

6 June 2019

Strategy | Strategy - Singapore

Singapore Equity Strategy

Headwinds Persist; Stay Defensive!

Year-end STI target	3,300
Ratings (Buy/Neutral/Sell):	32 / 25 / 2
Last 12m earnings change	Negative

- 1Q19 results largely met expectations**, with 70% of stocks under our coverage reporting earnings that were in line. While most crude palm oil companies reported lower-than-estimated earnings, Wilmar surprised with strong performances at its oil refining, consumer, and sugar businesses. Although YTD earnings revisions for STI remained negative, we noticed a small upgrade to 2019's earnings during April-May. Post results, we downgraded Dairy Farm and Venture Corp to NEUTRAL from Buy. Wilmar, ST Engineering and SingTel witnessed the highest increases in target prices.
- Earnings downgrade has stopped, but headwinds persist.** 2019 consensus earnings for STI, which have only witnessed downgrades since July last year, continued to see sharp declines in early 2019. Although the downgrades stopped in March, we believe there is a possibility for 2019 earnings to be lowered further given rising risks from escalation of the US-China trade war, sharper slowdown in China's growth, and uncertainty related to UK's Brexit. Moreover, Singapore's Ministry of Trade and Industry (MTI) has lowered the country's 2019 GDP growth forecast to 1.5-2.5% from 1.5-3.5%. We note that historical trends suggest that STI returns follow the country's nominal and real GDP growth closely.
- Post correction, market valuations are looking compelling.** After an 8.3% MoM decline in STI, the index is trading at 12x 1-year forward P/E, which is at its -1SD band. The 4.4% forward yield, at 1SD above the historical average, looks attractive and is the highest amongst regional markets. Baring the risk of downgrade to earnings growth, which now stands at 3.9% for 2019, STI's valuations are starting to look compelling vs other ASEAN markets.
- Stick with defensive stocks.** We maintain that amidst slowing economic growth and an uncertain external environment, investors should stay selective and focus on buying stocks that offer stable earnings, strong balance sheets, and sustainable dividends. REITs and consumer sectors as well as selective industrial stocks are our preferred picks.
- Top picks.** Wilmar, Thai Beverage and Sheng Siong are our preferred consumer picks, and ST Engineering is our preferred industrial pick. We drop Genting Singapore from our top picks following a downgrade to NEUTRAL. Amidst growing risk of an earnings downgrade, we also drop DBS from our top picks. However, given its lower valuations, United Overseas Bank (UOB) remains our preferred bank sector pick.

Singapore sector ratings:

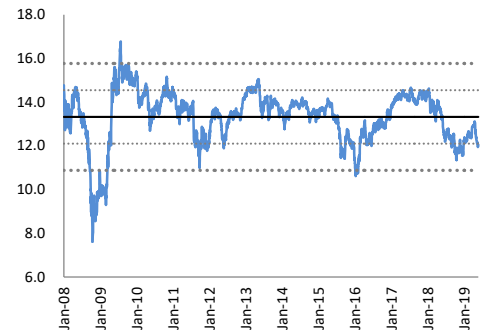
Overweight	Consumer, REITs, Banks
Neutral	Healthcare, Plantations
	Real Estate, Technology, Telecom
Not rated	Materials, Offshore & Marine

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STI Index's forward P/E



Source: Bloomberg

Company Name	Rating	TP (SGD)	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
CDL Hospitality	Buy	1.77	9.9	15.1	1.0	5.9
Fu Yu Corp	Buy	0.24	20.6	11.2	0.9	8.0
HRnet Group	Buy	0.94	32.4	13.8	2.0	3.7
Manulife US REIT^	Buy	0.96	13.6	12.7	1.0	7.0
Sheng Siong	Buy	1.23	11.8	21.3	5.3	3.4
Silverlake Axis**	Buy	0.65	22.6	19.5	7.5	5.6
ST Engineering	Buy	4.45	11.3	20.0	5.4	3.7
Starhill Global**	Buy	0.78	6.1	11.1	0.8	6.4
Thai Beverage*	Buy	0.92	9.5	20.7	3.6	2.4
UOB	Buy	30.80	28.3	9.4	1.1	5.4
Wilmar	Buy	3.94	19.4	11.7	0.9	3.5

Source: Company data, RHB

Note: *FY19 (Sep); **FY19 (Jun); ^USD; Data as at 4 Jun 2019

1Q19 results met expectations

For our coverage universe, 70% of companies reported earnings that were in line with our estimates. Amongst key stocks, Wilmar reported earnings that were above our expectation. Palm oil companies, hospitality REITs and some SMID cap stocks were among those that reported earnings that were below expectations.

Figure 1: 1Q19 earnings vs RHB estimates

	In line	Above	Below
Consumer Discretionary	4	0	2
Consumer Staples	5	1	4
Energy	1	0	0
Financials	4	0	0
Health Care	2	1	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	1	1
Industrials (Transport)	1	0	0
Real Estate (Developer)	3	0	1
Real Estate (REIT)	12	0	2
Technology	5	0	3
Telecom	2	0	0
Total	41	3	14
% of total	71	5	24

Note: Based on 58 stocks that were under active coverage during 1Q19
Source: Bloomberg

Figure 2: 1Q19 earnings vs consensus estimates

	In line	Above	Below
Consumer Discretionary	3	1	2
Consumer Staples	5	1	4
Energy	1	0	0
Financials	4	0	0
Health Care	2	1	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	1	1
Industrials (Transport)	1	0	0
Real Estate (Developer)	3	0	1
Real Estate (REIT)	13	0	1
Technology	5	0	3
Telecom	0	1	1
Total	39	5	14
% of total	67	9	24

Note: Based on 58 stocks that were under active coverage during 1Q19
Source: Bloomberg

Figure 3: Number of changes in TP after results

	Increase	Decrease	Unchanged
Consumer Discretionary	0	3	3
Consumer Staples	1	3	6
Energy	0	0	1
Financials	1	0	3
Health Care	0	1	3
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	2	0
Industrials (Transport)	0	0	1
Real Estate (Developer)	0	1	3
Real Estate (REIT)	2	2	10
Technology	1	2	5
Telecom	1	1	0
Total	8	15	35
% of total	14	26	60

Note: Based on 58 stocks that were under active coverage during 1Q19
Source: Bloomberg

Figure 4: Number of changes in rating after results

	Upgrade	Downgrade	Unchanged
Consumer Discretionary	0	0	6
Consumer Staples	0	1	9
Energy	0	0	1
Financials	0	0	4
Health Care	1	1	2
Industrials (Conglomerate)	0	0	1
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	0	2
Industrials (Transport)	0	0	1
Real Estate (Developer)	0	0	4
Real Estate (REIT)	0	0	14
Technology	0	2	6
Telecom	0	0	2
Total	2	4	52
% of total	3	7	90

Note: Based on 58 stocks that were under active coverage during 1Q19
Source: Bloomberg

Amongst stocks under our coverage universe, c.50% witnessed an increase in 1FY revenue estimates and c.30% witnessed an increase in 1FY earnings estimates. Among the key stocks, Frasers Centrepoint Trust, Wilmar International, Ascendas REIT, CapitalLand Mall Trust and Singapore Exchange witnessed more than 2% increase in 1FY earnings estimate.

Figure 5: Number of changes in 1FY revenue estimates

	Increase	Decrease	Unchanged
Consumer Discretionary	3	3	0
Consumer Staples	7	3	0
Energy	1	0	0
Financials	1	0	3
Health Care	3	0	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	0	2	1
Industrials (Transport)	0	0	1
Real Estate (Developer)	1	3	0
Real Estate (REIT)	4	4	6
Technology	3	2	3
Telecom	1	1	0
Total	25	18	15
% of total	43	31	26

Note: Based on 58 stocks that were under active coverage during 1Q19

Source: Bloomberg

Figure 6: Number of changes in 1FY profit estimates

	Increase	Decrease	Unchanged
Consumer Discretionary	1	5	0
Consumer Staples	3	7	0
Energy	0	1	0
Financials	3	1	0
Health Care	1	2	1
Industrials (Conglomerate)	0	1	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	2	0
Industrials (Transport)	0	0	1
Real Estate (Developer)	1	2	1
Real Estate (REIT)	5	4	5
Technology	3	3	2
Telecom	0	2	0
Total	18	30	10
% of total	31	52	17

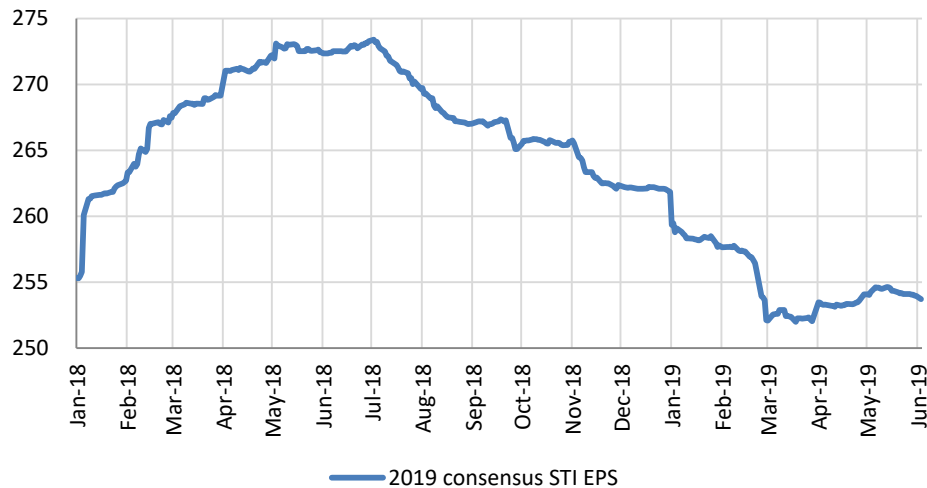
Note: Based on 58 stocks that were under active coverage during 1Q19

Source: Bloomberg

Earnings downgrades seem to have stopped...

2019 consensus earnings for STI, which have witnessed downgrades since Jul 2018, continued to see sharp declines in early 2019. However, the downgrades stopped in March and in line with the minor increase in earnings estimates for banks and REITs, we noticed a small upgrade to 2019 earnings estimates during April-May. Based on Bloomberg estimates, since the end of 2018, 2019's consensus EPS has been downgraded by 3.1%. The consensus EPS growth for 2019 now stands at 3.9%.

Figure 7: Revisions to STI's 2019 consensus earnings since early 2018



Source: Bloomberg

...but downside risks persist

Amidst escalating trade tensions between the US and China, STI declined 8.3% MoM in May. Singapore also reported weak economic growth for 1Q19. The final 1Q19 GDP growth figure has been revised downwards to 1.2% YoY from a flash estimate of 1.3%. Citing the following three major downside risks: a) escalation of the US-China trade war, b) sharp slowdown in China's growth; and c) impact from the UK Brexit uncertainty, the Ministry of Trade and Industry (MTI) downgraded the country's 2019 GDP growth forecast to 1.5-2.5% from 1.5-3.5%. Our economist has downgraded 2019 GDP forecast to 1.8% from an earlier estimate of 2.5% ([Singapore economics: 1Q19 GDP At 1.2%, Signals Tough Times Ahead](#)).

We reiterate that historical trends suggest that Singapore's stock index returns follow the country's nominal and real GDP growth closely. As we expect a slowdown in GDP growth to extend into 2019 and 2020, we believe it will be tough for the STI to generate strong positive returns, especially with risk of potential downgrades to earnings estimates.

Key TP changes after the recent results season

Figure 8: Key target price changes post 1Q19 results

Company name	BBG ticker	Mkt Cap (USDm)	Rating	New TP	Old TP	% change	Link to note
Large cap							
Wilmar International	WIL SP	15,311	Buy	3.94	3.63	9%	Wilmar : Positive Surprise Despite Downbeat Guidance and Wilmar : Upbeat On 2Q19: Still Our Top BUY
ST Engineering	STE SP	9,152	Buy	4.45	4.10	9%	ST Engineering : Defensive Growth Story; Keep BUY
SingTel	ST SP	38,423	Neutral	3.35	3.09	8%	Singtel : Significant Margin Headwinds; Stay NEUTRAL
DBS Group Holdings	DBS SP	45,458	Buy	30.80	29.60	4%	DBS : On Track For Further NIM Expansion; Still BUY
Genting Singapore	GENS SP	7,600	Neutral	1.02	1.08	-6%	Genting Singapore : Muted Topline Growth; Keep NEUTRAL
Mid cap							
Frasers Centrepoint Trust	FCT SP	2,004	Neutral	2.25	2.19	3%	Frasers Centrepoint Trust : Acquires Stake In Waterway Point
Manulife US REIT	MUST SP	1,180	Buy	0.96	0.94	2%	Manulife US REIT : Fortifying Its Income Stream; Keep BUY
OUE Hospitality Trust	OUEHT SP	915	Take Profit	0.76	0.77	-1%	OUE Hospitality Trust : Proposed Merger; Accept Offer
Sheng Siong Group	SSG SP	1,212	Buy	1.23	1.25	-2%	Sheng Siong : More Good News Than Bad; Reiterate BUY
Starhill Global REIT	SGREIT SP	1,175	Buy	0.78	0.80	-3%	Starhill Global REIT : Signs Of DPU Stabilisation; Keep BUY
First Resources	FR SP	1,812	Neutral	1.53	1.60	-4%	First Resources : Weak Output From Older Estates In Riau
Bumitama Agri Ltd	BAL SP	847	Neutral	0.62	0.67	-7%	Bumitama Agri : Weak Start To The Year; Stay NEUTRAL
HRnet Group	HRNET SP	524	Buy	0.94	1.06	-11%	HRnetgroup : Weak SG Numbers Drag Down Core Profit
StarHub	STH SP	1,891	Neutral	1.72	2.02	-15%	StarHub : Expanding Cyber Security Losses
Small cap							
ISOTeam	ISO SP	48	Buy	0.29	0.23	26%	ISOTEAM : Time For a Relook On Strong 3Q; Raise To BUY
CSE Global	CSE SP	179	Buy	0.61	0.60	2%	CSE Global : Positive for FY19; Maintain BUY
Kimly Ltd	KMLY SP	194	Neutral	0.23	0.24	-4%	Kimly : Costs Continue To Hamper Profitability
APAC Realty	APAC SP	130	Buy	0.67	0.72	-7%	APAC Realty : A Weak Quarter; Keep BUY
Japan Foods Holding	JFOOD SP	55	Neutral	0.40	0.45	-11%	Japan Foods : Slow Earnings Growth; Keep NEUTRAL
Singapore Medical Group	SMG SP	134	Neutral	0.48	0.54	-11%	Singapore Medical Group : Growth Initiatives Need Time; D/G To NEUTRAL
Moya Holdings Asia	MHAL SP	234	Buy	0.10	0.11	-14%	Moya : 1Q Hit By Absence Of FX Gains; Still a BUY
Valuetronics Group	VALUE SP	194	Neutral	0.67	0.78	-22%	Valuetronics : Ongoing Trade War Unfavourable
GSS Energy	GSSE SP	25	Neutral	0.08	0.17	-53%	GSS Energy : Cost Down + Strong Competition Hit Margins

Source: RHB

Key rating changes after the recent results season

Figure 9: Key rating changes post 1Q19 results

Company name	BBG ticker	Mkt Cap (USDm)	New rating	Old rating	Change	Link to note
Dairy Farm International	DFI SP	10,375	Neutral	Buy	Downgrade	Dairy Farm : Wait For Bargain Sales; Reduce To NEUTRAL
GSS Energy	GSSE SP	25	Neutral	Buy	Downgrade	GSS Energy : Cost Down + Strong Competition Hit Margins
Singapore Medical Group	SMG SP	134	Neutral	Buy	Downgrade	Singapore Medical Group : Growth Initiatives Need Time; D/G To NEUTRAL
Venture Corp Ltd	VMS SP	3,196	Neutral	Buy	Downgrade	Venture Corp : Recovery Intact But Fairly Valued
ISOTeam	ISO SP	48	Buy	Neutral	Upgrade	ISOTEAM : Time For a Relook On Strong 3Q; Raise To BUY
Talkmed Group	TKMED SP	501	Buy	Neutral	Upgrade	TalkMed Group : Earnings Recovery Gains Pace

Source: RHB

STI has given up most of its gains from early this year

In USD terms, till end April, STI was amongst the top two best performing ASEAN equity markets. However, with escalating trade tensions and downgrade to GDP growth guidance by the Government, the STI index gave up most of its gains during the month of May. Amongst ASEAN markets, STI's performance now lags Thailand and the Philippines.

Figure 10: YTD regional market performance in LCY

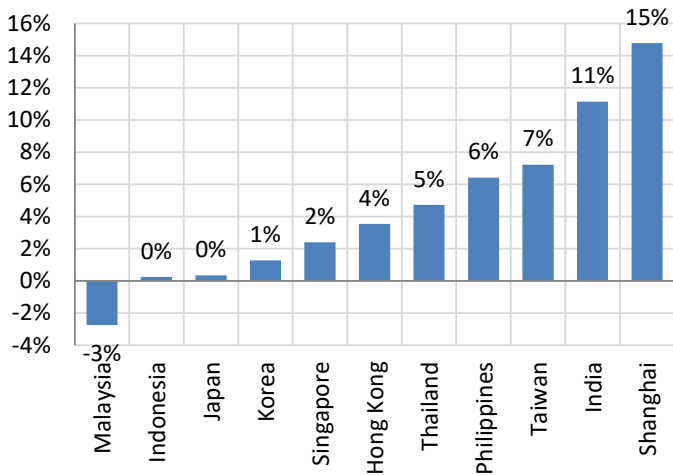
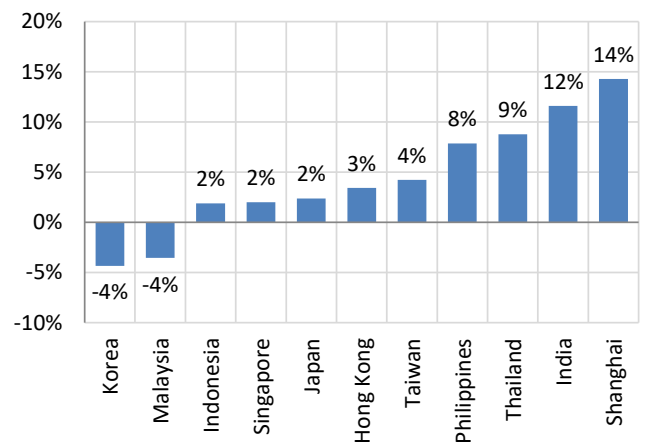


Figure 11: YTD regional market performance in USD



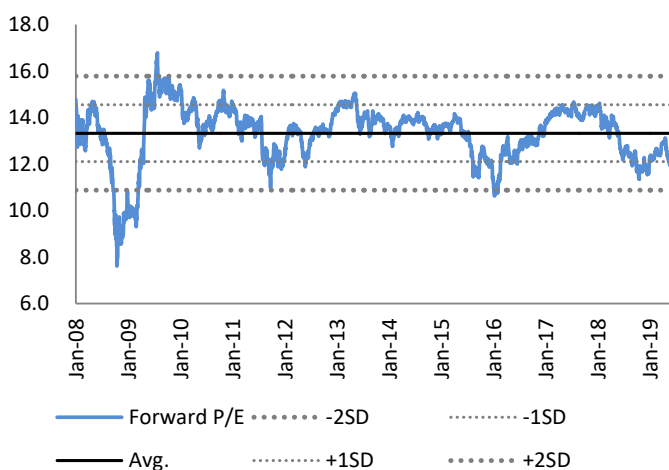
Source: Bloomberg

Source: Bloomberg

Market valuation looking compelling again

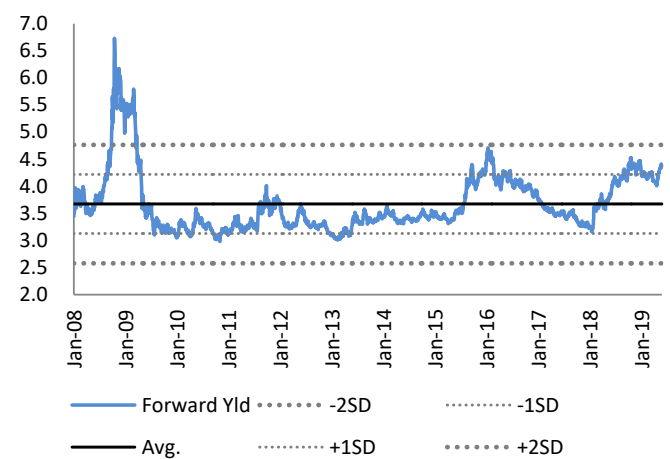
Maintain STI target of 3,300 for end-2019. We use a top-down method to derive our STI target; based on a P/E multiple on 2019's forecast EPS. The STI's 12x forward P/E is at its -1SD band. With expectations of a slowdown in GDP growth, we believe a strong P/E expansion will be difficult to pencil in. We value the STI based on 2019 year-end target P/E of 13x, which is slightly below its 1FY average of 13.3x. Applying this to our 2019 EPS estimate, we derive an index target of 3,300 for end-2019.

Figure 12: STI's forward P/E



Source: Bloomberg

Figure 13: STI's forward dividend yield



Source: Bloomberg

Top Picks

We maintain our view that amidst an uncertain external environment, investors should 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. Sheng Siong, Wilmar, and ThaiBev are our preferred consumer picks and ST Engineering is our preferred industrial pick. REITs should continue to perform well amidst expectations of a pause in interest rate hikes and possibly a cut in interest rates.

Following a downgrade to NEUTRAL, we remove Genting Singapore from our Top Picks. With risk of potential downside risks to earnings, we exclude DBS from our Top Picks as well. Given its lower valuation and higher dividend yield, we retain UOB as our only top pick in the banks sector. As a defensive earnings growth story, we add ThaiBev to our Top Picks.

Figure 14: Top Picks

Company name	Mkt Cap (USDm)	Rating	Target price	Upside/down. (%)	1FY year	P/E (x)		P/BV (x)		Yield (%)		ROE (%)	
						1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Large Cap													
ST Engineering	9,152	Buy	4.45	11.3	Dec-19	20.0	17.8	5.4	5.0	3.7	4.1	26.1	27.9
Thai Beverage	15,464	Buy	0.92	9.5	Sep-19	20.7	19.4	3.6	3.3	2.4	2.6	17.3	16.9
United Overseas Bank Ltd	29,348	Buy	30.80	28.3	Dec-19	9.4	8.9	1.1	1.0	5.4	5.8	11.6	12.0
Wilmar International	15,311	Buy	3.94	19.4	Dec-19	11.7	11.1	0.9	0.9	3.5	3.5	7.8	7.8
SMID Cap													
CDL Hospitality	1,424	Buy	1.77	9.9	Dec-19	15.1	14.5	1.0	1.0	5.9	6.1	6.8	7.1
Fu Yu Corp	110	Buy	0.24	20.6	Dec-19	11.2	10.5	0.9	0.9	8.0	8.0	8.1	8.5
HRnet Group	524	Buy	0.94	32.4	Dec-19	13.8	13.0	2.0	1.8	3.7	3.9	14.4	14.1
Manulife US REIT	1,180	Buy	0.96	13.6	Dec-19	12.7	12.5	1.0	1.0	7.0	7.3	7.6	8.0
Sheng Siong Group	1,212	Buy	1.23	11.8	Dec-19	21.3	19.5	5.3	4.9	3.4	3.7	24.7	25.3
Silverlake Axis	1,028	Buy	0.65	22.6	Jun-19	19.5	18.0	7.5	6.7	5.6	5.6	38.7	37.3
Starhill Global	1,175	Buy	0.78	6.1	Jun-19	11.1	11.1	0.8	0.8	6.4	6.6	7.1	6.9

Note: Prices are as at 4 June 2019

Source: Bloomberg, RHB

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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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