

2 October 2019

Strategy | Strategy-Singapore

Singapore Equity Strategy

Stay Invested For The Long Term

Year-end STI target 3,250
Ratings (Buy/Neutral/Sell): 35 / 27 / 1
Last 12m earnings change Negative

- **Stay invested for the long term, while focusing on income-generating equities for the short term.** Slowing economic growth may limit the upside for Singapore's (SG) equity market despite reasonable valuations. Nevertheless, we expect income-generating assets and defensive stocks to outperform in the short term. We recommend investors to remain invested in SG for the long term, as the country's ongoing transformation will offer investors opportunities to participate in the development of the real estate, financial, telecom and transport sectors.
- **Expecting economic growth to soften further.** We now expect 2019 GDP growth of 0.5% (from 0.8% previously), in line with the Ministry of Trade and Industry's latest 0-1% growth guidance. Exports, which have weakened since mid-2018, are expected to contract during 2019-2020. Domestic demand, which has been resilient, should moderate amidst slowing employment growth and weakening consumer confidence. We expect the business services, financial services, information technology and construction sectors to support positive growth for rest of 2019 (see our 30 Sep report, [In The Shadow Of Recession](#)).
- **Limited upside for the STI despite reasonable valuations.** The STI is trading at 12.1x forward P/E, ie at -1SD. The index's valuation is reasonable relative to its long-term history, and its 4.4% yield is the highest in Asia. However, the STI's returns and forward EPS growth follow SG's GDP growth closely. As we expect GDP growth to slow further, it will be tough for the index to generate strong returns. 2019 and 2020 consensus EPS growth for the STI has been lowered by 4% since end-June. We also believe there is a risk of further downgrades – especially from banks, which could be impacted by falling interest rates and slower loan growth. Our end-2019 STI target of 3,250 pts offers 4% upside.
- **Investors should focus on long-term themes.** We remain positive on the long-term outlook for Singapore and believe its ongoing transformation, as highlighted in our 23 Aug report titled [Remaking Singapore: a Never-Ending Process](#), will create opportunities for investors to participate in the development of the real estate, financials, telecom and transport sectors.
- **Invest in income-generating equities in the short term.** We believe equities that offer high and sustainable yields will continue to gain interest from investors in an ever-lowering bond yields environment. In our earlier analysis, we noted that annualised USD returns from investing in a basket of high-dividend yield stocks in Singapore outperformed the returns generated by the STI over the last decade. In addition to REITs, the industrial, financial, technology and telecom stocks under our coverage offer higher-than-STI yields.
- **Plantation sector may outperform in 4Q.** While we expect moderating earnings for most sectors, we upgraded the plantation sector to a contrarian OVERWEIGHT rating, as we expect CPO prices to trend up in 4Q19 and continue rising in 1H20. Historically, CPO prices are the leading indicator of the expansion in plantation companies' P/Es. First Resources and Wilmar are sector Top Picks.
- **Stick to defensive names.** Amidst an uncertain macroeconomic environment, investors should stay selective and invest in companies that offer low earnings volatility, and have low gearing or net cash balance sheets, on top of sustainable dividends. In addition to office and hospitality REITs, selective stocks from the consumer and industrial sectors are our preferred picks.

Singapore sector ratings:

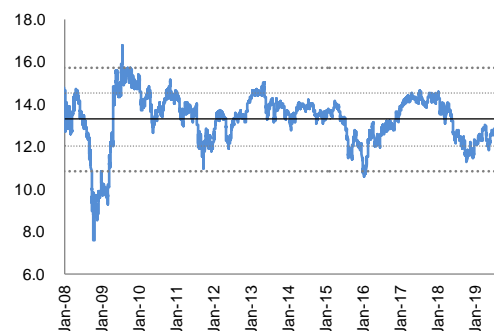
Overweight REITs, offshore & marine plantations
Neutral Banks, consumer, healthcare, real estate, technology, telecom
Not rated Materials

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STI Index's forward P/E



Source: Bloomberg

Company	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
CDL Hospitality	Buy	1.79	9.8	15.5	1.1	5.7
CSE Global	Buy	0.69	50.0	9.6	1.3	6.0
Fu Yu Corp	Buy	0.24	9.1	12.3	1.0	7.7
Manulife US REIT [^]	Buy	1.00	11.7	13.4	1.1	6.8
Oxley Holdings ^{**}	Buy	0.43	34.4	3.5	0.8	9.4
Sheng Siong	Buy	1.32	16.8	21.9	5.5	3.3
ST Engineering	Buy	4.70	22.4	19.8	5.2	3.9
Suntec REIT	Buy	2.08	9.5	17.6	0.9	5.3
UOB	Buy	29.50	14.9	9.9	1.1	5.1
Wilmar	Buy	4.75	27.7	14.0	1.0	2.7

Note: ^{**}FY20 (Jun); [^]USD; Data as at 27 Sep 2019. Source: Company data, RHB

Softer Economic Growth

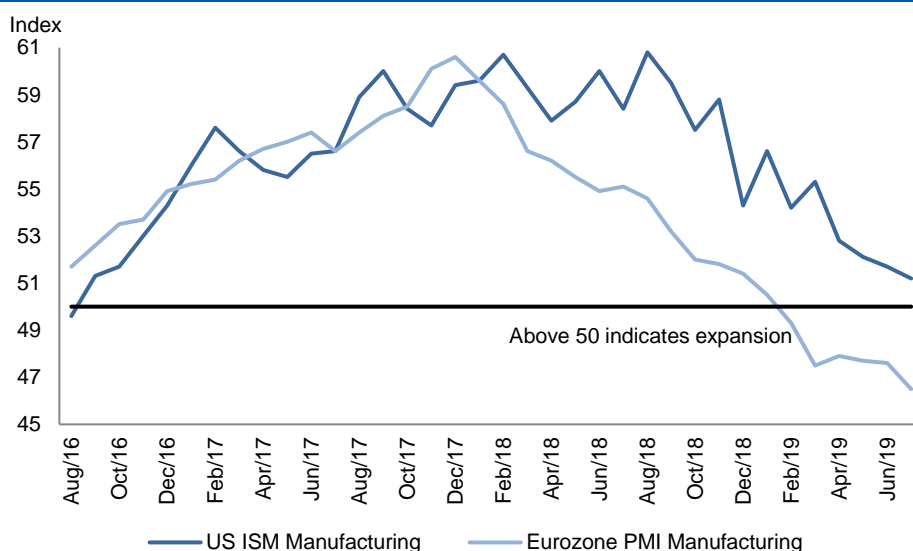
Global growth could see further downside risks

In its World Economic Outlook July 2019 update report, the International Monetary Fund (IMF) further lowered the global growth projection to 3.2% for 2019 from 3.3% in Apr 2019. The softening growth performance this year reflects weaker investment and demand for consumer durables, as well as sluggish growth in global trade.

Meanwhile, for 2020, IMF's global growth projection is at 3.5%, although anchored on the assumption that a resolution to the trade war can be achieved. At the moment, our base assumption is that a resolution is unlikely and global trade growth may remain suppressed for a prolonged period. Therefore, we believe there could still be further downside risks to IMF's 2020 global growth forecast.

In addition, further decoupling of China's economic growth from the US, along with its own domestic deleveraging problem, may dampen the former's growth even more to a potential <6%. This will have an impact on global demand for intermediate goods and commodities, and a knock-on effect to business investments, further dampening trade.

Figure 1: Europe's PMI Manufacturing in contraction while the US' ISM Manufacturing index is moderating



Source: Bloomberg

Lowering our Singapore GDP growth estimates

Singapore barely escaped an economic contraction in 2Q19 with GDP growth at a mere 0.1% YoY, moderating from 1.1% YoY in 1Q19. However, the slowdown may not be over, as the latest data on exports shows that global demand remains weak. In addition, forward-looking indicators such as the manufacturing PMI is still below the 50 reading, pointing to an ongoing contraction in manufacturing activity ahead.

Singapore has, so far, reoriented its focus to support domestic-oriented and modern services, especially through public construction activities and investments in digitalisation initiatives. This has provided some cushion against the impact from the slowdown in trade-related sectors – but not enough to reverse the downward pressure on the economy.

As discussed earlier, beyond 2019, global growth is likely to remain weaker than expected. Among others, the US-China trade war is unlikely to be resolved, which could adversely affect business sentiment and have negative repercussions on global economic growth. Singapore, at the focal point of global trade, will likely face the full brunt of this impact.

As such, we cut our GDP forecast to 0.5% YoY from 0.8% for 2019, and to 0.8% from 2.0% for 2020. Although a technical recession is a possibility in 2019 and 2020, we have ruled that out in our baseline forecast. That being said, overall growth for the rest of the quarters is expected to remain weak and sluggish.

		2018		2019		2018		2019				
	Wt.	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	2018	2019F	2020F
	%	% QoQ, SA., Ann.				% YoY, Real				% YoY, Real		
GDP	100	0.2	-0.2	0.9	-0.8	2.6	1.3	1.1	0.1	3.2	0.5	0.8
Private consumption	36.8	1.0	1.1	1.6	-0.2	2.6	2.2	5.4	3.4	2.8	3.3	2.4
Government consumption	10.4	0.4	1.5	1.0	0.5	1.5	3.8	3.0	3.1	3.9	2.9	2.7
GFCF	25.5	-4.5	2.6	-0.7	2.5	-7.5	-4.4	-0.2	-0.3	-4.0	0.2	1.5
Domestic demand	75	0.1	-0.4	1.9	0.8	0.6	-0.4	3.8	2.4	1.1	2.4	2.0
Net Exports	25.6	-3.8	-8.6	3.6	3.1	8.1	5.6	-0.8	-6.0	8.2	-3.1	-2.2
Exports of goods & services	180.5	-0.5	-0.7	-2.2	2.1	4.2	14	-2.2	-14	5.2	-1.5	1.2
Imports of goods & services	154.6	-0.1	-0.5	-2.8	3.0	3.6	0.9	-2.4	-0.5	4.8	-1.2	1.8

Source: SingStat, RHB

Employment addition by sector in 2Q19 showed weaknesses in both the manufacturing and services sectors. In manufacturing, a net negative employment addition was recorded. Although structural effects are in play as the sector becomes more reliant on automation, the cyclical effects from the global slowdown also played a role. For the services sector, employment addition sharply moderated – primarily due to seasonal factors in the subsectors of accommodation & food service, as well as wholesale & retail. However, softer employment addition was also seen in IT & communications and transport & storage. On the other hand, the construction sector has shown a slow and steady employment recovery, with a slight positive net addition for the quarter. Onwards, we think employment conditions will likely become more challenging.

The chart displays the year-over-year percentage change in retail sales for ex-motor vehicles from 2011 to 2019. The y-axis represents the percentage change, ranging from -15% to 20%. The x-axis shows the years from 2011 to 2019. A grey line represents the actual retail sales data, which is highly volatile, showing significant peaks and troughs. A blue line represents the 6-month moving average, which smooths out the seasonal fluctuations and shows a general downward trend from 2011 to 2014, followed by a period of relative stability with minor fluctuations until 2019.

Year	Retail Sales: Ex-motor vehicles (% YoY)	6-month moving average (% YoY)
2011	16.5	10.0
2012	8.0	6.0
2013	1.0	2.0
2014	-10.0	-1.0
2015	13.5	1.0
2016	-9.0	-2.0
2017	2.0	1.0
2018	14.0	2.0
2019	-11.0	-2.0

Thousand

Others

Services

Construction

Manufacturing

50

40

30

20

10

0

-10

-20

12

13

14

15

16

17

18

19

Source: Ministry of Manpower.

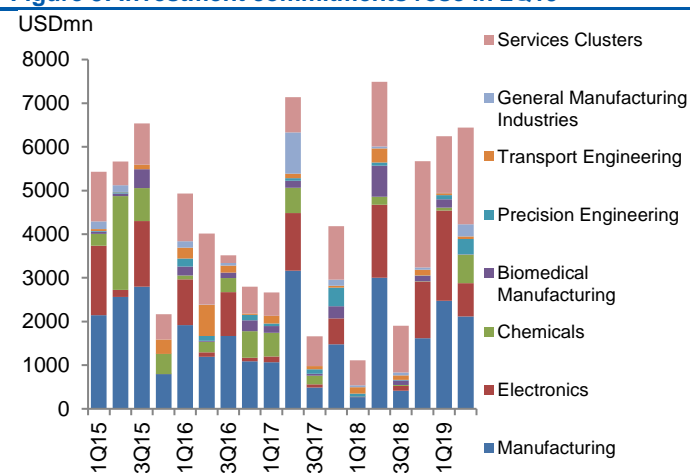
Gross fixed capital formation (GFCF) is expected to be flattish in 2019 and a modest positive in 2020. In 2H19, GFCF is expected to grow by 0.7% from -0.2% in 1H19, due to the effects of a low base last year, as well as a recovery in the construction and civil works segments. For 2020, GFCF is expected to gain further momentum and increase by 1.5%.

For 1H19, the contribution from public investment has shown positive growth amidst a higher budget allocation for investment spending. Several ongoing public construction projects include:

- i. Changi Airport Terminal 5;
- ii. Phase 2 of Tuas seaport developments;
- iii. Construction of Mass Rapid Transit Thomson-East Coast Line, Cross Island Line, Jurong Region Line;
- iv. Deep Tunnel Sewerage System Phase 2;

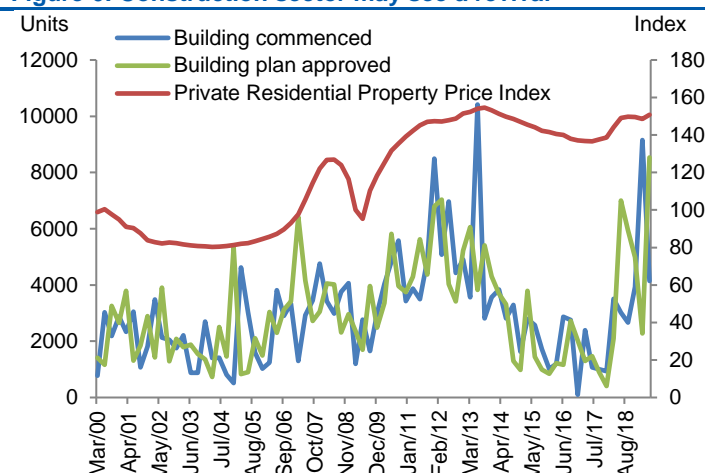
We expect the trend to continue in 2H19 and towards 2020. In addition, the continued recovery in the residential property sector could also provide support to investment, as the number of buildings (planned and works commenced) increases.

Figure 5: Investment commitments rose in 2Q19



Source: SingStat

Figure 6: Construction sector may see a revival



Source: Ministry of Manpower

Further contraction in exports is likely

Singapore exports have weakened considerably since mid-2018. Growth in non-oil domestic exports moderated to -10.1% YoY in 1H19 compared to +5.3% for the same period last year. This reflected the deceleration in global trade, along with various consequent factors detailed below.

The semiconductor downcycle. The weakness caused by sluggish demand for major electronic end-products such as smartphones, tablets and computers have led to high inventory, and weaker production as well as exports. Countries that are integrated in the global electronics supply chain – which include Malaysia, Taiwan, South Korea and Thailand – have all recorded a decline in electronics exports.

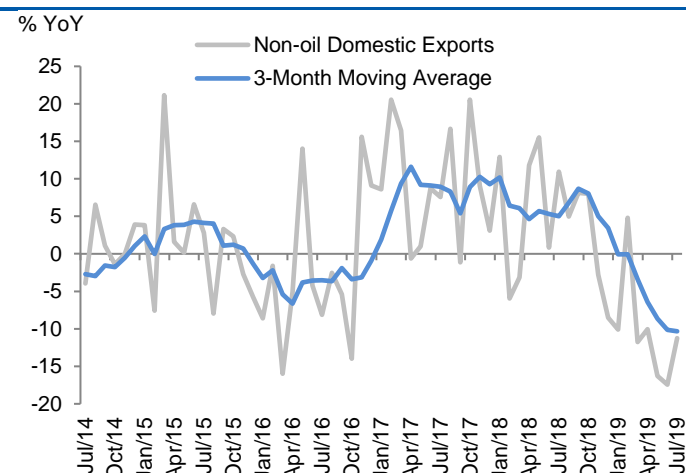
The US-China trade war. This led to a fall in trade between both countries and an indirect effect on countries reliant on intermediate goods to supply to the US and China. In addition, weaker business confidence has also led to lower investments, which resulted in slower demand for capital goods. In August, the trade war continued to escalate further, with China and the US imposing retaliatory tariffs that took effect or will take effect on 15 Oct and 15 Dec. The increased tariff rates will likely dampen trade even further.

Global economic slowdown. This is partly attributed to the trade war, but also reflects other factors like weak demand as China deleverages, the loss of momentum from the tax cuts in the US, idiosyncratic shocks from Europe, and higher policy uncertainty across many economies.

We expect Singapore's non-oil domestic exports to contract by 10% this year from +4.4% in 2018. For 2020, non-oil domestic exports are expected to remain under pressure from weak global demand and potentially average at about -2.0%. The upside to our forecast is the support following the monetary policy easing seen across the trading partners. In addition, Singapore may benefit from trade diversions arising from the trade tensions.

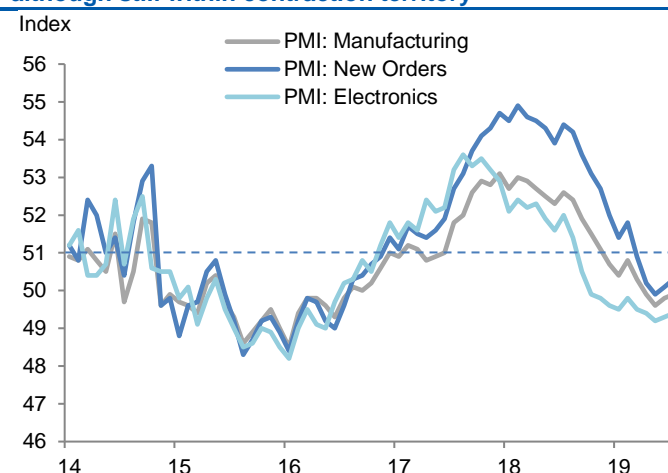
In terms of real exports, growth would also likely turn negative at -1.5%, with weakness likely to continue throughout the year. For 2020, real exports are expected at 1.9%.

Figure 7: Singapore exports have weakened considerably



Source: Bloomberg

Figure 8: PMI Manufacturing improved to 49.9 in August although still within contraction territory



Source: Markit

Budget 2019 points to a deficit

Budget 2019 is mildly expansionary, targeting a deficit of SGD3.5bn or -0.7% of GDP. This is a reversal from the surplus in 2018 (+SGD2.1bn or +0.4% of GDP). The largest increase in the budget is on Special Transfers which is projected to balloon to SGD15.3bn, from SGD9bn last year.

For revenue, growth is projected at 1.7% this year. Spending for the budget for 2Q19 appears on track, compared to the same period last year, as collection from corporate income tax rose. Personal income tax collection, however, has been much lower, potentially due to income tax rebates as a part of government measures taken to support the economy.

Meanwhile, expenditure is projected to grow by 1.6%, with operating expenditure rising by 3.7%, while development expenditure contracts by 4.4%. For 2Q19, much of the spending remained below track vs 2Q18. Excluding allocations for government administration, all other components including security, social and economic development all recorded lower spending.

With the softer economy, the budget could potentially be worse than expected, given lower tax collection. However, there is still quite some time until the end of the budget cycle in Mar 2020. Higher net investment returns could offset some of the decline in operating revenue. Hence we keep the budget estimation in line with the official forecast, at -0.7% of GDP.

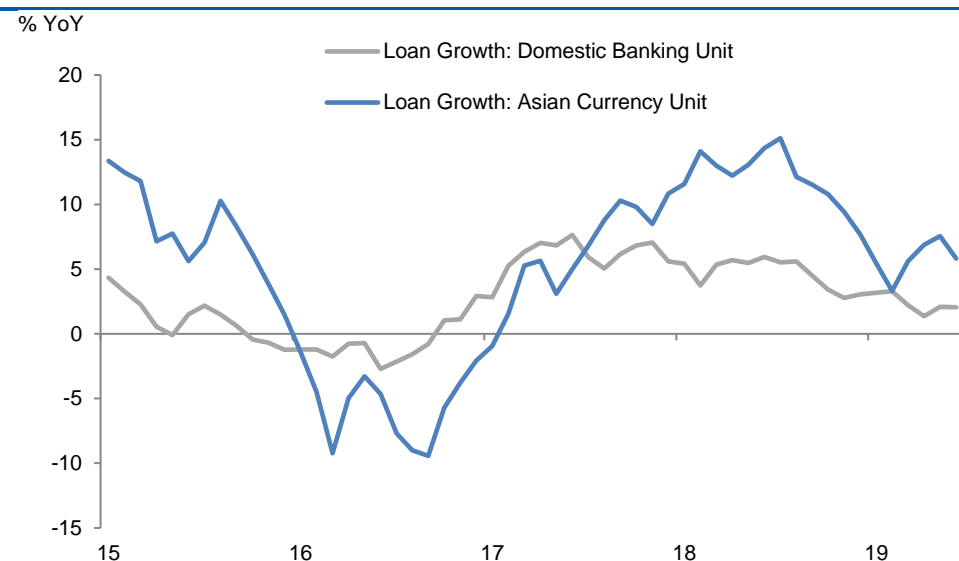
M3 resilient while consumer loans softening

For 2Q19, money supply (M3), including Asian currency units, grew at an average of 6.2% YoY, slightly higher compared to 5.9% in 1Q18. Much of the rise was due to the strong growth in public credit amidst a rise in public construction activity. Meanwhile, growth in the net foreign position moderated during the quarter. Going forward, we expect M3 to grow at 4% this year. This is premised on softer economic activity as well as tapering private credit.

For bank lending, growth improved slightly to 4.2%, vs 3.9% in 1Q19. Business loans continue to support credit growth, as consumer loans soften further. Within business loans, higher growth was seen in business services, financial institutions and professional & private individuals.

Meanwhile, for consumer loans, excluding loans to professionals & private individuals, most subcomponents showed weaker growth for the quarter, led by share financing.

Despite the downtrend in consumer loans, we do expect loan growth to be supported by lower interest rates. The Singapore Inter Bank Offered Rate (SIBOR) has fallen slightly, amidst the easing by the US Fed. In addition the expected turn to a easy monetary policy in October by the Monetary Policy of Singapore (MAS) could add to the support. Going forward, we project 5% YoY average growth in bank lending in 2019 (2020F: 6.3% YoY).

Figure 9: Loan growth is trending lower

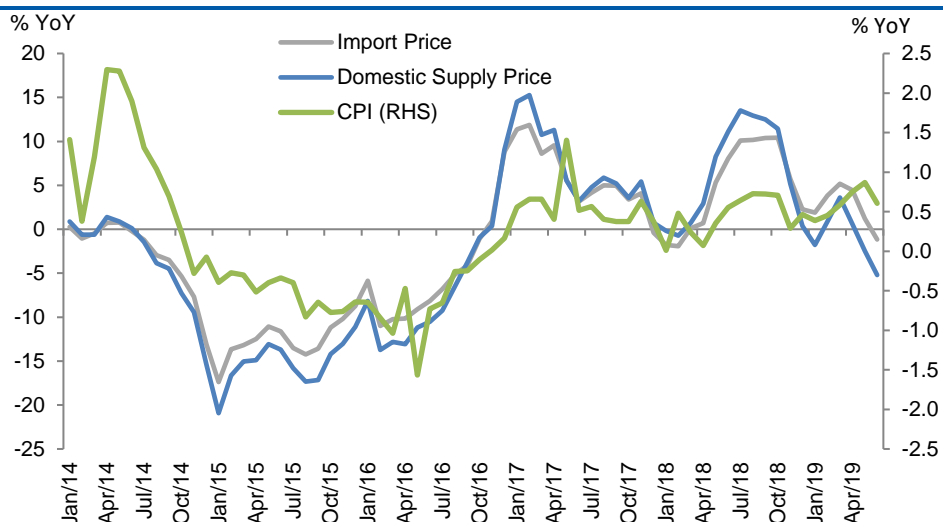
Source: Bloomberg

Inflation softening

Headline inflation rose marginally in 1Q19 to 0.7% YoY, compared to 0.5% in the prior quarter. Much of the increase was due to the higher rise in the prices of household durables, transport, and recreation. Despite the increase, headline inflation has been mostly on the lower half of the Government's 0.5-1.5% target range.

On the other hand, core CPI continues to trend downwards. 2Q19 growth was at 1.3% YoY, compared to 1.6% in 1Q19. The softening of the core CPI was due to a broad-based decline in the cost of clothing, healthcare, communication and education. The price development has led the Government to revise the expectation for inflation to come within the lower half of 1–2% range in 2019.

We maintain our headline inflation forecast at 0.8% for 2019, given that there is little upward pressure for price growth. The softening of core inflation to multi-year lows highlights further evidence of a weakening economy amidst the global slowdown. On the domestic economy, the sustained wage growth has provided some support although tentative signs of an ease in the labour market could exert a downward pressure on prices and may exacerbate as global growth moderates further. In addition, lower commodity prices also play a role in keeping prices benign. On balance, we expect headline inflation to average 0.8% in 2019 and 1.2% in 2020.

Figure 10: Low price pressures from the domestic and external sides

Source: Bloomberg

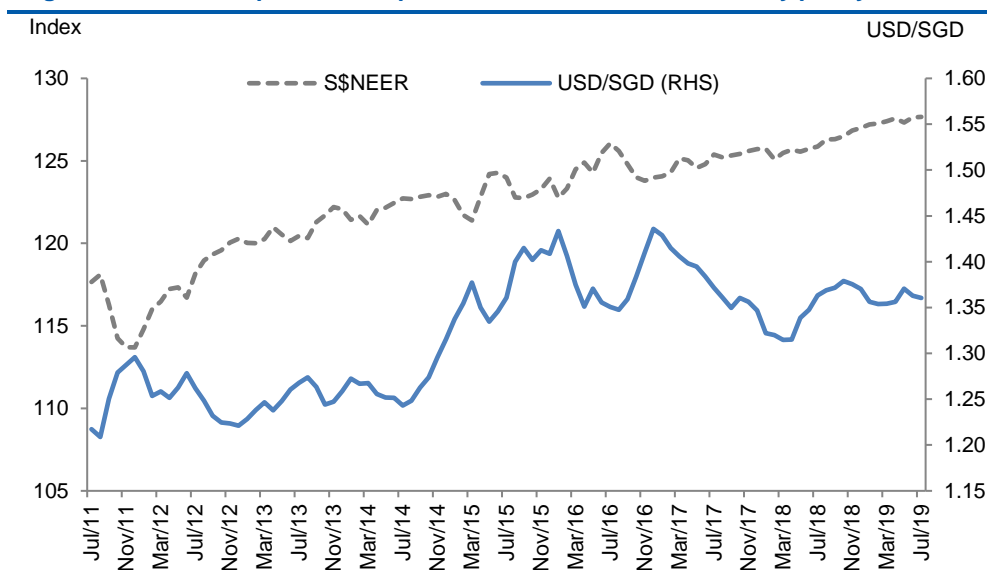
MAS expected to ease its stance

In Apr 2019, MAS decided to maintain its policy of gradual appreciation of its Singapore Dollar Nominal Effective Exchange Rate (S\$NEER), effectively steering its tightening cycle into a pause.

Amid MAS' maintaining the slope S\$NEER, the currency depreciated 1.9% against the USD so far in 2019. The weak economic growth highlighted by almost-flat GDP performance in 2Q19 is reflective of the performance of the currency.

Going forward, we expect the SGD to weaken further to 1.40 against the USD by end-2019 from 1.36 by end-2018. MAS is likely to reverse its policy of gradual appreciation of the S\$NEER in favour of an easing stance during its Oct 2019 meeting. With the expected move, MAS will join other central banks across the globe in opting for an easier monetary policy stance.

Figure 11: MAS is expected to implement accommodative monetary policy stance



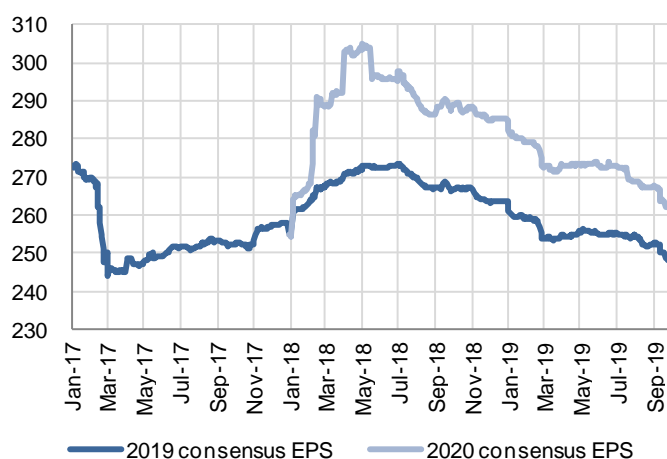
Source: Bloomberg

Slower GDP Growth = Lower Earnings Growth

Earnings downgrades have started again

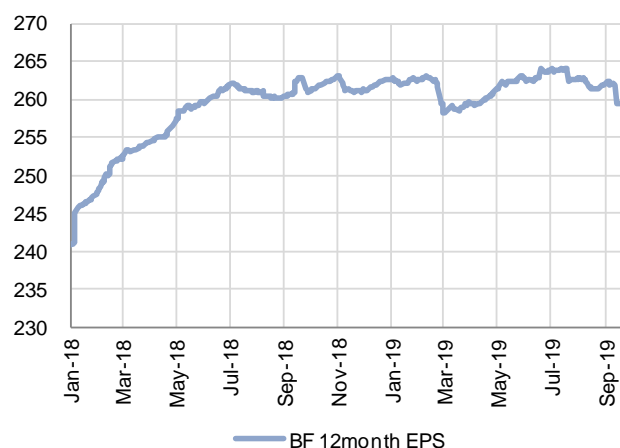
2019 consensus earnings for the STI, which had witnessed a pause in downgrades since March, dropped by 4% since end-June following a weak 2Q19 earnings reporting season. 2020 consensus earnings were also downgraded by a similar magnitude. Most downgrades came from the financial, offshore marine, and transport sectors.

Figure 12: Revisions to STI's 2019 and 2020 consensus earnings



Source: Bloomberg

Figure 13: Revisions to STI's 12-month blended forward consensus earnings



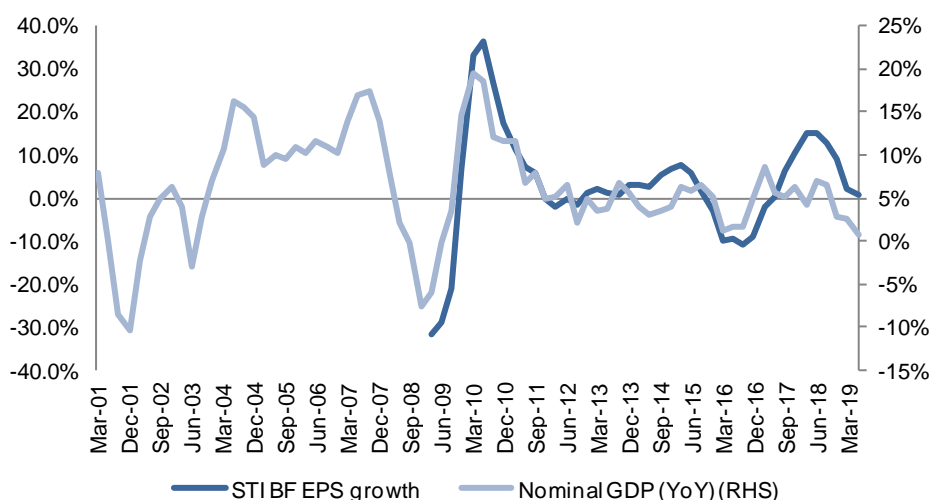
Source: Bloomberg

Risks of further downgrades to estimates

If the trade tensions between the US and China remain unresolved, we foresee an accelerated decline in global manufacturing, a sharper slowdown in global trade flows, and further declines in global investments. All of this could lead to further downgrades to the STI's 2020F consensus earnings. We believe much of these downgrades could come from the financial sector, which will be impacted by falling interest rates and slowing loan growth amidst a weak macro-economic environment. Based on Bloomberg consensus estimates, c.40% of 2020 net profit is to be derived from the financial sector.

In addition to the risks from the worsening of the trade war, there exist macroeconomic risks from Brexit, a sharp contraction in Global PMI, growth cycles in Europe turning while interest rates are still negative, and geopolitical tensions rising in the Middle East and Asia.

Figure 14: The STI's blended forward EPS growth is correlated to GDP growth rate



Source: Bloomberg

Market Outlook

The STI has underperformed most of the ASEAN markets in USD terms

The STI has given up most of its gains from early this year, given moderating profit growth expectations amidst a weakening macro outlook. YTD, in USD terms, the index has outperformed only the FBM KLCI within ASEAN. Thailand, the Philippines, and Indonesia have delivered 2-12% USD-denominated returns vs the STI's 0% return in the same period.

Figure 15: YTD regional market performance in LCY

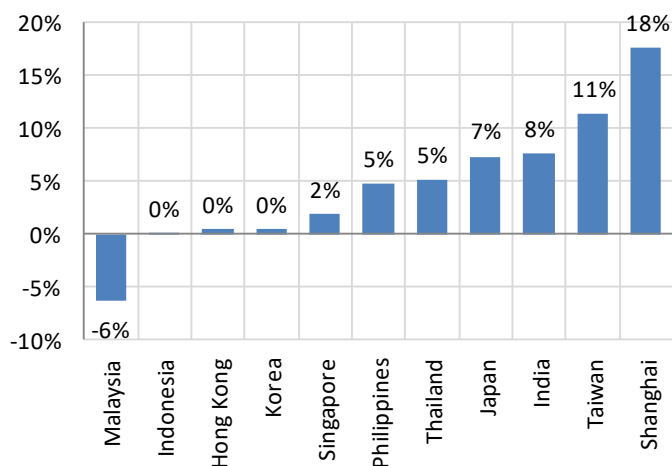
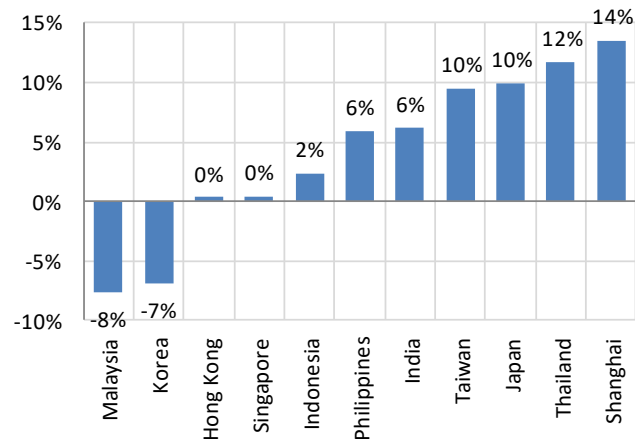


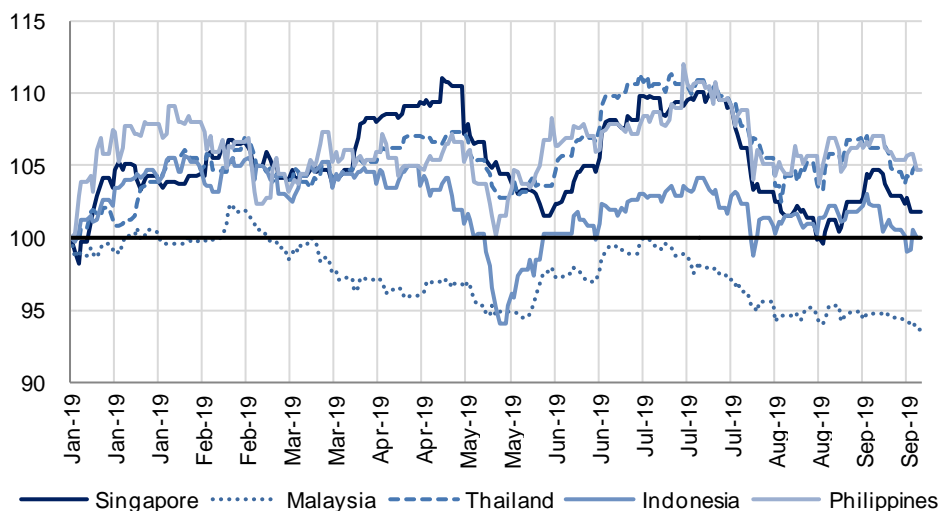
Figure 16: YTD regional market performance in USD



Note: Prices as at 27 Sep 2019
Source: Bloomberg

Note: Prices as at 27 Sep 2019
Source: Bloomberg

Figure 17: In ASEAN, the STI has been outperformed by Thailand & Philippines in LCY terms

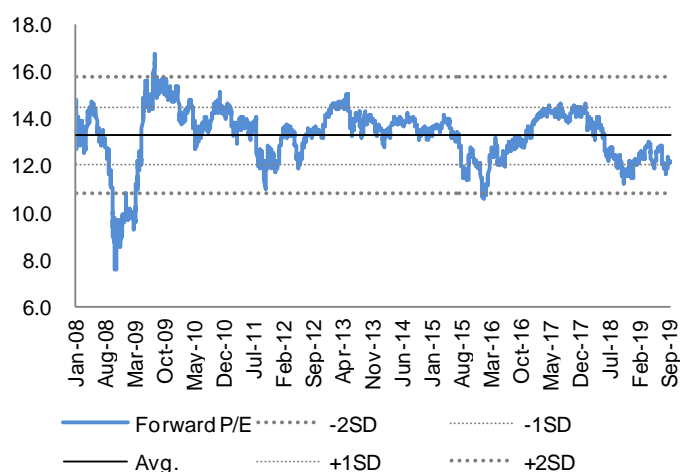


Source: Bloomberg

Valuations are looking reasonable

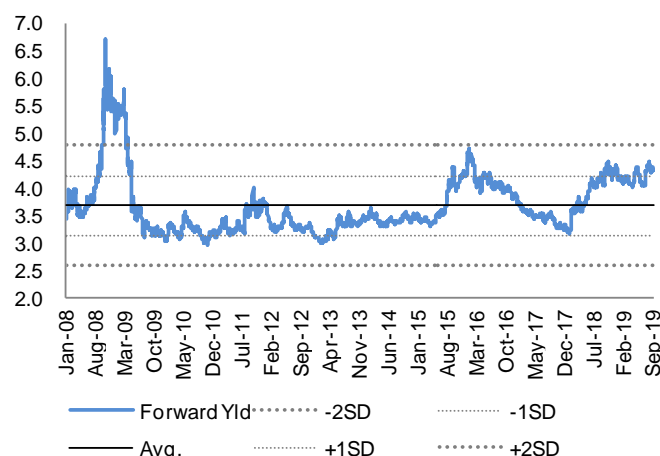
The STI's P/E still looks reasonable relative to its long-term history. It is trading at 12.1x 1-year forward P/E, at -1SD below its historical average of 13.3x. While the earnings outlook has moderated since early this year, the consensus is still estimating the STI's net profit growth for 2019 and 2020 at 3.7% and 6.7%. By contrast to Street estimates, our forecast for 2019 net profit growth –based on a combination of RHB and consensus estimates – stands at 2.5%.

Figure 18: The STI's forward P/E



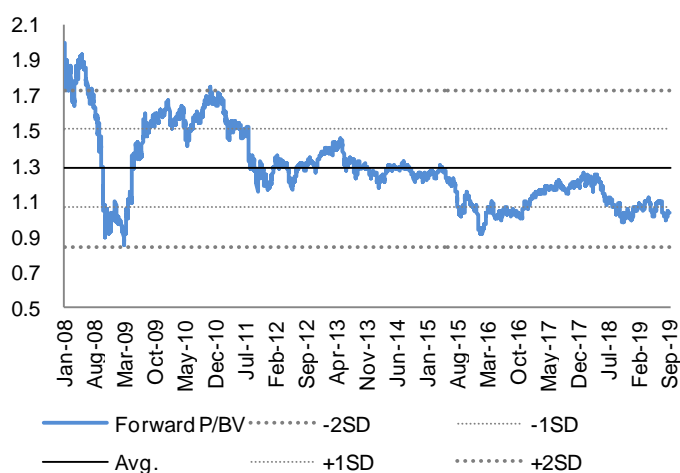
Source: Bloomberg

Figure 19: The STI's forward dividend yield



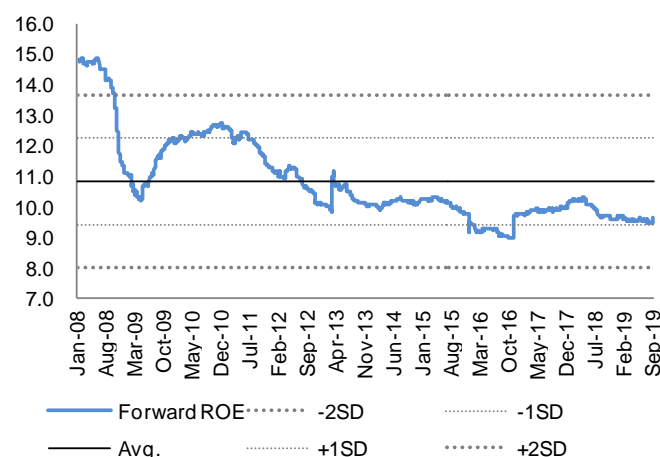
Source: Bloomberg

Figure 20: The STI's forward P/BV



Source: Bloomberg

Figure 21: The STI's forward ROE



Source: Bloomberg

Figure 22: Comparison of regional indices

	EPS growth (%)	PE		Div Yld		P/BV		ROE	
	2FY	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Developed Asia									
Australia	3.7	17.2	16.6	4.2	4.2	2.1	2.0	12.6	12.0
Hong Kong	6.3	10.4	9.8	4.0	4.2	1.1	1.0	12.1	11.7
Japan	4.5	13.1	12.5	2.5	2.6	1.1	1.1	7.0	6.8
Korea	25.8	13.2	10.5	2.3	2.5	0.9	0.8	5.3	9.7
Singapore	5.5	12.6	11.9	4.3	4.4	1.1	1.0	9.5	9.7
Taiwan	9.9	16.4	14.9	4.0	4.2	1.7	1.7	11.7	12.5
Emerging Asia									
India	19.7	20.0	16.7	1.5	1.7	2.7	2.4	13.6	14.9
Indonesia	12.5	15.9	14.2	2.2	2.4	2.2	2.0	16.6	17.0
Malaysia	6.6	16.5	15.5	3.5	3.7	1.5	1.4	9.6	9.7
Philippines	10.8	16.9	15.2	1.6	1.8	1.9	1.8	11.7	12.1
Shanghai	10.5	11.5	10.4	2.7	2.9	1.3	1.2	11.4	11.1
Thailand	10.9	16.6	15.0	3.0	3.3	1.8	1.7	10.5	10.7
MSCI APxJ	11.9	14.3	12.8	3.1	3.3	1.5	1.4	12.0	11.8

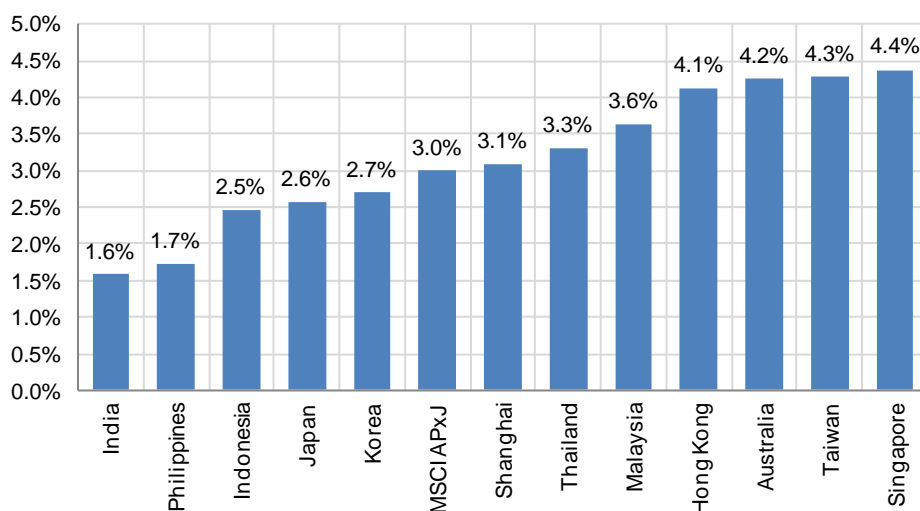
Note: Prices as at 27 Sep 2019

Source: Bloomberg

The STI offers one of the highest yields amongst Asian markets

The STI is currently trading at a forward yield of 4.4% (based on local currency). This is the highest amongst all Asian markets, exceeding Australia's 4.2% yield and Taiwan's 4.3% yield. We believe such a relatively high yield could provide downside support amidst a backdrop of weakening growth and macro-economic headwinds.

Figure 23: The STI offers the highest forward yield amongst the Asian markets



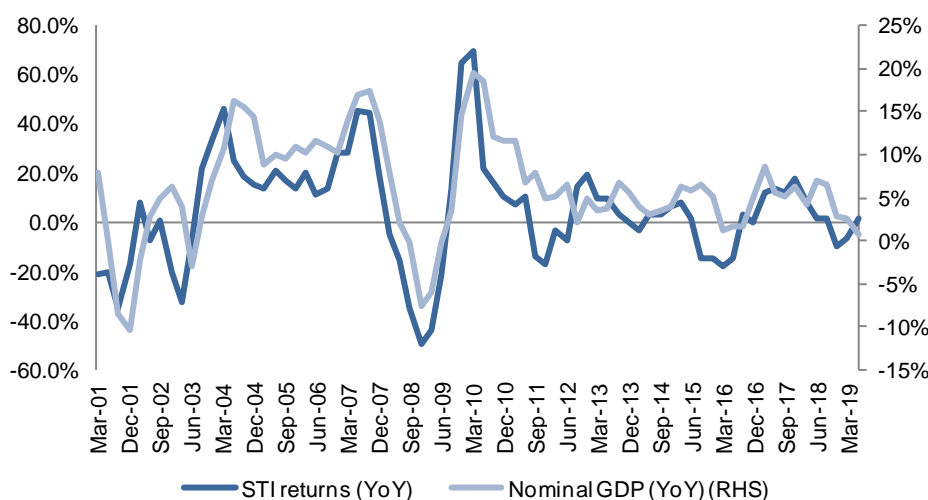
Source: Bloomberg

Tepid upside for the STI from here until year-end

End-2019 STI target at 3,250. We reiterate that historical trends suggest that Singapore's stock index returns follow the country's nominal GDP growth closely. As we expect a slowdown in GDP growth to extend into 2019 and 2020, it will be tough for the STI to generate strong positive returns from now until the end of 2019.

We use a top-down method to derive our STI target, which is based on a P/E on 2019's forecast EPS. The STI's 12.1x forward P/E is at its -1SD band. With a sharp slowdown in Singapore's GDP growth, we believe a strong P/E expansion will be difficult to pencil in. We value the STI based on a 2019 year-end target P/E of 13x, below its 1FY average of 13.3x. Applying this to our 2019 EPS estimate, we derive an index target of 3,250 for end-2019.

Figure 24: The STI's returns are highly correlated to Singapore's GDP growth rate



Source: Bloomberg

Focus On Income-Generating Equities

Dividend equities = positive yield in a falling bond yields environment

As interest rates and bond yields are expected to drop lower on the back of an ongoing policy easing cycle by the global central banks, investors have switched their attention to other high-yielding asset classes. Singapore's 10-year bond yield is at 1.74%, which is close to its 5-year low. European and Japanese government yields are in the negative zone. We believe equities that offer attractive and sustainable dividend yields will continue to gain interest from investors in an ever-lowering bond yields environment.

The yield spread between the STI's dividend yield and Singapore's 10-year bond yield is close to its decade-high level. Given that the Federal Reserve is unlikely to hike rates going forward, we believe that the premium yield obtained from dividend stocks should offer a strong proposition for investors.

Figure 25: Yield spread between the STI Index and the MAS 10Y bond

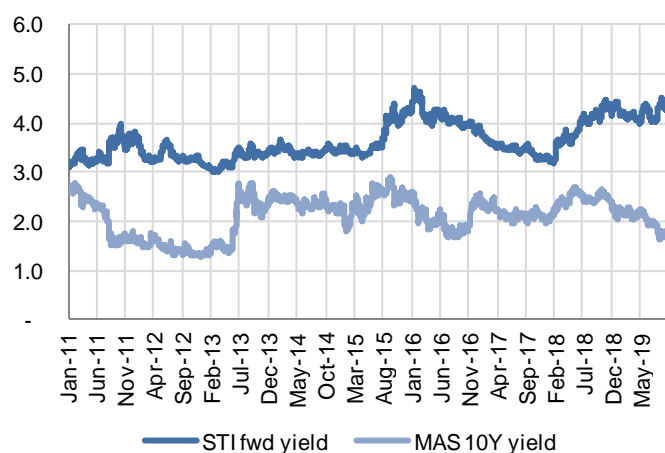
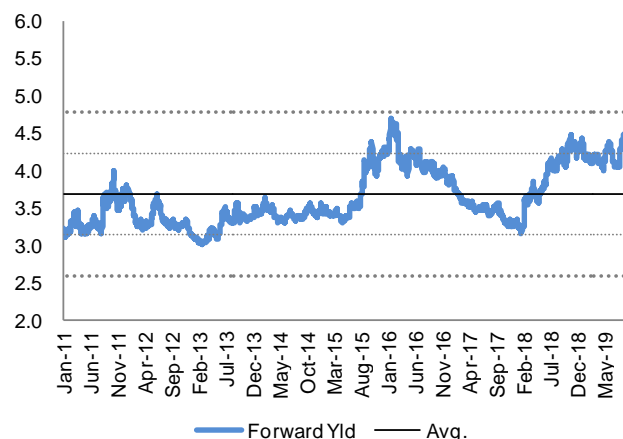


Figure 26: STI's blended forward yield



Source: Bloomberg

Source: Bloomberg

Dividend portfolios have outperformed the STI

When held over a market cycle, holding a basket of high dividend yielding-equities tend to stand out as they offer the characteristics of both equity and bonds, by offering growth as well as a regular stream of cash flow in the form of dividends. Investing in dividend-paying companies – especially those that have relatively resilient earnings accruing from steady business models – tend to generate strong shareholder value.

We conducted a detailed analysis on dividend yield investing in 2018, and noted that the annualised returns from investing in a basket of high dividend yield stocks in Singapore outperformed the STI returns over the last decade. From 2008 to 2018, investing in a basket of high dividend yield stocks (excluding REITs) in Singapore yielded an annualised return of 10.9% vs. annualised return of 3.2% for the STI Index. The two reports are *In Search Of High Dividend Yield*, published on 18 Jul 2018 and *Continuing Our Search For High Dividend Yield*, published on 8 Oct 2018.

Figure 27: Annual USD returns for HDY index and the underlying benchmark (%)

Total return (%), USD		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD	Ann. return since 2008
Singapore	HDYs ex FIN/PROP/REITS	-44.3	93.9	43.8	-20.6	37.8	20.5	11.2	-5.6	22.3	31.7	-4.1	11.8
	HDYs in Financials/Properties ex REITs	-49.9	137.1	38.7	-18.6	55.5	-1.7	14.5	-6.7	6.5	30.6	-0.3	10.9
	STI	-47.3	74.3	23.9	-15.4	30.8	-0.4	4.4	-	1.7	32.1	-4.1	3.2

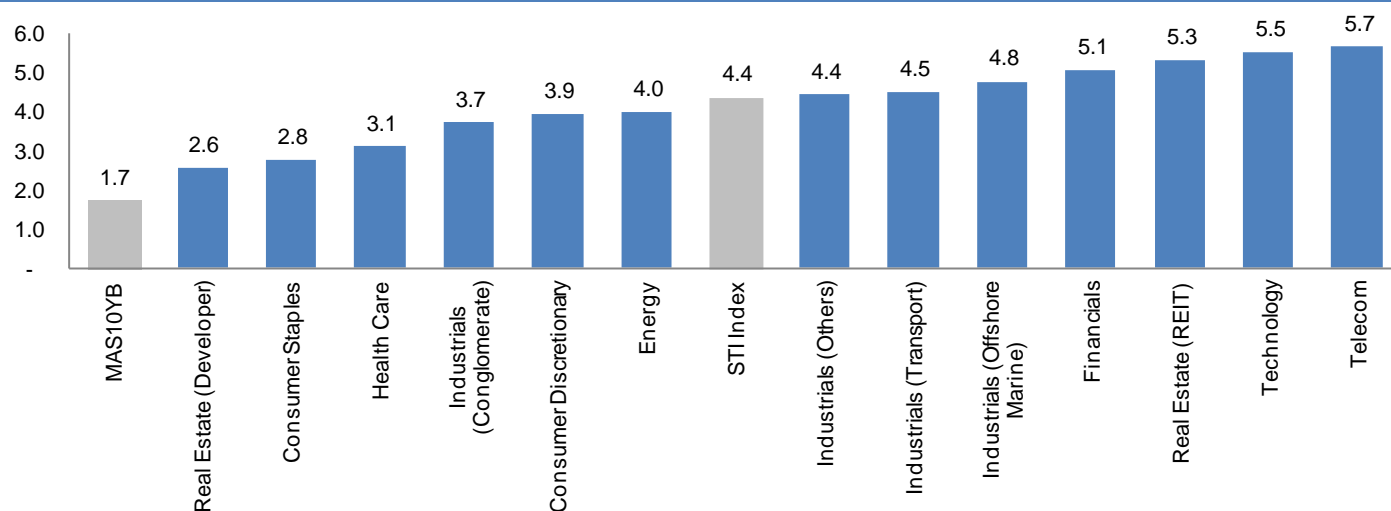
Note: Extracted from *Continuing Our Search For High Dividend Yield* report published on 8 Oct 2018. Red represents years when USD returns from high dividend yield index underperformed the STI, while green represents years when USD returns from high dividend yield index outperformed the STI.

Source: Bloomberg

Look for companies that pay high and sustainable dividends

We recommend investing in companies that pay consistent dividends across an economic cycle. This includes companies that offer strong or net cash balance sheets, resilient earnings growth, strong free cash flow generation capability, and a track record of paying high dividends. In Singapore, industrials, financials, REITs, technology and telecom sectors offer yields that are higher than that of the STI index.

Figure 28: Market cap-weighted forward sector yields for stocks under coverage



Note: Prices as at 27 Sep 2019

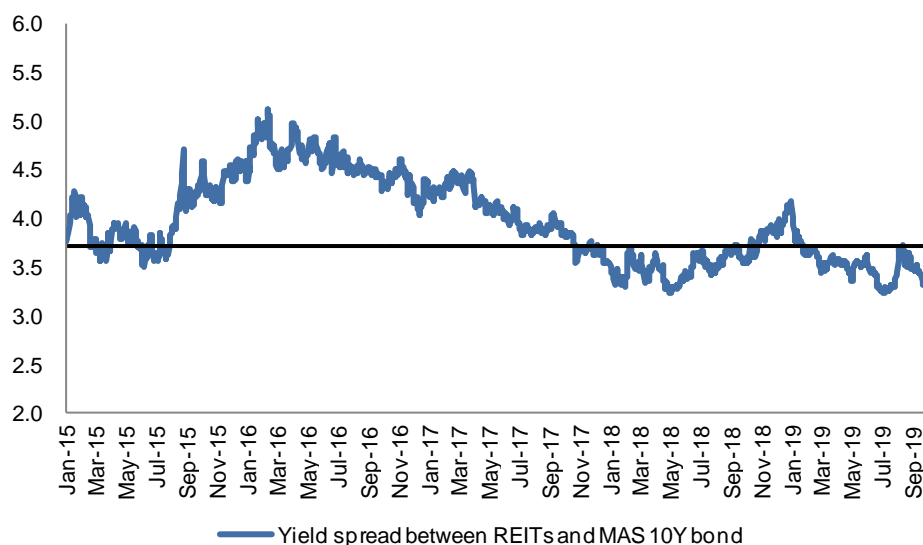
Source: Bloomberg

REITs are the best-yield proxies in Singapore

REITs usually disburse c.90% of their distributable income to investors. We expect office and hospitality REITs to benefit from favourable demand supply dynamics for the sector and continuing tourism inflows in Singapore. We also like US Office REITs for their high yields, organic and inorganic growth potential and long WALE. Many REITs have engaged in fundraising exercises to make yield-accretive acquisitions.

Currently, MAS is considering a change in policy that may increase the debt-to-asset ratio for REITs listed on the SGX. This, if raised, could offer opportunities for REITs to undertake more yield-accretive acquisitions, aided especially by a low interest rate environment. The yield spread between dividends offered by Singapore REITs and the Singapore 10-year bond yield is only slightly below the 3-year average levels, despite REITs' strong YTD performance. We remain positive on the sector and have recommend investors to selectively invest in higher-than-average yielding REITs that offer organic DPU growth or have the potential to gear up and make earnings-accretive acquisitions. Our preferential order for Singapore REITs is: office, US office, hospitality, industrials and retail.

Figure 29: Yield spread between S-REITs and the Singapore 10Y bond yield



Source: Bloomberg

Stay defensive as macro-economic headwinds persist

Given the uncertain external environment, we continue to recommend investors to stay defensive in their stock picks and focus on buying counters that offer stable earnings, strong balance sheets, and sustainable dividends. In addition to REITs, we selectively prefer stocks that meet the abovementioned criteria, ie CSE Global, Fu Yu Corp, Oxley, Sheng Siong, ST Engineering, UOB and Wilmar.

Figure 30: Top Picks

	Mkt cap		Target	Upside/	1FY	P/E (x)		P/BV (x)		Yield (%)		ROE (%)	
Company	(USDm)	Rating	price	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Large Cap													
ST Engineering	8,665	Buy	4.70	22.4	Dec-19	19.8	18.0	5.2	4.9	3.9	4.1	25.5	26.9
Suntec REIT	3,846	Buy	2.08	9.5	Dec-19	17.6	14.0	0.9	0.9	5.3	5.4	5.4	6.7
United Overseas Bank	30,999	Buy	29.50	14.9	Dec-19	9.9	10.1	1.1	1.1	5.1	5.5	11.7	11.4
Wilmar	17,052	Buy	4.75	27.7	Dec-19	14.0	13.1	1.0	1.0	2.7	2.9	7.2	7.4
SMID Cap													
CDL Hospitality Trusts	1,429	Buy	1.79	9.8	Dec-19	15.5	15.0	1.1	1.0	5.7	5.9	6.7	6.9
CSE Global	169	Buy	0.69	50.0	Dec-19	9.6	7.9	1.3	1.2	6.0	6.0	13.9	15.4
Fu Yu Corp	120	Buy	0.24	9.1	Dec-19	12.3	11.6	1.0	1.0	7.7	7.7	8.2	8.6
Manulife US REIT	1,254	Buy	1.00	11.7	Dec-19	13.4	12.9	1.1	1.1	6.8	7.0	7.1	8.2
Oxley	962	Buy	0.43	34.4	Jun-20	3.5	5.0	0.8	0.7	9.4	4.7	21.4	13.5
Sheng Siong	1,229	Buy	1.32	16.8	Dec-19	21.9	20.0	5.5	5.1	3.3	3.6	24.7	25.3

Note: Prices are as at 27 Sep 2019

Source: Bloomberg, RHB

Figure 31: Top Picks – Investment thesis

	Investment thesis
Large cap	
ST Engineering (STE SP)	<ul style="list-style-type: none"> • Strong orderbook with 2.3 years revenue visibility, sustainable yield and recovery in earnings growth • Aerospace, Electronics and Land Systems to drive profit growth during forecast period • Rising earnings from MRAS, completion of Newtec acquisition in 2H19, and continuing order wins will be key catalysts
Suntec REIT (SUN SP)	<ul style="list-style-type: none"> • Positive rent reversions from its office and retail portfolio • Positive contributions from recent Australian assets acquired • Development assets to start contributing from 2H20
UOB (UOB SP)	<ul style="list-style-type: none"> • NII to expand as loan growth to more than offset softening SIBOR (which should fall in line with US FFR) • Lowest percentage exposure to China (amongst SG peers), which is a stabilising factor given economic uncertainties in China • Our TP is pegged to 1.24x FY2020 book, in line with its 6-year average
Wilmar Intl (WIL SP)	<ul style="list-style-type: none"> • Stronger palm refining margin to offset negative impact from low CPO prices • Rising biodiesel mandates in Malaysia and Indonesia to support demand • Potential IPO in China by end-2019 as key catalyst
Mid caps	
CDL Hospitality (CDREIT SP)	<ul style="list-style-type: none"> • Proxy to Singapore hospitality sector, which currently has favourable demand-supply dynamics • Strong and prudent management team with an established track record • Modest gearing provides room for inorganic growth from acquisitions
Manulife US REIT* (MUST SP)	<ul style="list-style-type: none"> • A pure-play on rebounding US economic growth with seven high-quality office properties • Organic DPU growth via inbuilt rental rate escalation • Strong sponsor and ability to grow REIT via quality acquisitions.
Oxley Holdings (OHL SP)	<ul style="list-style-type: none"> • Selling of Stevens Road hotel could generate a gain of SGD200m and lower gearing significantly • Profits from overseas project will start accruing in the next few years • Special dividend likely as Oxley is keen to reward shareholders as profits grow. Dividend yield of c.8% for FY20F
Sheng Siong (SSG SP)	<ul style="list-style-type: none"> • Revenue growth to come from maturing of new stores • Expansion of distribution centre to drive gross margin up • Dividend yield of 3-4% and recovery of earnings growth support our positive view
Small caps	
CSE Global (CSE SP)	<ul style="list-style-type: none"> • Outstanding orderbook of SGD188.1m as at 30 Jun 2019 is highest in the last six quarters • Acquisition of Volta to be earnings-accretive from 4Q19 (addition of c.SGD4m of NPAT on an annualised basis) • Attractive dividend yield at c.6%
Fu Yu Corp (FUYU SP)	<ul style="list-style-type: none"> • Higher contributions from its auto projects • New projects on the medical and consumer front to also support growth • Dividends to likely increase to SGD 0.017, represent an attractive yield of +8.0%

Source: RHB

Expectations For The Rest Of 2019

Consumer

Sector outlook for 2H19

Limited upside from heavyweights in the near term. Given the uncertain external environment, consumers have turned cautious on spending, resulting in slower sales growth. We do not expect a major turnaround in consumer sentiment over the next six months. We are now NEUTRAL on the consumer sector as we expect some of the larger-cap names such as Dairy Farm and Thai Beverage to deliver weaker-than-expected results in 2H19, as estimated by the Street.

We are also NEUTRAL on Genting Singapore. Although we expect gaming volumes to be stronger in 2H19 on higher tourist arrivals, especially from Mainland China, we think the corporate governance issue from sister company Genting Malaysia's recent controversial related-party transaction could put a drag on its share price.

Small-mid caps with resilient business models such as Delfi, Sheng Siong, Jumbo and Food Empire should continue to deliver steady earnings in 2H19, driven by stronger sales growth but partially offset by higher operating costs.

Performance in 1H19

2Q19 results for the sector were disappointing. Delfi, Genting Singapore and Sheng Siong reported in-line numbers, while Food Empire and Thaibev beat our estimates. BreadTalk, Dairy Farm, Jumbo and MindChamps underperformed our projections. We have since downgraded Thaibev to TAKE PROFIT from Buy, and it is no longer a sector pick. Sheng Siong and Delfi remain the preferred picks for the sector.

Sector Top Picks

Gravitate towards low-risk stocks over the next six months amidst slowing economic outlook and potential market volatility derived from trade uncertainties. Our Top Picks are Sheng Siong and Delfi. Sheng Siong remains our top sector pick, as grocery players remain more resilient vs the rest of the retail sector. We also like Delfi, as the pruning of unprofitable value-products should also help to improve earnings in the near term.

In the longer term, we think there is potential upside for Genting Singapore, as expansion of the integrated resort and the Government's plan to develop the Greater Southern Waterfront area could boost foot traffic. Positive results from the Osaka integrated resort bids would also be a catalyst for its share price too.

Figure 32: 2FY P/E of the SG consumer sector

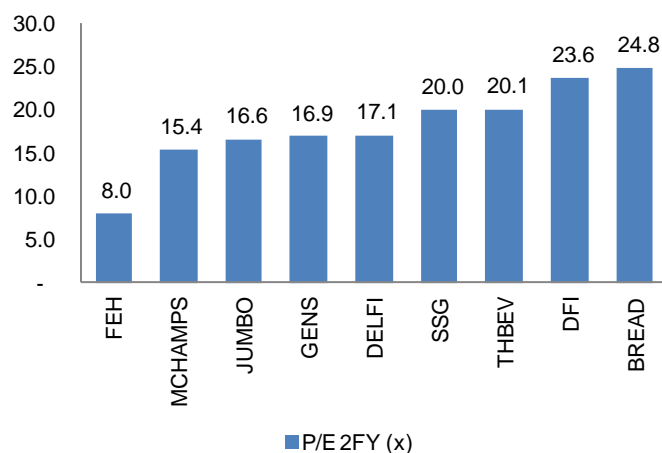
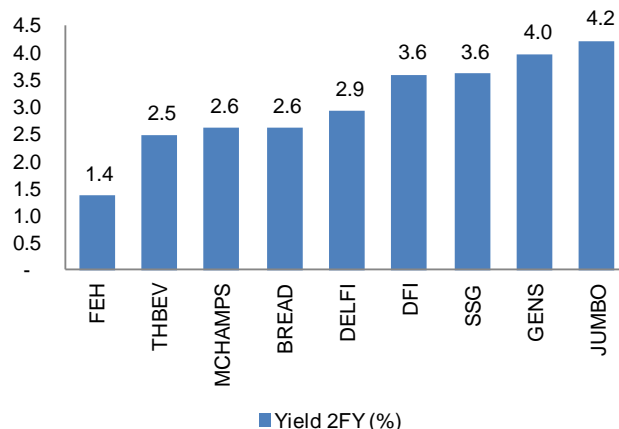


Figure 33: 2FY dividend yield for consumer sector



Source: Bloomberg, RHB

Source: Bloomberg, RHB

Financials

Sector outlook for 2H19

Expect NIM to have peaked in 2Q19. The US Fed cut the Federal Funds Rate (FFR) by 25bps in the mid-September Federal Open Market Committee (FOMC) meeting. More FFR cuts are expected going forward. Given the historical positive correlation between the US FFR and the 3-month SIBOR, we expect further softness in the latter, which is currently at 1.88% (and lower than the 2Q19 average of 1.98%). Amongst the three Singapore banks, DBS' NIM is the most leveraged to changes in the 3-month SIBOR – we forecast DBS' NIM to narrow most (amongst peers) from its 2Q19's 1.91%. OCBC and UOB are also forecasted to record NIM compression after peaking in 2Q19. With the slowing Singapore economy, we forecast the three Singapore banks to register 2019 loan growth of around mid-single digit levels.

Performance in 1H19

Respectable 1H19 earnings for the three banks. All the three banks recorded high single-digit YoY net interest income expansion. 2Q19 NIM widened and 2Q19 loan expanded sequentially for all three banks. Other P&L segments performed fairly well to support overall 2Q19 net profit.

DBS has the highest percentage loan exposure to Greater China. As of Jun19, 29.9% of DBS' loans are to Greater China, higher than OCBC's 24.2% and UOB's 15.7%. Given the current trade tensions between the US and China, and the ongoing protests in Hong Kong, DBS' larger percentage exposure is not a positive.

Sector Top Picks

UOB is our top sector pick. Falling US interest rates will be negative for Singapore banks' NIM. However, mildly positive loan growth will help to sustain net interest income. In addition, fee and commission income could grow with more income from wealth management businesses. UOB is our only Singapore bank with a BUY recommendation – we forecast high single-digit 2019 net profit growth, and a ~5% dividend yield. UOB's smaller percentage loan exposure to Greater China will soften loan loss provisioning impact on its earnings, if the economic situation in Greater China deteriorates.

Figure 34: Expect narrower FY20 NIM

Net Interest Margin	DBS	OCBC	UOB
FY16	1.80%	1.67%	1.71%
FY17	1.75%	1.65%	1.77%
FY18	1.85%	1.70%	1.82%
1Q19	1.88%	1.76%	1.79%
2Q19	1.91%	1.79%	1.81%
FY19F	1.88%	1.79%	1.81%
FY20F	1.86%	1.77%	1.78%
FY21F	1.84%	1.76%	1.77%

Source: Company data, RHB

Figure 35: DBS has the highest loan exposure to Greater China (2Q19 loan breakdown by geography)

	DBS	OCBC	UOB
Singapore	47.6%	41.6%	51.9%
South & SEA	8.1%	NA	NA
South-East Asia	NA	NA	NA
- Malaysia	NA	11.1%	10.6%
- Thailand	NA	NA	6.6%
- Indonesia	NA	7.7%	4.2%
Greater China	29.9%	24.2%	15.7%
- HK	15.3%	NA	NA
Others	14.4%	15.4%	11.0%
Total	100.0%	100.0%	100.0%

Source: Company data, RHB

Offshore & Marine

Sector outlook for 2H19

Expect some orderbook pick-up in 2H19. In early September, Sembcorp Marine (SMM) announced it has won a raft of new projects valued at SGD400m, including engineering solutions for offshore gas and wind farm developments, and upgrades for cruise ships – this is sharply higher than the SGD175m orderbook secured by SMM in 1H19. Industry-wide, we see more orderbook growth for both Keppel and SMM, particularly for FPSO conversion projects. Such new orders will help drive the revenue for offshore and marine players for FY20 and beyond. For 2H19, SMM has guided for losses to be worse than that for 1H19, due to insufficient outstanding orders to be delivered. We expect Keppel to record relatively stable 2H19 earnings (vs 1H19), mainly anchored by its property division.

Performance in 1H19

Weak offshore & marine earnings for 1H19. SMM recorded weak 1H19 financials, with a 1H19 net loss of SGD7m – due to low business volume. To help secure more orders, SMM took a SGD2bn 5-year subordinated loan facility from parent Sembcorp Industries in June, and also responded more actively to tenders and enquiries for production and gas value chain segments. In 1H19, property accounted for 56% of Keppel's 1H19 EBIT, offsetting the weakness for Keppel's offshore and marine business.

Sector Top Picks

Keppel is our top sector pick. Keppel's earnings base is more diversified than SMM's – Keppel's property business supported earnings when its 1H19 offshore and marine business remained weak. Keppel has a yield of ~4%, whereas SMM is not expected to dish out dividends in FY19. Although both are BUY stocks, we prefer Keppel over SMM. Sembcorp Industries, which owns 61% of SMM, derives 93% of its 1H19 net profit from the energy business – we see potential for long-term growth of the energy business and this could drive Sembcorp Industries' share price higher.

Figure 36: Keppel Corp's O&M net orderbook

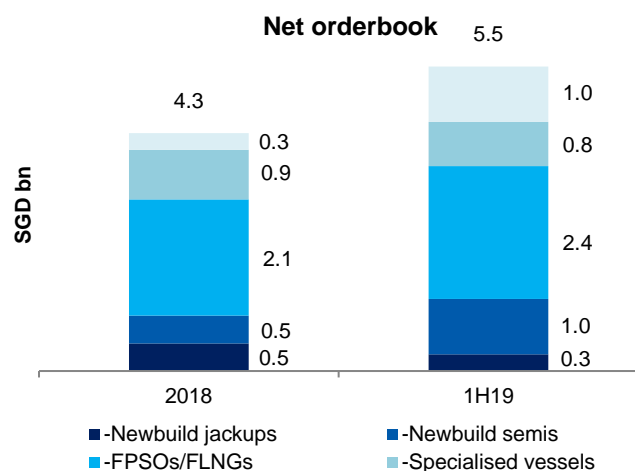
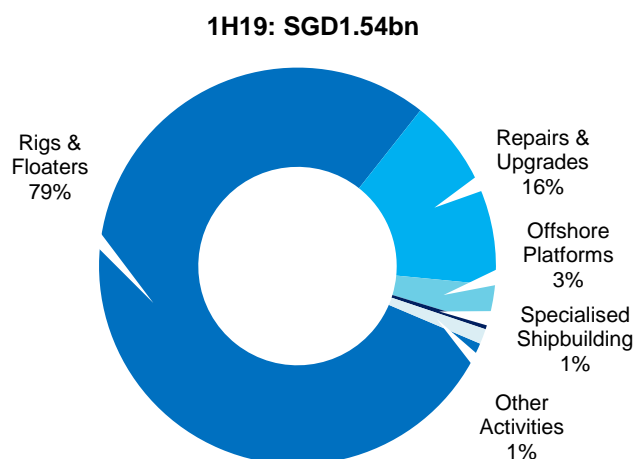


Figure 37: Sembcorp Marine's turnover by segments



Note: Net orderbook excludes semis for Sete. Others includes modification, upgrading, fabrication & rig repairs
Source: Company data, RHB

Source: Company data, RHB

Plantation

Sector outlook for 2H19

We recently upgraded the plantation sector to OW. Our contrarian view is premised on the expectation that CPO prices are likely to rerate upwards in 4Q19 and continue rising in 1H20. Historically, CPO prices are the leading indicator for plantation companies' P/Es. When CPO prices start moving, plantation companies' P/Es will expand first, before earnings catch up and valuations return to normal. As such, we have lifted our target P/Es for the stocks under our coverage by 2-5x to trade at 1SD above their historical averages. We maintain our CPO price assumptions of MYR2,200/tonne for 2019 and MYR2,400 for 2020. However, the main premises for our upgrade are:

- The trade war is still on, with import duties being levied on US soybeans;
- CPO production slowdown in 2020, while inventories should normalise by 1Q20;
- Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
- The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
- Crude oil prices remain at high levels, causing a positive CPO-gasoil price gap;
- Weather conditions remain normal.

Performance in 1H19

In 1H19, we saw disappointing production output numbers in Indonesia, where companies we cover saw a 7.7% YoY drop in FFB output, bringing 1H19 output to a 3.4% decline. This is contrary to official Indonesian Palm Oil Association (GAPKI) numbers, which show 12%/16% YoY increases for 2Q19/1H19. We believe the difference could be due to weather variations in various geographical areas as well as potential inaccuracies from non-comprehensive official numbers.

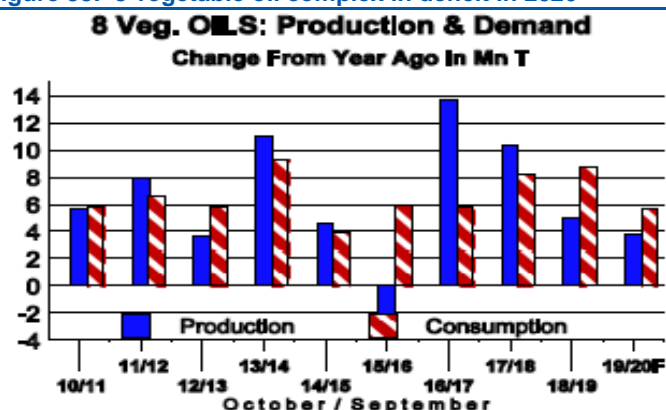
CPO prices remained subdued for most of 1H19, weighed down by high inventory levels as well as uncertainties with regards to global economic conditions and trade war risks.

For planters with downstream operations, most companies saw stronger earnings, on lower-priced feedstock inventory. Those with biodiesel operations continued to benefit from higher domestic mandates in Indonesia, as well as the wider CPO-gasoil gap, which led to higher domestic and export sales volumes.

Sector Top Picks

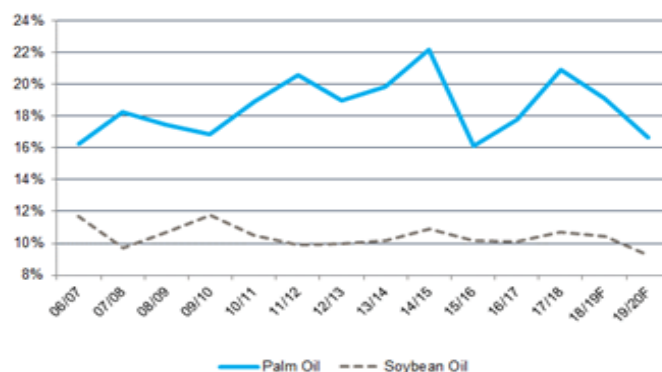
Our Top Picks in Singapore are First Resources (FR) and Wilmar. FR's mostly upstream operations will stand it in good stead in a CPO price upcycle, while it will also benefit from higher biodiesel profits as Indonesia implements its B30 mandate in 2020. As for Wilmar, its upcoming China IPO remains a key positive catalyst for its share price.

Figure 38: 8 vegetable oil complex in deficit in 2020



Source: Oil World

Figure 39: Stock/usage ratios are trending downwards



Source: Oil World, RHB

Real Estate

Sector outlook for 2H19

Volumes to remain resilient, Flattish price outlook for 2H19. Despite some recent optimism in new launches, we do not expect property prices to climb up steeply in 2H19 as the deteriorating macro-economic outlook and more choices from higher supply are expected to act as dampeners, offsetting the low interest rate environment. For 2H19 we expect the URA property index to be in the range of 0-1% and maintain our full year price growth expectation of 0-2% for 2019. Sales volumes for 2H19 is expected to exceed 2H18 volumes as there was a knee-jerk impact on transactions last year post the implementation of cooling measures. For the full year, we expect full-year sales volumes at 9,500 -10,500 units (YTD Aug: 5,628 units), slightly exceeding last year's 9,300 units.

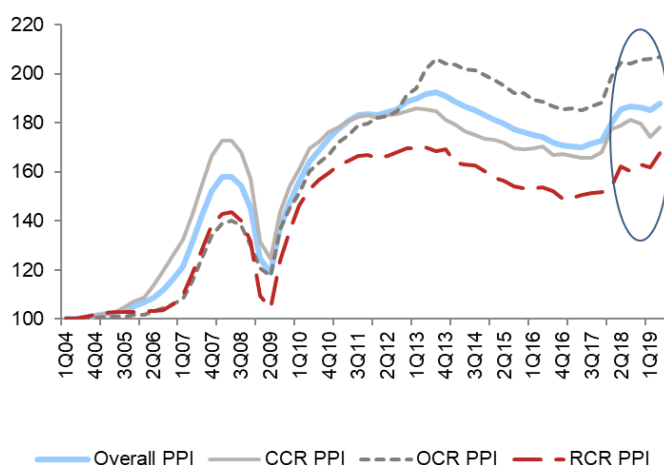
Performance in 1H19

Projects with right attributes continued to attract good demand. In 1H19, developers sold a total of 4,450 units, 5% higher than 1H18 – driven by a flurry of new launches which were mainly acquired via *en bloc* transactions in 2017-2018. Prices were relatively flattish with the URA property price index up 0.8% in 1H19. Both the transaction volumes and prices were in line with our expectations. In terms of sales, projects with right attributes (pricing, location near MRT and amenities) continued to attract strong buying demand while sales were relatively quieter at others – indicating buyers are more price-sensitive. Key sellers in 1H19 include Treasure at Tampines, The Tre Ver, Affinity at Serangoon and Amber park. Take-up rates (at the launch weekend) at new launches were generally lower-ranged at 10-30% in 1H19, compared to 20-40% in 2017-2018. Buying demand was mainly driven by locals (~80%) as the stringent additional buyer's stamp duty (ABSD) measures took a bite on foreign purchases.

Sector Top Picks

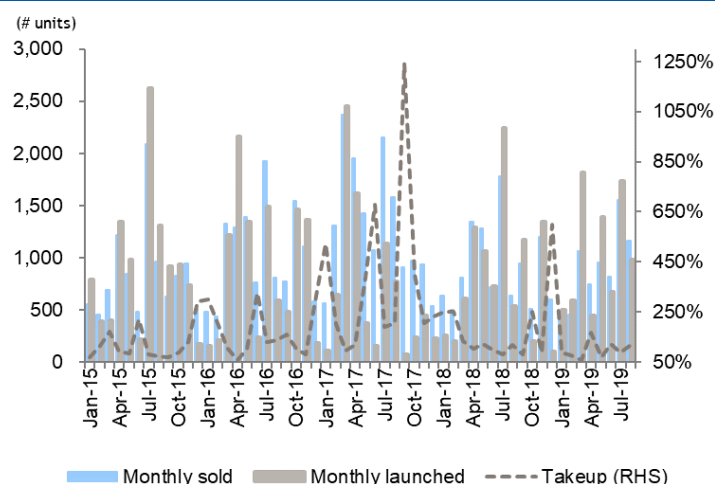
Developer's margins to stay thin. The challenging market conditions mentioned above are likely to compel developers to focus more on volumes and less on margins. As such, we expect margins to remain pressured, at around 5-15%, vs c.15-25% in the past. We prefer developers with well-diversified geographical exposure and high recurring income, along with volume-related plays (real estate agencies). We see APAC Realty as a key beneficiary of the pick-up in property volume.

Figure 40: Property price indices by region (1Q04 = 100)



Source: URA, RHB

Figure 41: Private home (ex-executive condominium) sales/launches/take-up rates



Source: URA, RHB

REITs

Sector outlook for 2H19

Economic conditions moderating, but investors' yield appetite remains unabated.

After a strong rally in REITs stocks in 1H19, we expect a flattish to slight outperformance for 2H19. The key premise of our view is based on global central banks' continuous push to prolong the lower interest rate environment, with all major central banks (US Fed, ECB, and Bank of Japan) forecasted to lower rates and loosen monetary policies.

However, we note that weak macro-economic data on the back of the prolonged trade tensions – likely to impact DPU growth ahead – is partially offset by accretive inorganic acquisitions from REITs. Overall while we maintain our OVERWEIGHT rating, we are selective on our REIT picks and prefer laggards with stock-specific catalysts.

Performance in 1H19

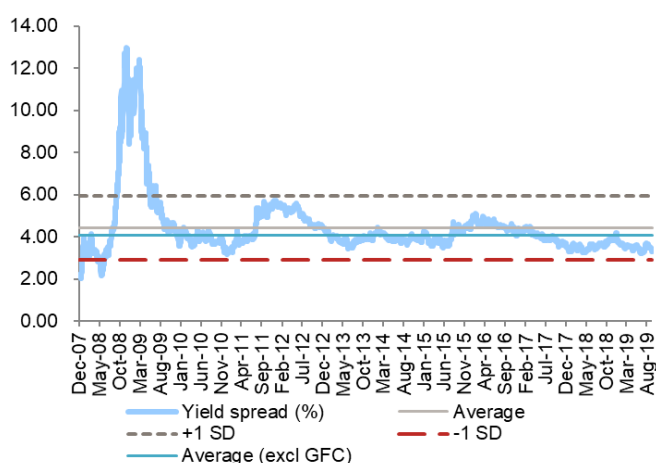
Strong outperformance in REITs by 1H19 not a surprise and was driven by the following four factors in our view:

- Falling interest rates and volatile macro-economic environment fuelling strong demand for yield instruments across global markets;
- Tapering supply outlook, which has relieved some of the rental and occupancy pressures across REITs seen in the past years;
- Lower interest costs from a prolonged lower interest rate environment;
- DPU growth potential from inorganic acquisitions by taking advantage of low borrowing costs.

Sector Top Picks

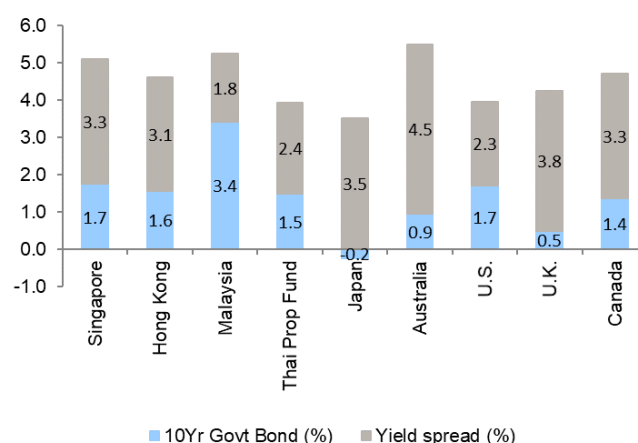
Prefer laggards and REITs with catalysts. We prefer the office and hospitality REITs followed by industrial and retail REITs. We also like US office REITs for its superior yields, long WALE and inbuilt rental escalations. In terms of valuations, S-REITs are at 1.2x P/BV with a dividend yield spread of 340 bps above 10-year bonds, both of which are at +1SD vs historical valuations. Our sector picks are Suntec REIT, Manulife US REIT and CDL Hospitality Trusts.

Figure 42: SREITs Index (yield spread)



Source: Bloomberg, RHB

Figure 43: Major global REITs – a comparison



Source: Bloomberg, RHB

Technology

Sector outlook for 2H19

Still awaiting a resolution to the trade war. 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. However, since the end of Jan 2019, there has been positive news on this front from both parties, as they met and held talks during 1Q19, with President Trump extending the 1 Mar trade deal truce deadline, citing positive progress in trade talks. Both parties have also expressed optimism and keenness to work towards a trade deal in front of the media recently, and scheduled talks for Oct 2019. While both countries have also given measures of goodwill, we think that it is still hard to expect a positive conclusion from the upcoming talks. A delay in a trade agreement is highly likely, in our view.

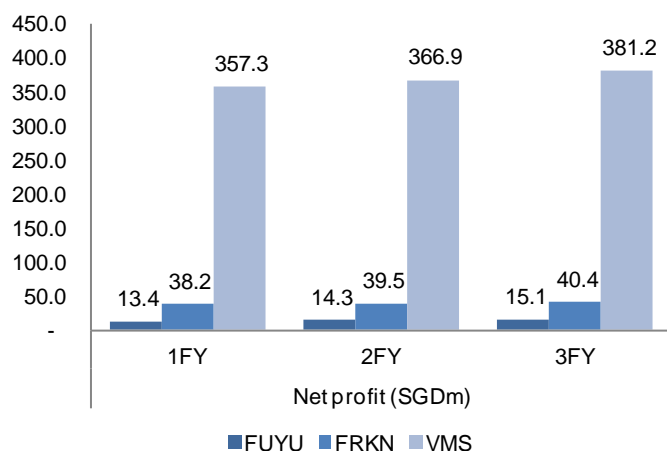
Sector Top Picks

South-East Asia a strong competitor for manufacturing. Low-cost labour in places like Myanmar, Cambodia and Laos, coupled with cost-effective manufacturers in Thailand, Vietnam, Indonesia and the Philippines, and higher-end producers in Singapore and Malaysia empowers South-East Asia to be a strong competitor to China for manufacturing. This is especially so, with the surge in labour costs in China and the tariffs from the trade dispute between the US and China. South-East Asian nations have committed to establish an ASEAN community by 2015 where goods, services, capital and labour can move freely between the member states. ANZ estimated that the South-East Asian nations could lift intra-regional trade to SGD1trn by 2025. Foreign direct investment into ASEAN from the major economies could surge to SGD106bn in 2025, having already eclipsed investment into China for the first time in 2013.

Winners of relocation – Venture, Fu Yu and Frencken. Fu Yu and Venture have sizeable manufacturing capabilities in Singapore, as well as in Malaysia. It is the same for Frencken, which also has strength in Europe. As a result, shifting production from their China factories to avoid tariffs would be much easier and faster, without the time needed to set up a new factory from scratch. In addition, companies will likely also benefit from new customers that want to shift their production out of China, and require production to be ramped up in a short period of time.

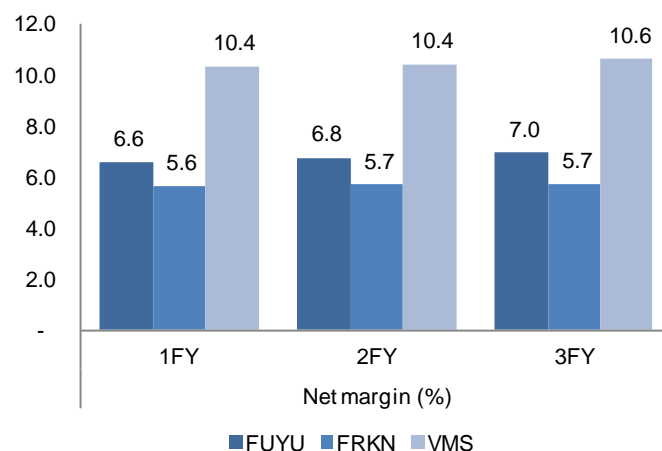
Remain NEUTRAL on the sector. We stick to the above stock picks for FY19F while awaiting a resolution to the trade war. We think that a trade agreement between the two economic giants will likely not be struck any time soon, despite lasting for over a year already. Our Top Picks within the manufacturing sector include Fu Yu and Frencken.

Figure 44: Profit growth outlook for tech stocks under coverage



Source: Company data, RHB

Figure 45: Margin outlook for tech stocks under coverage



Source: Company data, RHB

Telecommunications

Sector outlook for 2H19

Incumbents continue to offer superior 4G networks. With mobile data plans already exhibiting considerable value and operators doubling down on promotions since the start of the year, it would be interesting to see how TPG Telecom (TPG) intends to differentiate itself when its service is fully-commercialised by year-end. TPG's chairman John Teoh had earlier stated that "customers can look forward to many other innovations the company is planning to bring into the market". The fourth mobile licensee has been offering free unlimited mobile data (capped at 2GB per day on 4G) as part of its trial service launched late last year. A survey conducted by OpenSignal in July ranked TPG's 4G network as being the slowest among the four mobile network operators (MNO), at 21Mbps vs. Singtel (42.5Mbps), StarHub (39.5Mbps) and M1 (36.1Mbps). The survey results reaffirm the superior quality of incumbent networks with the three MNOs.

New mobile virtual network operators (MVNOs) are flooding the market. RedOne and Grid Mobile (GM) were the latest to launch their mobile services in late June/ early July. This adds to the five existing MVNOs in the market and two digital brands from Singtel and StarHub. GM's service leverages on Singtel's network while StarHub is the host network for RedOne. RedOne's (a Malaysian MVNO) entry-level SIM-only plan of SGD8/mth (3GB data on 4G) is targeted at the sizeable population of Malaysians working in Singapore with shared data roaming quota.

Details on 5G deployment to be announced soon. We expect the Infocomm Media Development Authority (IMDA) to assign the mid band (3.5GHz) and mmwave spectrum (26-28GHz) by 1H20, marking the first of 5G spectrum to be allocated in the region. This should pave the way for commercial 5G deployments in 2H20, at the earliest. In the second public consultation on 5G mobile services and networks completed in 9 Jul, the IMDA received 63 individual submissions. The regulator intends to announce its final decision on the 5G policy framework by end-2019. It had proposed for the 5G spectrum to be assigned via a call for proposal/beauty contest.

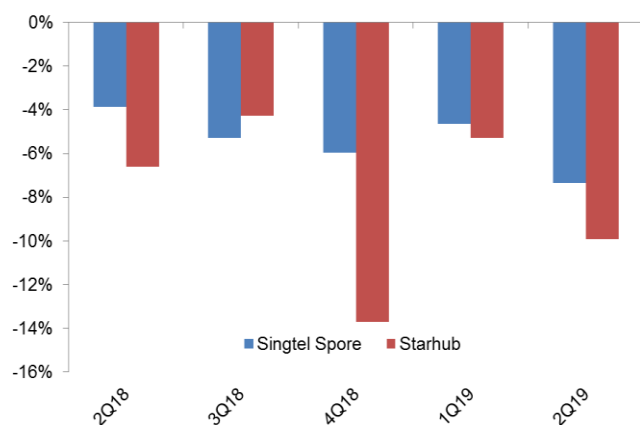
Performance in 1H19

Singtel disappointed on earnings. Singtel disappointed in terms of core earnings for the June quarter (1QFY20) while StarHub's results were in line. Singtel's Singapore mobile revenue and StarHub's mobile revenue (MSR) fell 7-10% YoY and 6-8% YoY in 2Q19 and 1H19 respectively, as ARPU's slipped further due to higher take-up of SIM-only plans and structural roaming revenue pressure. Cost initiatives have largely sustained the telcos' EBITDA which rose 2% YoY for Singtel (SG consumer EBITDA) and -0.4% for StarHub.

Sector Top Pick

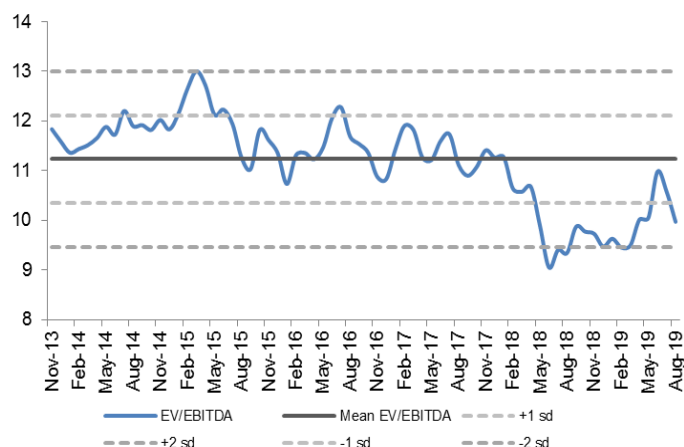
Singtel remains our preferred pick due to its earnings diversity, and dividend certainty (committed DPS payouts for FY19/20) which augur well in a low growth/risk-off environment. Key upside/downside risks are weaker/stronger than expected competition.

Figure 46: MSR growth YoY – Singtel & StarHub



Source: Company data, RHB

Figure 47: SG telco 1-yr forward sector EV/EBITDA (x)



Source: Bloomberg, RHB

Transportation

Sector outlook for 2H19

Taxi business to remain a key drag on earnings for ComfortDelGro (CD). Based on data provided by the Land Transport Authority (LTA), CD's taxi fleet has declined by 9.4% during the first seven months of 2019 to 11,200. This, along with the loss of drivers to ride-hailing players, have pushed the idle rate for the company's Singapore taxi fleet to c.4% from 2.5%. Management guided that the replacement of older Hyundai Sonata taxis with hybrid cars, which has helped in offsetting some weakness from declining fleet size, is also being delayed due to a supply shortage. We expect competitive pressure in the taxi business to persist, given the increase in private car rental fleets in Singapore. CD could forgo some EBIT margin in its taxi business (17.8% EBIT margin in 2Q19) by offering higher incentives to retain drivers. It also expects to end the year with a smaller fleet.

Headwinds for CD from Singapore's rail business. Singapore's Public Transport Council noted that fares could increase by up to 7% as a part of the 2019 fare review exercise (news). While this may help improve the profitability of rail operations, we believe that the positive impact could be partially negated by expected cost increases. CD expects cost pressures in the coming quarters due to higher maintenance costs related to mid-life refurbishments to be undertaken at the North-East Line.

Aviation may have a tough 2H19. While there has been no visible weakness in passenger traffic for SIA's mainline business, we believe weakening economic growth and slowing discretionary spending could have a negative impact on airlines' passenger yields. Slowing global trade flows have already started showing up in airfreight demand for airlines. The only positive for airlines is a subdued current and forward oil price environment.

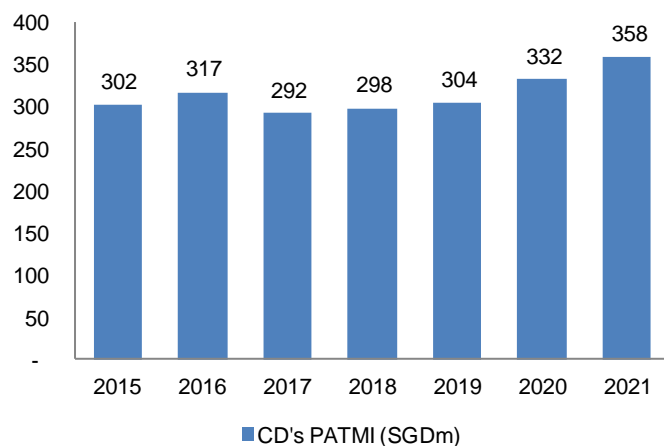
Performance in 1H19

Lower-than-estimated earnings for CD. CD reported 2Q19 PATMI of SGD75.1m (+1.2% YoY). 1H19 PATMI of SGD146.3m accounted for 45% of our and Street 2019 estimates. Excluding the negative FX impact, new acquisitions accounted for 80% of the growth in revenue. Its contribution to the EBIT growth was SGD8.4m. EBIT contribution from existing businesses was a negative SGD0.8m.

Sector Top Pick

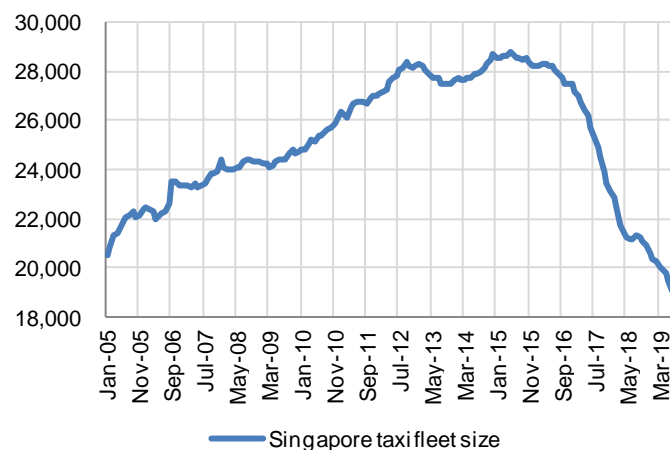
Like CD, except for its relatively expensive valuation. CD's earnings will be driven by its public transport business in Singapore and contributions from its recently acquired businesses overseas. However, rising operating costs and a weak taxi business remain a key drag in the near term. While we like the defensive nature of CD's earnings and strong FCF generation, the stock looks fairly priced – it is trading at 16.9x 2019F P/E (5-year average: 15x).

Figure 48: CD's recurring PATMI has gone stagnated in last 4 years



Source: Company data, RHB

Figure 49: Rising competition from PHC amidst declining industry taxi fleet offers downside risk for CD's earnings



Source: Land Transport Authority, RHB

Singapore Equities – Valuation Table

Figure 50: Top BUY ideas sorted by market cap

	M cap		Target	Upside/	1FY	P/E (x)		P/BV (x)		Yield (%)		ROE (%)	
Company	(USDm)	Rating	price	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Large Cap													
United Overseas Bank	30,999	Buy	29.50	14.9	Dec-19	9.9	10.1	1.1	1.1	5.1	5.5	11.7	11.4
Wilmar International	17,052	Buy	4.75	27.7	Dec-19	14.0	13.1	1.0	1.0	2.7	2.9	7.2	7.4
ST Engineering	8,665	Buy	4.70	22.4	Dec-19	19.8	18.0	5.2	4.9	3.9	4.1	25.5	26.9
Keppel Corp	7,860	Buy	7.30	22.1	Dec-19	12.2	10.4	0.9	0.9	4.1	4.8	7.7	8.6
Suntec REIT	3,846	Buy	2.08	9.5	Dec-19	17.6	14.0	0.9	0.9	5.3	5.4	5.4	6.7
Venture Corp	3,186	Buy	16.30	6.7	Dec-19	12.4	12.0	1.8	1.7	4.6	4.6	14.3	13.7
Sembcorp Industries	2,755	Buy	2.68	25.8	Dec-19	9.8	8.0	0.5	0.5	2.0	2.5	5.6	6.5
SMID Cap													
First Resources	1,834	Buy	1.90	18.8	Dec-19	26.5	15.5	1.9	1.7	1.0	1.6	7.2	11.4
Sembcorp Marine	1,814	Buy	1.63	35.8	Dec-19	(37.5)	54.7	1.1	1.1	-	-	(2.9)	2.0
CDL Hospitality Trusts	1,429	Buy	1.79	9.8	Dec-19	15.5	15.0	1.1	1.0	5.7	5.9	6.7	6.9
Manulife US REIT	1,254	Buy	1.00	11.7	Dec-19	13.4	12.9	1.1	1.1	6.8	7.0	7.1	8.2
Sheng Siong Group	1,229	Buy	1.32	16.8	Dec-19	21.9	20.0	5.5	5.1	3.3	3.6	24.7	25.3
Oxley Holdings	962	Buy	0.43	34.4	Jun-20	3.5	5.0	0.8	0.7	9.4	4.7	21.4	13.5
Silverlake Axis	880	Buy	0.56	21.7	Jun-20	17.0	16.0	5.7	5.2	6.4	8.6	33.6	32.2
China Aviation Oil Singapore	722	Buy	1.50	29.3	Dec-19	7.6	7.1	0.9	0.8	3.8	4.0	11.8	11.6
Keppel Pacific Oak US REIT	639	Buy	0.88	13.5	Dec-19	11.5	11.1	1.0	0.9	7.9	8.2	10.1	10.3
Cache Logistics Trust	574	Buy	0.80	8.8	Dec-19	10.5	10.0	1.1	1.1	8.3	8.5	10.4	10.8
Delfi	531	Buy	1.68	40.0	Dec-19	19.5	17.1	2.4	2.3	2.6	2.9	12.4	13.2
Talkmed Group	490	Buy	0.62	20.4	Dec-19	20.5	19.2	9.1	9.0	4.8	5.1	41.9	44.6
HRnet Group	434	Buy	0.94	58.0	Dec-19	11.6	10.9	1.7	1.5	4.4	4.6	14.4	14.1
EC World REIT	420	Buy	0.82	12.3	Dec-19	8.7	6.8	0.8	0.8	8.7	9.0	7.0	7.5
Frencken Group	212	Buy	0.82	18.8	Dec-19	7.6	7.4	1.0	0.9	4.0	4.1	13.1	12.4
Unusual	205	Buy	0.42	52.7	Mar-20	16.7	13.3	4.1	3.1	-	-	24.3	23.3
Food Empire Holdings	193	Buy	0.73	46.0	Dec-19	8.7	8.0	1.0	0.9	1.2	1.4	11.3	11.2
Moya Holdings Asia	192	Buy	0.08	31.7	Dec-19	15.0	13.1	0.9	0.9	-	-	6.2	6.5
Amara Holdings	191	Buy	0.88	91.3	Dec-19	14.7	12.2	0.7	0.6	2.2	2.2	4.5	5.2
Jumbo	174	Buy	0.47	25.3	Sep-19	20.1	16.6	3.3	3.2	3.5	4.2	17.4	19.8
CSE Global	169	Buy	0.69	50.0	Dec-19	9.6	7.9	1.3	1.2	6.0	6.0	13.9	15.4
APAC Realty	127	Buy	0.65	31.3	Dec-19	8.8	8.5	1.2	1.1	6.8	7.0	13.6	13.3
Fu Yu	120	Buy	0.24	9.1	Dec-19	12.3	11.6	1.0	1.0	7.7	7.7	8.2	8.6
Singapore Medical Group	105	Buy	0.48	57.4	Dec-19	11.5	10.9	1.0	1.0	1.7	1.8	9.0	8.9
MindChamps Preschools	100	Buy	0.83	45.6	Dec-19	18.0	15.4	2.1	2.0	2.5	2.6	11.8	12.7

Note: Prices are as at 27 Sep 2019

Source: Bloomberg, RHB

Figure 51: Stocks that are yielding more than STI sorted by rating and 2FY yield

	M cap		Target	Upside/	1FY	P/E (x)		P/BV (x)		Yield (%)		ROE (%)	
Company	(USDm)	Rating	price	down. (%)	year	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Buy rated stocks													
EC World REIT	420	Buy	0.82	12.3	Dec-19	8.7	6.8	0.8	0.8	8.7	9.0	7.0	7.5
Silverlake Axis	880	Buy	0.56	21.7	Jun-20	17.0	16.0	5.7	5.2	6.4	8.6	33.6	32.2
Cache Logistics Trust	574	Buy	0.80	8.8	Dec-19	10.5	10.0	1.1	1.1	8.3	8.5	10.4	10.8
Keppel Pacific Oak US REIT	639	Buy	0.88	13.5	Dec-19	11.5	11.1	1.0	0.9	7.9	8.2	10.1	10.3
Fu Yu	120	Buy	0.24	9.1	Dec-19	12.3	11.6	1.0	1.0	7.7	7.7	8.2	8.6
APAC Realty	127	Buy	0.65	31.3	Dec-19	8.8	8.5	1.2	1.1	6.8	7.0	13.6	13.3
Manulife US REIT	1,254	Buy	1.00	11.7	Dec-19	13.4	12.9	1.1	1.1	6.8	7.0	7.1	8.2
CSE Global	169	Buy	0.69	50.0	Dec-19	9.6	7.9	1.3	1.2	6.0	6.0	13.9	15.4
CDL Hospitality Trusts	1,429	Buy	1.79	9.8	Dec-19	15.5	15.0	1.1	1.0	5.7	5.9	6.7	6.9
United Overseas Bank	30,999	Buy	29.50	14.9	Dec-19	9.9	10.1	1.1	1.1	5.1	5.5	11.7	11.4
Suntec REIT	3,846	Buy	2.08	9.5	Dec-19	17.6	14.0	0.9	0.9	5.3	5.4	5.4	6.7
Talkmed Group	490	Buy	0.62	20.4	Dec-19	20.5	19.2	9.1	9.0	4.8	5.1	41.9	44.6
Keppel Corp	7,860	Buy	7.30	22.1	Dec-19	12.2	10.4	0.9	0.9	4.1	4.8	7.7	8.6
Oxley Holdings	962	Buy	0.43	34.4	Jun-20	3.5	5.0	0.8	0.7	9.4	4.7	21.4	13.5
HRnet Group	434	Buy	0.94	58.0	Dec-19	11.6	10.9	1.7	1.5	4.4	4.6	14.4	14.1
Venture Corp Ltd	3,186	Buy	16.30	6.7	Dec-19	12.4	12.0	1.8	1.7	4.6	4.6	14.3	13.7
Neutral rated stocks													
Avi-Tech Electronics	41	Neutral	0.31	(7.5)	Jun-20	11.9	11.7	1.1	1.1	6.9	7.0	9.5	9.6
StarHub	1,654	Neutral	1.52	15.2	Dec-19	12.9	14.8	6.1	6.1	6.8	6.8	47.5	41.5
Starhill Global REIT	1,168	Neutral	0.78	5.4	Jun-20	11.5	12.8	0.8	0.8	6.3	6.4	3.4	7.1
Valuetronics Group	195	Neutral	0.61	(1.6)	Mar-20	8.9	8.6	1.2	1.2	6.1	6.4	13.8	13.5
Fraser's Commercial Trust	1,059	Neutral	1.65	2.5	Sep-19	13.3	14.8	1.0	1.0	6.0	6.2	7.4	6.7
Kimly Ltd	183	Neutral	0.23	4.5	Sep-19	12.9	12.4	2.9	2.7	5.8	6.0	22.3	21.9
SingTel	36,865	Neutral	3.40	9.0	Mar-20	16.6	15.5	1.7	1.6	5.6	5.6	10.0	10.6
Ascendas REIT	7,072	Neutral	2.90	(7.6)	Mar-20	15.3	13.2	1.5	1.4	5.2	5.3	9.2	10.3
DBS Group Holdings	46,028	Neutral	25.30	1.6	Dec-19	10.1	9.9	1.3	1.2	4.8	5.2	12.8	12.4
Centurion Corp	246	Neutral	0.43	6.2	Dec-19	10.0	9.3	0.6	0.6	4.9	4.9	6.5	6.7
Japan Foods	54	Neutral	0.40	(7.0)	Mar-20	21.3	19.3	2.2	2.2	4.4	4.9	10.3	11.2
Fraser's Centrepoint Trust	2,165	Neutral	2.55	(4.9)	Sep-19	15.6	19.5	1.2	1.2	4.6	4.8	7.1	6.3
CapitaLand Mall Trust	7,020	Neutral	2.38	(9.5)	Dec-19	18.2	17.4	1.3	1.3	4.5	4.7	7.1	7.3
Oversea-Chinese Banking Corp	33,804	Neutral	11.50	6.3	Dec-19	9.8	9.9	1.1	1.0	4.6	4.7	12.0	11.3
Keppel REIT	3,072	Neutral	1.20	(4.0)	Dec-19	18.0	22.2	0.9	0.8	4.4	4.6	4.6	3.7
ComfortDelGro	3,730	Neutral	2.55	7.1	Dec-19	16.9	15.5	2.1	2.0	4.1	4.5	9.8	10.3
CapitaLand Commercial Trust	5,805	Neutral	1.98	(4.8)	Dec-19	23.2	23.0	1.1	1.1	4.4	4.4	4.9	4.9

Note: Prices are as at 27 Sep 2019

Source: Bloomberg, RHB

Figure 52: Top 2FY dividend yields for REITs

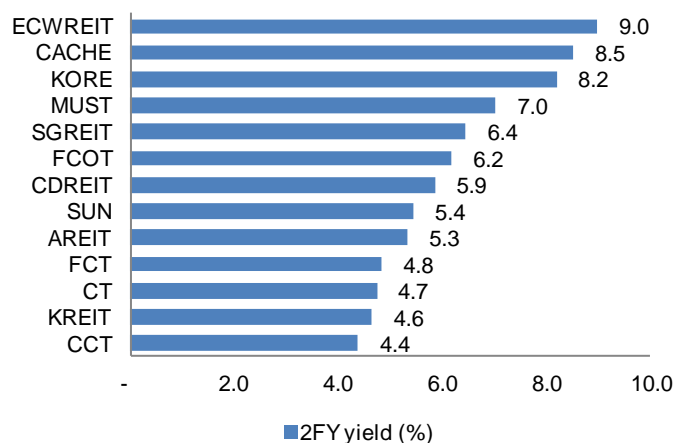
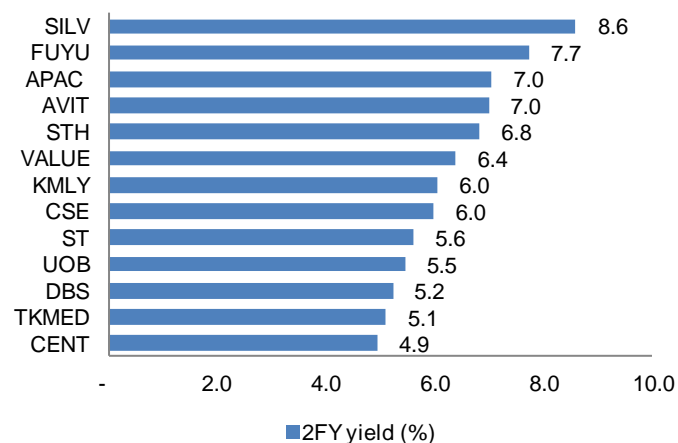


Figure 53: Top 2FY dividend yields for non REITs



Source: Bloomberg, RHB

Source: Bloomberg, RHB

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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