

13 March 2019

Strategy | Strategy - Singapore

Singapore Equity Strategy

Headwinds Persist; Stick With Quality!

Year-end STI target	3,300
Ratings (Buy/Neutral/Sell):	32 / 25 / 1
Last 12m earnings change	Negative

• **Earnings downgrade continues after weak FY18 results.** Dairy Farm, Genting Singapore (GENS), and Golden Agri reported FY18 results that missed expectations, while Best World, Raffles Medical and Thai Beverage's results beat. StarHub (+7%) and Thai Beverage (+6%) had highest earnings upgrades, while GENS (-7%) saw earnings downgrade. Earnings revisions for STI remained negative, with 2019's consensus EPS downgraded by 2% in the last four weeks. Post results, we upgraded ComfortDelGro to BUY from Neutral and downgraded Ascendas REIT to NEUTRAL from Buy.

• **Strong YTD performance, but macro headwinds persist.** Expectations of slower US federal fund rate hikes as well as positive impact from a likely resolution of the trade war between the US and China have helped the STI Index to deliver 5% YTD returns, making it the best performing ASEAN market. However, we remain cognisant of headwinds from slowing non-oil domestic exports and the slowdown in GDP growth to a tad below 2.5% (from 3.2% in 2018) – based on guidance provided by Singapore's Ministry of Trade and Industry. Historical trends suggest that Singapore's stock index returns follow the country's nominal and real GDP growth closely.

• **Market valuations remain inexpensive.** Trading at 12.5x 1-year forward (1FY) P/E, STI's valuation sits slightly above its -1SD band. The -1SD level has been tested only twice since the global financial crisis – each time, the market witnessed a sharp rebound. 4.2% forward yield, which is 1SD above historical average – looks attractive as well. Compelling valuations, along with expectations of a moderate appreciation in the SGD, should bring long-term investors back into the market, in our view.

• **Stick with quality stocks.** We maintain our view 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. We rate REITs, banks and the consumer sectors as OVERWEIGHT.

• **Top picks.** Sheng Siong, Wilmar and GENS are our preferred consumer sector picks, and ST Engineering is our preferred industrial sector pick. ESR REIT replaces Ascendas REIT as our preferred industrial REIT. Banks should see reversal of underperformance as the year progresses. Our preference is for United Overseas Bank (UOB) over DBS. We remove Venture from our Top Picks following its strong share price performance.

Singapore sector ratings:

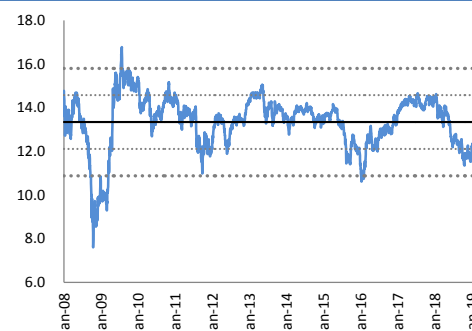
Overweight	Consumer, REITs, Banks
Neutral	Healthcare, Plantations
Not rated	Real Estate, Technology, Telecom
	Materials, Offshore & Marine

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STI Index's 1FY 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	1.80	10.4	15.0	1.1	5.9
DBS	Buy	28.80	13.8	10.7	1.3	4.7
ESR REIT	Buy	0.61	15.1	9.4	1.1	7.7
Fu Yu Corp	Buy	0.24	17.1	11.5	1.3	7.8
Genting Singapore	Buy	1.22	19.6	14.6	1.5	3.9
HRnet Group	Buy	1.06	34.2	15.2	2.8	3.3
Manulife US REIT	Buy	^0.94	10.6	13.0	1.0	6.8
Sheng Siong	Buy	1.25	15.7	20.5	5.2	3.5
Silverlake Axis**	Buy	0.65	17.1	20.2	7.8	5.3
ST Engineering	Buy	4.10	9.6	18.7	4.9	4.0
Starhill Global**	Buy	0.80	14.3	10.5	0.8	6.9
UOB	Buy	29.80	19.0	9.5	1.1	5.2
Wilmar	Buy	3.63	12.0	12.4	0.9	3.4

Source: Company data, RHB; Note: **FY19 (Jun); ^USD; Data as at 12 Mar 2019

Weak 4Q18 results

For our coverage universe, c.20% of companies reported earnings that were below our estimates. Amongst key stocks that reported below expectation earnings were Dairy Farm, GENS and Golden Agri. A similar percentage of stocks reported results that were ahead of our expectations. Best World, Raffles Medical, and Thai Beverage's results surprised us and the market positively. In line with guidance for moderation of growth in 2019 by most companies under our coverage, c.50% of our coverage universe witnessed reductions in 1FY revenue and earnings estimates.

Figure 1: 4Q18 earnings vs RHB estimates

	Inline	Above	Below
Consumer Discretionary	1	2	3
Consumer Staples	5	3	2
Energy	0	1	0
Financials	3	0	0
Health Care	0	3	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	0	2
Industrials (Transport)	1	0	0
Real Estate (Developer)	3	0	1
Real Estate (REIT)	12	0	2
Technology	5	1	2
Telecom	2	1	0
Total	34	11	13
% of total	59	19	22

Note: Based on 58 stocks that were under active coverage during 4Q18

Source: Bloomberg

Figure 2: 4Q18 earnings vs consensus estimates

	Inline	Above	Below
Consumer Discretionary	3	1	2
Consumer Staples	4	4	2
Energy	0	1	0
Financials	3	0	0
Health Care	1	2	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	0	2
Industrials (Transport)	1	0	0
Real Estate (Developer)	3	0	1
Real Estate (REIT)	14	0	0
Technology	5	1	2
Telecom	2	0	1
Total	38	9	11
% of total	66	16	19

Note: Based on 58 stocks that were under active coverage during 4Q18

Source: Bloomberg

Figure 3: Number of changes in TP after results

	Increase	Decrease	Unchanged
Consumer Discretionary	1	3	2
Consumer Staples	8	2	0
Energy	1	0	0
Financials	0	1	2
Health Care	0	3	1
Industrials (Conglomerate)	1	0	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	0	2	1
Industrials (Transport)	1	0	0
Real Estate (Developer)	0	0	4
Real Estate (REIT)	3	1	10
Technology	2	3	3
Telecom	1	1	1
Total	18	16	24
% of total	31	28	41

Note: Based on 58 stocks that were under active coverage during 4Q18

Source: Bloomberg

Figure 4: Number of changes in rating after results

	Upgrade	Downgrade	Unchanged
Consumer Discretionary	1	0	5
Consumer Staples	0	0	10
Energy	0	0	1
Financials	0	0	3
Health Care	0	0	4
Industrials (Conglomerate)	0	0	1
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	0	1	2
Industrials (Transport)	1	0	0
Real Estate (Developer)	0	0	4
Real Estate (REIT)	0	1	13
Technology	0	1	7
Telecom	0	0	3
Total	2	3	53
% of total	3	5	91

Note: Based on 58 stocks that were under active coverage during 4Q18

Source: Bloomberg

Figure 5: Number of changes in 1FY revenue estimates

	Increase	Decrease	Unchanged
Consumer Discretionary	1	4	1
Consumer Staples	8	2	0
Energy	0	1	0
Financials	0	3	0
Health Care	2	1	1
Industrials (Conglomerate)	0	1	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	1	2	0
Industrials (Transport)	1	0	0
Real Estate (Developer)	3	1	0
Real Estate (REIT)	3	9	2
Technology	2	5	1
Telecom	2	0	1
Total	23	29	6
% of total	40	50	10

Note: Based on 58 stocks that were under active coverage during 4Q18
Source: Bloomberg

Figure 6: Number of changes in 1FY profit estimates

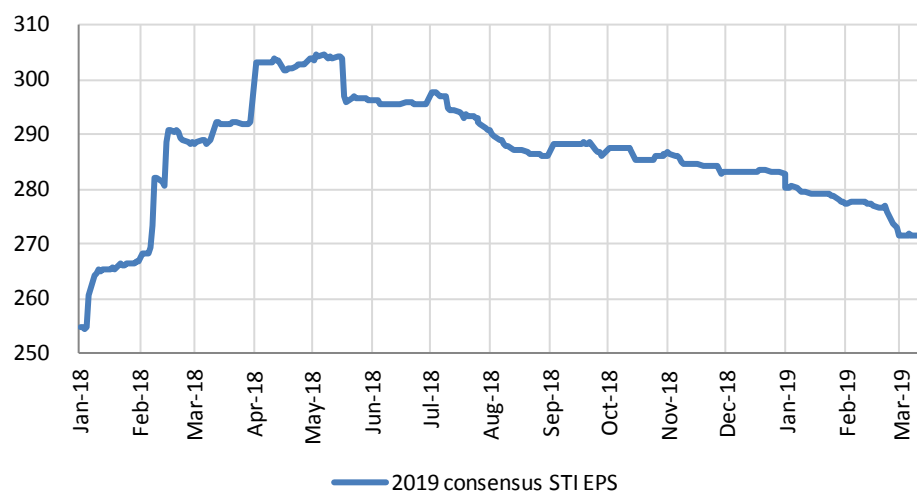
	Increase	Decrease	Unchanged
Consumer Discretionary	2	4	0
Consumer Staples	6	4	0
Energy	1	0	0
Financials	0	3	0
Health Care	3	1	0
Industrials (Conglomerate)	0	1	0
Industrials (Offshore Marine)	0	0	0
Industrials (Others)	0	3	0
Industrials (Transport)	0	1	0
Real Estate (Developer)	1	2	1
Real Estate (REIT)	3	8	3
Technology	5	3	0
Telecom	2	1	0
Total	23	31	4
% of total	40	53	7

Note: Based on 58 stocks that were under active coverage during 4Q18
Source: Bloomberg

Earnings downgrade continues

Downgrade in 2019 consensus earnings eased during 3Q18. However, the pace of downgrades picked up as the 4Q18 results season progressed. Based on Bloomberg estimates, in last four weeks, 2019 consensus EPS has been downgraded by 2%. The consensus EPS growth for 2019 now stands at 4.2%. From Sep 2018, the telecom, transport, consumer staples and banking sectors have seen the most downgrades to consensus earnings.

Figure 7: Revision for STI's 2019 consensus earnings since early 2018



Source: Bloomberg

Key TP changes after the recent results season

Amongst large caps, ComfortDelGro and Thai Beverage saw uplift in target prices. Rise in ComfortDelGro's TP was on an improved earnings outlook for its taxi business, while the rise in Thai Beverage's TP was supported by a 6% uplift in FY19 earnings.

Figure 8: Key target price changes post 4Q18 results

Company name	BBG ticker	M Cap (USDm)	Rating	New TP	Old TP	% Chg.	Link to note
Large cap							
ComfortDelGro	CD SP	3,896	Buy	2.65	2.35	13%	ComfortDelGro: Where's The Taxi Competition? Raise To BUY
Thai Beverage	THBEV SP	14,911	Buy	0.92	0.85	8%	Thai Beverage: Spirits Rising, Beer Too: BUY
CapitaLand Commercial Trust	CCT SP	5,448	Neutral	1.86	1.80	3%	CapitaLand Commercial Trust: In A Better Position
ST Engineering	STE SP	8,593	Buy	4.10	3.97	3%	ST Engineering: Continuing On The Growth Path; Keep BUY
DBS Group Holdings	DBS SP	47,739	Buy	28.80	29.80	-3%	DBS: More NIM Widening As Loans Reprice
SingTel	ST SP	35,529	Neutral	3.09	3.22	-4%	SingTel: Guidance Moderated, Lacking Catalyst
Mid cap							
First Resources	FR SP	1,963	Neutral	1.60	1.45	10%	First Resources: Ending The Year With Excess Inventory
StarHub	STH SP	1,991	Neutral	2.02	1.90	6%	StarHub: Dialling Down On Dividends
Small cap							
Best World	BEST SP	924	Buy	2.95	2.13	38%	Best World: Going Back To Fundamentals; Maintain BUY
China Aviation Oil	CAO SP	831	Neutral	1.50	1.32	14%	China Aviation Oil: Slowdown In Earnings Growth
Bumitama Agri Ltd	BAL SP	852	Neutral	0.67	0.60	12%	Bumitama Agri: Decent Ending To The Year
HRnet Group	HRNET SP	586	Buy	1.06	1.18	-10%	HRnetgroup: 4Q Hit By Non-Core One-Offs; Keep BUY
GSS Energy	GSSE SP	38	Buy	0.17	0.19	-11%	GSS Energy: Bright Prospects For FY19F; Keep BUY
Kimly Ltd	KMLY SP	213	Neutral	0.24	0.27	-11%	Kimly: Higher Costs Eat Into Profitability; NEUTRAL
Avi-Tech Electronics	AVIT SP	37	Neutral	0.30	0.34	-12%	Avi-Tech Electronics: Still Suffering From Slowdown
ISOTeam	ISO SP	41	Neutral	0.23	0.42	-45%	ISOTEAM: Margin Pressures Persist; A Challenging Macro

Source: RHB

Key rating changes after the recent results season

Post results, we upgraded ComfortDelGro to BUY from Neutral amidst better than expected performance of its taxi business despite an increase in competitive intensity from the launch of Go-Jek operations in Singapore. Although we continue to like Ascendas REIT for its ability to recycle capital and strong industrial assets, we downgraded to stock to NEUTRAL from Buy after a strong YTD share price performance and as the upside from current levels was not compelling enough.

Figure 9: Key rating changes post 4Q18 results

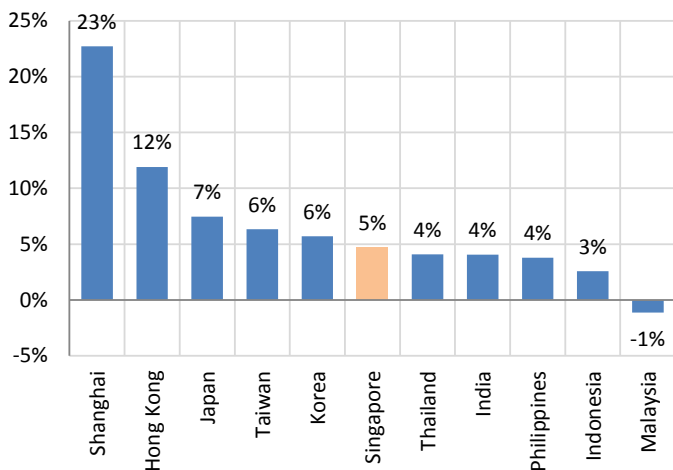
Company name	BBG ticker	M Cap (USDm)	New rating	Old rating	Change	Link to note
ComfortDelGro	CD SP	3,896	Buy	Neutral	Upgrade	ComfortDelGro: Where's The Taxi Competition? Raise To BUY
BreadTalk Group	BREAD SP	359	Neutral	Sell	Upgrade	BreadTalk: Baking In Progress; Upgrade To NEUTRAL
Ascendas REIT	AREIT SP	6,470	Neutral	Buy	Downgrade	Ascendas REIT: Nearing Fair Value; Now a NEUTRAL
Valuetronics Group	VALUE SP	229	Neutral	Buy	Downgrade	Valuetronics: Likely Overhang From Smart Lighting; NEUTRAL
ISOTeam	ISO SP	41	Neutral	Buy	Downgrade	ISOTEAM: Margin Pressures Persist; A Challenging Macro

Source: RHB

Markets may have performed well, but...

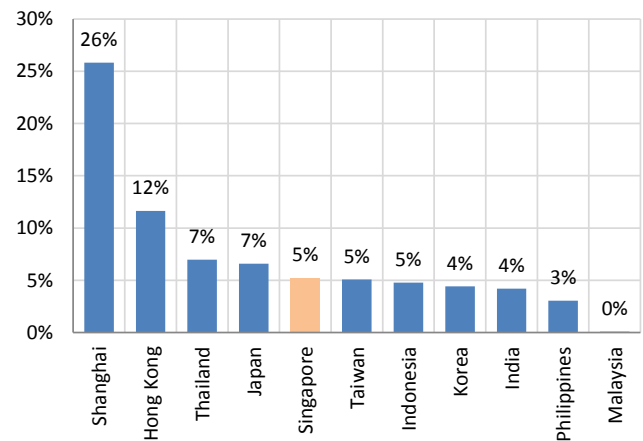
Expectations of slower US federal fund rate hikes and therefore slower rise in the Singapore Interbank Offered Rate, as well as a positive impact from a likely resolution of the trade war between the US and China have supported the STI Index. With an YTD positive return of 5%, Singapore has been the best performing ASEAN market in local currency terms (Figure 10). In USD terms, it has lagged Thailand, which has delivered 7% YTD returns (Figure 11).

Figure 10: YTD regional market performance in LCY



Source: Bloomberg

Figure 11: YTD regional market performance in USD



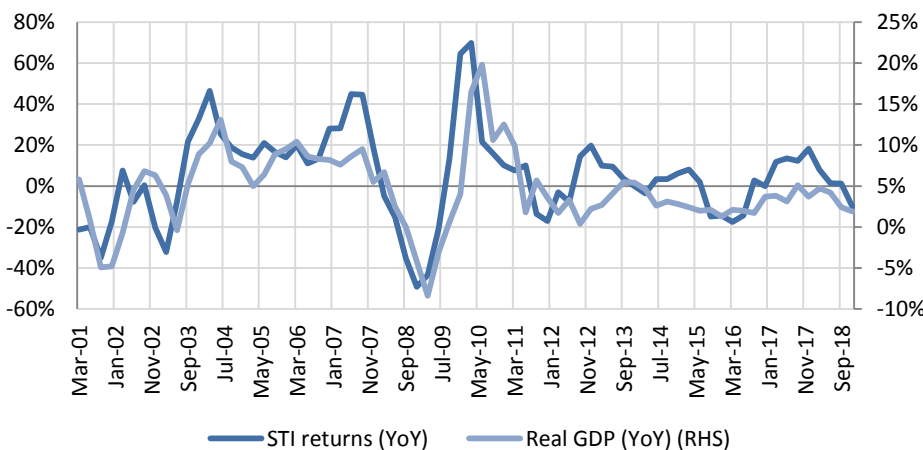
Source: Bloomberg

...macro headwinds persist

However, we remain cognisant of macro headwinds from slowing non-oil domestic exports and slowdown in GDP growth to a tad below 2.5% (from 3.2% in 2018) – based on guidance provided by Singapore’s Ministry of Trade & Industry.

Historical trends suggest that Singapore’s stock index returns follow the country’s nominal and real GDP growth closely (Figure 12). 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 continuing downgrade to earnings estimates.

Figure 12: STI returns are highly correlated to the country’s GDP growth



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 GENS are our preferred consumer sector picks and ST Engineering is our preferred industrial pick.

REITs should continue to perform well amidst expectations of a pause in interest rate hikes. However, large-cap REITs have outperformed the market and we believe investors should rotate into quality SMID cap REITs that offer higher yields.

We remove Ascendas REIT from our top picks and replace it with ESR REIT (*Ascendas REIT: Nearing Fair Value: Now a NEUTRAL*). CDL Hospitality is our preferred hospitality REIT, Manulife US REIT is our preferred overseas REIT, and Starhill Global is our preferred office REIT.

With 31% YTD returns and limited upside from current share price levels, we remove Venture from our Top Picks. Banks have underperformed the market and we believe the sector should play catch up as the year progresses. Our preferred pick in banks is UOB over DBS.

We believe selective opportunities exist for investing into SMID cap companies that offer either strong visibility on earnings growth, sustainable high dividends, and/or are trading at compelling valuations. Amongst SMID caps, our preferred picks are Silverlake Axis, HRnetgroup and Fu Yu Corp.

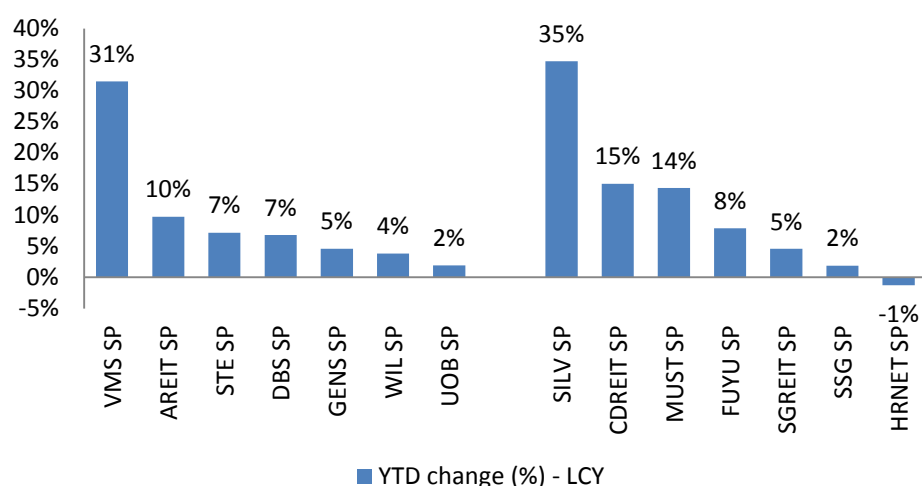
Figure 13: Top Picks

Company name	M 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													
DBS Group Holdings	47,739	Buy	28.80	13.8	Dec-19	10.7	9.8	1.3	1.2	4.7	4.7	12.3	12.7
Genting Singapore	9,062	Buy	1.22	19.6	Dec-19	14.6	14.6	1.5	1.4	3.9	3.9	10.0	10.0
ST Engineering	8,593	Buy	4.10	9.6	Dec-19	18.7	17.5	4.9	4.7	4.0	4.4	25.8	26.2
United Overseas Bank	30,764	Buy	29.80	19.0	Dec-19	9.5	8.8	1.1	1.0	5.2	5.6	11.9	12.5
Wilmar International	15,120	Buy	3.63	12.0	Dec-19	12.4	10.9	0.9	0.9	3.4	3.4	7.3	7.9
SMID Cap													
CDL Hospitality	1,450	Buy	1.80	10.4	Dec-19	15.0	14.2	1.1	1.0	5.9	6.2	7.0	7.3
ESR REIT	1,239	Buy	0.61	15.1	Dec-19	9.4	8.7	1.1	1.1	7.7	8.0	11.8	12.1
Fu Yu Corp	114	Buy	0.24	17.1	Dec-19	11.5	10.8	1.3	1.3	7.8	7.8	8.1	8.5
HRnet Group	586	Buy	1.06	34.2	Dec-19	15.2	14.3	2.8	2.5	3.3	3.5	14.4	14.0
Manulife US REIT	1,089	Buy	0.94	10.6	Dec-19	13.0	12.8	1.0	1.0	6.8	7.0	7.8	7.8
Starhill Global	1,126	Buy	0.80	14.3	Jun-19	10.5	9.7	0.8	0.7	6.9	7.2	7.1	7.5
Silverlake Axis	1,083	Buy	0.65	17.1	Jun-19	20.2	18.6	7.8	6.9	5.3	5.3	38.7	37.3
Sheng Siong Group	1,198	Buy	1.25	15.7	Dec-19	20.5	18.4	5.2	4.8	3.5	3.9	25.2	26.2

Note: Prices are as at 12 Mar 2019

Source: Bloomberg, RHB

Figure 14: YTD share price performance of our Top Picks – large caps and SMID caps



Note: Prices are as at 12 Mar 2019

Source: Bloomberg

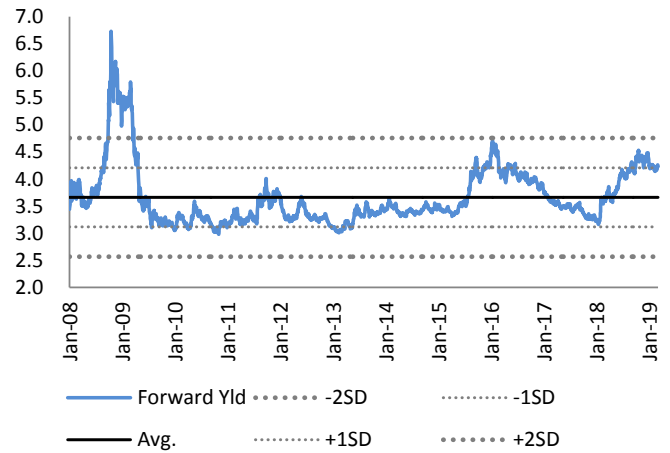
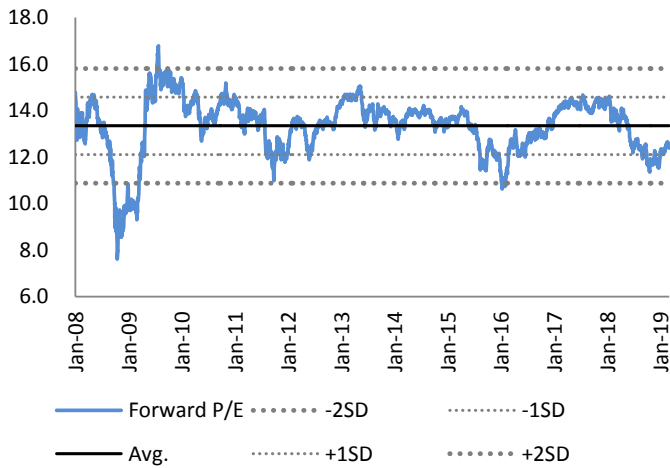
Market valuation

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 12.5x 1FY P/E sits at slightly above 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 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 15: STI’s forward P/E

Figure 16: STI’s forward dividend yield



Source: Bloomberg

Source: Bloomberg

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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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