14 December 2020

Market Outlook | Market Strategy

Market Strategy

Rising Optimism Comes With Some Risks

Stocks Covered	53
Rating (Buy/Neutral/Sell):	36 / 14 / 3
Last 12m Earnings Revision Trend:	Negative

- **Expect equity underperformance to reverse.** We expect the Straits Times Index (STI) to reverse its underperformance relative to Asian peers in 2021 on increasing optimism around improvement in economic activity, sustained improvement in private consumption, strong improvement in business confidence as vaccines become available in late 2H21, and greater investor participation amidst a return of funds flow to Asia.
- **Optimism on improvement in economic activity.** Underpinned by easy monetary policy, overflowing benefits from the fiscal stimulus announced in 2020 and gradual reopening of the economy as domestic COVID-19 pandemic remains under control, Singapore should deliver 5.5% GDP growth in 2021. We expect private consumption to continue improving and business confidence to turn positive closer to vaccine availability. This should translate to strong profit growth and improved investor sentiment.
- **Signs of strong earnings growth; first earnings upgrade.** Expectations of GDP growth over the next 12 months should be positive for STI as the index's forward EPS growth and returns are closely correlated with Singapore's GDP growth. In addition, 3Q20 earnings/business updates offered hope that Street has been too conservative on the STI's earnings outlook. STI's 12 month forward EPS estimate has been lifted by 5% since end Sep-2020. Street has pencilled in 39% profit growth for STI in 2021. Earlier-than-expected vaccine availability could boost growth further.
- **Improving investor participation.** Retail investors have accumulated nearly SGD7.5bn in Singapore-listed stocks in 2020. With household balance sheets still far from stretched, this retail participation could continue into 2021, which could support to trading liquidity and valuations. Resolution of the uncertainty around US politics, coupled with positive vaccine news, could spur portfolio shifts back into ASEAN equities, with Singapore likely see some inflows. Outflows from institutional investors have started to reverse since early Nov 2020. Sustained reversal in the net outflows from institutional funds could further support valuations.
- **Key themes.** We recommend investors employ a balanced investment strategy. Amidst expectations of improvement in private consumption, we favour initiating positions in cyclical growth stories with greater exposure to domestic demand recovery, while remaining cautious on global cyclicals that are vaccine dependent. To cover for downside risks from an uneven and uncertain economic recovery, we recommend investors to stay invested in high-yielding stocks that offer some visibility on growth.
- **Market valuations remain compelling.** At 13.8x 2021F P/E, STI is the cheapest market in ASEAN. Its 4.1% 2021F yield is the highest in Asia. Persistence of almost-zero interest rate, elevated global liquidity and reversal of funds flow to Asia should bring investors to high-yield markets like Singapore. Our end-2021F STI target of 3,144 pts is based on a 13.5x forward P/E.

Company Name	Rating	Target Price	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	Yield (%) Dec-21F
ARA Logos Logistics Trust	BUY	SGD0.72	21.0	13.6	1.0	8.3
CapitaLand	BUY	SGD3.75	16.1	13.3	0.7	3.7
ComfortDelGro	BUY	SGD1.90	15.2	16.5	1.4	4.8
Dairy Farm	BUY	USD4.47	8.3	19.1	4.3	3.6
DBS	BUY	SGD30.00	19.7	11.2	1.0	3.6
Sheng Siong	BUY	SGD1.87	20.8	22.1	6.1	3.2
SingTel	BUY	SGD3.10	34.2	17.8	1.4	4.9
ST Engineering	BUY	SGD4.40	15.2	21.0	5.1	4.0
Suntec Real Estate Investment Trust	BUY	SGD1.79	20.9	17.6	0.7	6.2
Thai Beverage	BUY	SGD0.82	9.5	16.1	2.7	3.2
Venture Corp	BUY	SGD22.60	19.9	15.9	2.0	4.0

Source: Company data, RHB

Singapore sector ratings

OVERWEIGHT	Consumer, Gloves, Industrials, Land Transport Mfg. & Technology, Real Estate, REITs
NEUTRAL	Commodities, Financials, Gaming Telecommunications
NOT RATED	Healthcare, Offshore & Marine

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Sector Top Picks

Sector	Most preferred
Consumer & Gaming	THBEV, SSG, DFI
Industrials	STE
Land Transport	CD
Mfg. & Technology	FRKN, FUYU, VMS
Real Estate	CAPL
REITs	SUN, PRIME, ALLT
Rubber Gloves	RSTON
Commodities	WIL
Financials	DBS
Telecommunications	ST

Source: RHB

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Investment Thesis For Singapore In 2021

Singapore's underperformance should reverse in 2021

Singapore has been the worst performing equity market in Asia, with YTD returns of negative c.12% in local currency and USD terms (as at 13 Dec 2020). In 2021, we expect this under performance relative to rest of Asia to reverse. Basis for our expectations is i) increasing optimism around improvement in economic activity amidst strong control on spread of COVID-19 infections, ii) strong improvement in business confidence as vaccines become available around 2H21, and iii) greater institutional investor participation amidst a return of funds flow to Asia.

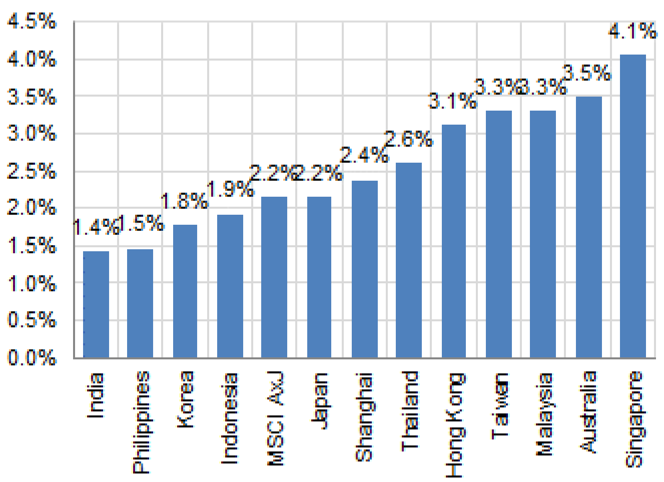
At current levels, STI's 13.8x 2021F P/E is almost in line with its historical average since Jan 2008. STI remains the cheapest market in ASEAN (**Figure 1**) and is trading at discount to rest of Asia (**Figure 3**). STI's 2021F yield of 4.1% is the highest in Asia (**Figure 2**). Given that the current almost-zero interest rate environment is expected to persist beyond 2021, elevated global liquidity and reversal of funds flow to Asia should bring investors to high-yield markets like Singapore.

Figure 1: Valuation comparison for regional indices

	P/E		Dividend yield		P/BV		ROE	
	2FY	3FY	2FY	3FY	2FY	3FY	2FY	3FY
Developed Asia								
Australia	19.3	17.0	3.5	4.0	2.1	2.0	10.3	10.5
Hong Kong	12.0	10.5	3.1	3.5	1.1	1.1	9.8	9.9
Japan	16.2	14.0	2.2	2.3	1.2	1.2	6.5	7.1
South Korea	13.6	11.5	1.8	1.9	1.1	1.0	11.5	12.8
Singapore	13.8	11.9	4.1	4.6	1.0	0.9	8.3	9.1
Taiwan	16.9	15.4	3.3	3.6	2.1	2.1	14.7	15.2
Emerging Asia								
India	20.4	16.7	1.4	1.6	2.8	2.5	13.8	14.7
Indonesia	15.8	11.4	1.9	2.4	1.9	1.8	14.2	15.7
Malaysia	17.2	16.1	3.3	3.5	1.6	1.5	8.7	9.2
Philippines	19.3	15.5	1.5	1.7	1.7	1.5	8.9	9.9
Shanghai	12.9	11.3	2.4	2.7	1.4	1.3	9.6	9.6
Thailand	18.8	16.4	2.6	2.9	1.6	1.6	6.0	8.0
MSCI Asia Pacific ex-Japan	**16.3**	**14.1**	**2.4**	**2.6**	**1.7**	**1.6**	**10.2**	**10.4**

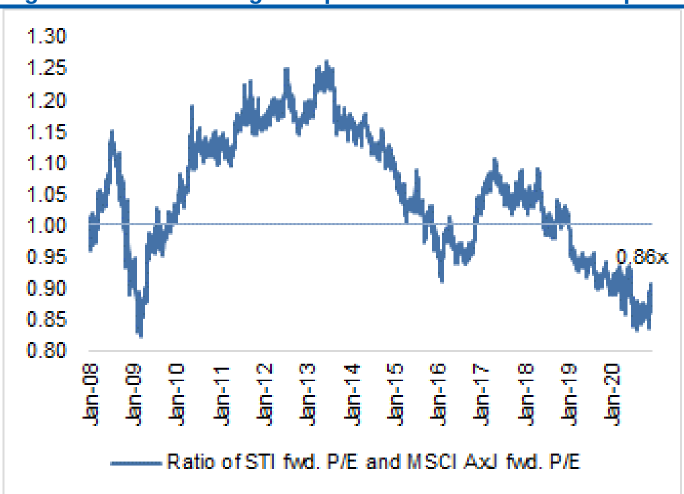
Note : As on 11 Dec 2020
Source: Bloomberg

Figure 2: STI offers the highest yield in Asia



Note : As on 11 Dec 2020
Source: Bloomberg

Figure 3: STI is trading cheaper than rest of Asia ex Japan



Note : As on 11 Dec 2020
Source: Bloomberg

There is optimism around improvement in economic activity

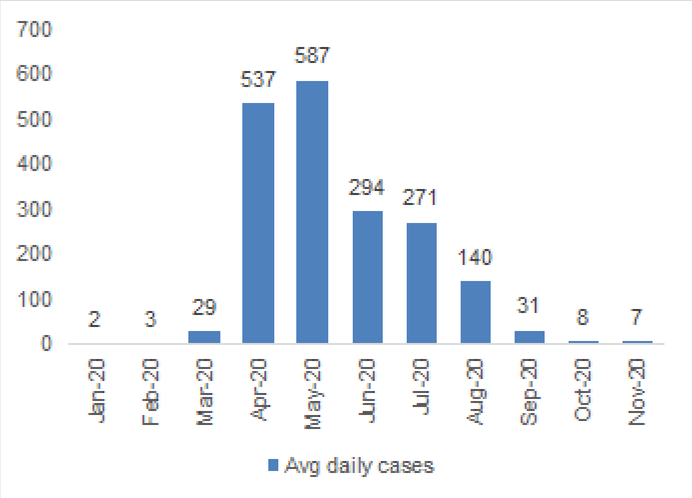
Our economist believe that on a YoY basis, Singapore should deliver 5.5% GDP growth in 2021. This economic recovery will be underpinned by continuing easy monetary policy, overflowing benefits from fiscal stimulus announced in 2020 in response to the COVID-19 pandemic and is likely to improve employment outlook by 2H21. In terms of trajectory, we anticipate GDP growth to pick up in 2H21 to 5.7% from 5.4% in 1H21 as the global economy strengthens amid improved business and consumer sentiments. Our in-house assumption of a mass vaccine deployment in late 2H21 should also bolster growth further.

Strong control on COVID-19 paves way for gradual reopening of the economy

The COVID-19 infection rate in Singapore has declined amidst aggressive testing and contract tracing. The current run rate of infections averages less than 10 reported cases a day (**Figure 4**), with most of them detected amongst people arriving in Singapore. The Government has placed all of the infected cases under quarantine and separated from the rest of the population, ensuring that the domestic spread of infection remains as close to zero as possible.

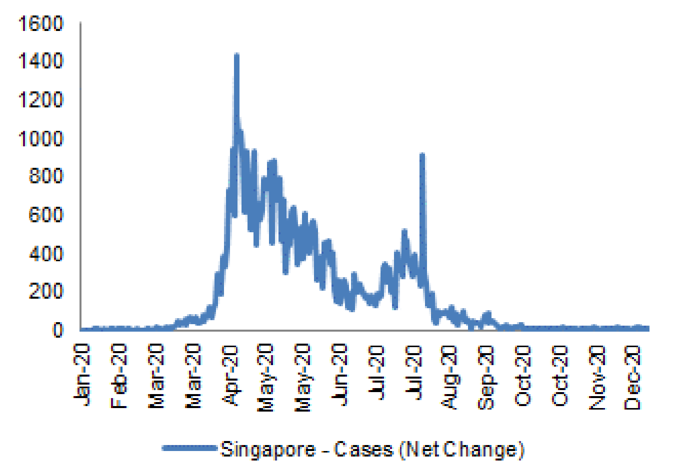
This has allowed the Singaporean Government to relax more restrictions and support more businesses to return to normalcy. It has already announced plans to gradually ease into Phase 3, which will become the country's new normal until the pandemic is brought under control globally, or until a vaccine is available and widely deployed across the world. The Multi-Ministry Taskforce is piloting the use of pre-event COVID-19 testing to enable the opening up of larger-scale and higher-risk activities. There are plans to increase the limit on gathering sizes from five to eight people, and an increase in capacity limits for public venues and events.

Figure 4: Average daily cases are now at less than 10 a day



Note : As on 12 Dec 2020
Source: Bloomberg, RHB

Figure 5: Singapore COVID-19 cases (net change)

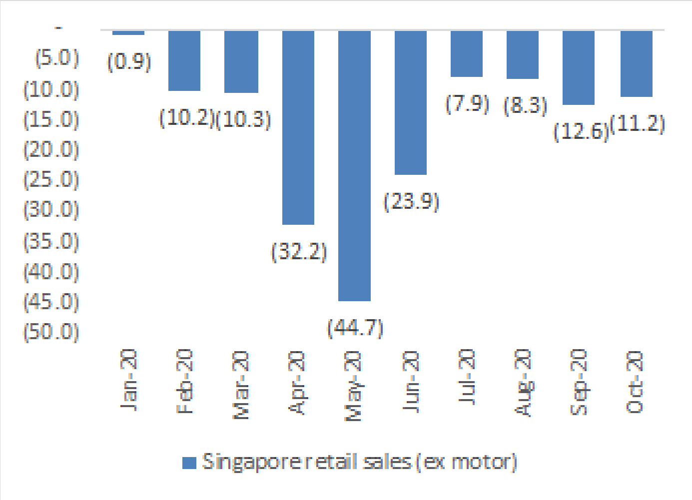


Note : As on 12 Dec 2020
Source: Bloomberg

Consumer confidence to continue improving

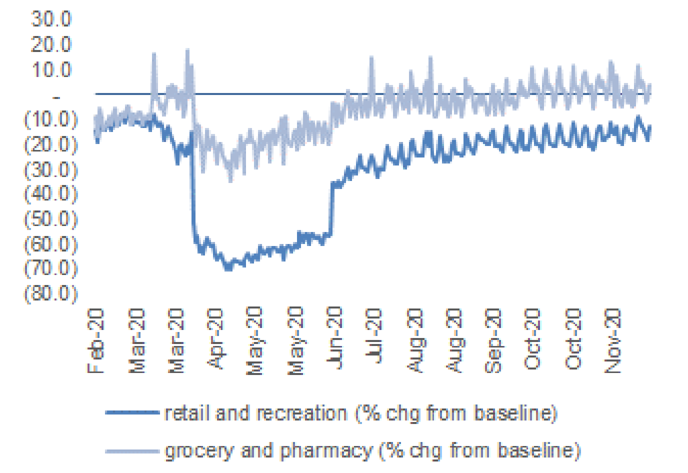
Mobility data, a proxy for private consumption, has so far indicated rising foot traffic in the retail sector following the relaxation of the Circuit Breaker (CB) measures since 1 Jun 2020. This tallies with the gradual improvement in retail sales index, an indication of consumer demand. Singapore is set to be in Phase 3 of the opening of the economy whereby the majority of economic activities are to resume. This would set a precedence for the mobility and retail sales indices to continue on an upward trend for 1H21 and accelerating in 2H21, as Singapore further eases its restrictions.

Figure 6: Contraction in retail sales has eased since relaxation of circuit breaker measures



Source: Bloomberg, RHB

Figure 7: Google mobility data suggests that visit to retail establishments are only 13% below pre-COVID-19 level



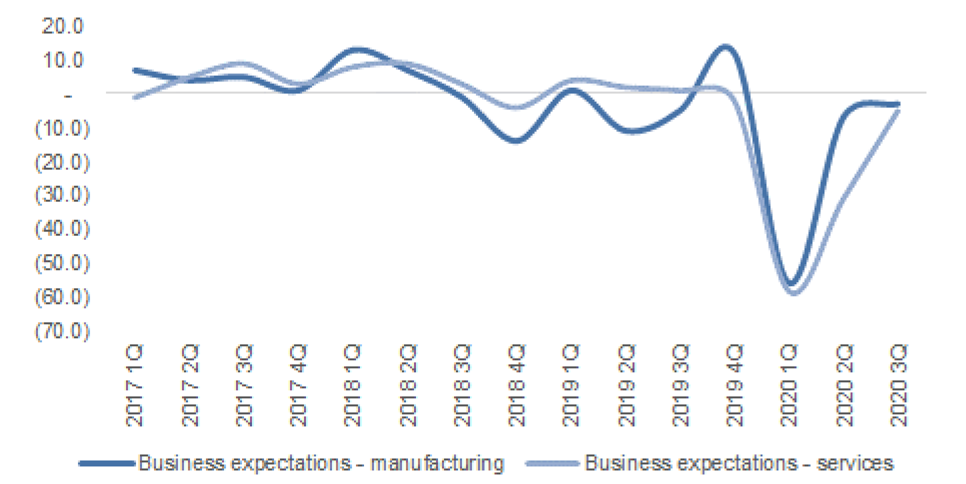
Source: Google, RHB

Business activity to gradually revert to near-normal by end 2021

Business confidence for the manufacturing and services sector has gradually improved (**Figure 8**) with the gradual relaxation of CB measures, and the Government slowly allowing more businesses to return to normalcy. With global trade flow not declining to its worse levels as expected during earlier part of the year, export oriented manufacturing sectors are not expecting an improvement in business outlook for the next six months (ie from Oct 2020 to Mar 2021).

As per 3Q20 data for the manufacturing sector, a weighted 18% of manufacturers anticipate the operating environment to improve, while a weighted 21% foresee a weaker business outlook. Overall, a net weighted balance of 3% of manufacturers predict a less favourable business situation for the period Oct 2020-March 2021, compared to the third quarter of 2020. However, this is a significant QoQ improvement from a net weighted balance unfavourable expectation of 56% and 7% in 1Q20 and 2Q20.

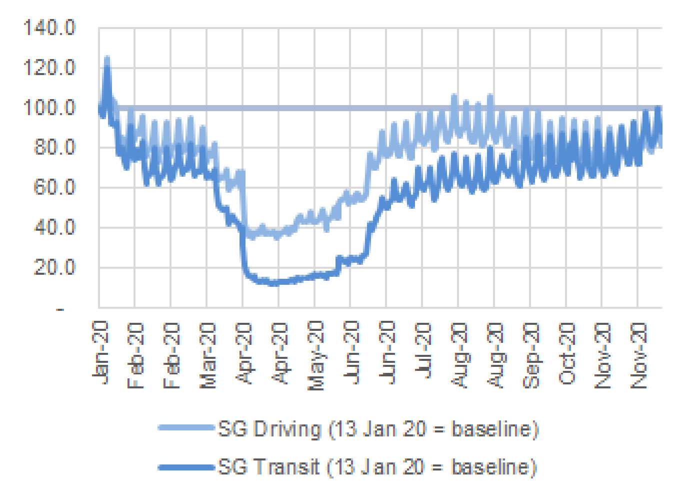
Figure 8: Business confidence as measured by next month's outlook for manufacturing and services sector has returned to pre-COVID-19 levels



Source: SingStat, RHB

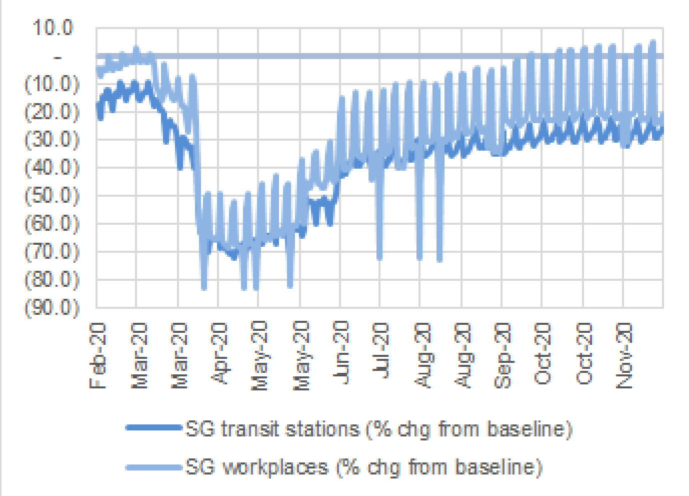
Similarly, business expectations of firms in the services sector have improved but remain unfavourable. 25% of firms foresee slower business conditions while 20% of firms are optimistic, resulting in a net weighted balance of 5% of firms expecting a less favourable business outlook for the period of Oct 2020-Mar 2021. Though the business outlook remains negative, this is an improvement from the net weighted balance of -31% recorded in the previous quarter's survey for the period of Jul-Dec 2020.

Figure 9: Apple Mobility data for Singapore suggests that driving and transit traffic are gradually inching back to pre-COVID levels



Source: Apple, RHB

Figure 10: Google Mobility data for Singapore suggests that people have started to return to workplaces and visits to public transit stations have improved as well



Source: Google, RHB

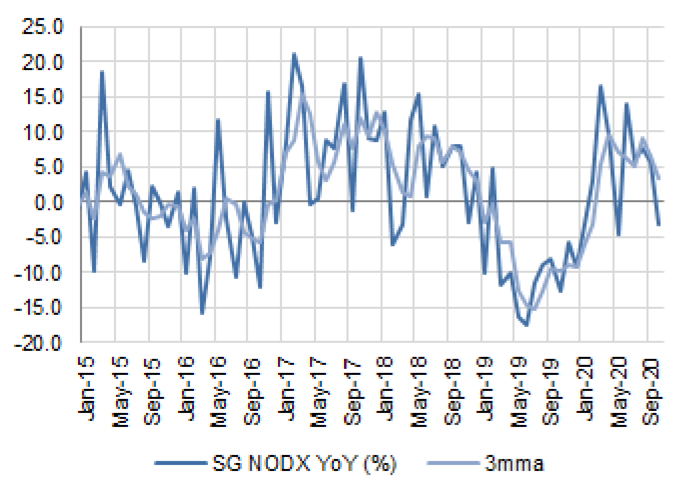
Growth in manufacturing and exports should be sustained in 2021

On the external front, Singapore's manufacturing sector and non-oil domestic exports (NODX) have seen strong improvement throughout 2020, aided by strong demand for electronics and pharmaceutical products. Manufacturing Purchasing Managers' Indices (PMIs) continue to indicate a sequential expansion in output.

The Government expects Singapore's overall trade and NODX to grow in 2021, in line with predictions that the global economy will expand over the next year from a low base. Total merchandise trade is expected to rise by 1-3% for 2021, while NODX is projected to expand by 0-2%. This will be supported by an improvement in global trade as the World Trade Organisation expects global trade to rebound to 7.2% in 2021. Higher expected oil prices in 2021 may provide some support to Singapore's oil trade for the year as a result.

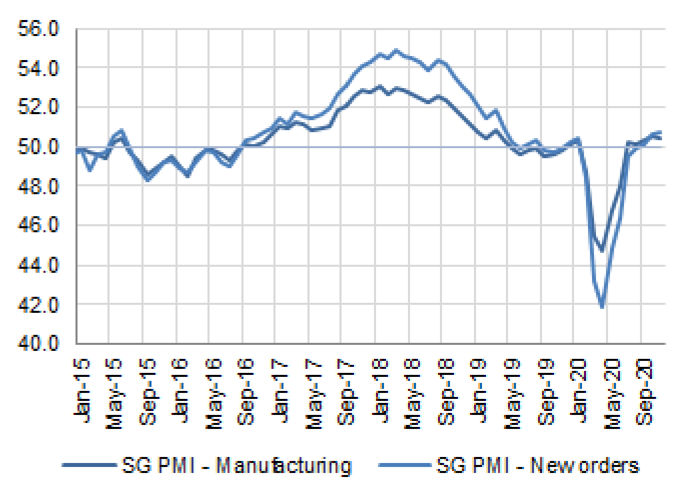
As per the official forecast, Singapore expects trade-related services sectors (eg wholesale trade and water transport) to benefit from the pickup in external demand. At the same time, the manufacturing sector is projected to continue to expand, with the electronics and precision engineering clusters boosted by robust semiconductor demand from the 5G market.

Figure 11: Singapore NODX is expected to register positive growth in 2021



Source: Bloomberg, RHB

Figure 12: Singapore Manufacturing PMI and PMI for new orders are suggesting improving outlook



Source: Bloomberg, RHB

Expect vaccine to start becoming available during late 2H21

Regarding the COVID-19 vaccine, our base line assumptions are that wide spread dissemination of the vaccine in Asia will occur during late 2021. Based on our recent discussions with some participants in the pharmaceutical industry, capacity enlargement, logistics to distribute the vaccine to a broad population, and domestic government policy to implement the vaccinations are still a work in progress. Hence, we take a relatively more cautious stance on widespread dissemination compared to market expectations of perhaps 2H21 broad distribution. Nevertheless, news relating to the availability of vaccine will boost investor confidence and could further boost consumer and business confidence.

Availability of vaccines would provide the much needed boost to aviation- and tourism-related sectors (eg air transport and accommodation), which are projected to see a gradual recovery in air passenger volume and visitor arrivals. Similarly, consumer-facing sectors (eg retail trade and food services) would benefit from the recovery in visitor arrivals, as well as an improvement in consumer sentiment amidst better labour market conditions. However, economic activity in these sectors is not likely to return to pre-COVID-19 levels, even by end-2021.

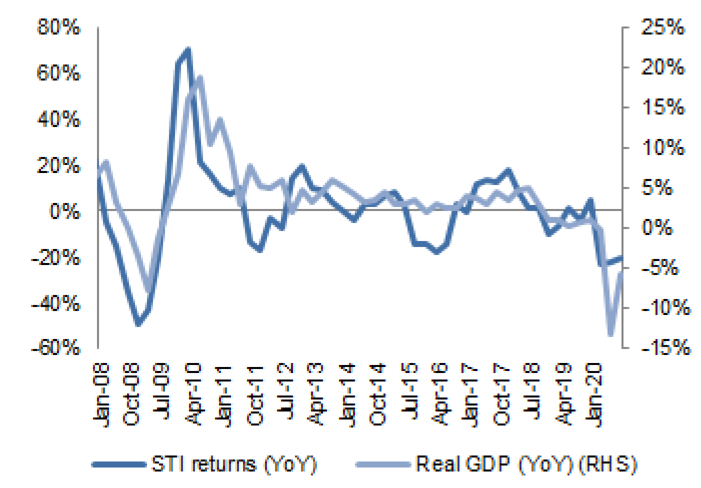
While local authorities may be in talks with various pharmaceutical companies to access vaccines in advanced stages of clinical trials, we believe there is limited rush to make sure that the vaccine is immediately available as the number of new locally transmitted cases in Singapore have fallen close to zero. The Government will continue to emphasise the need for aggressive and rapid COVID-19 testing along with wearing masks, keeping social gatherings small and maintaining safe distances until a final decision on vaccine is made.

In Singapore, American biopharmaceutical firm Arcturus Therapeutics, is working with scientists from Singapore's Duke-NUS Medical School to develop a local vaccine for COVID-19. As per news report, the vaccine (ARCT-021) has shown positive interim clinical study results from its ongoing Phase 1/2 study. The ability of the Arcturus vaccine to be delivered in a low dose differentiates it from many other vaccines in development. The vaccine is on track to be shipped in early 2021.

Improving GDP outlook is positive for Singapore equities

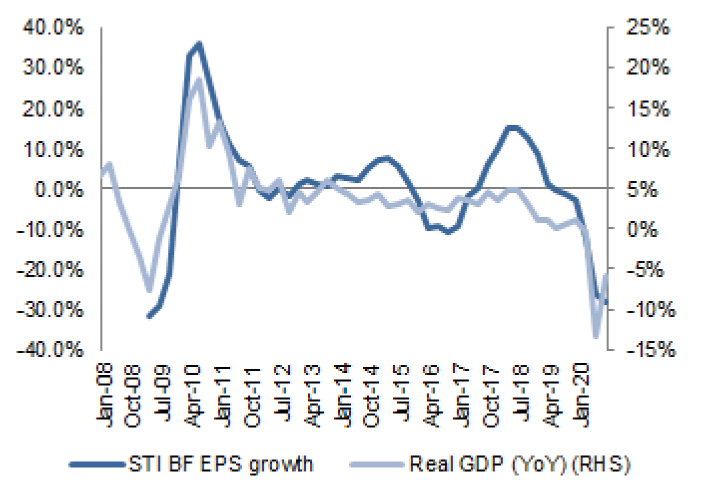
With Singapore's worst GDP contraction now behind it, expectations of an improvement in GDP over the next 12 months should be positive for the equity market. This is because, historically, the STI Index's forward EPS growth and returns have been closely correlated with Singapore's GDP growth. Amidst expectations of an economic recovery, Street is also holding on to its expectations of strong EPS growth for the STI Index in 2021.

Figure 13: There is a positive correlation between STI returns and GDP growth expectation



Source: Bloomberg, RHB

Figure 14: STI's forward EPS growth and expected GDP growth are also positively correlated



Source: Bloomberg, RHB

Street has pencilled in strong growth; waiting for investors to agree

A YoY recovery in Singapore's GDP growth in 2021 despite a low 2020 base, along with hope of vaccine availability in late 2H21, should continue to support consumer confidence during early 2021 and improve business confidence from 2H21. This should support a rebound in corporate earnings.

Figure 15: Net profit by sector for STI Index components

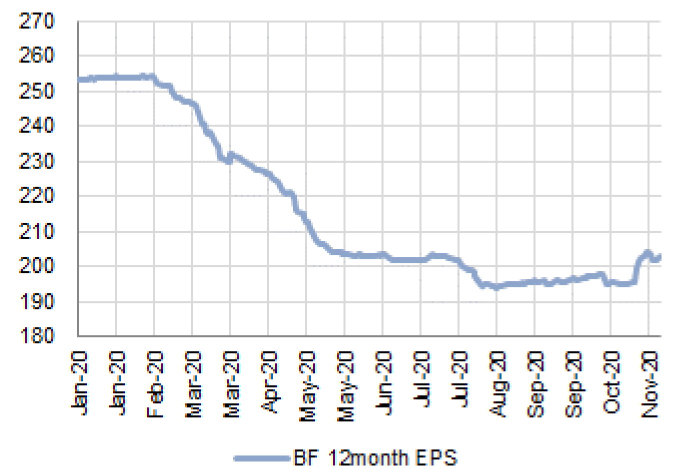
	Total net profit (SGD)			YoY growth (%)	
	2019	2020	2021	2020	2021
Capital Goods	8,988	3,780	5,846	-58%	55%
Commodities	1,764	1,781	1,899	1%	7%
Consumer	3,338	1,839	2,841	-45%	55%
Financials	15,879	11,349	13,594	-29%	20%
Mfg. & Tech.	363	303	362	-17%	19%
Property	3,436	2,423	3,473	-29%	43%
REIT - Industrial	1,374	1,307	1,390	-5%	6%
REIT - Office	697	345	509	-51%	48%
REIT - Retail	553	335	293	-39%	-13%
Telecom & media	1,580	1,787	2,356	13%	32%
Transport	465	-2,321	-765	-599%	na
Total	**38,437**	**22,928**	**31,799**	**-40%**	**39%**

Source: Bloomberg

First signs of EPS upgrades

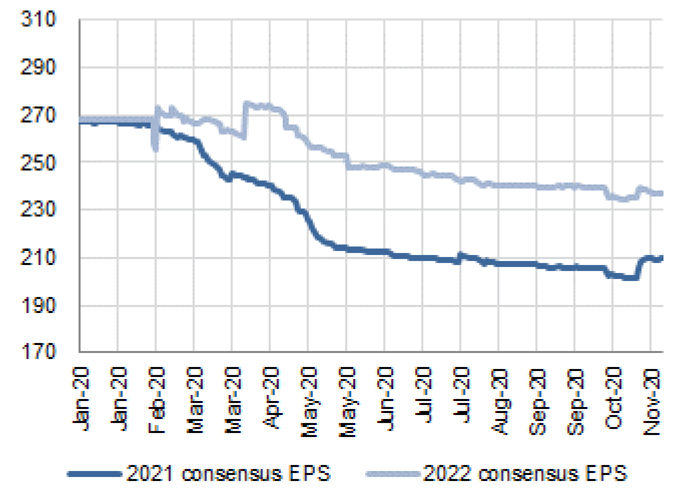
3Q20 earnings/business updates offered some hope that Street has been too conservative on the earnings outlook for STI. After a significant cut to forward earnings estimate during 1Q-2Q20, when negative earnings surprises and cautious management guidance significantly exceeded the positive ones, Street has upgraded the 12-month forward EPS estimate for STI Index by 5% since end Sep 2020. During 3Q20, the positive earnings surprises came from the financial, commodities, gaming and transport sectors. While the upgrade seems small, we believe it should act as a confidence boosting measure for investors looking at sustained earnings recovery into 2021 and 2022.

Figure 16: 12-month forward EPS for STI has seen upgrades post 3Q20 results/business update



Source: Bloomberg, RHB

Figure 17: Street remains optimistic of earnings growth to be sustained in 2022



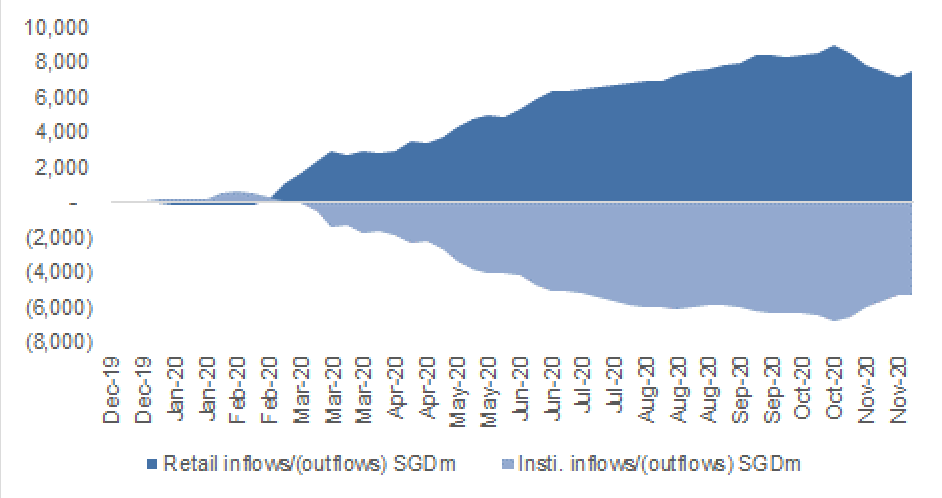
Source: Bloomberg, RHB

Improving investor participation in Singapore equities

Continuing retail participation would be positive for Singapore equities as well

Retail investors have accumulated nearly SGD7.5bn in Singapore-listed stocks YTD in 2020 (**Figure 18**). While household balance sheets still appear far from stretched, we believe this retail participation could continue into 2021 as well, which could lend support to trading liquidity and valuations. Moreover, any reversal in the net outflows from institutional funds could further support market valuations.

Figure 18: Retail investors have accumulated close to SGD7.5bn worth of Singapore stocks YTD in 2020. Outflows from institutional investors have started to reverse since early Nov 2020



Source: SGX, RHB

Institutional investors could return to Singapore equities

Foreign portfolio funds have predictably exited the ASEAN equity markets in droves in 2020, as the pandemic hit, fleeing back to the relative safety of the developed markets. During 2020, relative to regional peers, Singapore probably should have offered the most comfort to foreign investors, in terms of political and economic policy continuity. Although lacking data on foreign flows, investors are likely to have stayed away from Singaporean equities, as there are few technology names in STI. Meanwhile, the cyclical banks, telecommunications, and industrial stocks that form a large portion of the index have not been favoured by investors during the early part of this year. Outside of S-REITs, there were limited defensive sectors available to investors. However, a resolution of the uncertainty around US politics, coupled with positive vaccine news, could spur portfolio shifts back into ASEAN equities, with Singapore likely see some inflows. Singapore should be attractive, given the prominence of large cyclical sectors like banks and property, which we believe could see earnings recovery.

Key Themes In 2021

We recommend investors employ a balanced investment strategy that combines tactical positions in value stocks with long-term positions in secular high yielding growth stocks.

We see opportunities for underperformers of 2020 playing catch up in 2021 as businesses revert back to some sort of normalcy towards 2H21. Amidst expectations of sustained improvement in private consumption, we favour initiating positions in cyclical growth stories with greater exposure to domestic demand recovery, while remaining cautious on stocks that have direct exposure to the travel and tourism sectors. We believe opportunities to buy into the global cyclicals that are vaccine-dependent could arise in late 2H21. We continue to favour manufacturing and technology sectors where we believe the growth witnessed in 2020 could be sustained in 2021.

Nevertheless, we believe economic recovery in 2021 will be uneven and gradual. There will remain elevated amount of risks from the re-emergence of COVID-19 on the external front and risk related to tapering off domestic government support while economic recovery takes hold. To cover for such risks, we recommend investors to stay invested in high-yielding stocks that offer some visibility on growth.

Playing the economic recovery story: selective rotation into value

Recovery in domestic consumption should be visible first

Our economics team believes that private consumption is set to accelerate in 2021 as restrictions are eased. Mobility data, a proxy for private consumption, has so far indicated rising foot traffic in the retail sector following the relaxation of CB measures since 1 Jun 2020. This tallies with the gradual rise in the Retail Sales Index, an indication of consumer demand. Singapore is set to be in Phase 3 of the reopening of the economy whereby the majority of economic activities are to resume. This would set a precedence for the mobility and retail sales indices to continue on an upward trend for 1H21 and accelerating in 2H21, as Singapore further eases its restrictions.

In addition, ongoing government support – in the form of social protection programmes, especially towards the early part of next year – should see a gradual return of normalised business activities, as countries manage to better contain the pandemic. This is coupled with low interest rates, which should support sustained improvement in private consumption. While consumption during 1H21 will likely remain below potential, a broad-based COVID-19 vaccine could lift sentiment and normalise consumption patterns in the latter part of the year.

We recommend that investors gradually build positions in domestic consumption recovery stories, where private consumption is expected to sustain its path of improvement into 2021. Our domestic consumption recovery picks are China Aviation Oil, ComfortDelGro, Dairy Farm, Suntec REIT and Thai Beverage.

Figure 19: Singapore – domestic recovery plays

	M Cap		Target	Upside/	1FY	P/E (x)			P/BV (x)			Yield (%)			ROE (%)		
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**
China Aviation Oil Singapore	682	Buy	1.25	13.6	Dec-20	13.3	10.0	9.3	0.8	0.8	0.7	3.1	1.9	2.3	6.3	8.0	8.1
ComfortDelGro	2,673	Buy	1.90	15.9	Dec-20	54.7	16.4	14.4	1.4	1.4	1.3	1.5	4.9	5.6	2.5	8.4	9.3
Dairy Farm International	5,587	Buy	4.47	10.7	Dec-20	21.3	18.7	14.9	4.5	4.2	3.8	3.2	3.7	4.5	21.3	23.4	26.5
Suntec REIT	3,127	Buy	1.79	20.9	Dec-20	70.7	17.6	15.4	0.7	0.7	0.7	5.0	6.2	6.3	1.0	4.1	4.7
Thai Beverage	14,086	Buy	0.82	12.6	Sep-21	16.1	14.9	13.9	2.7	2.4	2.2	3.2	3.5	3.7	17.3	17.2	16.9

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Recovery in global cyclicals that are vaccine-dependent to take time

We believe a recovery in global cyclicals could take a prolonged period of a year or more – as either all countries in the world have to get the virus under control, or an effective treatment/vaccine is developed and widely deployed. A timeline for the creation of a safe, effective vaccine – one that provides immunity for a significant time and can be rolled out quickly – is full of uncertainty. While our house view is that a COVID-19 vaccine will be available by late 2H21, large-scale immunisation is expected to take few years. Moreover, a lot can still go wrong, and fears of another economic collapse cannot be ruled out.

In our base case, global cyclicals or sectors that are directly vaccine-dependent, like aviation and related stocks, real estate, tourism-related (eg hospitality), entertainment, and healthcare – as well as industrials and commodity-related industries, will only start seeing earnings recovery towards the end of 2021. We see CapitaLand, CDL Hospitality REIT, City Developments, DBS and Singtel as the long-term cyclical recovery plays.

Figure 20: Singapore's global cyclical recovery plays

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
CapitaLand	12,542	Buy	3.75	18.3	Dec-20	24.2	16.4	16.1	0.7	0.7	0.7	2.5	3.8	3.8	2.2	5.3	5.5
CDL Hospitality Trusts	1,197	Buy	1.25	-3.8	Dec-20	-23.7	23.9	15.8	0.9	0.9	0.9	3.1	5.4	6.3	-3.7	3.9	5.9
City Developments	5,290	Buy	9.50	18.3	Dec-20	44.4	15.5	13.7	0.7	0.7	0.7	0.6	2.2	2.5	1.6	4.6	5.0
DBS Group Holdings	47,623	Buy	30.00	16.9	Dec-20	13.6	11.4	9.4	1.1	1.1	1.0	2.9	3.5	4.5	8.8	9.5	10.9
SingTel	28,206	Buy	3.10	32.5	Mar-21	19.5	17.6	16.3	1.4	1.4	1.4	4.5	4.9	4.9	7.1	7.8	8.4

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Uneven and uncertain recovery necessitates selecting defensive stocks

We note that the global COVID-19 situation remains fluid, with a resurgence of cases in Europe and the US. Some European countries are already in lockdown and hospitalisation rates are rising in the US. An inability to control COVID-19 infections in countries that are Singapore's key trade partners, or countries that account for the highest number of tourist inflows, could derail expectations of an economic recovery that is currently in place. In addition, there are external risks from the continued deterioration of US-China ties.

Government support to domestic industries 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-August 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, and we agree, 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 a prolonged period. The tapering of Government support in such a scenario could materially derail the expected earnings recovery for 2021.

To cover for such risks, we recommend that investors stay invested in REITs and high-yielding stocks that still offer earnings and dividend visibility. ARA Logos Logistics Trust, Fu Yu Corp, Prime US REIT, Riverstone, Sheng Siong Group and ST Engineering are our key defensive growth and/or high-yield picks.

Figure 21: Singapore – high-yield and defensive growth names

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
ARA Logos Logistics Trust	526	Buy	0.72	20.0	Dec-20	14.5	13.7	13.2	1.0	1.0	1.1	8.0	8.2	8.4	7.2	8.6	8.0
Fu Yu Corp	144	Buy	0.30	17.6	Dec-20	11.6	11.2	10.7	1.1	1.1	1.1	6.3	6.3	6.3	9.9	10.0	10.2
Prime US REIT	830	Buy	1.00	28.2	Dec-20	19.9	13.9	11.8	0.9	0.9	0.9	8.9	9.0	9.1	4.6	6.6	7.8
Riverstone	1,963	Buy	2.73	127.3	Dec-20	11.5	5.6	8.4	5.2	3.4	2.8	3.9	8.0	5.4	51.4	73.5	36.8
Sheng Siong Group	1,743	Buy	1.87	20.0	Dec-20	18.6	22.2	23.1	6.7	6.1	5.7	3.8	3.2	3.0	37.9	28.8	25.4
ST Engineering	8,899	Buy	4.40	13.1	Dec-20	24.0	21.4	18.7	5.4	5.2	4.9	3.8	3.9	4.0	22.6	24.7	26.8
Ascendas REIT	9,098	Neutral	3.00	1.0	Dec-20	18.7	17.3	16.8	1.4	1.4	1.4	5.5	5.7	5.8	7.4	8.0	8.2

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Sector Recommendations & Stock Picks

Figure 22: Our sector recommendations

Overweight	Neutral	Not rated
Consumer	Commodities	Healthcare
Industrials	Financials	Offshore & marine
Land transport	Gaming	
Mfg. & technology	Telecom	
Real Estate		
REITs		
Rubber gloves		

Source: RHB

Figure 23: Preferred stocks across sectors

Sector	Most preferred
Consumer & gaming	THBEV, SSG, DFI
Industrials	STE
Land transport	CD
Mfg. & technology	FRKN, FUYU, VMS
Real Estate	CAPL
REITs	SUN, PRIME, ALLT
Rubber gloves	RSTON
Commodities	WIL
Financials	DBS
Telecom	ST

Source: RHB

Figure 24: Singapore – alpha picks (large cap)

	M Cap		Target	Upside/	1FY	P/E (x)			P/BV (x)			Yield (%)			ROE (%)		
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**
CapitaLand	12,542	Buy	3.75	18.3	Dec-20	24.2	16.4	16.1	0.7	0.7	0.7	2.5	3.8	3.8	2.2	5.3	5.5
ComfortDelGro	2,673	Buy	1.90	15.9	Dec-20	54.7	16.4	14.4	1.4	1.4	1.3	1.5	4.9	5.6	2.5	8.4	9.3
Dairy Farm International	5,587	Buy	4.47	10.7	Dec-20	21.3	18.7	14.9	4.5	4.2	3.8	3.2	3.7	4.5	21.3	23.4	26.5
DBS Group Holdings	47,623	Buy	30.00	16.9	Dec-20	13.6	11.4	9.4	1.1	1.1	1.0	2.9	3.5	4.5	8.8	9.5	10.9
Riverstone	1,963	Buy	2.73	127.3	Dec-20	11.5	5.6	8.4	5.2	3.4	2.8	3.9	8.0	5.4	51.4	73.5	36.8
Sheng Siong Group	1,743	Buy	1.87	20.0	Dec-20	18.6	22.2	23.1	6.7	6.1	5.7	3.8	3.2	3.0	37.9	28.8	25.4
SingTel	28,206	Buy	3.10	32.5	Mar-21	19.5	17.6	16.3	1.4	1.4	1.4	4.5	4.9	4.9	7.1	7.8	8.4
ST Engineering	8,899	Buy	4.40	13.1	Dec-20	24.0	21.4	18.7	5.4	5.2	4.9	3.8	3.9	4.0	22.6	24.7	26.8
Suntec REIT	3,127	Buy	1.79	20.9	Dec-20	70.7	17.6	15.4	0.7	0.7	0.7	5.0	6.2	6.3	1.0	4.1	4.7
Thai Beverage	14,086	Buy	0.82	12.6	Sep-21	16.1	14.9	13.9	2.7	2.4	2.2	3.2	3.5	3.7	17.3	17.2	16.9
Venture Corp Ltd	4,088	Buy	22.60	19.5	Dec-20	17.8	15.9	15.5	2.1	2.0	1.9	4.0	4.0	4.0	12.0	12.9	12.6
Wilmar International	19,850	Buy	5.85	38.6	Dec-20	13.2	14.5	14.5	1.0	1.0	1.0	3.6	2.3	2.4	8.4	7.0	6.7

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Figure 25: Singapore – alpha picks (small cap)

	M Cap		Target	Upside/	1FY	P/E (x)			P/BV (x)			Yield (%)			ROE (%)		
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**
ARA Logos Logistics Trust	526	Buy	0.72	20.0	Dec-20	14.5	13.7	13.2	1.0	1.0	1.1	8.0	8.2	8.4	7.2	8.6	8.0
China Aviation Oil Singapore	682	Buy	1.25	13.6	Dec-20	13.3	10.0	9.3	0.8	0.8	0.7	3.1	1.9	2.3	6.3	8.0	8.1
Frencken Group	360	Buy	1.22	5.2	Dec-20	11.7	10.4	9.8	1.5	1.4	1.2	2.6	2.9	3.1	13.5	13.8	13.3
Fu Yu Corp	144	Buy	0.30	17.6	Dec-20	11.6	11.2	10.7	1.1	1.1	1.1	6.3	6.3	6.3	9.9	10.0	10.2
Prime US REIT	830	Buy	1.00	28.2	Dec-20	19.9	13.9	11.8	0.9	0.9	0.9	8.9	9.0	9.1	4.6	6.6	7.8

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Key Risks To Our View

Further escalation of trade tensions between the US and China

China and the US have locked horns over issues from trade and China's human rights record to its expansionist ambitions in the South China Sea. The relations have soured since President Donald Trump began setting tariffs and other trade barriers on China in 2018. While China is hopeful of improved predictability in relations with the US now that President Elect Joe Biden has won the US Presidential elections, we believe there remains a risk that trade tensions could escalate further given that there still is a bipartisan consensus in the US on containing China. Escalation in trade tensions could derail the current economic recovery both in Singapore and globally. This would have a negative impact on Singapore stock valuations.

Slower-than-expected deployment of vaccines

Regarding the COVID-19 vaccine, in our base line assumptions, we have pencilled in late 2021 for the wide spread dissemination in Asia. Based on our recent discussions with some participants in the pharmaceutical industry, capacity enlargement, logistics to distribute the vaccine to a broad population, and domestic government policy to implement the vaccinations are still a work in progress. Hence, we take a relatively more cautious stance on a widespread dissemination compared to market expectations of perhaps 2H21 broad distribution. However, there remains a risk of slower-than-expected vaccine deployment amidst logistical issues, which could further delay Singapore's economic recovery, which we believe should take hold in 2H21.

Changes in regulations/policies

Further changes in immigration policy impacting the availability of labour, looser/tighter-than-expected fiscal/monetary policy could have a better/worse impact on Singapore's GDP growth outlook. We note that STI's EPS growth as a strong positive correlation to the country's expected GDP growth. Changes to sector specific regulations could also have meaningful impact on the earnings outlook for stocks (eg further tightening measures in the real estate sector).

Resurgence of COVID-19 infection

The strong control on the COVID-19 pandemic in Singapore has been one of the key factors behind our expectation of a gradual reopening of the economy during 1H21 and economic recovery gathering pace during 2H21. A sharp resurgence in the number of number of COVID-19 cases could stall economic recovery and potentially push the country back into another round of CB measures. A second round of CB measures, although cannot be completely ruled out, we believe that the availability and deployment of vaccine by then should limit the downside risk of another round of restrictive measures.

Continuing corporate restructuring in Singapore

In 2020, we witnessed the demerger of Sembcorp Marine from Sembcorp Industries and also witnessed the consolidation of CapitaLand Mall Trust and CapitaLand Commercial Trust into CapitaLand Integrated Commercial Trust. Despite the recently failed merger of ESR REIT with Sabana Shari'ah Compliant REIT, we believe the market remains ripe for consolidation in the REIT space. In addition there also remains a likelihood of more corporate restructuring within Temasek's portfolio.

STI Target Of 3,144 Pts For End-2021

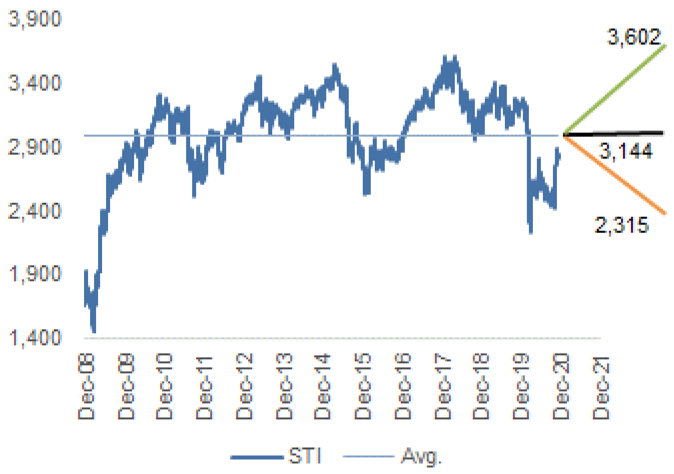
Our end-2021 STI Index target is 3,144 pts, offering 11% upside from 4 Dec 2020's close of 2,840 pts. This is based on a 13.5x forward P/E that is in line with its average forward P/E since Jan 2008 and our expectation for EPS to grow 30% and 13% in 2021 and 2022, from 35% decline in 2020. We believe our target P/E multiple at normal (historical average) levels seem justified, as we approach normalcy for earnings growth over the next two years, and life in general in the city-state.

Figure 26: Our base, bull and bear case scenarios for STI Index

	4 Dec 2020	RHB STI Target	Upside / downside (%)	RHB target P/E
Base case	2,840	3,144	10.7	13.5
Bull case	2,840	3,602	26.8	14.5
Bear case	2,840	2,315	(18.5)	11.0

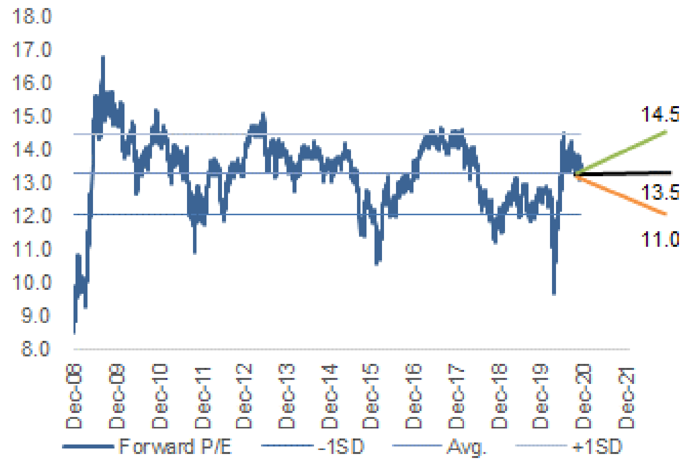
Source: Bloomberg, RHB

Figure 27: STI Index – base, bull and bear case outlook



Source: Bloomberg, RHB

Figure 28: STI Index – base, bull and bear case multiples



Source: Bloomberg, RHB

Base case of 3,144 pts (11% upside). In our base case, we have assumed the forward P/E multiple stabilises at the historical average since Jan 2008, and the index earnings rebounding by 30% and 13% during 2021 and 2022. In this scenario, consumer confidence gradually builds up during 1H21 and business confidence rebounds in 2H21 as the COVID-19 vaccine becomes widely available. Singapore's economy gradually opens up to near normal state by end 2021.

Best case of 3,602 (27% upside). In our best case, we assume that the P/E multiple strengthens to 14.5x, which is +1.5SD from the historical average since Jan 2008. Index earnings growth is estimated at 26% and 18% for 2021 and 2022. In this scenario, we expect an early availability of the vaccine leading to an earlier-than-expected opening of Singapore's economy leading to higher-than-estimated travel and tourism inflows. GDP growth for 2021 would likely come in above the higher end of the current estimate of 6% provided by the Singapore Government. At 3,602 pts, the STI index would be trading close to its 5-year high.

Bear case of 2,315 (19% downside). In our bear case scenario, we assume the P/E multiple to contract to 11.0x, which is -1.5SD from the historical average since Jan 2008, and the index earnings will grow at a much slower pace of 22% and 5.5% in 2021 and 2022. In this scenario, we expect the 2021 GDP growth rate to come it closer to or lower than the current GDP growth forecast of 4% provided by the Singapore Government. 2022 GDP growth will also remain muted as it would take longer for Singapore and global economies to rein in the spread of COVID-19. At 2,315 pts, the STI Index would still trade above its 5-year low of 2,233 pts.

Valuation Comparison For Stocks Under RHB Coverage

Figure 29: RHB coverage universe (by sector)

	M Cap		Target	Upside/	1FY	P/E (x)			P/BV (x)			Yield (%)			ROE (%)		
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**
ISOTeam	34	Buy	0.21	54.4	Jun-21	7.3	7.0	6.1	1.0	0.9	1.0	2.7	2.8	19.4	14.1	14.0	16.1
ST Engineering	8,899	Buy	4.40	13.1	Dec-20	24.0	21.4	18.7	5.4	5.2	4.9	3.8	3.9	4.0	22.6	24.7	26.8
Capital Goods	**8,933**					**24.0**	**21.3**	**18.6**	**5.4**	**5.2**	**4.8**	**3.8**	**3.9**	**4.0**	**22.5**	**24.6**	**26.7**
Bumitama Agri Ltd	668	Buy	0.60	15.2	Dec-20	9.5	9.2	9.3	1.2	1.1	1.0	3.9	3.7	3.7	12.5	12.0	11.0
First Resources	1,652	Buy	1.45	8.4	Dec-20	14.1	11.8	11.6	1.4	1.3	1.2	1.8	2.1	2.1	10.4	11.4	10.7
Wilmar International	19,850	Buy	5.85	38.6	Dec-20	13.2	14.5	14.5	1.0	1.0	1.0	3.6	2.3	2.4	8.4	7.0	6.7
Golden Agri	1,481	Sell	0.13	-18.3	Dec-20	nm	33.0	35.4	0.4	0.4	0.4	0.0	0.5	0.4	-1.7	1.1	1.0
Commodities	**23,651**					**13.2**	**15.3**	**15.5**	**1.0**	**1.0**	**0.9**	**3.2**	**2.2**	**2.3**	**8.0**	**7.1**	**6.8**
Dairy Farm International	5,587	Buy	4.47	10.7	Dec-20	21.3	18.7	14.9	4.5	4.2	3.8	3.2	3.7	4.5	21.3	23.4	26.5
Food Empire Holdings	239	Buy	0.80	32.6	Dec-20	9.0	8.3	7.6	1.1	1.0	0.9	2.4	2.4	2.5	10.6	12.4	12.2
HRnet Group	412	Buy	0.52	2.0	Dec-20	13.8	12.8	12.0	1.5	1.4	1.4	3.6	3.9	4.2	11.0	11.4	11.7
Kimly Ltd	271	Buy	0.34	11.5	Sep-21	14.3	13.4	12.5	3.0	2.7	2.5	4.2	4.5	4.8	21.5	21.1	20.9
Sheng Siong Group	1,743	Buy	1.87	20.0	Dec-20	18.6	22.2	23.1	6.7	6.1	5.7	3.8	3.2	3.0	37.9	28.8	25.4
Thai Beverage	14,086	Buy	0.82	12.6	Sep-21	16.1	14.9	13.9	2.7	2.4	2.2	3.2	3.5	3.7	17.3	17.2	16.9
UnUsUaL	125	Buy	0.16	-4.2	Mar-21	54.3	39.0	31.7	2.8	2.6	2.4	0.0	0.0	0.0	5.2	6.8	7.8
Delfi Ltd	313	Neutral	0.80	18.2	Dec-20	17.0	15.8	13.6	1.3	1.3	1.3	3.3	3.2	3.3	8.0	8.4	9.4
Genting Singapore	7,578	Neutral	0.72	-15.3	Dec-20	nm	31.4	17.5	1.3	1.3	1.3	2.4	2.4	3.5	-0.1	4.2	7.4
Japan Foods Holding	45	Neutral	0.33	-5.0	Mar-21	52.8	21.5	19.9	1.9	1.8	1.8	1.4	3.0	4.1	3.6	8.7	9.2
MindChamps Preschools	51	Neutral	0.37	22.6	Dec-20	64.4	44.1	17.1	1.1	1.1	1.1	0.6	0.9	2.3	1.8	2.6	6.5
Jumbo Group	168	Sell	0.19	-42.4	Sep-21	115.7	35.1	20.6	3.8	3.6	3.3	0.0	0.2	0.5	3.3	10.5	16.8
Consumer	**30,617**					**18.5**	**20.3**	**15.5**	**2.9**	**2.7**	**2.4**	**3.0**	**3.2**	**3.7**	**14.5**	**15.5**	**16.5**
DBS Group Holdings	47,623	Buy	30.00	16.9	Dec-20	13.6	11.4	9.4	1.1	1.1	1.0	2.9	3.5	4.5	8.8	9.5	10.9
Singapore Exchange Ltd	7,353	Buy	10.30	12.9	Jun-21	21.3	21.2	20.6	7.1	6.6	6.0	3.5	3.5	3.5	35.1	32.2	30.4
Oversea-Chinese Banking Corp	33,284	Neutral	9.50	-5.9	Dec-20	14.1	11.8	10.0	0.9	0.9	0.8	3.1	3.6	4.3	6.6	7.6	8.5
United Overseas Bank Ltd	28,483	Neutral	21.00	-8.9	Dec-20	13.6	11.8	10.5	1.0	0.9	0.9	3.4	4.1	4.8	7.0	8.0	8.6
Financials	**116,743**					**14.2**	**12.2**	**10.5**	**1.4**	**1.3**	**1.2**	**3.1**	**3.7**	**4.4**	**9.4**	**10.0**	**10.9**
Riverstone	1,963	Buy	2.73	127.3	Dec-20	11.5	5.6	8.4	5.2	3.4	2.8	3.9	8.0	5.4	51.4	73.5	36.8
UG Healthcare	281	Buy	1.39	115.5	Jun-21	3.3	5.1	12.8	2.5	1.7	1.6	3.3	2.1	0.9	113.1	40.2	12.8
Gloves	**2,243**					**10.5**	**5.5**	**8.9**	**4.8**	**3.2**	**2.6**	**3.8**	**7.3**	**4.8**	**59.1**	**69.4**	**33.8**
Raffles Medical Group	1,206	Neutral	0.91	8.6	Dec-20	33.7	28.6	22.7	1.7	1.7	1.7	3.0	3.3	3.6	5.2	6.1	7.6
Talkmed Group	419	Neutral	0.49	11.4	Dec-20	26.8	23.2	22.6	6.5	6.1	5.7	2.8	3.3	3.4	25.2	27.2	26.1
Healthcare	**1,625**					**31.9**	**27.2**	**22.7**	**3.0**	**2.9**	**2.7**	**2.9**	**3.3**	**3.5**	**10.3**	**11.5**	**12.4**
Avi-Tech Electronics	54	Buy	0.52	22.4	Jun-21	11.1	10.7	10.2	1.4	1.3	1.2	5.9	5.9	5.9	12.5	12.5	12.4
Frencken Group	360	Buy	1.22	5.2	Dec-20	11.7	10.4	9.8	1.5	1.4	1.2	2.6	2.9	3.1	13.5	13.8	13.3
Fu Yu Corp	144	Buy	0.30	17.6	Dec-20	11.6	11.2	10.7	1.1	1.1	1.1	6.3	6.3	6.3	9.9	10.0	10.2
Venture Corp Ltd	4,088	Buy	22.60	19.5	Dec-20	17.8	15.9	15.5	2.1	2.0	1.9	4.0	4.0	4.0	12.0	12.9	12.6
Valuetronics Group	189	Sell	0.50	-15.3	Mar-21	8.7	11.5	11.3	1.1	1.1	1.0	5.8	4.4	4.4	13.4	9.6	9.3
Mfg. & technology	**4,834**					**16.8**	**15.1**	**14.7**	**2.0**	**1.9**	**1.8**	**4.0**	**4.0**	**4.0**	**12.1**	**12.7**	**12.4**
APAC Realty	116	Buy	0.55	24.7	Dec-20	10.9	10.8	10.4	1.0	1.0	0.9	4.6	4.6	4.8	9.5	8.9	8.7
CapitaLand	12,542	Buy	3.75	18.3	Dec-20	24.2	16.4	16.1	0.7	0.7	0.7	2.5	3.8	3.8	2.2	5.3	5.5
City Developments	5,290	Buy	9.50	18.3	Dec-20	44.4	15.5	13.7	0.7	0.7	0.7	0.6	2.2	2.5	1.6	4.6	5.0
Oxley Holdings	678	Buy	0.27	25.6	Jun-21	10.2	6.6	13.0	0.8	0.8	0.8	5.8	5.8	5.8	8.4	12.3	6.0
Centurion Corp	229	Neutral	0.41	10.8	Dec-20	10.1	8.9	7.5	0.5	0.5	0.5	3.9	3.4	4.0	5.1	5.6	6.4
Real estate	**18,855**					**29.1**	**15.6**	**15.2**	**0.7**	**0.7**	**0.7**	**2.1**	**3.4**	**3.5**	**2.3**	**5.4**	**5.4**

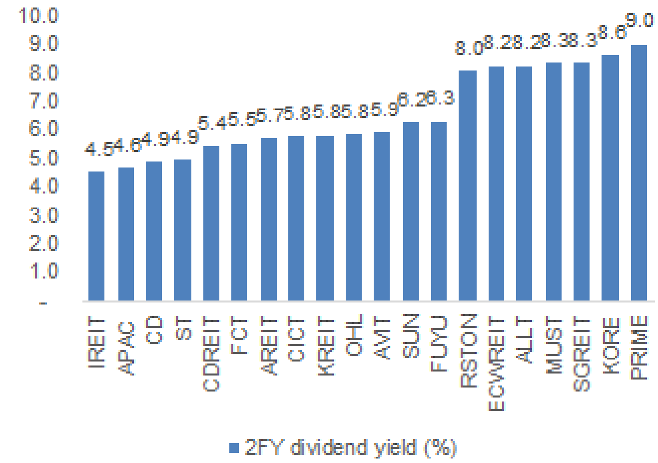
Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Figure 30: RHB coverage universe (by sector) (continued)

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
ARA Logos Logistics Trust	526	Buy	0.72	20.0	Dec-20	14.5	13.7	13.2	1.0	1.0	1.1	8.0	8.2	8.4	7.2	8.6	8.0
CDL Hospitality Trusts	1,197	Buy	1.25	-3.8	Dec-20	nm	23.9	15.8	0.9	0.9	0.9	3.1	5.4	6.3	-3.7	3.9	5.9
EC World REIT	430	Buy	0.76	6.1	Dec-20	16.8	11.9	11.8	0.8	0.8	0.8	7.4	8.2	8.4	5.0	7.0	7.0
IREIT Global	452	Buy	0.70	8.5	Dec-20	27.0	14.5	12.9	0.9	0.9	0.9	5.4	4.5	4.6	2.6	6.0	6.7
Keppel Pacific Oak US REIT	679	Buy	0.80	11.9	Dec-20	11.6	11.7	11.6	0.9	0.9	0.9	8.6	8.6	8.7	7.7	7.6	7.6
Manulife US REIT	1,179	Buy	0.90	20.8	Dec-20	47.5	13.1	10.6	1.0	1.0	1.0	8.2	8.3	8.4	2.0	7.6	9.4
Prime US REIT	830	Buy	1.00	28.2	Dec-20	19.9	13.9	11.8	0.9	0.9	0.9	8.9	9.0	9.1	4.6	6.6	7.8
Starhill Global REIT	798	Buy	0.60	25.0	Jun-21	20.1	9.4	12.1	0.6	0.6	0.6	8.1	8.3	8.4	3.0	6.4	4.9
Suntec REIT	3,127	Buy	1.79	20.9	Dec-20	70.7	17.6	15.4	0.7	0.7	0.7	5.0	6.2	6.3	1.0	4.1	4.7
Ascendas REIT	9,098	Neutral	3.00	1.0	Dec-20	18.7	17.3	16.8	1.4	1.4	1.4	5.5	5.7	5.8	7.4	8.0	8.2
CapitaLand Int. Com. Trust	10,113	Neutral	2.10	6.1	Dec-20	nm	16.9	16.3	0.9	0.9	0.9	4.5	5.8	6.0	-0.1	5.5	5.6
Frasers Centrepoint Trust	2,997	Neutral	2.40	0.1	Sep-20	16.6	18.8	0.0	1.1	1.0	0.0	5.4	5.5	0.0	6.9	6.6	6.6
Keppel REIT	2,701	Neutral	1.14	8.6	Dec-20	13.2	11.8	12.8	0.8	0.8	0.8	5.4	5.8	6.0	5.8	6.5	5.9
REITs	**34,126**					**26.3**	**16.5**	**14.0**	**1.0**	**1.0**	**0.9**	**5.4**	**6.1**	**5.8**	**3.6**	**6.4**	**6.6**
SingTel	28,206	Buy	3.10	32.5	Mar-21	19.5	17.6	16.3	1.4	1.4	1.4	4.5	4.9	4.9	7.1	7.8	8.4
StarHub	1,669	Neutral	1.30	0.8	Dec-20	16.1	16.6	15.3	3.9	3.6	3.3	3.9	3.9	3.9	25.4	22.6	22.5
Telecom	**29,876**					**19.3**	**17.6**	**16.2**	**1.5**	**1.5**	**1.5**	**4.5**	**4.9**	**4.9**	**8.1**	**8.6**	**9.1**
China Aviation Oil Singapore	682	Buy	1.25	13.6	Dec-20	13.3	10.0	9.3	0.8	0.8	0.7	3.1	1.9	2.3	6.3	8.0	8.1
ComfortDelGro	2,673	Buy	1.90	15.9	Dec-20	54.7	16.4	14.4	1.4	1.4	1.3	1.5	4.9	5.6	2.5	8.4	9.3
Transport	**3,355**					**46.3**	**15.1**	**13.4**	**1.3**	**1.2**	**1.2**	**1.8**	**4.3**	**4.9**	**3.3**	**8.3**	**9.1**

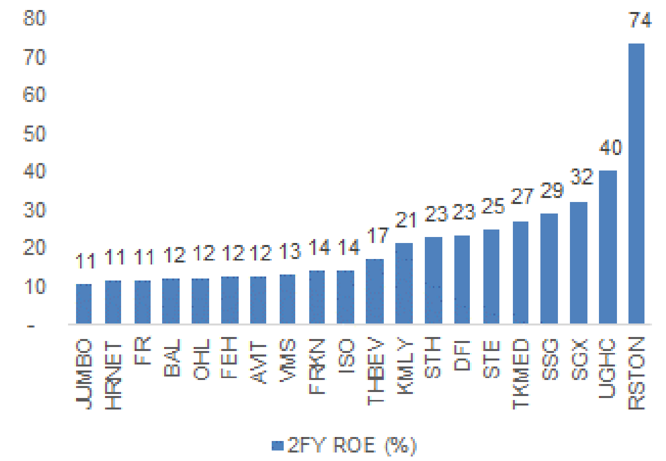
Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Figure 31: Top 20 high yield stocks under RHB coverage



Source: Bloomberg, RHB

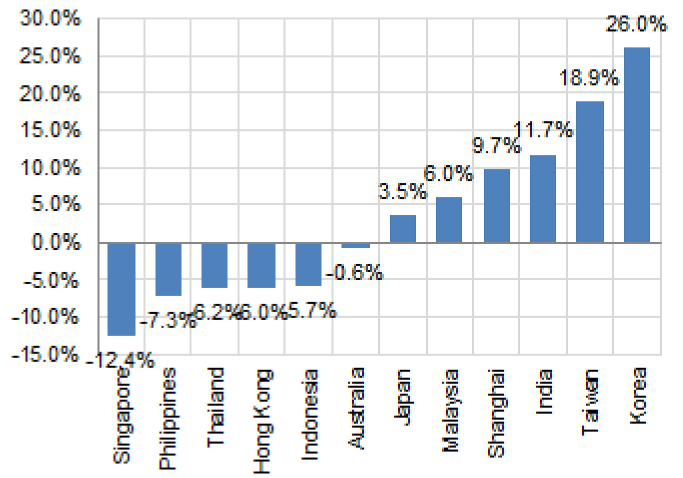
Figure 32: Top 20 ROE for stocks under RHB coverage



Source: RHB

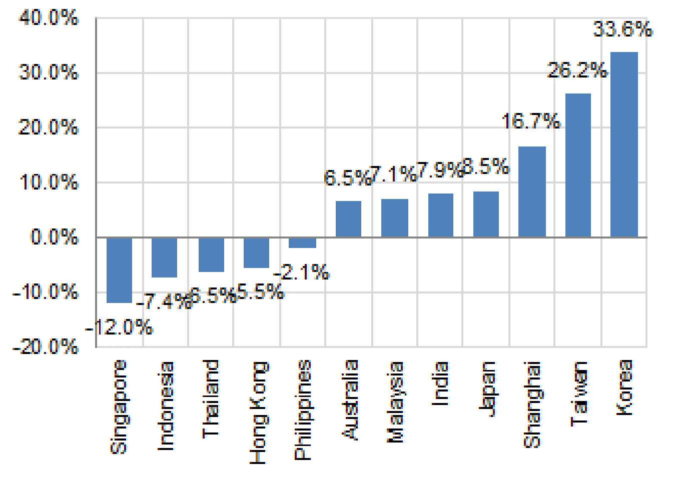
2020 Hindsight: The Year In Review

Figure 33: STI is the worst performing Asian market in LCY



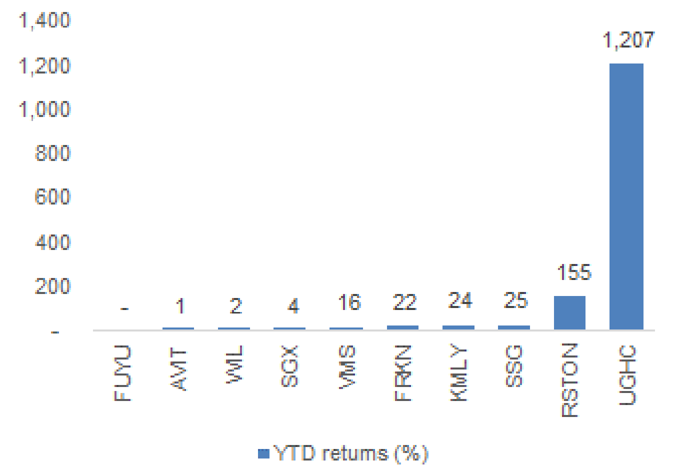
Source: Bloomberg, RHB

Figure 34: STI is the worst performing Asian market in USD



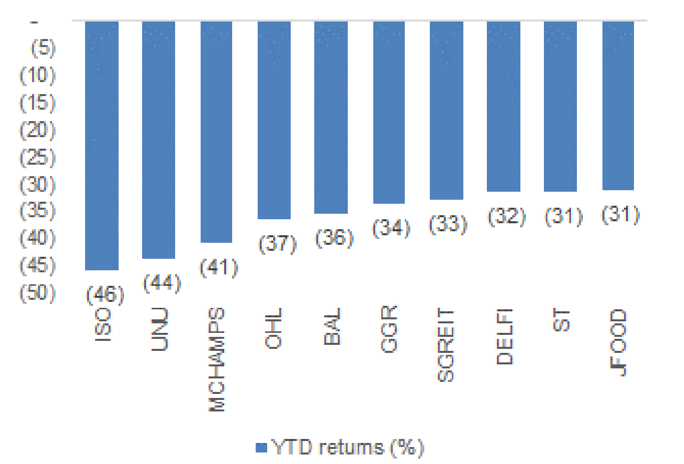
Source: Bloomberg, RHB

Figure 35: Top 10 performing stocks under RHB coverage



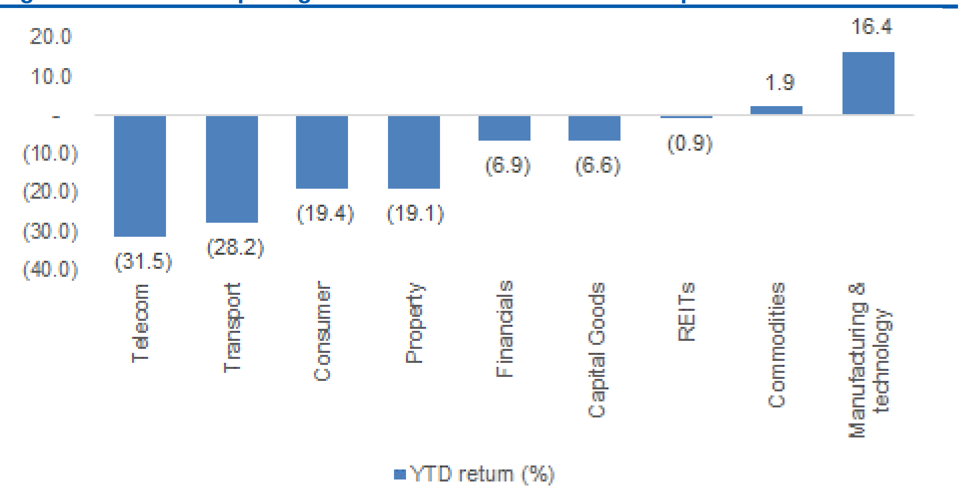
Source: Bloomberg, RHB

Figure 36: Worst 10 performing stocks under RHB coverage



Source: Bloomberg, RHB

Figure 37: Market cap weighted YTD sector returns for components of STI Index



Source: Bloomberg, RHB

Macro Outlook

Economics

Modest Recovery Within Grasp

We revise our 2021 real GDP growth forecast to 5.5% (from 5.9%; Bloomberg forecast: 5.8%). We anticipate a prolonged economic suppression especially in early 1H21, with the positive vaccine impact only to occur in late 2021.

We foresee inflation coming in at 0.7% from -0.2% in 2020 as wage growth rises moderately and disinflationary pressures from government subsidies taper off. Cost-push pressures should also bolster inflation for 2021.

We expect the Monetary Authority of Singapore (MAS) to maintain its 0% rate of appreciation for the Singapore Dollar Nominal Effective Exchange Rate (S$NEER) given the anticipated rebound in the economy and low inflation for 2021.

We revised our 2021 real GDP growth forecast to 5.5% YoY (from: 5.9% YoY)

The downward revision reflects prolonged economic suppression, especially in early 1H21, with positive vaccine impact only to occur in late 2021. This puts our 2021 forecast below Bloomberg's consensus of 5.8%. In terms of trajectory, we anticipate GDP growth to pick up in 2H21 to 5.7% from 5.4% in 1H21 as the global economy strengthens amid improved business and consumer sentiments. Our in-house assumption of mass vaccine deployment in late 2H21 should also bolster growth further.

Downside risks still persist from uncertain course of the pandemic in 1H21

Economic activities may be dampened by recurrent localised outbreaks of the virus and the re-imposition of movement restrictions. The slower-than-expected reopening of borders should hamper the pace of recovery for Singapore, particularly with the country positioned as an international travel hub. We expect the tourism- and aviation- related sectors to continue to be affected by reduced economic activity. The retail sector, which is dependent on tourism (shopping accounts for 20.4% of tourism receipts) should also see some protracted growth as domestic pent-up demand subsides. Moreover, complications surrounding the US-China trade war should also bring additional risks to 2021's growth projections

Private consumption is set to accelerate in 2021 as restrictions are eased

Mobility data, a proxy for private consumption, has so far indicated rising foot traffic in the retail sector following the relaxation of CB measures since 1 June 2020. This tallies with the gradual rise in the Retail Sales Index, an indication of consumer demand. Singapore is set to be in Phase 3 of the reopening of the economy whereby the majority of economic activities are set to resume. This would set a precedence for the mobility and retail sales indices to continue an upward trend for 1H21 and accelerate in 2H21, as Singapore further eases its restrictions.

Figure 38: Key economic forecasts

	2020E	2021F	2022F	4Q20E	1Q21	2Q21	2H21
GDP Growth (% YoY)	**(6.0)**	**5.5**	**2.6**	**(4.8)**	**(1.3)**	**12.1**	**5.7**
Contribution to GDP Growth (%)							
Private Consumption	(5.4)	3.2	1.4	(4.6)	(2.9)	8.6	3.5
Investment	(3.3)	2.9	0.5	(3.0)	(2.9)	5.9	4.2
Government Consumption	1.2	0.1	0.9	0.6	0.2	(1.2)	0.8
Net Exports	0.1	2.1	(0.5)	2.3	5.7	2.2	0.2
CPI	**(0.2)**	**0.7**	**1.0**	**(0.2)**	**0.3**	**1.0**	**0.7**
Current Account Balance (% of GDP)	**15.9**	**16.4**	**16.5**	**3.9**	**4.4**	**4.1**	**8.5**
Fiscal Balance (% of GDP)	**(15.6)**	**(1.8)**	**1.0**	**(4.7)**	**(3.6)**	**(0.2)**	**(1.7)**

Source: RHB Economics & Market Strategy

We note that despite the reopening of the economy, the labour market remains soft. We expect overall unemployment level to edge down gradually in 2021. Barring a rise in new infection waves, business sentiment should gradually improve in 1H21, which gives way to accelerated hiring activities and in return, drive consumption demand. We are expecting job opportunities in 2021 to stem from the modern-services industries such as information & communication, as well as financial and business services given the increasing demand for IT and 5G solutions. Employment in sectors related to travel and transport may be more subdued and would likely pick-up in 2H21 as travel restrictions to and from Singapore eases. Meanwhile, non-professionals, managers, executives and technicians

(PMETs) are expected to continue to struggle from high unemployment. The concentration of non-PMETs is higher in sectors that are hard-hit by the pandemic where by the pace of recovery will be slower.

For gross fixed capital formation, recovery would be driven by private residential investments and public infrastructure projects

Our base case scenario is for the dissemination of a vaccine in 2H21. This will tie in closely with the ease of resuming projects, given the expected loosening of safety measures on worksites. As such, we are only expecting investment growth to experience moderate growth in 1H21 before picking up slightly in 2H21. Projects that are in the pipeline for 2021 include public residential developments and upgrading works, developments at the Jurong Lake District, new healthcare facilities and infrastructure projects like the Cross Island MRT Line. Though still lower than pre-pandemic levels, we expect slightly stronger investment commitments in 2021, especially in 2H21, as global business sentiments improve, which translates into higher direct investments.

Real exports are set to rebound in 2021, stronger than imports

Growth will be based from a reduced base in 2020 and we expect trade growth for Singapore to be relatively modest amid segregated pace of recovery among major trading partners. Demand from Asia, in particular China, will likely be stronger compared to the US and the EU, following more effective virus containment measures. We expect to see continued robust growth in the electronics cluster as demand for semiconductor products are foreseen to stay robust. The biomedical sector should also provide support for exports, although receding slightly, given the reduced pace in demand for medical equipment and products. Higher-than-expected oil prices in 2021 may also prop up Singapore's overall trade performance.

Growth in government consumption to be modest in 2021 on the back of reduced total expenditure

Singapore has so far spent close to SGD100bn (19.9% of GDP) on COVID-19 wide-ranging support measures in FY20 and as such, most of these measures will taper off come Mar or Jun 2021. For FY21, we anticipate a moderate rise in revenue collection, particularly in 2H21, as economic conditions improve. However, total expenditure will likely be lower than FY20, albeit, historically high, as the Government will still extend targeted support measures to severely impacted sectors related to aviation, tourism, entertainment and construction. Moreover, more spending is expected on public health and job support measures as the country still continues its fight against COVID-19, aside from the soft labour market. As a result, we foresee the budget balance to register -1.8% of GDP in 2021 (2020E: -15.6% of GDP).

Current account surplus to register SGD83.1bn or 16.4% of GDP from 15.9% of GDP for 2020E

The exports performance is projected to strengthen, although still lower than pre-pandemic levels, while the relatively protracted outlook for the labour market and wages until 2H21, will see import demand rise at a more gradual pace in comparative. Primary flows will likely be affected by the performance in the business environment as well as the Government's renewed stance of tightening foreign workers' employment qualifications, will affect remittances in FY21.

For 2021, we project inflation to rise gradually

The disinflationary effects of Government subsidies introduced in 2020 would fade and result in a gradual rise in wages, as the labour market's moderate growth in 2H21, should bolster price pressures for the year. Additionally, higher oil prices would also feed into cost-push pressures.

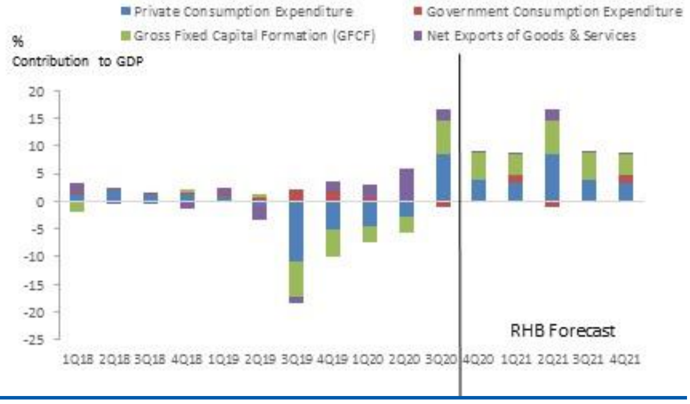
MAS to maintain 0% pa rate of appreciation of the policy band for 2021

As Singapore is anticipated to see a rebound in economic growth and low inflation for the year ahead, we believe that the neutral stance will complement the fiscal measures implemented by the Government.

Figure 39: US consumer impacts Singapore's GDP

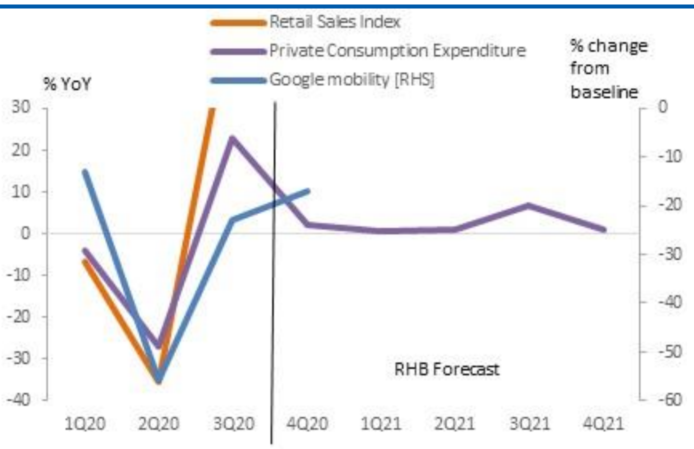
Source: CEIC, RHB

Figure 40: Private consumption and GCFC to be the main drivers for growth in 2021



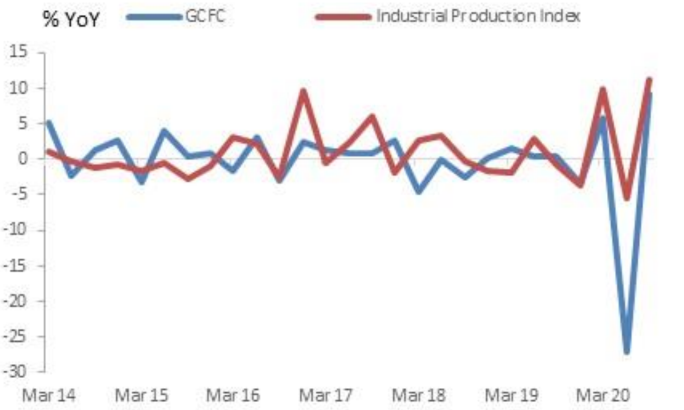
Source: CEIC, RHB

Figure 41: Mobility data indicated improving consumer sentiment after CB measures were eased



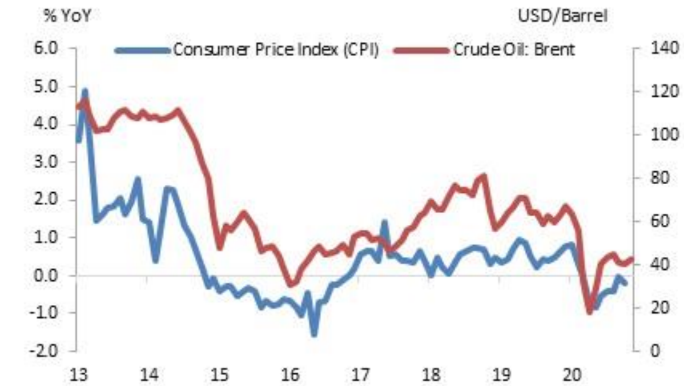
Source: Google, CEIC, RHB

Figure 42: Increasing manufacturing activities led to positive investment trend



Source: CEIC, RHB

Figure 43: Cost-push pressures to drive inflation in 2021



Source: CEIC, RHB

Figure 44: MAS^ to maintain 0% rate of appreciation for S$NEER* as the USD strengthens against the SGD

*Note: *SGD nominal effective exchange rate*

Source: ^Monetary Authority of Singapore (MAS)

FX & Rates Strategy

FX Outlook

USD macro view – gains rather than losses in 2021

2020 would be a year to remember for all the wrong reasons, lockdowns, a hotly contested Presidential Election, the China-US trade tensions and the blame game of COVID-19, but most of all it is a sad year for the millions who lost their lives to the pandemic.

Post inauguration, the USD has a tendency to appreciate significantly under a Republican President (**Figure 45**) but less so under a Democrat. In the case of President Elect Biden we believe an appreciation of the USD would occur in the first half of 2021 and a gradual flattening out in the second half of the year, which possibly reflects the market needing to readjust US interest rate expectations.

Figure 45: US Presidents and USD – first year after inauguration

The first year after inauguration

Rep	Reagan	Dollar Appreciation
Rep	Bush Sr.	Dollar Appreciation till mid year before stabilizing the USD
Dem	Clinton	Soft Dollar but very stable
Rep	Bush Jr.	Strong Dollar
Dem	Obama	Weak Dollar
Rep	Trump	Stable Dollar beginning but gradually weakened

Source: Bloomberg, Reuters, RHB Economics & Market Strategy

Figure 46: G10 & AxJ FX forecast

G10 FX	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
USD Index	91.50	92.00	92.50	93.00	93.50	94.00
EUR	1.2050	1.2000	1.1950	1.1850	1.1800	1.1750
JPY	105.00	105.50	106.00	106.50	107.00	107.50
GBP	1.3300	1.3250	1.3200	1.3150	1.3050	1.3000
CHF	0.8950	0.9000	0.9050	0.9100	0.9150	0.9200
AUD	0.7400	0.7350	0.7300	0.7250	0.7200	0.7150
NZD	0.7050	0.7000	0.6950	0.6900	0.6850	0.6800

AxJ FX	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
CNH	6.5800	6.6100	6.6400	6.6600	6.6900	6.7300
CNY	6.5900	6.6200	6.6500	6.6800	6.7100	6.7400
HKD	7.7800	7.8200	7.8500	7.8500	7.8500	7.8500
IDR	14,150	14,200	14,300	14,350	14,420	14,500
INR	74.25	74.50	75.00	75.50	75.50	76.00
KRW	1,100.50	1,110.00	1,110.50	1,150.00	1,150.00	1,150.00
TWD	28.50	28.75	29.00	29.25	29.25	29.25
MYR	4.0950	4.1050	4.1250	4.1450	4.1650	4.1800
PHP	48.25	48.50	49.00	49.00	49.50	49.50
SGD	1.3450	1.3500	1.3550	1.3600	1.3650	1.3700
THB	30.35	30.50	30.70	30.75	31.00	31.00

Source: RHB Economics & Market Strategy

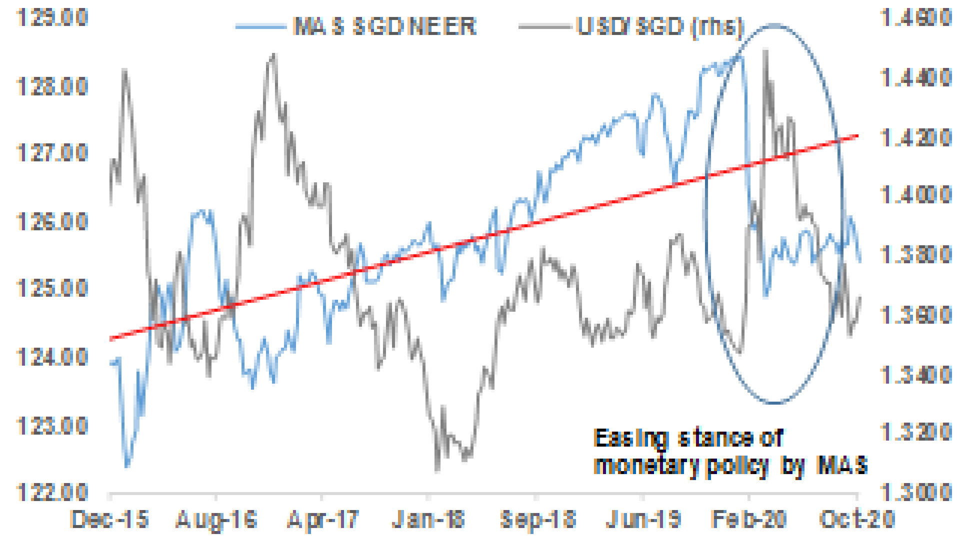
Janet Yellen's likely appointment as US Treasury Secretary is unlikely to usher in a new exchange-rate doctrine but may see more sensitivity toward the USD's global impact.

Her vast policymaking experience means few shocks are in store for markets that are already assuming she will be as much of a fiscal policy dove as she was a monetary one at the US Federal Reserve (US Fed). While US Fed policy is often the dominant determinant of the USD's exchange rate, the Treasury officially holds the reins of currency policy and would, for example, be required to sanction any explicit USD orientation one way or another or indeed any outright open market intervention to achieve the aim. The market believes Yellen may continue emphasising the role of a stable USD in domestic and global financial stability.

SGD will remain on a path that is conducive for stimulating the economy

MAS is likely to continue with its stance of keeping monetary policy on an easing bias until the economy recovers fully. Thus for 2021, we believe the SGD will remain on a path that is conducive for stimulating the economy, however given Singapore's monetary policy management is centred on the S$NEER (**Figure 47**), which we believe is weighted across its trading partners, we prefer to remain long on the SGD via relative value trades against some of its trading partners where the currency pair has the potential to flip.

Figure 47: USD/SGD and S$NEER



Source: Bloomberg, Reuters, MAS, RHB Economics & Market Strategy

Fixed Income Outlook

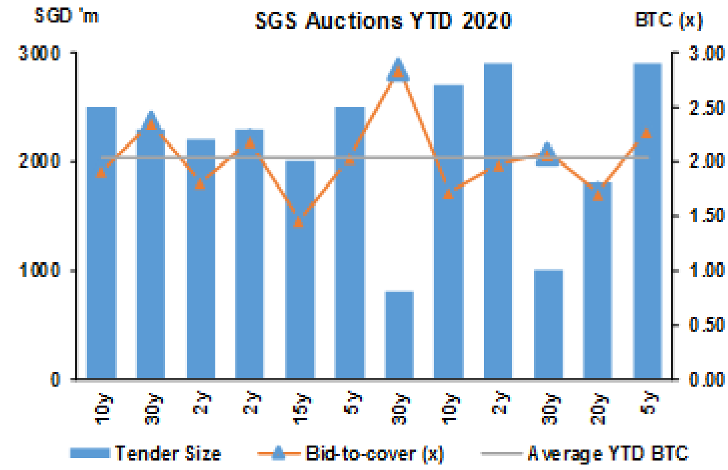
SGS issuances skewed towards long-end amid conducive funding window

Overall the Singapore Government Securities (SGS) continue to see relative good demand, with an average YTD 2.0x BTC. A closer assessment of the amount of SGS issued in 2020 suggests that issuances have been skewing towards the long-end as rates have turned accommodative providing a good issuance window to lock in on borrowing cost. From the total amount issued in 2020, the longer dated 30-year SGS was issued three times, with combined issued size of SGD4.1bn, which is c.16% of total SGD25.9bn issued in 2020.

Mini auction (reopenings) sizes to increase to SGD1.5bn to boost liquidity

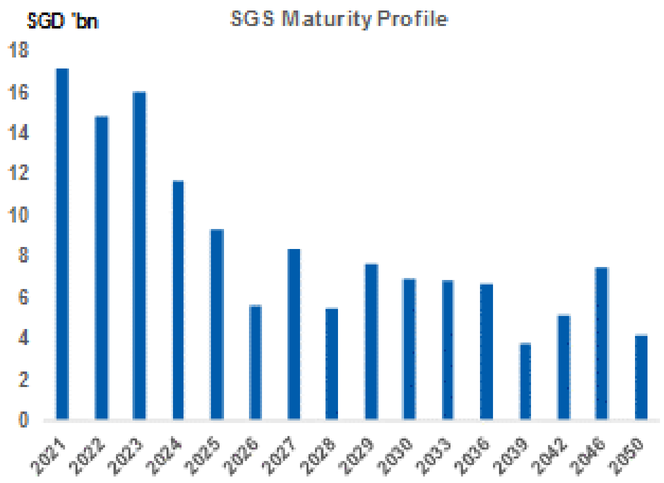
Following the stable growth of the SGS market, MAS in November announced the issuance plan for 2021 to increase sizes of mini auctions from SGD1-1.5bn for the coming year. Mini auctions are mainly reopenings of existing benchmarks. Planned mini auctions with increased sizes are poised to increase the liquidity of existing benchmarks as a larger outstanding size is expected to boost liquidity further and hence better demand. Mini auctions are efforts by MAS to ensure healthy demand-supply dynamics during periods of higher demand for SGS papers. We expect such enhancements by MAS to help boost liquidity for the SGS market further. On balance, the SGS market remains healthy with an average YTD 2.0x BTC suggesting domestic liquidity remains amply supported although pent-up demand has resulted in SGS yields to gravitate lower.

Figure 48: SGS demand stayed healthy with YTD 2x BTC average



Source: Bloomberg, RHB Economics and Market Strategy

Figure 49: SGS maturity profile

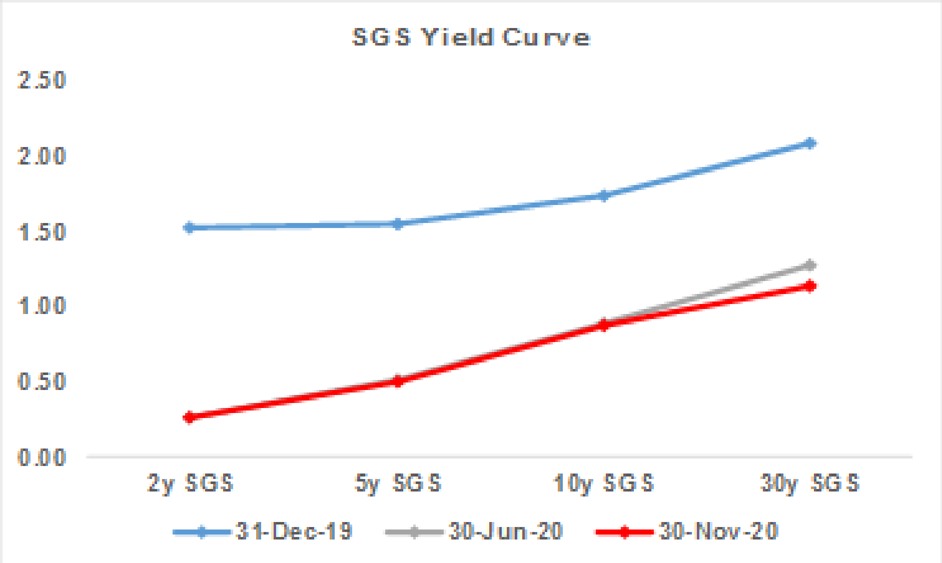


Source: Bloomberg, RHB Economics and Market Strategy

Issuances in 2021 to skew towards the belly of curve

Issuance supply in 2021 to skew towards the belly of the curve given the lumpy maturity profile on the short-ends, with SGS maturities less than 3-years of c.SGD47.9bn or 35% of outstanding SGS size. In the coming year, the planned SGS Auction Calendar for 2021 will feature a total of 10 auctions with two scheduled mini auctions. Long-dated issuances comprising of 15 years, 20 years and 30 years will have one auction each. The remaining auctions are skewed toward the 2-year, 5-year and 10-year issuances, with frequency of two, three and two auctions respectively. The current outstanding size of the SGS market is around SGD136.3bn, with the central bank currently holding about 8.0% of total outstanding size.

Figure 50: SGS curve stayed supported on an accommodative stance



Source: Bloomberg, RHB Economics and Market Strategy

Sector Outlook

Figure 51: Sector valuation comparison

Sector name	Rating	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
Capital goods	OW	24.0	21.3	18.6	5.4	5.2	4.8	3.8	3.9	4.0	22.5	24.6	26.7
Consumer	OW	18.5	20.3	15.5	2.9	2.7	2.4	3.0	3.2	3.7	14.5	15.5	16.5
Gloves	OW	10.5	5.5	8.9	4.8	3.2	2.6	3.8	7.3	4.8	59.1	69.4	33.8
Mfg. & technology	OW	16.8	15.1	14.7	2.0	1.9	1.8	4.0	4.0	4.0	12.1	12.7	12.4
Real estate	OW	29.1	15.6	15.2	0.7	0.7	0.7	2.1	3.4	3.5	2.3	5.4	5.4
REITs	OW	26.3	16.5	14.0	1.0	1.0	0.9	5.4	6.1	5.8	3.6	6.4	6.6
Transport	OW	46.3	15.1	13.4	1.3	1.2	1.2	1.8	4.3	4.9	3.3	8.3	9.1
Commodities	N	13.2	15.3	15.5	1.0	1.0	0.9	3.2	2.2	2.3	8.0	7.1	6.8
Financials	N	14.2	12.2	10.5	1.4	1.3	1.2	3.1	3.7	4.4	9.4	10.0	10.9
Telecom	N	19.3	17.6	16.2	1.5	1.5	1.5	4.5	4.9	4.9	8.1	8.6	9.1
Healthcare	NR	31.9	27.2	22.7	3.0	2.9	2.7	2.9	3.3	3.5	10.3	11.5	12.4

Note: Prices are as at 4 Dec 2020. Market cap weighted averages for stocks under RHB Coverage
Source: Bloomberg, RHB

Commodities (Plantations) – NEUTRAL

(Singapore Research, sg.research@rhbgroup.com)

Figure 52: Sector comparison – plantations

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
Bumitama Agri Ltd	668	Buy	0.60	15.2	Dec-20	9.5	9.2	9.3	1.2	1.1	1.0	3.9	3.7	3.7	12.5	12.0	11.0
First Resources	1,652	Buy	1.45	8.4	Dec-20	14.1	11.8	11.6	1.4	1.3	1.2	1.8	2.1	2.1	10.4	11.4	10.7
Wilmar International	19,850	Buy	5.85	38.6	Dec-20	13.2	14.5	14.5	1.0	1.0	1.0	3.6	2.3	2.4	8.4	7.0	6.7
Golden Agri	1,481	Sell	0.13	-18.3	Dec-20	nm	33.0	35.4	0.4	0.4	0.4	0.0	0.5	0.4	-1.7	1.1	1.0
Commodities	**23,651**					**13.2**	**15.3**	**15.5**	**1.0**	**1.0**	**0.9**	**3.2**	**2.2**	**2.3**	**8.0**	**7.1**	**6.8**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

CPO is likely to stay above MYR3,000 per tonne until 1Q21

CPO prices rose to new highs of MYR3,600 per tonne beginning December. We believe the increase was likely due to three main reasons – the anticipated weakness in Malaysian output; the continued buoyancy of soybean prices on the back of weather disruptions; and the recovery of crude oil prices. Malaysian peak CPO output was a disappointment, as YTD-production has fallen by 4%, resulting in a 3-year low in inventory. Soybean prices have risen 40% over the last five months, up 16% in the last month alone. In addition, we also saw Brent crude oil prices recover 23% over the last one month to the current price of USD47.00 per bbl. Given the buoyancy of prices, the CPO price average for 2020 may come in slightly above our projected MYR2,600 per tonne, given YTD-prices of MYR2,700 per tonne and our expectation that CPO prices are likely to remain above the MYR3,000 per tonne mark for the rest of the year.

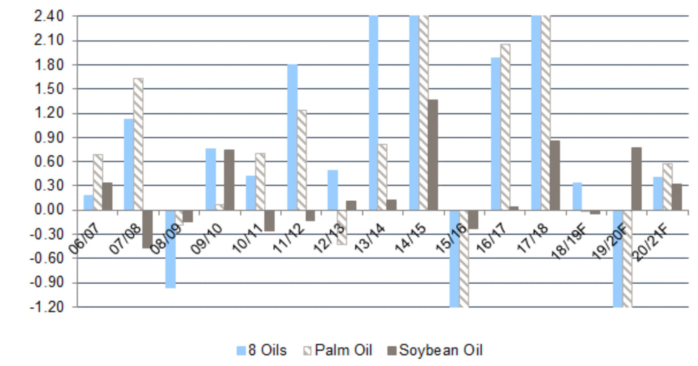
We believe the question mark however remains on the sustainability of prices, going into 2021

Although we expect CPO prices to remain buoyant into 1Q21, on the back of low cropping season, we believe prices could moderate from late-2Q21 and into 2H21. We currently assume CPO prices at MYR2,650 per tonne for 2021, which would mean average prices would be slightly lower YoY vs 2020. This ties in with the anticipated recovery of palm oil production in 2021, after a low-yielding tree stress year in 2020. Oil World now expects palm oil output to rise by 6% (or 4.4m tonnes) in 2021. This is higher than USDA's projection of a 3.3% (or 2.4m tonne) increase. With this, Oil World projects stock/usage ratio for palm oil to rise in 2021 to 16.8% (from 16.4% in 2020).

Balanced supply and demand numbers in 2021

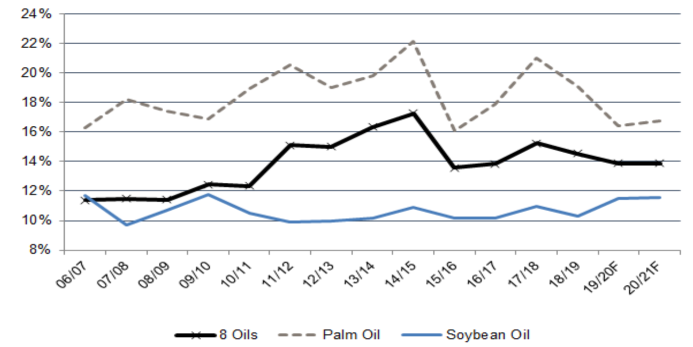
Overall, based on latest forecasts by Oil World and USDA, supply and demand of vegetable oils and CPO are expected to be relatively balanced in 2021, on the assumption that production returns to relative normalcy, while demand also recovers post-COVID-19 gradually. Based on latest Oil World numbers, both the 17 oils & fats, and 8-vegetable oil complex are expected to see declines in stock-to-usage ratios in 2021, while the 10 oilseed complex is expected to post a slight increase, due to the bumper soybean crop anticipated from the US. However, we note that CPO and SBO are expected to see slight increases in their respective stock/usage ratios in 2021, as they are in small surplus positions. Assuming these numbers are correct, this could potentially indicate that CPO and SBO prices should see slightly lower YoY average prices in 2021

Figure 53: Small surplus of eight oils, SBO and CPO in 2021



Source: Oil World

Figure 54: CPO stock/usage ratio is on an uptrend in 2021



Source: Oil World

… However, this is assuming the three wild cards do not eventuate. We believe there are three major swing factors that could determine the price direction of CPO in 2020 – soybean prices (which tie in with weather issues), crude oil prices (which tie in with COVID-19) and labour issues in Malaysia.

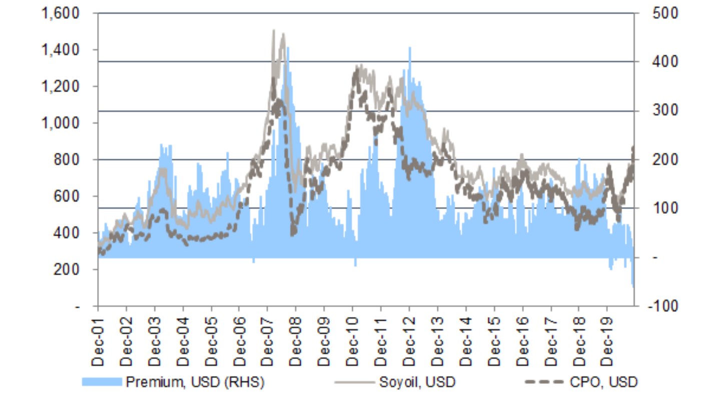
i. **Direction of soybean price.** A lot of the recent CPO price spike was due to the rise in soybean prices, driven by weather-related issues in the US, on *La Niña* conditions. According to climate models, this moderate *La Niña* is expected to peak in December and persist through 1Q21. While *La Niña* typically does not have a significant impact on CPO output, it can and has affected soybean output in the Northern Hemisphere thus far. We note that both USDA and Oil World have reduced their soybean crop forecasts for 2021 to reflect a 7-8% YoY rise (from a 19-21% rise a month ago), with US crop estimates cut by 3-4m tonnes. While crop estimates for South America are relatively unchanged thus far, should *La Niña* worsen and affect the planting (November/December) and flowering (1Q21) season, soybean supply could be tighter than expected in 2021. This would result in a further increase in soybean prices, and therefore CPO prices in the medium term. Currently, South America is still expected to see a 3-5% YoY increase in soybean output in 2021, while global output is projected to rise 7--8% YoY.

   Nevertheless, it is worth highlighting that given the rise in prices of both CPO and SBO, CPO is now trading at premium of USD13.00 per tonne to SBO (vs historical average of USD100.00 per tonne discount) – meaning CPO is no longer competitively priced, particularly to price-sensitive countries like China, India and Pakistan. The resulting demand degradation could temper with the rise in CPO prices, as CPO prices would need to fall by a larger amount vs SBO, in order to look attractive again.

ii. **The direction of crude oil** prices will play a significant role in Indonesia's biodiesel mandate adherence in 2021. For 2020, the B30 mandate has been reduced to 6.9m tonnes (8.16m kilolitres) from 8m tonnes (9.6m kilolitres). Assuming COVID-19 is under control in 2021, biodiesel mandate should be at 8m tonnes. With the positive Palm Oil-Gasoil (POGO) spread of USD59.60 per barrel (USD437.00 per tonne) currently, execution is in question given the lack of funds in the biodiesel fund. The Indonesian Government is, however, committed to making it work and has just raised the export levy by USD15.00 per tonne for every USD25.00 per tonne increase in CPO prices above USD670.00 per tonne (from the current USD55.00 per tonne). This change takes effect from 10 Dec. For 2020, based on the current POGO spread, we estimate that the biodiesel fund will only be able to subsidise c.6.8m tonnes, slightly short of target. For 2021 however, after imputing the new levy rate, our in-house assumptions of CPO price of MYR2,650 per tonne and crude oil price of USD51.00 per barrel, we believe the B30 mandate will be able to be met fully. Even based on current CPO prices and the current POGO spread, the biodiesel mandate should be able to be met, based on our estimates. Nevertheless, should the biodiesel mandate not be met, demand destruction will happen, and CPO prices will be negatively affected.

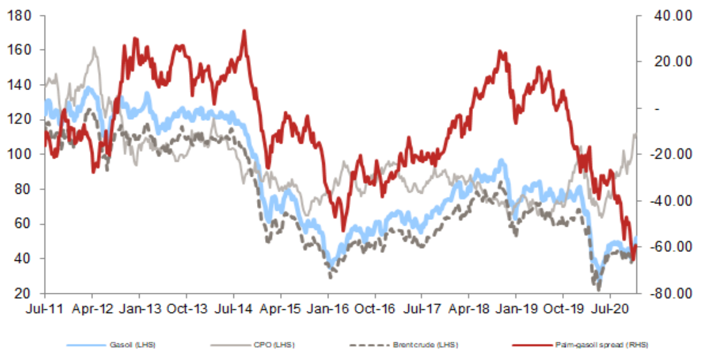
Labour issues in Malaysia and its impact on output. Although Malaysia is not the largest palm oil producer globally, CPO prices generally react to Malaysian statistics released monthly. Based on current estimates, Malaysian CPO is expected to rise 4-6% next year, while Indonesia's output is expected to rise 2-3%. However, if the foreign labour policy is unchanged in 2021, and foreign workers are still not allowed to come in to replace those that have left/will leave, this could result in a labour shortage as high as 20-30%. This could trigger a drop in productivity and stock levels in Malaysia, therefore buoying CPO prices further.

Figure 55: CPO is now trading at USD13.00/tonne premium to SBO



Source: Bloomberg, RHB

Figure 56: POGO spread at –USD59.60/bbl



Source: Bloomberg, RHB

The main risks to our outlook include significant changes in the crude oil price trend; weather abnormalities resulting in an oversupply or undersupply of vegetable oils; significant changes in the demand for vegetable oils; and COVID-19 pandemic worsening. An additional risk, which is becoming more prevalent now, relates to ESG issues, particularly labour issues that have been highlighted of late. We believe despite most companies following the International Labour Organisation Core Conventions and the Free and Fair Labour Principles for Palm Oil, it is extremely difficult to monitor large numbers of workers in the field, given flawed human behaviour. As such, the risk of more ESG issues being brought to the forefront is something that could also cause negative share price movement.

We maintain our NEUTRAL call on the sector. In our price forecasts, our base case assumption is for the three wild cards not eventuating, and that global supply and demand dynamics would be relatively balanced for 2021. Our CPO price assumptions of MYR2,650 per tonne for 2021 and MYR2,600 per tonne for 2022 are unchanged. We highlight that in the current export tax and levy scenario in Malaysia and Indonesia, integrated Indonesian planters would stand to benefit more from the current elevated CPO prices. As such, we reiterate our top BUY recommendations of Wilmar International and First Resources in Singapore, although Bumitama Agri is also a BUY on valuation.

Consumer – OVERWEIGHT

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Figure 57: Sector comparison – consumer

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
Dairy Farm International	5,587	Buy	4.47	10.7	Dec-20	21.3	18.7	14.9	4.5	4.2	3.8	3.2	3.7	4.5	21.3	23.4	26.5
Food Empire Holdings	239	Buy	0.80	32.6	Dec-20	9.0	8.3	7.6	1.1	1.0	0.9	2.4	2.4	2.5	10.6	12.4	12.2
HRnet Group	412	Buy	0.52	2.0	Dec-20	13.8	12.8	12.0	1.5	1.4	1.4	3.6	3.9	4.2	11.0	11.4	11.7
Kimly Ltd	271	Buy	0.34	11.5	Sep-21	14.3	13.4	12.5	3.0	2.7	2.5	4.2	4.5	4.8	21.5	21.1	20.9
Sheng Siong Group	1,743	Buy	1.87	20.0	Dec-20	18.6	22.2	23.1	6.7	6.1	5.7	3.8	3.2	3.0	37.9	28.8	25.4
Thai Beverage	14,086	Buy	0.82	12.6	Sep-21	16.1	14.9	13.9	2.7	2.4	2.2	3.2	3.5	3.7	17.3	17.2	16.9
UnUsUaL	125	Buy	0.16	-4.2	Mar-21	54.3	39.0	31.7	2.8	2.6	2.4	0.0	0.0	0.0	5.2	6.8	7.8
Delfi Ltd	313	Neutral	0.80	18.2	Dec-20	17.0	15.8	13.6	1.3	1.3	1.3	3.3	3.2	3.3	8.0	8.4	9.4
Genting Singapore	7,578	Neutral	0.72	-15.3	Dec-20	nm	31.4	17.5	1.3	1.3	1.3	2.4	2.4	3.5	-0.1	4.2	7.4
Japan Foods Holding	45	Neutral	0.33	-5.0	Mar-21	52.8	21.5	19.9	1.9	1.8	1.8	1.4	3.0	4.1	3.6	8.7	9.2
MindChamps Preschools	51	Neutral	0.37	22.6	Dec-20	64.4	44.1	17.1	1.1	1.1	1.1	0.6	0.9	2.3	1.8	2.6	6.5
Jumbo Group	168	Sell	0.19	-42.4	Sep-21	115.7	35.1	20.6	3.8	3.6	3.3	0.0	0.2	0.5	3.3	10.5	16.8
Consumer	**30,617**					**18.5**	**20.3**	**15.5**	**2.9**	**2.7**	**2.4**	**3.0**	**3.2**	**3.7**	**14.5**	**15.5**	**16.5**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Consumption in the post-COVID-19 world

We prefer staple foods companies with exposure to domestic recovery play

Consumer companies with exposure to the reopening of domestic activities – such as those in retail and food & beverage (F&B) services – should see some earnings recovery in 2021F, from the low base in 2020. Local demand would also be supported by an increase in savings arising from travel restrictions, pent-up demand, and consumers becoming more accustomed to distancing themselves from COVID-19 risks. Furthermore, many firms that have restructured their opex to make it more variable – achieved through higher gross turnover (GTO) rentals and lower base rental rates, as well as using more casual labour. These initiatives would mitigate the sharp rise in expenses, when revenue increases.

Cautious on tourism-related names

We remain cautious on companies that are heavily dependent on tourism such as Genting Singapore (GENS SP, NEUTRAL, TP: SGD0.72) and Jumbo Group (JUMBO SP, SELL, TP: SGD0.19). These firms may see some uptick in revenue for 4Q20 and 1Q21, on the back of holidays and festive demand. However, we believe the recovery in tourist numbers over the next 12 months is likely to be slow – due to the uncertainty on the mass distribution of the COVID-19 vaccine. The continued resurgence of COVID-19 infections across the globe in recent months and the deferment of the travel bubble between Singapore and Hong Kong are signs that the reopening of borders and resumption of air travel are likely to remain patchy.

Some stay-at-home trends to prevail after the pandemic

On the other hand, businesses that have benefited from lockdowns and the stay-at-home trend should see earnings moderate in 2021, as consumers transit into a post-COVID-19 world. Nonetheless, we note that COVID-19 has triggered some lasting trends that may continue even after the pandemic has been tamed – such as work-from-home (WFH), healthier lifestyles, and a greater emphasis on home entertainment. This could result in structural changes to consumption patterns. As such, businesses that did well during the lockdowns may continue to see elevated demand, compared to pre-COVID-19 days – even as sales taper down from the lockdown periods. Sub-sectors such as e-commerce, home furnishing, sports & recreational retail, online entertainment, as well as grocery retail are potential beneficiaries.

Key earnings drivers

Overall, we expect broad-based earnings recovery in the consumer sector. This should be driven by: 1) pent-up demand; 2) economic recovery; 3) rising consumer confidence; and 4) improvement in operational and cost efficiencies.

Key risks

Slower-than-expected economic recovery, prolonged restrictive measures as a result of the COVID-19 pandemic, and a resurgence of COVID-19 infections are key downside risks to our sector outlook.

Top Pick: Thai Beverage

Thai Beverage (Thaibev) is our Top Pick for the sector in 2021F.

We like its earnings defensiveness – derived from the spirits segment – coupled with the potential recovery play from its exposure to on-premise consumption through its beer, non-alcohol beverages (NAB) and restaurant segments.

Thaibev's spirits segment caters largely to off-premise local consumption, and has wide exposure to the upcountry region. Therefore, it is less impacted by social distancing restrictions caused by COVID-19 and the protests in Bangkok. In its FY20 (Sep) results, where sales volume of its spirits remained stable, while earnings grew 15% YoY.

Moving into 2021, we believe the company could stand to benefit from the resumption of social and economic activities, as sales of beer, non-alcohol beverages and products for the restaurant segment should pick up when on-premise consumption of its drinks picks up (post-COVID-19). Thaibev's ability to keep advertising and promotional expenses under control amidst rising economic activities would bring about further upside. The stock is trading at 16x FY21F P/E, -1SD from the 5-year P/E mean. We believe this valuation is undemanding, given the company's resilient earnings amidst challenging times.

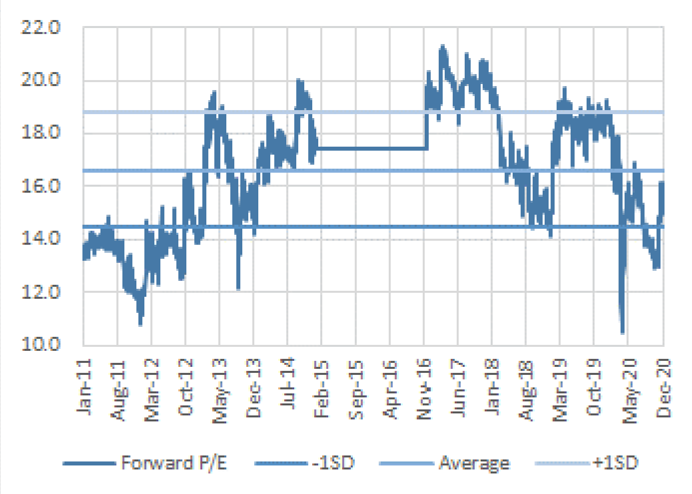
We continue to like Sheng Siong

The retailer of grocery staples, for its sustained high GPM, operational efficiencies, and high FCF generation. However, we note that investor interest on grocery retailers has moderated, after the lockdown period ended and positive news on vaccine development emerged. That said, if the WFH trend and travel restrictions remain in place moving into late 2021, Sheng Siong's sales may remain buoyed, if not, exceed levels recorded prior to the pandemic – which should bring about an upside surprise. Potential privatisation or a collaboration with giant e-commerce players could be a key rerating catalyst in long run.

Dairy Farm's valuation is undemanding

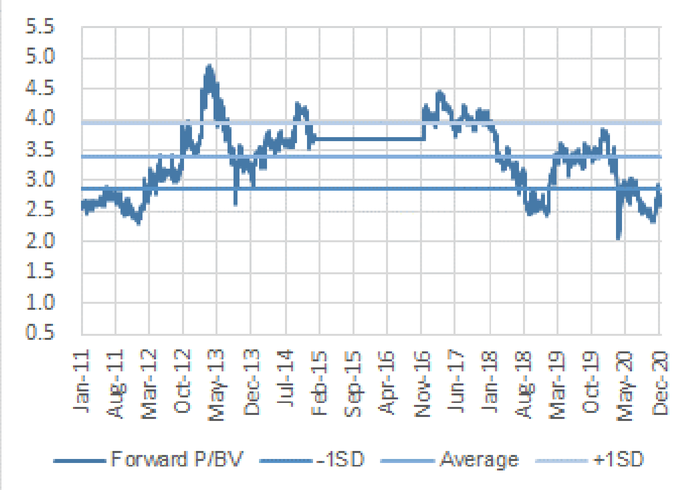
It is trading at 19x FY21F P/E (historical average: 24x P/E). The continued wave of COVID-19 infections in Hong Kong is likely to weigh down Dairy Farm's near-term prospects, as this would affect the recovery of its health & beauty division, as well as the restaurant segment. Nonetheless, we think its current valuation presents a good opportunity for long-term accumulation – especially given the positive news on vaccine development.

Figure 58: Thaibev's forward P/E



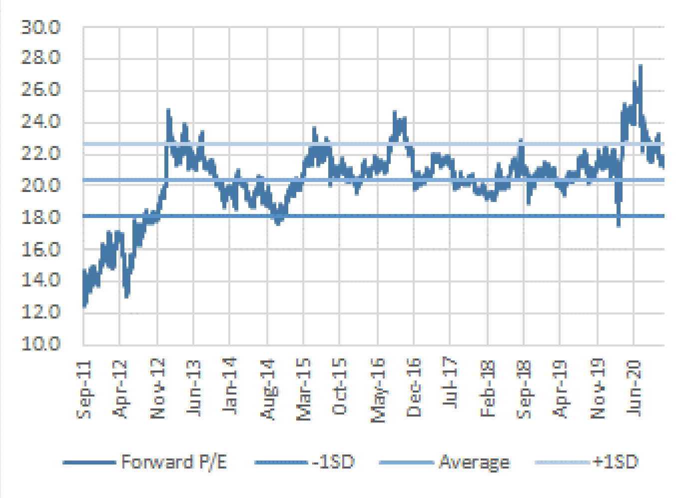
Source: Company data, RHB

Figure 59: Thaibev's forward P/BV



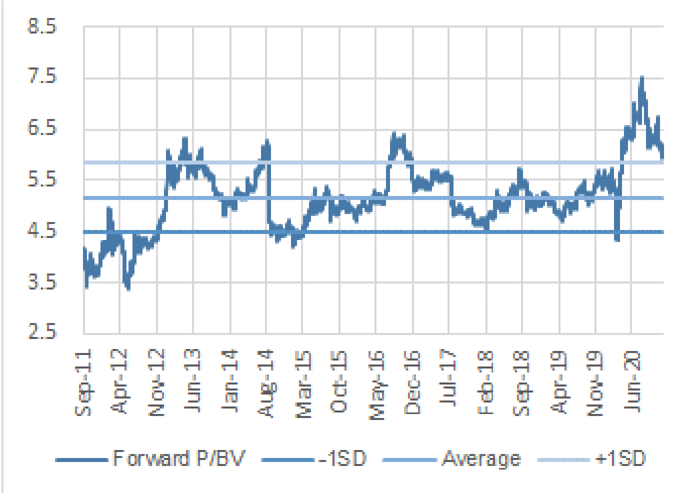
Source: Company data, RHB

Figure 60: Sheng Siong's forward P/E



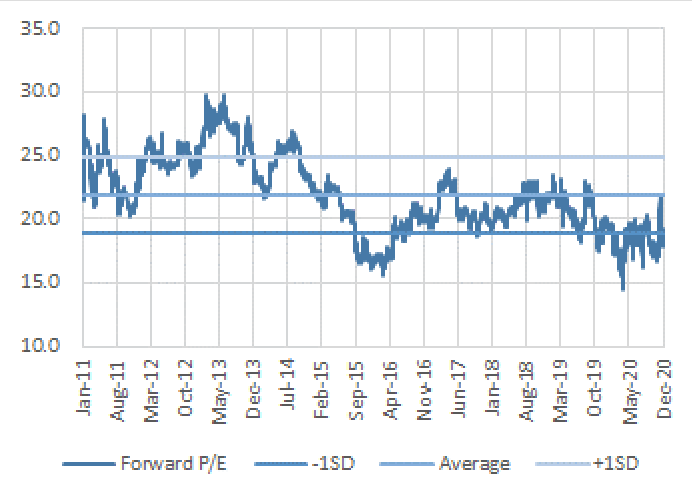
Source: Company data, RHB

Figure 61: Sheng Siong's forward P/BV



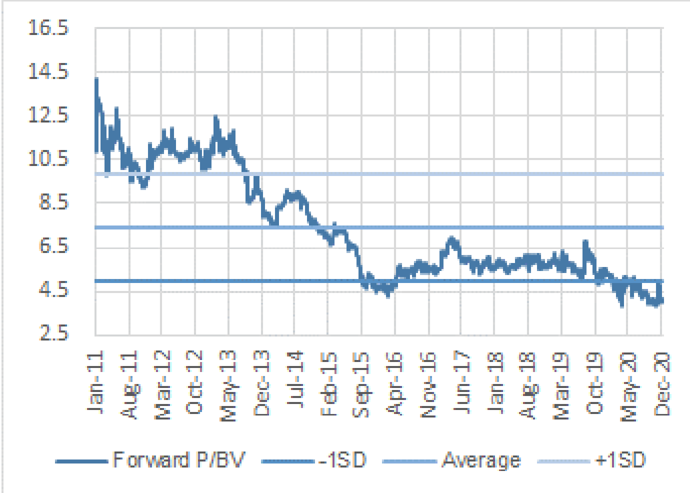
Source: Company data, RHB

Figure 62: Dairy Farm's forward P/E



Source: Company data, RHB

Figure 63: Dairy Farm's forward P/BV



Source: Company data, RHB

Financials – NEUTRAL

(Singapore Research, sg.research@rhbgroup.com)

Figure 64: Sector comparison – financials

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
DBS Group Holdings	47,623	Buy	30.00	16.9	Dec-20	13.6	11.4	9.4	1.1	1.1	1.0	2.9	3.5	4.5	8.8	9.5	10.9
Singapore Exchange Ltd	7,353	Buy	10.30	12.9	Jun-21	21.3	21.2	20.6	7.1	6.6	6.0	3.5	3.5	3.5	35.1	32.2	30.4
Oversea-Chinese Banking Corp	33,284	Neutral	9.50	-5.9	Dec-20	14.1	11.8	10.0	0.9	0.9	0.8	3.1	3.6	4.3	6.6	7.6	8.5
United Overseas Bank Ltd	28,483	Neutral	21.00	-8.9	Dec-20	13.6	11.8	10.5	1.0	0.9	0.9	3.4	4.1	4.8	7.0	8.0	8.6
Financials	**116,743**					**14.2**	**12.2**	**10.5**	**1.4**	**1.3**	**1.2**	**3.1**	**3.7**	**4.4**	**9.4**	**10.0**	**10.9**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Stay NEUTRAL on SG banks

SG banks are expected to emerge from a challenging year in 2020 with a 19% recovery in aggregate net profit, lifting sector ROE to 8.4% in FY21F (FY20F: 7.5%). NPLs are expected to rise further in 2021 as relief programmes expire but frontloading of provisions in 2020 should mean lower credit costs in the year ahead. Positive news on COIVID-19 vaccines saw SG banks rise a sharp 13%, with sector P/BV reverting to 1.1x from a low of 0.8x in Apr 2020. Vaccine-induced optimism will likely support further rotation into cyclical stocks, but risks from an uneven economic recovery and lingering impact from the pandemic point to a need to stick with banks with high provision buffers and robust capital. Our BUYs for financial services are DBS (DBS SP, BUY, TP: SGD30.00) and Singapore Exchange (SGX SP, BUY, TP: SGD10.30).

Bank earnings to recover 19%; ROE at 8%

The pick-up in 3Q20 operating income, we believe, can be sustained going into 2021. Economic activities are regaining momentum since the lifting of COVID-19 lockdown measures, while positive news on vaccine developments would help restore confidence. Our forecasts point to a 19% YoY rise in FY21F sector net profit with the recovery led mainly by the 36% YoY decline in net impairment charges. Credit cost is projected to decline to 44bps from 74bps in FY20F, but remains elevated against the 17-22bps in FY18-19. PIOP is expected to be flattish dampened mainly by the tail-end effect from interest rate cuts.

For FY20F, sector earnings are estimated to fall 31% YoY impacted mainly by the 226% YoY jump in net impairment charges as banks set aside additional provisions for adjustments of macroeconomic variables (MEV) used in the Expected Credit Loss (ECL) model and pre-emptive management overlay.

Asset quality to hold up well

Varying loan moratorium and repayment assistance programmes across the region have resulted in low visibility on asset quality. Loans under relief programmes at DBS and OCBC (OCBC SP, NEUTRAL, TP: SGD9.50) stood at c.5% at end-Sep 2020, while UOB (UOB SP, NEUTRAL, TP: SGD21.00) had a higher 10% due to its bigger exposure to Malaysia.

With sector NPLs rising 7.8% YTD-Sep 2020 (2019: +2.2% YoY) due to the economic downturn, we have conservatively assumed NPLs would be up a sharper 15% YoY by end-2020 and increase a further 19% in FY21F. Still, NPL ratio would remain benign at 1.64% in FY20F (FY19: 1.49%) and 1.87% in FY21F. The additional provisions boosted LLR to a high of 104.7%, and will stay comfortable at 99.7% in FY21F.

In the 3Q20 results season, UOB lowered its credit cost guidance to 30-40bps (from 60bps) for FY21F, citing optimism that asset quality will be better than anticipated. On the flipside, DBS and OCBC maintained their 2-year credit cost guidance – SGD3-5bn impairment charges for DBS and 100-130bps for OCBC (with lower end of range being the more likely outcome). DBS and OCBC remained cautious, concerned over recovery in the real economy and borrowers' repayment behaviour post-moratorium.

NIM has stabilised, no recovery in sight yet

Short-term rates in Singapore bottomed in mid-Jun 2020 and have stabilised since Sep 2020. Reflecting expectations that short-term rates would likely remain steady, banks indicated that 3Q20 exit NIM can be sustained in 4Q20. For 9M20, SG banks' average NIM compressed by c.20bps YoY to 1.63% on the 137bps YTD decline in the Singapore Interbank Offered Rate (SIBOR) and the Swap Offer Rate (SOR). To support NIM, banks have been gradually lowering deposit rates as well as working to reduce some of the excess liquidity built up from the robust deposit growth seen in 2020. We believe these efforts would help support NIM from a further decline in 2021.

Loan growth stable

We expect sustained loan demand in 2021 underpinned by the recovery in economic activities. Sector loans are projected to expand by 4.7% in 2021F, relatively stable against the estimated growth of 5.0% for 2020F. We believe the increase would be led by lending to businesses while demand for mortgages remains soft. Of the three banks, DBS and UOB are expected to achieve loan growth of c.5% YoY, while OCBC is forecasted to grow its loans at a lower clip of 3.3% YoY.

Healthy fee income growth, moderated by lower investment trading gains

Fee income is expected to grow at a healthy 9% YoY in 2021F, driven by continued growth in fees from wealth management and transaction banking. Still, this will be moderated by lower investment and trading gains, resulting in a modest 2% YoY rise in non-II.

Entry of digital banks

On 4 Dec 2020, MAS announced the award of four licences for digital banks. For the Digital Full Bank – a consortium comprising Grab Holdings Inc, Singtel (ST SP, BUY, TP: SGD3.10), and Sea Ltd. For Digital Wholesale Bank (DWB) – a consortium comprising Greenland Financial Holdings Group Co Ltd, Linklogis Hong Kong Ltd, Beijing Co-operative Equity Investment Fund Management Co. Ltd, and Ant Group Ltd. MAS expects the new digital banks to commence operations from early 2022. We believe these new entrants will not pose a significant threat to incumbent banks. Over the past few years, SG banks have been investing to digitalise their operations and rollout digital offerings. Furthermore, the digital banks are to deliver financial services for the currently underserved businesses and individuals such as small medium enterprises, start-ups, gig workers and millennials.

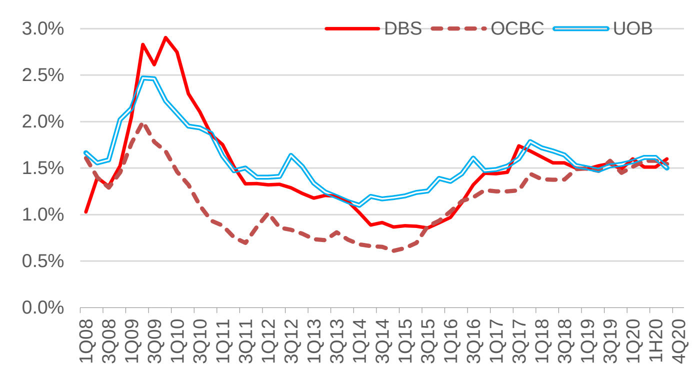
Key risks to our sector view

Delays in the general availability of COVID-19 vaccines and a resurgence in new cases could derail economic recovery in 2021. Prolonged period of slow business activities would exert pressure on asset quality. Conversely, upside risks will likely come from a stronger-than-expected GDP growth and a pick-up in SIBOR and SOR.

Top Picks – DBS and SGX

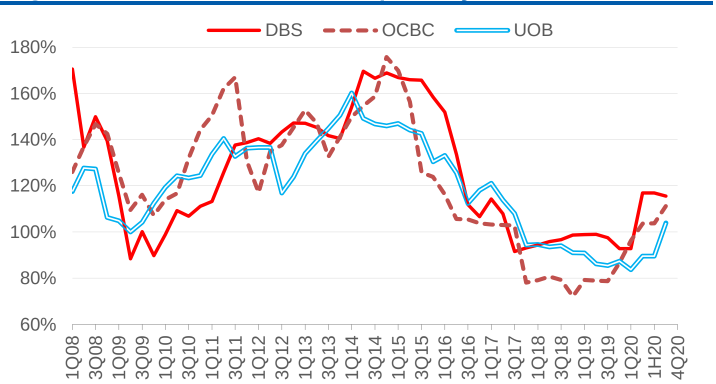
DBS is our pick for SG banks. Aggressive frontloading of provisions has bumped up LLR to 117%, providing comfortable headroom and sustained ROE recovery in FY21F-22F. Our GGM-derived TP of SGD30.00 is based on GGM-derived P/BV of 1.25x, which is near +1SD from its historical mean. SGX is expected to benefit from sustained momentum in trading volumes for securities and derivatives given our view of a greater sector rotation to cyclical sectors.

Figure 65: SG banks' NPL ratio, quarterly trend



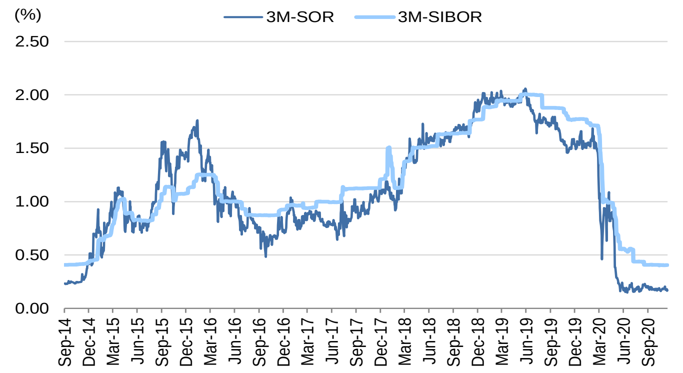
Source: Company data, RHB

Figure 66: SG banks' LLR ratio, quarterly trend



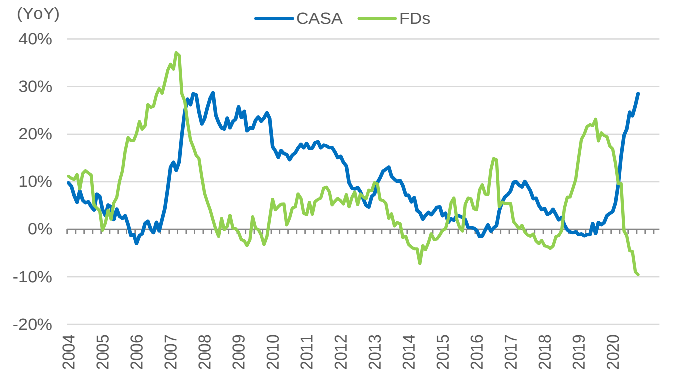
Source: Company data, RHB

Figure 67: Short term rates have stabilised



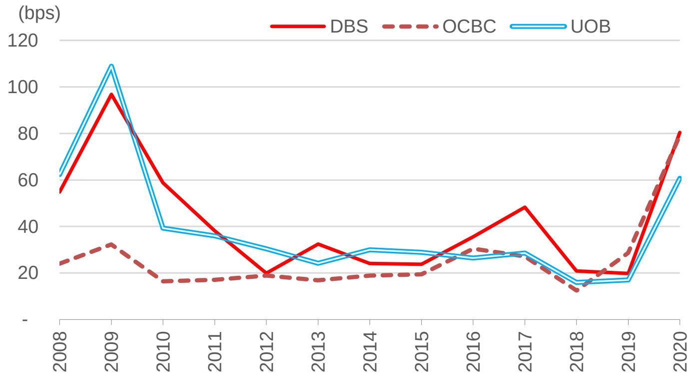
Source: Bloomberg, RHB

Figure 68: Robust CASA growth helped lower funding costs



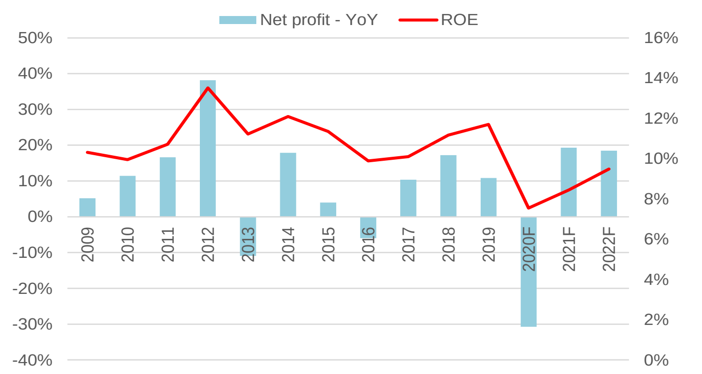
Source: MAS, RHB

Figure 69: SG banks' credit cost, yearly trend



Source: Company data, RHB

Figure 70: SG banks' net profit vs ROE



Source: MAS, RHB

Gloves – OVERWEIGHT

(Singapore Research, sg.research@rhbgroup.com)

Figure 71: Sector comparison – gloves

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
Riverstone	1,963	Buy	2.73	127.3	Dec-20	11.5	5.6	8.4	5.2	3.4	2.8	3.9	8.0	5.4	51.4	73.5	36.8
UG Healthcare	281	Buy	1.39	115.5	Jun-21	3.3	5.1	12.8	2.5	1.7	1.6	3.3	2.1	0.9	113.1	40.2	12.8
Gloves	**2,243**					**10.5**	**5.5**	**8.9**	**4.8**	**3.2**	**2.6**	**3.8**	**7.3**	**4.8**	**59.1**	**69.4**	**33.8**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Elevated ASPs In 2021

Stay Overweight

The current nitrile butadiene (NBR) shortage should result in nitrile glove ASPs staying elevated in 2021. This should also translate to higher latex glove ASPs, due to the substitution effect. As for COVID-19 vaccines, it remains uncertain how long the protection can last. The rollout of vaccines globally should also take more than a year. We expect an overall glove deficit of 7.4bn pieces in 2021. In conclusion, the glove ASP uptrend should continue throughout 2021.

In the short term, 4Q20 is likely to continue delivering positive surprises against consensus estimates. In the long run, even after the pandemic is tamed, global glove consumption is not likely to decrease, as fears of infection will linger.

Key earnings drivers is ASP

NBR shortage to sustain nitrile glove ASP uptrend in 2021.

Glove makers' earnings are most sensitive to ASPs. Raw material costs are from mostly NBR or latex.

Due to the unprecedented demand for nitrile gloves, demand for NBR has spiked. Our demand-supply estimate for NBR shows that the shortage situation will only be resolved in 2H22, as more supply comes on stream from Kumho Petrochemical. While this means costs will increase, the overall impact is positive for existing glove producers, as the ASP uptrend for nitrile gloves will continue. This also serves as a natural entry barrier for new players, which are unlikely to be able to secure sufficient NBR.

We expect a glove deficit of 7.4bn pieces in 2021, with total demand of 384.2bn pieces pa (ppa) to exceed total supply of 376.8bn ppa. Demand will be driven by the US, which was the top glove consumer in 2019 (35% of global demand). Note that the US' COVID-19 cases remain extremely high. Additionally, glove demand may increase if vaccine is approved in more countries. Factors that may limit supply include foreign worker and NBR shortages, and infections among glove producers' workers.

Key risks to our sector view

Vaccine is a crucial step to fight COVID-19, but continued public health measures are needed. During the Bloomberg New Economy forum on 19 Nov, Moderna's CEO Stéphane Bancel noted that "the vaccine is not a silver bullet…". We believe that a vaccine will play a crucial part in fighting COVID-19. However, it has to come hand in hand with continued public health measures. As the acceptance and availability of vaccines are likely to vary greatly among countries, we believe that the selling of glove stocks due to vaccine-related news flow, is overdone. We expect a gradual global availability of vaccines by 2H21. In the next 12 months, we also expect additional glove demand of up to 18bn pieces, for vaccine deployment.

Other risks are lower-than-expected glove demand post COVID-19, lower-than-expected sales volume/USD, and higher-than-estimated raw material prices. In the short term, negative publicity on ESG risks may also affect share prices.

Sector Top Pick is Riverstone

In the near term, Riverstone 4Q20 results should benefit from the worsening nitrile glove shortage, due to the temporary closure of some glove manufacturing plants. Note that 95% of Riverstone's products are nitrile gloves. For expansion, Riverstone is on track to complete its Phase 6 in 2020, which will add 1.5bn ppa or 17% to 10.5bn ppa. At its current share price of SGD1.96, Riverstone is trading at 5.7x FY21F P/E. This is below its average forward P/E of 13.4x and at -3.3SD valuation, which we believe is unjustified given the positive long-term outlook for its healthcare and cleanroom gloves segment.

Figure 72: Demand-supply estimates for NBR

Capacity (tonne per year)	2018	2019	2020F	2021F	2022F
Kumho Petrochemical	400	480	580	640	710
Growth (%)	*NA*	*20.0%*	*20.8%*	*10.3%*	*10.9%*
Synthomer	310	400	400	460	460
Growth (%)	*NA*	*29.0%*	*0.0%*	*15.0%*	*0.0%*
LG Chemical	143	170	170	270	270
Growth (%)	*NA*	*18.9%*	*0.0%*	*58.8%*	*0.0%*
Nantex	195	195	225	325	325
Growth (%)	*NA*	*0.0%*	*15.4%*	*44.4%*	*0.0%*
Others	550	715	787	787	837
Growth (%)	*NA*	*30.0%*	*10.0%*	*0.0%*	*6.4%*
Estimated capacity	1,598	1,960	2,162	2,482	2,602
Utilisation Rate	90%	80%	92%	90%	90%
Effective Supply	**1,438**	**1,568**	**1,989**	**2,233**	**2,341**
Global demand	**1,442**	**1,482**	**1,997**	**2,297**	**2,351**
Surplus/(Deficit)	*-4*	*86*	*-8*	*-64*	*-10*

Source: Company data, RHB

Manufacturing & Technology – OVERWEIGHT

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Figure 73: Sector comparison – manufacturing and technology

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
Avi-Tech Electronics	54	Buy	0.52	22.4	Jun-21	11.1	10.7	10.2	1.4	1.3	1.2	5.9	5.9	5.9	12.5	12.5	12.4
Frencken Group	360	Buy	1.22	5.2	Dec-20	11.7	10.4	9.8	1.5	1.4	1.2	2.6	2.9	3.1	13.5	13.8	13.3
Fu Yu Corp	144	Buy	0.30	17.6	Dec-20	11.6	11.2	10.7	1.1	1.1	1.1	6.3	6.3	6.3	9.9	10.0	10.2
Venture Corp Ltd	4,088	Buy	22.60	19.5	Dec-20	17.8	15.9	15.5	2.1	2.0	1.9	4.0	4.0	4.0	12.0	12.9	12.6
Valuetronics Group	189	Sell	0.50	-15.3	Mar-21	8.7	11.5	11.3	1.1	1.1	1.0	5.8	4.4	4.4	13.4	9.6	9.3
Mfg. & technology	**4,834**					**16.8**	**15.1**	**14.7**	**2.0**	**1.9**	**1.8**	**4.0**	**4.0**	**4.0**	**12.1**	**12.7**	**12.4**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Stay OVERWEIGHT on sector

We remain bullish on the technology sector, especially on the semiconductor space, despite already doing well in FY20. This is because we think it will continue to perform into FY21. The automotive sector is slowly picking up as well, given the global resumption post lockdowns, and recovery in this sector could benefit many manufacturers. As a result, our Top Picks are Frencken Group, Fu Yu Corp, and Venture Corp.

Key earnings drivers for the sector

Semiconductor growth still going strong into 2021

According to SEMI, global sales of semiconductor manufacturing equipment by original equipment manufacturers are projected to increase 6% to USD63.2bn in 2020 vs USD59.6bn in 2019 – this is before logging a record high revenue of USD70bn in 2021 on the strength of double-digit growth.

The US-based Semiconductor Industry Association believes foundry and logic spending – which account for about half of total wafer fab equipment sales – will see single-digit increases in 2020 and 2021. Global sales of semiconductors are also projected to increase 5.1% in 2020 to USD33.1bn, followed by an increase of 8.4% in 2021.

Positive Singapore PMI data will be a key indicator to look out for

The latest PMI reading – which was tipped for growth in October and has become its strongest showing since Mar 2019 – came on faster growth in new orders, new exports, and factory output, according to the Singapore Institute of Purchasing & Materials Management. Export shipments of electronics will also be a decent indicator for this sector. Global equipment demand across value chains are a vital driver for the sector too.

Key risks to our sector view

A global slowdown caused by the potential spread of new COVID-19 cases or delays in vaccine dispersions could hamper the growth or recovery speed of the technology space, as manufacturing hubs may be forced to close or operate at lower utilisation rates.

Our Top Picks: Frencken, Fu Yu, and Venture

Twin growth drivers for Frencken

Management remains bullish on being able to benefit from its key customer's new product in the industrial automation segment – this has been delayed to FY21F. We remain bullish on its semiconductor segment and the group should still be able to see YoY growth for this business despite strong growth in FY20. Recovery in the automotive sector could continue to benefit its automotive revenue stream and could be a catalyst for F21. We expect FY21F to be a better year, with the group enjoying decent EPS growth of 12.5%. We maintain our BUY call.

Fu Yu – stable and resilient

With further new projects in the medical and consumer and automotive fronts, we expect such positive growth momentum to continue from FY21 onwards. Despite a blip in FY20 caused by the COVID-19 situation, we believe Fu Yu, with a strong net cash balance sheet, will able to weather such storms and – at the same time – still be able to reward investors with attractive dividends despite a temporary drop in FY20F profits. As a result, we maintain our BUY recommendation and DCF-based TP of SGD0.30. Fu Yu is also an attractive target for privatisation or acquisition.

Better quarters ahead for Venture

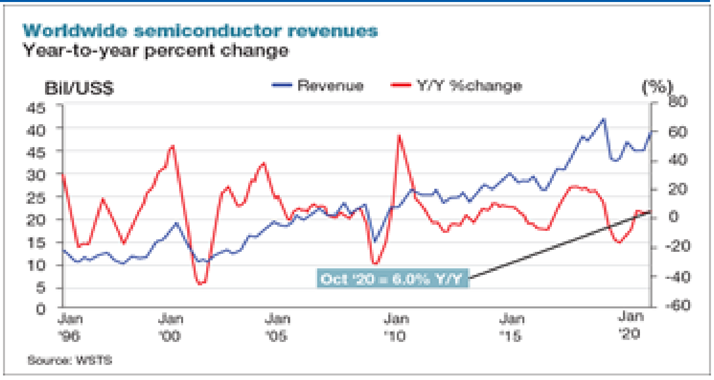
We pegged the group to a multiple of 19x to reflect its resilient margins and stability over its peers. Management expects to deliver a stronger 2H20 vs 1H20, provided the COVID-19-induced lockdowns and disruptions do not deteriorate further. Venture is currently fulfilling its backlog of existing orders while its research & development labs have plans to subsequently release a number of newly developed products into manufacturing from early 2021. As a result, we maintain our BUY call on this counter.

Figure 74: WSTS autumn 2020 forecast summary

Autumn 2020	Amounts in US$M			Year on Year Growth in %		
	2019	2020	2021	2019	2020	2021
Americas	78,619	93,343	102,164	-23.7	18.7	9.5
Europe	39,816	36,452	38,543	-7.3	-8.4	5.7
Japan	35,993	35,759	37,841	-9.9	-0.6	5.8
Asia Pacific	257,879	267,590	290,854	-8.8	3.8	8.7
Total World – $M	412,307	433,145	469,403	-12.0	5.1	8.4
Discrete Semiconductors	23,881	23,593	25,292	-0.9	-1.2	7.2
Optoelectronics	41,561	40,481	44,628	9.3	-2.6	10.2
Sensors	13,511	14,515	15,642	1.2	7.4	7.8
Integrated Circuits	333,354	354,556	383,840	-15.2	6.4	8.3
Analog	53,939	53,954	58,578	-8.2	0.0	8.6
Micro	66,440	67,744	68,444	-1.2	2.0	1.0
Logic	106,535	113,419	121,507	-2.5	6.5	7.1
Memory	106,440	119,440	135,311	-32.6	12.2	13.3
Total Products – $M	412,307	433,145	469,403	-12.0	5.1	8.4

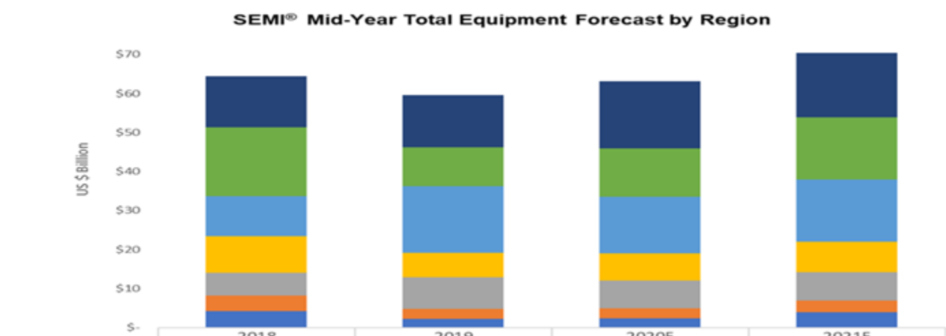
Source: WSTS

Figure 75: Worldwide semiconductor revenues



Source: WSTS

Figure 76: SEMI mid-year total equipment forecast by region



	2018	2019	2020F	2021F
China	13.1	13.4	17.3	16.6
Korea	17.7	9.9	12.3	15.9
Taiwan	10.2	17.1	14.5	15.9
Japan	9.4	6.2	7.0	7.9
North America	5.8	8.1	7.1	7.3
SEA/ROW	4.0	2.5	2.6	3.0
Europe	4.2	2.3	2.4	3.9

Source: SEMI

Real estate (Property) – OVERWEIGHT

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Figure 77: Sector comparison – real estate (property)

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
APAC Realty	116	Buy	0.55	24.7	Dec-20	10.9	10.8	10.4	1.0	1.0	0.9	4.6	4.6	4.8	9.5	8.9	8.7
CapitaLand	12,542	Buy	3.75	18.3	Dec-20	24.2	16.4	16.1	0.7	0.7	0.7	2.5	3.8	3.8	2.2	5.3	5.5
City Developments	5,290	Buy	9.50	18.3	Dec-20	44.4	15.5	13.7	0.7	0.7	0.7	0.6	2.2	2.5	1.6	4.6	5.0
Oxley Holdings	678	Buy	0.27	25.6	Jun-21	10.2	6.6	13.0	0.8	0.8	0.8	5.8	5.8	5.8	8.4	12.3	6.0
Centurion Corp	229	Neutral	0.41	10.8	Dec-20	10.1	8.9	7.5	0.5	0.5	0.5	3.9	3.4	4.0	5.1	5.6	6.4
Real estate	**18,855**					**29.1**	**15.6**	**15.2**	**0.7**	**0.7**	**0.7**	**2.1**	**3.4**	**3.5**	**2.3**	**5.4**	**5.4**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Resilience underpinned by fundamentals

Property prices and volumes to stay resilient in 2021. Despite COVID-19 leaving a sharp dent on the economy, Singapore's property market has surprised on the upside since the re-opening of economy, with a strong rebound in transaction volumes, and stable prices. YTD, property prices have declined only marginally (-0.3%), and transaction volumes have quickly bounced back to pre-pandemic levels with primary, resale, and HDB resale volumes only slightly below that of last year. Moving into 2021, we expect the property market to remain resilient, with prices expected to be in the range of -3% to 1%, and volumes to see a flattish to slight growth (0-5%). Key reasons underpinning this, in our view, are:

i. Interest rates are expected to stay at current historical low levels coupled with abundant liquidity;

ii. Household income has risen 4.6% pa over last decade, vs 3% property price growth;

iii. Buying demand has been mainly driven by HDB upgraders, with an estimated 50,000 flats expected to reach its minimum occupation period (MOP) in 2020-2021, compared to c.9,000 units pa between 2010 and 2018;

iv. Proactive cooling measures (nearly 10 rounds in past decade) by the Government have removed speculative activity, and curbed excess in the market;

v. Development margins have thinned to c.5-15%, due to high land costs, as a result of competition and increasing construction costs. This, in our view, limits price wars and fire sales from developers;

vi. Demand has been mainly driven by locals, with Singaporeans and PRs accounting for more than 90% of purchases. Foreigners currently account for only 5-7% of total market purchases.

Unsold inventory on the decline

After peaking in 1Q19, unsold units have been steadily declining every quarter, with demand outpacing new launch supply. As at 3Q20, a total of 28,727 units with planning approvals (including executive condominiums) remained unsold, down from 29,876 units in the previous quarter (**Figure 80**), with another 3,100 units yet to receive planning approvals. This is equal to about three years of historical demand, and is likely to result in a supply shortfall if demand remains strong. Similarly, overall vacancy rates remain low on a historical basis, despite rising slightly to 6.2% from 5.4% in the previous quarter.

Slight increase in 1H21 land supply

On the land supply front, the Government has ensured prudence and caution in releasing new land parcels. Although the land supply under the confirmed list has increased by 17% to 1,605 units, this is still well-below the 10-year average of c.3,900 units per half year.

Key earnings drivers

Healthy presales, absence of rent rebates to drive earnings rebound. The continued momentum in new home sales has resulted in healthy unbilled sales for developers, which will be progressively recognised in 2021 upon construction progress. Most of the developers also have a high proportion of recurring income streams (50-80%) from investment properties, which should see a rebound on the back of a pickup in the economy and absence of rent rebates.

Key risks

Three key risks to watch out for would be:

i. A prolonged spike in the unemployment rate and a resurgence of COVID-19 cases;

ii. Easing of government policy support measures (loan and interest payment moratorium), resulting in adverse market reaction;

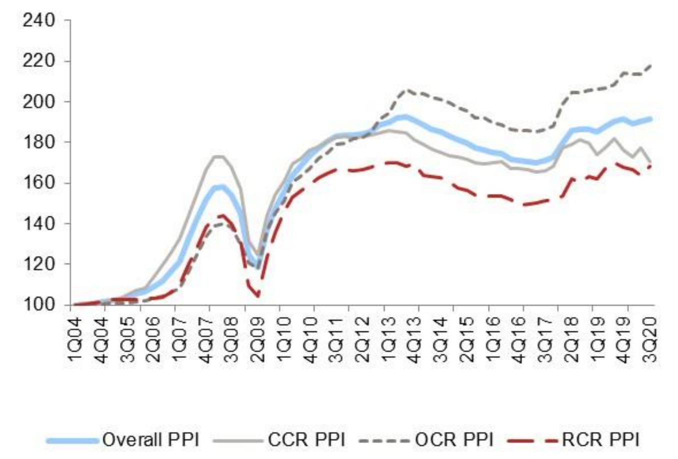
iii. Further imposition of stringent cooling measures.

Sector Top Picks

CapitaLand is our Top Pick, with SGD3.75 TP

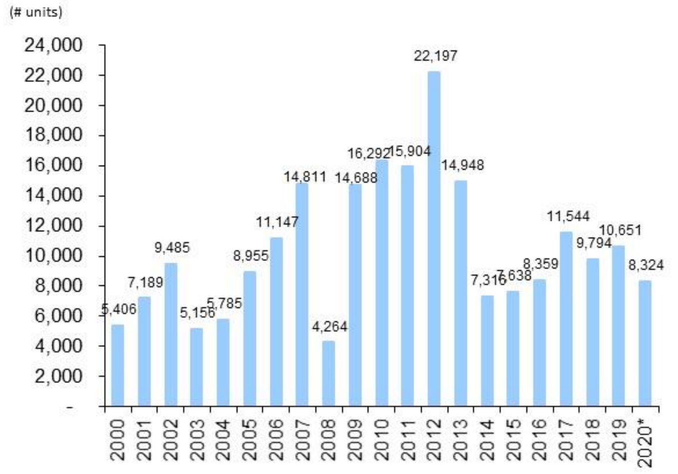
CapitaLand remains our preferred developer pick for its globally-diversified portfolio across asset classes, with a high proportion of recurring income offering resilience. Despite COVID-19, it has managed to achieve its annual target of SGD3bn in divestments, and has recycled its capital into new economy asset classes. Valuation remains attractive, with the stock trading at 31% and 41% discounts to book value and RNAV.

Figure 78: Private property price indices



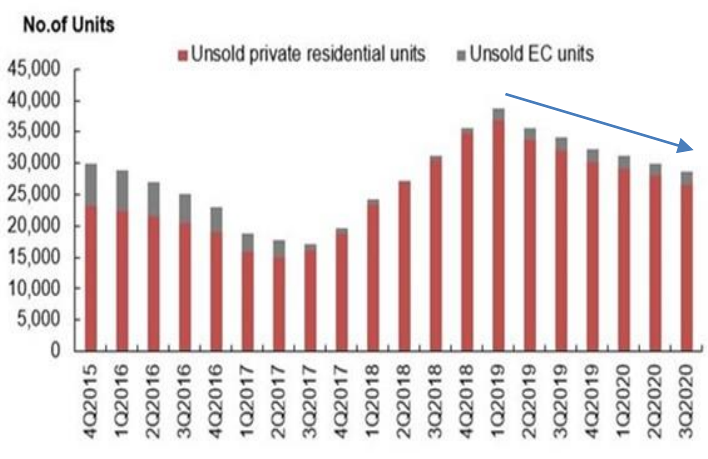
Source: Urban Redevelopment Authority (URA), RHB

Figure 79: Private home sales



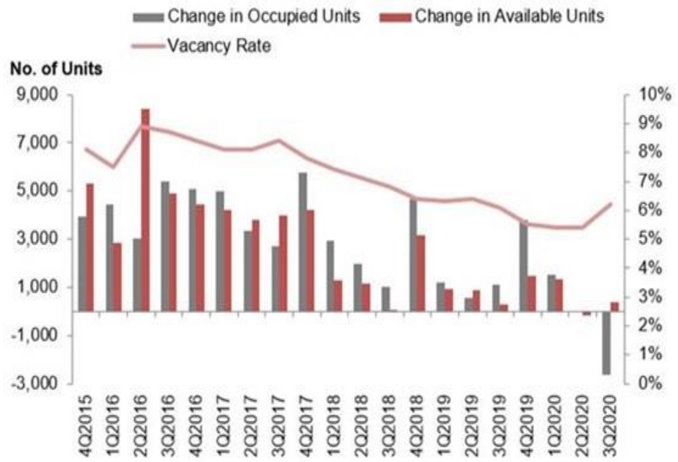
Source: Urban Redevelopment Authority (URA), RHB

Figure 80: Unsold units have been declining since 1Q19



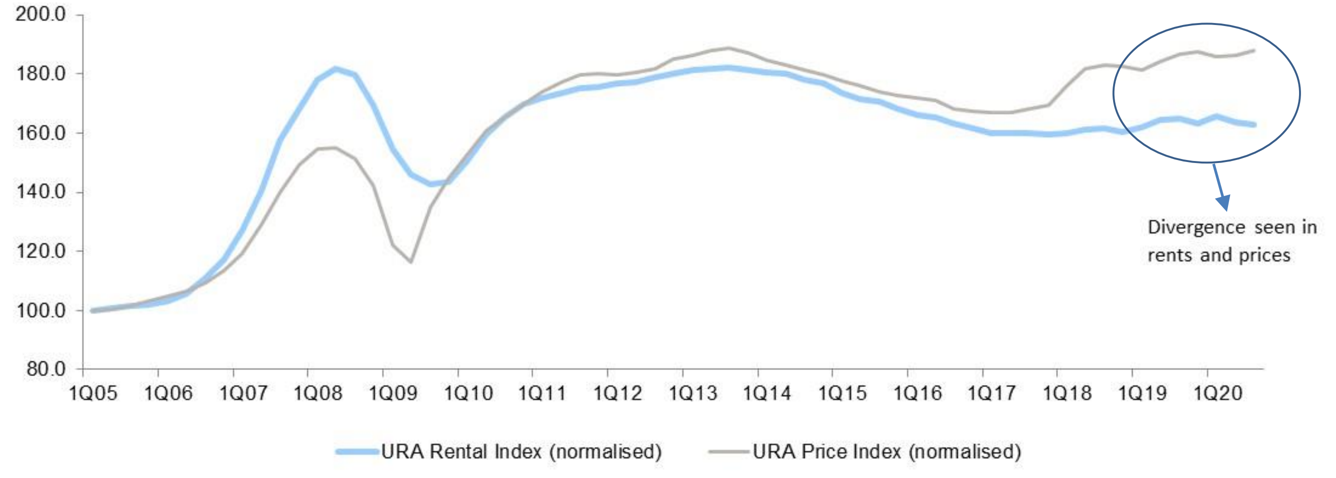
Source: Urban Redevelopment Authority (URA), RHB

Figure 81: Vacancy rates remain low



Source: Urban Redevelopment Authority (URA), RHB

Figure 82: Private property price and rental index



Source: Urban Redevelopment Authority (URA), RHB

REITs – OVERWEIGHT

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Figure 83: Sector comparison – REITs

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	P/E (x) 2FY	P/E (x) 3FY	P/BV (x) 1FY	P/BV (x) 2FY	P/BV (x) 3FY	Yield (%) 1FY	Yield (%) 2FY	Yield (%) 3FY	ROE (%) 1FY	ROE (%) 2FY	ROE (%) 3FY
ARA Logos Logistics Trust	526	Buy	0.72	20.0	Dec-20	14.5	13.7	13.2	1.0	1.0	1.1	8.0	8.2	8.4	7.2	8.6	8.0
CDL Hospitality Trusts	1,197	Buy	1.25	-3.8	Dec-20	nm	23.9	15.8	0.9	0.9	0.9	3.1	5.4	6.3	-3.7	3.9	5.9
EC World REIT	430	Buy	0.76	6.1	Dec-20	16.8	11.9	11.8	0.8	0.8	0.8	7.4	8.2	8.4	5.0	7.0	7.0
IREIT Global	452	Buy	0.70	8.5	Dec-20	27.0	14.5	12.9	0.9	0.9	0.9	5.4	4.5	4.6	2.6	6.0	6.7
Keppel Pacific Oak US REIT	679	Buy	0.80	11.9	Dec-20	11.6	11.7	11.6	0.9	0.9	0.9	8.6	8.6	8.7	7.7	7.6	7.6
Manulife US REIT	1,179	Buy	0.90	20.8	Dec-20	47.5	13.1	10.6	1.0	1.0	1.0	8.2	8.3	8.4	2.0	7.6	9.4
Prime US REIT	830	Buy	1.00	28.2	Dec-20	19.9	13.9	11.8	0.9	0.9	0.9	8.9	9.0	9.1	4.6	6.6	7.8
Starhill Global REIT	798	Buy	0.60	25.0	Jun-21	20.1	9.4	12.1	0.6	0.6	0.6	8.1	8.3	8.4	3.0	6.4	4.9
Suntec REIT	3,127	Buy	1.79	20.9	Dec-20	70.7	17.6	15.4	0.7	0.7	0.7	5.0	6.2	6.3	1.0	4.1	4.7
Ascendas REIT	9,098	Neutral	3.00	1.0	Dec-20	18.7	17.3	16.8	1.4	1.4	1.4	5.5	5.7	5.8	7.4	8.0	8.2
CapitaLand Int. Com. Trust	10,113	Neutral	2.10	6.1	Dec-20	nm	16.9	16.3	0.9	0.9	0.9	4.5	5.8	6.0	-0.1	5.5	5.6
Frasers Centrepoint Trust	2,997	Neutral	2.40	0.1	Sep-20	16.6	18.8	0.0	1.1	1.0	0.0	5.4	5.5	0.0	6.9	6.6	6.6
Keppel REIT	2,701	Neutral	1.14	8.6	Dec-20	13.2	11.8	12.8	0.8	0.8	0.8	5.4	5.8	6.0	5.8	6.5	5.9
REITs	**34,126**					**26.3**	**16.5**	**14.0**	**1.0**	**1.0**	**0.9**	**5.4**	**6.1**	**5.8**	**3.6**	**6.4**	**6.6**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Sector view for 2021

Low interest rates and economic rebound to keep interest in REITs

Despite COVID-19 negatively impacting S-REITs' rental income, REITs have broadly weathered the crisis well so far, on the back of diversified portfolios, relatively healthy balance sheets and government support measures. YTD-Dec 2020, S-REITs are down 8%, outperforming the STI's 12% decline. Moving into 2021, with interest rates expected to remain low and persistent liquidity, investors should stay interested in REITs, but our preference is for laggard plays with stock-specific catalysts, and strong sponsor support. Key sector earnings catalysts to watch out in 2021 are:

i. Earnings rebound from the absence of rental rebates and rent deferments offered to tenants in 2021;

ii. Positive contributions from c.SGD10bn worth of acquisitions done by S-REITs in 2021. The increase in gearing limit from 45% to 50% this year has also aided in further acquisition capacity for REITs. The sector average gearing stands at 37%;

iii. Interest cost savings from loan refinancing and issuance of perpetual securities;

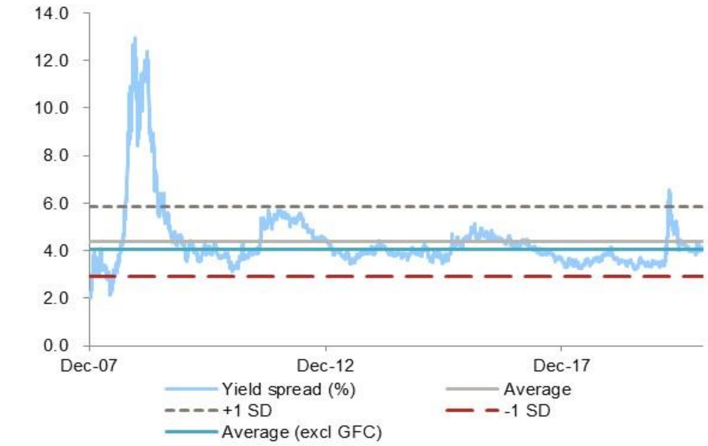
iv. Potential roll out of vaccines in 1H21, which will reduce safe distancing measures and bring back crowds and tourists to malls, offices and hotels.

Overall, we expect sector DPU to rebound by 10-15%, with retail and hospitality REITs seeing the biggest recovery.

REITS trading at a slight premium to mean; mid-cap space offers more upside potential

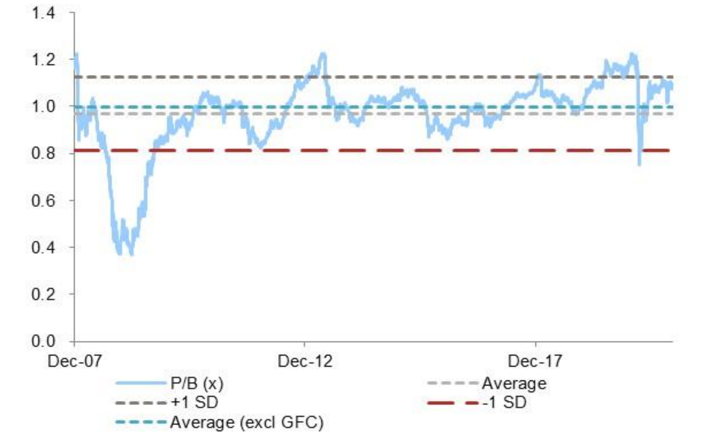
S-REITS are currently trading at a P/BV of 1.1x, and offer average yields of 5.2% (420bps higher than the 10-year government bond). This is at a slight premium to long-term mean levels. While the headline valuations do not look cheap, we see selective opportunities in the REITS space, as there is a huge disparity in valuation between the larger and small-mid cap REITs.

Figure 84: SREITs Index (yield spreads)



Price close as at 8 Dec 2020
Source: RHB, Bloomberg

Figure 85: SREITs Index (P/BV)



Price close as at 8 Dec 2020
Source: RHB, Bloomberg

Asset valuation is unlikely to see double-digit declines

Based on REITS that recently revalued their assets, as well as discussions with various REIT managers, we note that cap rates across asset classes have remained largely stable. This was on ultra-low interest rates, lack of comparable transactions, and limited fire sales.

Valuers have, instead, factored-in lower market rent and rental growth in light of COVID-19, which has resulted in an overall asset value decline of about 0-4%. With market conditions improving since June, we do not expect any significant declines (of more than 5%) in asset values, during the year-end valuation.

Industrial REITs remain our preferred subsector

We prefer Industrial REITs in-terms of earnings resilience, but we expect markets to shift tactically into office, hospitality and retail REITs, which are trading at relatively cheaper valuations as vaccines gradually roll out, and market concerns on the COVID-19 subside. Our base case assumption is for a stronger 2H vs 1H, with vaccines gradually being rolled out by 1H21, and the tourism sector gradually recovering from 2H21.

Key risks to the sector are: -

i. Stronger-than-expected economic recovery, resulting in investors switching out of defensive stocks and yield instruments;

ii. Sharp spike in government bond yields, lowering the attractiveness of REITs;

iii. A spike in tenant defaults, post removal of the government's economic stimulus.

Sub-sector outlook

Industrial: Data points to healthy demand but overall valuations not cheap.

Unsurprisingly, industrial REITs have been the top performers for 2020, with YTD average gains of 6.4% vs the sector's -7.7%. The strong outperformance was mainly due to its resilience as an asset class during the pandemic, and some sectors like data centres and logistics emerging as net beneficiaries from increased adoption of digital trends and the spike in warehousing demand. This has resulted in hefty valuations, with the sector trading at 1.5x P/BV compared to the S-REITs average of 1.1x P/BV – mainly driven by large cap industrial REITs. Among industrial REITs, our preferences are mainly the small-mid cap Industrial REITs, which are trading closer to book value.

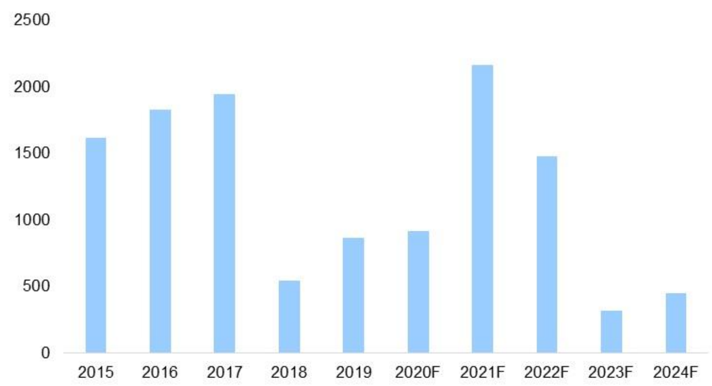
Overall industrial data continues to show a positive trend, with the PMI for Nov 2020 remaining in the expansion territory for the fifth consecutive month, at 50.4, boosted by new orders and new exports. Similarly, manufacturing output and NODX data for recent months, also paint a healthy picture.

Supply remains high, mainly comprising factory space

As at end 3Q20, c.0.6m sqm of new industrial space is expected to come on stream in 4Q20, mainly due to delays in the completion of 0.7m sqm of industrial spaces due to COVID-19's impact to the construction sector. Between 2021 and 2024, around 4.4m sqm of industrial space is expected to be completed, or c.1.1m sqm pa, compared to the annual net demand of c.0.8m sqm pa in last three years. About 40% and 32% of this supply is in the factory space segment – typically developed by industrialists for their own use – and multiple-user factory spaces (including replacement spaces intended for lessees affected by JTC Corp's industrial redevelopment programme). The rest are in business parks and the warehouse sector.

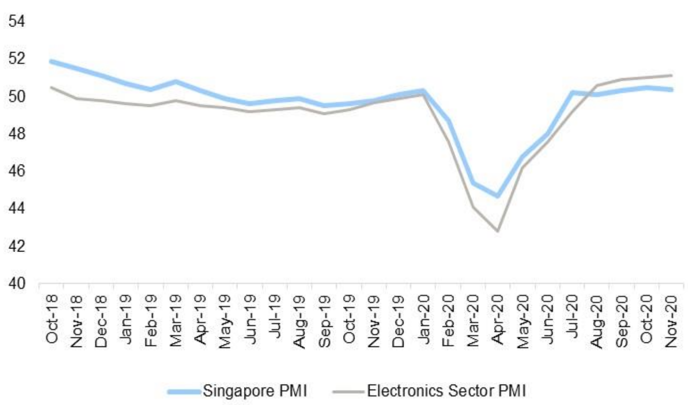
As at end-3Q, the industrial sector's overall occupancy rose 0.2ppts QoQ to 89.6%, while rents declined 0.9% QoQ. Overall, we expect industrial occupancy to remain around 90% levels for 2021 and rents to stay flattish.

Figure 86: Industrial supply (sqm)



Source: JTC

Figure 87: Singapore PMI Data



Source: SIPMM

Office: Rents to come down 5-10% in 2021

Based on CBRE data, Grade-A and island-wide office rents have declined 7.4% and 5.6% YTD, and we expect rents to remain soft in 4Q20 and 2021, as tenants take a more cautious and measured approach on lease renewals and expansions. Office occupancy, however, remains resilient, with Grade A vacancy at 3.2%, down 37 bps QoQ, based on CBRE data. For 2021, we expect Grade A occupancy to remain high, at around 96%, driven by the technology, media and telecommunications or TMT, as well as co-working space sectors.

Tech sector demand a key area to watch in 2021

While COVID-19 has taken the wind out of the sails for office demand for most of the sub-sectors, the tech, media, and telecommunications industries have been among the key demand growth drivers since the start of 2020. In particular, increasing US-China trade tensions, and Hong Kong protests, have resulted in many Chinese technology and financial firms setting up shop in Singapore. These companies have also announced major hiring plans.

Lower expiring rents and government support measures alleviate some pressure on office REITs

While the outlook for the office sector remains negative in the near term, the impact on office REITs is mitigated, as expiring rents for office leases are still below the market rates by 5-15%. This allows landlords to lower rent and retain tenants. Tenants may also choose to extend their leases in the same premises, at lower rent, rather than moving location and incurring additional costs – unless a cheaper alternative emerges. This, in our view, provides some downside protection.

Key risk is still continued rightsizing/downsizing of office space post COVID-19

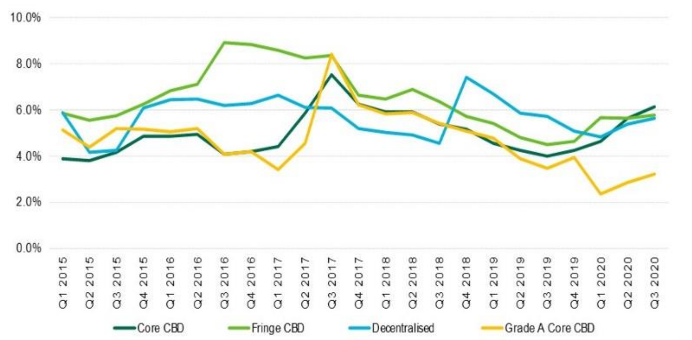
Anecdotal evidence suggests that banks and financial institutions have taken the lead in rightsizing/downsizing office space. Recent movements of office space include major global banks like Standard Chartered, UBS, HSBC, etc. There have been concerns about decreased office demand arising from the work-from-home (WFH) trend.

Our view is that companies are likely to take a core-flex approach, by which companies will maintain a core long-term working space, with the rest of the demand shifting to flexible leases. While this trend may result in a 5-10% reduction in office demand over the medium to long term, it is likely to be offset by recent de-densification trends, which have resulted in more per sqf space per employee and, as a result, an overall increase in office space.

Figure 88: Office rental trend

Source: CBRE

Figure 89: Office vacancy rate trend



	Raffles Place	Marina Centre	Shenton Way	Marina Bay	Tanjong Pagar	Orchard Road	Beach Rd / City Hall	Decentra-lised
Total Stock Q3 2020 (mil sf)	11.66	3.76	6.37	9.43	4.96	5.74	5.38	14.31
Vacancy Rate Q3 2020 (%)	7.8%	2.9%	10.0%	2.2%	6.0%	7.4%	3.8%	5.6%

Source: CBRE

Hospitality: First leg of vaccine recovery priced-in

Post the recent sharp rally in hospitality sector stocks (+18% last month), the valuation gap has narrowed, with the sector now trading at 0.9x P/BV. We believe the first leg of vaccine-led recovery has been fully priced-in. Our base case assumption is a gradual recovery in the tourism sector starting in 2H21. A possible second leg of recovery is seen for hospitality sector stocks in 2Q21.

Visitor arrivals to rebound sharply

We expect visitor arrivals to nearly double to 5m next year from 2020F's 2.8m (-85% YoY). Visitor arrivals are likely to stay muted in 1H21, but we anticipate a 2H21 sharp recovery on expectations of a widespread vaccine rollout.

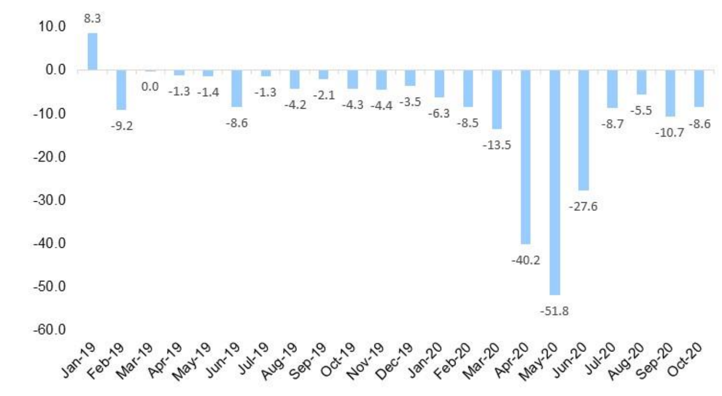
Hotel cap rates unlikely to expand significantly, with limited fire-sale in the market

Despite COVID-19 crippling the hospitality sector, there have been no noticeable fire-sale of hotel or serviced residence assets in Singapore, since the start of the pandemic. This, we attribute to the fact that balance sheets of many big hospitality players have remained largely robust, entering into the crisis. Also, there were government support measures, such as the JSS, and property tax rebates. Our discussions with industry players also indicate that many remain hopeful of Singapore's tourism sector to come roaring back once COVID-19 headwinds dissipate. With limited transactions in the Singapore market, we expect hotel cap rates to remain largely stable, and thus, do not expect any significant (>7%) decline in hotel/serviced residence capital values for REITS at the end of the year.

Retail: Gradual recovery in retail sales but structural challenges remain

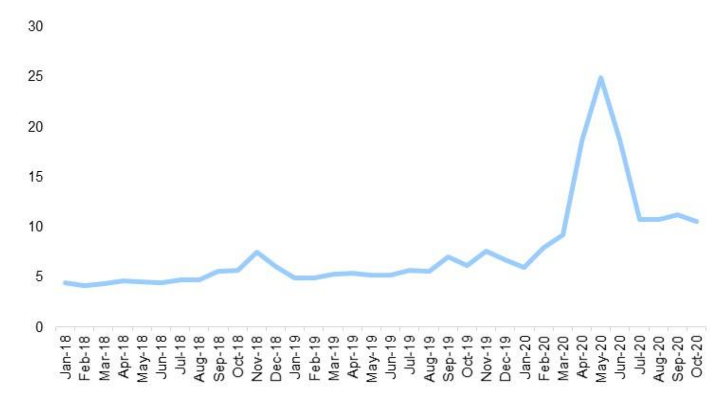
Based on the latest official data, retail sales (seasonally adjusted) in November rose 0.2% MoM, but were still down 9% YoY. Retail sales have been on a recovery trend from May's lows, with the gradual easing of restrictions in June, and the release of some pent-up demand. Online sales, as a percent of total retail sales, have also eased to 11%, after spiking to 25% in May. It remains at elevated levels compared to 5-7% seen in past years. Overall, we remain negative on the retail sector outlook, with consumer demand expected to stay weak on the back of a recessionary outlook, and the structural shift towards online (Omni-channel) presence limiting new demand.

Figure 90: Retail sales evolution (%) YoY



Source: Singstat, RHB

Figure 91: Online sales as a percentage of total sales



Source: Singstat, RHB

Limited supply offers some respite

Based on CBRE data, about 0.85m sqf of retail supply is in the pipeline until 2023. For 2021, c.0.33m sqf of retail space is expected to come on stream all in the fringe retail market. This is significantly lower than the 5-year historical average of 1.66m sqf.

Rents and occupancy pressure to persist; prefer suburban malls on dips

CBRE data showed that rents in the city centre have seen the highest decline YTD, down 9%, followed by the city fringe at -8%, while suburban rents have relatively held up, declining only 1%. Island-wide occupancy rates for retail malls stand at 90.4%, down 2.1ppts YTD. We expect pressure on occupancy and rents to persist in 2021, with occupancy to hover in the high 80% levels, and retail rentals to continue its downward trend with an anticipated 3-15% decline. Suburban malls are expected to be the most resilient in the retail segment, due to changing WFH trends, and the focus on necessity spending.

US commercial REITs trading at attractive valuations

Among overseas REITs, our preference is for US commercial REITs, which in general, have a long weighted average lease expiry (WALE) of 4-6 years. Despite the US being badly hit by COVID-19, the impact to Singapore-listed US-office REITS, has so far been marginal. Operational metrics of overseas commercial REITs have remained stable so far, but the long-term impact and outlook remains murky. The huge valuation gap (>300 bps) compared to S-REITs' average is also highly attractive.

Sector Top Picks

Suntec REIT – BUY with SGD1.79 TP, 21% upside and 6% yield

Suntec REIT remains our preferred pick among office/retail REITs, for its attractive valuation of 0.7x P/BV, and earnings recovery from its recently completed and acquired assets. Its office portfolio (66%), which accounts for the majority of its income, is expected to stay resilient, while retail mall earnings should rebound in 2021 in the absence of rental rebates.

Prime US REIT – BUY with USD1.00 TP, 28% upside and c.9% yield

Prime US REIT derives rental income from a portfolio of 12 freehold office assets in the US. Despite the US' severe COVID-19 situation, we expect the company to see stable rental income, due to its strong asset and tenant quality, and limited near-term lease expiry. Its sustainable yield of 9% is among the highest in the REIT sector, and is unjustified, in our view, compared to the 5.4% S-REIT peer average.

ARA Logos Logistics Trust – BUY with SGD0.72 TP, 20% upside and 8% yield

ARA LOGOS Logistics Trusts' portfolio of 27 strategically located logistics assets, across Singapore and Australia, stands to benefit from the expected rise in logistics demand. It also recently announced a sizeable acquisition of 10 Australian assets from its sponsor, further strengthening its portfolio. Valuation is reasonably attractive at 1x P/BV.

Telecommunications – NEUTRAL

(Singapore Research, sg.research@rhbgroup.com)

Figure 92: Sector comparison – telecommunications

	M Cap		Target	Upside/	1FY	P/E (x)			P/BV (x)			Yield (%)			ROE (%)		
Company name	**(USDm)**	**Rating**	**price**	**down. (%)**	**year**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**	**1FY**	**2FY**	**3FY**
SingTel	28,206	Buy	3.10	32.5	Mar-21	19.5	17.6	16.3	1.4	1.4	1.4	4.5	4.9	4.9	7.1	7.8	8.4
StarHub	1,669	Neutral	1.30	0.8	Dec-20	16.1	16.6	15.3	3.9	3.6	3.3	3.9	3.9	3.9	25.4	22.6	22.5
Telecom	**29,876**					**19.3**	**17.6**	**16.2**	**1.5**	**1.5**	**1.5**	**4.5**	**4.9**	**4.9**	**8.1**	**8.6**	**9.1**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Earnings to remain challenged in 2021. 5G not likely to be a game-changer

Maintain NEUTRAL, with the sector's risk-reward profile now balanced after the sharp correction in 2020. We see the tight market competition continuing into 2021, with industry mobile revenue set for a progressive recovery, from easing movement restrictions and stronger economic activities. Roaming revenues, which bore the brunt of weakness from border closures, should see some stabilisation through 2H21. We see a steady pick up in enterprise spending, supported by corporate digitalisation initiatives and renewed demands for connectivity and data services, in the new normal. We do not see 5G as a game-changer, with a measured increase in retail adoption, as consumer-use cases are scarce. Enterprise-use cases are more compelling, and will lead market adoption.

Key drivers: recovery in mobile earnings and stronger enterprise spending

Industry mobile revenue (Big-3) fell a slower 1.3% QoQ in 3Q20 (-22% YoY), after falling 11.4% QoQ in 2Q20 on stronger economic activities during Singapore's Phase 2 reopening. However, 9M20 mobile revenue was still down 20% YoY, with border closures and travel disruptions weighing heavily on roaming and sales of prepaid packs. Consequently, industry blended ARPUs (Big-3) were 17-25% YoY lower. We see a stronger recovery in industry mobile revenue from 4Q20, as economic activities gather momentum. With the underlying focus still on cost, alongside digitalisation initiatives, the pressure on profitability should ease, although margins would remain under pressure from the change in product/revenue mix.

We see the enterprise segment as the key driver for Singtel (ST SP, BUY, TP: SGD3.10) and StarHub (STH SP, NEUTRAL, TP: SGD1.30) (30-40% of group revenues). StarHub's enterprise revenue grew 13.5% QoQ in 3Q20 (9M20: +9%), supported by the maiden contribution from the newly-acquired Malaysian-based data centre and managed solutions provider Strateq, and stronger demand for cyber-security services (Ensign), while Singtel's enterprise business ticked-up 7% QoQ (9M20: -3.2% YoY) from higher system infrastructure and cloud services jobs, off a low base in 2Q20.

Key risks are competition and 5G data monetisation

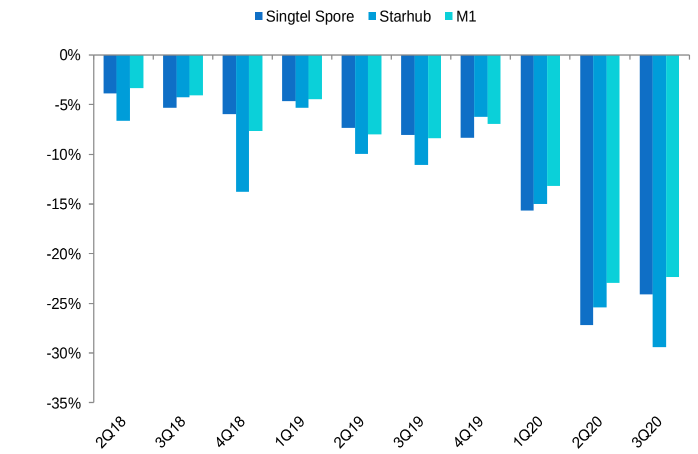
The jury is still out on 5G monetisation, although telcos are fairly optimistic on the prospects for ARPU accretion, judging from the positive response to trial services and price rationality. We expect the operators to streamline their 5G plans (potentially aligned with new 5G-type applications) ahead of the commercial launch by mid-2021 on the 3500MHz band.

We expect competition in the SIM-only segment to stay keen, as the mobile network operators slug it out with the mobile virtual network operators, with their digital plans (GOMO and Giga). Enterprise spending, which was impacted by the pandemic and the CB, continued to see some execution risks with project deferments. However, this is likely to be buffered by increased digital spending by corporates (cloud services, cyber security and data center) in the new normal.

Singtel remains our preferred telco pick

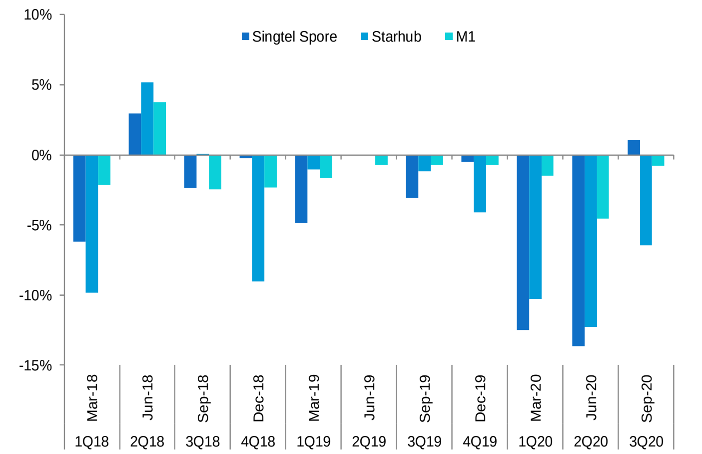
The stock has been bashed down to over a decade-low on: i) Concerns over earnings risks from the pandemic, ii) potential dividend disappointments, and iii) weaker-than-expected enterprise spending with project deferments and/or delays. At current levels, Singtel's regional associates are valued in excess of the group's market capitalisation, which implies that its core mobile businesses (Singapore and Australia) are going for free. Singtel trades at -1SD from its historical EV/EBITDA mean, offering prospective dividend yield of about 5%. The group will see a new leadership in the new year, which market observers highlight as a potential "turning point". As a recipient of one of two Digital Full Bank licenses or DFB, Singtel stands to benefit in the longer-run from new financial revenue streams, with good upselling opportunities across its extensive customer base. Downside/upside risks for the stock are weaker/stronger-than-expected earnings/margins and the sale of non-core assets.

Figure 93: Mobile revenue growth (% chg YoY)



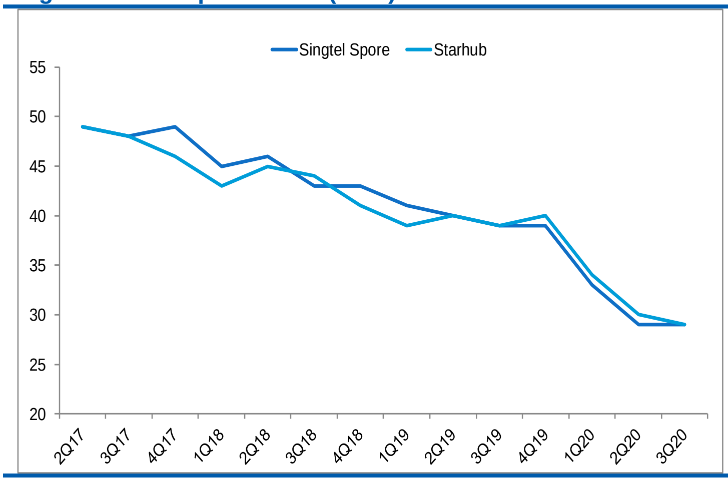
Source: Company data, RHB

Figure 94: Mobile revenue growth (% chg QoQ)



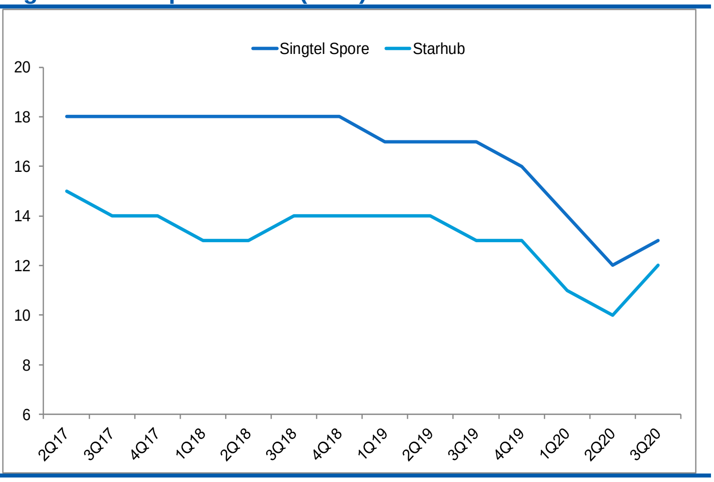
Source: Company data, RHB

Figure 95: Postpaid ARPU (SGD)



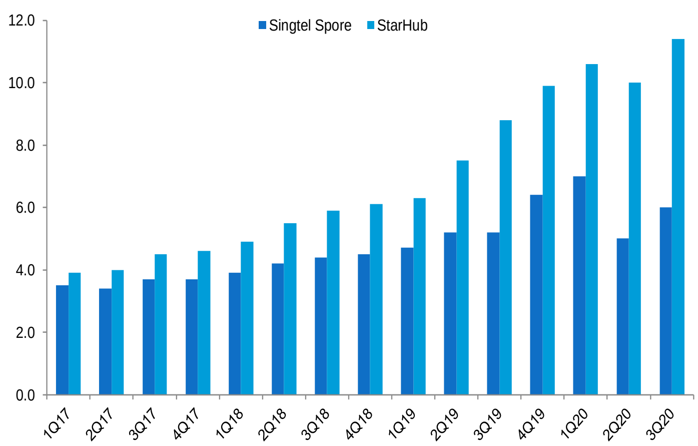
Source: Company data, RHB

Figure 96: Prepaid ARPU (SGD)



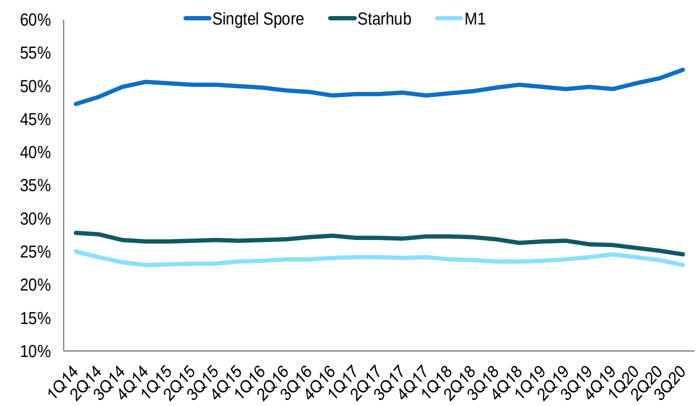
Source: Company data, RHB

Figure 97: Average data usage (GB per subs/mth)



Source: Company data, RHB

Figure 98: Mobile subscriber share



Source: Company data, RHB

Transport & Industrials – OVERWEIGHT

(Shekhar Jaiswal, +65 6320 0806, shekhar.jaiswal@rhbgroup.com)

Figure 99: Sector comparison – capital goods

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
ISOTeam	34	Buy	0.21	54.4	Jun-21	7.3	7.0	6.1	1.0	0.9	1.0	2.7	2.8	19.4	14.1	14.0	16.1
ST Engineering	8,899	Buy	4.40	13.1	Dec-20	24.0	21.4	18.7	5.4	5.2	4.9	3.8	3.9	4.0	22.6	24.7	26.8
Capital Goods	**8,933**					**24.0**	**21.3**	**18.6**	**5.4**	**5.2**	**4.8**	**3.8**	**3.9**	**4.0**	**22.5**	**24.6**	**26.7**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

Figure 100: Sector comparison – transport

Company name	M Cap (USDm)	Rating	Target price	Upside/ down. (%)	1FY year	P/E (x) 1FY	2FY	3FY	P/BV (x) 1FY	2FY	3FY	Yield (%) 1FY	2FY	3FY	ROE (%) 1FY	2FY	3FY
China Aviation Oil	682	Buy	1.25	13.6	Dec-20	13.3	10.0	9.3	0.8	0.8	0.7	3.1	1.9	2.3	6.3	8.0	8.1
ComfortDelGro	2,673	Buy	1.90	15.9	Dec-20	54.7	16.4	14.4	1.4	1.4	1.3	1.5	4.9	5.6	2.5	8.4	9.3
Transport	**3,355**					**46.3**	**15.1**	**13.4**	**1.3**	**1.2**	**1.2**	**1.8**	**4.3**	**4.9**	**3.3**	**8.3**	**9.1**

Note: Prices are as at 4 Dec 2020
Source: Bloomberg, RHB

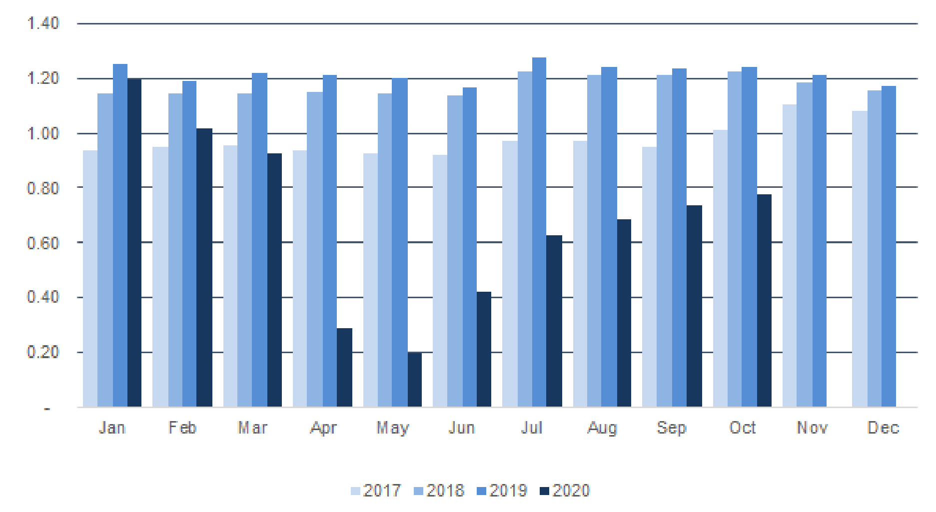
Land transport: ComfortDelGro to see a strong rebound in earnings in 2021

YoY improvement in Singapore's public transport ridership

In 2019, public transport business accounted for c.55% of ComfortDelGro's (CD) operating profit. While it does not disclose numbers, we estimate a large portion of that profit was accrued from its Singapore operations – especially bus operations – as the rail business has been losing money. With the implementation of CB measures due to the pandemic, losses for rail business are likely to have seen a sharp rise amid lower ridership and higher costs owing to efforts to ensure safe distancing. However, with the gradual removal of CB measures, rail ridership has improved.

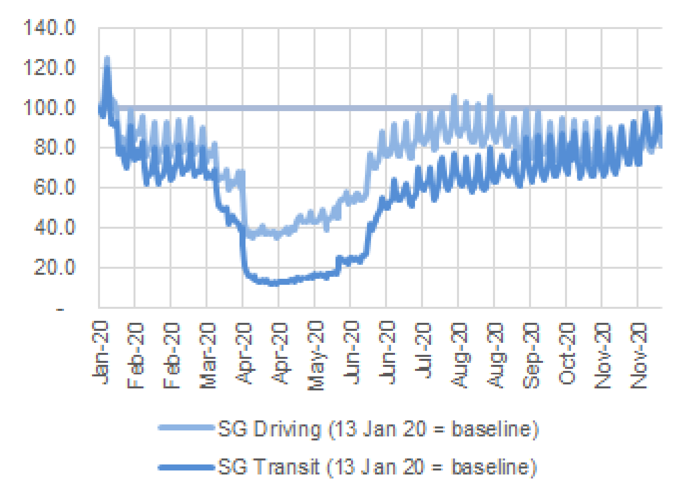
As Singapore enters Phase 3 of the reopening the economy, ridership should continue to witness MoM improvement over the next few quarters. This should help alleviate revenue stress faced by its rail business. We also expect its bus operating frequencies should gradually revert to pre COVID-19 levels in the coming quarters. The extension of government support to early 2021 should provide the much needed cost support for the public transport business in Singapore.

Figure 101: Singapore's MRT ridership for SBS Transit (m)



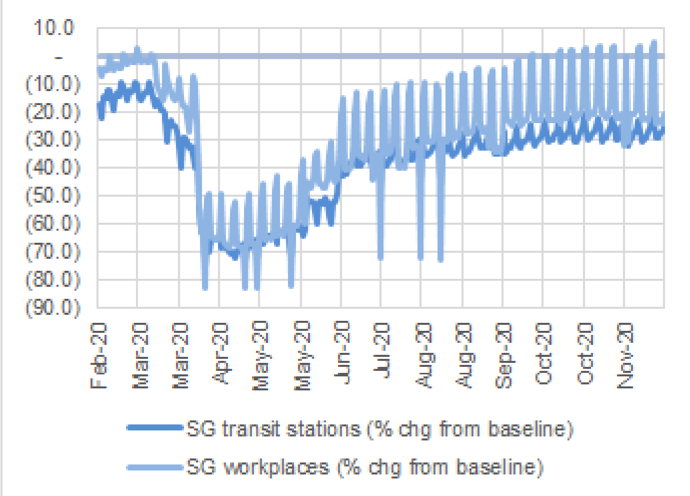
Source: Company data, RHB

Figure 102: Apple Mobility data for Singapore suggests that driving and transit traffic are gradually inching back to pre-COVID levels



Source: Apple, RHB

Figure 103: Google Mobility data for Singapore suggests that people have started to return to workplaces and visits to public transit stations have improved as well



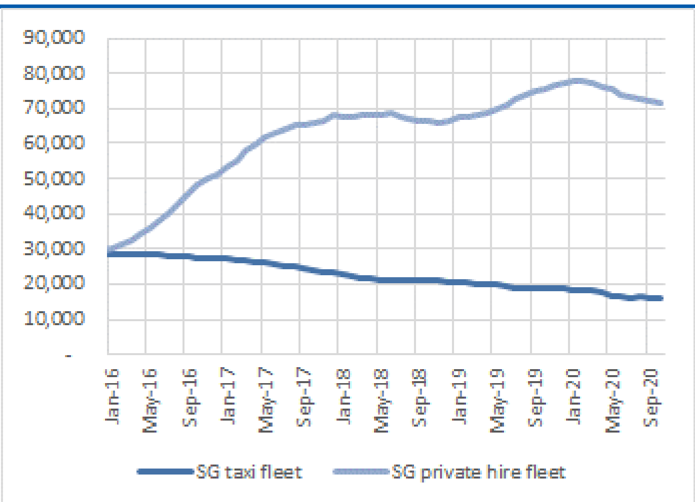
Source: Google, RHB

Competitive intensity in taxi industry to decline

Amidst the prolonged debilitating impact of COVID-19, HDT Singapore (HDT) announced the closure of its taxi business for good. HDT ran the smallest fleet of 117 taxis as at end October (industry size: 16,012 taxis). Recent news reports suggest that Grab and Gojek have made substantial progress in working out a deal to combine their businesses. This merger, if confirmed, should reduce the competitive intensity in Singapore's taxi and private-hire car landscape, which has already witnessed a decline in demand this year due to the pandemic.

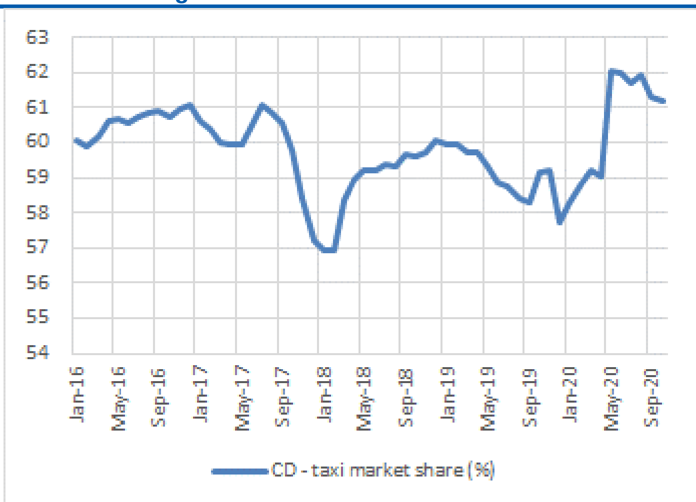
We believe Grab will be realigning its focus to non-transport businesses in 2021. News reports suggest that while the gross merchandise value (GMV) for Grab's transport business has witnessed sharp decline, the GMV for its food business had grown rapidly. While Singapore has a limited market size due to its small population, COVID-19 has accelerated the food delivery business. The recent winning of the Digital Full Bank licence by the Grab-Singtel consortium would also mean that Grab will be busy building its financial services business over the next two years, as it plans to launch the digital bank in early 2022.

Figure 104: Private hire car fleet in Singapore has started to decline



Source: LTA, SingStat, RHB

Figure 105: CD has regained its lost market share in taxi business during 2020

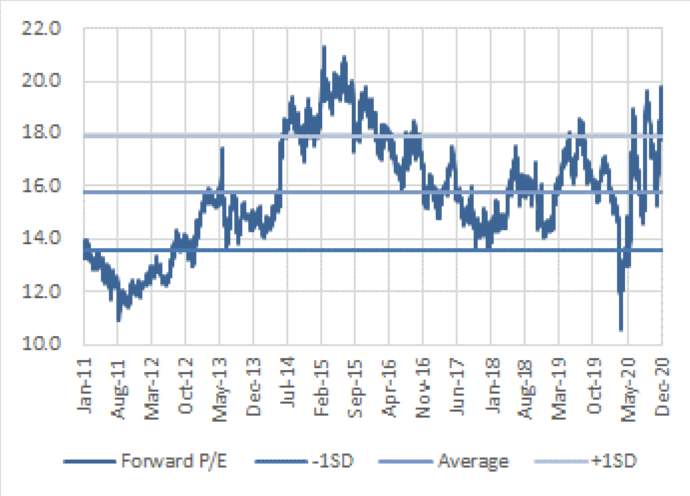


Source: LTA, SingStat, RHB

Reopening of Singapore and availability of COVID-19 vaccine to drive earnings

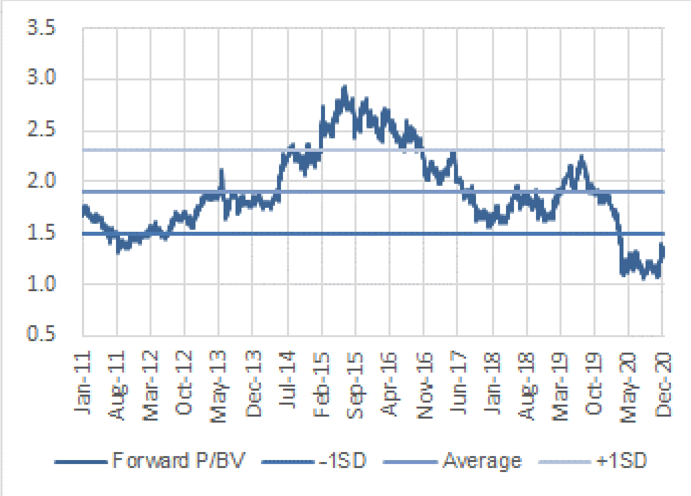
The gradual normalisation of business activities in Singapore and CD's key overseas markets (ie the UK and Australia) should translate into higher earnings for its public transport and taxi businesses in 2021. While a full recovery to pre-COVID-19 earnings could take more than two years, we expect CD to deliver a strong rebound in earnings in 2021.

Figure 106: CD's P/E



Source: LTA, SingStat, RHB

Figure 107: CD's P/BV



Source: LTA, SingStat, RHB

Key risks: re-emergence of COVID-19 infection in Singapore and delays in vaccine

Delayed profit recovery amid a renewed wave of COVID-19 infection that could lead to the reinstatement of CB restrictive measures in Singapore, and a decline in business margins.

Industrials: ST Engineering is betting on demand recovery and lower costs

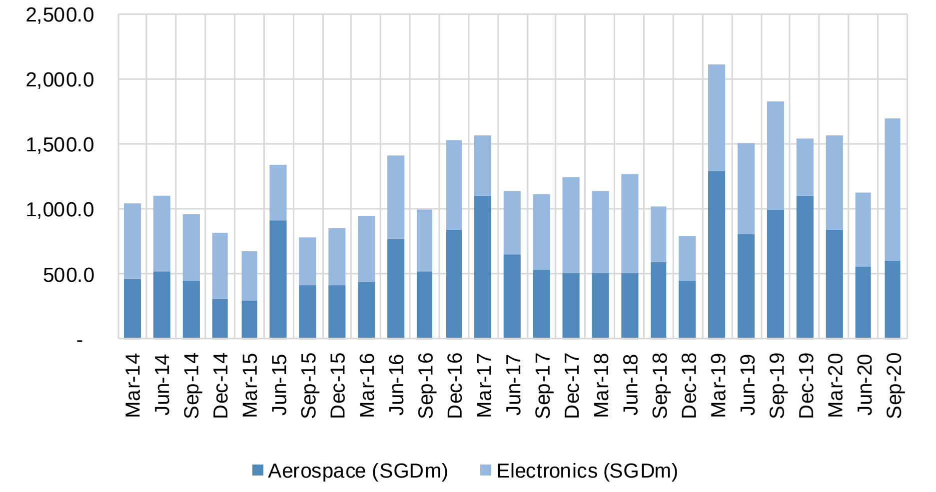
Defensive business, sustainable dividends

With its business spread across four segments (aerospace, electronics, land systems and marine) and across geographies, STE has a well-diversified portfolio – ensuring resilient earnings through business cycles. We believe earnings from its defense-related business, which accounted for one-third of 1H20 earnings, and cost support from the extension of the JSS to Mar 2021 should ensure that 2020 earnings remain relatively resilient. Moreover, its SGD15.8bn orderbook offers two years of revenue visibility. STE will likely maintain 2019's 15 SG cents DPS for 2020F, in contrast to other large-cap Singapore companies, which should see lower dividends in 2020. On the back of an expected profit recovery, we believe dividends will be maintained in 2021 as well.

Strong order win momentum; electronics and aerospace to drive earnings growth

In 3Q20, its electronics segment registered its highest ever quarterly order win of SGD1.1bn. STE expects this order win momentum to sustain amidst strong governmental spending on technology infrastructure and continuing urbanisation trend. Hangar utilisation for STE's MRO business stood at c.66.0% in 3Q20. Given its global business presence and in line with industry aircraft fleet mix, its MRO business has a higher exposure to narrow-body aircraft, which is witnessing better passenger demand due to a swift rebound in domestic air traffic. Plans to expand its passenger-to-freighter conversion business could help in improving hangar utilisation while global air traffic gradually recovers.

Figure 108: Order wins have remained strong despite COVID-19

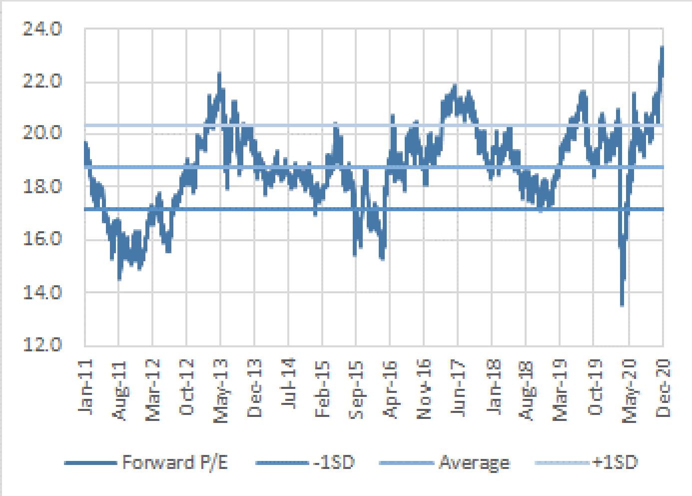


Source: Company data, RHB

Planned business reorganisation will be a long-term positive

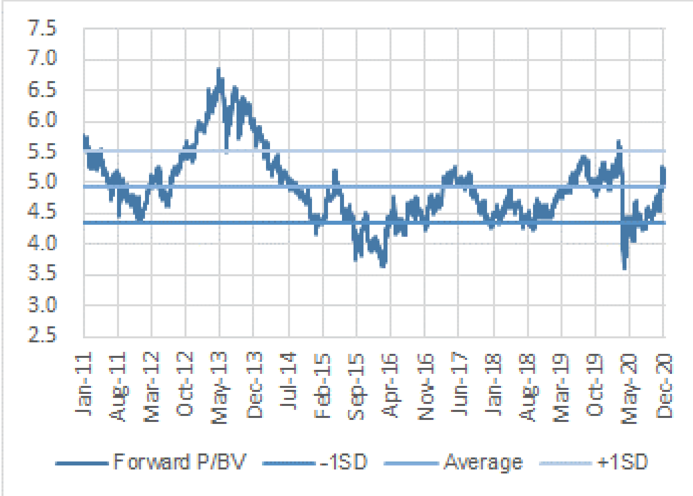
Effective 1 Jan 2021, STE will reorganise its businesses into two growth-focused segments – commercial, and defence & public security. These will replace the current aerospace, electronics, land systems and marine segments. We view this positively, as it will enable STE to better channel its resources towards growth areas in Smart City and international business, and make it easier to build synergies across current segments.

Figure 109: STE's P/E



Source: LTA, SingStat, RHB

Figure 110: STE's P/BV



Source: LTA, SingStat, RHB

14 December 2020

Property | REITS

ARA Logos Logistics Trust (ALLT SP)

Buy (Maintained)

Target Price (Return):	SGD0.72 (+20%)
Price:	SGD0.60
Market Cap:	USD532m
Avg Daily Turnover (SGD/USD)	1.77m/1.31m

Beneficiary Of Rising Logistics Demand

- **BUY with TP of SGD0.72, 20% upside and 8% yield.** ARA LOGOS Logistics Trusts' portfolio of 27 strategically-located logistics assets across Singapore and Australia stand to benefit from the expected rise in logistics demand. It also recently announced a sizeable acquisition of 10 Australian assets from its sponsor, further strengthening its portfolio. Valuation is reasonably attractive at 1x P/BV.
- **Logistics demand to grow on the back of increased stockpiling and e-commerce trends.** The global lockdown from COVID-19 has resulted in a surge in the digital economy with both consumer and retail tenants ramping up online activities. In addition, demand for supermarket goods surged tremendously and this, combined with supply chain disruption, has led to a rising demand for good quality logistics assets. Countries like Singapore are also looking to increase their stockpiles to prepare for uncertainties ahead. ALLT's strategically-located logistic assets (such as near airport hubs and ports) stand to benefit from the above trends.

  Rising portfolio occupancy a testimony to improving demand. ALLT's SG portfolio occupancy has risen 4.5ppts YTD to 98.7% driven by surge in logistics demand from stock piling and growing e-commerce demand. While Australia occupancy fell slightly to 94.7%, management noted that Australia vacancy is transitionary in nature and was due to the movement of a single tenant. 9M20 rent reversions stood at -1.0% and we expect rent reversion to be flattish to slight positive in 2021.
- **Singapore: Supply pressures wearing off post 2020.** Based on JTC's latest industrial data, c.877sqm of new warehouse space is expected to come on stream between 4Q20-2024, which corresponds to ~220sqm pa compared to a 10-year average of c.400sqm. The outlook for Australia industrial market remains stable as businesses are looking at future proofing their supply chain capabilities and infrastructure investment by the Government positively impacting demand.
- **Recent Australian acquisitions solidify income stream.** ALLT recently announced proposed acquisition of 10 properties Australia (including a development asset, which is expected to be completed in Nov 2021) for SGD404m. The assets have a blended NPI yield of 5% and the transaction is expected to be completed in 4Q20. A key highlight of the deal is the acquisition portfolios' long WALE of 11.3 years. Post-acquisition Australia will account for 48% of total assets up from 33% currently. Post transaction gearing will rise to 42.9% from 40.4% currently.

Analyst

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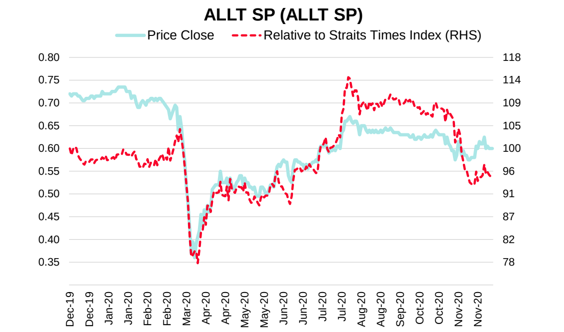
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.1)	2.6	(6.3)	7.1	(16.7)
Relative	(4.2)	(10.3)	(19.5)	2.2	(6.6)
52-wk Price low/high (SGD)					0.36 – 0.74



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	122	114	116	134	138
Net property income (SGDm)	91	86	87	100	103
Reported net profit (SGDm)	25.9	(8.0)	45.3	62.7	65.8
Total distributable income (SGDm)	58.4	57.7	56.1	66.0	66.2
DPS (SGD)	0.06	0.06	0.05	0.05	0.05
DPS growth (%)	(9.7)	(6.7)	(12.6)	2.4	2.5
P/B (x)	0.90	1.02	1.05	1.04	1.05
Dividend Yield (%)	9.9	9.2	8.0	8.2	8.4
Return on average equity (%)	3.5	(1.2)	7.2	8.6	8.0
Return on average assets (%)	2.0	(0.6)	3.3	4.0	3.7

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Property
ARA Logos Logistics Trust
ALLT SP
Buy

Valuation basis

DDM

Key drivers

i. Logistics/warehouse sector to remain relatively resilient amid changing consumer patterns;
ii. The entry of Logos provides added operational and growth advantage;
iii. Investors continued appetite for yields.

Key risks

i. Continued pressure in rents from new supply;
ii. Spike in tenant defaults;
iii. Relocation of tenants to cheaper markets.

Company Profile

ARA Logos Logistics Trust is a Singapore-based REIT. The REIT invests in income-producing real estate used for logistics purposes in Asia-Pacific, as well as real estate-related assets.

Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS (SGD)	0.02	(0.01)	0.04	0.04	0.05
EPS (SGD)	0.02	(0.01)	0.04	0.04	0.05
DPS (SGD)	0.06	0.06	0.05	0.05	0.05
BVPS (SGD)	0.66	0.59	0.57	0.57	0.57
Return on average equity (%)	3.5	(1.2)	7.2	8.6	8.0
Weighted avg adjusted shares (m)	1,072.18	1,082.85	1,092.50	1,433.55	1,444.28

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	24.84	na	14.46	13.73	13.16
P/E (x)	24.84	na	14.46	13.73	13.16
P/B (x)	0.9	1.0	1.0	1.0	1.1
FCF Yield (%)	12.1	11.4	11.0	10.8	11.3
Dividend Yield (%)	9.9	9.2	8.0	8.2	8.4
EV/EBITDA (x)	(2.32)	(2.50)	(2.27)	0.14	0.19
EV/EBIT (x)	(2.34)	(2.52)	(2.27)	0.14	0.19

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	122	114	116	134	138
EBITDA	81	76	76	88	91
Depreciation and amortisation	(1)	(0)	0	0	0
Operating profit	80	75	76	88	91
Net interest	(18)	(21)	(22)	(30)	(31)
Pre-tax profit	28	(6)	47	65	68
Taxation	(3)	(2)	(2)	(2)	(3)
Recurring net profit	26	(8)	45	63	66

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Cash flow from operations	83	77	75	96	101
Capex	(5)	(3)	(3)	(3)	(3)
Cash flow from investing activities	(110)	(42)	(3)	(407)	(3)
Dividends paid	(64)	(59)	(53)	(65)	(71)
Cash flow from financing activities	49	(56)	(76)	310	(100)
Cash at beginning of period	15	33	15	13	16
Net change in cash	22	(21)	(4)	(1)	(2)
Ending balance cash	36	12	11	12	14

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	33	15	13	16	17
Total investments	1,269	1,334	1,342	1,577	1,588
Total other assets	1	1	1	179	179
Total assets	1,310	1,359	1,363	1,780	1,792
Short-term debt	28	113	0	0	0
Total long-term debt	442	397	528	746	756
Total liabilities	495	618	634	855	865
Shareholders' equity	713	639	627	823	825
Total equity	815	741	729	925	926
Net debt	437	495	514	730	739
Total liabilities & equity	1,310	1,359	1,363	1,780	1,792

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	8.6	(6.6)	1.8	15.7	3.1
Recurrent EPS growth (%)	(2.0)	(130.4)	0.0	5.4	4.3
Operating EBITDA margin (%)	66.3	66.8	65.7	66.0	66.1
Net profit margin (%)	21.3	(7.0)	39.2	46.9	47.8
Dividend payout ratio (%)	244.9	(750.7)	116.3	113.0	111.1
Capex/sales (%)	4.2	2.3	2.3	2.0	1.9
Interest cover (x)	4.33	3.51	3.47	2.96	2.98

Source: Company data, RHB

14 December 2020

Property | Real Estate

CapitaLand (CAPL SP)

Buy (Maintained)

Repositioning Into The New Economy

Target Price (Return):	SGD3.75 (+18%)
Price:	SGD3.17
Market Cap:	USD12,357m
Avg Daily Turnover (SGD/USD)	31.2m/23.1m

- **Keep BUY and SGD3.75, 18% upside and c.4% FY21F yield.** CapitaLand's – our sector Top Pick – portfolio operations across asset class have rebounded from a 2Q trough. Despite COVID-19, it has managed to achieve its annual target of SGD3bn in divestments and has recycled its capital into new economy asset classes. Valuations remain attractive, with the stock trading at 31% and 41% discounts to book value and RNAV.
- **Retail operations across markets have rebounded in 3Q** with good improvements seen in tenant sales and shopper traffic. Overall occupancy for its lodging assets also improved to c.50% in 3Q vs 2Q's 40% with a ~22% QoQ increase in revenue per available room (RevPAR). The operational performance of CAPL's industrial and office portfolios has remained relatively resilient throughout the pandemic and 3Q fund management fee income rose 2% QoQ to SGD71.1m (-18% YoY). We expect a strong 2H vs 1H and estimate a 48% YoY rise in 2021 earnings.
- **Achieves USD3bn divestment target; recycles capital into new economy assets.** CAPL recently announced sale of three Japanese retail malls – La Park Mizue, Vivit Minami-Funabashi, and Coop Kobe Nishinomiya Higashi – for JPY21.99bn (SGD283.6m) at a slight premium to book value (estimated net gain: SGD6.4m). It also formed a JV with Mitsui & Co to develop and operate a logistics project (4Q22 expected completion) in Greater Tokyo, marking its maiden foray into Japan's logistics sector. In November, CAPL also announced plans to ramp up investments in China to SGD5bn from SGD1.5bn with a focus on business parks, data centres, and logistic assets. These moves reiterate its strategy of divesting non-core assets (mainly retail) and to recycle the capital into new economy assets. YTD-November, CAPL has registered a gross divestment value of SGD3.02bn and invested >SGD3.3bn into new assets.
- **Strong residential sales across markets.** China residential sales rose 40% QoQ to 1,900 units in 3Q. In Singapore and Vietnam, CAPL sold 3x and 2x the total number of units sold in 1H.
- **Scaling up its US multi-family portfolio.** In December, CAPL announced the formation of a programmatic JV (80% stake) to acquire and develop a freehold land parcel in Austin, Texas, to develop the JV's first multi-family project totalling USD300m (SGD416.1m). The JV will focus on the south-east and south-west markets in the US with an initial focus on Austin. Management said multi-family as an asset class had been holding up well, with its existing portfolio of 16 assets acquired in 2018 registering a committed occupancy of c.95%. We believe such assets in the mid to long term has the potential to be spun off as a standalone REIT or divested into Ascott REIT. With this new investment, CAPL's asset under management in the US stands at SGD4.7bn, or c.5% of its total

Analyst

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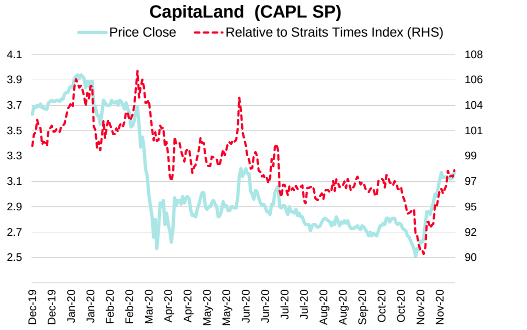
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.5)	23.8	15.3	1.0	(12.0)
Relative	(3.6)	10.9	2.1	(3.9)	(1.9)
52-wk Price low/high (SGD)					2.51 – 3.94



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	5,602	6,235	5,649	6,659	6,810
Recurring net profit (SGDm)	957	1,057	661	976	992
Recurring net profit growth (%)	3.2	10.5	(37.5)	47.6	1.7
Recurring EPS (SGD)	0.23	0.21	0.13	0.19	0.20
DPS (SGD)	0.12	0.12	0.08	0.12	0.12
Recurring P/E (x)	13.89	15.10	24.16	16.36	16.10
P/B (x)	0.70	0.68	0.69	0.69	0.71
Dividend Yield (%)	3.8	3.8	2.5	3.8	3.8
Return on average equity (%)	9.9	10.1	2.2	5.3	5.5
Net debt to equity (%)	58.5	66.4	65.8	69.7	69.8

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Property
CapitaLand
CAPL SP
Buy

Valuation basis

RNAV methodology.

Key drivers

i. Synergies and contributions from ASB;
ii. Growing recurring income from fund management segment;
iii. Divestments and M&A.

Key risks

i. Global markets entering recession,
ii. Investors ascribing higher holding company discount;
iii. Rising interest rates impacting real estate segment.

Company Profile

CapitaLand and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The company also manages other properties.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.23	0.21	0.13	0.19	0.20
EPS	0.44	0.42	0.10	0.24	0.25
DPS	0.12	0.12	0.08	0.12	0.12
BVPS	4.52	4.64	4.63	4.56	4.43
Return on average equity (%)	9.9	10.1	2.2	5.3	5.5
Return on average assets (%)	2.9	2.9	0.6	1.5	1.5

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	13.89	15.10	24.16	16.36	16.10
P/B (x)	0.7	0.7	0.7	0.7	0.7
Dividend Yield (%)	3.8	3.8	2.5	3.8	3.8
EV/EBITDA (x)	(0.77)	(0.50)	(1.37)	(0.60)	(0.77)

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	5,602	6,235	5,649	6,659	6,810
Gross profit	2,690	3,000	2,436	2,930	2,996
EBITDA	3,250	4,197	2,127	2,555	2,641
Depreciation and amortisation	(63)	(118)	(121)	(124)	(129)
Operating profit	3,186	4,079	2,006	2,431	2,513
Net interest	(553)	(839)	(913)	(945)	(1,002)
Pre-tax profit	3,593	4,228	1,456	2,519	2,602
Taxation	(659)	(815)	(640)	(537)	(640)
Reported net profit	1,847	2,136	511	1,226	1,247
Recurring net profit	957	1,057	661	976	992

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(1,414)	11	335	(710)	1,334
Cash flow from operations	553	2,246	1,623	1,303	3,368
Capex	(729)	85	(830)	(830)	(850)
Cash flow from investing activities	(1,356)	(359)	(746)	(563)	(576)
Dividends paid	(1,248)	(1,345)	(495)	(831)	(819)
Cash flow from financing activities	(217)	(766)	(2,042)	(1,585)	(1,806)
Cash at beginning of period	6,105	5,060	6,168	5,002	4,156
Net change in cash	(1,019)	1,121	(1,165)	(845)	985
Ending balance cash	5,060	6,168	5,002	4,156	5,141

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	5,060	6,168	5,002	4,156	5,141
Tangible fixed assets	753	1,269	1,299	1,329	1,379
Total investments	49,626	61,728	62,628	63,528	64,428
Total other assets	1,823	2,724	2,776	2,830	2,885
Total assets	64,648	82,346	80,403	82,083	83,261
Short-term debt	4,102	5,451	3,950	3,950	3,950
Total long-term debt	20,440	27,461	27,661	28,561	29,461
Total liabilities	31,341	42,063	39,965	41,424	42,759
Shareholders' equity	18,953	23,359	23,301	22,993	22,336
Minority interests	14,354	16,923	17,137	17,667	18,167
Total equity	33,307	40,283	40,438	40,659	40,502
Total liabilities & equity	64,648	82,346	80,403	82,083	83,261

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	21.3	11.3	(9.4)	17.9	2.3
Recurring net profit growth (%)	3.2	10.5	(37.5)	47.6	1.7
Recurrent EPS growth (%)	4.5	(8.1)	(37.5)	47.6	1.7
Gross margin (%)	48.0	48.1	43.1	44.0	44.0
Recurring net profit margin (%)	17.1	17.0	11.7	14.7	14.6
Dividend payout ratio (%)	27.2	28.3	78.9	49.3	48.5

Source: Company data, RHB

Singapore Equity Strategy

14 December 2020

Transport | Road & Rail

ComfortDelGro (CD SP)

Buy (Maintained)

Strong Domestic Earnings Recovery Story; BUY

Target Price (Return):	SGD1.90 (+16%)
Price:	SGD1.64
Market Cap:	USD2,667m
Avg Daily Turnover (SGD/USD)	19.3m/14.3m

- **Maintain BUY and SGD1.90 TP, 16% upside and 5% 2021F yield.** ComfortDelGro witnessed a QoQ improvement in its public transport and taxi businesses during 3Q20 despite lower support from the Government. While a strong control on COVID-19 should lead to further normalisation of business operations in Singapore early 2021, the availability of a vaccine should support earnings recovery in its overseas markets during 2H21. We remain confident of a strong profit recovery in 2021 and believe current valuation remains compelling.
- **Singapore public transport and taxi businesses to support earnings rebound.** Singapore accounted for 58% of revenue and 66% of operating profit for CD in 2019. We believe that sequential improvement in the company's Singapore earnings will continue as the Government gradually reopens the economy. Its bus operating frequencies should gradually revert to pre COVID-19 levels and ridership for its rail business should continue to witness sequential improvement over the next few quarters. Recent exit of the smallest taxi operator and potential merger between Grab and Gojek should lead to lower competitive intensity in Singapore's taxi business, which will be positive for CD's taxi business.
- **Overseas business to see gradual revival in earnings as well.** While we see near-term earnings headwinds from the recently announced lockdown in the UK, we believe that the situation should start improving by mid-next year. Significant improvement in its UK and Australian public transport and taxi businesses should be visible once COVID-19 vaccine becomes available during 2H21. In 2019, the UK and Australia accounted for 10% and 19% of CD's operating profit.
- **Expecting strong earnings growth in 2021.** We maintain that gradual normalisation of business activities in Singapore and CD's key overseas markets (ie the UK and Australia) should translate into higher earnings for its public transport and taxi businesses in 2021. While full recovery to pre-COVID-19 earnings could take more than two years, we expect CD to deliver a strong rebound in earnings in 2021.
- **Compelling valuation.** Our DCF-based TP implies 19x 2021F P/E, which is higher than its average P/E of 16x. We assess this to be fair on the back of strong earnings growth expected in 2021. CD is trading at 1.4x 2021F P/BV, which is slightly above its historic low of 1.2x. We believe its P/BV multiple has yet to capture the expected improvement in ROE.
- **Key risks.** Delayed profit recovery amid a renewed wave of COVID-19 infections that could lead to the reinstatement of the CB restrictive measures in Singapore, and a decline in business margins.

Analyst

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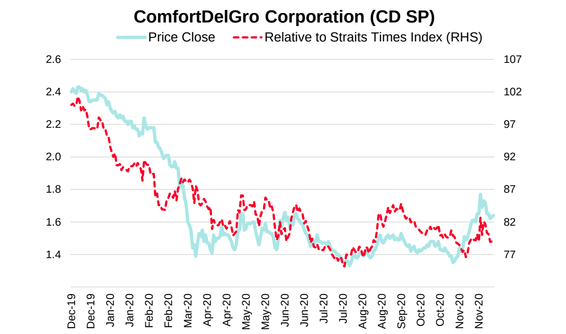
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(31.1)	18.0	7.9	4.5	(29.9)
Relative	(19.2)	5.1	(5.3)	(0.4)	(19.8)
52-wk Price low/high (SGD)					1.33 – 2.43



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,805	3,906	3,480	3,804	3,930
Recurring net profit (SGDm)	297	286	65	216	247
Recurring net profit growth (%)	1.2	(3.6)	(77.3)	232.4	14.3
Recurring P/E (x)	11.95	12.40	54.67	16.45	14.39
P/B (x)	1.4	1.4	1.4	1.4	1.3
P/CF (x)	5.31	5.82	5.65	6.00	5.46
Dividend Yield (%)	6.4	6.0	1.5	4.9	5.6
EV/EBITDA (x)	8.99	9.38	53.59	10.77	9.15
Return on average equity (%)	11.6	10.2	2.5	8.4	9.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Transport
ComfortDelGro
CD SP
Buy

Valuation basis

DCF

Key drivers

i. More earnings-accretive acquisitions;
ii. Higher dividends;
iii. Contributions from acquisitions;
iv. Fare increases boosting its train business;
v. Pause in taxi fleet contraction;
vi. Favourable regulations supporting the taxi industry.

Key risks

i. Continuing decline in taxi fleet size;
ii. Increased competition from ride-hailing players leading to lower daily rental rates for taxis;
iii. Sharper-than-estimated decline in margins for existing businesses;
iv. Loss of existing contracts for the public transport business.

Company Profile

ComfortDelGro, one of largest land transport companies in the world, is a market leader in Singapore and has a significant overseas presence. Its businesses include bus, taxi, rail, car rental & leasing, automotive engineering services, testing services, driving centre, insurance broking services, outdoor advertising, and car dealerships.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.14	0.13	0.03	0.10	0.11
DPS	0.11	0.10	0.02	0.08	0.09
BVPS	1.21	1.20	1.17	1.21	1.24
Return on average equity (%)	11.6	10.2	2.5	8.4	9.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	11.95	12.40	54.67	16.45	14.39
P/B (x)	1.4	1.4	1.4	1.4	1.3
FCF Yield (%)	8.9	7.4	12.4	8.2	9.9
Dividend Yield (%)	6.4	6.0	1.5	4.9	5.6
EV/EBITDA (x)	8.99	9.38	53.59	10.77	9.15
EV/EBIT (x)	8.99	9.38	53.59	10.77	9.15

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	3,805	3,906	3,480	3,804	3,930
Gross profit	3,805	3,906	3,480	3,804	3,930
EBITDA	439	416	67	322	366
Operating profit	439	416	67	322	366
Net interest	(11)	(21)	(16)	(16)	(16)
Pre-tax profit	439	407	82	328	375
Taxation	(81)	(88)	(4)	(69)	(79)
Reported net profit	303	265	65	216	247
Recurring net profit	297	286	65	216	247

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	1	(86)	0	0	0
Cash flow from operations	669	610	629	592	651
Capex	(353)	(347)	(190)	(300)	(300)
Cash flow from investing activities	(638)	(367)	(171)	(278)	(275)
Dividends paid	(236)	(274)	(115)	(138)	(185)
Cash flow from financing activities	(29)	(230)	(131)	(154)	(201)
Cash at beginning of period	596	586	594	922	1,081
Net change in cash	2	14	327	160	175
Ending balance cash	586	594	922	1,081	1,256

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	586	594	922	1,081	1,256
Tangible fixed assets	2,691	2,706	2,505	2,426	2,358
Total investments	31	25	25	25	25
Total assets	5,137	5,379	5,355	5,489	5,617
Short-term debt	90	199	199	199	199
Total long-term debt	480	331	331	331	331
Total liabilities	2,110	2,370	2,382	2,396	2,413
Total equity	3,027	3,009	2,972	3,093	3,204
Total liabilities & equity	5,137	5,379	5,355	5,489	5,617

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	6.4	2.6	(10.9)	9.3	3.3
Recurrent EPS growth (%)	1.0	(3.6)	(77.3)	232.3	14.3
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating EBITDA margin (%)	11.5	10.6	1.9	8.5	9.3
Net profit margin (%)	8.0	6.8	1.9	5.7	6.3
Dividend payout ratio (%)	75.0	80.0	80.0	80.0	80.0
Capex/sales (%)	9.3	8.9	5.5	7.9	7.6
Interest cover (x)	38.5	19.6	4.2	20.3	23.0

Source: Company data, RHB

14 December 2020

Financial Services | Banks

DBS (DBS SP)

Buy (Maintained)

ROE Firmly On Road To Recovery; Keep BUY

Target Price (Return):	SGD30.0 (+17%)
Price:	SGD25.7
Market Cap:	USD48,949m
Avg Daily Turnover (SGD/USD)	118m/87.1m

- **Maintain BUY, SGD30.00 TP, 17% upside and c.4% FY21F yield.** We believe DBS is on its way to a sustained ROE recovery in FY21F-22F. Aside from lower credit costs, the pick-up in economic activities will underpin continued improvements in fee income growth and loan demand. Strategies to manage excess liquidity and deposit repricing should also help support NII. The acceleration in digital adoption, spurred by COVID-19, also places DBS ahead of peers. At 1.05x FY21F P/BV against ROE of 9.5%, the current valuation remains compelling.
- **Provision buffers are high.** Compared to peers, DBS has more headroom to absorb any potential losses from credit risks. With provisions of SGD2,489m set aside in 9M20, that included adjustments for macroeconomic variables (MEV) and management overlay, management has front-loaded much of its 2-year provision guidance of SGD3-5bn. Its LLR was increased to 107% at end-Sep 2020, compared with 94% in Dec 2019. We believe DBS' provision buffers are sufficient, when put up against the c.5% of loans under relief programmes.
- **Sustained recovery in fee income.** In 3Q20, DBS' fee income rebounded by a sharp 17% QoQ to pre-COVID-19 levels. We expect a sustained improvement in fee income from wealth management and customer treasury flows, as economic activities regain pace. Management is optimistic the bank can achieve double-digit fee income growth in FY21F.
- **Managing the low-interest rate environment.** Singapore's short-term interest rates are expected to stay low for longer, dampening prospects of a NIM recovery. DBS expects NIM to ease to 1.4-1.5% (3Q20: 1.53%, FY19: 1.89%). To prop up NIM, the bank is working to manage the excess liquidity built up from robust deposit growth, and reprice deposits lower. Overhead expenses will also be tightly controlled, to improve operating leverage. On a positive note, management believes loans will grow by a mid-single digit in FY21F, vs the annualised 4.3% growth in 9M20.
- **Capital position solid, safeguarding dividend prospects.** CET-1 is a very comfortable 13.7%, and should safeguard dividend prospects. We project DPS would rise to SGD0.90 in FY21F, from SGD0.74 in FY20F.
- **Key downside risks** to our view are: i) A sharp resurgence in COVID-19 cases that would once again derail global economic recovery and exert further pressure on asset quality, ii) a sharper-than-expected deterioration in asset quality post expiry of loan relief programmes, and iii) weaker-than-expected growth in fee income.

Analysts

Singapore Research
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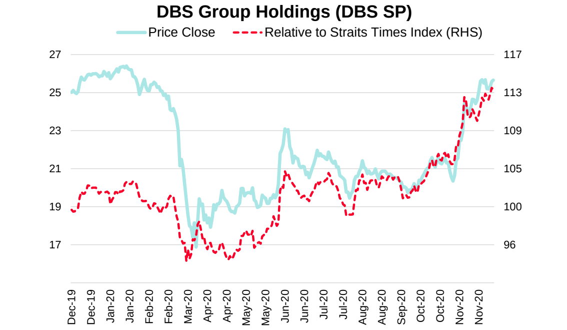
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.9)	19.1	24.1	16.7	3.0
Relative	11.0	6.2	10.9	11.8	13.1
52-wk Price low/high (SGD)					16.9 – 26.4



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (SGDm)	5,577	6,391	4,819	5,703	6,959
Net profit growth (%)	27.6	14.6	(24.6)	18.3	22.0
Recurring net profit (SGDm)	5,625	6,391	4,819	5,703	6,959
Recurring EPS (SGD)	2.21	2.50	1.89	2.24	2.74
BVPS (SGD)	19.22	19.96	22.86	24.35	26.09
DPS (SGD)	1.20	1.23	0.74	0.90	1.15
Recurring P/E (x)	11.61	10.25	13.56	11.43	9.37
P/B (x)	1.33	1.29	1.12	1.05	0.98
Dividend Yield (%)	4.7	4.8	2.9	3.5	4.5
Return on average equity (%)	11.6	12.8	8.8	9.5	10.9

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Financial Services
DBS
DBS SP
Buy

Valuation basis

Our TP is derived using the Gordon Growth Model, with key assumptions being:

i. 11.0% ROE;
ii. 9.48% COE;
iii. 3.5% long term growth.

Key drivers

Key earning drivers are:

i. NIM;
ii. Credit cost;
iii. Loan growth;
iv. Fee income growth.

Key risks

Key risks are:

i. Sharper-than-expected rise in NPLs;
ii. Weaker-than-expected NIM;
iii. A prolonged slowdown in economic growth.

Company Profile

DBS is the largest Singapore bank by asset size. It also has significant exposure to Greater China.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EPS	2.19	2.50	1.89	2.24	2.74
Recurring EPS	2.21	2.50	1.89	2.24	2.74
DPS	1.20	1.23	0.74	0.90	1.15
BVPS	19.22	19.96	22.86	24.35	26.09

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	11.61	10.25	13.56	11.43	9.37
P/B (x)	1.3	1.3	1.1	1.1	1.0
Dividend Yield (%)	4.7	4.8	2.9	3.5	4.5

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Interest income	13,798	15,592	13,050	13,650	14,380
Interest expense	(4,843)	(5,967)	(3,925)	(4,150)	(4,450)
Net interest income	**8,955**	**9,625**	**9,125**	**9,500**	**9,930**
Non interest income	4,276	4,919	5,570	5,550	5,930
Total operating income	**13,231**	**14,544**	**14,695**	**15,050**	**15,860**
Overheads	(5,814)	(6,258)	(6,155)	(6,485)	(6,815)
Pre-provision operating profit	**7,417**	**8,286**	**8,540**	**8,565**	**9,045**
Loan impairment allowances	(708)	(704)	(2,980)	(1,960)	(900)
Other impairment allowances	(2)	1	-	-	-
Other exceptional items	(48)	-	-	-	-
Pre-tax profit	**6,659**	**7,583**	**5,560**	**6,605**	**8,145**
Taxation	(1,006)	(1,154)	(701)	(859)	(1,140)
Minority interests	(76)	(38)	(40)	(43)	(46)
Reported net profit	**5,577**	**6,391**	**4,819**	**5,703**	**6,959**
Recurring net profit	**5,625**	**6,391**	**4,819**	**5,703**	**6,959**

Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Return on average assets (%)	1.0	1.1	0.8	0.8	1.0
Return on average equity (%)	11.6	12.8	8.8	9.5	10.9
Return on IEAs (%)	2.8	2.9	2.3	2.2	2.2
Cost of funds (%)	1.1	1.3	0.8	0.8	0.8
Net interest spread (%)	1.7	1.7	1.5	1.4	1.4
Net interest margin (%)	1.8	1.8	1.6	1.5	1.5
Non-interest income / total income (%)	32.3	33.8	37.9	36.9	37.4
Cost to income ratio (%)	43.9	43.0	41.9	43.1	43.0
Credit cost (bps)	20.9	19.8	80.4	50.5	22.2

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total gross loans	349,645	362,427	379,000	398,000	414,000
Other interest earning assets	167,838	179,173	230,900	241,000	242,600
Total gross IEAs	517,483	541,600	609,900	639,000	656,600
Total provisions	(4,642)	(4,543)	(6,600)	(6,900)	(7,250)
Net loans to customers	345,003	357,884	372,400	391,100	406,750
Total net IEAs	512,841	537,057	603,300	632,100	649,350
Total non-IEAs	37,910	41,889	61,419	58,301	66,937
Total assets	550,751	578,946	664,719	690,401	716,287
Customer deposits	393,785	404,289	457,000	480,000	497,000
Other interest-bearing liabilities	71,959	84,439	84,807	83,586	86,200
Total IBLs	465,744	488,728	541,807	563,586	583,200
Total non-IBLs	35,132	38,419	64,000	64,100	65,950
Total liabilities	500,876	527,147	605,807	627,686	649,150
Share capital	2,441	2,441	2,441	2,441	2,441
Shareholders' equity	49,045	50,981	58,092	61,890	66,307
Minority interests	830	818	820	825	830

Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported NPLs / gross cust loans (%)	1.5	1.5	1.7	1.7	1.7
Total provisions / reported NPLs (%)	88.4	84.1	105.5	103.2	104.2
CET-1 ratio (%)	13.9	14.1	14.9	15.4	15.6
Tier-1 ratio (%)	15.1	15.0	15.7	16.1	16.3
Total capital ratio (%)	16.9	16.7	17.4	17.8	18.0

Source: Company data, RHB

14 December 2020

Technology | Software & Services

Frencken Group (FRKN SP)

Buy (Maintained)

Twin Drivers To Drive Growth

Target Price (Return):	SGD1.22 (+5%)
Price:	SGD1.16
Market Cap:	USD371m
Avg Daily Turnover (SGD/USD)	4.08m/3.01m

- **Maintain BUY and DCF-backed SGD1.22 TP, 5% upside and c.3% yield.** Frencken had a decent 3Q20. PATMI rose 16.7% YoY despite the drop in the industrial automation segment, as its key customer is likely to launch its new product in FY21 instead of FY20. However, we expect this segment to recover in FY21F and, coupled with its strong semiconductor segment growth, we expect FY21F to be a better year – allowing the group enjoy decent EPS growth of 12.5%.
- **Riding on the semiconductor uplift.** FRKN's semiconductor segment is likely to see strong double-digit growth this year, riding on the uplift in the semiconductor industry. Management also guided for higher revenue in 2H20 due to increased sales from customers in Asia and Europe. Based on our channel checks and performance of firms in the semiconductor industry supply chain, we believe this segment will continue to be a key positive catalyst for its EPS in 2020.
- **Recovery in the automotive sector.** Revenue from the automotive segment is likely to a better 2H20 vs1H20, as automotive sales have picked up after the end of the global lockdown caused by COVID-19. We think revenue from this segment will continue to pick up in FY21F as well.
- **Growth in industrial automation will likely come in FY21.** FRKN's key customer in the industrial automation segment has delayed its new product launch due to supply chain issues – we think the launch will likely happen in FY21F now. As a result, we expect this segment to continue taking a hit and only see a recovery in FY21F. Management also guided that the industrial automation segment will remain stable in 2H20 after seeing a 35-40% drop YoY in 1H20.
- **Twin growth drivers for FY21F.** Due to the delay in FRKN's industrial automation segment, we believe FY21F will be a strong year for the group, where both its semiconductor and industrial segments should drive profits upwards. As a result, we expect a 12.5% growth in EPS for FY21F. We also retain our BUY call and DCF-backed SGD1.22 TP, implying only 10.9x FY21F P/E. The stock has recovered since our last call, but valuation remains undemanding – there is also room for further re-rating, as peers are trading at higher valuations. We are also confident of FRKN's long-term prospects and its management team – hence, why we retain our BUY recommendation.
- **Key risks** include an economic slowdown and customers delaying orders.

Analyst

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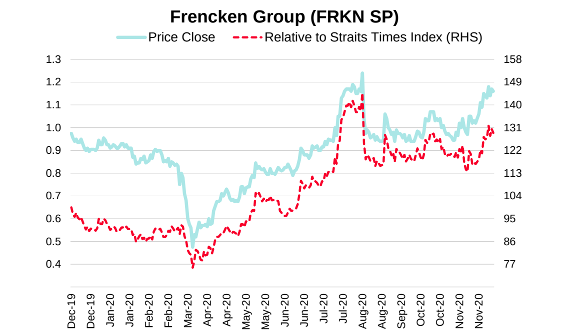
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.4	20.2	16.0	43.2	22.1
Relative	37.3	7.3	2.8	38.3	32.2
52-wk Price low/high (SGD)					0.48 – 1.24



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	626	659	617	691	725
Recurring net profit (SGDm)	33	46	42	47	50
Recurring net profit growth (%)	33.6	38.4	(8.2)	12.5	5.9
Recurring P/E (x)	14.77	10.71	11.67	10.37	9.80
P/B (x)	1.8	1.7	1.5	1.4	1.2
P/CF (x)	16.81	4.94	14.49	7.31	6.92
Dividend Yield (%)	1.8	2.6	2.6	2.9	3.1
EV/EBITDA (x)	7.92	5.19	5.96	5.03	4.40
Return on average equity (%)	11.7	15.1	13.5	13.8	13.3
Net debt to equity (%)	0.6	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Technology
Frencken Group
FRKN SP
Buy

Valuation basis

DCF-backed TP of SGD1.22.

Key drivers

Demand for customers' products.

Key risks

i. Worsening trade war affecting consumer sentiment;
ii. Economic slowdown;
iii. Weaker demand for customers' products;
iv. FX fluctuation risks.

Company Profile

Frencken Group is a global integrated technology solutions company that serves world-class multinational companies in the automotive, healthcare, industrial, life sciences, and semiconductor industries.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.08	0.11	0.10	0.11	0.12
DPS	0.02	0.03	0.03	0.03	0.04
BVPS	0.63	0.70	0.77	0.85	0.93
Return on average equity (%)	11.7	15.1	13.5	13.8	13.3

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	14.77	10.71	11.67	10.37	9.80
P/B (x)	1.8	1.7	1.5	1.4	1.2
FCF Yield (%)	1.0	17.1	1.8	8.6	9.3
Dividend Yield (%)	1.8	2.6	2.6	2.9	3.1
EV/EBITDA (x)	7.92	5.19	5.96	5.03	4.40
EV/EBIT (x)	10.79	7.04	7.88	6.59	5.80

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	626	659	617	691	725
Gross profit	102	111	99	114	123
EBITDA	61	80	71	79	83
Depreciation and amortisation	(16)	(21)	(17)	(19)	(20)
Operating profit	45	59	54	60	63
Net interest	(1)	(1)	(1)	(1)	(1)
Pre-tax profit	40	54	52	59	62
Taxation	(10)	(11)	(10)	(12)	(12)
Reported net profit	30	42	42	47	50
Recurring net profit	33	46	42	47	50

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(26.8)	26.0	(27.0)	(0.5)	(0.6)
Cash flow from operations	29.0	99.0	33.7	66.9	70.7
Capex	(24.3)	(15.2)	(25.0)	(25.0)	(25.0)
Cash flow from investing activities	(23.2)	(11.7)	(25.0)	(25.0)	(25.0)
Dividends paid	(10.1)	(9.1)	(12.6)	(14.2)	(15.0)
Cash flow from financing activities	(1.8)	(19.1)	(12.6)	(14.2)	(15.0)
Cash at beginning of period	68.2	67.1	122.4	117.2	143.5
Net change in cash	4.0	68.2	(3.9)	27.7	30.6
Ending balance cash	67.1	122.4	119.3	145.4	175.0

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	67	122	117	144	173
Tangible fixed assets	97	92	100	107	113
Total investments	5	5	5	5	5
Total assets	464	506	525	572	612
Short-term debt	67	53	53	53	53
Total long-term debt	1	0	0	0	0
Total liabilities	196	208	198	211	217
Total equity	268	298	328	361	396
Total liabilities & equity	464	506	525	572	612

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	21.5	5.3	(6.3)	11.9	5.0
Recurrent EPS growth (%)	31.5	37.9	(8.2)	12.5	5.9
Gross margin (%)	16.3	16.9	16.0	16.5	16.9
Operating EBITDA margin (%)	9.8	12.2	11.5	11.4	11.5
Net profit margin (%)	4.8	6.4	6.8	6.8	6.9
Capex/sales (%)	3.9	2.3	4.0	3.6	3.4
Interest cover (x)	17.7	20.4	18.5	20.7	21.8

Source: Company data, RHB

14 December 2020

Technology | Software & Services

Fu Yu Corp (FUYU SP)

Buy (Maintained)

Stable Dividend Dispenser; Maintain BUY

Target Price (Return):	SGD0.30 (+15%)
Price:	SGD0.26
Market Cap:	USD144m
Avg Daily Turnover (SGD/USD)	0.18m/0.13m

- **Maintain BUY and DCF-backed SGD0.30 TP, 15% upside and c.7% yield.** As of 9M20, Fu Yu Corp has SGD97.8m in net cash with zero borrowings despite the pandemic affecting production. With a further streamlining of operations in China – despite the revenue drop with the closing of its Chongqing factory – we expect further cost savings ahead. 9M20 GPM also expanded to 23.5% (9M19: 18%). We maintain our recommendation, as we expect the company to tide through this pandemic with attractive yields.
- **Margins continue to improve despite COVID-19.** 9M20 PATMI surged 36.7% YoY despite a 23.4% drop in revenue. This was mainly due the higher GPM that can be attributed mainly to the change in revenue mix, a reduction in headcount, and the group's ongoing initiatives to sustain costs while raising operational efficiencies. GPMs continue to improve to 23.5% from 18% a year ago. With the challenging business conditions are expected to continue, management will continue to evaluate avenues to further right size and optimise its China manufacturing operations – this is to ensure that FUYU is better positioned for long-term business sustainability. An example of this: The group closed its Chongqing factory, which will likely provide further cost savings operationally, in our view.
- **Strong net cash of SGD97.8m, attractive 6.3% yield.** As of 1H20, FUYU has a strong net cash position of SGD97.8m and zero borrowings. It also maintained its interim dividend payout. We expect a 1.7 SG cents payout for FY20, which results in an attractive 6.3% yield. With management learning from past mistakes during the manufacturing crisis, its prudent approach has led the group to a net cash balance sheet representing close to 53% of its market cap. Coupled with its rich cash flow generation, we believe the company will be able to weather this storm and likely come out stronger than its competitors.
- **Maintained as one of our Top Picks – stable and resilient.** With further new projects in the medical and consumer and automotive fronts, we expect a positive growth momentum for 4Q20. Despite a blip in FY20 caused by the COVID-19 situation, we believe FUYU – with a strong net cash balance sheet – will able to weather such storms. We also take the view that it can – concurrently – reward its investors with attractive dividends despite an estimated temporary drop in profits for FY20. As a result, we maintain our BUY call and DCF-based SGD0.30 TP. The company is also an attractive target for privatisation or acquisition.
- **Key risks to our call:** Economic slowdown, the US-China trade war worsening, and an escalating spread of new COVID-19 cases.

Analyst

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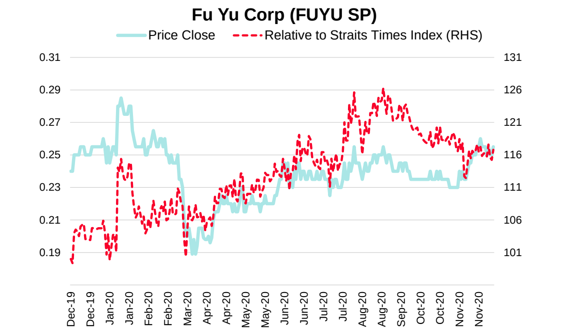
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.0	10.9	2.0	8.5	6.3
Relative	11.9	(2.0)	(11.2)	3.6	16.4
52-wk Price low/high (SGD)					0.19 – 0.29



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	198	194	175	180	186
Recurring net profit (SGDm)	12	18	16	17	18
Recurring net profit growth (%)	123.4	50.0	(9.8)	4.0	4.4
Recurring P/E (x)	15.74	10.50	11.64	11.20	10.73
P/B (x)	1.2	1.2	1.1	1.1	1.1
P/CF (x)	8.36	7.23	8.95	7.83	7.55
Dividend Yield (%)	6.3	6.3	6.3	6.3	6.3
EV/EBITDA (x)	4.30	2.78	3.39	3.14	2.92
Return on average equity (%)	7.4	7.7	9.9	10.0	10.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Technology
Fu Yu Corp
FUYU SP
Buy

Valuation basis

DCF-backed TP of SGD0.30.

Key drivers

More cost cutting as well as getting additional customers with better project margins to increase its utilisation rate and overall margins.

Key risks

Economic slowdown or recession

Company Profile

Fu Yu Corp is an investment holding company whose subsidiaries manufacture and supply high-precision injection moulds and plastic parts in Asia. It is engaged in the manufacturing and sub-assembly of precision plastic parts and components, fabrication of precision moulds and dies, and trading & management services. The group also serves the information technology, telecommunications, automotive, medical, electronic, and electrical appliance sectors. FUYU was founded in 1978 and is headquartered in Singapore.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.02	0.02	0.02	0.02	0.02
DPS	0.02	0.02	0.02	0.02	0.02
BVPS	0.22	0.22	0.22	0.23	0.24
Return on average equity (%)	7.4	7.7	9.9	10.0	10.2

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	15.74	10.50	11.64	11.20	10.73
P/B (x)	1.2	1.2	1.1	1.1	1.1
FCF Yield (%)	8.2	10.0	4.1	7.6	8.0
Dividend Yield (%)	6.3	6.3	6.3	6.3	6.3
EV/EBITDA (x)	4.30	2.78	3.39	3.14	2.92
EV/EBIT (x)	6.18	4.24	4.58	4.31	3.99

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	198	194	175	180	186
Gross profit	35	42	43	44	46
EBITDA	23	34	29	31	32
Depreciation and amortisation	(7)	(12)	(8)	(8)	(9)
Operating profit	16	22	22	22	23
Net interest	0	(0)	(0)	(0)	(0)
Pre-tax profit	16	16	22	22	23
Taxation	(4)	(4)	(5)	(5)	(5)
Reported net profit	12	13	16	17	18
Recurring net profit	12	18	16	17	18

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	2.8	1.9	(2.6)	(1.0)	(1.1)
Cash flow from operations	23.0	26.6	21.5	24.5	25.4
Capex	(7.2)	(7.3)	(13.5)	(10.0)	(10.0)
Cash flow from investing activities	(4.9)	(1.7)	(13.5)	(10.0)	(10.0)
Dividends paid	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)
Cash flow from financing activities	(32.9)	(17.2)	(12.1)	(12.1)	(12.1)
Cash at beginning of period	95.4	80.3	88.5	84.4	86.8
Net change in cash	(14.8)	7.7	(4.1)	2.5	3.4
Ending balance cash	80.5	88.5	84.4	86.8	90.2

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	84	88	84	87	90
Tangible fixed assets	45	54	60	62	63
Total investments	9	8	8	8	8
Total assets	212	219	219	226	233
Total liabilities	47	55	51	53	54
Total equity	164	164	168	173	179
Total liabilities & equity	212	219	219	226	233

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	1.4	(1.8)	(10.0)	3.3	3.3
Recurrent EPS growth (%)	123.4	50.0	(9.8)	4.0	4.4
Gross margin (%)	17.8	21.9	24.4	24.6	24.9
Operating EBITDA margin (%)	11.6	17.5	16.6	17.0	17.1
Net profit margin (%)	6.2	6.5	9.4	9.5	9.6
Capex/sales (%)	3.7	3.8	7.7	5.5	5.4
Interest cover (x)		49	1,958	2,036	2,125

Source: Company data, RHB

14 December 2020

Property | REITS

Prime US REIT (Prime SP)

Buy (Maintained)

A High Yield US Office Play

Target Price (Return):	USD1.00 (+28%)
Price:	USD0.78
Market Cap:	USD825m
Avg Daily Turnover (USD/USD)	0.93m/0.93m

- **Maintain BUY and USD1.00 TP, 28% upside and c.9% yield.** Prime US REIT derives rental income from a portfolio of 12 freehold office assets in the US. Despite the US' severe COVID-19 situation, we expect the company to see stable rental income, due to its strong asset and tenant quality, and limited near-term lease expiry. Its sustainable yield of 9% is among the highest in the REIT sector, and is unjustified, in our view, compared to the 5.4% S-REIT peer average.
- **Office assets to stay relatively resilient.** Despite near-term headwinds for leasing demand, we do not anticipate a significant long-term structural impact to the office sector. We anticipate firms will adopt a more flexible work structure, with more options to Work from Home (WFH), and hot-desking, rather than a complete WFH approach. While this trend may result in a 5-10% reduction in overall office demand in medium to long term, it is likely to be partially offset by de-densification trends.
- **Prime is attractive in most operating metrics**. Among US office REITs Prime offers the highest yields and trades at an attractive 0.9x P/BV. It also has the lowest gearing, thus offering good inorganic growth potential. Despite COVID-19, its portfolio has registered a +9% rent reversion YTD, and strong rent collection of 99%, with minimal tenant rent relief (only 0.2% rent deferment), underpinning its good asset and tenant quality.
- **Limited near-term lease expiries; Asking rent still 7% below market.** Eight of its 12 assets are currently under-rented, with in-place rent 0-31% below asking rent. In addition, 99.8% of cash rental income (CRI) has in-built rent escalation, averaging 2%. Only 10.7% of portfolio leases are due for expiry until 2021, with expiring leases spread out across its assets. The limited near-term lease expiries mitigate the short-term impact of COVID-19-related leasing uncertainties.
- **Low gearing presents inorganic growth potential.** Prime's gearing of 32.7% is one of the lowest among S-REITs, and presents a debt headroom of USD324m for acquisitions (assuming 45% levels). This, in our view, presents good headroom for accretive acquisitions in 2021.
- **Backed by strong sponsor group.** Prime's sponsors include KBS group (40% stake in REIT manager), which is one of the leading US office players. Keppel Capital, the asset management arm of Singapore-listed Keppel Corp owns a 30% stake in the manager, and provides support services on the ground. Other than this, Singapore-listed media and property company Singapore Press Holdings owns a 20% stake in the REIT manager and remaining 10% stake is owned by AT Capital, one of Asia's leading private investment firms.

Analyst

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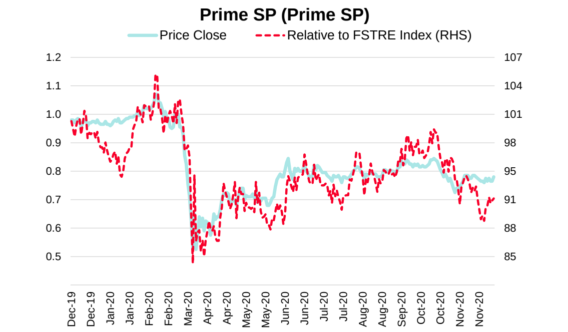
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.2)	6.1	(1.9)	0.0	(20.4)
Relative	(6.1)	(0.6)	(3.2)	1.6	(8.8)
52-wk Price low/high (USD)					0.53 – 1.07



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Total turnover (USDm)	61	143	147	149	154
Net property income (USDm)	40	97	100	102	105
Reported net profit (USDm)	33.7	40.1	59.8	70.8	92.4
Total distributable income (USDm)	29.2	71.2	74.8	75.9	77.5
DPS (USD)	0.03	0.07	0.07	0.07	0.07
DPS growth (%)	0.0	120.4	0.7	0.8	1.3
P/B (x)	0.87	0.87	0.92	0.92	0.91
Dividend Yield (%)	4.0	8.9	9.0	9.1	9.2
Return on average equity (%)	8.2	4.6	6.6	7.8	10.0
Return on average assets (%)	5.2	2.9	4.1	4.9	6.2

Source: Company data, RHB

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Singapore
Property
Prime US REIT
Prime SP
Buy

Valuation basis

DDM

Key drivers

i. Under-rented portfolio presenting rent growth potential and downside buffer;
ii. Inbuilt rent escalations providing organic growth;
iii. Low gearing present inorganic growth potential via. acquisitions

Key risks

i. Prolonged and deep recession in US due to Covid-19;
ii. Rising WFH trends resulting in steep decline in office demand;
iii. Regulatory changes and changes to tax efficient structure.

Company Profile

Prime US REIT (Prime) is a diversified Singapore real estate investment trust (REIT) with a focus on stabilised income-producing office assets in the US PRIME offers investors a unique exposure to a high-quality portfolio of 12 prime and freehold office properties, strategically located in 10 primary markets in the US, with a total appraised value of USD1.42bn

Financial summary	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Recurring EPS (USD)	0.04	0.04	0.06	0.07	0.09
EPS (USD)	0.04	0.04	0.06	0.07	0.09
DPS (USD)	0.03	0.07	0.07	0.07	0.07
BVPS (USD)	0.89	0.90	0.85	0.85	0.86
Return on average equity (%)	8.2	4.6	6.6	7.8	10.0
Weighted avg adjusted shares (m)	924.32	1,023.71	1,066.86	1,074.66	1,082.68

Valuation metrics	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Recurring P/E (x)	21.39	19.89	13.91	11.85	9.14
P/E (x)	21.39	19.89	13.91	11.85	9.14
P/B (x)	0.9	0.9	0.9	0.9	0.9
FCF Yield (%)	5.5	11.0	7.8	9.7	11.5
Dividend Yield (%)	4.0	8.9	9.0	9.1	9.2
EV/EBITDA (x)	(3.84)	(1.66)	(1.13)	(1.05)	(1.28)
EV/EBIT (x)	(3.84)	(1.66)	(1.13)	(1.05)	(1.28)

Income statement (USDm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Total turnover	60.7	143.5	146.6	149.3	153.9
EBITDA	36.1	88.3	90.5	92.3	95.1
Operating profit	36.1	88.3	90.5	92.3	95.1
Net interest	(7.0)	(14.1)	(13.5)	(13.8)	(14.5)
Pre-tax profit	41.0	28.9	55.7	70.8	100.8
Taxation	(7.3)	11.3	4.2	0.0	(8.4)
Recurring net profit	33.7	40.1	59.8	70.8	92.4

Cash flow (USDm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Change in working capital	9	10	(2)	1	1
Cash flow from operations	44	100	79	95	111
Capex	(5)	(13)	(14)	(14)	(14)
Cash flow from investing activities	(1,223)	(175)	(14)	(14)	(14)
Dividends paid	0	(71)	(75)	(76)	(77)
Cash flow from financing activities	1,216	82	(78)	(79)	(81)
Cash at beginning of period	0	38	39	42	43
Net change in cash	38	7	(13)	2	16
Ending balance cash	38	39	42	43	45

Balance sheet (USDm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Total cash and equivalents	38	39	42	43	45
Total investments	1,255	1,392	1,392	1,406	1,448
Total assets	1,297	1,440	1,443	1,459	1,503
Total long-term debt	433	485	499	513	527
Total liabilities	472	523	535	549	573
Shareholders' equity	825	917	909	909	931
Total equity	825	917	909	909	931
Net debt	395	446	457	470	482
Total liabilities & equity	1,297	1,440	1,443	1,459	1,503

Key metrics	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Revenue growth (%)	0.0	136.6	2.1	1.9	3.0
Recurrent EPS growth (%)	0.0	7.6	43.0	17.4	29.6
Operating EBITDA margin (%)	59.5	61.5	61.8	61.8	61.8
Net profit margin (%)	55.6	28.0	40.8	47.4	60.1
Dividend payout ratio (%)	86.6	177.4	125.0	107.3	83.8
Capex/sales (%)	8.4	8.7	9.5	9.3	9.1
Interest cover (x)	5.10	6.27	6.71	6.66	6.56

Source: Company data, RHB

14 December 2020

Consumer Non-cyclical | Rubber Products

Riverstone (RSTON SP)

Buy (Maintained)

Stay The Course; Maintain BUY

Target Price (Return):	SGD2.73 (+128%)
Price:	SGD1.20
Market Cap:	USD2,004m
Avg Daily Turnover (SGD/USD)	10.7m/7.85m

- **Maintain BUY and DCF-derived SGD2.73 TP, 128% upside with c.8% FY21F yield.** Our TP, which implies 12.7x FY21F P/E, is close to Riverstone's 13.4x average P/E and is at a 15% discount to the sector average. The discount reflects its smaller market cap and lower liquidity. 4Q20's financials should rise significantly QoQ, as the company should benefit from the worsening nitrile gloves shortage. The 2021 outlook is resilient, as we expect the ASP uptrend to sustain.
- **Beneficiary of worsening nitrile gloves shortage.** RSTON's 4Q20 results should benefit from the worsening nitrile glove shortage situation. This is due to the temporary closure of some glove manufacturing plants in Malaysia in view of a high number of COVID-19 infections among industry workers. Note that 95% of the company's products comprise nitrile gloves.
- **Expansion plan on track.** RSTON is on track to complete its Phase 6 expansion in 2020. Recall that Phase 6's capacity is 1.5bn pieces pa (ppa). Upon completion, its capacity will increase 17% to 10.5bn ppa. For Phase 6, five out of seven lines have already been commissioned and are now operational.
- **Undervalued.** At its current share price of SGD1.20, RSTON is trading at 5.6x FY21F P/E. This is below its average forward P/E of 13.4x at -3.4SD valuation. We think this is unjustified, given the positive long-term outlook for the company's healthcare and cleanroom gloves segments.
- **Cleanroom own brand manufacturer (OBM) products did well in 3Q20.** The cleanroom gloves segment experienced demand growth from the technology and manufacturing industries, such as lenses, batteries, and semiconductors. Note that RSTON's cleanroom gloves segment is operating under an OBM business model. Products from its cleanroom division are sold under the RS Riverstone Resources brand for use in cleanroom environments.
- **2021 outlook: We expect the ASP uptrend to sustain due to a gloves deficit of 7.4bn pieces.** We expect total demand of 384.2bn ppa to exceed the total supply of 376.8bn ppa in 2021. Demand will be driven by the US, which was the top glove consumer in 2019 (35% of global demand). Note that COVID-19 cases there remain extremely high. Additionally, gloves demand may increase if pandemic vaccines are approved in more countries. Factors that may limit supply include foreign worker and nitrile butadiene shortages, and infections among the workforce of the gloves producers.
- **Risks.** Lower-than-expected gloves demand post COVID-19, lower-than-expected sales volume/USD, and higher-than-estimated raw material prices.

Analysts

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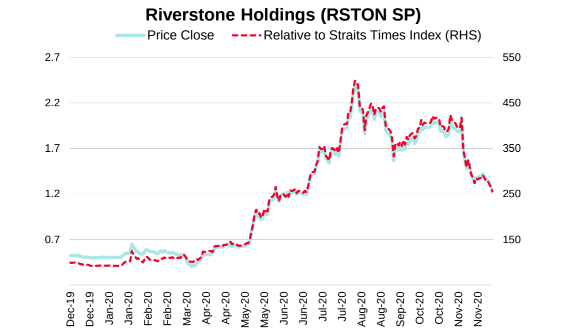
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	159.5	(35.1)	(34.3)	5.3	147.4
Relative	171.4	(48.0)	(47.5)	0.4	157.5
52-wk Price low/high (SGD)					0.36 – 2.35



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	921	989	1,539	2,438	2,066
Recurring net profit (MYRm)	130	130	472	967	647
Recurring net profit growth (%)	1.6	0.6	262.2	104.7	(33.0)
Recurring P/E (x)	41.82	41.58	11.48	5.61	8.38
P/B (x)	7.6	6.9	5.2	3.4	2.8
P/CF (x)	32.43	32.31	13.75	6.50	6.70
Dividend Yield (%)	1.9	2.0	3.9	8.0	5.4
EV/EBITDA (x)	27.65	25.75	8.35	4.01	5.36
Return on average equity (%)	19.3	17.4	51.4	73.5	36.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Consumer Non-cyclical
Riverstone
RSTON SP
Buy

Valuation basis

DCF

Key drivers

i. ASP/sales volumes for cleanroom and healthcare gloves;
ii. Operating costs.

Key risks

Lower-than-expected ASP/sales volumes.

Company Profile

Riverstone is a nitrile gloves producer that specialises in cleanroom and healthcare gloves production. It is mainly a nitrile gloves manufacturer, with a 95% concentration on nitrile gloves.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.09	0.09	0.32	0.65	0.44
DPS	0.07	0.07	0.14	0.29	0.20
BVPS	0.48	0.53	0.71	1.07	1.31
Return on average equity (%)	19.3	17.4	51.4	73.5	36.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	41.82	41.58	11.48	5.61	8.38
P/B (x)	7.6	6.9	5.2	3.4	2.8
FCF Yield (%)	1.1	1.7	5.2	13.3	12.8
Dividend Yield (%)	1.9	2.0	3.9	8.0	5.4
EV/EBITDA (x)	27.65	25.75	8.35	4.01	5.36
EV/EBIT (x)	35.17	33.56	9.09	4.21	5.79

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	921	989	1,539	2,438	2,066
Gross profit	190	199	620	1,225	837
EBITDA	193	206	628	1,237	853
Depreciation and amortisation	(41)	(48)	(51)	(57)	(63)
Operating profit	152	158	577	1,180	790
Net interest	(1)	(1)	(1)	(1)	(1)
Pre-tax profit	151	157	576	1,179	790
Taxation	(21)	(27)	(104)	(212)	(142)
Reported net profit	130	130	472	967	647
Recurring net profit	130	130	472	967	647

Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(3)	(10)	(129)	(190)	98
Cash flow from operations	167	168	395	834	809
Capex	(108)	(74)	(115)	(115)	(115)
Cash flow from investing activities	(126)	(77)	(120)	(120)	(120)
Dividends paid	(52)	(52)	(213)	(435)	(291)
Cash flow from financing activities	(115)	(116)	(213)	(438)	(294)
Cash at beginning of period	114	97	130	192	468
Net change in cash	(74)	(25)	61	276	395
Ending balance cash	39	73	192	468	863

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	97	130	192	468	863
Tangible fixed assets	484	511	570	635	694
Total assets	873	933	1,198	1,771	2,130
Short-term debt	7	6	6	6	6
Total long-term debt	13	7	7	7	7
Total liabilities	164	143	149	190	192
Total equity	709	789	1,049	1,581	1,937
Total liabilities & equity	873	933	1,198	1,771	2,130

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	12.7	7.4	55.6	58.5	(15.3)
Recurrent EPS growth (%)	1.6	0.6	262.2	104.7	(33.0)
Gross margin (%)	20.6	20.1	40.3	50.2	40.5
Operating EBITDA margin (%)	21.0	20.8	40.8	50.7	41.3
Net profit margin (%)	14.1	13.2	30.7	39.7	31.3
Capex/sales (%)	11.7	7.4	7.5	4.7	5.6
Interest cover (x)	161	236	887	1,815	1,216

Source: Company data, RHB

14 December 2020

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Buy (Maintained)

Momentum To Carry On; Keep BUY

Target Price (Return):	SGD10.3 (+13%)
Price:	SGD9.12
Market Cap:	USD7,333m
Avg Daily Turnover (SGD/USD)	29.8m/22.0m

- **Maintain BUY and SGD10.30 TP, 13% upside and c.4% yield.** 5MFY21F (Jun) data showed positive momentum in both equity and derivatives trading on vaccine-induced optimism. We expect momentum of trading activities to largely sustain into 2021, driven by a greater sector rotation to cyclical sectors as the economy recovers and with the general availability of COVID-19 vaccine beginning 2H21. Derivatives trading should stay elevated given the short-term uncertainty surrounding the recovery.
- **Rotational play to support trading.** We expect the rotation to cyclical sectors to gain more traction in 2021 as the economy recovers and vaccines become generally available beginning 2H21. Singapore Exchange recorded SGD35.7m in total securities trading value in November, rebounding 54% MoM (+35% YoY) from October. Securities average daily value (SADV) also saw a similar trend (+61% MoM/+31% YoY). We believe this was mainly due to vaccine-induced optimism – the Straits Times Index (STI) rallied c.16 pts during the month, led by strong gains in index heavyweight cyclicals.
- **5MFY21F momentum to sustain.** 5MFY21F (Jul-Nov 2020) securities trading value was still strong at c.SGD137m (+18% YoY) largely lifted by the strong November performance. Again, we believe growth will sustain into 2HFY21F on investors' tactical rotation to cyclical sectors, driven by a recovery in business activities and the eventual approvals of COVID-19 vaccines (catalysts).
- **Derivatives to feed on volatility.** Derivatives trading should also stay active in 2021 given the short-term uncertainty surrounding the recovery. Derivatives trading likely saw MoM improvement in November, driven by 26% and 7% MoM increased trading in Nikkei 225 and China A50 contracts. We note that FTSE Taiwan contract has been gaining tremendous traction – traded contracts soared to 1.25m (Oct: 0.93m) – while trading of MSCI Taiwan Futures continued to dwindle as the exchange migrates clients to FTSE Taiwan, ahead of the MSCI-agreement expiry in Feb 2021.
- **Earnings and TP.** Our FY21F-22F SADV assumptions of c.SGD1.28bn (vs 5MFY21F: c.SGD1.29bn) and c.SGD1.24bn as we believe that trading activities will stay elevated in FY21F, although somewhat moderate from the high base in FY20. FY21F-22F ADC are now at 204m and 206m on expected elevated volatility and more product offerings by SGX (eg ESG-related products and thematic indices by Scientific Beta). Our TP of SGD10.30 is derived by pegging FY22F EPS to 24x P/E (+1SD from its mean).

Analysts

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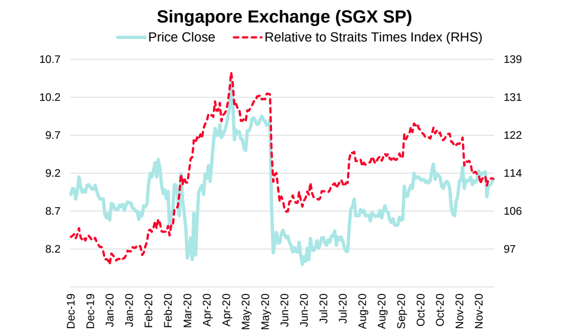
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.9	2.5	5.1	8.6	2.6
Relative	14.8	(10.4)	(8.1)	3.7	12.7
52-wk Price low/high (SGD)					8.00 – 10.4



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (SGDm)	910	1,053	1,071	1,074	1,094
Recurring net profit (SGDm)	391	473	458	459	474
Recurring net profit growth (%)	7.7	20.9	(3.1)	0.2	3.1
Recurring P/E (x)	24.96	20.64	21.30	21.25	20.60
P/B (x)	8.9	7.8	7.1	6.6	6.0
P/CF (x)	23.38	15.64	21.01	19.34	19.24
Dividend Yield (%)	3.3	3.3	3.5	3.5	3.5
EV/EBITDA (x)	17.01	13.55	14.36	14.40	14.07
Return on average equity (%)	35.8	40.5	35.1	32.2	30.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Financial Services
Singapore Exchange
SGX SP
Buy

Valuation basis

We use P/E as its share price is sensitive to near-term earnings volatility.

Key drivers

Our FY21F earnings is most sensitive to changes in:
i. Total securities trading volume;
ii. Total derivatives trading volume;
iii. Effective trading and clearing rate.

Key risks

Key downside risks to our call include:
i. Lower-than-expected securities market turnover;
ii. Lower-than-expected trading in derivative contracts;
iii. Lower-than-expected clearing and trading rate.

Company Profile

Singapore Exchange is a multi-asset exchange which operates equity, fixed income and derivatives markets that provides listing, trading, clearing, settlement, depository and data services

Financial summary (SGD)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Recurring EPS	0.37	0.44	0.43	0.43	0.44
DPS	0.30	0.31	0.32	0.32	0.32
BVPS	1.02	1.16	1.28	1.39	1.52
Return on average equity (%)	35.8	40.5	35.1	32.2	30.4

Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Recurring P/E (x)	24.96	20.64	21.30	21.25	20.60
P/B (x)	8.9	7.8	7.1	6.6	6.0
FCF Yield (%)	3.8	6.0	4.1	4.6	4.6
Dividend Yield (%)	3.3	3.3	3.5	3.5	3.5
EV/EBITDA (x)	17.01	13.55	14.36	14.40	14.07
EV/EBIT (x)	19.32	15.70	16.40	16.18	15.48

Income statement (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover	910	1,053	1,071	1,074	1,094
Gross profit	910	1,053	1,071	1,074	1,094
EBITDA	524	657	614	604	610
Depreciation and amortisation	(63)	(90)	(77)	(67)	(56)
Operating profit	461	567	538	538	554
Net interest	14	13	13	14	15
Pre-tax profit	473	572	552	553	571
Taxation	(82)	(99)	(94)	(94)	(97)
Reported net profit	391	473	458	459	474
Recurring net profit	391	473	458	459	474

Cash flow (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Change in w orking capital	(38)	25	(50)	0	0
Cash flow from operations	417	624	465	505	507
Capex	(47)	(35)	(60)	(55)	(55)
Cash flow from investing activities	(160)	(314)	(42)	(35)	(34)
Dividends paid	(401)	(321)	(343)	(343)	(343)
Cash flow from financing activities	(411)	(70)	(348)	(348)	(348)
Cash at beginning of period	832	667	907	982	1,104
Net change in cash	(154)	240	75	121	125
Ending balance cash	667	907	982	1,104	1,229

Balance sheet (SGDm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total cash and equivalents	691	956	1,030	1,152	1,277
Tangible fixed assets	243	306	290	278	277
Total investments	162	216	216	216	216
Total assets	2,132	2,679	1,996	2,123	2,265
Short-term debt	0	304	304	304	304
Total liabilities	1,041	1,430	626	630	634
Total equity	1,091	1,249	1,371	1,493	1,631
Total liabilities & equity	2,132	2,679	1,996	2,123	2,265

Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Revenue grow th (%)	7.7	15.7	1.7	0.3	1.8
Recurrent EPS grow th (%)	7.7	20.9	(3.1)	0.2	3.1
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating EBITDA margin (%)	57.5	62.4	57.4	56.3	55.8
Net profit margin (%)	43.0	44.9	42.8	42.8	43.3
Dividend payout ratio (%)	82.1	69.0	74.7	74.6	72.3
Capex/sales (%)	5.2	3.3	5.6	5.1	5.0
Interest cover (x)		196	93	93	96

Source: Company data, RHB

14 December 2020

Communications | Telecommunications

SingTel (ST SP)

Buy (Maintained)

Time To Redial; Keep BUY

Target Price (Return):	SGD3.10 (+33%)
Price:	SGD2.34
Market Cap:	USD28,682m
Avg Daily Turnover (SGD/USD)	69.8m/51.6m

- **Reiterate BUY, SOP-based SGD3.10 TP, 33% upside and c.5% yield.** Singtel remains our preferred SG telco exposure, on the back of a progressive economic recovery. Share price hit a 12-year low in 2020, with valuations at below historical EV/EBITDA mean. Its regional associates' valuations have usurped the stock's market cap, with the core mobile business going for free. Competition and weaker-than-expected earnings are key risks, with monetisation of non-core assets and earnings recovery as re-rating catalysts.
- **Stronger mobile revenue recovery from 4QFY21.** Singapore and Australian (Optus) mobile revenue saw some respite, up 1.1% and 4.3% QoQ (AUD terms) in 2QFY21, after movement restrictions were eased. Still, group consumer revenue/ EBITDA declined 12%/26% in 1HFY21 on sharply lower roaming, usage and prepaid revenues, owing to travel restrictions. We expect the higher take-up of SIM-only plans, and the popularity of its digital plan (GOMO) to drive postpaid growth. The recent acquisition of amaysim, the largest Australian Mobile Virtual Network Operator (MVNO) is largely value - accretive for Optus, with the economic recession set to further spur the Australian MVNO market, in our view.
- **Enterprise to ride on pandemic spending and digitalisation initiatives.** Revenue/EBITDA was up 7% QoQ in 2QFY21, thanks to infrastructure services, cloud and data centre demands, with telecommuting now the new normal, alongside corporate digitalisation initiatives.
- **Lower FY21F DPS on 100% payout.** Singtel continues to abstain from providing headline guidance, due to macroeconomic uncertainties. However, it has guided for dividends from regional associates to be at c.SGD1.3bn, with group capex (including 5G) at SGD2.2bn (SGD1.5bn for Optus) for FY21F. DPS will be capped at FY21F core earnings (FY20: 81% payout), implying lower absolute DPS YoY. 1HFY21 DPS was 5.1 SG cents – a 100% payout.
- **Improvements in associate showing should continue into FY22F**. Airtel's recovery thesis has panned out well, with the price repair in India and strong 4G take-up, driving operational gains. Concerns are in Indonesia, where 65%-owned Telkomsel has waged an aggressive competitive response with unlimited plans, impeding the industry's data monetisation efforts.
- **New year, new Singtel?** Yuen Kuan Moon (Moon), the CEO-designate takes over from Chua Sock Koong in Jan 2021. Moon is a Singtel veteran, and has been with the group since 2003. He assumes the leadership at the most daunting of times, with the pandemic exerting great pressure on profitability, alongside the rollout of 5G. While he has yet to officially articulate his plans and strategy, market observers are calling this a "turning point" for the group.

Analysts

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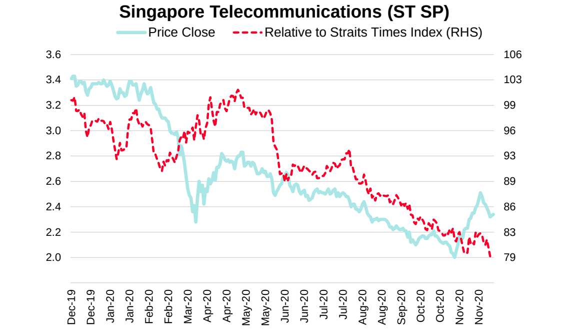
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(30.6)	11.4	3.1	(9.3)	(31.2)
Relative	(18.7)	(1.5)	(10.1)	(14.2)	(21.1)
52-wk Price low/high (SGD)					2.00 – 3.40



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (SGDm)	17,372	16,542	15,818	15,217	15,536
Recurring net profit (SGDm)	2,825	2,457	1,910	2,117	2,290
Recurring net profit growth (%)	(22.5)	(13.0)	(22.3)	10.8	8.2
Recurring P/E (x)	13.21	15.18	19.53	17.63	16.29
P/B (x)	1.3	1.4	1.4	1.4	1.4
P/CF (x)	4.92	5.19	6.03	5.91	5.69
Dividend Yield (%)	7.5	5.2	4.5	4.9	4.9
EV/EBITDA (x)	6.93	8.10	9.62	9.50	9.12
Return on average equity (%)	9.5	8.7	7.1	7.8	8.4
Net debt to equity (%)	34.1	49.1	38.8	41.0	43.3

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Communications
SingTel
ST SP
Buy

Valuation basis

SOP

Key drivers

i. Stronger earnings recovery;
ii. Cost efficiencies;
iii. Revenue opportunities within the enterprise segment.

Key risks

i. Stronger than expected mobile competition;
ii. Higher than expected capex;
iii. Currency volatility.

Company Profile

Singtel is the largest integrated telecommunications group in the Asia Pacific with class leading mobile assets in Singapore, Australia, India, Indonesia, Thailand and Philippines, amongst others

Financial summary (SGD)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring EPS	0.18	0.15	0.12	0.13	0.14
DPS	0.18	0.12	0.11	0.12	0.12
BVPS	1.87	1.68	1.69	1.71	1.73
Return on average equity (%)	9.5	8.7	7.1	7.8	8.4

Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Recurring P/E (x)	13.21	15.18	19.53	17.63	16.29
P/B (x)	1.3	1.4	1.4	1.4	1.4
FCF Yield (%)	15.7	13.4	11.0	11.3	11.9
Dividend Yield (%)	7.5	5.2	4.5	4.9	4.9
EV/EBITDA (x)	6.93	8.10	9.62	9.50	9.12
EV/EBIT (x)	13.16	18.77	35.17	34.43	31.03

Income statement (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover	17,372	16,542	15,818	15,217	15,536
Gross profit	4,467	4,362	3,342	3,467	3,709
EBITDA	4,693	4,541	3,548	3,669	3,912
Depreciation and amortisation	(2,222)	(2,581)	(2,578)	(2,657)	(2,762)
Operating profit	2,471	1,960	971	1,012	1,150
Net interest	(355)	(282)	(649)	(671)	(694)
Pre-tax profit	3,652	3,423	2,462	2,730	2,955
Taxation	(850)	(988)	(573)	(635)	(688)
Reported net profit	2,825	2,457	1,910	2,117	2,290
Recurring net profit	2,825	2,457	1,910	2,117	2,290

Cash flow (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Cash flow from operations	7,584	7,183	6,191	6,311	6,554
Capex	(1,718)	(2,200)	(2,100)	(2,100)	(2,100)
Cash flow from investing activities	(2,329)	(2,400)	(2,300)	(2,300)	(2,300)
Dividends paid	(2,857)	(2,857)	(1,723)	(1,878)	(1,877)
Cash flow from financing activities	(3,056)	(63)	(1,872)	(2,449)	(2,470)
Cash at beginning of period	525	513	1,000	4,183	3,986
Net change in cash	2,199	4,720	2,019	1,562	1,784
Ending balance cash	2,724	5,233	3,019	5,745	5,770

Balance sheet (SGDm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total cash and equivalents	513	1,000	4,183	3,986	3,675
Tangible fixed assets	11,050	10,364	9,886	9,329	8,668
Total investments	14,918	13,712	13,712	13,712	13,712
Total assets	48,915	48,955	49,559	50,409	51,424
Short-term debt	1,880	3,970	3,970	3,970	3,970
Total long-term debt	8,784	10,202	10,702	11,202	11,702
Total liabilities	19,105	22,141	22,536	23,126	23,705
Total equity	29,810	26,814	27,022	27,283	27,719
Total liabilities & equity	48,915	48,955	49,559	50,409	51,424

Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Revenue growth (%)	0.0	(4.8)	(4.4)	(3.8)	2.1
Recurrent EPS growth (%)	(22.5)	(13.0)	(22.3)	10.8	8.2
Gross margin (%)	25.7	26.4	21.1	22.8	23.9
Operating EBITDA margin (%)	27.0	27.5	22.4	24.1	25.2
Net profit margin (%)	16.3	14.9	12.1	13.9	14.7
Dividend payout ratio (%)	101.1	81.4	0.0	0.0	0.0
Capex/sales (%)	9.9	13.3	13.3	13.8	13.5
Interest cover (x)	6.96	6.95	1.50	1.51	1.66

Source: Company data, RHB

14 December 2020

Industrials | Aerospace & Defence

ST Engineering (STE SP)

Buy (Maintained)

Defensive Earnings Growth Story; Maintain BUY

Target Price (Return):	SGD4.40 (+13%)
Price:	SGD3.89
Market Cap:	USD9,097m
Avg Daily Turnover (SGD/USD)	14.9m/11.0m

- **Maintain BUY and SGD4.40 TP, 13% upside and c.4% 2021F yield.** ST Engineering's share price should continue outperforming the STI Index, thanks to its business' defensive nature from high order backlog, relatively resilient earnings, and ability to maintain dividend payments. Recent strong electronics order wins and MRO business' potential bottoming offer signs of demand recovery in 2021. Gains from its cost optimisation efforts should also support earnings recovery. Plans to reorganise its business should enable greater focus on future growth areas and support earnings beyond 2021.
- **Electronics is witnessing demand recovery, MRO business may have bottomed out.** In 3Q20, its electronics segment registered its highest ever quarterly order win of SGD1.1bn. STE expects this order win momentum to sustain amidst strong governmental spending on technology infrastructure and continuing urbanisation trend. Hangar utilisation for its MRO business stood at c.66.0% in 3Q20. Given its global business presence and in line with industry aircraft fleet mix, the MRO business has higher exposure to narrow-body aircraft, which is witnessing better passenger demand due to swift rebound in domestic air traffic. Plans to expand its passenger to freighter conversion business could help in improving the hangar utilisation while global air traffic gradually recovers.
- **Confident of its ability to offset tapering government support in 2021.** STE expects to receive SGD300m of government support this year. With the Government extending its support until early 2021, it expects to receive another SGD100m next year. The company remains confident of offsetting the shortfall in next year's government support with benefits from ongoing cost optimisation initiatives and a gradual recovery in demand for most of its business sectors. We believe there is a likelihood that government support may get extended further next year.
- **Recently announced business reorganisation is a long-term positive.** Effective 1 Jan 2021, STE will reorganise its businesses into two growth-focused segments – commercial, and defence & public security. These will replace the current aerospace, electronics, land systems and marine segments. We view this positively, as it will enable the company to better channel its resources towards growth areas in Smart City and international business, and make it easier to build synergies across current segments.
- **Defensive business, sustainable dividends.** Its SGD15.8bn orderbook offers two years of revenue visibility. STE will likely maintain 2019's 15 SG cent DPS for 2020F, in contrast to other large-cap Singapore companies, which should see lower dividends in 2020. On the back of expected profit recovery, we expect dividends to be maintained in 2021 as well.

Analyst

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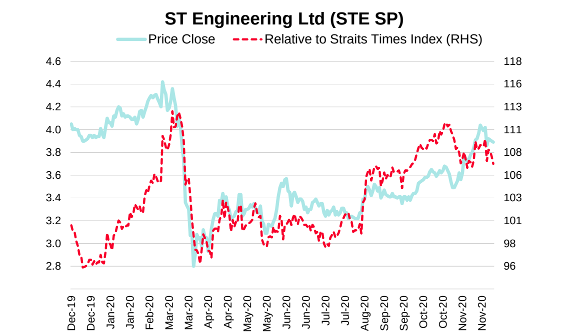
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.3)	9.6	13.7	11.5	(3.7)
Relative	10.6	(3.3)	0.5	6.6	6.4
52-wk Price low/high (SGD)					2.80 – 4.42



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	6,698	7,868	6,980	7,442	8,002
Recurring net profit (SGDm)	527	589	506	568	650
Recurring net profit growth (%)	9.2	11.8	(14.2)	12.3	14.5
Recurring P/E (x)	23.01	20.57	24.02	21.39	18.67
P/B (x)	5.4	5.5	5.4	5.2	4.9
P/CF (x)	18.95	20.54	14.74	11.71	10.81
Dividend Yield (%)	3.9	3.9	3.8	3.9	4.0
EV/EBITDA (x)	15.34	13.96	14.17	12.92	11.49
Return on average equity (%)	22.2	25.9	22.6	24.7	26.8
Net debt to equity (%)	3.2	75.7	72.9	61.6	46.3

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Industrials
ST Engineering
STE SP
Buy

Valuation basis

Our TP is derived by using an average of forward P/E, P/BV, EV/EBITDA and DCF of adjusted free cash flows.

Key drivers

i. Strong order wins;
ii. Contributions from MRAS and Newtec acquisitions.

Key risks

i. Poor execution of diversification in the aerospace sector;
ii. Lower-than-expected contributions from acquisitions;
iii. Delay in the implementation of Singapore's Smart Nation initiative.

Company Profile

ST Engineering is an integrated engineering group in the aerospace, electronics, land systems and marine sectors. The company has, over the years, diversified its businesses and expanded its geographical coverage.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.17	0.19	0.16	0.18	0.21
DPS	0.15	0.15	0.15	0.15	0.15
BVPS	0.72	0.71	0.72	0.75	0.80
Return on average equity (%)	22.2	25.9	22.6	24.7	26.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	23.01	20.57	24.02	21.39	18.67
P/B (x)	5.4	5.5	5.4	5.2	4.9
FCF Yield (%)	2.5	3.4	4.5	6.3	7.1
Dividend Yield (%)	3.9	3.9	3.8	3.9	4.0
EV/EBITDA (x)	15.34	13.96	14.17	12.92	11.49
EV/EBIT (x)	21.90	21.82	22.85	20.45	17.68

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	6,698	7,868	6,980	7,442	8,002
Gross profit	1,406	1,635	1,495	1,616	1,776
EBITDA	814	1,022	1,007	1,089	1,197
Depreciation and amortisation	(244)	(368)	(383)	(401)	(419)
Operating profit	570	654	624	688	778
Net interest	(34)	(37)	(86)	(78)	(74)
Pre-tax profit	621	695	608	683	782
Taxation	(104)	(103)	(90)	(101)	(115)
Reported net profit	494	578	506	568	650
Recurring net profit	527	589	506	568	650

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(166)	(439)	(168)	(55)	(71)
Cash flow from operations	639	590	824	1,037	1,123
Capex	(332)	(172)	(275)	(270)	(260)
Cash flow from investing activities	(65)	(1,273)	(232)	(225)	(213)
Dividends paid	(468)	(468)	(468)	(480)	(483)
Cash flow from financing activities	(1,161)	720	540	(589)	(591)
Cash at beginning of period	999	416	453	1,586	1,809
Net change in cash	(587)	37	1,133	223	320
Ending balance cash	416	453	1,586	1,809	2,129

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	416	453	1,586	1,809	2,129
Tangible fixed assets	1,743	1,805	1,800	1,772	1,716
Total investments	456	453	410	365	318
Total assets	7,573	9,521	10,563	10,784	11,107
Short-term debt	225	1,869	0	0	0
Total long-term debt	270	469	3,438	3,438	3,438
Total liabilities	5,038	7,030	8,022	8,140	8,279
Total equity	2,535	2,491	2,541	2,643	2,827
Total liabilities & equity	7,573	9,521	10,563	10,784	11,107

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	2.7	17.5	(11.3)	6.6	7.5
Recurrent EPS growth (%)	9.2	11.8	(14.3)	12.3	14.5
Gross margin (%)	21.0	20.8	21.4	21.7	22.2
Operating EBITDA margin (%)	12.2	13.0	14.4	14.6	15.0
Net profit margin (%)	7.4	7.3	7.2	7.6	8.1
Dividend payout ratio (%)	94.7	81.0	92.6	84.6	74.2
Capex/sales (%)	5.0	2.2	3.9	3.6	3.2
Interest cover (x)	10.2	12.8	6.5	6.0	6.8

Source: Company data, RHB

14 December 2020

Property | REITS

Suntec REIT (SUN SP)

Buy (Maintained)

Expecting a Better 2021

Target Price (Return):	SGD1.79 (+21%)
Price:	SGD1.48
Market Cap:	USD3,139m
Avg Daily Turnover (SGD/USD)	17.6m/13.0m

- **Keep BUY with SGD1.79 TP, 21% upside and c.6% yield.** Suntec REIT remains our preferred pick in the office/retail REIT space for its attractive valuation of 0.7x P/BV, and earnings recovery from its recently completed and acquired assets. Its office portfolio (66%), which accounts for the bulk of its income, is expected to remain resilient while retail mall earnings should rebound in 2021, given the absence of rental rebates.
- **DPS to rebound 25% YoY in FY21.** The DPS rebound was driven by full-year contributions from SUN's recently completed development assets (21 Harris Street, Olderfleet, and 9 Penang Road), absence of rental rebates, and uplift from positive rent reversions signed. We have also assumed the REIT to resume its capital top-up with stabilisation of the COVID-19 situation and have assumed SGD10m in capital top-ups for FY21.
- **Office portfolio remains resilient.** Singapore office occupancy remains high at 98.1%. YTD (nine months) – c.348,500 sqf of leases were signed, of which ~30% are new leases. Demand for new leases mainly came from the technology, media & telecommunication and financial services sectors. Rent reversions, though tapering off, remain at 9% YTD and +4.6% for 3Q. Around 33% of office leases are due for 2021, with average rent expiry of SGD8.78 psf. As the expiring rents are still c.10% below market rates, we expect flattish to slight positive rent reversions moving into 2021.
- **Retail performance improving, occupancy pressure expected.** Overall retail occupancy dipped 3ppts QoQ to 93.4% on non-renewals and some pre-terminations. Most tenants were offered four months of rent rebates for 2020 (including government grants) and c.10% of them (by NLA) were granted rent deferments. On the positive side, tenant sales rebounded to 70% of pre-COVID-19 levels from April's c.35% lows. Looking ahead, we expect pressure on occupancy to persist and overall occupancy to remain at c.90% levels. Rents are also expected to remain under pressure, and we expect 5-15% negative rent reversions for upcoming leases. For the convention wing (c.6% of FY19 NPI), a recovery is only expected in 2022.
- **Nova Properties acquisition approved by unitholders.** Nova Properties (50% stake) is the REITs maiden acquisition in the UK and comprises two Grade-A office buildings with ancillary retail. The property is 100% occupied with a long weighed average lease expiry (WALE) of 11.1 years (weighted average lease break: >10 years) vs the existing portfolio WALE of four years – offering good income visibility amid COVID-19 uncertainty. Post-acquisition, the UK will account for 7% of SUN's portfolio, with Australia and Singapore at 16% and 77%. In the medium term (three years), management expects more overseas acquisitions (30-40% of total assets) due to tighter market yields in Singapore.

Analyst

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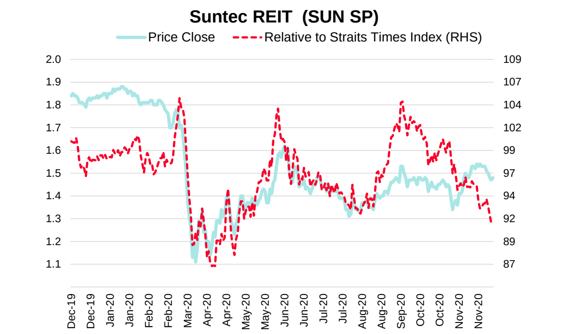
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(19.6)	8.8	5.0	(5.7)	(18.7)
Relative	(7.7)	(4.1)	(8.2)	(10.6)	(8.6)
52-wk Price low/high (SGD)					1.11 – 1.88



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	364	367	315	366	374
Net property income (SGDm)	241	236	214	236	241
Reported net profit (SGDm)	318	395	60	241	279
Total distributable income (SGDm)	254	263	267	263	209
DPS (SGD)	0.10	0.09	0.07	0.09	0.09
DPS growth (%)	(0.2)	(5.1)	(22.4)	25.6	1.3
P/B (x)	0.70	0.70	0.72	0.72	0.72
Dividend Yield (%)	6.7	6.4	5.0	6.2	6.3
Return on average equity (%)	5.6	6.8	1.0	4.1	4.7
Return on average assets (%)	3.4	4.0	0.6	2.4	2.6

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Property
Suntec REIT
SUN SP
Buy

Valuation basis

DDM.

Key drivers

i. Earnings contributions from recently completed/acquired assets;
ii. High-quality office and retail assets offer resilience;
iii. Attractive valuations.

Key risks

i. Prolonged downturn from COVID-19;
ii. Rise in tenant defaults;
iii. Risk of dilutive fund raising.

Company Profile

Suntec REIT is a REIT established with the objective of investing in income-producing real estate properties that are used primarily for retail and office purposes.

Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS (SGD)	0.12	0.14	0.02	0.08	0.10
EPS (SGD)	0.12	0.14	0.02	0.08	0.10
DPS (SGD)	0.10	0.09	0.07	0.09	0.09
BVPS (SGD)	2.11	2.12	2.06	2.05	2.04
Return on average equity (%)	5.6	6.8	1.0	4.1	4.7
Weighted avg adjusted shares (m)	2,665.87	2,770.79	2,844.50	2,872.14	2,901.62

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	12.40	10.38	70.72	17.64	15.37
P/E (x)	12.40	10.38	70.72	17.64	15.37
P/B (x)	0.7	0.7	0.7	0.7	0.7
FCF Yield (%)	5.2	5.5	3.4	4.8	4.3
Dividend Yield (%)	6.7	6.4	5.0	6.2	6.3
EV/EBITDA (x)	(10.02)	(11.01)	(11.82)	(10.49)	(10.40)
EV/EBIT (x)	(10.07)	(11.06)	(11.82)	(10.47)	(10.43)

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	364	367	315	366	374
EBITDA	190	184	161	182	184
Depreciation and amortisation	(1)	(1)	0	0	(0)
Operating profit	189	183	161	182	184
Net interest	(72)	(81)	(98)	(124)	(124)
Income from associates & JVs	108	158	134	183	186
Pre-tax profit	331	411	60	241	279
Taxation	(13)	(16)	0	0	0
Recurring net profit	318	395	60	241	279

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(89)	(113)	(115)	(129)	(155)
Cash flow from operations	210	229	175	236	215
Capex	(6)	(6)	(30)	(30)	(30)
Cash flow from investing activities	(137)	(166)	(46)	153	156
Dividends paid	(267)	(266)	(209)	(265)	(272)
Cash flow from financing activities	(108)	(43)	(118)	(387)	(364)
Cash at beginning of period	173	137	157	168	171
Net change in cash	(34)	21	11	2	8
Ending balance cash	137	157	168		178

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	137	157	168	171	178
Tangible fixed assets	2	2	2	2	2
Total investments	9,350	9,837	9,655	10,426	10,462
Total assets	9,512	10,032	9,831	10,606	10,649
Short-term debt	514	589	350	330	320
Total long-term debt	2,978	3,041	3,231	3,981	3,981
Total liabilities	3,744	3,926	3,840	4,599	4,592
Shareholders' equity	5,637	5,977	5,862	5,877	5,928
Minority interests	132	129	129	129	129
Total equity	5,768	6,106	5,991	6,006	6,057
Net debt	3,355	3,473	3,413	4,140	4,123
Total liabilities & equity	9,512	10,032	9,831	10,606	10,649

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	2.6	0.9	(14.0)	16.2	2.2
Recurrent EPS growth (%)	36.0	19.5	(85.3)	301.0	14.8
Operating EBITDA margin (%)	52.4	50.2	51.1	49.6	49.2
Net profit margin (%)	87.5	107.7	18.9	65.8	74.6
Dividend payout ratio (%)	79.7	66.6	448.2	109.0	74.9
Capex/sales (%)	1.6	1.6	9.5	8.2	8.0
Interest cover (x)	2.62	2.27	1.64	1.47	1.49

Source: Company data, RHB

14 December 2020

Consumer Non-cyclical | Food & Beverage Products

Thai Beverage (THBEV SP)

Buy (Maintained)

Value BUY For Strong Portfolio Of Brands

Target Price (Return):	SGD0.82 (+12%)
Price:	SGD0.73
Market Cap:	USD13,763m
Avg Daily Turnover (SGD/USD)	20.1m/14.8m

- **Reiterate BUY and SGD0.82 TP, 12% upside and c.3% yield.** Thai Beverage is our Top Pick for the Singapore consumer sector. Trading at 16x FY21F P/E (-1SD from its historical mean), we think valuation of the stock is attractive given the group's defensive earnings profile and strong hold of markets in Thailand and Vietnam. Moving into FY21F (Sep), we expect earnings to be supported by a steady improvement in local demand on the back of recovery in on-premise consumption.
- **Solid fundamentals.** Thaibev is the largest alcohol player in Thailand and one of the leading beer producers in Vietnam. Its diversified portfolio of brands and products allow it to cater to different segment groups and price points, maintaining its strong hold in market share and provide earnings resiliency. Extensive distribution network also enables the group to reach out to a wide base of customers. Earnings defensiveness – especially from its spirit segment – has helped the group to deleverage, improving net debt to equity to c.1.0x in FY20.
- **Attractive valuation.** Thaibev is trading at 16x FY21F P/E, -1SD from its historical mean. We note that STI has recovered >25% since the low in March but the group continues to underperform the index. We think this underperformance is unjustified given its healthy recurring earnings growth in FY20 despite COVID-19 challenges. We believe its strong brand equity, resilient earnings and improving leverage ratio should drive share price recovery in FY21F.
- **Better prospects for FY21F.** Post-COVID-19, recovery of on-premise should help to raise demand for Thaibev's beer, non-alcohol beverages and restaurant segments. Its Vietnam subsidiary, SABECO should also improve on the back of the absence of negative fake news and consumers being accustomed to Decree 100, which increased sanctions for drink driving. Thaibev's ability to keep advertising and promotional (A&P) expenses under control amidst rising economic activities and potential intensifying of competition are likely to bring about further upside to earnings.
- **Key risks** include slower-than-expected recovery of economy and weakening of consumer sentiment if COVID-19 and protests prolong over an extended period of time.

Analyst

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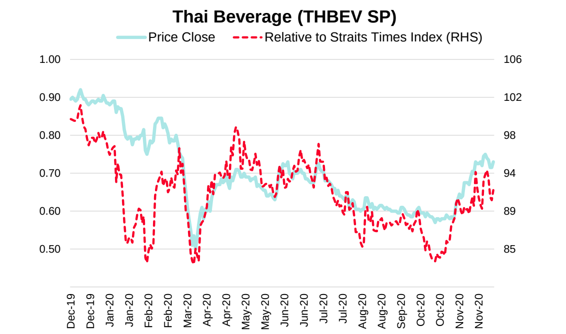
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(18.0)	15.9	20.7	3.5	(17.5)
Relative	(6.1)	3.0	7.5	(1.4)	(7.4)
52-wk Price low/high (SGD)					0.50 – 0.92



Source: Bloomberg

Forecasts and Valuation	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total turnover (THBm)	267,357	253,481	265,606	276,197	287,221
Recurring net profit (THBm)	22,832	25,629	25,745	27,889	29,900
Recurring net profit growth (%)	11.6	12.3	0.5	8.3	7.2
Recurring P/E (x)	18.17	16.19	16.12	14.88	13.88
P/B (x)	3.6	2.9	2.7	2.4	2.2
P/CF (x)	11.92	12.59	11.97	12.15	11.49
Dividend Yield (%)	2.9	3.2	3.2	3.5	3.7
EV/EBITDA (x)	9.79	9.04	8.17	7.49	6.87
Return on average equity (%)	19.3	17.8	17.3	17.2	16.9
Net debt to equity (%)	130.1	101.6	87.2	74.4	62.9

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Consumer Non-cyclical
Thai Beverage
THBEV SP
Buy

Valuation basis

SOP

Key drivers

i. Market share gain and margin expansion in beer segment;
ii. Narrowing losses in non-alcohol beverage segment;
iii. Potential M&As.

Key risks

i. Slower-than-expected recovery in consumption;
ii. Increased competition.

Company Profile

Thai Beverage, together with its subsidiaries, produces and distributes alcoholic and non-alcoholic beverages in Thailand and internationally. The company operates through four segments: Spirits, Beer, Non-Alcoholic Beverages, and Food.

Financial summary (THB)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Recurring EPS	0.91	1.02	1.03	1.11	1.19
DPS	0.48	0.53	0.53	0.58	0.62
BVPS	4.61	5.68	6.18	6.75	7.37
Return on average equity (%)	19.3	17.8	17.3	17.2	16.9

Valuation metrics	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Recurring P/E (x)	18.17	16.19	16.12	14.88	13.88
P/B (x)	3.6	2.9	2.7	2.4	2.2
FCF Yield (%)	7.0	6.9	7.1	6.9	7.3
Dividend Yield (%)	2.9	3.2	3.2	3.5	3.7
EV/EBITDA (x)	9.79	9.04	8.17	7.49	6.87
EV/EBIT (x)	17.84	15.85	14.73	13.67	12.61

Income statement (THBm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total turnover	267,357	253,481	265,606	276,197	287,221
Gross profit	77,391	74,860	80,394	84,413	87,699
EBITDA	57,791	60,665	65,399	69,469	73,634
Depreciation and amortisation	(26,083)	(26,065)	(29,145)	(31,389)	(33,500)
Operating profit	31,708	34,600	36,254	38,080	40,134
Net interest	(6,431)	(5,894)	(5,883)	(5,427)	(5,018)
Pre-tax profit	30,871	33,147	35,115	37,818	40,361
Taxation	(5,229)	(6,866)	(5,970)	(6,429)	(6,861)
Reported net profit	22,832	22,969	25,745	27,889	29,900
Recurring net profit	22,832	25,629	25,745	27,889	29,900

Cash flow (THBm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Change in working capital	3,856	661	1,892	(649)	(922)
Cash flow from operations	34,821	32,969	34,668	34,150	36,117
Capex	(5,643)	(4,347)	(5,300)	(5,600)	(5,900)
Cash flow from investing activities	(11,932)	(10,158)	(5,297)	(5,600)	(5,900)
Dividends paid	(9,794)	(10,800)	(13,214)	(13,388)	(14,502)
Cash flow from financing activities	(24,034)	(18,021)	(40,518)	(25,588)	(26,702)
Cash at beginning of period	22,530	24,362	34,695	23,548	26,511
Net change in cash	(1,146)	4,790	(11,147)	2,963	3,515
Ending balance cash	20,644	29,879	23,548	26,511	30,026

Balance sheet (THBm)	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Total cash and equivalents	24,362	34,695	23,548	26,511	30,026
Tangible fixed assets	59,737	61,347	61,378	61,509	61,730
Total investments	79,345	85,605	87,250	89,315	91,461
Total assets	407,240	433,520	423,874	430,857	438,839
Short-term debt	21,956	64,834	26,945	16,945	16,945
Total long-term debt	197,977	152,214	165,000	165,000	155,000
Total liabilities	256,916	254,115	230,739	221,919	213,104
Total equity	150,325	179,405	193,136	208,937	225,735
Total liabilities & equity	407,240	433,520	423,874	430,857	438,839

Key metrics	Sep-19	Sep-20	Sep-21F	Sep-22F	Sep-23F
Revenue growth (%)	16.4	(5.2)	4.8	4.0	4.0
Recurrent EPS growth (%)	11.6	12.2	0.5	8.3	7.2
Gross margin (%)	28.9	29.5	30.3	30.6	30.5
Operating EBITDA margin (%)	21.6	23.9	24.6	25.2	25.6
Net profit margin (%)	8.5	9.1	9.7	10.1	10.4
Dividend payout ratio (%)	52.8	57.5	52.0	52.0	52.0
Capex/sales (%)	2.1	1.7	2.0	2.0	2.1
Interest cover (x)	4.93	5.87	6.16	7.02	8.00

Source: Company data, RHB

14 December 2020

Technology | Electronics

Venture Corp (VMS SP)

Buy (Maintained)

A Clearer Path Ahead; Stay BUY

Target Price (Return):	SGD22.6 (+20%)
Price:	SGD18.9
Market Cap:	USD4,115m
Avg Daily Turnover (SGD/USD)	21.8m/16.1m

- **Maintain BUY and SGD22.60 TP, 20% upside and 4% yield.** Venture Corp has continued its recovery trajectory (NPAT: +14.2% YoY), in line with our estimates. Management expects to deliver a stronger 2H20 vs 1H20 – provided COVID-19-induced lockdowns and disruptions do not deteriorate further. The group is currently fulfilling its backlog of existing orders while its research & development (R&D) labs have plans to subsequently release a number of newly developed products into manufacturing in early 2021.
- **Trying hard to maintain margins despite lower revenue.** VMS continues to work with its customers, implementing further cost controls and improving production efficiency. ASP pressures will align to end-market demand, in our view. Non-essential market segments may see some pressure, though, given the slower rate of recovery.
- **Production is unlikely to return to high levels.** Production is unlikely to go back to pre-COVID-19 levels due to social distancing and VMS' main aim is to meet customer demand, as well as how to balance orders and deliver such orders to clients. Top 10 customers now form 45-55% of revenue vs 50-60%, given the increasing client diversification.
- **Growth seen in several segments.** New products/solutions engineered and developed in VMS' research & development (R&D) labs are scheduled for release into end markets during 1H21 and 2H21 by partners and customers in several technology domains. These include fast-growing domains and ecosystems such as life science & genomics and healthcare & wellness, as well as COVID-19-related detection, testing, and diagnostic products and solutions. Demand for medical devices & equipment, networking & communications, and semiconductor correlated modules & equipment appear unabated as well.
- **A clearer path ahead.** We peg VMS to a higher multiple of 19x to reflect its resilient margins and stability vis-à-vis peers. On the dividend front, the company prefers to give long-term stable and sustainable dividends. It declared a higher interim dividend of 25 SG cents (1H19: 20 SG cents). Assuming the final dividend remains unchanged, FY20F dividend will likely be raised to 75 SG cents, which represents a 4% yield. We think this is highly sustainable and shareholders are likely to continue enjoying higher dividends if the company's performance continues to improve. As a result, we maintain our BUY call.
- **Key risks** are slowing economic growth and a worsening of the US-China trade war.

Analyst

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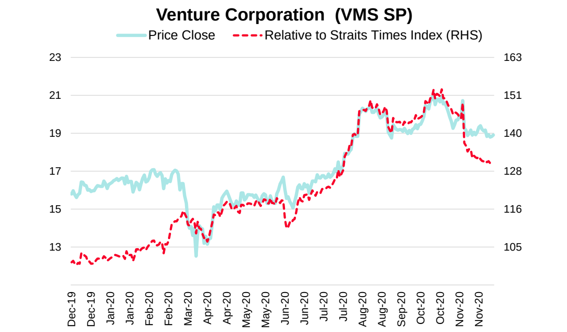
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.7	(4.1)	(0.8)	14.7	21.8
Relative	28.6	(17.0)	(14.0)	9.8	31.9
52-wk Price low/high (SGD)					12.5 – 21.1



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	3,485	3,488	3,048	3,265	3,330
Recurring net profit (SGDm)	370	365	306	343	353
Recurring net profit growth (%)	(0.7)	(1.4)	(16.1)	12.0	2.8
Recurring P/E (x)	14.66	14.97	17.83	15.93	15.49
P/B (x)	2.3	2.2	2.1	2.0	1.9
P/CF (x)	20.63	7.73	13.02	15.44	14.11
Dividend Yield (%)	3.7	3.7	4.0	4.0	4.0
EV/EBITDA (x)	10.27	9.03	10.20	9.15	8.57
Return on average equity (%)	16.4	15.0	12.0	12.9	12.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Technology
Venture Corp
VMS SP
Buy

Valuation basis

Pegged to 19x FY21F P/E.

Key drivers

Value creation and margins improvement.

Key risks

An economic slowdown.

Company Profile

Venture Corp is a leading global electronics services and integrated solutions provider with a diversified portfolio of customers worldwide.

Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	1.29	1.26	1.06	1.19	1.22
DPS	0.70	0.70	0.75	0.75	0.75
BVPS	8.13	8.70	9.01	9.46	9.94
Return on average equity (%)	16.4	15.0	12.0	12.9	12.6

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	14.66	14.97	17.83	15.93	15.49
P/B (x)	2.3	2.2	2.1	2.0	1.9
FCF Yield (%)	3.8	12.0	6.8	5.6	7.1
Dividend Yield (%)	3.7	3.7	4.0	4.0	4.0
EV/EBITDA (x)	10.27	9.03	10.20	9.15	8.57
EV/EBIT (x)	11.02	9.94	11.43	10.12	9.43

Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	3,485	3,488	3,048	3,265	3,330
Gross profit	954	936	817	878	896
EBITDA	454	470	401	438	448
Depreciation and amortisation	(31)	(43)	(43)	(42)	(41)
Operating profit	423	427	358	396	407
Net interest	8	2	2	3	3
Pre-tax profit	433	430	362	403	412
Taxation	(63)	(65)	(55)	(61)	(61)
Reported net profit	370	365	306	343	353
Recurring net profit	370	365	306	343	353

Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in w orking capital	(147)	298	68	(34)	(10)
Cash flow from operations	263	707	420	354	387
Capex	(58)	(50)	(50)	(50)	0
Cash flow from investing activities	(57)	(50)	(50)	(50)	0
Dividends paid	(230)	(202)	(217)	(217)	(217)
Cash flow from financing activities	(219)	(202)	(217)	(216)	(215)
Cash at beginning of period	752	713	1,168	1,321	1,410
Net change in cash	(13)	455	153	88	173
Ending balance cash	713	1,168	1,321	1,410	1,585

Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	713	1,168	1,321	1,410	1,585
Tangible fixed assets	231	238	244	252	211
Total investments	24	24	24	24	24
Total assets	3,185	3,365	3,362	3,539	3,696
Short-term debt	2	2	2	2	2
Total liabilities	778	795	700	746	760
Total equity	2,406	2,571	2,662	2,793	2,937
Total liabilities & equity	3,185	3,365	3,362	3,539	3,696

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue grow th (%)	(13.3)	0.1	(12.6)	7.1	2.0
Recurrent EPS grow th (%)	(2.4)	(2.1)	(16.1)	12.0	2.8
Gross margin (%)	27.4	26.8	26.8	26.9	26.9
Operating EBITDA margin (%)	13.0	13.5	13.2	13.4	13.5
Net profit margin (%)	10.6	10.5	10.1	10.5	10.6
Dividend payout ratio (%)	62.2	55.4	70.7	63.2	61.4
Capex/sales (%)	1.7	1.4	1.6	1.5	0.0
Interest cover (x)	431	316	265	293	302

Source: Company data, RHB

14 December 2020

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

Beneficiary Of Indonesia's Levy Structure; BUY

Target Price (Return):	SGD5.85 (+39%)
Price:	SGD4.22
Market Cap:	USD20,033m
Avg Daily Turnover (SGD/USD)	50.5m/37.3m

- **Reiterate BUY and SGD5.85 TP, 39% upside and c.3% FY21F yield.** Wilmar International is one of our plantation sector Top Picks for 2021. We expect earnings to be spurred by its tropical oils business, as it is a key beneficiary of Indonesia's levy structure. The group's geographical diversification allows its Malaysian upstream business to gain from higher CPO prices, while its Indonesian downstream unit could take advantage of lower domestic CPO costs. The near-term outlook for China's crushing business also remains positive, with rising soy oil and soymeal prices covering higher input costs.
- **Indonesia's new export levies took effect on 10 Dec.** The Indonesian Government has set the CPO reference price at USD870/tonne, which will mean the levy from 10 Dec will be USD180/tonne. This, together with the export taxes applicable for December (of USD33/tonne) means that Indonesian domestic CPO could receive a discount of as much as USD213/tonne for sales clocked in December, ie at c.25% of current market prices. The levy borne by refiners is much lower, at USD130/tonne. Margins for downstream players in Indonesia would widen at the expense of upstream players. Malaysian downstream competitors would also be disadvantaged. Wilmar, being the largest global palm oil processor, has the means to channel more of its downstream processing to its Indonesian facilities, capitalising on the improved processing margins under this new levy structure.
- **Crush margins remain healthy despite rising soybean prices.** Although soybean prices have risen over 25% in the past three months, we note that China soy oil and soymeal prices have also risen in tandem. This suggests that Wilmar should be able to pass on the higher input costs to end-buyers. The economic rebound in China also helps to support sales volume of Wilmar's branded consumer products. This should help to expand overall group margins.
- **Share price to remain supported in the near term.** Wilmar announced that it will declare a special dividend amounting to 6.5 SG cents per share in February, representing 15% of Yihai Kerry Arawana's (YKA) IPO proceeds, along with its full-year result. On top of that, the group has been buying back shares, amidst the lukewarm performance of its share price – even while YKA's share price has soared. With the positive near-term outlook and longer-term growth prospects – with intensified investments in China post-YKA listing – we believe its share price would improve, once the earnings filter through.
- **Key risk** to look out for is declining pork and poultry prices in China. While prices for these meats are still high relative to the long-term average, the farmers may not be able to continue to absorb higher soybean meal prices, if they continue to fall substantially.

Analyst

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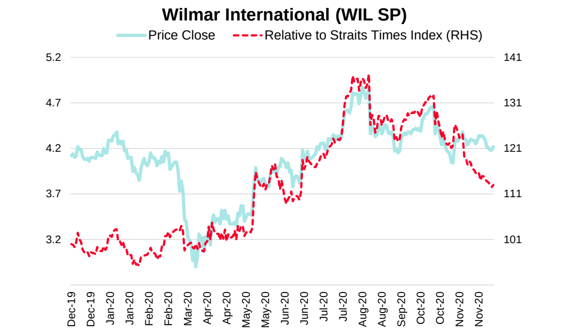
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.4	(1.4)	(3.4)	3.2	5.0
Relative	14.3	(14.3)	(16.6)	(1.7)	15.1
52-wk Price low/high (SGD)					2.90 – 4.87



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	44,498	42,641	50,224	53,301	56,158
Recurring net profit (USDm)	1,305	1,256	1,515	1,382	1,378
Recurring net profit growth (%)	24.6	(3.7)	20.6	(8.8)	(0.3)
Recurring P/E (x)	15.36	15.96	13.23	14.51	14.55
P/B (x)	1.3	1.2	1.0	1.0	1.0
P/CF (x)	12.79	5.93	8.42	4.97	7.64
Dividend Yield (%)	2.4	2.9	4.8	3.1	3.2
EV/EBITDA (x)	14.31	13.56	11.10	11.19	10.90
Return on average equity (%)	7.2	7.7	8.4	7.0	6.7
Net debt to equity (%)	119.1	110.0	89.4	81.1	80.8

Source: Company data, RHB

Financial Exhibits

Asia
Singapore
Agriculture
Wilmar International
WIL SP
Buy

Valuation basis

SOP

Key drivers

i. CPO prices and FFB production output;
ii. Crush margins;
iii. Improved profitability of its rice and flour business.

Key risks

i. Volatility in oilseeds earnings;
ii. Higher biodiesel demand from government mandates

Company Profile

Wilmar International is an agribusiness company. It has over 500 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries. Wilmar is involved in three main commodities – palm, soybean, and sugar.

Financial summary (USD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.21	0.20	0.24	0.22	0.22
DPS	0.08	0.09	0.15	0.10	0.10
BVPS	2.51	2.62	3.03	3.14	3.26
Return on average equity (%)	7.2	7.7	8.4	7.0	6.7

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	15.36	15.96	13.23	14.51	14.55
P/B (x)	1.3	1.2	1.0	1.0	1.0
FCF Yield (%)	1.3	7.8	1.9	9.1	1.1
Dividend Yield (%)	2.4	2.9	4.8	3.1	3.2
EV/EBITDA (x)	14.31	13.56	11.10	11.19	10.90
EV/EBIT (x)	20.50	19.27	15.56	16.89	17.22

Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	44,498	42,641	50,224	53,301	56,158
Gross profit	4,395	4,486	5,022	5,064	5,335
EBITDA	2,572	2,767	3,250	3,115	3,228
Depreciation and amortisation	(777)	(820)	(932)	(1,053)	(1,184)
Operating profit	1,795	1,947	2,319	2,062	2,044
Net interest	(352)	(417)	(429)	(375)	(375)
Pre-tax profit	1,617	1,698	2,083	1,908	1,911
Taxation	(350)	(372)	(448)	(410)	(411)
Reported net profit	1,153	1,268	1,515	1,382	1,378
Recurring net profit	1,305	1,256	1,515	1,382	1,378

Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	145	1,098	75	1,723	188
Cash flow from operations	1,567	3,383	2,381	4,033	2,622
Capex	(1,304)	(1,815)	(1,999)	(2,211)	(2,411)
Cash flow from investing activities	(1,370)	(1,600)	(2,305)	(2,401)	(2,601)
Dividends paid	(495)	(462)	(965)	(631)	(655)
Cash flow from financing activities	29	(1,198)	906	(1,595)	(624)
Cash at beginning of period	1,455	1,650	2,113	3,095	3,131
Net change in cash	226	586	982	37	(603)
Ending balance cash	1,615	2,191	3,095	3,131	2,528

Balance sheet (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	3,370	4,046	5,095	5,131	4,528
Tangible fixed assets	10,008	11,969	13,129	14,380	15,699
Total investments	3,715	3,103	3,387	3,698	4,030
Total assets	45,680	47,049	50,041	49,991	51,045
Short-term debt	17,821	18,288	18,000	17,000	17,000
Total long-term debt	5,523	5,419	5,500	5,500	5,500
Total liabilities	28,913	29,172	29,463	28,574	28,811
Total equity	16,767	17,876	20,577	21,417	22,233
Total liabilities & equity	45,680	47,049	50,041	49,991	51,045

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	2.1	(4.2)	17.8	6.1	5.4
Recurrent EPS growth (%)	24.5	(3.8)	20.6	(8.8)	(0.2)
Gross margin (%)	9.9	10.5	10.0	9.5	9.5
Operating EBITDA margin (%)	5.8	6.5	6.5	5.8	5.7
Net profit margin (%)	2.6	3.0	3.0	2.6	2.5
Dividend payout ratio (%)	42.1	45.7	63.7	45.6	47.5
Capex/sales (%)	2.9	4.3	4.0	4.1	4.3
Interest cover (x)	2.19	2.18	2.60	2.41	2.39

Source: Company data, RHB

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Analyst	Company
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