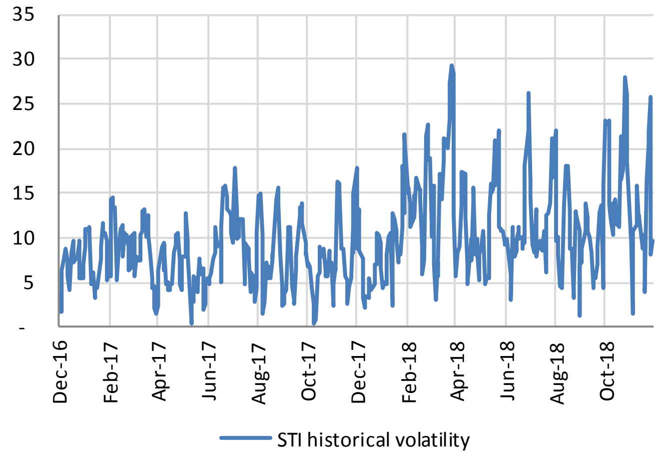
While we expect volatility to remain elevated, it does not necessarily mean that long-term investors should abandon risk assets. We view this as an opportunity to buy into quality defensive stocks that offer resilient growth in earnings and dividends, while the macroeconomic environment remains uncertain.

Figure 27: Rise in volatility in SPX Index



Source: Bloomberg

Figure 28: Rise in volatility in STI



Source: Bloomberg

Singapore's Government could incur a budget deficit in 2019

In 2019, we envisage higher spending on social and economic development to provide a cushion amid the more uncertain external environment. On the social front, we expect the Government to commit to more spending on infrastructure, healthcare, and social support.

On economic development, public sector project payouts are expected to be on track. As a result, we expect the Government to incur a slight deficit of -0.5% of GDP in 2019.

Figure 29: Overall fiscal position (FY17-19F)

	FY17	FY18E	FY19F	FY2017	FY2018E	FY2019F
	SGD bn			% GDP		
Operating Revenue	75.2	78.3	80.1	16.8	16.9	16.9
% YoY	*9.9*	*4.2*	*2.3*	-	-	-
Total Expenditure	73.9	76.9	85.3	16.5	16.6	18.0
% YoY	*3.5*	*4.1*	*10.9*	-	-	-
- Operating Expenditure	55.6	57.9	61.8	12.4	12.5	13.0
% YoY	*6.6*	*4.2*	*6.7*	-	-	-
- Development Expenditure	17.8	19.0	23.5	4.0	4.1	4.9
% YoY	*-5.0*	*6.8*	*23.7*	-	-	-
Primary Surplus/Deficit	**1.3**	**1.4**	**-5.2**	**0.3**	**0.3**	**-1.1**
Special Transfers	-6.2	-9.1	-9	-1.4	-2.0	-1.9
Net Investment Returns	14.6	12.0	12.0	3.3	2.6	2.5
Overall Budget Surplus/Deficit	**9.6**	**4.3**	**-2.2**	**2.2**	**0.9**	**-0.5**

Note: F = RHB's forecast, E = Singapore Ministry of Finance's (MOF) estimate
Source: MOF, RHB

The year will also see the carbon tax at SGD5 per tonne of emissions take effect, which should add roughly SGD1bn to Government coffers during the first five years. However, the revenue collected by end-2019 will likely be offset by higher GST rebates to eligible households, as well as through schemes like the Productivity Grant and Energy Efficiency Fund.

There is also a distant possibility of an early election in late 2019. The next parliamentary general election must be held before 15 Jan 2021. However, Singapore has a history of early elections.

In addition, considering the GST hike to 9% from 7% that is to be implemented sometime between 2021 and 2025, there is a greater chance that political uncertainty would be dealt with first. This could mean that the Government's budget planning for next year would be skewed more towards addressing voters' complaints, with greater emphasis on financial support measures.

Investment Themes

Rotate into defensive sectors

While stocks could certainly move lower-to-sideways from here, we believe this is not a time for investors with long-term horizons to abandon risk assets. We view the current sell-off in the Singapore market as an opportunity to buy into defensive sectors – we define defensive stocks as ones with strong balance sheets, stable earnings growth, high but stable dividend yields, and low historical propensity for big price declines.

Our study of performance in previous economic cycles reveals that while the magnitude of outperformance may have varied, industrials and consumer sectors have consistently outperformed the broader market during the six-month period after the peak of economic growth in Singapore.

Figure 30: Best performing sectors 1 year before peak of economic growth in Singapore

	Financials	Telecom	R. Estate	Industrial	Cons. Disc	Cons Staples
1Q94	16.5		58.5	(6.3)	18.0	20.6
2Q04	1.9	30.5	4.8	19.1	(1.3)	50.1
2Q10	12.2	(11.4)	4.5	18.4	42.3	5.3
3Q13	7.1	15.6	(0.5)	(5.1)	(9.2)	(3.4)

Source: Bloomberg, RHB

Figure 31: Best performing sectors six months after peak of economic growth in Singapore

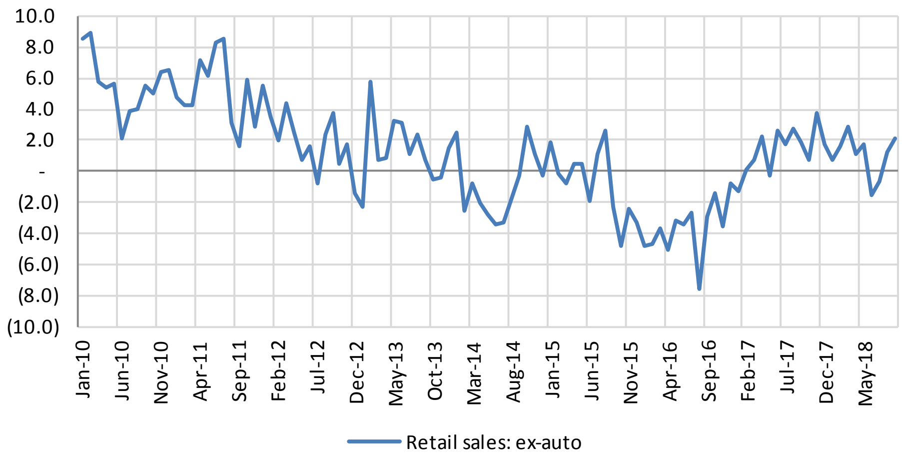
	Financials	Telecom	R. Estate	Industrial	Cons. Disc	Cons Staples
1Q94	(3.5)	(10.2)	(4.2)	13.8	12.0	(1.9)
2Q04	3.7	3.8	41.0	22.7	20.8	12.2
2Q10	2.0	3.4	12.4	18.4	50.8	6.4
3Q13	(2.7)	(1.3)	(4.8)	5.3	3.6	15.4

Source: Bloomberg, RHB

a) Prefer consumer stocks with earnings visibility. Based on The Conference Board Global Consumer Confidence Survey in collaboration with Nielsen, consumer confidence in Singapore rose in 3Q18 to its highest level since entering pessimistic territory three years ago. However, at 98 points, up from 94 points the previous quarter, consumer confidence has yet to take a turn into optimism. The index for Singapore has been in pessimistic territory – and also below the global index level – since 4Q15, when it dipped from 101 to 94 points.

The index is driven by three indicators, which are consumers' perception of the state of their personal finances, local job prospects, and their spending intentions. Singapore saw improvements in all three indicators on both YoY and QoQ basis – 57% believe that the state of their personal finances in next 12 months will be excellent or good (vs 53% in 2Q18, 52% in 3Q17). 48% have a positive view on job prospects in the next 12 months (vs 44% in 2Q18, 42% in 3Q17) and 39% said that now is the time to buy the things they want and need (vs 36% in 2Q18, 31% in 3Q17).

Figure 32: Retail sales (excluding auto)



Source: Bloomberg

Singapore has seen a gradual improvement in its retail sales growth (excluding auto) since late 2016. Although at a slower pace amidst slowing economic growth, we expect the growth in retail sales to sustain into 2019. We have an OVERWEIGHT rating for the consumer sector and favour exposure to companies where we see more clear signs of earnings growth.

Our preferred consumer sector picks are Sheng Siong (SSG SP, BUY, TP: SGD1.27), Wilmar International (WIL SP, BUY, TP: SGD3.58), Genting Singapore (GENS SP, BUY, TP: SGD1.23) and Delfi (DELFI SP, BUY, TP: SGD1.59).

Sheng Siong is our Top Pick for the consumer sector. In view of macroeconomic uncertainties, we believe Sheng Siong, with its defensive retail groceries business, will continue to outperform the broader market. We expect it to deliver +15% earnings growth in 2019 driven by higher earnings growth from the maturing of its 10 new stores opened in 2018, as well as gross margin expansion after the commencement of the distribution centre extension. The stock also offers a stable dividend yield of 3.5-4%.

Despite expectations of an unexciting year for CPO prices, we think Wilmar will outperform the broader market on more favourable palm processing margins, strong biodiesel demand, and continued growth in its consumer pack products. Potential listing (A-shares) of its China operations is still on the plate, and is expected to take place by the end of FY19. We believe the IPO of its China operations could unlock some latent value in the stock and lead to potential special dividends.

Delfi is a play on improving consumer sentiment in Indonesia. 70% of its sales are derived from Indonesia. We expect Delfi to deliver +15% earnings growth in 2019 led by strong sales momentum in its core brands. Growth in the premium products range should also help to hold up margins. On the macroeconomic side, we are overweight the Indonesian consumer sector as consumer sentiment in Indonesia has been upbeat. With the election coming in 2019, we believe consumer spending will be boosted by higher government stimulus and subsidies.

b) Defensive industrial stock: ST Engineering. ST Engineering (STE SP, BUY, TP: SGD3.97) has been amongst the few STI stocks that has delivered positive share price returns in 2018. We expect STE's share price to do well in 2019, in line with the revival of its profit growth, which will be aided by increased capacity and capabilities at its Aerospace division – the delivery of smart city-related contracts in and outside Singapore, and defence-related contracts.

STE has an outstanding orderbook of SGD13.3bn that offers 2-year revenue visibility. With more than 4% yield on offer, we see limited downside to its share price. In addition to continuing order wins at its Aerospace and Electronics operations, the recent revival in Marine order wins and completion of MRAS acquisition in 1Q19 could be key re-rating catalysts.

BUY banks for steady earnings growth and consistent dividends

With an impending economic slowdown in 2019, investors are concerned about slowing loan growth, lower-than-expected NIM expansion, and likely escalation in non-performing loans for Singapore banks. However, we believe the recent price corrections have priced in negatives for banking stocks, and there exists limited downside to their share prices.

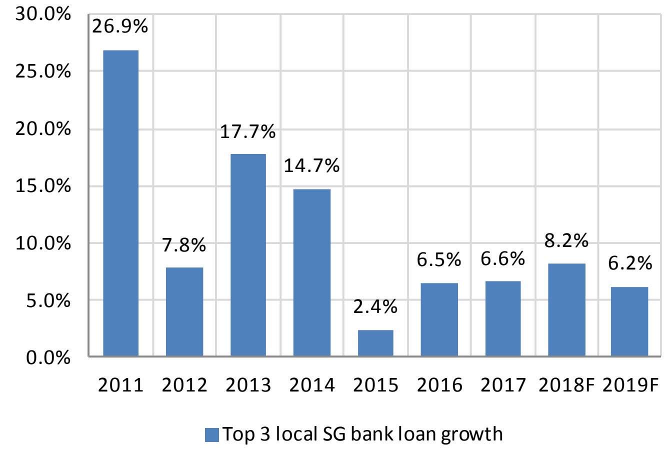
Valuations have moderated to more reasonable levels as UOB (UOB SP, BUY, TP: SGD30.80) and DBS (DBS SP, BUY, TP: SGD29.80) are now trading closer to historical average 1-year forward P/BVs.

While the outlook for 2019 loan growth has moderated since the beginning of 2018, it is still in positive territory. We expect loan growth for the three Singapore banks to moderate to 6.2% in 2019 from an estimated 8.2% in 2018.

On net interest margins, banks have witnessed gradual quarterly improvements in 2018. We expect this momentum to carry into 2019. With strong balance sheets and healthy ratios, we expect two banks under our coverage to deliver 8-12% earnings growth in 2019 and offer sustainable dividend yield of over 5%.

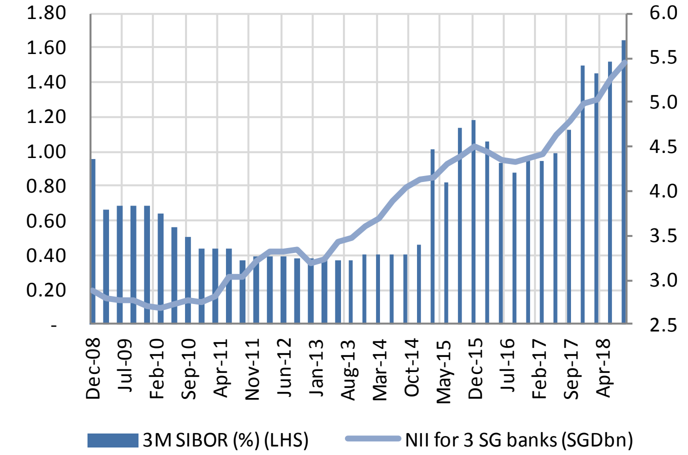
We are OVERWEIGHT the banking sector and have BUY ratings on DBS and UOB. However, we prefer UOB over DBS for its relatively lower valuations and industry leading capital adequacy ratio, which creates scope for higher dividend payouts in 2019.

Figure 33: Expectation of positive loan growth in 2019



Source: RHB

Figure 34: Net interest income to increase with a lag as the SIBOR moves higher



Source: Bloomberg, RHB

REITs that have visibility on DPU growth

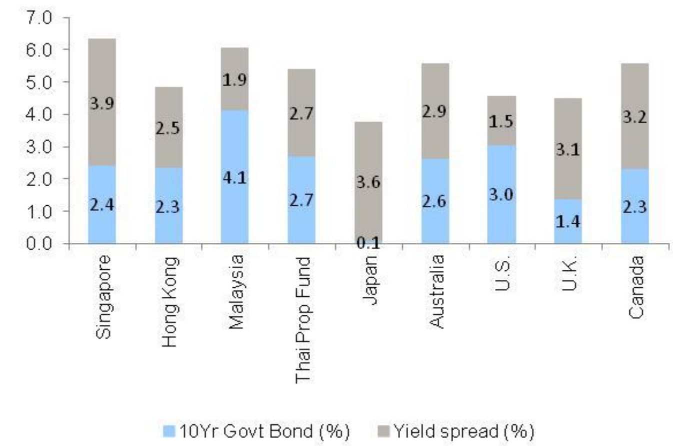
While we do not expect a broad-based outperformance from the REIT sector, stock-specific catalysts should find favour with investors – especially for those REITs that are direct beneficiaries of improving economic activity, have strong balance sheets, and can undertake accretive acquisitions that could offer DPU growth.

The 2019F demand-supply outlook for most of the sub-segments of REITs is positive and will help mitigate the threat of rising interest rates. Moreover, balance sheets for most REITs are in a better position to mitigate any risk from rising interest costs.

On average, close to 80% of REITs' debts are hedged, with only <20% of total debt due for renewal up until 2020. Overall, sector gearing also remains modest at 36%, well below the 45% maximum threshold.

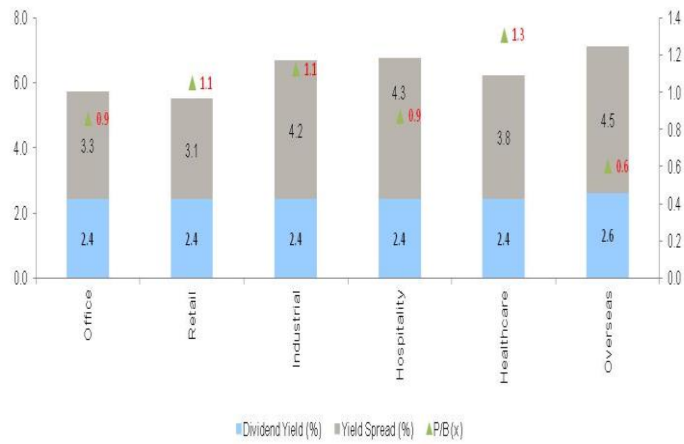
We see REITs trading at reasonable valuations. On average, REITs are trading at a 390bps yield spread to the MAS' 10-year bond yield. This compares with the 10-year average mean spread (ex-Global Financial Crisis) of 400bps.

Figure 35: S-REITs offer the highest spread over 10Y GSec



Source: Bloomberg, RHB

Figure 36: Industrial and Hospitality REITs offer one of the best yield spreads



Source: Bloomberg, RHB

We prefer industrial and hospitality REITs mainly on favourable demand-supply dynamics and attractive valuations. Both sectors offer one of the best yield spreads over 10-year bond yields. While growing tourist arrivals, moderating hotel room supply, and 3-7% expected growth in RevPAR should support growth for hospitality REITs, tapering of oversupply situation, gradual pick-up in demand, and 1-5% increase in rents should support DPU growth for industrial REITs.

Our preferred industrial and hospitality REITs are Ascendas REIT (AREIT SP, BUY, TP: SGD2.90) and CDL Hospitality (CDREIT SP, BUY, TP: SGD1.80).

While office segment rental rates have been on a steady uptrend, the positive effects will likely only be seen in DPU in late-2019. As such, we believe the office sub-sector will be more of a 2H19 play.

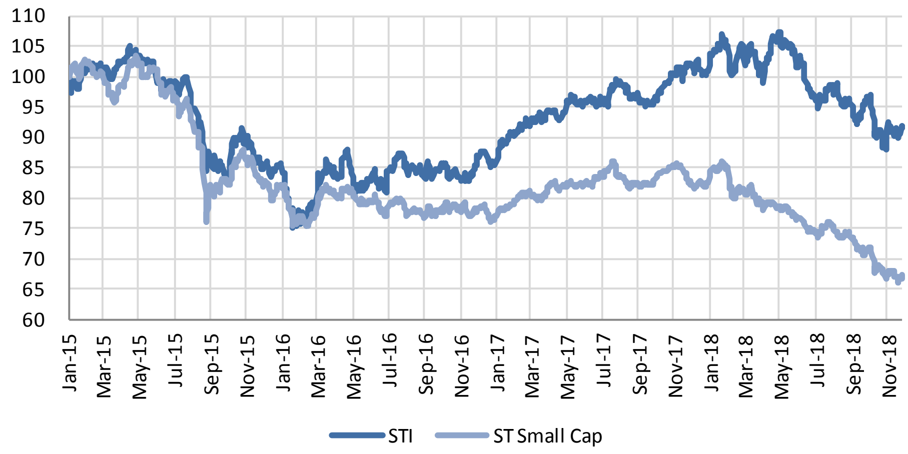
The retail segment remains challenging, with many key shopping malls adding to the supply in 2019 and rental rates likely to stay flattish. We recommend investors buy on dips for retail and office REITs. Starhill Global REIT (SGREIT SP, BUY, TP: SGD0.80) is our preferred office REIT exposure.

We like Manulife US REIT (MUST SP, BUY, TP: USD0.92) as a play on continuing improvement in the US office market. MUST should benefit from organic DPU growth via inbuilt rental rate escalation and a strong sponsor offers it the ability to grow via quality acquisitions.

Opportunistic SMID cap ideas

Although small and mid-cap (SMID cap) stocks in Singapore have underperformed large cap stocks, we believe selective opportunities exist for investors to invest into SMID cap companies that offer either strong visibility on earnings growth, sustainable high dividends, and/or are trading at compelling valuations.

Figure 37: Small caps – less preferred during economic slowdown



Source: Bloomberg

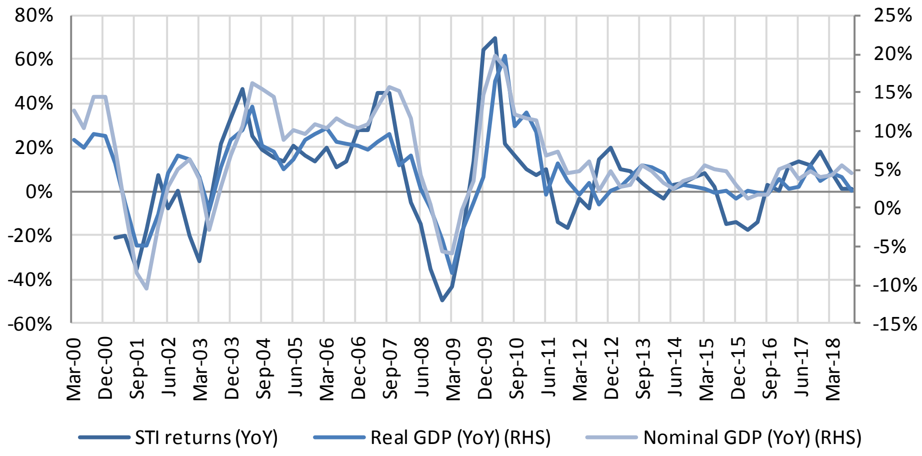
In the SMID cap space, our preferred picks are Silverlake Axis (SILV SP, BUY, TP: SGD0.65), HRnetgroup (HRNET SP, BUY, TP: SGD1.18), FuYu (FUYU SP, BUY, TP: SGD0.23) and Singapore Medical Group (SMG SP, BUY, TP: SGD0.56).

We like Silverlake for its strong earnings growth as it draws down on its existing orderbook, HRnetgroup for its ability to offer earnings upside from earnings accretive acquisitions, FuYu for its attractive +8% dividend yield, and Singapore Medical Group for its lowest valuation amongst healthcare players in Singapore.

Market Valuation

Implications from slowing economic growth. The STI has declined by 12% in USD terms YTD in line with slowing economic growth, the weakening SGD against the USD, and cut in corporate earnings. As seen in Figure 38, Singapore's stock index returns follow the country's nominal and real GDP growth closely. We believe it will be tough for the STI to generate strong positive returns as our economics team is forecasting a slowdown in GDP growth to extend into 2019 and 2020.

Figure 38: STI returns are highly correlated to the country's GDP growth

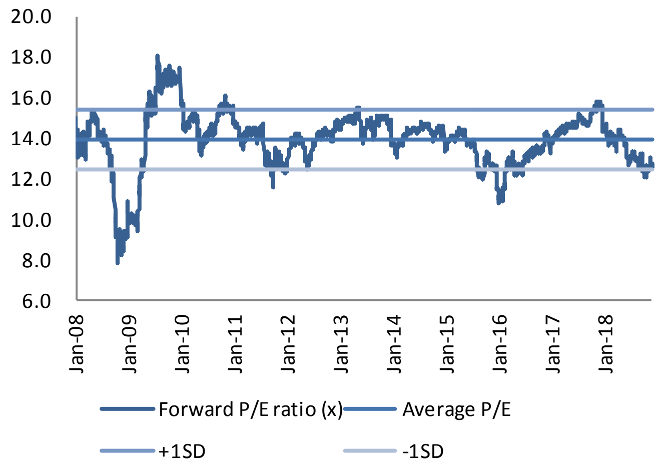


Source: Bloomberg

STI target of 3,300 for end-2019. We use a top-down method to derive our STI index target, based on a P/E multiple on 2019 forecast EPS. STI's 12.7x 1-year forward P/E sits at its -1SD band, which has only been breached twice since the global financial crisis – each time, the market witnessed a sharp rebound. With expectations of a slowdown in GDP growth, we believe a strong P/E multiple expansion will be difficult to pencil in.

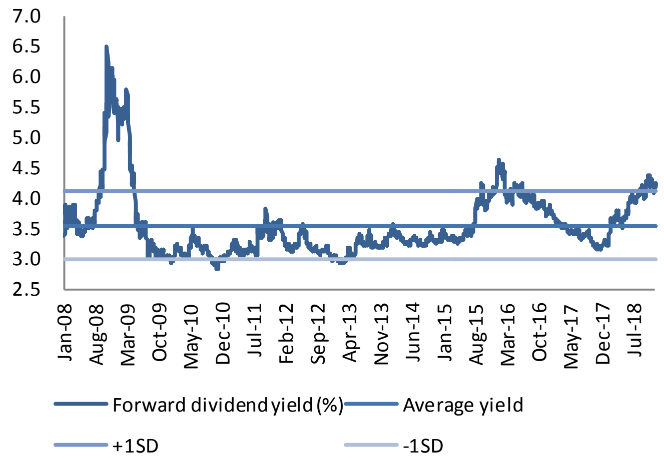
We value the STI based on average forward P/E of 13x, which is slightly above where the index is trading right now. Applying this to 2019 EPS estimate, we derive an index target of 3,300 for end-2019 (+7.4% from 10 Dec 2018 closing price). Including a 4.2% dividend yield for the market, this implies a total shareholder return of 11.6% in 2019.

Figure 39: STI – forward P/E



Source: Bloomberg

Figure 40: STI – forward dividend yield



Source: Bloomberg

Top Picks For 2019

Figure 41: Top Picks

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Large Cap													
Ascendas REIT	5,917	Buy	2.90	13.3	2019	12.8	12.8	1.2	1.2	6.6	6.6	9.1	9.3
CapitaLand	9,624	Buy	4.00	27.0	2018	12.6	11.5	0.7	0.7	4.1	4.1	6.0	6.3
DBS Group Holdings	44,515	Buy	29.80	25.2	2018	10.7	9.6	1.3	1.2	5.0	5.0	12.3	12.9
Genting Singapore	8,961	Buy	1.23	26.8	2018	13.9	13.6	1.5	1.4	3.6	3.6	11.0	10.7
ST Engineering	7,918	Buy	3.97	15.4	2018	19.7	17.0	4.7	4.4	4.4	4.5	23.6	26.1
United Overseas Bank Ltd	30,294	Buy	30.80	25.0	2018	9.9	9.3	1.2	1.1	4.7	5.1	11.9	12.2
Venture Corp Ltd	3,158	Buy	19.00	29.6	2018	11.7	10.8	1.8	1.7	4.8	4.8	15.3	15.4
Wilmar International	14,535	Buy	3.58	14.0	2018	11.3	12.0	0.9	0.8	3.5	3.5	7.6	6.9
SMID Cap													
CDL Hospitality	1,336	Buy	1.80	18.4	2018	12.1	11.4	1.0	1.0	6.1	6.4	8.1	8.4
Delfi Ltd	611	Buy	1.59	16.1	2018	24.9	23.7	2.8	2.7	2.0	2.5	10.1	11.3
Fu Yu Corp	104	Buy	0.23	21.7	2018	13.2	12.4	0.9	0.9	8.5	8.5	6.5	7.1
HRnet Group	580	Buy	1.18	49.4	2018	14.6	13.9	2.3	2.1	3.2	3.4	16.0	15.4
Manulife US REIT	977	Buy	0.92	21.9	2018	11.6	10.5	0.9	0.9	7.3	7.8	7.9	8.6
Starhill Global	1,066	Buy	0.80	19.4	2019	10.1	9.3	0.7	0.7	7.2	7.5	7.1	7.5
Silverlake Axis	802	Buy	0.65	60.5	2019	15.2	14.0	6.1	5.9	4.9	4.9	37.2	36.1
Singapore Medical Group	142	Buy	0.56	36.6	2018	15.8	14.5	1.4	1.3	-	1.4	8.9	9.0
Sheng Siong Group	1,184	Buy	1.27	16.5	2018	23.3	19.9	5.7	5.2	2.8	3.7	24.3	26.6

Note: Prices are as at 10 Dec 2018

Source: Bloomberg, RHB

STI Valuation Table

Figure 42: STI valuation table

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Consumer													
Singapore Press Holdings Ltd	2,876	-	-	na	2019	18.3	17.9	1.3	1.3	5.6	5.6	6.9	6.8
Genting Singapore	8,959	Buy	1.23	26.8	2018	13.9	13.6	1.5	1.4	3.6	3.6	11.0	10.7
Thai Beverage	10,895	Buy	0.75	26.1	2018	16.2	14.9	2.7	2.4	3.1	3.3	16.5	16.4
Dairy Farm International	12,242	Neutral	9.60	7.0	2018	24.2	23.0	6.4	5.8	2.8	3.0	26.2	25.4
Financials													
Oversea-Chinese Banking Corp I	35,084	-	-	na	2018	9.9	9.3	1.1	1.1	3.9	4.2	11.8	11.8
DBS Group Holdings	44,505	Buy	29.80	25.2	2018	10.7	9.6	1.3	1.2	5.0	5.0	12.3	12.9
Singapore Exchange Ltd	5,626	Buy	8.20	16.6	2019	19.5	18.0	6.6	6.4	4.6	5.0	34.4	36.0
United Overseas Bank Ltd	30,287	Buy	30.80	25.0	2018	9.9	9.3	1.2	1.1	4.7	5.1	11.9	12.2
Industrials													
Jardine Cycle & Carriage Ltd	10,251	-	-	na	2018	15.4	14.0	2.0	1.8	2.4	2.6	13.0	13.2
Jardine Matheson Holdings Ltd	48,498	-	-	na	2018	14.4	13.6	1.0	0.9	2.5	2.6	6.9	7.1
Jardine Strategic Holdings Ltd	41,437	-	-	na	2018	12.4	11.7	0.7	0.7	0.9	0.9	5.8	5.9
Keppel Corp Ltd	8,088	-	-	na	2018	11.1	10.5	0.9	0.9	4.6	4.3	8.2	8.4
Sembcorp Industries Ltd	3,423	-	-	na	2018	14.8	10.5	0.7	0.6	2.0	2.8	4.6	6.4
Yangzijiang Shipbuilding Holdir	3,539	-	-	na	2018	8.4	8.9	0.9	0.8	3.6	3.6	10.4	9.4
ST Engineering	7,917	Buy	3.97	15.4	2018	19.9	17.4	4.7	4.4	4.4	4.6	23.6	26.1
Plantations													
Golden Agri-Resources Ltd	2,414	-	-	na	2018	46.4	16.9	0.6	0.6	1.1	2.2	0.9	2.9
Wilmar International	14,532	Buy	3.58	14.0	2018	11.3	12.0	0.9	0.8	3.5	3.5	7.6	6.9
Real Estate													
Hongkong Land Holdings Ltd	15,670	-	-	na	2018	14.9	14.3	0.4	0.4	3.3	3.4	2.7	2.8
UOL Group Ltd	3,798	-	-	na	2018	12.8	13.5	0.5	0.5	2.7	2.7	4.3	3.9
CapitaLand	9,622	Buy	4.00	27.0	2018	12.6	11.5	0.7	0.7	4.1	4.1	6.0	6.3
City Developments	5,548	Neutral	9.20	9.3	2018	13.0	12.2	0.8	0.7	2.1	2.4	5.9	6.0
REIT													
Ascendas REIT	5,916	Buy	2.90	13.3	2019	12.8	12.8	1.2	1.2	6.6	6.6	9.1	9.3
CapitaLand Commercial	4,887	Neutral	1.80	2.3	2018	21.0	20.9	1.0	1.0	5.0	5.1	4.7	4.8
CapitaLand Malls	6,183	Neutral	2.14	(4.5)	2018	15.9	15.2	1.1	1.1	5.1	5.3	7.1	7.3
Technology													
Venture Corp Ltd	3,157	Buy	19.00	29.6	2018	11.7	10.8	1.8	1.7	4.8	4.8	15.3	15.4
Telecom													
SingTel	36,619	Neutral	3.22	3.9	2019	16.3	16.3	1.7	1.6	5.6	5.6	10.0	10.2
Transport													
Hutchison Port Holdings Trust	2,352	-	-	na	2018	25.6	30.4	0.5	0.5	8.6	8.4	1.8	1.7
SATS Ltd	3,780	-	-	na	2019	19.9	18.6	3.1	2.9	4.1	4.3	15.6	16.2
Singapore Airlines Ltd	8,277	-	-	na	2019	15.9	14.2	0.8	0.8	3.6	3.9	5.2	5.7
ComfortDelgro	3,442	Neutral	2.35	11.4	2018	15.3	14.2	1.7	1.6	4.9	5.4	9.9	10.5

Note: Prices are as at 10 Dec 2018

Source: Bloomberg, RHB

RHB Coverage Valuation Tables

Figure 43: RHB coverage valuation table I

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Agriculture													
Wilmar International	14,535	Buy	3.58	14.0	2018	11.3	12.0	0.9	0.8	3.5	3.5	7.6	6.9
Bumitama Agri Ltd	799	Neutral	0.60	(5.5)	2018	9.4	11.4	1.4	1.3	2.4	3.1	14.6	11.4
First Resources	1,825	Neutral	1.45	(6.5)	2018	13.5	11.9	1.8	1.6	1.8	2.1	13.0	13.3
Consumer													
Amara Holdings	185	Buy	0.88	95.6	2018	22.5	15.0	0.7	0.7	2.2	2.2	3.2	4.1
Best World	950	Buy	2.13	(14.5)	2018	20.1	15.2	8.1	6.2	2.2	2.6	40.5	40.6
Delfi Ltd	611	Buy	1.59	16.1	2018	24.9	23.7	2.8	2.7	2.0	2.5	10.1	11.3
Food Empire Holdings	201	Buy	0.66	26.9	2018	9.5	9.7	1.1	1.0	2.6	1.6	10.4	10.4
Genting Singapore	8,961	Buy	1.23	26.8	2018	13.9	13.6	1.5	1.4	3.6	3.6	11.0	10.7
MindChamps Preschools	93	Buy	0.87	62.6	2018	17.8	17.8	2.1	1.9	1.9	1.9	10.2	12.2
Sheng Siong Group	1,184	Buy	1.27	16.5	2018	23.3	19.9	5.7	5.2	2.8	3.7	24.3	26.6
Spackman Entertainment Group	21	Buy	0.10	270.4	2018	3.9	2.5	0.3	0.3	5.1	5.1	9.1	12.1
Thai Beverage	10,897	Buy	0.75	26.1	2018	16.2	14.9	2.7	2.4	3.1	3.4	16.5	16.4
Dairy Farm International	12,242	Neutral	9.60	7.0	2018	24.2	23.0	6.4	5.8	2.8	3.0	26.2	25.4
Japan Foods Holding	56	Neutral	0.48	5.5	2019	14.5	13.3	2.1	2.0	4.7	4.8	14.2	15.0
Kimly Ltd	206	Neutral	0.27	17.4	2018	12.2	11.8	3.3	2.9	4.3	4.3	26.2	23.8
BreadTalk Group	353	Sell	0.75	(12.3)	2018	42.6	38.1	3.6	3.5	1.9	2.2	7.1	9.2
Energy													
China Aviation Oil	765	Neutral	1.32	15.8	2018	10.7	10.5	1.3	1.2	3.8	3.8	12.3	11.7
Financials													
DBS Group Holdings	44,515	Buy	29.80	25.2	2018	10.7	9.6	1.3	1.2	5.0	5.0	12.3	12.9
Singapore Exchange Ltd	5,628	Buy	8.20	16.6	2019	19.5	18.0	6.6	6.4	4.6	5.0	34.4	36.0
United Overseas Bank Ltd	30,294	Buy	30.80	25.0	2018	9.9	9.3	1.2	1.1	4.7	5.1	11.9	12.2
Healthcare													
Singapore Medical Group	142	Buy	0.56	36.6	2018	15.8	14.5	1.4	1.3	-	1.4	8.9	9.0
UG Healthcare	30	Buy	0.32	48.8	2019	8.3	6.7	0.9	0.8	1.4	1.8	11.4	12.5
Raffles Medical Group	1,520	Neutral	1.02	(12.1)	2018	29.0	38.7	2.6	2.6	1.7	1.7	8.8	7.8
Talkmed Group	575	Neutral	0.64	6.7	2018	30.2	25.4	10.2	9.5	2.7	3.2	34.0	37.0
Industrial													
ISOTeam	48	Buy	0.42	110.0	2019	74.1	7.6	0.9	0.8	3.3	3.6	11.8	11.8
ST Engineering	7,918	Buy	3.97	15.4	2018	19.7	17.0	4.7	4.4	4.4	4.5	23.6	26.1
Real Estate													
APAC Realty	122	Buy	0.72	48.5	2018	7.4	7.9	1.2	1.1	8.1	7.6	17.0	14.9
CapitaLand	9,624	Buy	4.00	27.0	2018	12.6	11.5	0.7	0.7	4.1	4.1	6.0	6.3
Yoma Strategic	512	Buy	0.66	80.8	2019	14.4	10.3	0.9	0.8	0.7	0.8	9.3	13.0
Centurion Corp	254	Neutral	0.47	16.0	2018	8.1	8.1	0.6	0.6	6.2	6.2	7.9	8.0
City Developments	5,549	Neutral	9.20	9.3	2018	13.0	12.2	0.8	0.7	2.1	2.4	5.9	6.0

Note: Prices are as at 10 Dec 2018
Source: Bloomberg, RHB

Figure 44: RHB coverage valuation table II

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
REIT													
Ascendas REIT	5,917	Buy	2.90	13.3	2019	12.8	12.8	1.2	1.2	6.6	6.6	9.1	9.3
Cache Logistics	552	Buy	0.84	20.0	2018	9.7	9.8	1.1	1.1	8.2	8.7	8.8	8.7
CDL Hospitality	1,336	Buy	1.80	18.4	2018	12.1	11.4	1.0	1.0	6.1	6.4	8.1	8.4
Manulife US REIT	977	Buy	0.92	21.9	2018	11.6	10.5	0.9	0.9	7.3	7.8	7.9	8.6
OUE Hospitality	904	Buy	0.77	13.2	2018	8.4	13.3	0.9	0.9	7.6	7.8	10.2	6.5
Starhill Global	1,066	Buy	0.80	19.4	2019	10.1	9.3	0.7	0.7	7.2	7.5	7.1	7.5
CapitaLand Commercial	4,888	Neutral	1.80	2.3	2018	21.0	20.9	1.0	1.0	5.0	5.1	4.7	4.8
CapitaLand Malls	6,185	Neutral	2.14	(4.5)	2018	15.9	15.2	1.1	1.1	5.1	5.3	7.1	7.3
Frasers Centrepoint	1,475	Neutral	2.19	0.9	2019	14.7	15.8	1.0	1.0	6.0	6.0	7.0	6.5
Frasers Commercial	902	Neutral	1.50	7.9	2019	11.1	12.5	0.9	0.9	7.0	7.1	8.0	7.1
Keppel REIT	2,900	Neutral	1.06	(9.4)	2018	17.8	17.7	0.8	0.8	4.9	4.8	4.4	4.3
Suntec REIT	3,526	Neutral	1.90	6.7	2018	19.1	18.8	0.8	0.8	5.7	5.8	4.7	4.7
Services													
HRnet Group	580	Buy	1.18	49.4	2018	14.6	13.9	2.3	2.1	3.2	3.4	16.0	15.4
Technology													
CSE Global	158	Buy	0.59	38.8	2018	13.0	11.4	1.2	1.2	6.6	6.6	9.6	10.7
Fu Yu Corp	104	Buy	0.23	21.7	2018	13.2	12.4	0.9	0.9	8.5	8.5	6.5	7.1
GSS Energy	35	Buy	0.19	97.9	2018	8.4	6.7	1.1	0.9	1.1	3.0	12.4	13.9
Silverlake Axis	802	Buy	0.65	60.5	2019	15.2	14.0	6.1	5.9	4.9	4.9	37.2	36.1
Valuetronics Group	220	Buy	0.82	16.3	2019	9.0	8.5	1.5	1.3	5.5	6.0	16.3	15.8
Venture Corp Ltd	3,158	Buy	19.00	29.6	2018	11.7	10.8	1.8	1.7	4.8	4.8	15.3	15.4
Avi-Tech Electronics	39	Neutral	0.34	13.3	2019	12.6	10.8	1.0	1.0	7.1	8.3	8.3	9.6
Jadason Enterprises	12	Neutral	0.05	117.4	2018	7.7	7.7	0.3	0.3	4.3	4.3	3.4	4.6
Telecom													
M1	1,418	Neutral	2.06	(2.8)	2018	20.3	23.2	4.2	4.1	4.9	3.9	27.4	20.7
SingTel	36,681	Neutral	3.22	3.9	2019	16.1	16.1	1.6	1.6	5.7	5.7	10.0	10.2
StarHub	2,285	Neutral	1.90	1.1	2018	14.4	15.7	11.5	12.3	8.9	6.7	79.3	78.7
Transport													
ComfortDelgro	3,442	Neutral	2.35	11.4	2018	14.9	13.4	1.7	1.6	4.5	5.4	9.9	10.5
Utilities													
Moya Holdings Asia	202	Buy	0.11	57.1	2018	10.1	8.5	1.2	1.0	-	-	11.5	12.0

Note: Prices are as at 10 Dec 2018

Source: Bloomberg, RHB

Economics, Rates And FX

14 December 2018

Economics

Resilience Despite External Uncertainty

- **Growth environment in 2019 would likely continue from the current year, but at a relatively more moderate pace. GDP is forecast at 2.8% in 2019, a slowdown from 3.2% expected this year.**
- **Weaker growth in exports will likely be mitigated by positive contribution from domestic demand, especially private consumption & investment.**
- **Despite the softer outlook, we lean towards a continued policy tightening in the next monetary policy review in Apr 2019, as the balance of risk errs towards the upside. Nevertheless, we do not rule out a pause if the downside risks become more prevalent.**

Domestic demand is expected to remain robust, growing 4.0% in 2019 vs the expected 3% in 2018, driven by private consumption and investment, while growth in government spending should remain supportive.

Private consumption will be the key for Singapore's outlook in 2019. The labour market is predicted to continue to improve further, providing support to wage growth.

Investment is expected to record stronger growth in 2019, driven by an increase in residential construction and business upgrading. The property cooling measures imposed by the Government in mid-2018 will likely dampen speculative investments, although they will not significantly impact investment activity.

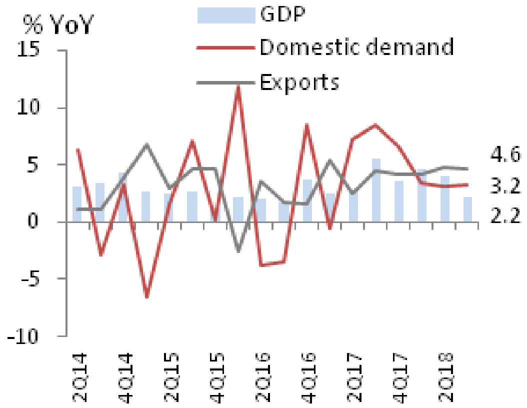
We expect exports to moderate in 2019, as the dimmer outlook for the advanced and regional economies should translate into a more modest external environment for Singapore. It is expected that, while global demand will still expand, the rate of growth in 2019 will be less assertive.

Shift towards fiscal deficit. Due to the need for better social support amid the more uncertain external environment, the Government is likely to commit to more spending on infrastructure, healthcare, and financial assistance.

Current account surplus to narrow in 2019, dragged by lower exports, while domestic demand is expected to remain supportive of imports.

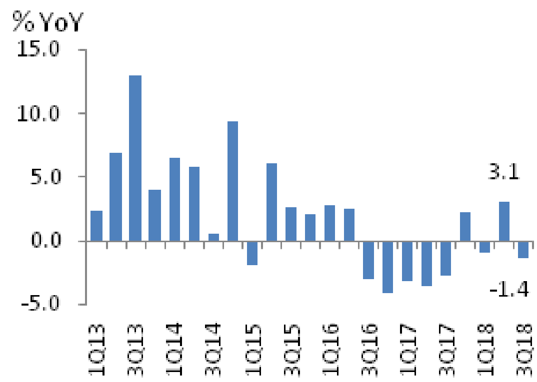
Inflation is expected to rise gradually. Inflation is expected to trend upwards, amid higher prices in the housing & utilities segment, as property prices increase further. In the medium term, demand-pull inflation is expected to increase alongside a faster pace of wage growth and pick-up in domestic demand.

Real GDP and export growth



Source: Singapore Statistics (SingStat)

Growth in gross fixed capital formation



Source: Singapore Statistics (SingStat)

Key indicators

% YoY	2017	2018E	2019F	3Q17	4Q17	1Q18	2Q18	3Q18
GDP	3.6	3.2	2.8	5.5	3.6	4.5	4.1	2.2
Manufacturing	10.1	7.4	3.8	19.1	4.8	10.8	10.7	3.5
Services	2.8	2.6	2.6	3.5	3.5	4.0	2.8	2.4
SIBOR: 3M (%) (end-rate)	1.5	1.8	2.3	1.1	1.5	1.5	1.5	1.6
M3	4.1	3.0	4.0	5.8	3.6	3.3	3.0	5.4
Current account (% of GDP)	19.6	18.8	17.9	22.5	15.1	18.7	19.9	20.1
Exchange rate (USD/SGD)	1.34	1.37	1.33	1.36	1.35	1.32	1.33	1.37

Source: Company data, RHB

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Resilience Despite External Uncertainty

Growth shows signs of deceleration

The economic growth environment in 2019 will likely continue from the current year, but at a relatively more moderate pace. On the external side, the positive demand effects from the US pro-cyclical fiscal stimulus have led to sustained global demand, but offset partly by the tighter monetary environment seen in the Eurozone. The situation is compounded by rising trade tensions that have disrupted global trade, while Chinese import demand will likely slow as economic growth softens.

The domestic side, on the other hand, is proving its resilience. The labour market continues to improve, although at an uneven pace, while positive wealth effect coming from rising property prices should also contribute to higher consumption spending.

Against this backdrop, we expect real GDP growth for 2019 to moderate to 2.8%, with risk balanced on both the upside and downside. If the trade war continues to persist over a longer forecast horizon, growth projection could worsen, as businesses readjust to the new global supply chain dynamics. On the other hand, a prompt resolution to the trade war could mean economic activity will pick up pace.

Figure 45: GDP by demand aggregate (2010=100)

	Wt.	2017 4Q	2018 1Q	2018 2Q	2018 3Q	2017 4Q	2018 1Q	2018 2Q	2018 3Q	2017	2018E	2019F
	%	% QoQ, SA., Ann.				% YoY, Real				% YoY, Real		
Private consumption	34.7	5.4	-9.8	11.0	8.4	5.5	3.2	3.7	3.4	3.1	3.2	4.1
Government consumption	9.8	-3.5	30.9	-11.0	-0.6	0.5	8.4	2.5	2.6	4.1	4.0	3.7
GFCF	25.5	36.4	-31.6	43.6	-27.5	2.2	-0.9	3.1	-1.4	-1.8	0.9	4.6
Domestic demand	73.2	16.2	-21.4	10.0	13.6	6.6	3.4	3.1	3.2	2.7	3.0	4.0
Net Exports	28.2	-33.8	65.7	8.3	-13.8	-5.1	8.9	7.9	1.0	3.0	4.3	-0.9
Exports of goods & services	199.5	3.8	1.9	7.3	5.3	4.2	4.1	4.8	4.6	4.1	4.5	3.6
Imports of goods & services	171.3	11.7	-5.8	7.2	8.9	5.7	3.3	4.3	5.3	5.2	4.5	4.4
GDP	100	2.1	2.4	1.0	3.0	3.6	4.6	4.1	2.2	3.6	3.2	2.8

Source: SingStat, RHB
Note: F = forecast, E = estimate

Private consumption will likely be the key for Singapore's outlook in 2019. So far, private consumption in 3Q18 remains supportive of growth at 3.4% (2Q18: 3.7%) amid an improving domestic labour market, expectations of higher wage growth. and stronger growth in net household balance sheet.

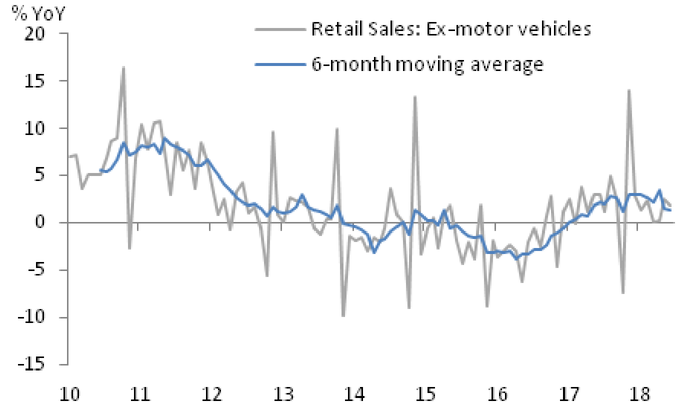
Going forward, private consumption is expected to grow 4.1% in 2019, up from an estimated 3.2% in 2018.

Despite more moderate economic growth, the labour market is predicted to continue to improve further next year. Based on the latest employment outlook survey in 4Q18, there is an increase in hiring intentions compared to the previous quarters, with 16% of respondents expected to increase staffing levels – while only 3% intended to retrench.

Moreover, the employment addition by sector in 3Q18 (Figure 47) shows a positive contribution in employment in the services and manufacturing sectors, with a much smaller decline in construction. The improvement in the labour market, however, could be uneven within the sectors. Sectors – particularly the wholesale & retail, financial & business services, and construction – will likely see further hiring going forward. Wholesale & retail should be supported by improving labour market conditions and higher wage growth. Financial & business services are to be supported by further technological adoption, such as artificial intelligence & digital payments, while increased construction commencing and building plans approved (Figure 49) should lend support to the construction sector.

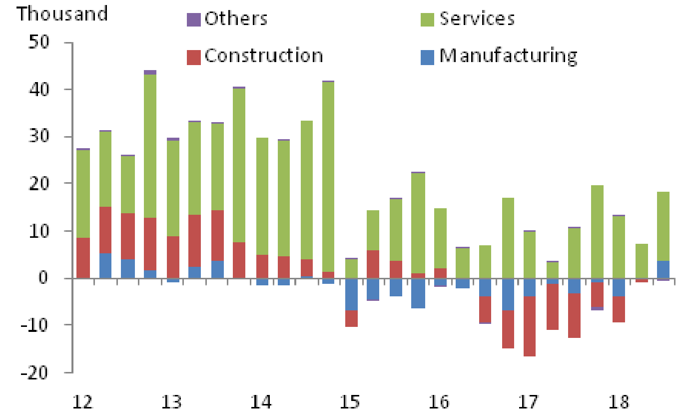
However, the positive wealth effect coming from rising property prices could have limited support for consumption spending, as the rate of price increases are likely to be more modest amid the Government's control measures. This will, nevertheless, continue to provide support to the household balance sheet, as improvement in asset value in residential property creates a feel-good factor.

Figure 46: Retail sales to remain modest going into 2019



Source: SingStat

Figure 47: Employment addition by sector shows the job market improving further



Source: Ministry of Manpower

The gross fixed capital formation (GFCF) is expected to record stronger growth of 4.6% in 2019 from an estimated 0.9% in 2018. This would be driven by a rebound in residential construction investments following higher buildings commenced and building plans approved, which showed a sharp increase in July.

The property cooling measures imposed by the Government in mid-2018 will likely dampen speculative investments, although they will not significantly impact investment activity in this sector. Meanwhile, ongoing building projects and civil engineering works will provide support to public investments. The series of public works next year include:

i. Changi Airport Terminal 5;

ii. Phase 2 of Tuas seaport developments;

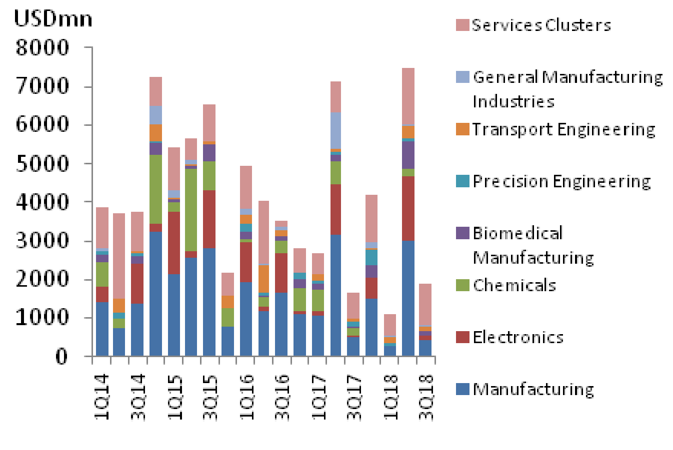
iii. Construction of Mass Rapid Transit (MRT) Thomson-East Coast Line, Cross Island Line, Jurong Regional Line and Rapid Transit System;

iv. Deep Tunnel Sewerage System (DTSS) Phase 2;

v. A number of upkeep units for public residential projects, as well as healthcare and educational facilities.

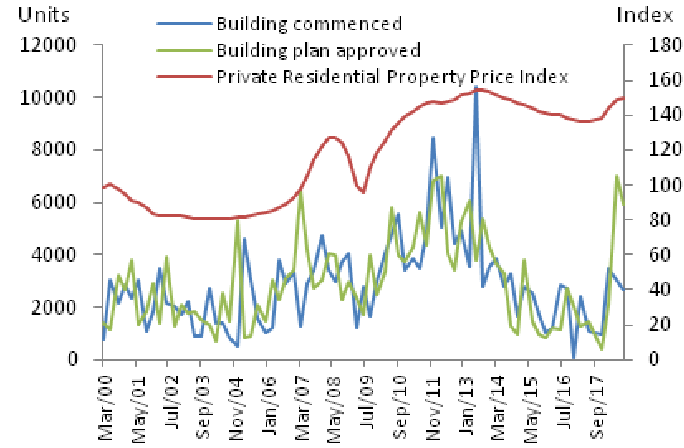
Public consumption spending is expected to soften to 3.7% in 2019 from 4.6% this year. Despite the moderation, we expect the Government to continue to provide a cushion against the uncertain external environment, with spending focused largely on social support measures. These include support for the needy, particularly the pioneer and *Merdeka* generation, enhanced financial assistance scheme for education, as well as support for labour market adjustments.

Figure 48: Softer investment commitments in 3Q18



Source: SingStat

Figure 49: Tightening property supply led to higher price pressures



Source: SingStat

Exports: Global trade to continue at a slightly slower pace

Recent forecasts by the International Monetary Fund in its October outlook put world trade at a slower growth of 4% in 2019 from an estimated 4.2% in 2018. The growth is also a downward revision from the 4.5% expected in its July assessment, reflecting the loss of growth momentum in the some of the advanced economies and Asia. As such, we expect Singapore's real exports to register 3.6% growth in 2019, given its exposure to the external environment.

Growth rates in the advanced economies are expected to be slightly more moderate in 2019. In the US, support will continue from the pro-cyclical fiscal stimulus introduced early in 2018, which boosted labour markets, improved business sentiment, and led to an increase in commitments on corporate investments. The outcome of the mid-term election provides more surety of a stable economic trajectory without significant changes in legislation. Nevertheless, continued uncertainties will linger over trade tensions. This, coupled with the US Fed's tightening, will likely slow down US growth next year.

Meanwhile, modest contributions are expected from the Eurozone and Japan. The pace of expansion has started to come off peak highs. The Eurozone's Purchasing Managers' Index (PMI) fell to 52 from an all-time high of 60, reflecting weaker new export orders, output, and job creation. Similarly in Japan, the Tankan survey shows three quarters of deterioration amid rising raw material costs and a string of natural disasters, which disrupted production.

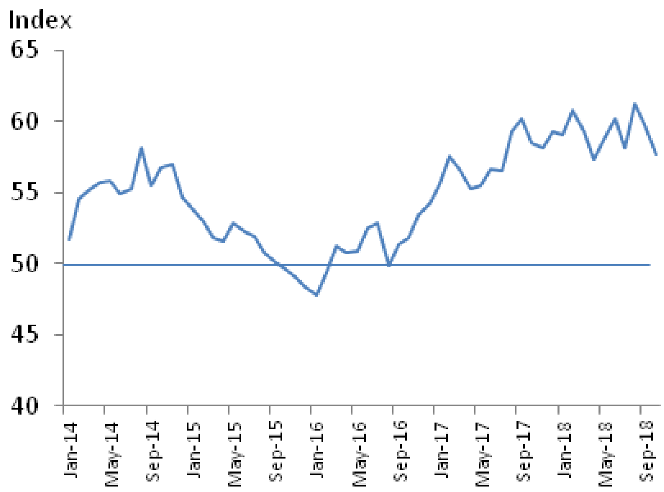
Closer to home, growth in the key Asia ex-Japan economies is expected to soften in 2019. China will continue to make the transition to a more sustainable growth path through private consumption to mitigate the negative trade war impact. The substantial currency depreciation in some emerging economies suggests they are likely to pose a drag on global growth in 2019.

Meanwhile, the region's electrical & electronics industry is likely to remain weak in the foreseeable future, as the PMI softens further – this will translate into a modest growth in electronics exports.

The key uncertainty to the global trade outlook is ongoing trade tensions between the US and China. At time of writing, the agreement between the two world powers – to come to a decisive solution by early next year – seems possible, although the outcome is highly circumstantial. We predicted two possibilities; if the US imposes further tariff increases next year, we could likely see a shift in the global supply chain, which translates into changes in the supplier and logistics channels. The other eventuality, where China agrees to amend its investment and trade policies, could also see a similar shift in the global supply chain, although possibly at a more structured manner. The possibility that trade patterns will go back to what they were before seems distant, in our view.

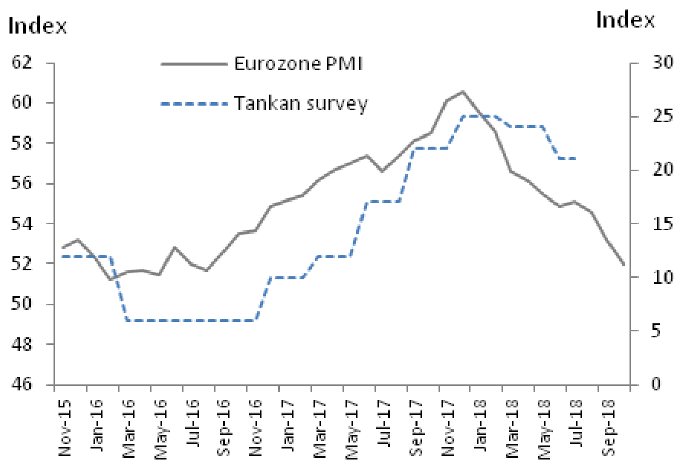
The dimmer outlook for the advanced and regional economies will likely translate to a more modest external environment for Singapore. It is expected that, while global demand will still expand, the rate of growth in 2019 will be less assertive.

Figure 50: US ISM index appears toppish



Source: Markit

Figure 51: Eurozone and Japan's PMI coming off peaks



Source: Markit, Tankan

Shifting drivers of sectoral growth

On a sectoral basis, manufacturing activities are expected to have a lesser role in economic growth, as expansions seen in early 2018 begin to wane. Meanwhile, domestic-oriented industries – such as financial and business services, as well as wholesale & retail trade – are likely to take up the slack.

Growth in the manufacturing sector is expected to moderate to 3.8% in 2019 from an expected 7.3% in 2018. Sub-segments, such as semiconductor and precision engineering industries, are expected to turn weaker in 2019. This is a reflection of a global electronics downcycle from the high growth seen in 2017.

Global semiconductor sales (Figure 54) highlight further softening of growth, although at 14% YoY in September, it is still strong by historical terms. Nevertheless, with the:

i. Continued decline in memory chip prices;

ii. Build-up in inventory levels;

iii. Slowdown in demand from areas such as data centre servers, automotive, and industrial…

…growth in the semiconductor industry could soften further.

Developments of new technologies – such as artificial intelligence, 5G mobile networks, bendable phones, and the Internet of Things – could be the next support for the sector to pick up again, although these are still in their early stages.

For pharmaceuticals, growth is expected to remain buoyant. Increased government spending on healthcare access and technology, as well as resilient demand coming from regional markets amid greater access to universal healthcare, is expected to keep the industry resilient.

Meanwhile for transport engineering, sector recovery is expected to continue, supported by the marine & offshore segment, although falling oil prices could cap the growth in the sector to some extent. So far, the rising global oil rig utilisation at 75% from 71% last year has sparked new interest in investments in the industry.

The construction sector is likely to see a rebound towards positive growth in 2019 due to contributions from the civil engineering segments as well as residential property. In the residential sector, both private and public residential projects are expected to record robust growth amid the sharp increase in buildings approved and commenced, as well as upgrading works for existing Housing & Development Board flats.

On civil engineering, works on the North-South Corridor have already commenced in 2018 and are expected to pick up in 2019. Meanwhile construction is expected to progress on the new MRT and DTSS Phase 2, as well as the rolling out of the remaining package for Runway 3 at Changi Airport.

Figure 52: GDP by industrial origin (2010=100)

		2017	2018			2017	2018					
	Wt.	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	2017	2018E	2019F
	%	% QoQ, SA., Ann.				% YoY, Real				% YoY, Real		
GDP	100	2.1	2.4	1.0	3.0	3.6	4.6	4.1	2.2	3.6	3.2	2.8
Goods Producing Industries	24.4	-11.8	20.1	0.2	2.9	2.7	7.1	7.5	2.3	5.7	4.9	3.2
Manufacturing	18.8	-14.8	26.5	3.3	3.0	4.8	10.8	10.7	3.5	10.1	7.3	3.8
Construction	4.3	-0.2	1.4	-14.4	5.1	-5.0	-5.1	-4.2	-2.3	-8.4	-3.7	1.7
Services Producing Industries	67.1	6.3	-1.4	0.3	4.6	3.5	4.0	2.8	2.4	2.8	2.8	2.6
Wholesale & Retail Trade	18.5	6.5	-12.5	5.0	3.7	3.0	2.6	1.5	0.5	2.3	1.4	1.8
Transportation & Storage	7.7	7.2	-4.2	-2.8	9.0	5.3	2.7	1.2	2.1	4.8	1.9	1.7
Accommodation & Food	1.8	2.2	-4.7	12.9	6.1	2.9	2.0	3.9	4.0	1.2	3.0	2.3
IT & Communications	3.8	4.8	2.2	5.0	6.6	6.0	5.5	5.8	4.7	3.3	4.8	3.2
Finance & Insurance	13.0	12.6	5.5	-2.1	6.7	6.3	9.4	6.8	5.6	4.8	6.4	5.1
Business Services	12.8	1.0	11.6	-2.7	0.4	0.4	2.6	2.3	2.4	0.6	2.1	2.0
Other Services Industries	9.5	5.2	-2.9	-2.4	4.9	2.7	2.2	0.5	1.2	2.6	1.2	1.9

Source: SingStat, RHB

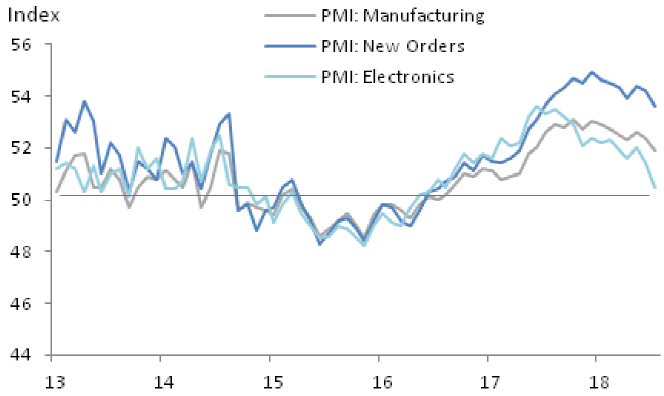
Note: F = forecast, E = estimate

The services industry's growth is projected to remain buoyant in 2019. The finance & insurance industry and business services sectors will likely drive growth in the industry, driven by new technologies in the digital space: eg blockchain, cloud storage, corporate broadband, and ICT adoption. In insurance services, growth will be supported by strong sales of investment-linked plans and a positive attitude towards protection and retirement needs.

On other domestic-oriented sectors, positive contribution from the firm labour market environment should help to improve consumer discretionary spending. This is expected to support the wholesale & retail trade sectors, as well as accommodation & food services. In addition, higher expected visitor arrivals will provide an added boost.

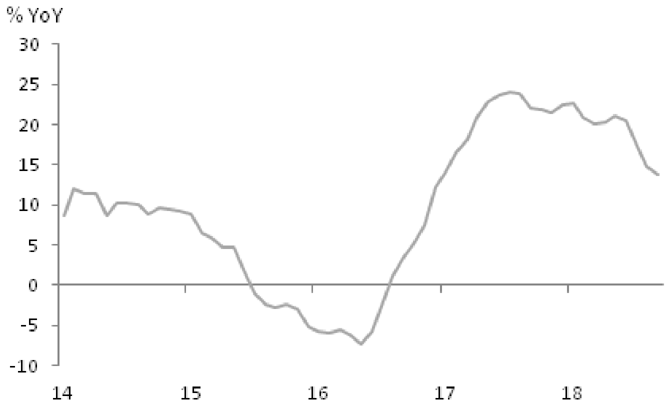
Nevertheless, services growth will likely be dampened by the weakened external outlook, which affects trade-related services. The transportation & storage sectors are likely to moderate, in line with the slowdown in global trade activity and a drop in trans-shipment volumes. However, demand for ground logistics should remain robust, on continued growth in e-commerce.

Figure 53: PMI has come off recent highs



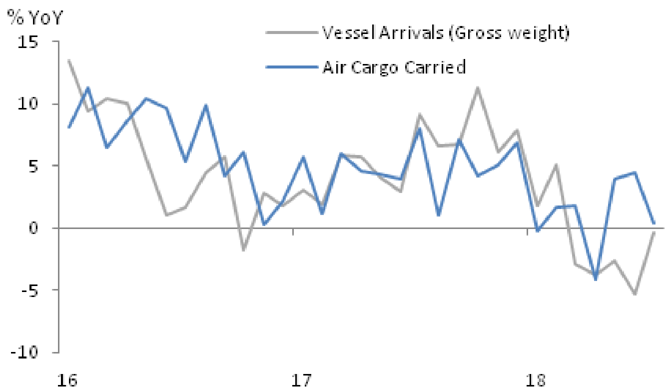
Source: Markit

Figure 54: Global semiconductor sales have softened further



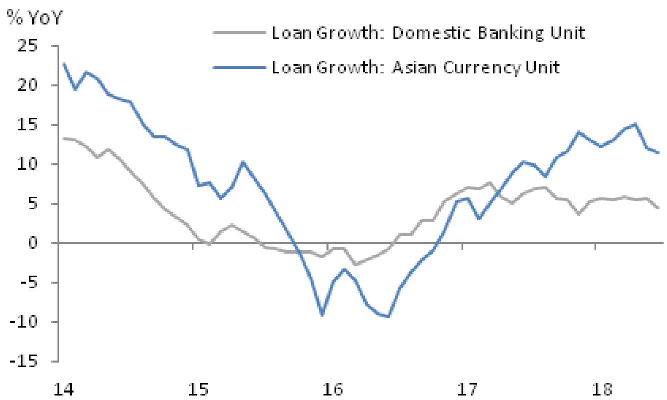
Source: SingStat

Figure 55: Slowing cargo shipments weighing on transport sector



Source: SingStat

Figure 56: Loan growth started to trend lower



Source: SingStat

Government to incur deficit

So far, for the April-September period, the budget performance has turned out better than our previous estimates. Revenue collection is 3.4% higher YoY. Of these, the corporate tax, motor vehicles tax, and stamp duty saw the largest increase compared to a year ago, at 9.2%, 21.3% and 22.4%. The sharp increase seen in stamp duty collection is primarily due to the introduction of additional buyer stamp duty in July. Revenue over-performance also benefited from a one-off increase in statutory board contributions, along with cash flow delays in infrastructure projects.

On the expenditure side, information up to 3Q18 shows growth of 1.3% YoY in opex.

Decline in the component is seen in security and defence, while economic development posted higher growth. Meanwhile, development expenditure rose 7.4% YoY, primarily supported by higher spending on the economic development component.

The lower expenditure trajectory prompts us to revise the budget outlook for 2018, as the Government may be incurring a small budget surplus for the fourth year – after a surplus of SGD9.6bn or 2.1% of GDP for FY17, which ended in March.

In 2019, we envisage higher spending on social and economic development to provide a cushion amid the more uncertain external environment. On the social front, we expect the Government to commit to more spending on infrastructure, healthcare, and social support. On economic development, public sector projects payouts are expected to be on track. As a result, we expect the Government to incur a slight deficit of -0.5% of GDP in 2019.

The year will also see the carbon tax (at SGD5 per tonne of emissions) take effect, which should add roughly SGD1bn to government coffers in the first five years. However, the revenue collected by end-2019 will likely be offset by higher GST rebates to eligible households, as well as through schemes like the Productivity Grant and Energy Efficiency Fund.

There is also a distant possibility of an early election in late 2019. The next parliamentary general election must be held before 15 Jan 2021 – however, Singapore has a history of early elections. Plus, considering the GST hike to 9% from 7% that is to be implemented sometime between 2021 and 2025, there is a greater chance that political uncertainty would be dealt with first. This could mean the Government's budget planning for next year would be skewed more towards addressing voters' complaints, with greater emphasis on financial support measures, in our opinion.

Figure 57: Overall fiscal position (FY17-19F)

	FY17	FY18E	FY19F	FY2017	FY2018E	FY2019F
	SGD bn			% GDP		
Operating Revenue	75.2	78.3	80.1	16.8	16.9	16.9
% YoY	*9.9*	*4.2*	*2.3*	-	-	-
Total Expenditure	73.9	76.9	85.3	16.5	16.6	18.0
% YoY	*3.5*	*4.1*	*10.9*	-	-	-
- Operating Expenditure	55.6	57.9	61.8	12.4	12.5	13.0
% YoY	*6.6*	*4.2*	*6.7*	-	-	-
- Development Expenditure	17.8	19.0	23.5	4.0	4.1	4.9
% YoY	*-5.0*	*6.8*	*23.7*	-	-	-
Primary Surplus/Deficit	**1.3**	**1.4**	**-5.2**	**0.3**	**0.3**	**-1.1**
Special Transfers	-6.2	-9.1	-9	-1.4	-2.0	-1.9
Net Investment Returns	14.6	12.0	12.0	3.3	2.6	2.5
Overall Budget Surplus/Deficit	**9.6**	**4.3**	**-2.2**	**2.2**	**0.9**	**-0.5**

Note: F = RHB's forecast, E = Singapore Ministry of Finance's (MOF) estimate
Source: MOF, RHB

M3 growth to gain pace as economic activities pick up

Money supply (M3), including Asian currency units, remained largely resilient throughout the year, growing at an average of 5% YoY during January-September compared to a peak of 10% seen in Mar 2017. Trend in M3 also deviated from growth in M1, which has seen further softening. Growth so far has been supported by rising private credit, whereas the net foreign position and public credit continue to trend lower.

Meanwhile, bank lending growth has shown nascent signs of softening. Loan growth in the months of August and September has declined, which could indicate a turnaround. Contributing to the softer trend is lower growth in commercial loans, particularly in business services, as well as financial institutions. Meanwhile, consumer loans continue to be weighed down, as housing loans tapered amid recent policy measures.

Going forward, we expect the moderation in M3 to happen in the near future despite current resilience, as public credit is likely to taper further. In addition, with moderating economic conditions, loan growth is expected to grow at a slower pace due to lower growth in commercial loans, as well as softening in property transactions. We expect M3 and loans to grow at 4% and 7.2% in 2019 from a revised 5% and 8% estimated for 2018.

Current account surplus to narrow slightly

Singapore recorded a balance of payments surplus of SGD6.2bn in 3Q18, smaller than the SGD7.8bn recorded in 2Q18. The lower balance of payments reflects a higher current account balance in 3Q18, but offset by a larger outflow in the financial account – attributed to non-direct and non-portfolio related investments. Within the financial account, direct investment recorded a larger inflow during the quarter, while outflow in portfolio investment was lower. Due to the overall balance of payments surplus, FX reserves rose to SGD290bn in 3Q18 from SGD287.9bn previously.

We project the current account surplus to narrow slightly to SGD85bn, or 17.9% of GDP in 2019. This is from an estimated surplus of SGD86.7bn or 18.8% of GDP in 2018. The lower current account surplus will be dragged by decreased exports, while domestic demand remains supportive of imports, which would lead to a smaller merchandise surplus.

However, the capital & financial account is projected to provide a buffer following higher net inflows of direct investments, as property investments remain high and businesses continue to invest and innovate. On balance, we forecast a SGD29.1bn surplus in the balance of payments for 2019.

Figure 58: Balance of payments

	2017				2018					
(SGD bn)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**2017**	**2018E**	**2019F**
A. Current Account	**21.0**	**20.4**	**25.1**	**17.8**	**21.0**	**22.8**	**23.4**	**84.2**	**86.7**	**85.0**
(% GDP)	19.2	18.7	22.5	15.1	18.7	19.9	20.1	19.6	18.8	17.9
Goods Balance	28.8	29.1	31.5	27.6	29.3	30.2	32.0	117.0	121.2	113.0
Services Balance	-2.5	-1.8	-1.8	-2.4	-1.7	-0.8	-1.5	-8.4	-6.7	-7.0
Primary Income Balance	-3.3	-4.7	-2.5	-5.4	-4.6	-4.3	-5.0	-15.9	-18.9	-11.0
Secondary Income Balance	-2.0	-2.2	-2.1	-2.1	-2.0	-2.3	-2.2	-8.4	-8.9	-10.0
B. Capital & Financial Account	**5.2**	**17.1**	**13.4**	**10.8**	**15.3**	**14.1**	**16.5**	**46.5**	**57.0**	**56.0**
Financial Account (Net)	5.2	17.1	13.4	10.8	15.3	14.1	16.5	46.5	57.0	56.0
Direct Investment	-22.1	-9.3	-9.5	-12.9	-8.5	-13.7	-21.0	-53.8	-55.0	-56.0
Portfolio Investment	1.5	18.6	11.1	16.1	4.5	10.3	8.0	47.4	35.0	45.0
Financial Derivatives	0.5	-8.8	-11.8	1.3	-7.3	-0.9	0.0	-18.7	-8.0	-8.0
Other Investment	25.3	16.6	23.5	6.3	26.6	18.4	29.4	71.6	85.0	75.0
C. Net Errors & Omissions	0.8	1.1	-0.5	-1.3	1.1	-1.0	-0.6	0.1	0.1	0.1
D. Overall Balance (A-B+C)	**16.6**	**4.4**	**11.2**	**5.6**	**6.8**	**7.8**	**6.2**	**37.8**	**29.8**	**29.1**
Foreign Reserves (USD bn)	**263.9**	**266.3**	**272.7**	**278.5**	**284.1**	**287.9**	**290.0**	**279.9**	**295.7**	**312.1**

Source: SingStat, RHB
Note: F = forecast, E = estimate

Inflation to trend upwards

Headline inflation has been trending higher since the beginning of 2018, reaching a high of 0.7% YoY in October from a flat 0% in the beginning of the year. Much of the increase in the Consumer Price Index (CPI) was due to lower contraction in the housing & utilities component, as the property market improved further. Meanwhile, prices of transport and communication recorded a larger contraction.

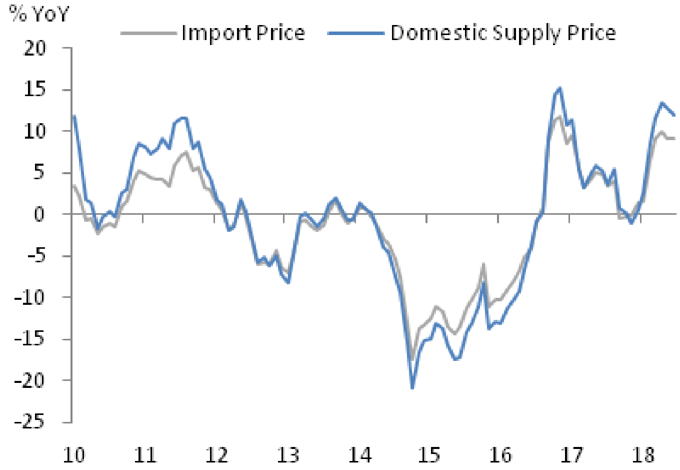
Similarly, core inflation rose to 1.9% YoY in October from 1.4% in January – reflecting stronger price pressure as it nears the upper range of the MAS core inflation forecast of 1-2%.

With further recovery in property prices, as well as rising utility cost amid elevated fuel prices, we may see gradual increase in CPI for the rest of 2018 and into 2019. However, the pace might not be as strong as earlier predicted.

The rise in oil prices, a large contributor to domestic price pressures, seems to have subsided recently amid geopolitical developments. This could provide less pressure on imported inflation, although it would be offset by higher demand-pull inflation alongside a faster pace of wage growth and the pick-up in domestic demand.

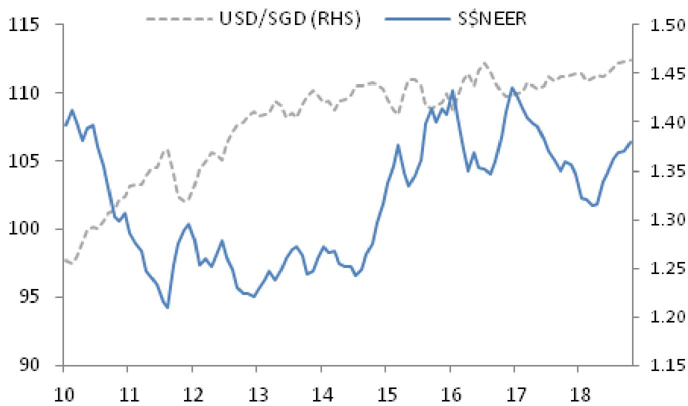
On balance, we expect headline inflation to inch up to 1.1% in 2019 from 0.5% estimated for 2018.

Figure 59: Both imported and domestic prices rose significantly



Source: SingStat

Figure 60: MAS expected to remain hawkish



Source: SingStat

MAS likely to remain hawkish

In October, MAS decided to increase slightly the slope of the S$NEER policy band, its second tightening move after April. The width of the policy band and level at which it is centred remain unchanged.

According to the authority, Singapore's economy is likely to remain above potential, amid the steady expansion path in the quarters ahead. This would translate into higher pressure on core inflation, before levelling off at just below 2% over the medium term.

With the slope of S$NEER increased, we lean towards a continued policy tightening in the next monetary policy review in Apr 2019. This is consistent with a further increase in the slope of the S$NEER rate, as the balance of risk errs towards the upside, in our view. Nevertheless, we do not rule out a pause if the downside risks become more prevalent.

Upside risks:

i. The slope of the current S$NEER is still below the 2% appreciation rate considered as a normal pace of appreciation. With the economy moving slightly above potential growth, there is a greater need for further normalisation of rates;

ii. Positive geopolitical developments – such as a de-escalation of the trade war, as the US and China are more open for more talks and engagements;

iii. Stronger inflation stemming from tightening labour market conditions and higher wage pressures.

Downside risks:

i. The possibility of a rise in global oil prices to remain more modest. As a result, imported inflationary pressures might not be as strong as projected;

ii. MAS may adopt a counter-cyclical policy, amid the introduction of more expansionary fiscal budget in 2019.

Despite MAS' tightening this year, the SGD depreciated 3.6% against the USD YTD after strengthening 8.2% in 2017. The weakness of the SGD was mainly on account of USD strength, after a series of rate hikes during the year.

Going forward, we expect the SGD to strengthen to 1.330 against the USD in 2019 from an estimated 1.370 by end-2018. The strength of the USD would likely have been factored in already this year. In addition, the possibility of US growth reaching its peak could mean the US Fed is likely to slow down the process of tightening, providing support for the SGD.

Rates & FX Market View

Stronger SGD vs USD in 2019

Stronger SGD vs USD in 2019, but performance to lag regional currencies

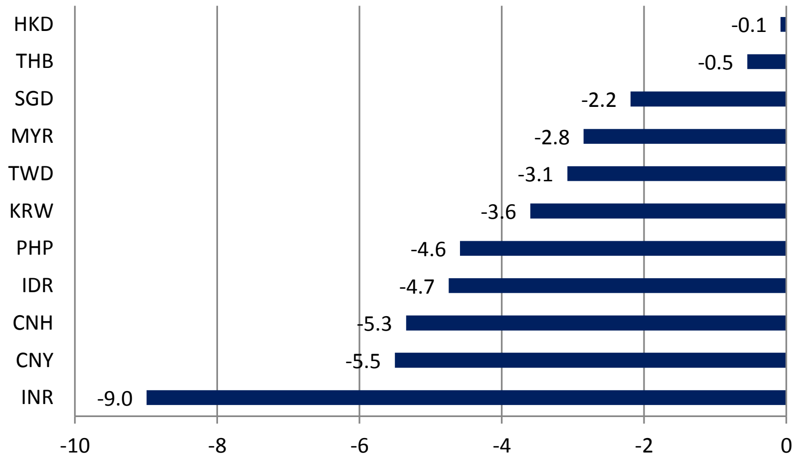
Our SGD view is premised upon a broadly weaker USD in the year ahead, counterbalanced by lower propensity for further MAS tightening alongside continued volatility on the global trade front.

A more shaky US growth momentum – alongside the real likelihood of seeing the end of the US Fed's tightening cycle – are likely to weigh on the USD in the year ahead. Emerging Markets FX are likely to reap some benefits, as long as the global growth momentum does not slow down significantly, including ASEAN FX (and the SGD).

However, we expect gains in the SGD may be less stellar than other Asia ex-Japan peers. Firstly, the regional safe haven status of the currency implies lower beta of the SGD (ie less sensitive to currency drivers). This would put it in a position to reap fewer upsides in a recovery, relative to higher beta peers around the region. Secondly, we also hold a relatively cautious view on the trade war, where Singapore is heavily exposed on this front.

Given the above, we eye a lower propensity for further MAS tightening in its Apr 2019 and Oct 2019 policy reviews, with the central bank likely to take into account non-inflationary factors in deciding the S$NEER policy. Our economist currently eyes another round of S$NEER tightening in Apr 2019, before standing pat in the Oct 2019 review.

Figure 61: Performance of Asian currencies against the USD



Source: Bloomberg, RHB

Interestingly, the 90-day truce between the US and China will end right before the MAS' Apr 2019 decision. Given the huge stakes, it is unlikely that a comprehensive plan can be agreed upon by both sides prior to the deadline. There could be another extension if the talks go well, although the bearish scenario will be another round of trade escalations if President Donald Trump decides the negotiation progress is insufficient.

Singapore Government Securities (SGS) auction schedule for 2019

We expect total gross SGS issuance to range between SGD22bn and SGD24bn for 2019, with net supply to come in between SGD6bn and SGD8bn – in line with recent growth.

2018 saw nine SGS auctions and two mini auctions, with outstanding SGS growth near the top of the expected 5-8% range. Over the course of 2019, 10 SGS auctions are expected, along with two optional mini auctions, with the additional auctions a reflection of the higher gross issuances required, given the huge SGD15.8bn maturing papers over the year.

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Two new papers are expected to be issued in the 5-year and 20-year tenors. The rest of the auctions will feature re-openings, deviating little from past norms. With only two auctions featuring the more than 10-year super-long tenors (2018: three), it reveals the authority's prudence in managing the demand-supply dynamics and duration risks.

Of the remaining auctions, eight are re-openings and two are optional mini-auctions. The new 20-year issuance of SGS may replace the 2036s as the new 20-year benchmark – with expected issue sizes of SGD1.5-2bn – although this may even surprise on the upside.

Tight valuations expose SGS to downside risks

SGS trades at a premium to USTs, which may open them to greater downside risks going forward. As at the time of writing, the 2-year and 10-year SGS trade c.83bps and c.68bps below similar USTs. UST-SGS spreads have hit multi-year highs in recent months, driven by MAS' tightening, safe haven demand (given Singapore's AAA status), core demand from long-term investors amid a surge in assets under management, and economic structural issues owing to the country's strong external balances. The above have kept SGS yield upticks relatively controlled (2-year: +c.36bps, 10-year: +c.35bps, YTD basis), despite larger yield upticks seen in USTs YTD and constrained local liquidity, given substantially higher MAS bill issuances.

So far, the rotation towards Developed Markets has yet to significantly impact Singapore assets, relative to what we have seen across the Emerging Markets space. We eye some room for UST-SGS spread tightening over 2019, given:

i. Stretched relative valuations between USTs and SGS;

ii. Increasing global risks that could further weigh on Singapore's medium-term outlook, being sensitive to external conditions and global trade;

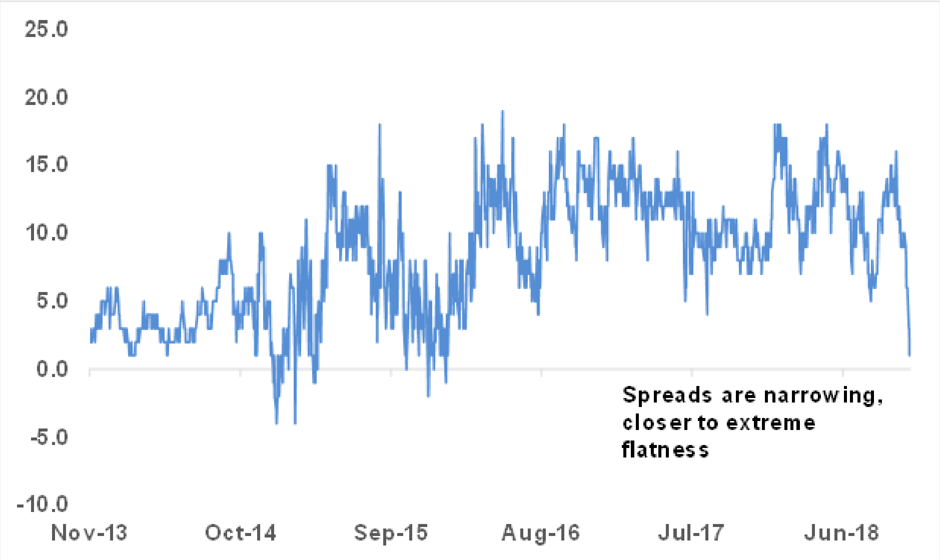
iii. Modest likelihood of MAS shifting towards a more neutral stance once inflation stabilises, if external conditions turn more hostile.

Nevertheless, we eye a softer USD and capped UST yields into 2019, which should support SGS performances in the year ahead.

Interest rate swap/Singapore swap offer rate (IRS/SOR) spreads narrow considerably

Weaker-than-expected Singapore 3Q GDP seems to have induced some pressure on the Singapore money markets, as the short end of the SGD IRS curve shifts to its flattest level since 2016. This indicates that money market rates may retreat from a decade high after year-end funding needs ease.

Figure 62: SGD 1-year IRS/6m SOR narrows



Source: Bloomberg, RHB

The 6m SOR floating leg of the SGD IRS went as high as 1.9805%, almost 4.7bps mid-week, which is almost a decade high, while the 1-year IRS remains steady at just under 2%. As swap offered rates inch higher and spreads vs 1-year IRS narrow, the floating leg of the IRS will see further pressure on higher USD London Interbank Offered Rate (LIBOR) rates if the US Fed remains on a hawkish tone. With a slew of US Fed officials speaking next week, the 6m SOR/1-year IRS could be under pressure, as flatness persists on the spread.

LIBOR remains a huge factor in driving SOR directionally

We still expect higher SGD funding costs into 2019. USD LIBOR has persisted in its upward climb over 2018, with the 3m rate now above 2.7% as of time of writing, compared to c.1.7% at the beginning of the year.

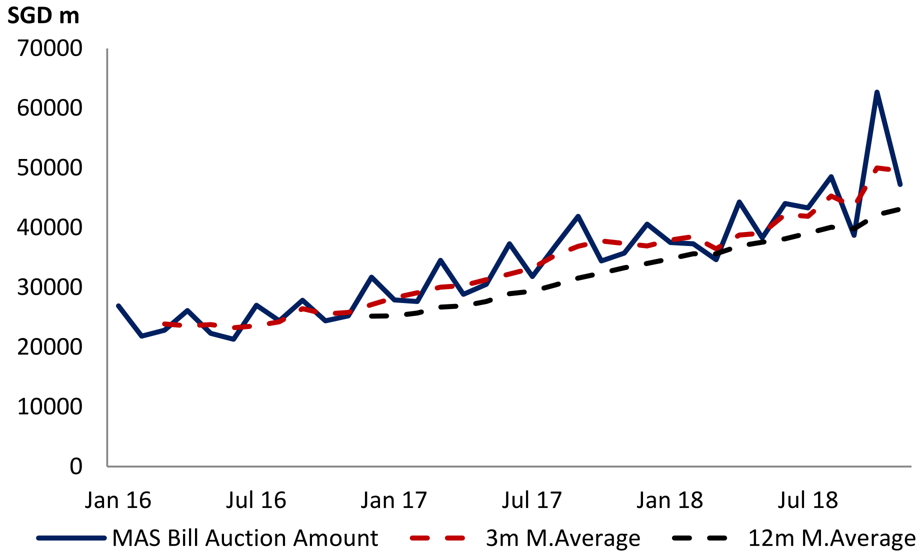
A variety of factors have catalysed the above move, with tightening US Fed policies playing a major role via higher short-term rates (through the tightening of the FFR) and more constrained USD liquidity (due to unwinding of its balance sheet).

Higher US government borrowings have also hurt liquidity, competing with private use of funds and driving money market funding costs higher. Consequently, SOR tracked LIBOR higher methodically, as the cost of USD funding soared despite lower SGD forward points against the US currency over 2018.

We still expect LIBOR to continue rising in 2019, albeit at a slower pace relative to 2018, with US government funding needs unlikely to subside, while the US Fed continues to pare back its balance sheet over the foreseeable future. MAS is also unlikely to support the SGD all the way in 2019 as discussed above, exposing SOR to higher upside risks amid a wide LIBOR-SOR spread currently.

Domestic liquidity will likely remain an issue into 2019, although highly dependent on MAS' stance. With domestic banking unit deposit impulse on an uptrend, coupled with softer loan growth, SGD liquidity could be looser relative to 2018 – unless the monetary authority further ramps up its short-term bill issuances.

Figure 63: MAS bill issuances still climbing higher on average



Source: Bloomberg, RHB

Figure 64: SGD forecasts

	1Q19	2Q19	3Q19	4Q19
USDSGD	**1.3600**	**1.3500**	**1.3400**	**1.3300**

Source: Bloomberg, RHB

2019 Sector Outlook

14 December 2018

Financial Services| Banks

Banks

Overweight (Maintained)

NIM Widening To Drive Earnings

Stocks Covered:	2
Ratings (Buy/Neutral/Sell)	2 / 0 / 0
Last 12m Earnings Revision Trend:	Neutral

Top Picks	Target Price
UOB (UOB SP) – BUY	SGD30.80

Maintain OVERWEIGHT sector call on future NIM widening, as Singapore's interest rates rise along with the hikes in the US FFR. We forecast FY20 average NIMs of 1.98% for DBS and UOB, up from 3Q18's average of 1.84%. UOB is our preferred pick, as its higher-than-peers CET1 CAR provides scope for more dividends ahead. DBS is also a BUY, as its wealth management business shows promise of further growth beyond the strong 9M18 performance.

Our FY20 NIM forecast is conservative, and lower than the peak in the last cycle. We expect DBS and UOB to record FY20F average NIMs of 1.98%, sharply wider than the two banks' 3Q18 average NIM of 1.84%. Whilst the US Fed Chairman's speech on 28 Nov pointed to a more dovish stance, the market still expects further hikes in the FFR, which will drive NIM widening. We believe our NIM forecast for FY20 is conservative as in the last cycle, after 4-5 years of FFR hikes (starting FY03), the three big banks recorded average NIMs of 2.19% in FY08.

General guidance of mid-single-digit FY19 loan growth. DBS' management has said that home mortgage growth thus far is below earlier expectations – partly attributed to the 5 Jul Singapore Government property cooling measures. Banks reduced trade loans as yields are unattractive. We forecast FY19 loan growth of 6-6.5% for DBS and UOB.

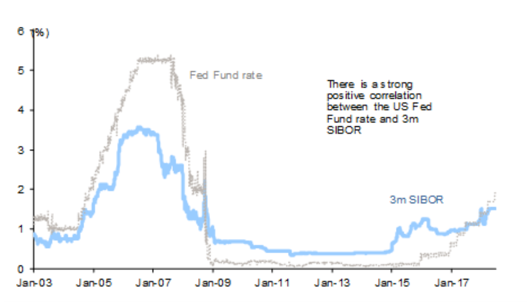
Rising SIBOR seen to offset adverse effects from slow loan growth. The 3-month SIBOR rose to the current 1.77% from 3Q18's average of 1.63%. From our sensitivity analysis, we conclude that a 1ppt slowdown in loan growth would be offset by a 10bps rise in the SIBOR ie the impact of the Singapore Government's property cooling measures and unexciting trade loans should be offset by increases in SIBOR over the next few quarters, based on our estimates.

UOB is our preferred pick. UOB is a beneficiary of the rising FFR. We expect its NIM to widen to 1.96% by FY20 from 3Q18's 1.81%. Its ROE improved to 11.7% in 3Q18 from FY17's 10.2%. More importantly, UOB's management indicated its intention to lower its CET1 CAR, and we see this as translating into higher dividends, which could catalyse its share price higher. Our UOB TP is at SGD30.80, equivalent to 2019F P/BV of 1.41x, which is sharply lower than the 2007 P/BV of 2.1x after four years of FFR hikes.

DBS is also attractive. Amongst Singapore banks, DBS' earnings will improve the most from every 1bp rise in SIBOR. Whilst the ongoing trade war between the US and China could slow DBS' loan growth more than peers, the rise in SIBOR could offset the negatives. Based on the previous FFR upcycle between mid-2003 and mid-2007, the FFR rose to >5% from 1%. During that time, DBS' P/BV rose to as high as 1.9x from 1x. Currently, DBS is trading at only 2019F P/BV of 1.24x, and our target P/BV of 1.54x yields a TP of SGD29.80.

Downside risks to our forecasts include global macroeconomic uncertainties such as the US-China trade war, higher impairment charges, and weaker NIMs.

US FFR and 3-month SIBOR



Source: Bloomberg

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
DBS	Buy	29.80	25.2	9.6	1.2	5.0
UOB	Buy	30.80	25.0	9.3	1.1	5.0

Source: Company data, RHB

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Figure 65: Net interest margins

Net Interest Margin	DBS	OCBC	UOB
FY15	1.77%	1.67%	1.77%
FY16	1.80%	1.67%	1.71%
1Q17	1.74%	1.62%	1.73%
2Q17	1.74%	1.65%	1.75%
3Q17	1.73%	1.66%	1.79%
4Q17	1.78%	1.67%	1.81%
FY17	1.75%	1.65%	1.77%
1Q18	1.83%	1.67%	1.84%
2Q18	1.85%	1.67%	1.83%
3Q18	1.86%	1.72%	1.81%
FY18F	1.86%	NA	1.83%
FY19F	1.92%	NA	1.88%
FY20F	1.99%	NA	1.96%

Source: Respective companies' data, RHB

Figure 66: YoY non-bank loan growth

Loan Growth (YoY%)	DBS	OCBC	UOB
FY13	18.1%	17.9%	17.0%
FY14	10.8%	23.6%	9.5%
FY15	2.8%	0.3%	3.9%
FY16	6.4%	4.1%	8.9%
FY17	7.2%	8.0%	4.7%
1Q18	10.0%	10.1%	5.5%
2Q18	11.6%	10.7%	10.1%
3Q18	8.4%	10.9%	9.4%
FY18F	6.5%	NA	10.0%
FY19F	6.0%	NA	6.5%
FY20F	6.0%	NA	5.5%

Source: Respective companies' data, RHB

Figure 67: Loan breakdown by sector

	DBS	OCBC	UOB
3Q18 L&A Breakdown	100.0%	100.0%	100.0%
- Transportation, Storage & Comms	8.8%	5.4%	3.9%
- Building & Construction	21.2%	20.1%	23.6%
- Manufacturing	10.3%	6.4%	8.4%
- Financial Institutions	6.2%	8.1%	8.9%
- General Commerce	14.7%	13.6%	12.7%
- Professionals & Pte Individuals	9.1%	12.0%	11.3%
- Housing	21.6%	25.5%	26.5%
- Others	8.1%	8.9%	4.6%

Source: Respective companies' data

Figure 68: Loan breakdown by geography

3Q18 Loan breakdown by geography (%)	DBS	OCBC	UOB
Singapore	46.6%	41.3%	52.1%
South & SEA	8.4%	NA	NA
South-east Asia	NA	NA	NA
- Malaysia	NA	11.7%	11.4%
- Thailand	NA	NA	6.4%
- Indonesia	NA	7.8%	4.4%
Greater China	31.1%	25.7%	15.2%
- HK	16.1%	NA	NA
Others	13.8%	13.5%	10.5%
Total	100.0%	100.0%	100.0%

*Source: Respective **companies'** data*

Figure 69: Deposit sequential growth

Deposit QoQ% change	DBS	OCBC	UOB
1Q17	-1.4%	1.4%	1.7%
2Q17	0.1%	-0.2%	0.1%
3Q17	5.6%	1.4%	3.2%
4Q17	3.2%	5.7%	1.7%
1Q18	0.6%	1.8%	0.4%
2Q18	3.1%	0.5%	5.0%
3Q18	0.2%	-1.2%	2.1%

Source: Respective companies' data

Figure 70: CAR for the three banks

	DBS	OCBC	UOB
3Q17 CET1 CAR	14.0%	13.2%	14.3%
3Q17 Tier 1 CAR	14.8%	14.0%	14.8%
FY17 CET1 CAR	14.3%	13.9%	15.1%
FY17 Tier 1 CAR	15.1%	15.0%	16.2%
1Q18 CET1 CAR	14.0%	13.1%	14.9%
1Q18 Tier 1 CAR	15.0%	14.2%	16.4%
2Q18 CET1 CAR	13.6%	13.2%	14.5%
2Q18 Tier 1 CAR	14.4%	14.3%	16.0%
3Q18 CET1 CAR	13.3%	13.6%	14.1%
3Q18 Tier 1 CAR	14.4%	14.5%	15.1%

Source: Respective companies' data

14 December 2018

Consumer | Consumer

Consumer

Overweight (Maintained)

Favour Those Ready To Harvest

Stocks Covered:	11
Ratings (Buy/Neutral/Sell)	7 / 3 / 1
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Delfi	SGD1.59
Genting Singapore	SGD1.23
Sheng Siong	SGD1.27

Maintain OVERWEIGHT on the consumer sector. Against the faster pace of growth in 1H18 and slower economic forecast, we believe the FY19F outlook for the sector will be more subdued. However, we expect the sector to outperform the STI next year, due to its defensive nature amidst market uncertainties from the US-China trade war. We favour companies that have already put in capex for expansion in the previous year(s), and are ready to reap the returns from these investments. Our Top Picks for FY19F are Sheng Siong, Delfi and Genting Singapore.

Macros affecting the consumer sector in 2019. We expect growth in domestic spending to taper off, in line with the Government's lower GDP forecast of 1.5-3.5% for next year. Despite low unemployment rate and real wage growth, we believe overall consumer confidence in Singapore is weighed down by cooling measures in the property sector, as well as uncertainties from the US-China trade war. The tourism sector, however, remains resilient, with 9M18 tourist arrivals growing by 7.5% YoY. We expect this strong momentum to continue into FY19 – we are positive on Genting Singapore (GENS SP, BUY, TP: SGD1.23)

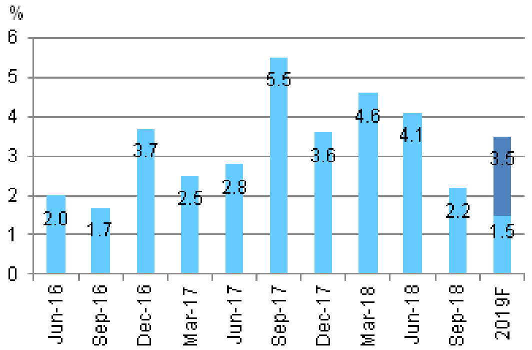
Overall retail sector to experience slower topline growth in FY19F. Ongoing competition from e-commerce and o2o strategies is the new normal for the retail sector. On this front, we believe the grocery sub-sector will continue to outperform due greater resilience against online competition. We still like Sheng Siong (SSG SP, BUY, TP:SGD1.27) as we see growth coming from its 10 new stores opened in 2018, and potential for gross margin expansion with the commencement of the extension to its distribution centre. We are neutral on Dairy Farm (DFI SP, NEUTRAL, TP: USD9.60) as it is still undergoing restructuring of its outlet portfolio.

Neutral on consumer foodservice. Despite its defensive nature, we think the outlook for the consumer foodservice sector is challenging. With more retail malls wooing consumer foodservice tenants, we believe this sector will see the number of F&B establishments in Singapore growing faster than the Singapore F&B services index. Margins will be eroded when companies expand and see higher start-up costs, but slower growth in topline.

Positive on consumer goods companies with strong brand equity and exposure outside of Singapore. Indonesia and Thailand are expected to hold general elections in 2019. Consumer spending will likely be boosted by government stimulus and subsidy. We have BUY recommendations on Delfi (DELFI, BUY, TP: SGD1.59) and Thaibev (THBEV, BUY, TP: SGD0.75).

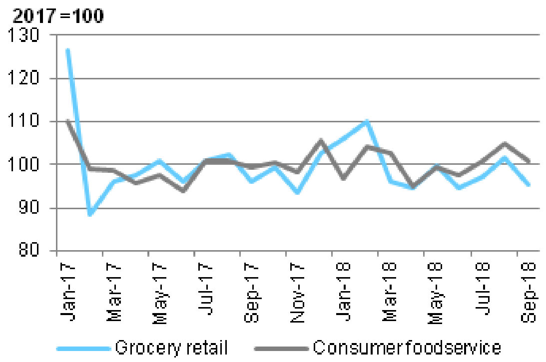
Reaping the harvest, Top Picks are Sheng Siong, Delfi and Genting Singapore. We favour companies that have put in investments and are ready to reap the returns this year. Sheng Siong, which opened 10 new stores in 2018, is likely to see its revenue ramp up with improvements in margins in FY19F. Delfi has renegotiated trade terms with retailers and rationalised its products portfolio over the last two years. We expect its FY19F earnings to be supported by continued traction at its core brands. Genting Singapore could see a strong uptick in its share price should it win the bid for a Japanese casino licence.

Slower GDP forecast could cap consumer confidence



Source: Ministry of Trade and Industry

Grocery retail & consumer services are defensive subsectors



Source: Singstats

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Best World	Buy	SGD2.13	(14.46)	15.2	6.2	2.7
Delfi	Buy	SGD1.59	16.06	23.8	2.7	2.5
Food Empire	Buy	SGD0.66	26.92	9.7	1.0	1.6
Genting Singapore	Buy	SGD1.23	26.80	13.9	1.4	3.6
MindChamps	Buy	SGD0.87	62.62	15.7	1.9	1.9
Sheng Siong	Buy	SGD1.27	16.51	20.0	5.2	3.8
Thai Beverage*	Buy	SGD0.75	26.05	16.2	2.7	3.1
Dairy Farm	Neutral	USD9.60	7.02	22.8	5.6	3.0
Japan Foods**	Neutral	SGD0.48	5.49	14.5	2.1	4.7
Kimly Ltd*	Neutral	SGD0.27	17.39	11.8	2.8	4.2
BreadTalk	Sell	SGD0.75	(12.28)	38.9	3.6	2.2

Source: Company data, RHB

*Note: * data refers to FY19 (Sep) ** data refers to FY20 (Mar)*

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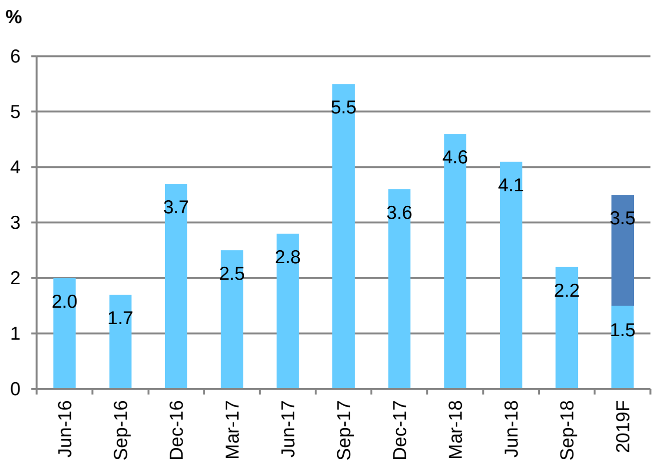
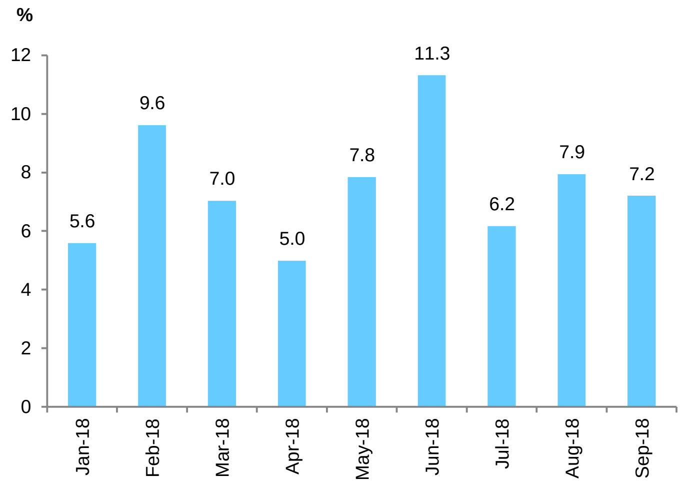
Figure 71: GDP YoY growth



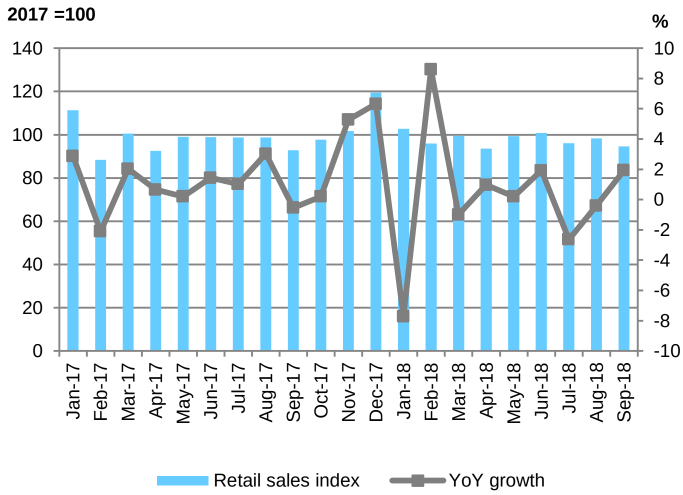
Source: Ministry of Trade and Industry

Figure 72: YoY increase in tourist arrivals



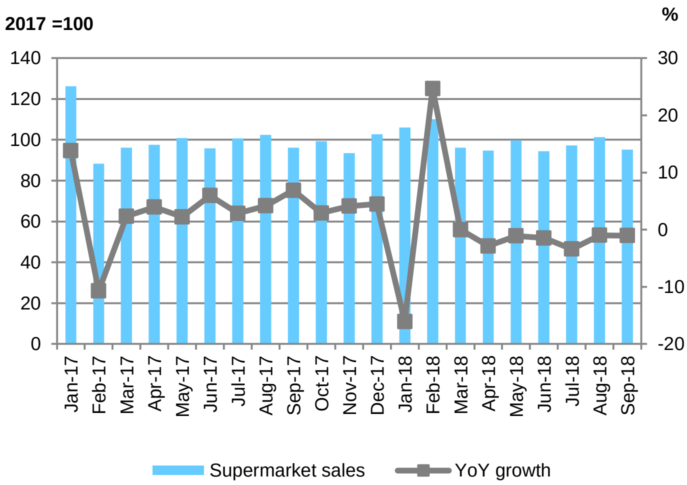
Source: Singapore Tourism Board

Figure 73: Growth in retail sales has tapered off after the high growth in 4Q17-1Q18. FY19F growth to be subdued



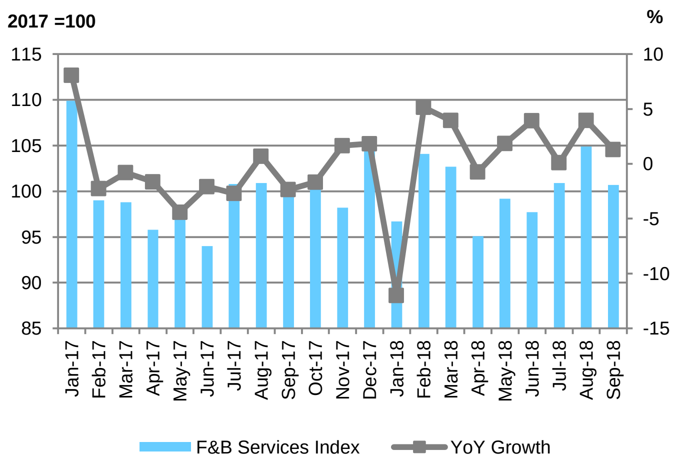
Source: SingStat

Figure 74: Grocery sales have remained relatively stable, falling by a marginal 1% YTD



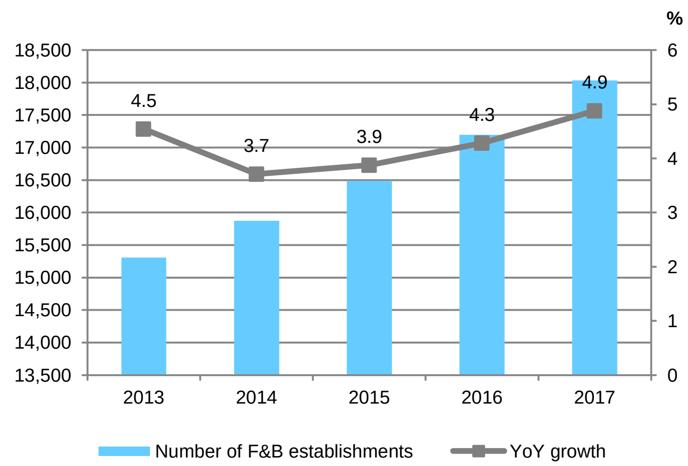
Source: SingStat

Figure 75: F&B services sales have been flattish YTD…



Source: SingStat

Figure 76: …but the number of F&B establishments has grown by 3-5% over the past few years



Source: National Environmental Agency

14 December 2018

Consumer Cyclical | Healthcare

Healthcare

Not In The Pinkest Of Health

Neutral (Maintained)

Stocks Covered:	4
Ratings (Buy/Neutral/Sell)	2 / 2 / 0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Singapore Medical Group (SMG SP) - BUY	SGD0.56

Maintain NEUTRAL on the healthcare sector, with SMG as our Top Pick. Strong headwinds for the sector persist. Private healthcare players in Singapore continue to experience declining foreign patient loads, as competitors in neighbouring countries improve their standards and are more cost-competitive. The Singapore Government is also keeping tabs on rising healthcare costs, which may limit the ability for private healthcare players to raise prices.

Competition from foreign players. As healthcare costs in neighbouring countries like Malaysia and Thailand are much lower, they have been attracting medical tourists from the region – thereby eating into Singapore's market share. This is further exacerbated by the strengthening of SGD against regional currencies.

On top of that, healthcare providers in these countries have also invested in better medical equipment and improved the quality of services over the years. Although there is no official data on the number of medical tourists, our channel checks with the companies under our coverage suggest that these numbers have been declining YoY. We believe this is a structural problem, and will continue to impact the Singapore players in the near term.

Government keeping tabs on rising healthcare costs, impacting margins. We think that some of the private healthcare providers' margins will be negatively impacted, with the local government keeping tabs on rising healthcare costs, due to public discontent. In 2018, the Government published a guide of treatment fees, which will also deter private players from overcharging patients. In addition, healthcare insurance providers no longer offer integrated shield policies that cover 100% of medical costs. This could lead to lesser demand for private healthcare, as patients need to fork out at least a portion of the medical bills through cash.

Private hospitals are in a capex-intensive expansion phase. Most of the hospital players listed in Singapore including Raffles Medical (RFMD SP, NEUTRAL, TP: SGD1.02), IHH Healthcare (IHH SP, NR) and Health Management International (HMI SP, NR) are in an expansion phase. Margins are likely to face downward pressure as we expect start-up costs to eat into earnings in FY19. This is further exacerbated by a declining foreign patient load and soft demand from the domestic market.

NEUTRAL on the sector. We are not particularly excited about the sector, given the potential headwinds of declining foreign and local patient load and higher start-up expenses. Amongst the names under our coverage, SMG is our preferred pick due to its compelling valuation compared to its peers.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Singapore Medical Group	Buy	SGD0.56	36.59	13.67	1.32	2.44
UG Healthcare*	Buy	SGD0.32	48.84	8.27	0.89	1.44
Raffles Medical	Neutral	SGD1.02	(12.07)	33.14	2.58	1.98
Talkmed Group	Neutral	SGD0.64	6.67	30.00	10.00	3.33

Source: Company data, RHB

*Note: * data refers to FY19 (Jun)*

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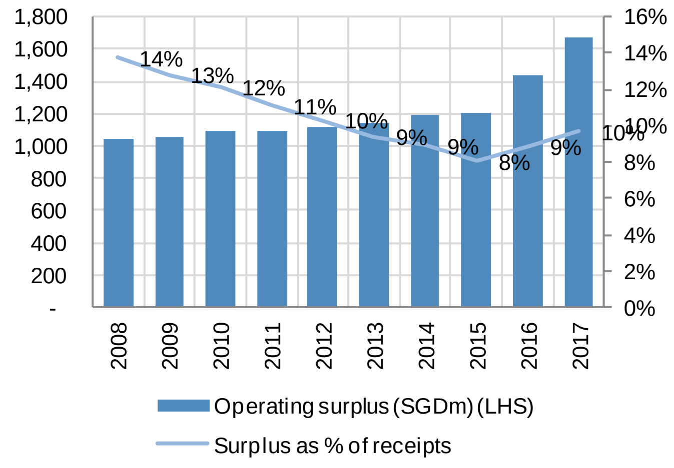
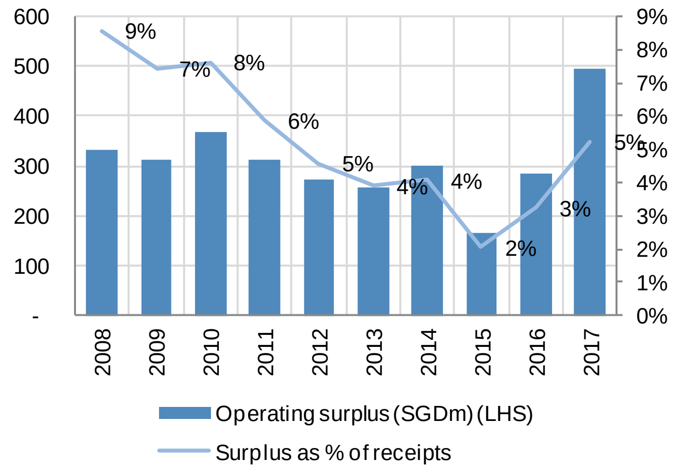
Figure 77: Operating surplus – SG healthcare industry



Source: SingStat

Figure 78: Operating surplus – SG hospitals



Source: SingStat

14 December 2018

Agriculture | Plantation

Plantation

Neutral (Maintained)

Brace For Another Year Of Unexciting Prices

Stocks Covered:	3
Ratings (Buy/Neutral/Sell)	1 / 2 / 0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Wilmar (WIL SP) – BUY	SGD3.58

Maintain NEUTRAL sector call with Wilmar as Top Pick. We reduce our CPO price assumptions for 2019-2020 to MYR2,200 from MYR2,500, and to MYR2,400 from MYR2,500. Although we believe CPO prices are likely to remain relatively unexciting in 2019, we think downside risks are limited from here on as demand is picking up, while inventory should start moderating in 1Q19.

Sudden fall in CPO prices unexpected. CPO prices have surprised us and we believe the market as well on the downside, having fallen to a low of MYR1,717/tonne on 21 Nov from a relatively stable MYR2,000-2,200/tonne over the past four months, before recovering slightly to MYR1,800/tonne currently. We believe the sudden drop in prices was due to the continued rise in CPO stock levels in Malaysia to 2.72m tonnes in October, and the decline in crude oil prices from a high of USD84/barrel a month ago to USD54/barrel currently.

CPO stock levels should start declining soon. Going forward, as we enter the low season of production for CPO, we expect stock levels to start declining soon. That, and increased demand from biodiesel and India in 2019, should start to have a positive impact on prices come 1Q19. However, while we expect some form of price recovery in 1Q19, we do not expect CPO prices to jump significantly, given the fact that CPO stock levels will need some time to normalise (stock/usage ratios still at 13.8% vs historical mean of 9.6%). In addition, external risks remain, in the form of trade war uncertainties, crude oil prices and trade policies by producing and consuming countries.

We believe there are five key factors to look out for in 2019:

i. Trade war ceasefire – Negative. China buyers will return to buying soybeans from the US for the next three months, reducing CPO demand;
ii. Logistics issues being resolved in Indonesia and Indonesia's new export duty structure – Mixed. While the resolution of the logistics issue in Indonesia would be positive for CPO prices in Indonesia and therefore positive for pure upstream players, the new export duty structure would reduce downstream players' margins;
iii. Crude oil prices and biodiesel demand – Positive, but depending on gasoil prices. Rising biodiesel mandates in Malaysia and Indonesia can raise CPO demand by 3-4m tonnes pa. However, if gasoil prices fall by another USD5.60/barrel, subsidies would again be required;
iv. India's impending reduction of import duty on CPO - Positive;
v. Potential weather extremities in the form of El Nino in 1Q19 – Positive for prices.

Another unexciting year for CPO prices. Overall, we believe this mixed bag of key factors will result in another relatively lacklustre year for CPO prices. On the whole, while we expect demand for both the eight vegetable oil complex and the 17 oils & fats complex to improve, thus lowering stock/usage ratios in 2019, we believe stock/usage ratios need to be lowered to at least historical levels before we see a more significant price improvement.

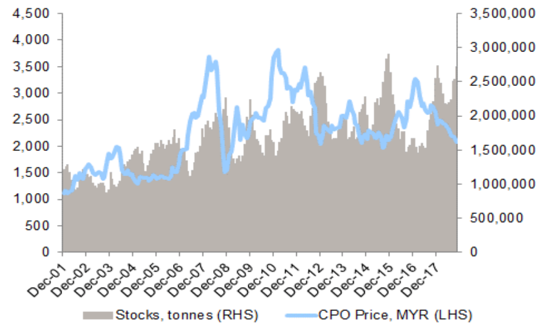
We reduce our CPO price forecasts for 2019-2020 to MYR2,200/tonne from MYR2,500, and to MYR2,400/tonne from MYR2,500. All in, our earnings forecasts have been lowered by an average of 7-12% for FY19-20.

We maintain our NEUTRAL recommendation on the sector. Although we believe CPO prices are likely to remain relatively unexciting in 2019, we also believe downside risks are limited from hereon. We expect CPO prices to trade at a range of MYR1,800-2,400/tonne for 2019. We now have one BUY recommendation and two NEUTRAL recommendations, as we downgrade our recommendation on Bumitama to NEUTRAL. Our Top BUY remains Wilmar.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Wilmar	Buy	SGD3.58	14.0	11.3	0.9	3.5
Bumitama Agri	Neutral	SGD0.60	(5.5)	9.4	1.4	2.4
First Resources	Neutral	SGD1.45	(6.5)	13.6	1.8	1.9

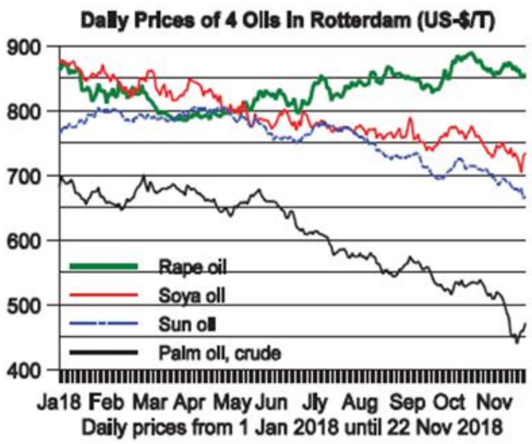
Source: Company data, RHB

Malaysian CPO prices vs stock levels



Source: Bloomberg, MPOB

Vegetable oils' price comparison



Source: Oil World

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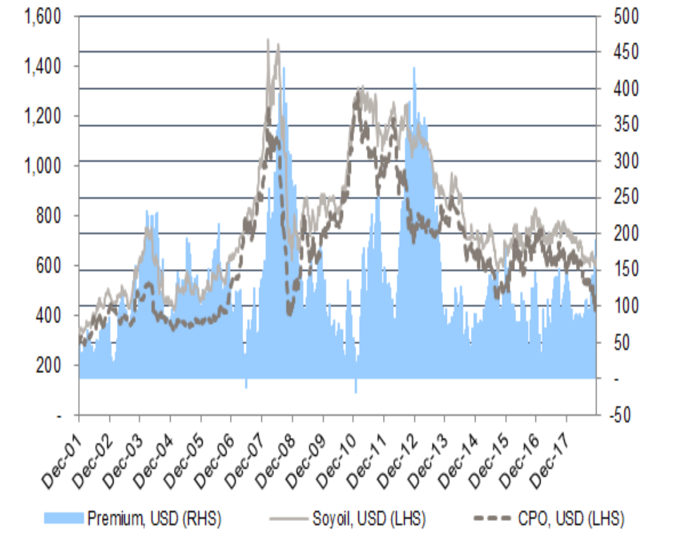
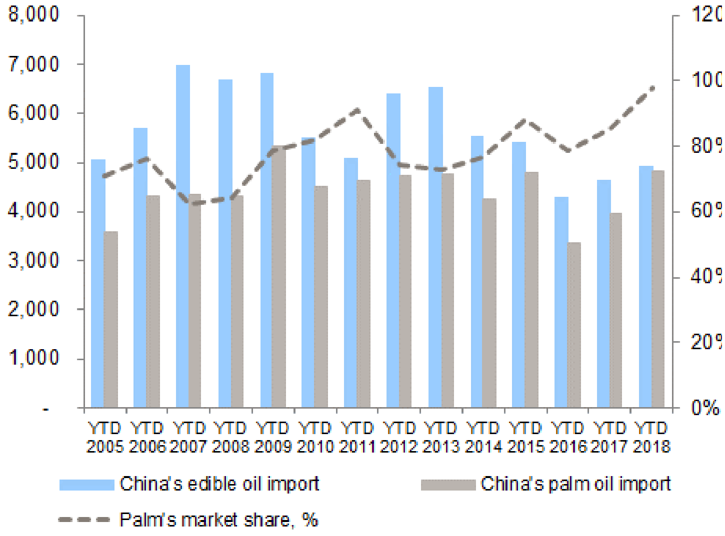
Figure 79: Palm oil is trading at a USD197/tonne discount to soybean oil, from USD162/tonne last month



Source: Bloomberg, RHB

Figure 80: China's edible oil imports rose 6.2% YTD-October, while CPO imports were up 21.8% YoY



Source: Bloomberg, MPOB and GAPKI

Figure 81: China's import of commodities YTD

CHINA.P.R.: Imports of Selected Commodities

(Mn T)	Oct 2018	Sept 2018	Oct 2017	Jan/Oct 2018	Jan/Oct 2017
Soybeans	6.92	8.01	5.86	76.93	77.31
Soya oil	.07	.08	.06	.44	.60
Soya meal (Thd T)	*5*	*2*	*2*	*19*	*56*
Rape oil	.10	.09	.04	1.02	.66
Fish meal	.12	.19	.11	1.34	1.47
Wheat	.22	.28	.39	2.65	3.96
Corn	.08	.04	.07	2.99	2.35
Sorghum	.02	.09	.30	3.64	4.54
Barley	.33	.68	.68	6.57	7.64
4 grains	.65	1.09	1.44	15.85	18.49

Source: Oil World

Figure 82: China's import of vegetable oils – forecasts

CHINA. PR.: Imports of Major Veg.Oils (1000 T)

	October / September				
	18/19F	17/18	16/17	15/16	14/15
Soybean oil ...	950*	482	711	586	773
Groundnut oil ..	132*	112	111	113	141
Sunflower oil ...	770*	741	725	878	534
Rapeseed oil ..	1120*	1067	802	768	732
Palm oil	5730*	5432	5016	4798	5822
Palmkern oil ...	735*	708	595	560	578
Coconut oil	145*	123	134	136	136
Total	9582*	8665	8094	7840	8717

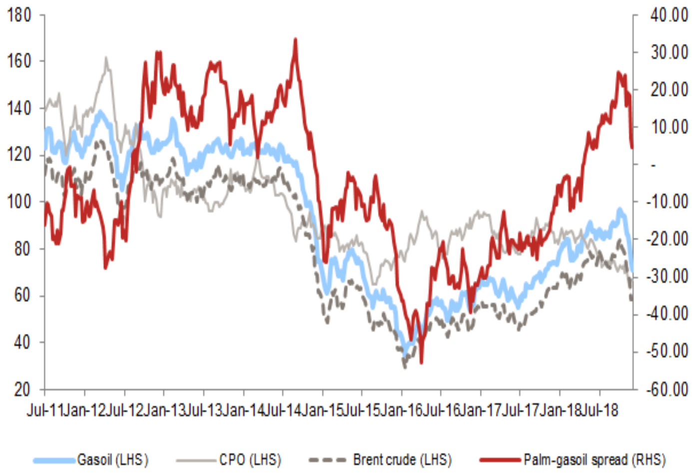
Source: Oil World

Figure 83: New Indonesian export tax structure

	Current levy	Below USD570/tonne	Price USD570 - USD619 per tonne	Above USD619/tonne
CPO	USD50/tonne	0	USD25/tonne	USD50/tonne
1st derivative	USD30/tonne	0	USD15/tonne	USD30/tonne
2nd derivative	USD20/tonne	0	USD10/tonne	USD20/tonne

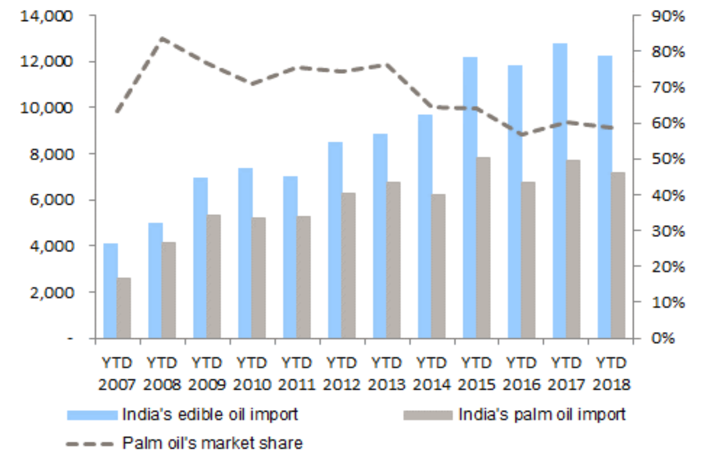
Source: BPDP Indonesia

Figure 84: CPO-gasoil spread at +USD4.50/bbl



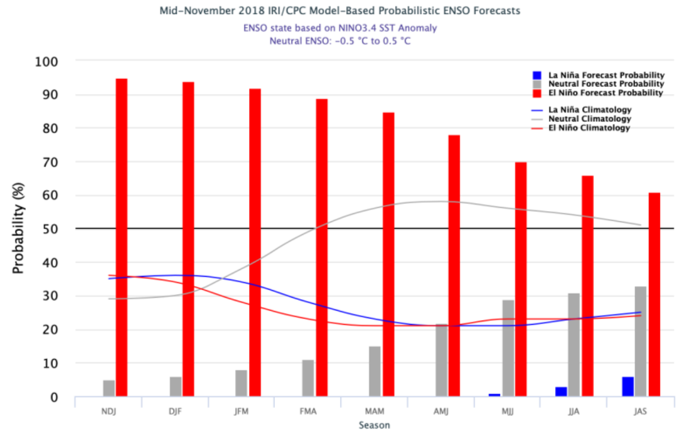
Source: Bloomberg

Figure 85: India's edible oil imports fell by 4% YTD-October, while CPO imports fell by 6.7% YoY



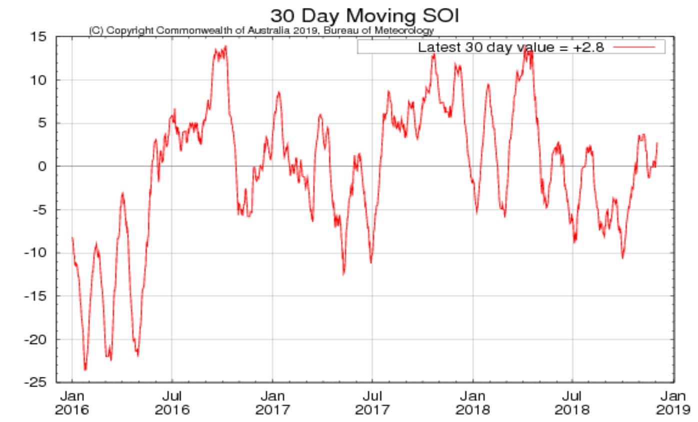
Source: Bloomberg

Figure 86: *El Nino* probability has risen to 95% from 84% last month



Source: University of Columbia

Figure 87: Southern Oscillation Index at +2.8 (>+7 = *La Nina*, <-7 = *El Nino*)



Source: Australian Bureau of Meteorology

Figure 88: 2019F supply & demand for eight vegetable oils

8 VEGETABLE OILS: World Balance (Mn T)

	October / September				
	18/19F	17/18	16/17	15/16	14/15
Op'g stocks	27.56	24.62	23.55	28.95	26.79
Production	**196.42***	**191.08**	**181.75**	**168.08**	**171.18**
Change	*+2.8%*	*+5.1%*	*+8.1%*	*-1.8%*	*+2.8%*
Imports	84.58*	80.33	80.31	75.82	75.51
Exports	84.90*	80.81	81.11	75.22	76.42
Consumption	**196.00***	**187.66**	**179.88**	**174.08**	**168.11**
Change	*+4.4%*	*+4.3%*	*+3.3%*	*+3.6%*	*+2.5%*
End'g stocks	27.66*	27.56	24.62	23.55	28.95
Stocks/use ratio	14.1%	14.7%	13.7%	13.5%	17.2%

Source: Oil World

Figure 89: 2019F supply & demand for 17 oils and fats

17 OILS & FATS : World Supply & Demand (Mn T)

	Forecast	October/September			
	18/19F	17/18	16/17	15/16	14/15
Op'g stocks	**29.94***	**27.64**	26.93	31.99	30.15
Production	**233.29***	**227.59***	218.42	204.58	206.12
Growth	*+2.5%*	*+4.2%*	*+6.8%*	*-0.8%*	*+2.2%*
Imports	**90.30***	**86.32***	86.44	81.74	81.11
Exports	**90.82***	**86.53***	87.20	81.12	82.07
Consumption ..	**232.47***	**225.08***	216.95	210.26	203.32
Growth	*+3.3%*	*+3.7%*	*+3.2%*	*+3.4%*	*+2.2%*
End stocks	**30.24***	**29.94***	27.64	26.93	31.99
Stocks/usage ...	***13.0%***	***13.3%***	*12.7%*	*12.8%*	*15.7%*

Source: Oil World

14 December 2018

Property | Real Estate

Real Estate

Weighed Down By Measures And Rising Interest Rates

Neutral (Maintained)

Stocks Covered:	3
Ratings (Buy/Neutral/Sell)	2 / 1 / 0
Last 12m Earnings Revision Trend:	Positive

Top Picks	Target Price
CapitaLand (CAPL SP) – BUY	SGD4.00

We expect property prices to stay relatively flattish at 0-2% in 2019, as:

1. **Buyers remain price-sensitive post cooling measures;**
2. **A strong launch pipeline provides many choices and limits developers' pricing power;**
3. **Rising interest rate environment.**

This is balanced by a positive economic outlook, strong household balance sheet and *en bloc* liquidity, which acts as supporting factors for prices. We remain NEUTRAL on the sector and prefer diversified plays with dividend yield support. CapitaLand is our Top Pick.

Challenging year ahead for residential sector. 2019 is likely to see a flurry of new launches hitting the market from projects that have been sold via *en-bloc* sales in 2H17/2018. Based on listed agency PropNex (Not Rated) estimates, 50 projects or 19,139 units are available in the launch pipeline – which is more than double the number of units expected to be sold in 2018. The flurry of new launches is likely to provide plenty of choices for buyers and limit developers' pricing power. This, coupled with recent policy measures and rising interest rates, are expected to keep property prices in check. Still, developers are not likely to lower the prices below current levels as their balance sheets remain strong and most of the sites have been acquired at higher prices vs existing launches. Thus, we expect prices to see limited growth of 0-2% in 2019.

Cut back in GLS supply supports price sustainability. The Government's recent announcement to cut back 1H19 land supply by 20% (vs 2H18) is positive for long-term price sustainability and prevents further build-up in the supply pipeline.

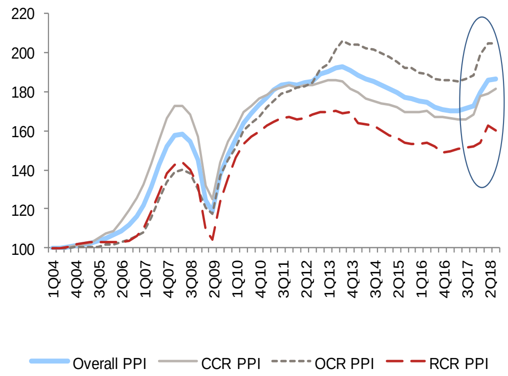
Project pricing the key for volumes ahead. Despite the cooling measures, sales of new launches have been holding up, as developers are adjusting their price expectations and have been offering discounts to move inventory. We expect a similar trend in 2019, with projects with the right attributes and pricing continue attracting strong buying demand. Developers are also bound by the stringent additional buyers stamp duty regulations, which requires them to sell all the units in the project within five years from acquisition or face hefty fines of 15% of land cost. Overall, we expect a primary sales volume of 8,000-10,000 units for 2019.

Resale volumes likely to fare better. On the private resale market, we believe units currently held back on the expectation of potential *en bloc* sales should be released back, with the *en bloc* cycle nearing its end. This should support resale volumes in 2019. Housing and Development Board (HDB) resale volumes are also likely to fare better in 2019 as more built-to-order (BTO) flats completed in 2013/2014 become eligible for resale.

Developer's margins to stay thin. The challenging market conditions mentioned above are likely to compel developers to focus more on volumes and less on margins. As such, we expect margins to remain squeezed, at around 5-10%, compared to around 15-20% seen in the past.

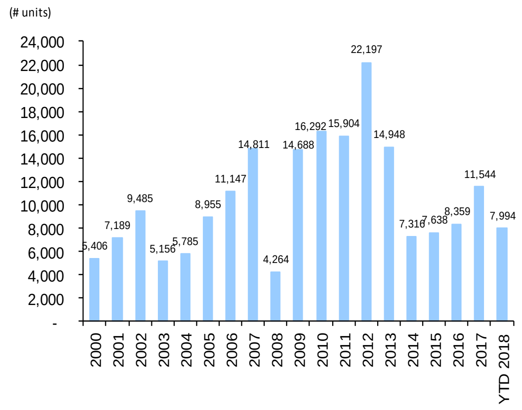
Prefer diversified plays. With the muted growth in property price expectations, we see no near-term catalysts for developers with larger exposure to Singapore's residential sector. Our Top Pick is CapitaLand as it remains minimally impacted by the recent cooling measures, and benefits from a higher recurring income base and diversified exposure. We also maintain our BUY call on APAC Realty as volumes are anticipated to remain relatively steady.

Property price indices by region (1Q04 = 100)



Source: URA, RHB

Private home sales (ex-EC) for YTD Oct 2018



Source: URA, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
APAC Realty	Buy	SGD0.72	46.9	7.5	1.2	7.9
CapitaLand	Buy	SGD4.00	27.0	13.1	0.7	4.1
City Developments	Neutral	SGD9.20	9.3	12.6	0.7	2.4

Source: Company data, RHB

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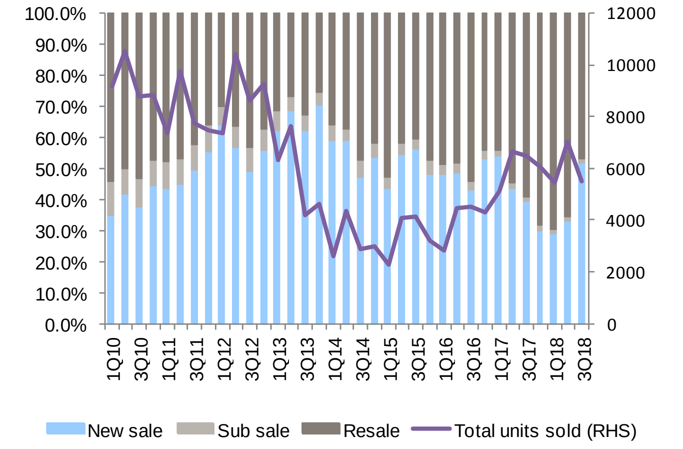
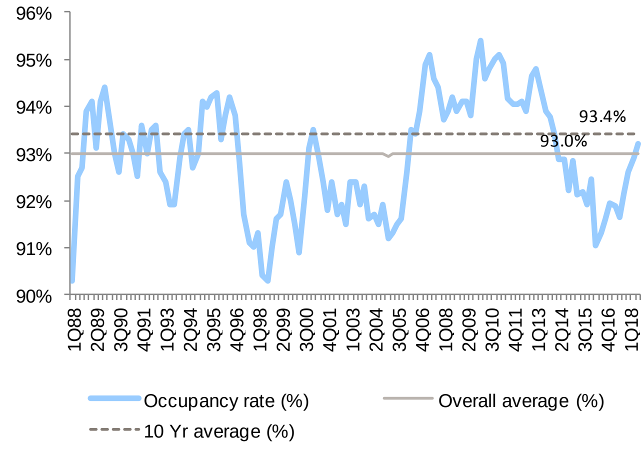
Figure 90: Sales by segment



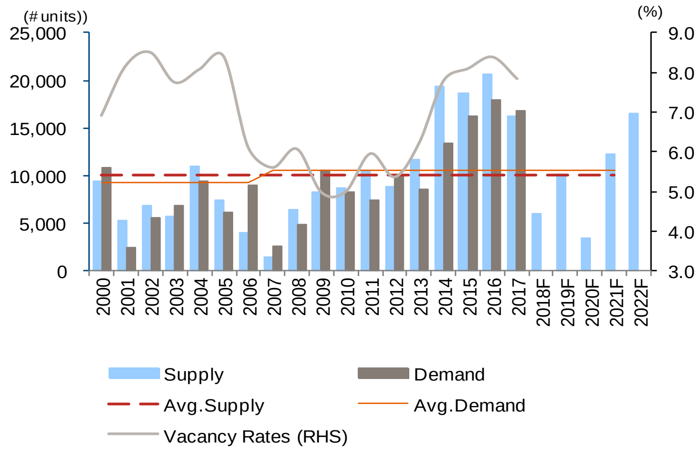
Source: URA, RHB

Figure 91: Occupancy rates for private residential properties



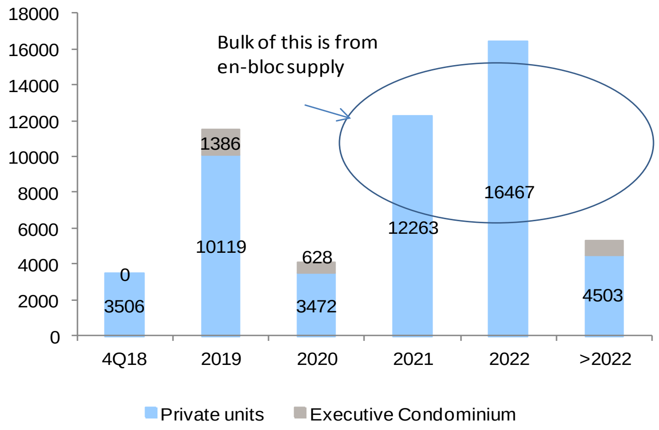
Source: URA, RHB

Figure 91: Supply, demand and vacancy rates



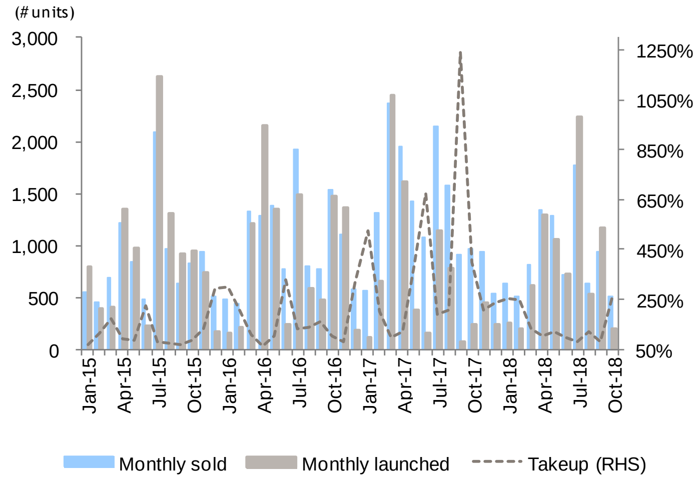
Source: URA, RHB

Figure 93: Supply of private residential properties (by expected year of completion)



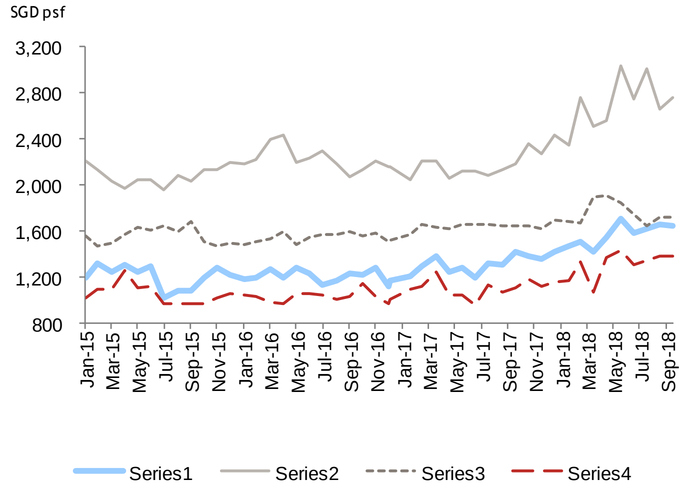
Source: URA, RHB

Figure 94: Private (excluding EC) sales/launches/take-up rates



Source: URA, RHB

Figure 95: Median prices of new home sales



Source: URA, RHB

14 December 2018

Property | REITS

REITs

Overweight (Maintained)

Selective Yield Plays Likely To Remain in Favour

Stocks Covered:	12
Ratings (Buy/Neutral/Sell)	6 / 6 / 0
Last 12m Earnings Revision Trend:	Neutral

With an increasingly volatile macro-economic outlook, we believe investors are still likely to stick to defensive yield plays like REITs. While we do not expect a broad-based outperformance from the S-REIT sector, stock-specific catalysts should find favour with investors. The demand-supply 2019F outlook for most of the sub-segment of REITs is positive, and will help mitigate the threat of rising interest rates. Inorganic DPU growth is also expected from the acquisitions REITs have made in recent years. The sector is relatively well equipped in terms of balance sheet hedging, to mitigate rising interest costs. Among the sub-sectors, we prefer the industrial and hospitality REITs, as they are well-poised to tap into demand growth.

Valuations are closer to mean. S-REITs (average) are currently trading at a 390bps yield spread to the Monetary Authority of Singapore's 10-year bond yield. To compare, the 10-year average mean spread (ex-Global Financial Crisis) stands at 400bps. In terms of P/BV, the sector is now trading at par to the 10-year average mean of 0.98x (Figures 96 and 97). While valuations are closer to mean, we do not think they are stretched – as S-REITs tend to trade at a premium when the growth outlook is positive. Additionally, S-REITs still offer the highest yields and yield spreads over 10-year government bond yields, among REITs globally (Figure 98).

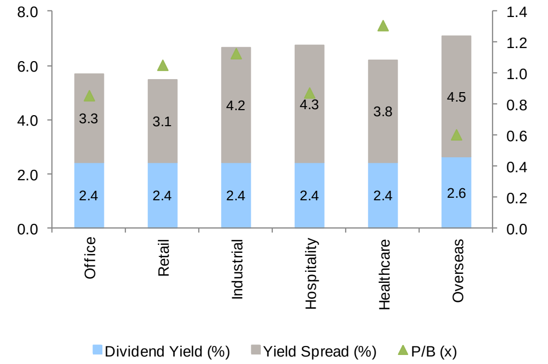
Possible excess liquidity from *en bloc* proceeds could flow into REITs. While the latest *en bloc* cycle has resulted in liquidity injections of ~SGD19bn (*en bloc* sales in 2017-2018), the bulk of these proceeds is still not received. Post recent cooling measures – based on our anecdotal observations – most *en bloc* sellers are either taking a longer time (the wait-and-watch approach) or considering downsizing before buying another property. With S-REITs being a favoured investment option among high net worth individuals and retailers, there is a good chance the excess liquidity could flow into relatively defensive REIT counters.

Balance sheets in a better position to mitigate rising interest costs. On average, close to 80% of REITs' debts are hedged, with only <20% of total debt due for renewal up until 2020 (Figure 100). Overall, sector gearing also remains modest at 36%, well below the 45% maximum threshold. Additionally, many REITs have also diversified their funding options to include instruments like perpetual securities, retail bonds and multi-currency medium-term notes, and preferential offerings.

Prefer industrial and hospitality REITs mainly on the back of favourable demand-supply dynamics and attractive valuations. While office segment rental rates have been on a steady uptrend, the positive effects are likely to be seen in DPU only in late 2019. As such, we believe the sub-sector would be more of a 2H19 play. The retail segment still remains challenging, with many key shopping malls adding to the supply in 2019 and rental rates are likely to stay flattish. We recommend investors to buy on dips for retail and office REITs.

Top Picks	Target Price
Ascendas REIT(AREIT SP) – BUY	SGD 2.90
CDL Hospitality Trusts (CDREIT SP) – BUY	SGD 1.80
Starhill Global REIT (SGREIT SP)	SGD 0.80
Manulife US REIT(MUST SP) – BUY	USD 0.92

S-REITS sector yield spread



Source: Bloomberg, RHB

Sector rental rates at a glance

3Q18	SGD psf/mth	% YoY	% QoQ
Office (Grade A)	10.45	14.8	3.5
Office (Grade B)	7.45	8.8	2.8
Retail (Orchard)	31.70	1.3	0.8
Retail (Suburban)	29.15	1.2	0.2
Factory (Ground Floor)	1.57	(2.5)	0.0
Warehouse (Ground Floor)	1.58	(1.9)	0.0
Business Park (Islandwide)	3.80	2.7	1.8
Hotel - YTD Sep RevPAR (SGD)	190	3.3	n.m

Source: Bloomberg, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Ascendas REIT**	Buy	SGD2.90	13.3	12.4	1.2	6.6
Cache Logisitcs Trust	Buy	SGD0.84	20.9	9.7	1.0	8.8
CDL Hospitality Trusts	Buy	SGD1.80	18.4	11.3	1.0	6.5
Manulife US REIT	Buy	SGD0.92	21.1	10.9	0.9	8.2
Starhill Global REIT *	Buy	SGD0.80	19.4	10.1	0.7	7.2
OUE Hospitality Trust	Buy	SGD0.77	13.2	13.6	0.9	7.8
CapitaLand Commercial Trust	Neutral	SGD1.80	2.3	21.0	1.0	5.1
CapitaLand Malls Trust	Neutral	SGD2.14	(4.5)	15.2	1.1	5.3
Frasers Centrepoint Trust***	Neutral	SGD2.19	0.9	14.5	1.0	6.0
Frasers Commercial Trust***	Neutral	SGD1.50	7.9	11.4	0.9	6.8
Suntec REIT	Neutral	SGD1.90	6.7	18.7	0.8	5.7
Keppel REIT	Neutral	SGD1.06	(9.4)	17.7	0.8	4.7

Source: Company data, RHB

*Note: ** data refers to Mar year end, * data refers to Jun year end, *** data refers to Sep year end*

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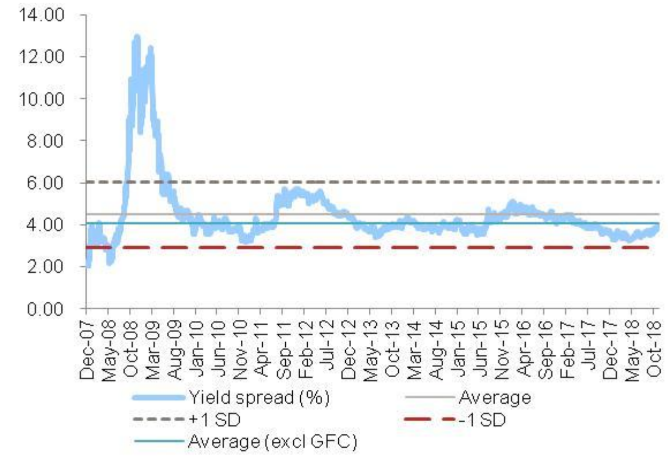
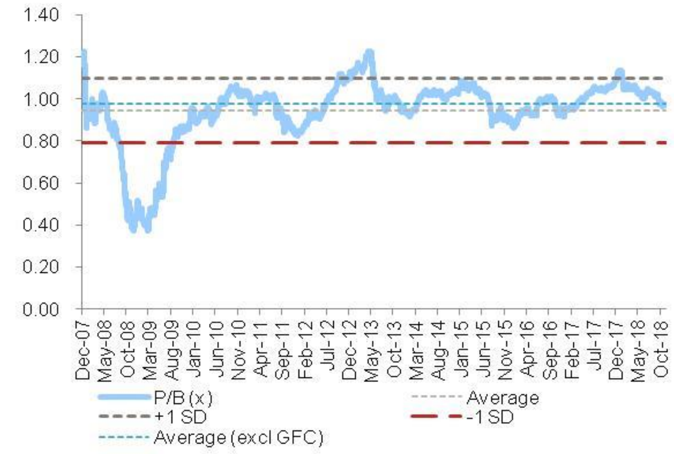
Figure 96: S-REIT – historical yields spread



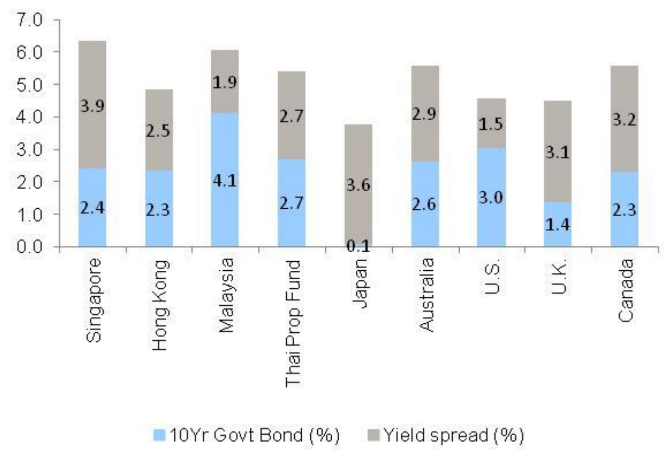
Source: Bloomberg, RHB

Figure 97: S-REIT – historical P/BV



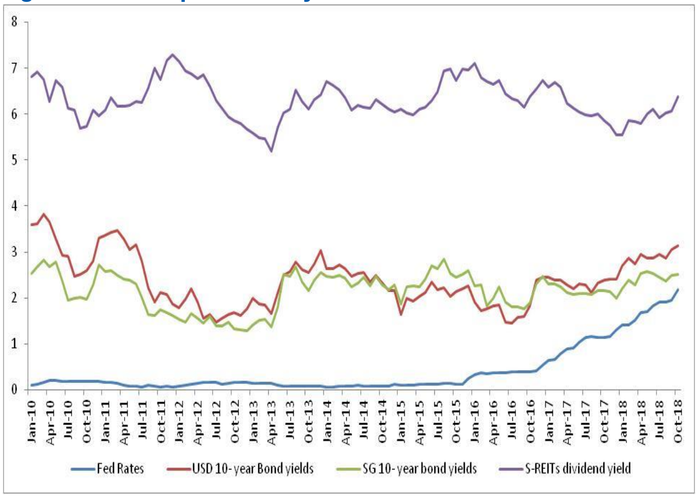
Source: Bloomberg, RHB

Figure 98: A comparison of major global REITs



Source: Bloomberg, RHB

Figure 99: Comparison of yields

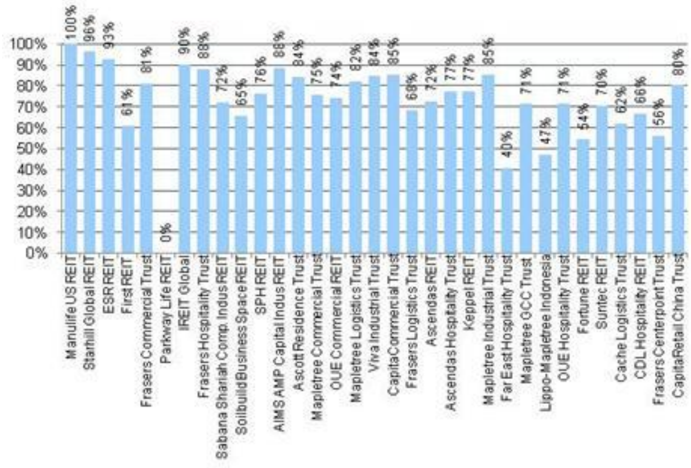


Source: Bloomberg, RHB

Figure 100: Aggregate debt profiles (S-REITs)

Source: Bloomberg, RHB

Figure 101: Percentage of debt that is hedged



Source: Bloomberg, RHB

Investment Thesis For S-REITs

Figure 102: Investment thesis

REITs	BBG ticker	Share price	Target price	Potential upside	FY-1 dividend yield (%)	Rec	Investment thesis
Ascendas REIT	AREIT SP	2.56	2.90	0.13	6.6	BUY	• High exposure to business parks and hi-tech industrial space, which will provide buffers for its overall portfolio. • Geographical diversification from Australia and UK expansion. • Potential organic growth as portfolio is currently under-rented. • Risks: Sharp drop in global manufacturing growth.
Cache Logistic Trust	CACHE SP	0.68	0.84	0.24	8.9	BUY	• Expecting a turnaround in the SG logistics sector in 2019. • New REIT manager offers much experience and growth potential. • Tail-end of single-user to multi-tenancy conversion cycle.
CapitaLand Commercial Trust	CCT SP	1.73	1.80	0.04	5.2	NEUTRAL	• Outpacing market in terms of new rents signed and improving Asia Square performance. • Recent divestments likely to create near-term earnings vacuum • Tail-end of negative rental reversion cycle. • Positive catalysts: Acquisitions at attractive prices and CapitaSpring redevelopment.
CapitaLand Mall Trust	CT SP	2.21	2.14	(0.03)	5.0	NEUTRAL	• Relatively high supply in retail space and exit of popular fashion retail brands. • Active capital recycling efforts from divestment of mature assets and Yield-accretive acquisitions. • Positive catalysts: Revamp of mall concepts, redevelopment of Funan Mall .
CDL Hospitality Trust	CDREIT SP	1.48	1.80	0.22	6.1	BUY	• Positive dynamics for Singapore hospitality sector in 2018/2019. • Recent acquisitions to contribute positively. • Most liquid proxy to the recovery in visitor arrivals. • Risks: Lower-than-expected increase in tourist arrivals.
Frasers Centrepoint Trust	FCT SP	2.18	2.19	0.00	6.0	NEUTRAL	• A stable and defensive suburban retail player. • Potential acquisition from its parent company, ie Waterway Point. • Increasing competition from new retail malls limits upside. • Risks: Rising e-commerce and online food delivery services such as Food Panda.
Frasers Commercial Trust	FCOT SP	1.38	1.50	0.09	7.2	NEUTRAL	• Near-term operating weakness from Alexandra Technopark (ATP) vacancies and asset repositioning. • Asset enhancements and China Square Central redevelopment should contribute positively from 1H19 onwards. • Risks: Further weakening of AUD against SGD.
Keppel REIT	KREIT SP	1.12	1.06	(0.04)	5.4	NEUTRAL	• Expiry of rental support to impact DPU. • One of highest-geared office REIT. • Highly exposed to financial sector tenant mix. Increasing competition from newer developments. • Risk: Cap rate expansion.
Manulife US REIT	MUST SP	0.76	0.92	0.19	7.8	BUY	• Play on rebounding US economy and office market. • Organic DPU growth via inbuilt rental rate escalation. • Strong sponsor and ability to grow REIT via quality acquisitions. • Risks: Retaining tenants and changes in tax structure.
OUE Hospitality Trust	OUEHT SP	0.67	0.77	0.16	7.5	BUY	• Key beneficiary of new airport terminal opening. • RevPAR expected to rebound with hotel supply declining. • Risk: Lower-than-expected increase in tourist arrivals.
Starhill Global REIT	SGREIT SP	0.68	0.80	0.19	7.1	BUY	• Office demand and rental rates picking up. Retail rental still stabilising. • Tight retail supply within Orchard shopping belt in the next two years limits downside. • Overseas portfolio AEIs nearing completion. • Risk: Weaker-than-expected pick-up in retail market demand.
Suntec REIT	SUN SP	1.76	1.90	0.08	5.7	NEUTRAL	• Near-term DPU to stay flat on the back of ongoing redevelopments and asset enhancements • Suntec City redevelopment will benefit the REIT in the longer term. • Risk: Better-than-expected performance from newly refurbished Suntec City AEI.

Source: Bloomberg, RHB

14 December 2018

Small & Mid Caps

Small & Mid-Caps

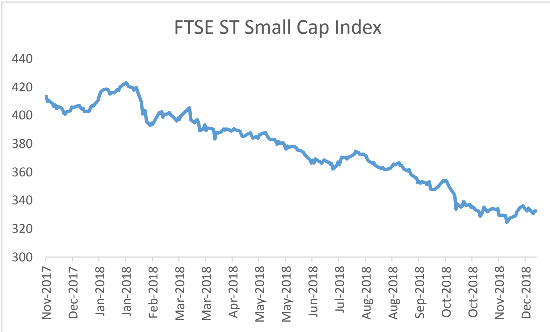
Neutral (Maintained)

Pick Selectively From Bottom-Up

Stocks Covered: Stocks
Ratings (Buy/Neutral/Sell) Ratings
Last 12m Earnings Revision Trend: Last 12m

Top Picks	Target Price
HRnet Group (HRNET SP) – BUY	SGD1.18
Silverlake Axis (SILV SP) – BUY	SGD0.65

FSTS Index



Source: Bloomberg, RHB

Markets have been impacted by a challenging 2018, especially on the technology- and property-related fronts, as they have corrected significantly. We believe the outlook of these two sectors, as well as the market sentiment, depends on the outcome of the trade talks between the US and China. If the situation continues to worsen, a further correction is likely. As a result, even after the selldown, we remain NEUTRAL on the sector and stay upbeat only on selected counters. Our Top Picks for 2019 are HRnetgroup and Silverlake.

Worsening trade war impacts sentiment. Since US President Donald Trump initiated the possibility of a trade war against China and other key deficit trading partners in March, Singapore stocks – especially those in manufacturing – have been significantly impacted. With the trade war yet to be resolved (and could potentially worsen or drag on), this will weigh on the market and impacting sentiment negatively. A cooldown in business sentiment will also likely affect business activities globally, resulting in a potential slowdown or negative growth as we have already witnessed. As a result, we remain NEUTRAL on the sector and focus on a bottom-up approach in stock selection.

Expansion into China to provide growth for HRNetgroup. We believe HRnetgroup will likely make more acquisitions in the near future, and focus on new markets while growing its presence in North Asia. We also expect a better FY19, on stronger growth in North Asia and Singapore across all segments while the effect of the 88GLOW Plan on PATMI will take full effect for 2018. In addition, management is likely to continue its share buyback scheme to reward productive sales employees, as well as for further acquisitions. As a result, we maintain BUY with an unchanged DCF-based TP of SGD1.18.

Silverlake Axis riding on banks' capex cycle. Silverlake reported a stellar 1Q19, with revenue and PATMI surging 36% and 70% YoY to MYR166.6m and 57.9m due to the implementation of contracts secured few months ago. The next few quarters should likely be stronger, as it continues to draw down from its existing MYR320m orderbook – with both licensing and project services revenue projected to deliver strong growth. Earnings from the acquisition of Xinfotech will also kick in 2H19. With a stellar year ahead, we maintain BUY with an unchanged DCF-backed TP of SGD0.65, accompanied by an attractive 5.5% dividend FY19F yield.

Focus on bottom-up approach on stocks with strong fundamentals. As we expect the markets to be challenging in 2019, coupled with rising interest rates, we will still prefer a bottom-up approach in our stock selection. We prefer companies with good growth and strong fundamentals, on top of a net cash balance sheet to buffer against any impact from the rise in interest rates, as well as attractive dividends to reward shareholders. As a result, our Top Picks for 2019 will include HRnetgroup and Silverlake.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
CSE Global	Buy	0.59	37.2	11.9	1.2	6.4
Fu Yu Corp	Buy	0.23	19.2	12.6	0.9	8.3
GSS Energy	Buy	0.19	84.5	7.2	1.0	2.8
HRnet Group	Buy	1.18	43.9	14.4	2.2	3.2
Moya Holdings Asia	Buy	0.11	64.2	8.1	1.0	-
Silverlake Axis**	Buy	0.65	56.6	15.6	6.3	5.5
Singapore Medical Group	Buy	0.56	41.8	14.0	1.3	1.4
Valuetronics Group*	Buy	0.82	22.4	8.6	1.4	5.8
Avi-Tech Electronics**	Neutral	0.34	17.2	12.2	1.0	7.4
Centurion Corp	Neutral	0.47	11.9	8.4	0.6	6.0
Jadason Enterprises	Neutral	0.02	(16.7)	8.0	0.3	4.2
Kimly Ltd***	Neutral	0.27	(3.6)	14.4	3.4	3.5
Talkmed Group	Neutral	0.64	5.8	25.6	9.6	3.2

Source: Company data, RHB
*Note: *FY19 (Mar) **FY19 (June) ***FY19 (Sep)*

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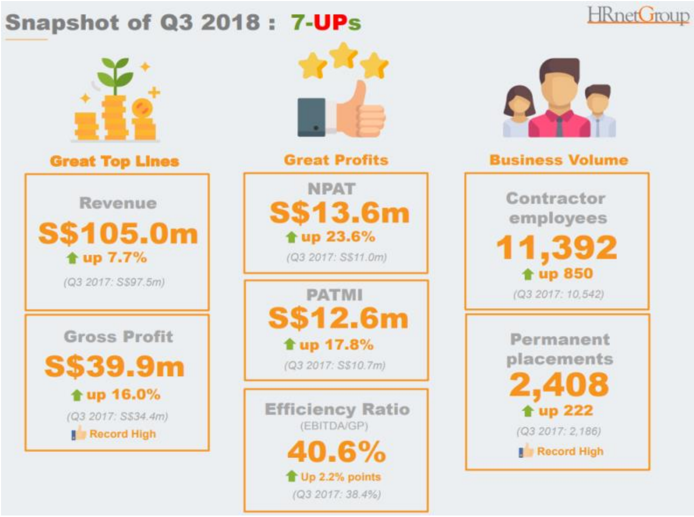
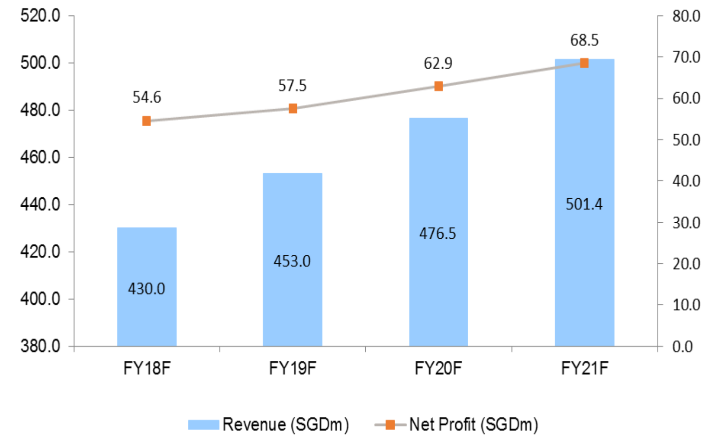
Figure 103: HRnet's 3Q report card



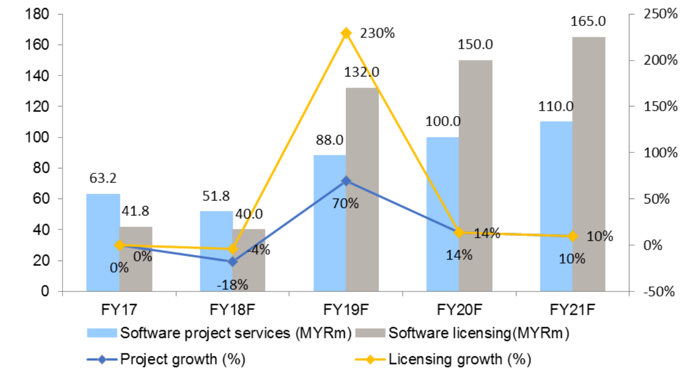
Source: Company data

Figure 104: HRnetGroup - revenue and earnings forecasts for FY18-21



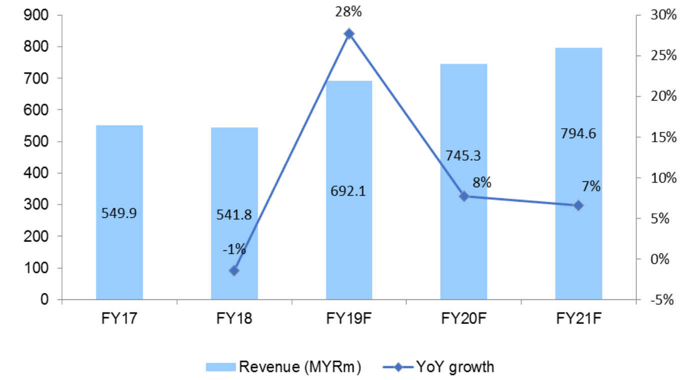
Source: Company data, RHB

Figure 105: Silverlake licensing and and project services revenue growth FY17 – 2020F



Source: Company data

Figure 106: Silverlake revenue growth FY17 – 2020F



Source: Company data, RHB

14 December 2018

Technology | Technology

Technology

Neutral (Maintained)

Trade War Uncertainty An Overhang On Tech Stocks

Stocks Covered:	6
Ratings (Buy/Neutral/Sell)	5 / 1 / 0
Last 12m Earnings Revision Trend:	Positive

Top Picks	Target Price
Venture Corp (VMS SP) – BUY	SGD 19.00
Fu Yu Corp (FUYU SP) – BUY	SGD 0.23

Tech stocks have been hammered badly in 2018, due to an ongoing trade war issues between the US and China. Higher tariffs on a wider range of goods have sparked increased trade tensions globally, worsening sentiment. Despite the recently-agreed 90 day truce, we remain cautious on the sector's outlook, wary that the trade war could potentially worsen in 2019. We prefer to focus on a bottom-up approach for stock selection. Our Top Picks are Venture, which has less exposure to the trade war, and Fuyu Corp, for its sound balance sheet and attractive dividend yield. Maintain NEUTRAL.

Worsening trade war impacting market sentiment. Since US President Donald Trump initiated the possibility of a trade war against China and its other key deficit trading partners in Mar 2018, Singapore stocks, especially those in the manufacturing sector, have taken a significant hit. With the trade issue yet to be resolved and potentially further worsen or drag on, it will likely be a drag on the market, hurting sentiment. Slower business sentiment will also likely impact global business activities, resulting in a potential slowdown or a decline, as we have already witnessed. Despite the 90 day truce, we remain cautious as to the sector's outlook, wary that the trade war could potentially worsen in 2019. As a result, we remain NEUTRAL on the sector and focus on a bottom-up approach for our Top Picks.

Venture Corp: the least exposure to tariffs; V-shaped recovery. We remain confident that a V-shaped earnings recovery for Venture is highly possible in subsequent quarters, especially if the trade war issues between US and China are resolved. In addition, we expect Venture to pay out a total of SGD0.70/share this year, slightly higher than last year, representing an attractive FY18F dividend yield of 4.8%. We think that the short-term selling pressure is mainly due to its negative 3Q18 results, and likely represents a buying opportunity for investors. Lastly, Venture has also little exposure to the ongoing trade war between China and the US. As of 3Q18, less than 2% of its revenue, which could be further mitigated, is exposed. With the management bullish on a V-shaped earnings recovery in 4Q and ahead, we expect Venture to enjoy operating leverage and likely enjoy higher net margins going forward. As such, we maintain BUY with SGD19.00 TP, pegged to 14x FY19F P/E.

Fuyu Corp: sound balance sheet and attractive +8.3% yield. With the ramp-up in its automotive projects to continue in subsequent quarters, coupled with new projects on the medical and consumer fronts, we expect its positive growth momentum to continue. In addition, a strengthening USD would also be beneficial for it (as over 80% of its revenue is USD-denominated). Management is still actively seeking ways to further optimise the cost structure of its operations in the region, especially in China, such as rightsizing exercises and the sale or lease of unutilised factory space. If suitable opportunities arise, these should further improve margins. Supported by an attractive yield of +8.3%, we maintain BUY with a DCF-backed TP of SGD0.23. Fuyu remains our Top Pick in the small-mid cap manufacturing space.

Switching back to a bottom-up approach for stock selection. Our Top Picks are Venture, which has less exposure to the trade war, and Fuyu Corp, for its sound balance sheet and attractive dividend yield. Maintain NEUTRAL.

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
Fu Yu Corp	Buy	0.23	18.6	12.6	0.9	8.3
GSS Energy	Buy	0.19	90.0	7.0	1.0	2.9
Silverlake Axis**	Buy	0.65	58.5	15.4	6.2	5.6
Valuetronics Group*	Buy	0.82	15.5	9.1	1.5	5.4
Venture Corp	Buy	19.00	29.6	10.8	1.6	4.8
Avi-Tech Electronics**	Neutral	0.34	13.3	12.6	1.1	7.1

Source: Company data, RHB

*Note: *FY19 (Mar) **FY19 (June)*

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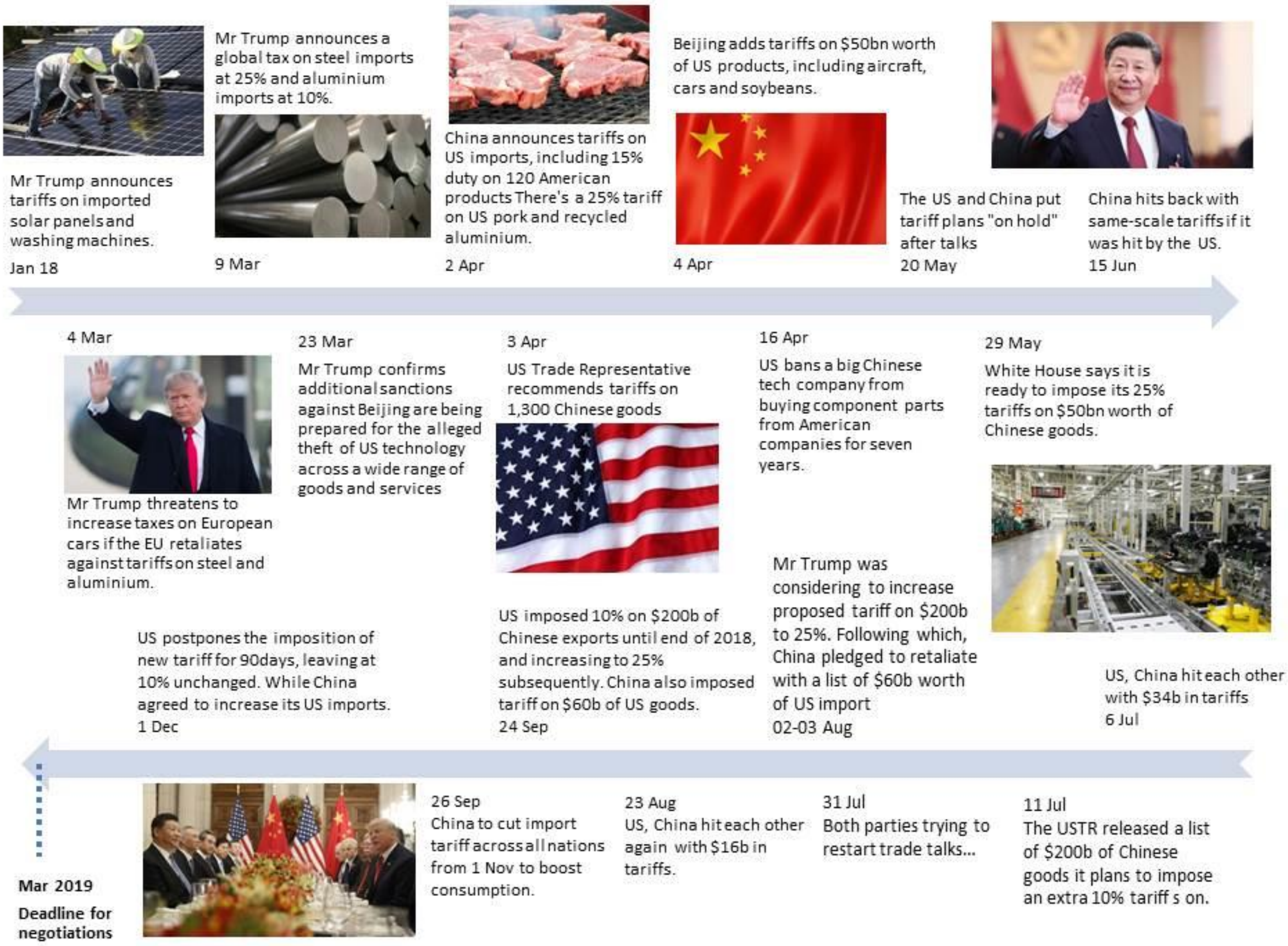
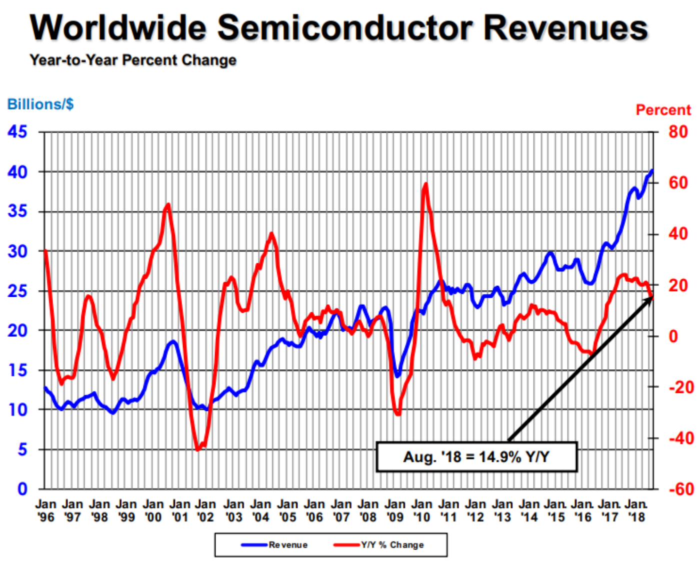
Figure 107: Trade war updated timeline



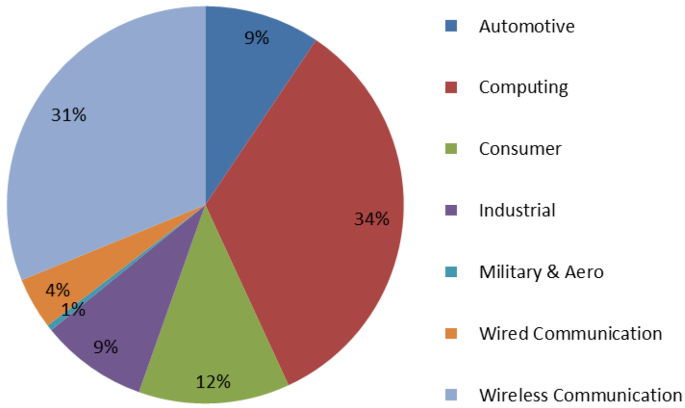
Source: Various sources, RHB

Figure 107: Worldwide semiconductor revenues



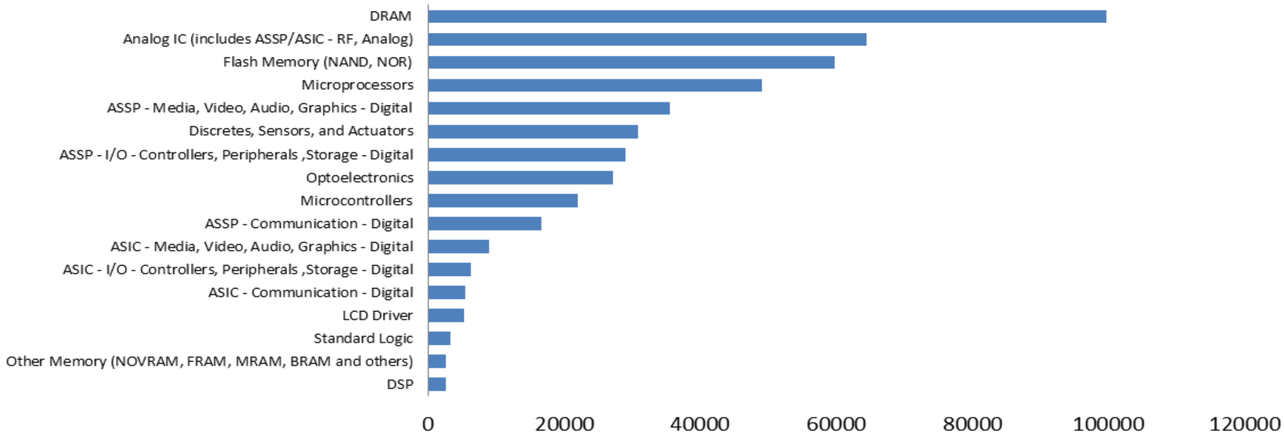
Source: Semiconductor Industry Association (SIA)

Figure 108: Semiconductor revenue by end-markets (4Q17-3Q18)



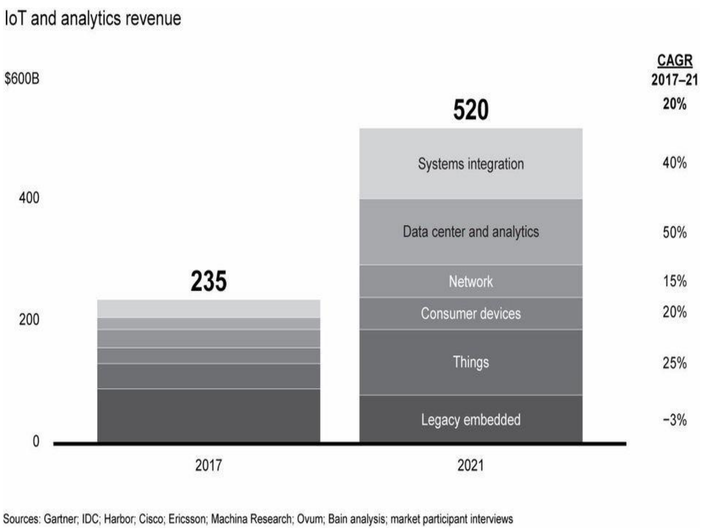
Source: Bloomberg

Figure 109: Semiconductor revenue by products (4Q17-3Q18)



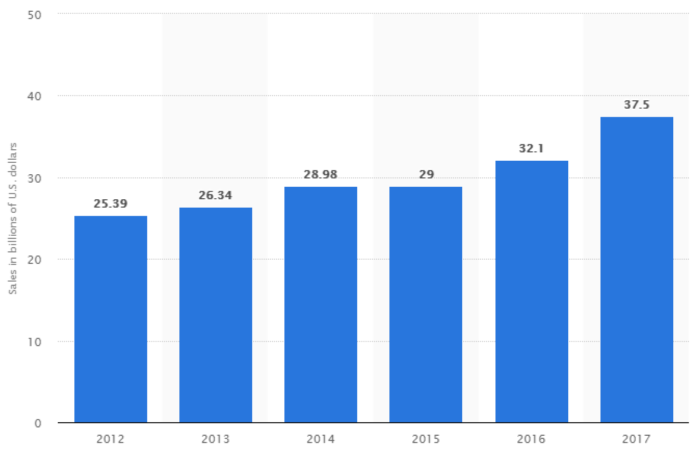
Source: Bloomberg

Figure 110: 2021 Internet of Things (IoT) forecast by Bain



Source: Forbes

Figure 111: Automotive semiconductor suppliers revenue worldwide 2012-2017 (USDbn)



Source: Statista

14 December 2018

Communications | Telecommunications

Telecommunications

A Short-Term Reprieve?

Neutral (Maintained)

Stocks Covered:	3
Ratings (Buy/Neutral/Sell)	0/3/0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
Singtel (ST SP)-NEUTRAL	SGD3.22

We expect the competitive intensity in the sector to remain elevated, with the market likely to get a possible short-term reprieve from the delay in TPG's commercial rollout. Broadly, the pressure on the industry's MSR should continue in 2019 with rising adoption of SIM-only plans, the extended smartphone replacement cycle, and the possibility of more MVNOs coming on board. Valuation-wise, the sector trades 1.5SD below its historical EV/EBITDA mean, which, in our view, has sufficiently addressed downside risks from the fourth MNO. Singtel remains our preferred exposure due to its earnings diversity and dividend certainty.

Waiting for landfall. TPG's delayed commercial rollout – reportedly pushed back to 2Q19 (from 4Q18) – suggests the threat posed by the fourth mobile network operator (MNO) may be lower than initially expected. ASX-listed TPG (TPG AU) reported SGD66.7m cash capex for its Singapore mobile rollout for FY18 (Jul) (including SGD4.4m in FY17). The amount is significantly below the SGD200-300m guidance made in late 2016 for outdoor coverage, and may raise questions as to its Singapore rollout commitment and its ability to meet the onerous conditions set by the Info-communications Media Development Authority (IMDA) ie outdoor coverage of 95% (by end-2018), to be followed by road-tunnels and in-building coverage (end-2019) and underground MRT stations (end-2021). Interestingly, at TPG's FY18 results announcement in September, management highlighted that: it is on track to meet outdoor coverage requirements by end-2018, its production network already covers in excess of 90% of outdoor areas, and the capex outlook is still in line with its initial forecasts. TPG also awaits regulatory approval for the merger of its Australia business with Vodafone Hutchison Australia. This could divert management's resources, in our view, and be a distraction to its Singapore aspirations.

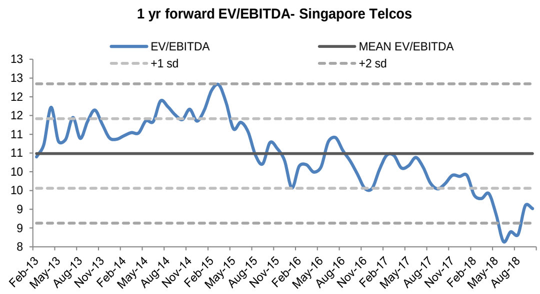
Incumbents have hedged their bets well with aggressive re-contracting offers and a data-led/MVNO strategy. The incumbent MNOs have introduced numerous data-upsized packages, re-contracted subs on new handset bundles and forged strong collaborations with mobile virtual network operators (MVNO) over the past 12 months to pre-empt fresh competition. We believe this has disrupted TPG's go-to-market strategy, necessitating a review (partly explaining the delay). As all three incumbents are utilising MVNOs to "hedge" against market share losses, TPG would have less room to manoeuvre and grab market share, in our view. Realistically, we think TPG's network would be inferior in the medium term. There are five MVNOs in the market – two hosted by Singtel (ZeroOne & Zero Mobile), one each on StarHub (MyRepublic) and M1 (Circles.Life). We do not rule out more MVNOs entering the fray.

MSR should remain under pressure in 2019. We expect the industry's mobile service revenue (MSR) to remain under pressure from: stronger take-up of SIM-only plans, extended weakness on usage/roaming revenues, and competition. While SIM-only plans are still small relative to the overall subs base, they are rising rapidly and would make up an estimated 10-15% of total subs by end-2019. Higher data inclusions and upsized data plans would also lend further pressure on data yields and ARPUs.

NEUTRAL rating maintained. The sector valuation of 9x FY19F EV/EBITDA is at 1.5SD below its 5-year historical mean of 11x, which we believe has priced in downside risks from the new entrant (TPG). The FTSE Straits Times Telecommunications Index (FSTTC) has also underperformed the STI by 8-16% over the past 12-15 months, with the telcos' attractive prospective dividend yields of 4-6.5% providing some share price support.

Key downside/upside risks are: greater/weaker competition and lower-/stronger-than-expected showing from the enterprise segment.

Sector rolling 1-year forward EV/EBITDA



Source: Bloomberg

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
M1	Neutral	2.06	(2.4)	20.3	4.2	7.1
Singtel**	Neutral	3.22	5.2	16.4	1.6	5.7
StarHub	Neutral	1.90	5.6	16.4	12.0	6.7

*Note: ** data refers to FY Mar*

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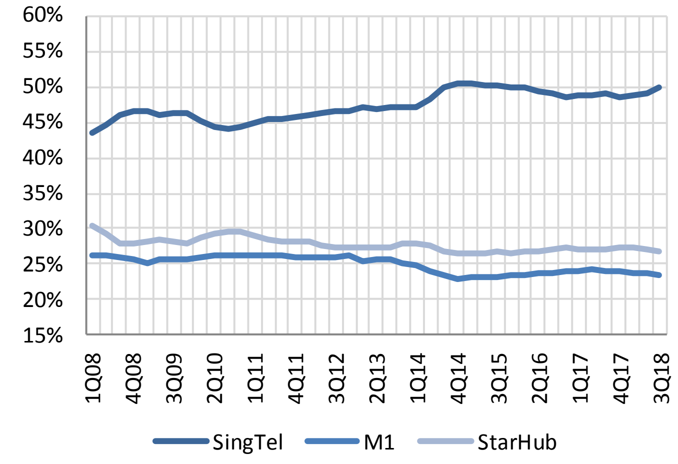
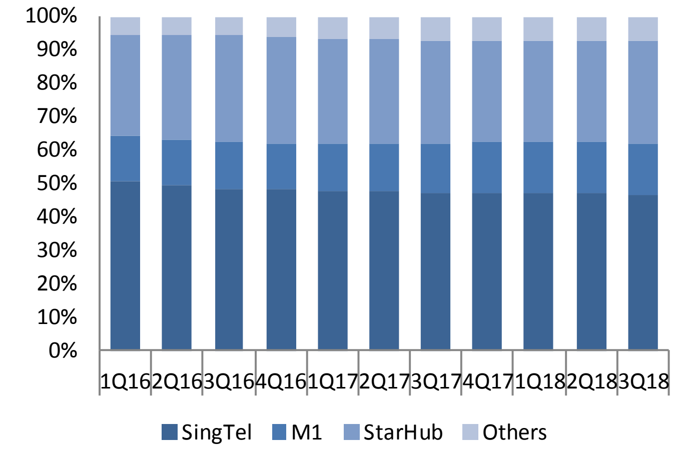
Figure 112: Mobile subscriber share



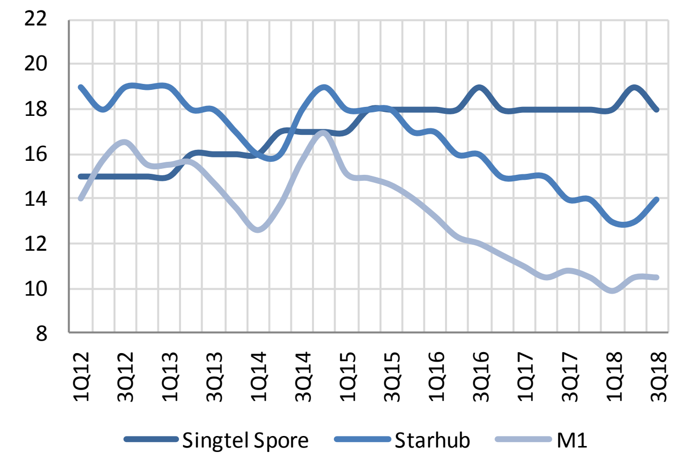
Note : StarHub and M1 subs base includes MVNO customers
Source: RHB

Figure 113: Fibre broadband subscriber share



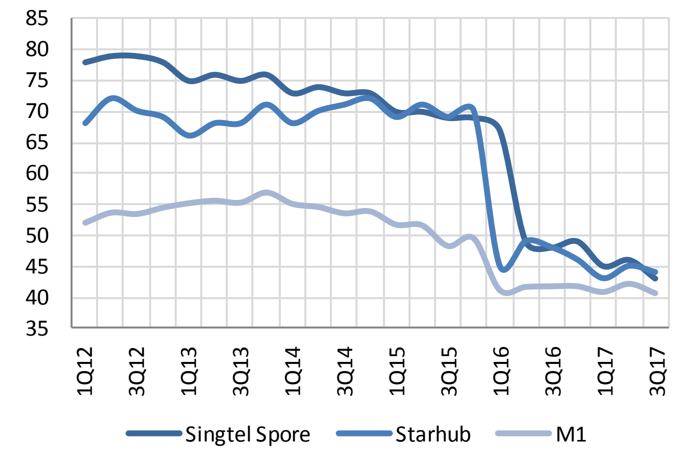
Source: RHB

Figure 114: Prepaid ARPU (SGD)



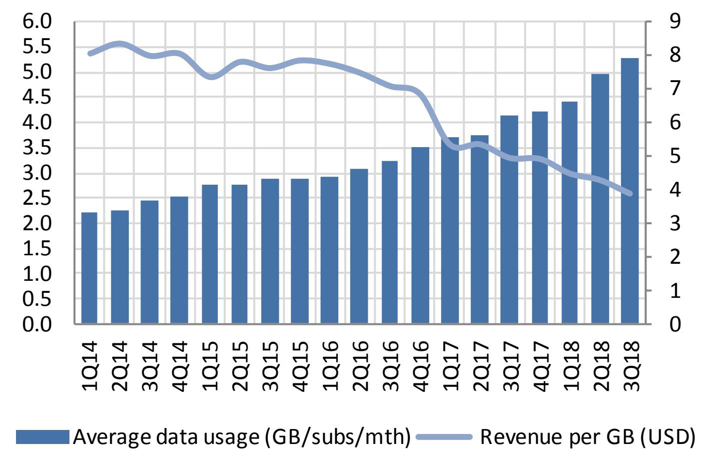
Source: RHB

Figure 115: Postpaid ARPU (SGD)



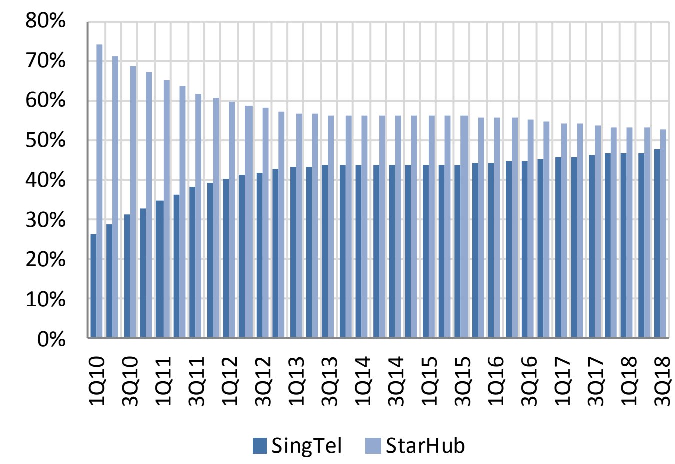
Note: Postpaid ARPUs have been adjusted based on SFRS15 from 1Q17
Source: RHB

Figure 116: Avg. postpaid data usage and data yields (est.)



Source: RHB

Figure 117: Pay-TV subscriber share



Source: RHB

2019 Stock Picks

14 December 2018

Property | REITS

Ascendas REIT

Well-Diversified Industrial Sector Play

Buy (Maintained)

Target Price:	SGD2.90
Price:	SGD2.56
Market Cap:	USD5,913m
Bloomberg Ticker:	AREIT SP

Maintain BUY, SGD2.90 TP, 13% upside with 6.5% FY19F yield. Ascendas REIT is our top industrial REIT pick due to its well-diversified industrial assets, dominant position in the Singapore market and stock liquidity. Industrial sector rental rates in Singapore have been stabilising and are expected to pick up in 2019, with supply slowing down. The recent string of UK acquisitions further diversifies its portfolio across geographies and asset classes, and should help stabilise distribution growth ahead.

Favourable outlook for Singapore portfolio, positive reversion to continue. The outlook for the industrial segment is turning positive with favourable demand-supply dynamics, especially for business parks and hi-tech industrial space. More than half of Ascendas REIT's assets are focused on the above two segments, and should benefit from this trend. While its logistics portfolio is still showing weakness, we believe the slowdown in supply and its diversified exposure across industrial segments should offset the impact in the coming quarters.

Additionally, the REIT has minimal single-tenant buildings (~3% of rental income) due for renewal over the next two years. This minimises the conversion risk into multi-tenancy properties – which results in lower income. Overall, we expect rental reversion for FY19 to stay positive in the 2-5% range and estimate that the portfolio occupancy rate will increase 1-2ppts.

Doubling down on its UK exposure. Ascendas REIT further expanded its UK exposure in October by acquiring a second portfolio of 26 logistics assets in the UK for GBP257.5m (SGD459.2m). The portfolio is fully occupied (including rent guarantees) and offers an initial NPI yield of 5.54%, with a weighted average lease expiry (WALE) of 9.1 years. Earlier in August, it completed the acquisition of 12 logistics properties for GBP207.3m (SGD373.2m). Its UK properties now account for 8% of total portfolio value post acquisitions (Singapore: 78%, Australia: 14%).

Active capital recycling to continue. The REIT has been actively rebalancing its portfolio, ie divesting mature shorter-lease assets and redeploying the capital into higher-yield longer-WALE assets – a strategy which we like. Over the last two years, it hived off eight properties worth ~SGD0.5bn, all at a premium to book value. This, in combination with its asset enhancement initiatives, has been instrumental in it delivering higher unitholder returns over the last few years, despite the challenging industrial market in Singapore.

BUY with a TP of SGD2.90. Our DDM-derived TP is based on 7.3% COE, 3% risk-free rate and terminal growth of 1.5%. Ascendas REIT is our preferred industrial pick and offers the best exposure to the favourable business park and hi-tech industrial segments in Singapore.

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (SGDm)	830.6	862.1	925.1	983.1	1,001.0
Net property income (SGDm)	611.0	629.4	664.2	711.8	724.4
Reported net profit (SGDm)	427.5	494.1	600.7	644.9	742.8
Total distributable income (SGDm)	420.3	438.4	468.6	500.6	504.8
DPS (SGD)	0.16	0.16	0.17	0.17	0.17
DPS growth (%)	2.5	1.5	3.3	3.2	0.7
Recurring P/E (x)	17.3	15.2	12.9	12.4	10.8
P/B (x)	1.2	1.2	1.2	1.2	1.1
Dividend Yield (%)	6.2	6.2	6.5	6.7	6.7
Return on average equity (%)	7.2	8.0	9.1	9.3	10.4
Return on average assets (%)	4.2	4.8	5.3	5.6	6.3
Interest cover (x)	2.7	3.4	2.9	2.7	2.6
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	26.56m/19.35m
52-wk Price low/high (SGD)	2.86 - 2.45
Free Float (%)	81.1
Shares outstanding (m)	3,108
Estimated Return	13.3%

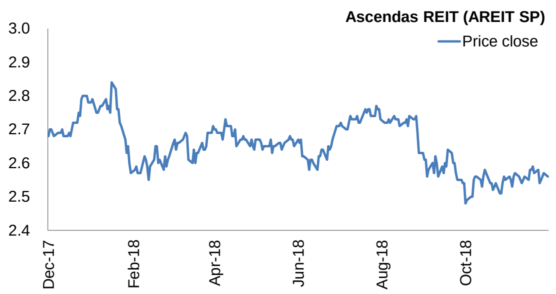
Shareholders (%)

Ascendas Pte Ltd	18.9
Mondrian Investment Partners	8.0
Blackrock	6.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.9)	0.4	(2.7)	(3.4)	(4.1)
Relative	3.8	0.6	(1.1)	7.2	6.2

Source: Bloomberg



Source: Bloomberg

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14 December 2018

Property | Real Estate

CapitaLand

Active Efforts to Boost ROEs

Buy (Maintained)

Target Price:	SGD4.00
Price:	SGD3.15
Market Cap:	USD9,587M
Bloomberg Ticker:	CAPL SP

Maintain BUY, TP of SGD4.00 offers 27% upside and 4.1% FY19F yield. We like CapitaLand for its steady build-up in recurring income and diversified geographical/asset class exposure. Management has been active in capital recycling to deliver returns in 2018, and we expect this to continue in 2019. Despite policy measures, sales across its China residential projects have been steady, providing good earnings visibility. Its balance sheet remains healthy, with gearing at 0.5x. Its valuation is attractive, and the stock is trading at a ~40% discount to RNAV.

Capital recycling likely to continue in 2019. 2018 has been an active year for CapitaLand, in terms of capital recycling - with SGD4bn/6bn worth of divestments/investments (as of Nov 2018). Such efforts are likely to continue, as it aims to deliver on its sustainable ROE target of >8%. Overall, the group is well on track to achieve its total assets under management (AUM) target of SGD100bn by 2020 (currently ~SG95bn). Investment properties are targeted to account for 80% of income, and development properties will be expected to represent the remainder of income.

China residential sales remain healthy. CapitaLand recently (Oct 2018) launched four residential projects in Chengdu, Wuhan, Xi'an and Kunshan – selling over 90% of units across all the projects. The four launches resulted in 1,506 units being sold, at a total of CNY2bn (SGD397m). This marks its best monthly sales figure, and points to healthy demand despite the cooling measures from the Central Government. Management guided that margins are likely to stay in the mid-teens. Including the above projects, CapitaLand should have unbilled sales of >CNY10bn for 2019F, providing good earnings visibility. We also expect it to acquire 2-3 in China in 2019 to replenish its landbank.

In Singapore, recurring income to grow further. Jewel Changi Airport (49% stake) is slated to open in Apr 2019, and is now ~95% pre-committed. We expect the mall to contribute ~SGD40m in recurring income upon stabilisation. Funan retail and office components will also become operational by 2Q19 with pre-commitments at 70% and 60%. For residential projects, CapitaLand has sold ~99% of its launched inventory. In 2019, it expects to launch the Pearl Bank site and Sengkang mixed-use site, which can add 1,500 units. Management will continue to selectively add residential sites if the right opportunity arises.

Maintain BUY, TP of SGD4.00 pegged at a 20% discount to our RNAV estimate of SGD5.00/share. CapitaLand's diversified asset and geographical presence will help mitigate the current market uncertainties and aid in efforts to better allocate capital. Key catalysts include sizeable M&As and unlocking value through selective divestments.

Share Data

Avg Daily Turnover (SGD/USD)	28.33m/20.65m
52-wk Price low/high (SGD)	3.88 - 2.98
Free Float (%)	59.5
Shares outstanding (m)	4,163
Estimated Return	27.0%

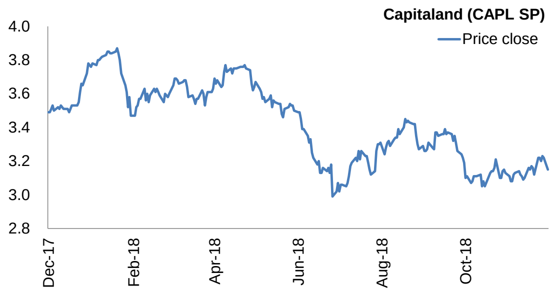
Shareholders (%)

Temasek Holdings Pte	40.4
Blackrock Inc	7.0
Vanguard Group Inc/T	2.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.8)	0.6	(4.3)	(10.0)	(9.0)
Relative	(1.1)	0.8	(2.7)	0.6	1.3

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	5,252	4,610	4,844	5,052	5,474
Reported net profit (SGDm)	1,190.3	1,550.8	1,150.2	1,255.8	1,314.7
Recurring net profit (SGDm)	865.3	907.8	1,059.0	1,161.9	1,218.8
Recurring net profit growth (%)	11.7	30.3	(25.8)	9.2	4.7
Recurring EPS (SGD)	0.25	0.33	0.24	0.26	0.28
DPS (SGD)	0.10	0.12	0.13	0.13	0.14
Recurring P/E (x)	12.6	9.6	13.0	11.9	11.4
P/B (x)	0.8	0.7	0.7	0.7	0.6
Dividend Yield (%)	3.2	3.8	4.1	4.1	4.4
Return on average equity (%)	6.8	8.4	6.0	6.3	6.3
Return on average assets (%)	4.3	4.6	3.3	3.5	3.4
Net debt to equity (%)	41.4	48.6	52.8	52.8	50.9
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Property | REITS

CDL Hospitality Trust

Expect a Better 2019

Buy (Maintained)

Target Price:	SGD1.80
Price:	SGD1.52
Market Cap:	USD1,335M
Bloomberg Ticker:	CDREIT SP

Maintain BUY, TP of SGD1.80 offers 18.4% upside and 6.5% FY19F yield. CDLHT's strategically-located Singapore hotels are well-positioned to tap into the ongoing recovery of Singapore's hospitality sector. The performance of its Maldives resorts should see some recovery in 2019, post-completion of asset upgrades. Other overseas markets are expected to perform steadily, with weakness in some areas offset by strength in others. Its balance sheet remains comfortable, with gearing of ~35%. We expect the REIT to acquire 1-2 assets in 2019.

Positive outlook for Singapore assets, slight disruptions expected from asset enhancements. Demand ahead is likely to be driven by strong growth in leisure travellers, while the corporate segment has also been improving. The supply of new hotel rooms remains modest, with CAGR of 1.3% pa in 2018-2020. The renovation of Orchard Hotel rooms is likely to create some disruption – barring which, other hotels are expected to register a healthy performance. Overall, we expect a 3-7% revenue per available room (RevPAR) growth for 2019.

Maldives – better 2019 outlook. CDL Hospitality Trusts' two Maldives resorts performance has been impacted by a combination of factors which includes: higher room supply, slowdown in Chinese visitors and political changes. Its currently undertaking a major AEI on Dhevanafushi Maldives Luxury Resort (DMLR), which will be rebranded as Raffles Maldives Meradhoo Resort and is scheduled to open early Jan 2019. Refurbishments are also planned for Angsana Velavaru Resort. The refurbished assets should boost the Maldives assets' contributions to group numbers in 2019.

Other overseas markets. The outlook for CDLHT's German and Italy assets remains positive, on favourable dynamics. Meanwhile, its Japan, UK and Australia assets should record a relatively flattish performance despite some headwinds.

Still room for acquisition-led growth. Post the recent acquisition of Hotel Cerretani Florence, CDLHT's gearing remains modest at ~35%. This gives it over SGD200m in headroom for acquisitions (assuming 40% net gearing is a comfortable level). Management said the European hotel market remains attractive, due to relatively higher yields and low interest rates. While Singapore remains its preferred market, the surge in capital values has made yield-accretive acquisitions difficult to achieve.

BUY, DDM-derived TP of SGD1.80. Our DDM is based on CoE of 7.4% (risk-free rate: 3%) and terminal growth rate of 2%. Despite recent overseas acquisitions, CDLHT remains one of the most liquid proxies that offer exposure to the recovery in Singapore's hospitality market. Key risks are an unexpected slowdown in global growth impacting corporate demand, and a sharp spike in interest rates.

Share Data

Avg Daily Turnover (SGD/USD)	2.94m/2.14m
52 week price low/high	1.85 - 1.43
Free Float (%)	62.6
Shares outstanding (m)	1,205
Estimated Return	18.4%

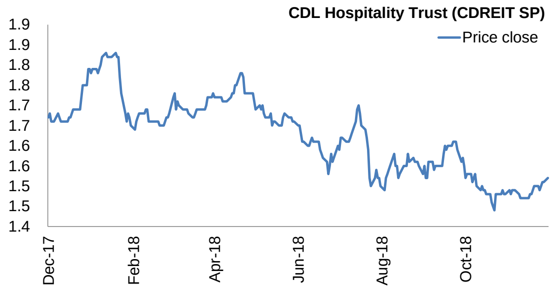
Shareholders (%)

Hospitality Holdings	26.0
M&C Reit Management	6.1
Republic Hotels & Re	5.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.1)	2.7	(0.7)	(8.4)	(9.0)
Relative	(0.3)	2.9	0.9	2.2	1.3

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	180.9	204.3	217.1	239.6	251.8
Net property income (SGDm)	137.6	151.8	160.7	174.9	183.8
Reported net profit (SGDm)	49.3	129.1	153.8	166.3	175.8
Total distributable income (SGDm)	105.5	116.3	121.0	130.4	137.6
DPS (SGD)	0.10	0.09	0.09	0.10	0.10
DPS growth (%)	(0.60)	(7.80)	0.22	6.28	4.07
Recurring P/E (x)	30.4	14.1	12.0	11.2	10.7
P/B (x)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	6.6	6.1	6.1	6.5	6.7
Return on average equity (%)	3.2	7.0	8.1	8.6	8.8
Return on average assets (%)	1.9	4.5	5.3	5.6	5.8
Interest cover (x)	3.2	4.2	5.1	5.2	5.4
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Financial Services | Banks

DBS

Riding On Widening NIM

Buy (Maintained)

Target Price:	SGD29.80
Price:	SGD23.80
Market Cap:	USD44,505m
Bloomberg Ticker:	DBS SP

We keep our BUY call and TP of SGD29.80 offering 25.2% upside, plus 5.00% FY19F yield. Management recently reiterated its bullish stance for 2019 – guiding for further NIM widening from FFR hikes, stable loan growth of mid single-digits and wealth management growth potential. We derive our TP on assuming long-term ROE of 13.8%, which could be achievable based on management's guidance of ~13 2019F ROE. Widening NIM is the catalyst to drive DBS' share price higher.

Expect NIM to widen over the next few quarters. 3Q18 NIM of 1.86% was 1bp wider QoQ. Towards end-3Q18, exit NIM was 1.86%, and management guided for 4Q18 NIM of 1.86-1.87%, with more widening in 2019 from lagged effects of SIBOR increases (45% of Singapore loans are booked off SIBOR). We forecast 2018-2019 NIMs of 1.86% and 1.92%, premised on the trend of higher interest rates – we forecast end-2019 3-month SIBOR of 2.3%, higher than the current 1.77%, even after factoring in the US Fed chairman's more dovish 28 Nov speech.

Management guided for mid single-digit 2019 loan expansion. DBS' 3Q18 loans were 1% higher QoQ, with trade loans being a drag as yields are unattractive. Management sees a SGD2.5bn mortgage loan growth as likely for 2018 – the group has a 31% share of the Singapore housing loan market. Management guides for mid single-digit 2019 loans growth, as trade loans are seen to remain weak. We forecast overall 2019 loan growth of 6%.

Wealth management strength to persist. 9M18 wealth management fees rose 25% YoY (to SGD923m), whilst investment banking recorded a 34% YoY decline (to SGD99m). DBS is optimistic on future wealth management growth, following the addition of 600 staff in wealth management – an area where productivity should rise over the next 2-3 years.

Our long-term ROE assumption is 13.8%. This is on track, as evident from management's guidance of 13% by 2019 (from 9M18's 12.4%). Our CoE assumption is 10%, yielding a target P/BV of 1.54x, which is applied to our 2019F BV to derive our SGD29.80 TP. We believe the premium over its 5-year historical average P/BV of 1.2x is justified, given the rising NIM trend.

During the previous FFR upcycle between mid-2003 and mid-2007, the FFR rose to >5% from 1%. For that duration, DBS' P/BV correspondingly rose as high as 1.9x from 1x. The bank now trades at only 1.2x 2019F book, and our target P/BV is set at 1.54x.

Maintain BUY, with SGD29.80 TP. Downside risks to our forecasts include higher impairment charges and weaker NIM.

Share Data

Avg Daily Turnover (SGD/USD)	119.29m/87.04m
52 week price low/high	30.76 - 22.65
Free Float (%)	69.8
Shares outstanding (m)	2,552
Estimated Return	25.2%

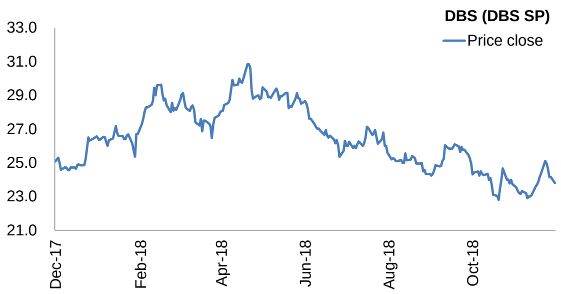
Shareholders (%)

Temasek Holdings Pte	30.1
Capital Group Cos In	3.2
Vanguard Group Inc/T	2.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.2)	2.5	(2.6)	(15.1)	(3.9)
Relative	6.5	0.7	(1.8)	(6.7)	6.5

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Reported net profit (SGDm)	4,238	4,371	5,682	6,339	6,582
Net profit growth (%)	(4.8)	3.1	30.0	11.6	3.8
Recurring net profit (SGDm)	4,238.0	4,390.0	5,681.8	6,339.3	6,582.1
Recurring EPS (SGD)	1.68	1.72	2.23	2.49	2.58
BVPS (SGD)	16.87	17.85	18.09	19.33	21.10
DPS (SGD)	0.60	1.43	1.20	1.20	1.20
Recurring P/E (x)	14.1	13.8	10.7	9.6	9.2
P/B (x)	1.4	1.3	1.3	1.2	1.1
Dividend Yield (%)	2.5%	6.0%	5.0%	5.0%	5.0%
Return on average equity (%)	10.1	9.7	12.3	12.9	12.8
Return on average assets (%)	0.9	0.9	1.1	1.2	1.2
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Consumer Cyclical | Food & Beverage Products

Delfi

Time To Eat Some Chocolates

Buy (Maintained)

Target Price:	SGD1.59
Price:	SGD1.37
Market Cap:	USD611M
Bloomberg Ticker:	DELFI SP

Maintain BUY with unchanged TP of SGD1.59. 70% of Delfi sales are derived from Indonesia. We expect Delfi to do well in FY19F, led by strong sales momentum at its core brands. Growth in the premium products range should also help hold up margins. On the macro side, we are OVERWEIGHT the Indonesian consumer sector. Consumer sentiment in Indonesia has been upbeat. With the coming 2019 election, we believe consumer spending will be boosted by higher government stimulus and subsidy.

Positive macros weighed in. Indonesia's Consumer Confidence Index remained in the optimistic zone in Oct 2018, buoyed by positive economic outlook and income expectations. With the general election expected to be held in 2019, we note that the number of recipients for cash handouts has increased, while public servants' salaries and pensions are to be raised by 5% on average. We believe these measures are positive for raising domestic spending in Indonesia next year.

In addition, the IDR has strengthened c.7% over the past one month. We believe this will help raise Delfi's gross margin as the bulk of its raw material costs are denominated in USD. Consumer purchasing power has also improved. Given that c.70% of Delfi sales are derived from Indonesia, we believe the uptick in domestic spending driven by positive macro factors is beneficial for the group.

More can be done with *Van Houten*, while sales for core brands continue to grow. Delfi's 9M18 sales grew by 16% YoY, led by strong traction of its own brands. With the acquisition of the exclusive and perpetual licence for the *Van Houten* brand for key markets in Asia Pacific in Apr 2018, management believes more efforts can be put in to drive higher sales and profitability of this brand in 2019. Given that *Van Houten* products are largely associated with gifting, we expect to see stronger sales especially during the upcoming festive seasons like Christmas, Lunar New Year and Valentines' Day.

SG&A has stabilised. Delfi saw a sharp increase in distribution and selling fees in 2017, due to the proliferation of mini-marts in Indonesia. We note that SG&A has stabilised this year. We believe major investments and negotiations over trade terms with these distribution channels have largely completed, and we do not foresee big changes in SG&A next year.

BUY with unchanged DCF-derived TP SGD1.59. Delfi is the market leader in Indonesia's confectionery space. We expect its brands to do well, in line with Indonesia strong consumption momentum for FY19. The stock's current P/E valuations are also undemanding compared to its historical average of 34x.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (USDm)	402	381	411	466	509
Reported net profit (USDm)	26	22	22	26	29
Recurring net profit (USDm)	26	18	22	26	29
Recurring net profit growth (%)	70.8	(32.3)	25.1	16.9	13.4
Recurring EPS (USD)	0.04	0.03	0.04	0.04	0.05
DPS (USD)	0.02	0.02	0.02	0.03	0.03
Recurring P/E (x)	23.3	34.4	27.5	23.5	20.8
P/B (x)	3.0	2.9	2.8	2.7	2.5
P/CF (x)	10.8	25.1	18.7	19.4	17.2
Dividend Yield (%)	2.3	1.8	2.2	2.5	2.9
EV/EBITDA (x)	12.9	14.7	12.9	11.5	10.4
Return on average equity (%)	13.3	10.5	10.1	11.3	12.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	0.53m/0.39m
52-wk Price low/high (SGD)	1.64-0.99
Free Float (%)	48.7
Shares outstanding (m)	611
Estimated Return	16.1%

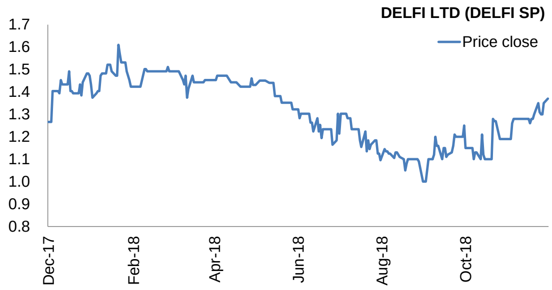
Shareholders (%)

Berlian Enterprises	50.5
Commonwealth Bank Of Australia	20.0
Standard Life Aberdeen	7.8

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.5)	15.1	37.0	2.2	5.4
Relative	6.2	15.3	38.6	12.8	15.7

Source: Bloomberg



Source: Bloomberg

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14 December 2018

Technology | Software & Services

Fu Yu Corp

Top Pick For Small-Mid Cap Manufacturing

Buy (Maintained)

Target Price:	SGD0.23
Price:	SGD0.19
Market Cap:	USD106.9M
Bloomberg Ticker:	FUYU SP

Maintain BUY with DCF-backed TP of SGD0.23, accompanied by an attractive FY19F 8.3% yield. Fuyu reported an exceptional 3Q18, with continued topline growth of 4.4% and PATMI surge of 543% YoY. Going forward, we expect continued revenue and margin expansion due to new projects into the automotive, consumer and medical spaces. With more than 80% of its revenues in USD, it should also benefit from the stronger USD. As a result, Fu Yu remains our Top Pick for the small-mid cap manufacturing sector.

Exceptional performance YTD. As of 9M18, topline has grown steadily at 5.2% YoY, contributed mainly by new customers in the automotive, medical and consumer spaces. Gross margin improved to 17.8% from 16.3% a year earlier, following higher margins from the automotive and medical projects, which look likely to continue. Fuyu should enjoy higher contribution from its auto projects as they ramp up in subsequent quarters. 9M18 PATMI also surged 433% to SGD8.95m.

Increased payout and attractive 8.3% FY19F yield. With a sound balance sheet consisting of no debt and net cash of SGD77.3m, positive operating cashflows of SGD15-20m a year and an improving business with higher margins, we expect Fuyu to continue to reward shareholders with higher and more attractive dividends. It has paid SGD0.014 annually in the past two years, despite a slowdown in business. It also increased interim dividends for 2Q18 and the current quarter to SGD0.003 from SGD0.002 per quarter. All in all, we expect dividends to increase to SGD0.016, which we think is highly feasible and will still represent an attractive yield of 8.2%.

Continues to be our Top Pick in the small-mid cap manufacturing space; Maintain BUY. With the ramp-up in its automotive projects to continue in the subsequent quarters, coupled with new projects on the medical and consumer front, we expect such positive growth momentum to continue. In addition, a rising USD would also be beneficial for Fuyu. Management is still actively seeking ways to further optimise the cost structure of its operations in the region, especially in China, such as rightsizing exercises and the sale or lease of unutilised factory space if suitable opportunities arise – which will further improve margins. Supported by an attractive yield, we maintain BUY with DCF TP of SGD0.23. Fuyu remains our Top Pick in the small-mid cap manufacturing space.

Key risks to our call include a slowdown in the economy and a worsening trade war.

RHB is one of the three brokerages covering this counter.

Share Data

Avg Daily Turnover (SGD/USD)	0.11m/0.08m
52 week price low/high	0.22 - 0.16
Free Float (%)	59.7
Shares outstanding (m)	753
Estimated Return	21.1%

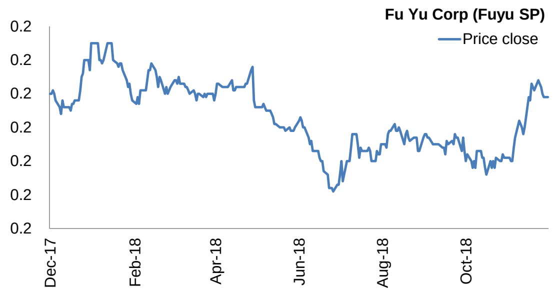
Shareholders (%)

Tam Wai	12.9
Ho Nee Kit	12.9
Ching Heng Yang	11.8

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.5	11.2	6.8	3.8	(1.0)
Relative	9.2	9.4	7.6	12.3	9.4

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	199	195	211	227	246
Reported net profit (SGDm)	11.9	5.5	10.7	11.6	12.1
Recurring net profit (SGDm)	11.9	5.5	10.7	11.6	12.1
Recurring net profit growth (%)	(28.9)	(54.0)	96.6	7.6	4.6
Recurring EPS (SGD)	0.02	0.01	0.01	0.02	0.02
DPS (SGD)	0.02	0.02	0.02	0.02	0.02
Recurring P/E (x)	12.3	26.8	13.6	12.6	12.1
P/B (x)	0.8	0.9	0.9	0.9	0.9
P/CF (x)	7.0	24.6	7.7	9.5	9.2
Dividend Yield (%)	10.3	7.7	8.3	8.3	8.3
EV/EBITDA (x)	2.4	4.4	3.1	3.1	3.1
Return on average equity (%)	6.8	3.3	6.5	7.1	7.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Consumer Cyclical | Gaming

Genting Singapore

Steady Wins The Race

Buy (Maintained)

Target Price:	SGD1.23
Price:	SGD0.97
Market Cap:	USD8,727m
Bloomberg Ticker:	GENS SP

Maintain BUY with unchanged TP of SGD1.23, 27% upside plus 3.6% FY19F yield. We believe the stock is trading at an unjustified EV/EBITDA of 5.9 despite stable earnings growth and long term re-rating catalysts ahead. Our TP translates into an implied EV/EBITDA of 9x, which we deem reasonably close to its historical average of 10x. We think the group's credit extension strategy would be able to attract and retain higher volumes of premium and VIP customers, which in turn would lead to an expansion of its gaming market share moving forward.

Resilient tourist arrivals in Singapore. In its latest earnings report, Genting Singapore reported an increase in average daily tourist arrivals to 22,000 in 3Q18 (vs 18,000 in 1H18). This was mainly driven by Universal Studios Singapore, S.E.A. Aquarium and Adventure Cove Waterpark. We expect contribution from its non-gaming division to remain sturdy in view of resilient tourist arrivals and higher average ticket prices. Based on statistics from the Singapore Tourism Board, 9M18 tourist arrivals grew 7.5% YoY as compared to 5.1%YoY growth seen in 9M17. Visitor arrivals from Greater China alone grew 8% YoY, at a similar pace as FY17, implying that visitor growth levels are still healthy as of September. This is positive for Genting Singapore, as >50% of their customers originate from the region.

VIP expansion. The group's strategy to loosen the tap for VIP customers has shown results in its recent third quarter numbers. This was reflected in the gradual increase in its trade receivables to SGD142m from SGD127m in Dec 2017, 13% YoY growth in VIP rolling volume amid rising trade war tensions and narrowing bad debt provision – improved 49% YoY to SGD22.5m (vs 9M17's SGD43.6). Looking ahead, we expect its prudent credit extension to continue, with no indication of a slowdown in VIP gaming volume.

Catalysts on the drawing board. The reinvestment proposal for Resorts World Sentosa (RWS) still remains at the discussion stage. On the bid for the Japan casino licence, we anticipate a formal request for proposal (RFP) to be drawn up by 2H19, followed by an announcement of Japan casino licence winners in FY20. Investors are upbeat about Genting Singapore's expansion plans into Japan, which, in the long term, could act as a re-rating catalyst for the group.

Forecast and risks. We make no changes to our earnings forecast. Key risks to our call include fluctuations in win rates and a slowdown in tourist arrivals at RWS as the SGD strengthens against regional currencies.

Maintain BUY with an unchanged TP of SGD1.23. At the current share price, we believe the stock is undervalued, since it is trading at a relatively low EV/EBITDA of [5.6], vs the regional peer average of 11.5x and its historical average of 10x. We also like Genting Singapore for its potential expansion to the Japan market and its reinvestment into RWS, with more news flow expected in FY19. As such, we advise investors to accumulate on share price weakness.

Share Data

Avg Daily Turnover (SGD/USD)	38.98m/28.38m
52-wk Price low/high (SGD)	1.41 - 0.86
Free Float (%)	47.1
Shares outstanding (m)	12,045
Estimated Return	26.8%

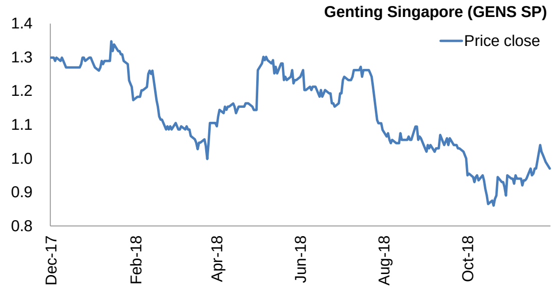
Shareholders (%)

Genting Bhd	52.8
Vanguard Group Inc/T	1.3
Blackrock Inc	1.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.0)	2.1	(5.8)	(22.4)	(26.5)
Relative	(16.2)	2.3	(4.3)	(11.8)	(16.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	2,228	2,393	2,719	2,773	2,880
Reported net profit (SGDm)	384.5	685.6	841.3	860.9	914.0
Recurring net profit (SGDm)	378.6	690.3	841.3	860.9	914.0
Recurring net profit growth (%)	(26.9)	82.4	21.9	2.3	6.2
Recurring EPS (SGD)	0.03	0.06	0.07	0.07	0.08
DPS (SGD)	0.03	0.04	0.04	0.04	0.04
Recurring P/E (x)	30.5	17.1	13.9	13.6	12.8
P/B (x)	1.2	1.6	1.5	1.4	1.3
P/CF (x)	10.1	9.3	10.6	10.6	10.2
Dividend Yield (%)	3.1	3.6	3.6	3.6	3.6
EV/EBITDA (x)	10.4	8.3	6.6	6.2	5.6
Return on average equity (%)	4.0	8.1	11.0	10.7	10.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Industrials | Commercial & Professional Services

HRnetgroup

Buy (Maintained)

Target Price:	SGD1.18
Price:	SGD0.79
Market Cap:	USD579m
Bloomberg Ticker:	HRNET SP

Extending Reach Across China

Maintain BUY, DCF-based TP of SGD1.18 offers 49.4% upside and 3.5% FY19F yield. HRnetgroup reported a strong 3Q18, with topline rising 7.7% YoY and PATMI up 17.8% YoY to SGD12.6m, contributed by a strong performance from North Asia as well as Singapore, and on top of a rise in GPM to 38%, from 35% a year ago. With net cash of SGD275m, management is actively in talks with several parties for M&As. In addition, the full accretion of Rimbun and REForce will continue to lift earnings going forward.

Stellar 3Q18. HRnetgroup reported a strong 3Q18, with topline rising 7.7% YoY and PATMI growing 17.8% YoY to SGD12.6m. This was due to a strong performance in its North Asia as well as Singapore segments, coupled with a rise in GPM to 38%, on the increased contributions from professional recruitment which carried a much higher GPM of 99.6%. Productive sales employees also increased to 561, from 483 (up 16% YoY).

Key drivers – Singapore and North Asia. We previously guided that we expect a strong performance to come from its Singapore and North Asia units. In 3Q18, professionally recruitment topline grew by 22.2% YoY, mainly contributed by its performance in Singapore and North Asia. For flexible staffing, the strong business momentum continued in Singapore and Hong Kong, with topline up 3.4% YoY. With its REForce acquisition in China, we expect it to contribute positively to PATMI in 4Q18, and expect a further positive growth momentum in North Asia to continue driving profitability.

Flexible staffing to drive growth in 4Q18. Typically, 4Q is HRnetgroup's best quarter for its flexible staffing business due to festivals like Christmas and New Year's Eve. We think 4Q18 will likely be the same, with strong flexible staffing set to drive growth for the period. In addition, the full accretion of Rimbun and REForce will also contribute positively to the group in 4Q.

Record FY18 ahead; maintain BUY. We believe HRnetgroup will likely make more acquisitions in the near future and focus on new markets, as well as grow its presence in North Asia. We also expect a better FY18, due to stronger growth in North Asia and Singapore across all segments and the 88GLOW Plan impacting PATMI positively, ie full effect for 2018. In addition, management is likely to continue its share buyback scheme to reward productive sales employees and to equip itself for further M&As.

Key risks include fluctuations in general economic activity.

Share Data

Avg Daily Turnover (SGD/USD)	0.23m/0.17m
52 week price low/high	0.91 - 0.71
Free Float (%)	19.9
Shares outstanding (m)	1,006
Estimated Return	49.4%

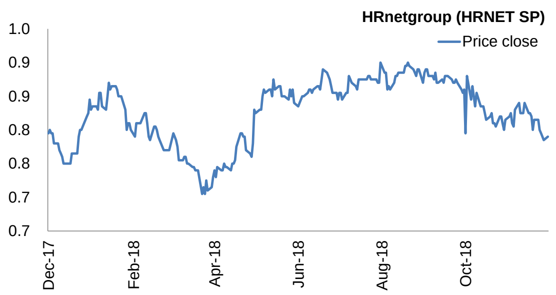
Shareholders (%)

Simco Global Ltd	74.9
Technopro Holdings I	3.0
Vanda 1 Investments	2.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.3	(4.2)	(11.2)	(6.5)	(0.6)
Relative	12.0	(6.0)	(10.4)	1.9	9.8

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	365	392	430	453	476
Reported net profit (SGDm)	41.1	44.2	54.6	57.5	62.9
Recurring net profit (SGDm)	41.1	44.2	54.6	57.5	62.9
Recurring net profit growth (%)	7.6	7.5	23.6	5.2	9.4
Recurring EPS (SGD)	0.05	0.04	0.05	0.06	0.06
DPS (SGD)	na	0.02	0.03	0.03	0.03
Recurring P/E (x)	14.8	18.1	14.6	13.9	12.7
P/B (x)	7.2	2.5	2.3	2.1	1.9
P/CF (x)	11.4	22.7	13.5	14.1	12.9
Dividend Yield (%)	#VALUE!	2.5	3.2	3.4	3.7
EV/EBITDA (x)	8.6	9.0	7.1	6.4	5.4
Return on average equity (%)	40.8	20.8	16.0	15.4	15.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Property | REITS

Buy (Maintained)

Manulife US REIT

Fundamentals Remain Sound

Target Price:	USD0.92
Price:	USD0.76
Market Cap:	USD977m
Bloomberg Ticker:	MUST SP

Maintain BUY, TP of SGD0.92, 21% upside with 8.2% FY19F yield. Manulife US REIT remains a good proxy to the sound US office fundamentals, through its portfolio of seven high-quality commercial assets across the US. The outlook for US office space remains rosy on strong job creation and limited micro market supply. While there have been some concerns based on potential tax reforms impacting its tax-efficient structure, we believe the probability of any drastic changes is low.

Positive rental reversions to continue. The outlook for office demand in key gateway cities remains positive, with the continued improvement in the labour market and unemployment at record-low levels of 3.9%. This is reflected in continued positive rental reversions (+10.2% in 9M18) for Manulife US REIT, on top of its stable portfolio occupancy rate (96%) and higher valuations for its properties. The supply of office space (2018-2020) across the micro-markets where its assets are located also remains minimal. As such, we expect rental reversions to stay positive at 3-7%, for 2019.

Debt cost to increase slightly, mitigated by organic rental rate growth. While the REIT's portfolio debt is currently fully hedged, about USD108.5m (16% of total) of its loans are due for renewal in Apr 2019. As borrowing costs have risen considerably from the time of financing, we expect overall borrowing costs to increase by 30-40bp upon refinancing. However the impact will be cushioned by the organic rent growth from inbuilt rent escalations. About 94% of Manulife US REIT's rental portfolio have built-in annual rent escalation clauses and mid-term/periodic rental rate increases. On average, this should result in 2.1% pa growth in overall portfolio rental rates.

Speculation surrounding tax changes seems overdone. There has been market speculation on potential tax reforms by the Trump administration, which could impact the current tax-efficient structure employed by the REIT. The speculation surrounds changes to the US portfolio interest exemption rule – which shields withholding tax on interest and principal on shareholder's loans.

While visibility on this issue is still low, the probability of any drastic change is also small. This is as the current structure is used by a large number of private funds, and the change will have a broader impact on foreign investments in the US. Management has also been proactively evaluating counter-measures in the form of increasing depreciation charges or changing the tax domicile entity, which could limit the impact such changes, if they take place. The worst-case impact is likely to be a 15% drop in distributable income.

Valuations are compelling. Manulife US REIT offers a FY19F yield of 8.2%, which we find highly attractive. Our DDM-based TP is based on a CoE of 8.5% and terminal growth of 2%. Key risks are changes to its tax-efficient structure, the ability to retain key tenants and an unexpected slowdown in office space demand.

Share Data

Avg Daily Turnover (SGD /USD)	1.03m/1.03m
52-wk Price low/high (USD)	0.98 - 0.7
Free Float (%)	92.7
Shares outstanding (m)	1,278
Estimated Return	21.1%

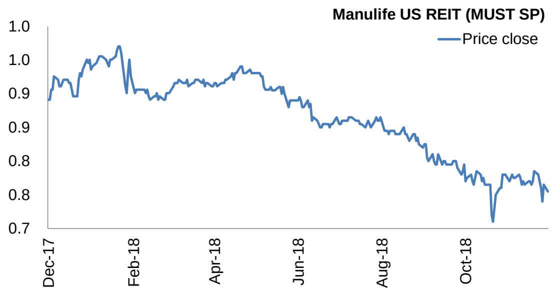
Shareholders (%)

Manulife Financial C	7.2
Prudential Plc	5.3
Dbs Group Holdings L	3.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.7)	(3.2)	(7.9)	(15.2)	(15.7)
Relative	(6.0)	(3.0)	(6.4)	(4.6)	(5.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16*	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (USDm)	47.5	92.0	146.7	165.2	168.2
Net property income (USDm)	30.0	58.4	90.9	103.2	105.0
Reported net profit (USDm)	51.7	7.9	8.6	29.7	68.3
Total distributable income (USDm)	22.3	46.7	46.7	37.4	61.9
DPS (USD)	0.06	0.06	0.06	0.06	0.06
DPS growth (%)	-	(4.05)	6.93	5.08	2.34
Recurring P/E (x)	9.2	11.0	11.6	10.6	10.5
P/B (x)	0.9	0.9	0.9	0.9	0.9
Dividend Yield (%)	7.6	7.3	7.8	8.2	8.4
Return on average equity (%)	9.4	6.8	7.9	8.6	8.5
Return on average assets (%)	5.9	4.2	3.8	4.2	4.2
Interest cover (x)	11.1	7.1	3.9	3.4	3.4
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Financial Services | Exchanges

Singapore Exchange

Bullish On Derivatives Strength

Buy (Maintained)

Target Price:	SGD8.20
Price:	SGD7.03
Market Cap:	USD5,631m
Bloomberg Ticker:	SGX SP

Maintain BUY with SGD8.20 TP – pegged to 22x FY20F EPS – granting 16.6% upside. FY19F dividend yield is also an attractive 4.5%. We forecast FY19 SADV of SGD1.11bn, slightly above the 5MFY19 SADV of SGD1bn. We are bullish on derivatives volume numbers, as the China A50 Index Futures saw October & November daily average contracts traded surging 16% vs 1QFY19 – and we believe the strength can persist, on the back of continued market volatility.

Recent weak securities average daily value (SADV), but we believe there will be some pick-up. For the first two months of 2QFY19 (Jun), Singapore Exchange (SGX) recorded SADV of SGD1bn, which is 5% lower vs 1QFY19's numbers. Despite the 10 Dec reduction of the settlement cycle to two days from three – which could dampen trading – we remain optimistic that SADV can pick up from current levels in subsequent months. This is as institutional investors switch equities within their portfolios on global developments such as interest rate hikes (eg less aggressive stance recently in the recent 28 Nov Federal Reserve chairman speech) and trade war prospects. SGX's launch of the single stock daily leverage certificates in November is also a catalyst to grow revenue.

China A50 Index Futures – star contributor. For October, the China A50 Index Futures traded stood at 9.4m contracts vs 1QFY19's monthly average of 7.84m. The derivatives trading momentum remains good, with the China A50 accounting for 43% of total derivatives volume share. We forecast FY19 derivatives average daily contracts of 845,000 vs 1QFY19's 861,000.

Higher interim dividend. An interim dividend of SGD0.075 was paid on 5 Nov. This was higher than the SGD0.05 paid out in 1QFY18. SGX is on track to hit our target FY19 dividend of SGD0.31.

Strong balance sheet. SGX remains in a net cash position, with a monopoly over the trading of Singapore-listed equities.

Limited downside, even if SADV is lower than our base case. Our TP of SGD8.20 is pegged to 22x FY20F P/E, which is the 4-year mean. Our base case FY20F SADV is SGD1.29bn. Even if the latter was 20% lower than our base case of SGD1.03bn, SGX's hypothetical fair value of SGD7.21 is close to the current traded price.

Key risks would be global economic fluctuations and geopolitical developments. Another area investors should monitor is the SGX-India Index Services & Products arbitration process, which has been deferred pending the outcome of discussions between SGX and the National Stock Exchange of India on a potential collaboration.

Share Data

Avg Daily Turnover (SGD/USD)	14.12m/10.3m
52 week price low/high	8.5 - 6.72
Free Float (%)	76.6
Shares outstanding (m)	1,070
Estimated Return	16.6%

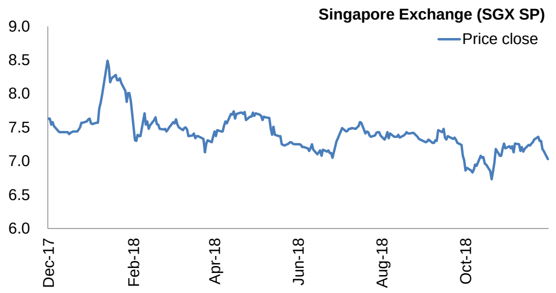
Shareholders (%)

Sel Holdings Pte Ltd	23.4
Vanguard Group Inc/T	2.1
Blackrock Inc	1.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.0)	0.4	(1.0)	(0.3)	(4.2)
Relative	5.7	(1.3)	(0.2)	8.1	6.2

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	801	845	852	923	951
Reported net profit (SGDm)	339.7	363.2	372.5	406.0	421.0
Recurring net profit (SGDm)	339.7	363.2	372.5	406.0	421.0
Recurring net profit growth (%)	(2.7)	6.9	2.6	9.0	3.7
Recurring EPS (SGD)	0.32	0.34	0.35	0.38	0.39
DPS (SGD)	0.28	0.30	0.31	0.34	0.35
Recurring P/E (x)	22.2	20.7	20.2	18.5	17.9
P/B (x)	7.3	6.9	6.6	6.4	6.2
P/CF (x)	23.7	21.6	26.2	23.3	22.3
Dividend Yield (%)	4.0	4.3	4.5	4.9	5.0
EV/EBITDA (x)	14.7	13.8	13.7	12.5	12.1
Return on average equity (%)	33.6	34.1	33.4	35.2	35.2
Net debt to equity (%)	(77.1)	(75.9)	(70.8)	(67.9)	(63.9)
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Consumer Staples | Grocery Retailing

Sheng Siong

Among The More Defensive Names In Play

Buy (Maintained)

Target Price:	SGD1.27
Price:	SGD1.09
Market Cap:	USD1,182M
Bloomberg Ticker:	SSG SP

Maintain BUY and TP of SGD1.27, 16.5% upside plus 3.8% FY19F yield. Sheng Siong remains our Top Pick in the consumer sector for FY19F. In view of market uncertainties led by the US-China trade war, we continue to like Sheng Siong for its defensive nature. Moving into FY19F, earnings should be driven by stronger growth with the maturing of its 10 new stores that were opened in 2018, as well as gross margin expansion after the completion of its distribution centre extension.

Reaping the harvest. Sheng Siong opened 10 new stores in 2018, bringing its total store count to 54 excluding the store in China. While the aggressive expansion has resulted in an increase in administrative expenses, we expect sales at these 10 new stores to ramp up in 2019, thereby improving overall operating margin for the group.

The extension at the group's distribution centre is also expected to complete in 2019. This should add another 20% capacity at its existing distribution centre, which would allow the group to increase its direct-purchase and bulk handling capabilities.

Gross margin expansion to continue. We believe the increase in operational efficiencies brought by the extension at its distribution centre as well as higher sales mix of fresh produce will help to raise gross margins. On top of that, with a higher number of store count, the group will be able to obtain higher supplier rebates to boost its gross margins.

Gaining market share. We expect Sheng Siong to gain market share as its competitor, Dairy Farm is rationalising its store portfolio in Singapore. In addition, we think there is no lack of opportunities for Sheng Siong to open more stores as the Housing & Development Board (HDB) still has nine new sites allocated for supermarkets under open tender bidding from now until the end of 2019.

BUY with TP SGD1.27. We like the group's defensive and cash-generative business model. We note that Sheng Siong's same-store sales growth has been performing in line with the industry, while its new stores have been adding a new stream of revenue for the group. The stock offers a dividend yield of c.3.5-4% for FY19F. We expect Sheng Siong to outperform other industries amidst market uncertainties.

Share Data

Avg Daily Turnover (SGD/USD)	2.35m/1.71m
52-wk Price low/high (SGD)	1.19 - 0.9
Free Float (%)	42.6
Shares outstanding (m)	1,504
Estimated Return	16.5%

Shareholders (%)

S & S Holdings Inc	29.9
Lim Hock Chee	9.3
Lim Hock Leng	9.1

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.8	2.8	(2.7)	7.9	17.2
Relative	27.5	3.0	(1.1)	18.5	27.5

Source: Bloomberg

Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	797	830	889	1000	1069
Reported net profit (SGDm)	63	70	70	82	91
Recurring net profit (SGDm)	63	68	70	82	91
Recurring net profit growth (%)	10.4	7.8	3.9	17.0	11.3
Recurring EPS (SGD)	0.04	0.04	0.05	0.05	0.06
DPS (SGD)	0.04	0.03	0.03	0.04	0.05
Recurring P/E (x)	26.1	24.2	23.3	19.9	17.9
P/B (x)	6.4	6.1	5.7	5.3	4.9
P/CF (x)	21.0	20.9	16.3	15.6	14.4
Dividend Yield (%)	3.4	3.0	3.2	3.8	4.2
EV/EBITDA (x)	18.8	17.6	17.0	15.0	13.9
Return on average equity (%)	24.6	25.7	24.3	26.6	27.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Technology | Software & Services

Silverlake Axis

Buy (Maintained)

Target Price:	SGD0.65
Price:	SGD0.42
Market Cap:	USD834m
Bloomberg Ticker:	SILV SP

V-Shaped Recovery Ahead

Maintain BUY, DCF-based TP of SGD0.65, 54.8% upside. Silverlake reported a stellar 1Q19, with revenue and PATMI surging 36% and 70% YoY to MYR166.6m and 57.9m due to the implementation of the contracts secured few months ago. The next few quarters should be stronger as it continues to draw down on its MYR320m orderbook, with both licensing and project services revenue projected to grow robustly. Earnings from the acquisition of Xinfotech will also kick in 2H19.

Stellar 1Q19 but better quarters ahead. Silverlake reported a stellar 1Q19, with revenue and PATMI surging 36% and 70% YoY. Going forward, management aims to utilise at least MYR200m worth of orders for FY19F, which will likely result in a 64% YoY PATMI surge for FY19F. Margins improvement will also likely continue on higher contributions from the lucrative licensing revenues.

MYR320m orderbook, with potential large-sized contract wins ahead. Despite drawing down SGD55m of its orderbook in 1Q19, the company secured another MYR25-30m worth of contracts on the digital banking front. This brings its orderbook to MYR320m. With banks increasing their IT budgets, we understand that management is still actively in talks with a few potential new and existing customers, and is confident of securing more large-sized contracts in 1H19 – which should further contribute more to PATMI growth in FY20-21.

Acquisition of XInfotech group. Silverlake has entered into a agreement to acquire 80% stake in XInfotech group, a provider of software solutions for the issuance and verification of digital identity documents and financial smart cards, for an initial consideration of EUR17.6m. Of this, EUR3m will be paid in the next two financial years – subject to certain growth targets being achieved and an earn-out consideration whether it can undertake an IPO by 31 Dec 2021 and other profit growth targets.

There is also a put-and-call option requiring Silverlake to purchase the remaining 20% stake, subject to various conditions This acquisition is expected to significantly enhance and expand its digital economy offerings, particularly in the areas of public and private enterprise digital identity solutions for customer identity economics, social and financial inclusion, security, and payments applications. The company will also extend its geographical coverage and business operations internationally, with more than 380 enterprise customers in over 80 countries. Xinfotech booked EUR1.99 NPAT for FY17, which roughly translates to 11x FY17 P/E – which will be earnings-accretive for Silverlake.

V-shaped recovery affirmed; maintain BUY. With bumper years of PATMI growth ahead justified by its strong orderbook of over MYR320m not seen since FY15-16 and potential large contracts still to come, we believe that Silverlake's V-shaped recovery is intact. Our DCF-backed TP stays at SGD0.65, while the stock offers an attractive 5.9% dividend FY19F yield.

Share Data

Avg Daily Turnover (SGD/USD)	0.4m/0.3m
52-wk Price low/high (SGD)	0.39 - 0.59
Free Float (%)	26.2
Shares outstanding (m)	2,649
Estimated Return	54.8%

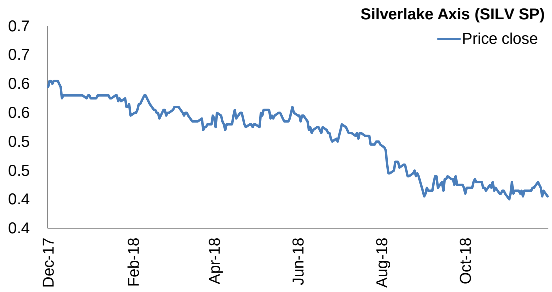
Shareholders (%)

Goh Peng Ooi	66.4
Ntasian Discovery Ma	5.0
Hna Group Co Ltd	4.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.6)	1.2	(0.0)	(21.5)	(29.6)
Relative	(17.9)	(0.5)	0.8	(13.1)	(19.2)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-17	Jun-18	Jun 19F	Jun 20F	Jun 21F
Total turnover (MYRm)	550	542	692	745	795
Reported net profit (MYRm)	863.7	134.1	219.3	238.0	255.3
Recurring net profit (MYRm)	124.0	134.1	219.3	238.0	255.3
Recurring net profit growth (%)	(0.5)	0.1	0.6	0.1	0.1
Recurring EPS (MYR)	0.05	0.05	0.08	0.09	0.09
DPS (MYR)	0.12	0.14	0.07	0.08	0.09
Recurring P/E (x)	26.8	24.8	15.2	14.0	13.0
P/B (x)	2.9	6.4	6.1	5.8	5.6
P/CF (x)	15.7	22.9	18.5	13.5	12.5
Dividend Yield (%)	9.7	11.6	5.9	6.4	6.9
EV/EBITDA (x)	2.6	16.4	11.4	10.4	9.5
Return on average equity (%)	92.9	25.6	40.2	41.8	42.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Communications | Telecommunications

Singtel

Chugging Along; Still Top Pick

Neutral (Maintained)

Target Price:	SGD3.22
Price:	SGD3.06
Market Cap:	USD36,374M
Bloomberg Ticker:	ST SP

Maintain NEUTRAL based on SOP-derived TP of SGD3.22, 5.2% upside. We see earnings headwinds across Singtel's mobile footprint for 2019, with competition still looking intense. In our view, the underlying growth drivers are: the recovery in enterprise/ICT revenue, better showing from its associates, and further opex savings. We view the risk-reward profile of the stock as largely balanced at current levels. The absolute DPS payout of SGD0.175 provides certainty, with attractive FY19F-21F dividend yields of 5.7%. Singtel remains our preferred sector pick.

Outlook and catalysts. We believe catalysts for Singtel's underlying growth in 2019 are:

i. A stronger rebound in the enterprise/ICT business with the resumption of smart nation projects;

ii. Greater opex savings;

iii. Earnings recovery at its associates, specifically in Indonesia (Telkomsel) and Thailand (AIS) on data price repair and receding competition.

The group is on track to achieve targeted cost savings of SGD500m for FY19 (1HFY19 savings at SGD193m). This should help drive group EBITDA improvement (1HFY19: -6.1% YoY) despite the topline pressure (1HFY19: -0.2% YoY). Importantly, its mobile advertising arm (Amobee) is also expected to be EBITDA positive in FY19 (1HFY19: -SGD10m EBITDA). We expect Singtel's core earnings to grow by a CAGR of 3.2% from FY19-21.

Mobile revenue likely to remain subdued, with growth at Optus mostly offset by weaker Singapore operations. Singapore consumer mobile service revenue (MSR) fell for the third consecutive quarter, down 2.3% QoQ in 2QFY19 (1HFY19: -5%), as strong growth in mobile data revenue was offset by roaming weakness. The impact was magnified by the higher subsidies accorded for premium handsets being netted off from service revenue (as per the new Singapore Financial Reporting Standards 15). In Australia, Optus MSR narrowed 2.1% QoQ (-2% YoY) while consumer EBITDA fell 4% QoQ in AUD terms, mainly from higher opex. Moving forward, we expect the prospects of the Singapore mobile business to remain challenging, due to steeper competition from the entry of TPG. We see the competitive risks in Australia being confined to the lower ARPU and price–sensitive segment of the market, which is the mainstay of mobile virtual network operators (MVNOs).

Enterprise should make a comeback. Group enterprise revenue and EBITDA fell 4% and 6% in 1HFY19, from the change in revenue mix (lower-margin services) and lumpy sales in the previous year. We see the renewed focus on smart nation projects and investments driving a stronger 2HFY19 and FY20F.

Maintain NEUTRAL. Singtel trades at 11.7x 2019F EV/EBITDA, -1.5SD below its 5-year historical mean. With the over 14.3% share price decline YTD, we view the stock's risk-to-reward profile as largely balanced, supported by a recurring dividend payout of SGD0.175/share for FY19F/20F. This translates into decent dividend yields of 5.7%. Key risks are stronger-than-expected competition and slower-than-expected earnings recovery at its associates.

Forecasts and Valuations

Forecasts and Valuations	Mar-17	Mar-18	Mar-19F	Mar-20F	Mar-21F
Total turnover (SGDm)	16,712	17,533	17,582	18,026	18,478
Reported net profit (SGDm)	3,872.0	3,542.9	2,976.8	3,066.1	3,167.4
Recurring net profit (SGDm)	3,915.0	3,542.9	2,976.8	3,066.1	3,167.4
Recurring net profit growth (%)	1.7	(8.5)	(16.0)	3.0	3.3
Recurring EPS (SGD)	0.24	0.22	0.19	0.19	0.20
DPS (SGD)	0.18	0.18	0.18	0.18	0.18
Recurring P/E (x)	12.6	13.8	16.4	15.9	15.4
P/B (x)	1.7	1.6	1.6	1.6	1.6
P/CF (x)	9.2	8.2	9.3	8.9	7.1
Dividend Yield (%)	5.7	5.8	5.7	5.7	5.7
EV/EBITDA (x)	12.0	11.5	11.7	11.4	11.2
Return on average equity (%)	13.7	11.9	10.0	10.2	10.1
Net debt to equity (%)	39.7	33.4	32.8	31.2	23.8
Our vs consensus EPS (adjusted) (%)	-				

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	63.72m/46.38m
52-wk Price low/high (SGD)	3.76 - 3.02
Free Float (%)	47.5
Shares outstanding (m)	16,329
Estimated Return	5.2%

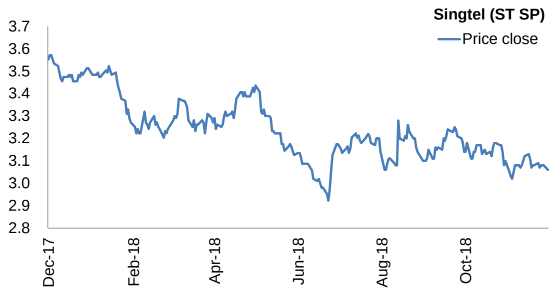
Shareholders (%)

Temasek Holdings Pte	52.4
Franklin Resources I	2.1
Vanguard Group Inc/T	1.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.3)	(1.3)	(1.3)	(5.3)	(19.0)
Relative	(4.6)	(1.1)	0.3	5.3	(8.8)

Source: Bloomberg



Source: Bloomberg

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14 December 2018

Consumer Non-cyclical | Healthcare

Singapore Medical Group

Focusing On Expanding Overseas Market

Buy (Maintained)

Target Price:	SGD0.56
Price:	SGD0.41
Market Cap:	USD140M
Bloomberg Ticker:	SMG SP

Maintain BUY, with an unchanged DCF-backed 0.56 TP, 36.6% upside and 1.4% FY19F yield. Singapore Medical delivered a strong 3Q18, with topline rising 18.9% YoY to SGD22m and PATMI surging 59.8% YoY to SGD3.2m. This was driven by organic growth and GPM expansion, on higher contributions from higher-margin medical streams. Going forward, management intends to focus expansion overseas, particularly in Vietnam and Indonesia – especially in FY19F, starting with the opening of SW1 in Vietnam in 1Q19F.

Improving overall gross margins. Singapore Medical's GPM improved to 43.4% on larger contributions from higher-margin medical streams like its aesthetics division. Revenue grew by a robust 18.9% YoY, with organic growth mainly still coming from foreign tourists despite an estimated drop in medical tourism numbers, due to strong competition from neighbouring countries. As a result, we believe the group is making the right moves to capture market share in the private medical practice space from competitors.

Expanding *SW1* overseas. Following the acquisition of SW1 Clinic – run by the ex-founders of The Sloane Clinic – Singapore Medical is also at an advanced stage of its plans to scale its aesthetics platform out into the region. Vietnam and Indonesia have been identified as natural progression destinations due to the group's existing footprints in both countries. It is looking to open a *SW1* branch at OUE downtown in Singapore to capture the office working crowd by the end of Nov 2018, as well as a branch in Vietnam by 1Q19.

Looking for growth overseas. Management has stated that it is likely to focus efforts on securing growth in the overseas market, especially Vietnam and Indonesia. It will be looking to move its *Aesthetic SW1* brand to these countries by the end of FY19. In addition, it also aims to expand the imaging and diagnostics segment into these countries as well. The group is in talks with various parties for potential JVs to hasten its growth in these countries.

Potentially major move into a hospital overseas. Management revealed that it is looking into investing in a medical property overseas that it will operate. This investment is likely to be made with a few partners, with SMG taking a small stake and then renting the properties for its operations. We think that SMG may be looking to open a hospital overseas as it will offer services under different medical streams in a single location.

Maintain BUY, with an unchanged DCF-backed TP of SGD0.56. We think that SMG's high growth will likely slow down in the next few years. However, with valuations being much lower than its peers, - while further plans may provide an earnings uplift – we make no changes to our rating and TP. Key downside risks include a slowdown in medical tourism and doctors leaving the group once their lock-in periods are over.

Share Data

Avg Daily Turnover (SGD/USD)	0.11m/0.08m
52 week price low/high	0.65 - 0.38
Free Float (%)	51.1
Shares outstanding (m)	474
Estimated Return	36.6%

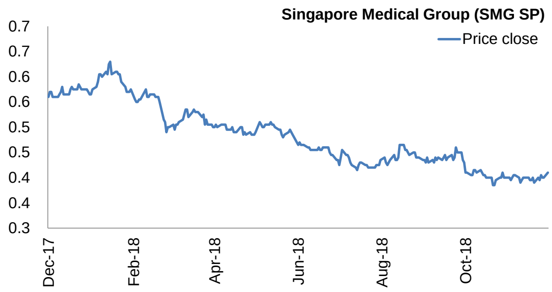
Shareholders (%)

Tony Tan	13.6
Beng Teck Liang	12.9
Ho Choon Hou	9.5

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.6)	2.5	(8.0)	(12.9)	(28.9)
Relative	(20.9)	0.8	(7.2)	(4.5)	(18.5)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	42	68	87	93	99
Reported net profit (SGDm)	2.9	8.7	12.3	13.4	14.2
Recurring net profit (SGDm)	2.4	8.5	12.3	13.4	14.2
Recurring net profit growth (%)	1,111.5	260.4	44.3	9.3	5.6
Recurring EPS (SGD)	0.01	0.02	0.03	0.03	0.03
DPS (SGD)	na	na	na	0.01	0.01
Recurring P/E (x)	46.0	21.9	15.6	14.4	13.6
P/B (x)	4.7	1.7	1.4	1.3	1.2
P/CF (x)	24.7	14.6	9.8	10.6	11.2
Dividend Yield (%)	-	-	-	1.4	1.5
EV/EBITDA (x)	26.3	12.8	6.3	5.8	5.4
Return on average equity (%)	12.3	8.1	8.9	9.0	8.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Industrials | Aerospace & Defence

ST Engineering

Buy (Maintained)

Target Price:	SGD3.97
Price:	SGD3.44
Market Cap:	USD7,926M
Bloomberg Ticker:	STE SP

Buy Into Earnings Recovery And Stable Dividends

Maintain BUY, with SGD3.97 TP, offering 15.4% upside. STE should see a revival of profit growth aided by increased capacity and capabilities in Aerospace, delivery of smart city-related contracts in and outside Singapore and defence-related contracts. Its SGD13.3bn orderbook offers 2-year revenue visibility and its more than 4.5% yield should provide support to the share price. In addition to continuing order wins for its Aerospace and Electronics businesses, the recent revival in Marine order wins and completion of MRAS acquisition in 1Q19, could be key re-rating catalysts.

Building Aerospace capabilities is the key to growth. ST Engineering (STE), the world's largest airframe MRO service provider, aims to complete construction of its new airframe MRO capacity in Pensacola (US) by 2022. This new capacity will have four hangars and will increase STE's MRO capacity by 2.1m man-hours. On the passenger to freighter (P2F) conversions, STE delivered the first A330 P2F aircraft to Egypt Air in August and is in the process of converting the second one for delivery in 2Q19. The A330 P2F deliveries to DHL are also on track. To support long-term growth, it is looking to secure launch customers for an A320 P2F project and grow its aircraft leasing fleet.

Completion of MRAS acquisition should support re-rating. STE remains confident of completing the acquisition of Middle River Aircraft Systems (MRAS) by 1Q19. The acquisition would be fully funded by debt, which will be USD-denominated and undertaken by one of STE's US-based entities. Based on our revised back-of-envelope estimates, the MRAS acquisition, which is yet to be included in our estimates, could lift our 2019F-2020F earnings by 4-5%. We remain positive that completion of the deal may be a key catalyst for the stock.

Recovery in earnings growth is on track. We expect STE to deliver c.15% earnings growth in 2019 (consensus: c.14.7%). While much of the growth is expected to be delivered by the Aerospace and Electronics businesses, we believe that improvement in Marine profitability will also be a factor driving growth. This was evident in 3Q18 results. In 3Q18, all segments except Marine reported strong profit growth. Even though the Marine business reported profit decline in 3Q18, 9M18 profit grew 16% YoY amidst a QoQ improvement in the business.

Strong orderbook with potential order win upside from marine. STE has an outstanding orderbook of SGD13.3bn, which provides revenue visibility for two years. While Aerospace (9M18: SGD1.6bn, 9M17: SGD2.3bn) and Electronics (9M18: SGD1.8bn, 9M17: SGD1.5bn) have been registering steady order wins, Marine has started to witness new order wins after a few years of hiatus.

Reiterate BUY. STE has delivered a 5.5% return YTD and outperformed the STI Index by 15.2%. STE could continue to outperform, amidst a revival in earnings growth, continuing order wins and a likely completion of the MRAS acquisition. With a strong balance sheet and more than 20% ROE, STE is trading at 17.0x 2019F P/E, which is below its 5-year forward P/E mean of 19x.

Share Data

Avg Daily Turnover (SGD/USD)	13.12m/9.55m
52 week price low/high	3.7 - 3.16
Free Float (%)	47.9
Shares outstanding (m)	3,120
Estimated Return	15.4%

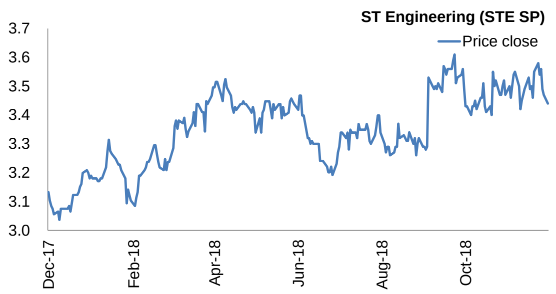
Shareholders (%)

Temasek Holdings Pte	52.0
Capital Group Cos In	2.4
Vanguard Group Inc/T	1.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	5.5	(0.9)	4.6	(1.4)	7.2
Relative	15.2	(0.7)	6.1	9.2	17.4

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	6,684	6,619	6,883	7,345	7,881
Reported net profit (SGDm)	484.5	511.9	531.2	615.6	667.2
Recurring net profit (SGDm)	484.5	511.9	531.2	615.6	667.2
Recurring net profit growth (%)	(8.4)	5.6	3.8	15.9	8.4
Recurring EPS (SGD)	0.16	0.17	0.17	0.20	0.22
DPS (SGD)	0.15	0.15	0.15	0.15	0.17
Recurring P/E (x)	21.8	20.1	19.7	17.0	15.7
P/B (x)	4.9	4.9	4.7	4.4	4.2
P/CF (x)	13.3	13.0	26.7	11.5	9.8
Dividend Yield (%)	4.3	4.4	4.4	4.5	4.9
EV/EBITDA (x)	15.6	14.5	13.3	11.6	10.7
Return on average equity (%)	22.5	23.3	23.6	26.1	26.7
Net debt to equity (%)	8.0	5.3	9.3	4.9	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Property | REITS

Starhill Global REIT

A Turnaround Play

Buy (Maintained)

Target Price:	SGD0.80
Price:	SGD0.67
Market Cap:	USD1,057M
Bloomberg Ticker:	SGREIT SP

Maintain BUY, SGD0.80 TP offers 19% upside and 7.5% FY19F yield. Starhill Global REIT has been going through challenging times, hit by tough retail markets in Singapore and overseas. However, we believe a turnaround is on the cards with the stabilisation of Orchard Road retail malls, a pick-up in Singapore office rentals and asset enhancement exercises coming to an end - all acting as catalysts. Nearly half of its rental comes from master leases, which provides income stability.

SG retail portfolio bottoming out. While the outlook for retail space on Orchard Road remains challenging, we believe the limited supply should cap any further downside. While rental pressures are likely to persist for Wisma Atria's retail space outlook, the occupancy rate is likely to stay, ie in the high 90%. For Ngee Ann City, Toshin master leases that expire in 2025 (21.6% of gross rent in FY18) are due for lease reviews in Jun 2019. The review has a clause that insulates it from any downside (ie rental rates cannot be adjusted lower than current levels), with scope for upward revisions based on current market rates.

Asset enhancement initiatives (AEIs) could provide a necessary boost. Starhill Global REIT is currently considering asset enhancement opportunities for both Wisma Atria and Ngee Ann City. This will also lead to the REIT manager looking at tapping the unutilised GFA of c.100,000 sqf at Wisma Atria. We believe such a move is timely, as the opening of the Orchard MRT station on the Thomson-East Coast line in 2021 will enable more traffic flow from the East and Thomson areas.

Expect a better performance from office assets. The REIT's SG office portfolio - which has been hit mainly by oil & gas tenants downsizing - is starting to show a good improvement, with committed occupancy rates on the rise. With an improving outlook for office rental rates island-wide, we expect a better performance from the office portfolio in FY19-20.

Overseas portfolio turnaround on completion of AEIs. In Australia, with the completion of Plaza Arcade redevelopment, anchor tenant Uniqlo commenced operations in end-August. In China, the sole and long-term tenant Markor International began operations in Chengdu Mall in March, and should contribute positively to numbers next year. The master leases for Malaysian properties are due for renewal in Jun 2019, and we understand the tenants are keen on extending their leases, with negotiations now in place.

BUY, with a TP of SGD0.80. Our TP is based on DDM (COE: 7.5%, TG: 1.0%). Key catalysts are a pick-up in the Singapore office portfolio and a better performance from overseas assets post revamp. Valuations look attractive, and the stock is trading at 0.7x 2019F P/BV and offering yields of >7%. Key risks are a prolonged weakness in the Orchard Road retail and office markets.

Share Data

Avg Daily Turnover (SGD/USD)	1.21m/0.88m
52 week price low/high	0.79 - 0.64
Free Float (%)	65.3
Shares outstanding (m)	2,181
Estimated Return	19.4%

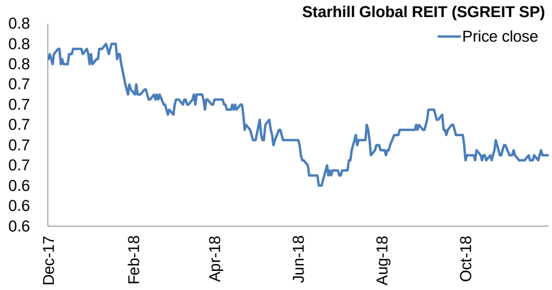
Shareholders (%)

Ytl Corp Bhd	33.4
Aia Group Ltd	7.6
Vanguard Group Inc/T	1.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.5)	(1.5)	(3.6)	(2.2)	(11.8)
Relative	(3.8)	(1.3)	(2.0)	8.4	(1.6)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	216.4	208.8	215.2	221.6	232.5
Net property income (SGDm)	166.9	162.2	167.4	172.7	181.3
Reported net profit (SGDm)	100.3	84.2	145.1	156.7	179.7
Total distributable income (SGDm)	110.4	103.1	108.4	112.5	119.2
DPS (SGD)	0.05	0.05	0.05	0.05	0.05
DPS growth (%)	(5.02)	(7.52)	6.24	3.86	6.09
Recurring P/E (x)	14.6	17.4	10.1	9.4	8.1
P/B (x)	0.7	0.7	0.7	0.7	0.7
Dividend Yield (%)	7.3	6.8	7.2	7.5	8.0
Return on average equity (%)	5.0	4.2	7.1	7.5	8.4
Return on average assets (%)	3.1	2.6	4.5	4.8	5.4
Interest cover (x)	3.8	3.7	3.7	3.8	3.9
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Financial Services | Banks

United Overseas Bank

Dividend Catalyst; Maintain BUY On Top Pick

Buy (Maintained)

Target Price:	SGD30.80
Price:	SGD24.64
Market Cap:	USD29,963m
Bloomberg Ticker:	UOB SP

Maintain BUY with SGD30.80 TP on our Banks Top Pick, offering 25.0% upside plus 5.1% FY19F yield, tied to a long-term ROE assumption of 12.8%. UOB raised more deposits in 3Q18 ahead of management's expectations of future rises in deposit rates. The 3-month SIBOR has since risen to 1.77%, from 3Q18's 1.63%, and we forecast UOB's NIM to widen to 1.88% in 2019 from 9M18's 1.83%. UOB could potentially dish out more dividends, given its higher-than-peers CAR.

Expect NIM expansion moving ahead. 3Q18 NIM of 1.81% was 2bps narrower QoQ, due to funding costs rising more than lending yields. UOB raised fixed deposits 5% QoQ to lock in funding ahead of expected year-end interest rate rises. With the US FFR expected to rise further over the next few quarters, we forecast further rises in 3-month SIBOR, which will raise lending yields. However, the high funding cost is expected to remain. Overall, we forecast UOB's NIMs at 1.83% and 1.88% for 2018 and 2019.

Mid to high single-digit loan growth for 2019. 3Q18's 2% QoQ loan expansion was positive. Leading the sequential loan increase were building & construction loans (+4% QoQ) – UOB mainly lends to high-quality developers. Overall loans recorded a YTD increase of 8%. Management guided for 2019 loan growth of mid to high single-digits. In any case, we are conservative on our 2018F-2019F loan growth for UOB: 10% and 6.5%.

Management sees CIR falling closer to the 40% level, as digital efforts lower processing costs and revenue rises with higher interest rates and more economies of scale. CIR fell to 43.4% from 2Q18's 43.6%.

Potential for more dividends. UOB's 3Q18 CET1 capital adequacy ratio (CAR) of 14.1% is higher than its two peers' average of 13.5% – management maintains its commitment for a dividend payout ratio of 50%, subject to minimum CET1 CAR of 13.5% and sustainable financial performances.

Maintain BUY with SGD30.80 TP. Our GGM-derived TP assumes CoE of 9.9% and ROE of 12.8% (3Q18 ROE: 11.7%). This gives a target P/BV of 1.41x, which we apply to 2019F BV of SGD21.81. We believe the P/BV premium over the 5-year historical average of 1.24x is justified by the future NIM improvements.

Share Data

Avg Daily Turnover (SGD/USD)	64.71m/47.21m
52 week price low/high	30.37 - 23.8
Free Float (%)	85.4
Shares outstanding (m)	1,666
Estimated Return	25.0%

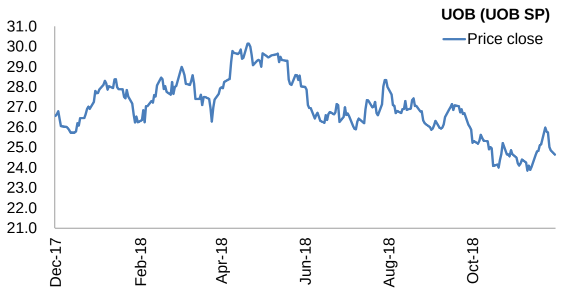
Shareholders (%)

Wee Investments Pte	7.8
Wah Hin & Co Pte Ltd	5.2
Blackrock Inc	2.2

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.0)	3.1	(4.4)	(7.9)	(6.2)
Relative	3.7	1.4	(3.6)	0.5	4.2

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Reported net profit (SGDm)	3,096	3,390	4,155	4,477	4,946
Net profit growth (%)	(3.6)	9.7	22.8	7.8	10.6
Recurring net profit (SGDm)	3,096.0	3,390.0	4,155.2	4,477.5	4,946.2
Recurring EPS (SGD)	1.91	2.06	2.50	2.65	2.85
BVPS (SGD)	18.82	20.37	20.48	21.81	23.21
DPS (SGD)	0.70	1.00	1.15	1.25	1.35
Recurring P/E (x)	12.9	12.0	9.9	9.3	8.6
P/B (x)	1.3	1.2	1.2	1.1	1.1
Dividend Yield (%)	2.8%	4.1%	4.7%	5.1%	5.5%
Return on average equity (%)	10.2	10.2	11.9	12.2	12.9
Return on average assets (%)	1.0	1.0	1.1	1.1	1.2
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

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14 December 2018

Technology | Electronics

Venture Corp

Buy (Maintained)

Target Price:	SGD19.00
Price:	SGD14.66
Market Cap:	USD3,157m
Bloomberg Ticker:	VMS SP

Top Pick For Tech Sector

Maintain BUY with SGD19.00 TP, pegged to 14x FY19F P/E, plus 4.8% FY19F yield. Venture's dismal 3Q18 was mainly due to the transitory effects of its customers introducing new products, customers undergoing M&A, and a slowdown in its POS business segments. However, management remains bullish on a V-shaped recovery for 4Q18 and the subsequent quarters. This is due to positive growth signs already seen in all its business segments, which would be accompanied by higher margins due to operating leverage when revenue picks up.

3Q revenue drop due to three main factors. Venture suffered a 27% drop in its revenue, mainly due to the impact arising from customers' planned transition to new replacement products and some customers' M&A for the reported quarter, as well as a slowdown in its point of sale (POS) business.

A V-shaped recovery ahead. The same factors causing a slowdown in 3Q18 are likely to contribute positively to a V-shaped recovery in 4Q18, as these new product introductions will likely occur in 4Q. In addition, Venture has also managed to secure a few new customers, which will likely contribute to revenue performance in 4Q18. The customers undergoing M&A transitions should have their business activity pick up after the M&A integration processes are completed, which will be positive for Venture in the subsequent quarters. All in all, management has also seen business activity improve strongly in all its business segments, and so we expect to see a strong recovery in 4Q18 (which is likely to continue on in 2019).

Higher margins expected in 4Q18. Despite a sharp 27% drop in 3Q18 revenue, Venture managed to sustain its net margins at 10.2%, which is impressive. With management bullish on a recovery in 4Q and the subsequent quarters, we expect Venture to enjoy operating leverage as well as higher net margins ahead.

Trade war – implications and benefits. Management has declared that <2% of its topline is implicated by the Harmonised System (HS) code in which it has worked out various strategies to mitigate these issues. Any duties will also be paid by its partners in the US. Its partners have also came out with 4-6 different ways to avoid extra tariffs.

3Q blip represents a buying opportunity. We remain confident that a V-shaped recovery for Venture is highly possible in subsequent quarters, especially if the trade war issues between US and China are resolved. We also expect Venture to pay out a total dividend of SGD0.70/share this year, slightly higher than last year, representing an attractive FY18F yield of 4.8%. In addition, as discussed above, Venture is less exposed to trade war issues vs its peers. As a result, we maintain BUY with SGD19.00 TP, pegged to 14x FY19F P/E. Venture is our Top pick for the Singapore technology sector.

Key risks would be economic slowdown, delay in new product launches, a worsening trade war.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	2,877	4,018	3,750	4,050	4,200
Reported net profit (SGDm)	180.7	372.7	356.3	386.8	414.1
Recurring net profit (SGDm)	180.7	372.7	356.3	386.8	414.1
Recurring net profit growth (%)	18.1	106.3	(4.4)	8.6	7.0
Recurring EPS (SGD)	0.65	1.32	1.25	1.36	1.45
DPS (SGD)	0.50	0.60	0.70	0.70	0.70
Recurring P/E (x)	22.7	11.1	11.7	10.8	10.1
P/B (x)	2.1	2.0	1.9	1.7	1.6
P/CF (x)	15.4	8.3	9.2	9.3	8.3
Dividend Yield (%)	3.4	4.1	4.8	4.8	4.8
EV/EBITDA (x)	14.7	7.3	7.4	6.7	6.0
Return on average equity (%)	9.2	17.2	15.3	15.4	15.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	29.78m/21.73m
52 week price low/high	29.65 - 14.42
Free Float (%)	93
Shares outstanding (m)	288
Estimated Return	29.6%

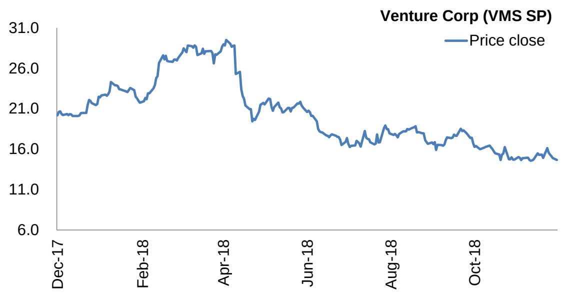
Shareholders (%)

Wong Ngit Liong	7.0
Schroders Plc	6.0
Blackrock Inc	6.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.7)	0.5	(5.6)	(27.1)	(27.4)
Relative	(18.0)	(1.2)	(4.8)	(18.6)	(16.9)

Source: Bloomberg



Source: Bloomberg

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14 December 2018

Agriculture | Plantation

Wilmar

Diversified Play In The Plantation Sector

Buy (Maintained)

Target Price:	SGD3.58
Price:	SGD3.14
Market Cap:	USD14,466M
Bloomberg Ticker:	WIL SP

Wilmar is our Top Pick for the plantation sector. Maintain BUY and TP SGD3.58, 14.0% upside. Given an unexciting year for CPO prices, we think Wilmar is likely to outperform the sector on more favourable palm processing margins, strong biodiesel demand, and continued growth at its consumer pack products. Potential listing (A-shares) of its China operations is still on the plate, and is expected to take place by end-FY19. We believe the IPO of its China operations could unlock some latent value and lead to potential special dividends.

Stronger palm refining margin to offset lower CPO prices. CPO prices have been weak as a result of high inventory levels and decline in crude oil prices. While this is negative for Wilmar's upstream earnings, we note that its plantation segment is still profitable even when CPO prices hit the low of MYR1717/tonne on 21 Nov. We believe the decline in upstream earnings could be partially offset by stronger palm refining margins, which have improved since 3Q18 due to lower input cost.

Further positives from biodiesel. Rising biodiesel mandates in Malaysia and Indonesia can raise CPO demand by 3-4m tonnes pa, and support CPO prices. Higher demand for biodiesel is also beneficial for Wilmar given that it is the largest biodiesel producer in these two countries.

Factors surrounding soybean crushing margin:

i. Trade war ceasefire – Neutral. US soybean prices have been depressed due to the 25% tariff. Chinese players as well as Wilmar have been importing Brazilian soybeans since the trade war. While Brazilian soybean prices are trading at a premium of c.25% to US soybean prices, this is not significantly different from US soybean prices pre-trade war. Should the trade war subside, we believe both US and Brazil soybean prices will adjust accordingly. Thus, we think there will be minimal net impact on China input costs for soybeans;

ii. Outbreak of African swine fever – slight negative. We note that the impact on soybean meal demand is not significant at the moment. According to xinhuanet.com news, China has culled 631,000 pigs YTD due to the fever. This is insignificant vs the 700m pigs China consumes each year;

iii. Fall of other soybean crusher/importers – positive. The bankruptcy of Shandong Sunrise group, one of the larger soybean players in China, is likely to be benefit Wilmar in terms of spillover demand.

BUY with TP SGD3.58; China IPO a catalyst. Wilmar is our Top Pick in the plantation sector. Apart from being the largest edible oil processor in the world, Wilmar is also the leading producer of branded consumer pack oils, rice and flour in China. Our SOP valuation suggests that the current FY19F P/E of 12x is undemanding, and the IPO of its China operations could unlock latent value, leading to special dividends.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (USDm)	41,402	43,846	42,617	43,200	47,738
Reported net profit (USDm)	972	1,219	1,279	1,207	1,319
Recurring net profit (USDm)	977	1,047	1,279	1,207	1,319
Recurring net profit growth (%)	(8.4)	7.3	22.1	(5.6)	9.3
Recurring EPS (USD)	0.15	0.17	0.20	0.19	0.21
DPS (USD)	0.05	0.08	0.08	0.08	0.08
Recurring P/E (x)	14.8	13.8	11.3	12.0	11.0
P/B (x)	1.0	0.9	0.9	0.8	0.8
P/CF (x)	12.1	56.2	3.7	5.8	6.3
Dividend Yield (%)	2.0	3.3	3.5	3.4	3.6
EV/EBITDA (x)	16.7	17.7	12.9	13.7	12.4
Return on average equity (%)	6.7	7.6	7.6	6.9	7.2
Net debt to equity (%)	91	106	89	82	76
Our vs consensus EPS (adjusted) (%)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	17.6m/12.82m
52-wk Price low/high (SGD)	3.31 - 2.97
Free Float (%)	30.7
Shares outstanding (m)	6,327
Estimated Return	14.0%

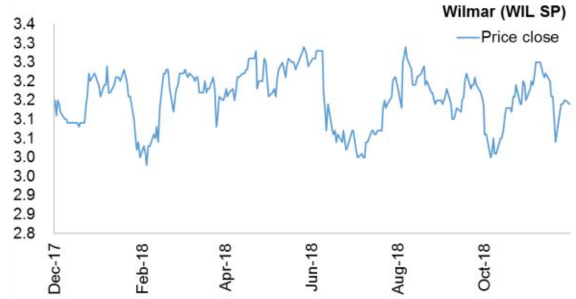
Shareholders (%)

Archer-Daniels-Midland	24.9
Kuok Brothers	18.6
Longhlin Asia Ltd	5.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.6	(0.3)	(0.3)	(3.1)	1.3
Relative	11.3	(0.1)	1.2	7.5	11.6

Source: Bloomberg



Source: Bloomberg

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