24 August 2020

Market Strategy

Stick With Defensives; Selective Cyclical Exposure

- **Stay invested in defensive names with selective exposure to cyclical earnings recovery stories.** We note that optimism of the economic recovery is rising amidst Singapore's declining COVID-19 infections, revision in 2020 NODX forecast to growth from a decline, and rising expectation of strong profit growth in 2021. However, the global COVID-19 situation remains fluid, with a resurgence of cases in some countries. We recommend investors to stick with REITs and defensive stocks, while selectively adding exposure to cyclical recovery names in consumer, property and transport sectors.
- **Some optimism seems to be building up.** The COVID-19 infection rate in Singapore continues to decline allowing the Government to relax more restrictions and support more businesses to return to normalcy. On the external front, the Government has raised 2020 non-oil domestic exports (NODX) forecasts to grow by 3-5% YoY, compared with an earlier forecast for a 1-4% YoY decline. With Singapore's worst GDP contraction now behind it, expectations of improvement in GDP over next 12 months should be positive for the equity market as historically STI Index returns have been closely correlated with Singapore's GDP growth. Unless the expected gradual recovery in economic activity stalls, we believe that downgrades to 2020F EPS, which has been lowered by 39% YTD, should taper off from here. We recommend investors to gradually build positions in CapitaLand, City Developments, ComfortDelGro, Suntec Real Estate Investment Trust and Thai Beverage – our cyclical recovery picks.
- **Downside risks still persist.** We note that the global COVID-19 situation remains fluid with a resurgence of cases in some countries. On the domestic front, the government support that has helped businesses and Singaporeans get through the tough Circuit Breaker (CB) measures are expected to taper off. Moreover, current unemployment rate of 2.9%, already risen above the historical average, is expected to continue rising. This could keep the business and consumer confidence low and could dampen the expected recovery in economic activity. In addition, there are external risks from the continued deterioration of relationship between the US and China. To cover for such risks, we recommend investors to stay invested in REITs and defensive stocks offering better earnings and dividend visibility. Ascendas Real Estate Investment Trust, Manulife US Real Estate Investment Trust, Sheng Siong, Singtel and ST Engineering are our key defensive picks for rest of 2020.
- **STI remains the cheapest ASEAN market with highest yield in Asia.** Given that the current close-to-zero interest rate environment is expected to persist beyond 2021, rising global liquidity should bring investors to high yielding markets. STI's 13.9x 1-year forward P/E sits above its historical average. Much of the P/E increase has come from the sharp downgrades to 2020 earnings. With expectations of a rebound in GDP growth and investors building up the confidence in earnings growth for 2021, we believe there is potential for the P/E to increase further.

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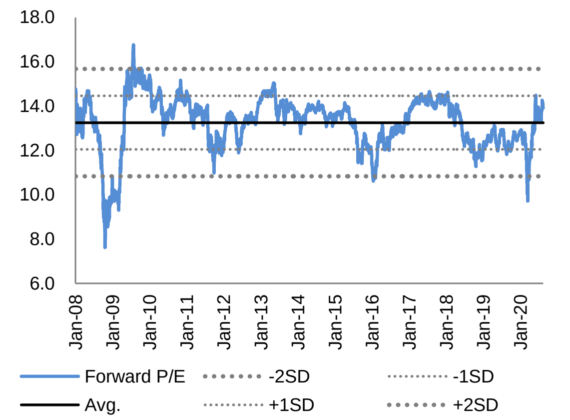
STI Index's forward P/E



Source: Bloomberg

Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
Avi-Tech Electronics	BUY	SGD0.50	8.7	13.5	1.5	5.4
CapitaLand	BUY	SGD3.75	34.9	24.1	0.6	2.9
CSE Global	BUY	SGD0.60	14.3	10.6	1.4	5.2
Fu Yu Corp	BUY	SGD0.30	22.4	11.2	1.1	6.5
Keppel Corp	BUY	SGD7.30	57.6	na	0.8	2.2
Manulife US REIT	BUY	USD0.90	20.2	13.8	1.0	8.2
Oxley	BUY	SGD0.29	38.1	4.1	0.5	6.0
ST Engineering	BUY	SGD3.90	14.1	21.1	4.8	4.4
Suntec Real Estate Investment Trust	BUY	SGD1.78	31.9	22.8	0.6	5.7
Wilmar International	BUY	SGD5.45	22.5	15.3	1.2	2.8

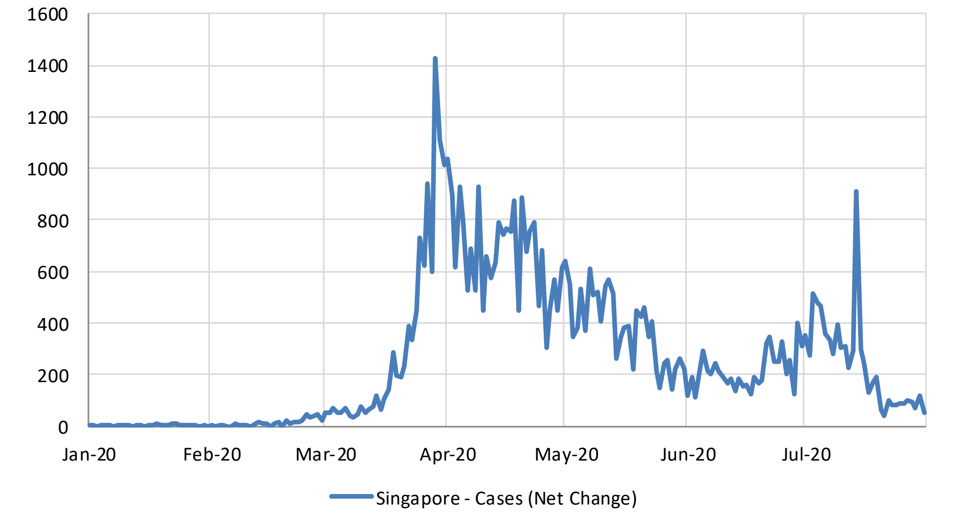
Source: Company data, RHB

Some Signs Of Optimism

COVID-19 cases in Singapore are on a decline

Singapore has managed to reduce the daily COVID-19 infection rate with the implementation of CB measures, aggressive testing of foreign workers residing in dormitories and strong control on inflow of people from overseas. While some economic activities have resumed through a gradual and measured relaxation of CB measures, if the COVID-19 infection rate remains low, then we can expect the Government to relax more restrictions and support more businesses to return to normalcy. This should be positive for improvement in overall economic activity.

Figure 1: Singapore COVID-19 cases (net change)

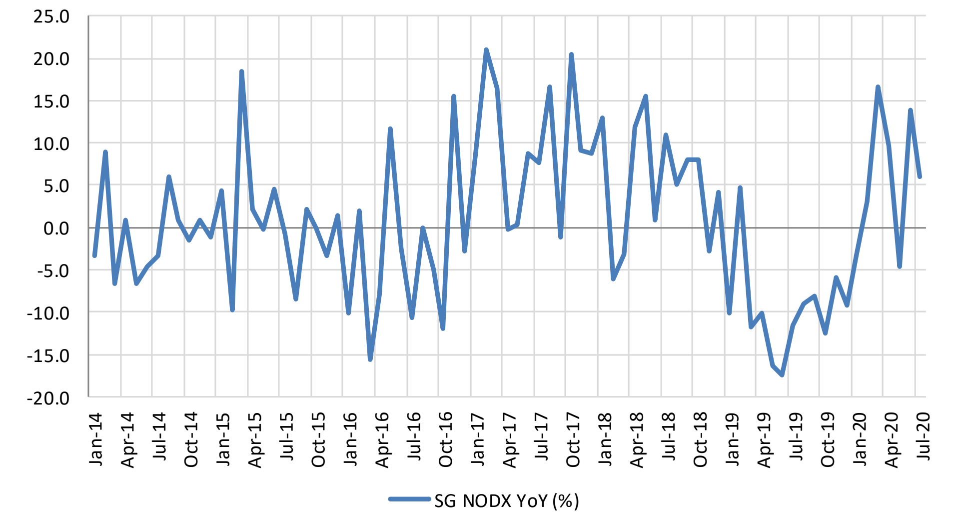


Source: Bloomberg

Outlook for exports have turned more positive

Singapore's NODX has registered growth for most of the year. The Government recently raised Singapore's 2020 NODX forecasts, now predicted to grow by 3-5% YoY, compared with an earlier forecast for a 1-4% YoY decline. The forecast were upgraded amidst the better-than-expected performance for specific products and as global trade is unlikely to hit the worst case scenario of 32% YoY decline earlier tipped by the WTO.

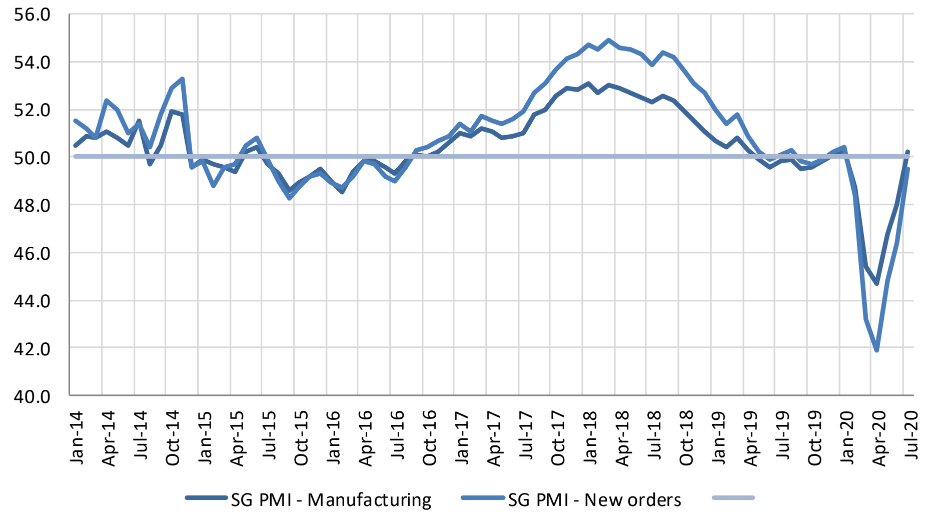
Figure 2: Singapore NODX YoY (%)



Source: Bloomberg

We recently revised our NODX growth estimate to 6.0% YoY growth from 10% YoY decline for 2020. We have been positive since early part of this year and remain positive on electronic manufacturing sector for rest of 2020.

Figure 3: Singapore manufacturing PMI & PMI for new orders

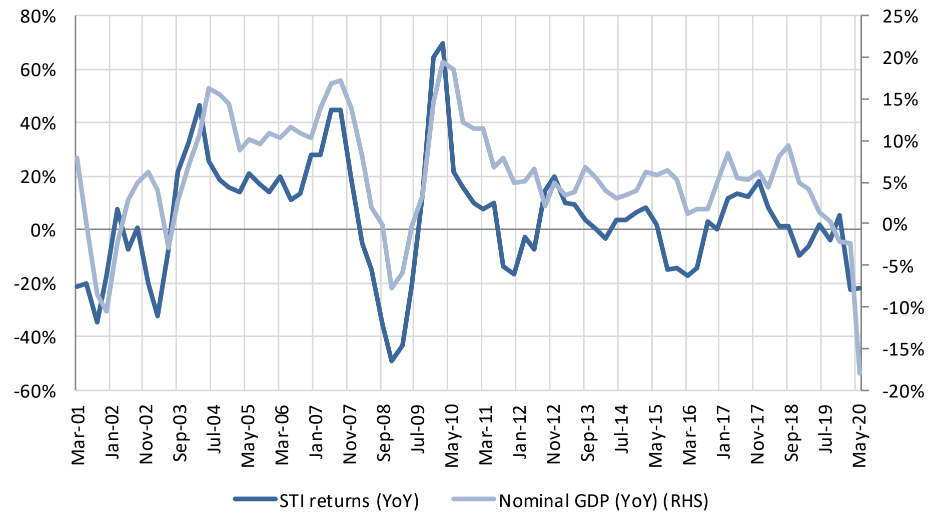


Source: Bloomberg

GDP contraction may be bottoming out

Singapore's stock index returns are closely correlated with the country's nominal and real GDP growth. With the worst contraction in Singapore's GDP growth now behind it, we believe the STI could generate positive returns for next 12 months as economic growth continues to improve.

Figure 4: STI return tends to moved ahead of the country's GDP growth



Source: Bloomberg

Street remains optimistic of a strong profit recovery in 2021

We note that Street remains optimistic of a strong profit recovery in 2021, with the STI Index net profit expected to grow by 34% next year. The profit growth is expected to be broad based profit as all sectors represented in the STI Index are expected to see improvements. Consumer, capital goods and real estate sectors are expected to deliver the highest net profit growth in 2021. Although transport sector is expected to remain loss making, dragged by Singapore Airlines (SIA SP, NR), the sector's losses are expected to decline YoY.

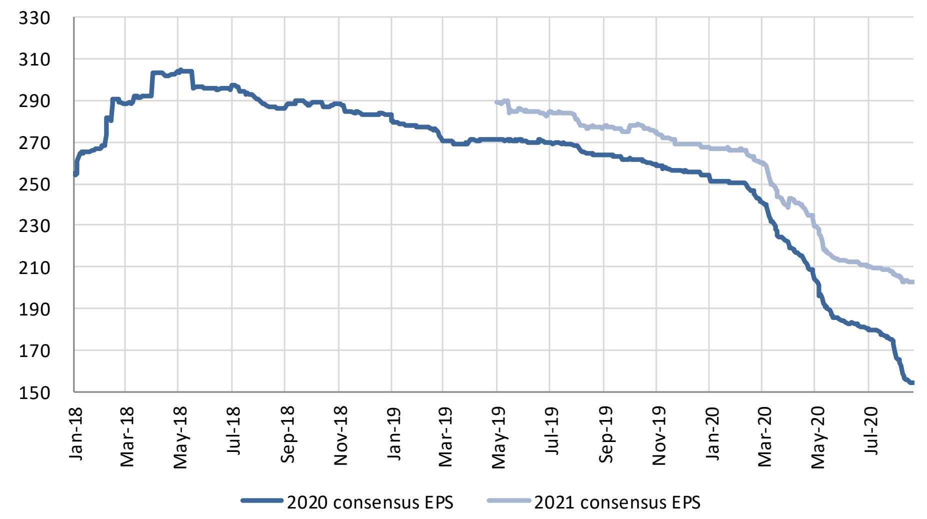
Figure 5: Net profit by sector for members of STI Index

	Total net profit (SGD)			YoY growth (%)	
	2019	2020	2021	2020	2021
Capital Goods	8,988	3,886	5,962	-57%	53%
Commodities	1,764	1,694	1,863	-4%	10%
Consumer	3,333	1,773	2,903	-47%	64%
Financials	15,879	11,098	12,561	-30%	13%
Mfg. & Tech.	363	311	365	-14%	17%
Property	3,436	2,623	3,646	-24%	39%
REIT - Industrial	925	852	881	-8%	3%
REIT - Office	434	283	347	-35%	23%
REIT - Retail	1,250	681	750	-46%	10%
Telecom & media	1,764	2,118	2,711	20%	28%
Transport	465	-1,789	-494	-485%	na
Total	**38,601**	**23,529**	**31,494**	**-39%**	**34%**

Source: Bloomberg

STI Index's 2020 EPS has seen a 39% decline since start of this year, while 2021 EPS has been downgraded by 24% YTD. Capital goods, banks and property developers have seen highest downgrades in last month. Unless the gradual recovery in domestic and global economic activity stalls, we believe the downgrades to 2020 should taper off from here. Downside risks to 2021 EPS estimates will start showing up as we get closer to end-2020.

Figure 6: STI Index consensus EPS



Source: Bloomberg

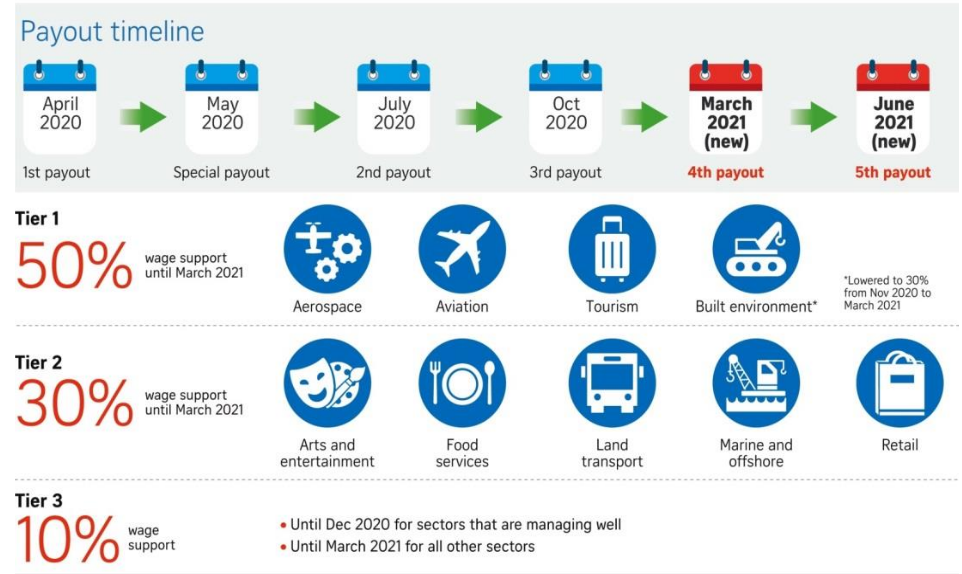
Downside Risks Persist

Government support is expected to gradually taper off

In 2020, the Singapore Government announced c.SGD100bn worth of measures to support Singaporeans and businesses that are impacted by the COVID-19 pandemic. The largest support came from the Job Support Scheme (JSS), which has helped to subsidise wages, thus enabling companies to retain their workers despite challenging business conditions. Under this scheme, the Government will co-fund between 25% and 75% of the first SGD4,600 of an employee's gross monthly wages, with three main payouts in April, July and October.

This scheme, that was scheduled to expire by end-Aug, has now been extended by up to seven months, with targeted measures announced for most impacted sectors. However, during the announcement about the extension of JSS to next year, Deputy Prime Minister, Heng Swee Keat stated that the Government may not be able to sustain the current level of support indefinitely. As more sectors re-open gradually, the Government will have to evolve and taper the support provided. There exists a risk that economic activity may still take longer than expected to recover as business and consumer confidence remain low for prolonged period. The tapering of Government support in such a scenario could materially derail the expected earnings recovery for 2021.

Figure 7: The Jobs Support Scheme that was supposed to lapse in Aug, has been extended by up to seven months

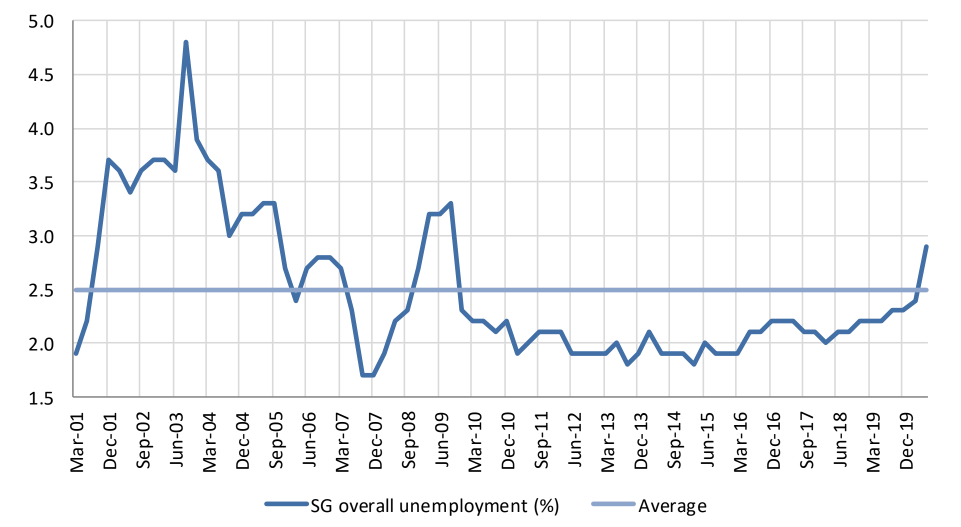


Source: The Straits Times, Ministry of Finance

Sharp rise in unemployment could delay economic recovery

With tapering of government support, we expect retrenchments, which increased materially during 2Q20, are likely to continue rising for rest of 2020. This is largely emanating from the fact that the depth of current recession is set to be longer than the ones Singapore experienced during the Asian Financial Crisis and the Global Financial Crisis. The Asian Financial Crisis in 1997 and 1998 saw around 30,000 retrenchments, while the Global Financial Crisis in 2008 and 2009 claimed around 40,000 jobs. In 1H20, there have already been almost 10,000 retrenchments. Current unemployment number of 2.9%, which has already risen above the historical average, is expected to continue rising. This could translate into sustained weakness in consumer confidence, weak consumer discretionary spending and likely weaker demand for property sector.

Figure 8: Singapore overall unemployment (%)



Source: Bloomberg

External risks that cannot be controlled still persist

Given Singapore's high dependence on external side of the economy, elevated amount of external risks, especially from a rise in COVID-19 infections in countries that are its key trade partners or countries that account for the highest amount of tourist inflows could derail the expectation of economic recovery that is currently in place. While WTO does not believe that the earlier expected worst case scenario for trade decline would play out, any reversal in this view could materially affect the positive view that has been investors for the electronics and pharmaceutical manufacturing sectors.

In addition, we believe external risks exist from the continued deterioration of relationship between the US and China as well as a China backlash amidst growing geopolitical tensions while countries also delve into investigating COVID-19's origin.

Market Strategy

Figure 9: SG Top Picks

Company name	M Cap (USDm)	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Avi Tech	57	0.50	8.7	6/30/2020	13.9	13.2	1.5	1.5	5.4	5.4	11.2	11.4
CapitaLand	10,515	3.75	34.9	12/31/2020	19.2	14.5	0.6	0.6	2.9	4.3	2.5	5.2
CSE Global	195	0.60	14.3	12/31/2020	10.6	9.5	1.4	1.3	5.2	5.2	13.8	14.4
Fu Yu Corp	134	0.30	22.4	12/31/2020	11.2	10.8	1.1	1.1	6.5	6.5	9.9	10.0
Keppel Corp	6,140	7.30	57.6	12/31/2020	11.2	10.7	0.8	0.8	2.2	4.7	(1.5)	7.2
Manulife US REIT	1,172	0.90	20.2	12/31/2020	13.8	13.5	1.0	1.0	8.2	8.3	6.9	7.1
Oxley	645	0.29	38.1	6/30/2020	5.2	3.4	0.6	0.5	6.0	6.0	10.9	15.8
ST Engineering	7,767	3.90	14.1	12/31/2020	21.1	18.8	4.8	4.6	4.4	4.5	22.6	24.7
Suntec REIT	2,774	1.78	31.9	12/31/2020	22.8	16.6	0.6	0.7	5.7	6.7	2.8	3.9
Wilmar	20,603	5.45	22.5	12/31/2020	15.3	16.3	1.2	1.1	2.8	2.8	7.8	7.1

Source: Bloomberg, RHB

Figure 10: SG high yield and defensive names

Company name	M Cap (USDm)	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
Ascendas REIT	8,966	3.00	(11.8)	12/31/2020	21.4	19.8	1.6	1.6	4.8	5.0	7.4	8.0
Avi Tech	57	0.50	8.7	6/30/2020	13.9	13.2	1.5	1.5	5.4	5.4	11.2	11.4
Manulife US REIT	1,172	0.90	20.2	12/31/2020	13.8	13.5	1.0	1.0	8.2	8.3	6.9	7.1
Sheng Siong	1,949	1.87	5.2	12/31/2020	21.2	25.3	7.6	7.0	3.3	2.8	31.2	25.7
SingTel	27,118	3.20	40.4	3/31/2021	16.2	15.5	1.3	1.3	5.0	5.0	8.3	8.6
ST Engineering	7,767	3.90	14.1	12/31/2020	21.1	18.8	4.8	4.6	4.4	4.5	22.6	24.7

Source: Bloomberg, RHB

Figure 11: SG cyclical recovery picks

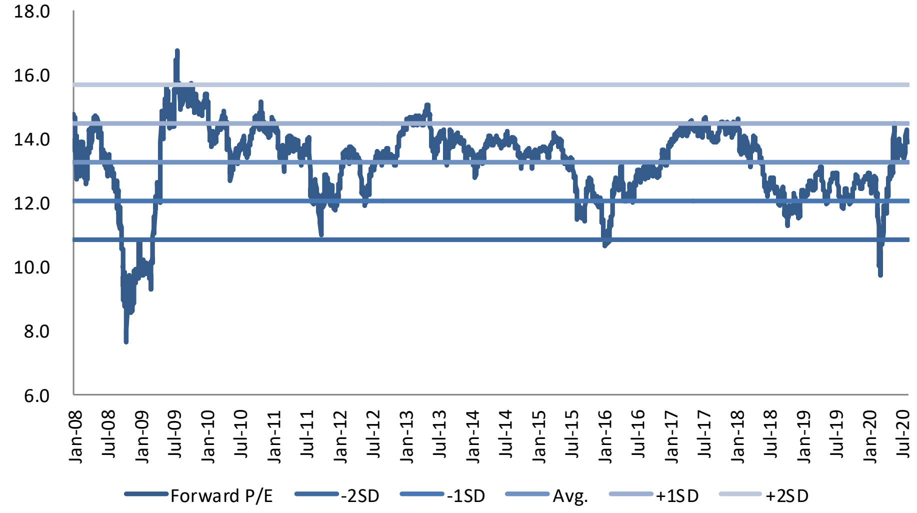
Company name	M Cap (USDm)	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/BV (x) 1FY	P/BV (x) 2FY	Yield (%) 1FY	Yield (%) 2FY	ROE (%) 1FY	ROE (%) 2FY
CapitaLand	10,515	3.75	34.9	12/31/2020	19.2	14.5	0.6	0.6	2.9	4.3	2.5	5.2
City Developments	5,265	9.50	19.2	12/31/2020	44.1	15.4	0.7	0.7	0.6	2.3	1.6	4.6
ComfortDelGro	2,194	1.55	11.5	12/31/2020	23.8	15.8	1.2	1.1	3.4	5.1	4.9	7.3
Suntec REIT	2,774	1.78	31.9	12/31/2020	22.8	16.6	0.6	0.7	5.7	6.7	2.8	3.9
Thai Beverage	11,342	0.72	15.7	9/30/2020	16.4	15.6	2.8	2.6	3.1	3.2	18.0	17.3

Source: Bloomberg

STI Index

STI remains the cheapest ASEAN market and offers the highest dividend yield in Asia. Given that current close-to-zero interest rate environment is expected to persist beyond 2021, rising global liquidity should bring investors to high yielding markets. STI's 13.9x 1-year forward P/E sits above its historical average. Much of the P/E increase this year has come from the sharp downgrades to 2020 earnings estimates. With expectations of a rebound in GDP growth and investors finally building up the confidence in sustained earnings growth for 2021, we believe there is potential for the P/E to increase further.

Figure 12: STI's 12-month forward P/E based on Street estimates



Source: Bloomberg

Figure 13: Comparison of regional indices

	PE		Div Yld		P/BV		ROE	
	1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
Developed Asia								
Australia	22.3	18.7	2.9	3.5	1.9	1.9	8.5	9.4
Hong Kong	11.8	10.0	3.3	4.0	1.0	0.9	10.3	10.3
Japan	20.0	14.6	2.3	2.5	1.2	1.1	4.8	6.0
Korea	16.8	11.8	1.9	2.1	1.0	0.9	5.2	11.1
Singapore	**16.4**	**12.5**	**3.9**	**4.6**	**0.9**	**0.8**	**7.1**	**8.5**
Taiwan	18.8	16.1	3.2	3.7	2.0	1.9	13.6	14.0
Emerging Asia								
India	23.8	17.4	1.5	1.8	2.6	2.4	11.1	13.7
Indonesia	19.3	14.6	2.3	2.2	1.9	1.8	11.8	14.4
Malaysia	20.6	16.6	3.0	3.5	1.5	1.5	7.0	8.4
Philippines	19.9	14.7	1.9	1.8	1.5	1.4	6.7	9.2
Shanghai	14.4	12.4	2.2	2.5	1.5	1.4	9.9	10.0
Thailand	21.9	16.9	2.7	3.0	1.5	1.4	5.8	6.8
MSCI APxJ	**18.4**	**14.8**	**2.3**	**2.6**	**1.7**	**1.6**	**10.6**	**10.6**

Source: Bloomberg

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