Singapore Market Focus

Monthly Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jan 2018

January Awakening

- Positive buildup to 4Q results season
- STI year-end base case objective 3688, bull case 3800
- SIBOR's jump positive for OCBC and UOB
- Beneficiaries of US corporate tax cut – ST Engineering, Cityneon, Venture Corp
- Interest uptick for service sector - Genting, mm2, Cityneon, OCBC & UOB

Positive buildup to 4Q results season January marks the start of the 4Q17 results season. Expectations are high after Singapore's 4Q GDP flash estimates rose at a seasonally adjusted annualised rate of 2.8% q-o-q to beat consensus estimates. We expect FY17E EPS for STI and stocks under our coverage to grow 9.9% y-o-y and 11.4% y-o-y respectively.

STI year-end base/bull case objective 3688/3800 We peg near-term support at 3420. Our base-case STI year-end objective is 3688, pegged to 13.89x (+0.25SD) FY19F PE with a 'bull-case' objective of 3800 pegged to 14.3x (+0.5SD) FY19 earnings.

SIBOR's jump positive for banks Singapore's 3M SIBOR jumped 25bps to 1.501% while the 12M SIBOR jumped 29bps to 1.73% over the past one week. DBS Bank's interest rates strategist sees 3M SIBOR rising further to 2.15% by end-2018. Our sensitivity analysis indicates that the latest SIBOR rise, if sustained, will lift the NIM earnings for **UOB** and **OCBC** by 1% and 2% respectively. We expect the re-rating on Singapore banks to continue on the back of accelerating loan growth, upside potential to NIM and lower provisions. We raised OCBC target price to $14.00 and UOB's target price to $29.50.

Beneficiaries of US corporate tax cut The US congress recently gave the final approval for sweeping tax reforms that included a corporate tax cut to 21% from 35%. As Singapore does not have a tax treaty with the US, the tax cut benefits Singapore companies with operations in the US. For stocks under our coverage, **ST Engineering**, **Cityneon** and **Venture Corp** are beneficiaries.

At your service! We see interest uptick for the services sector stocks. The latest 4Q GDP flash estimates reinforced our view that the recovery in Singapore's economy is broadening to the services sector. Among the three key sectors, services is the only one that registered positive growth on a y-o-y (+3%) and q-o-q (+7.5%) basis. Our picks are **Genting**, **mm2**, **Cityneon**, **OCBC** and **UOB.**

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Key Indices

	Current	% Chng
STI Index	2,917.15	-6.0%
FS Small Cap Index	693.20	-4.7%
SGD Curncy	1.44	0.4%
Daily Volume (m)	2,168	
Daily Turnover (S$m)	2,408	
Daily Turnover (US$m)	1,674	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2017	11.3	3.6
2018F	8.5	3.5
2019F	8.7	3.1
(x)	PER	EV/EBITDA
2017	16.9	15.7
2018F	15.6	15.1
2019F	14.4	16.7

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
Cityneon Holdings	0.97	178	1.45	(13.6)	4.2	BUY
Genting Singapore	1.34	12,117	1.51	10.3	48.1	BUY
HL Finance	2.77	930	3.20	6.5	28.8	BUY
OCBC Bank	12.95	40,786	14.00	13.8	42.4	BUY
mm2 Asia	0.55	477	0.73	8.1	17.6	BUY
UOB	27.02	33,789	29.50	13.9	31.9	BUY
Venture Corporation	21.97	4,705	26.00	18.1	122.1	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 4 Jan 2018

DBS

ed: TH / sa:YM, PY, CS

January Market Outlook

Looking back at December

The Straits Times Index ended the last month of 2017 down 0.9% to 3402 as trading activity quietened amid the traditional year-end lull period with most investors turning to the sidelines. The average daily value of shares traded dipped to just S$0.951bn for December, lower by 2.5% compared to the same period in 2016 and down 17% from the daily average for 2017. For the year, the STI was up 18%.

S-REITs outperformed, rising 2.7% as the MAS 10-yr yield fell 10bps to 2.02% while financials nudged by 0.5% higher. On the other hand, the consumer goods sector was dragged down by weakness in **Thai Beverage** as the stock reacted to news that its unit Vietnam Beverage has won the bid for a 53.6% stake in Vietnam's largest brewer Sabeco. Weakness in **Yangzijiang** shares dragged the industrials sector lower as the stock succumbed to profit taking following its strong performance in 2017.

FTSE ST Indices relative performance in December

Source: DBS Bank

Outlook

Key Events

Date	Events	Comments
25 Jan	ECB meeting	
31 Jan/1 Feb	FOMC meeting	FED is widely expected to keep rates unchanged at this meeting. DBS Research sees three rate hikes this year that will lift the FED funds rate to 2.25% by end-2018
Jan-Feb	4Q results season	4Q results to be spearheaded by growth in the manufacturing and recovery in services sector. Expect EPS growth of 11.4% y-o-y in FY17F for stocks under our coverage, 9.9% y-o-y in FY17F for STI

Source: DBS Bank

FED expected to hold funds rate at 1.5% this month

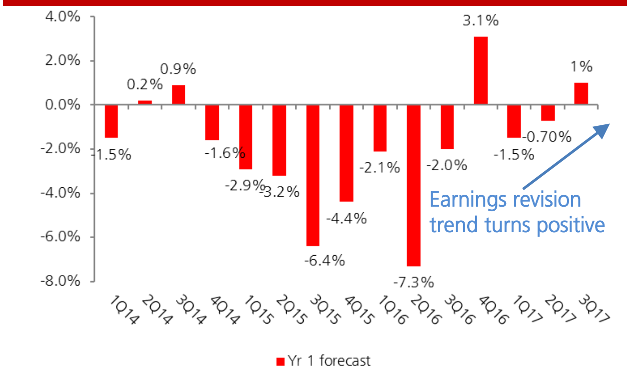
The year starts off on relatively quiet with the ECB monetary policy meeting on 25 January followed by a 2-day FOMC meeting at the end of the month. The FED is widely expected to keep rates unchanged at this meeting. DBS Research sees three rate hikes this year that will lift the FED funds rate to 2.25% by end-2018.

Positive buildup to 4Q results season

January marks the start of the 4Q17 results season that spans through February. The upcoming results season should build upon 3Q's positive turn in earnings revision trend. Expectations are high after the latest data release showed Singapore's 4Q GDP rose at a seasonally adjusted annualised rate of 2.8% q-o-q, better than consensus estimates for a 1.6% increase.

The services sector that makes up two-thirds of the economy grew 3% y-o-y and was up a strong 7.5% q-o-q as wholesale, retail, transportation and storage sub-sectors strengthened. The manufacturing sector expanded 6.2% y-o-y but moderated on a q-o-q basis, down 11.5%. Sector growth was supported by the electronics and precision engineering clusters that offset output declines in the biomedical manufacturing and transport engineering clusters. The construction sector continued to lag, shrinking by 8.5% y-o-y to continue a 7.7% decline in the previous quarter.

Earnings revision trend turned up in 3Q17



Source: DBS Bank

Broader-based recovery led by services sector

Singapore's 4Q GDP flash estimates reinforce our view that the improvement in the real economy should broaden steadily from the manufacturing to the services sector. Taking the lead, the services sector grew 7.5% q-o-q, accelerating from the 3.4% q-o-q growth in 3Q. This is significant as the services sector accounts for two-thirds of GDP and almost 70% of employment. Even the beleaguered construction sector should benefit from large-scale public-sector projects such as the 21.5-km North-South Corridor, Thomson East-Coast line, Changi Airport Terminal 5, the Tuas Megaport and the High-Speed Rail link.

4Q GDP flash estimates

	4Q* 2017 QoQ%	3Q 2017 QoQ%	2Q 2017 QoQ%	1Q 2017 QoQ%	4Q 2016 QoQ%
Annualised Growth	2.8%	9.4%	2.6%	-2.1%	12.3%
Manufacturing	-11.5%	38%	4.2%	0.3%	39.8%
Construction	-3.6%	-5.5%	-6.9%	-17.5%	0.8%
Services	7.5%	3.4%	3.9%	-2.7%	8.4%
YoY% GDP at 2010 Market Prices					
Overall	3.1%	5.4%	3%	2.5%	2.9%
Manufacturing	6.2%	19.2%	8.5%	8.5%	11.5%
Construction	-8.5%	-7.7%	-9.1%	-7%	-2.8%
Services	3%	3.2%	2.6%	1.4%	1%

**Flash estimates*
Source: Ministry of Trade and Industry

STI year-end base case objective 3688, bull case 3800

STI starts the New Year at 3402, near 13.89x (+0.25SD) 12-mth forward PE. The first two trading days alone saw a 60-pt uplift on the back of the better-than-expected 4Q GDP flash estimates.

We peg a January upside at 3500 or just slightly above that is near 14.27x (+0.5SD) 12-mth forward PE. Support at 3420 that coincides with the 15-day exponential moving average and 13.89x (+0.25SD) 12-mth forward PE should hold up on market pullback.

We think investors may turn to the further unfolding of the 4Q results season in February before seeking the impetus for the STI to punch convincingly above 3500.

Our base-case STI year-end objective is 3688 pegged to 13.89x (+0.25SD) FY19F PE. We do not rule out a re-rating catalyst pushing up STI's target valuation to 3800, pegged to +0.5SD at 14.3x on FY19 earnings.

STI at various forward PE levels

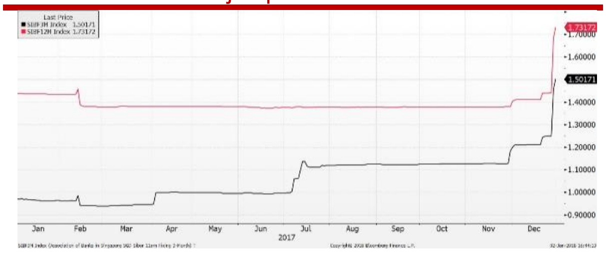
	Avg 13.51x PE	+0.25 sd 13.89x PE	+0.5 sd 14.27x PE	+0.75 sd 14.64x PE
FY18	3,303	3,396	3,489	3,580
FY19	3,587	3,688	3,789	3,887
12-mth fwd	3327	3420	3514	3605

Source: DBS Bank

Strategy

SIBOR's jump positive for banks

3M and 12M SIBOR jumped



Source: DBS Bank

Singapore's 3M SIBOR jumped 25bps to 1.501% while the 12M SIBOR jumped 29bps to 1.73% over the past one week. While the latest rise may be partly due to seasonal factors, it also points to upward pressure on SGD interest rates as the US FED continues its normalising policy in 2018 with three rate hikes. DBS Bank's interest rates strategist sees 3M SIBOR rising to 2.15% by end-2018.

The latest rise in the SIBOR should continue to underpin local banks. Our sensitivity analysis indicates that every 25-bp rise in SIBOR would raise sector average NIM by 3bps (UOB:+1bps; OCBC: +3bps) leading to an average 2% (UOB: +1%; OCBC: +2%) increase in earnings. Our preferred pick is OCBC (TP raised to S$14.00) for (1) its ability to maintain lower-than-peer credit cost trends (2) it serves as a better wealth management play, and (3) possible earnings surprises from its insurance business in a rising interest rate environment. We have also raised TP for UOB to S$29.50.

Interest rate forecasts

% pa, eop	2017f	2018f	2019f
3m Sibor	1.40	2.15	2.65
2Y	1.55	2.25	2.65
10Y	2.30	2.55	2.70
10Y-2Y	75	30	5

Source: Bloomberg Finance L.P., DBS Bank

Rise in SIBOR positive for banks

Company	Price 3 Jan 2018	12 mth Target Price	Target Return	Rcmd	EPS Growth 18 (%)	EPS Growth 19 (%)	Div Yield 18 (%)	P/BV 17 (x)
OCBC	12.49	14.00	8%	BUY	13.3	10.2	3.3	1.4
UOB	26.63	29.50	3%	BUY	9.8	10.1	3.1	1.2

Source: DBS Bank

Little FDI diversion risk, beneficiaries of US corporate tax cut

The US congress recently gave the final approval for sweeping tax reforms that included a corporate tax cut to 21% from 35%. Our Chief Economist says any risk of diverting investments from the rest of the world back to the US due to the tax cut poses a bigger risk for Europe and Latin America rather than Asia. This is because the factors of production that are Asia-oriented, especially those related to the electronics supply chain, are very unlikely to move back to the US. The labour cost advantages, economies of scale, and the component ecosystem is well engrained in Asia, with little risk of FDI diversion back to the US.

As Singapore does not have a tax treaty with the US, the tax cut benefits Singapore companies with operations in the US. For stocks under our coverage, such companies are **ST Engineering** (24% revenue exposure), **Cityneon** (10-15% revenue exposure) and **Venture Corp.**

Companies with US operations

Company	US revenue exposure in US (%)	Price 3 Jan 2018	12 mth Target Price	Target Return	Rcmd	PER 18 (x)	EPS Growth 18 (%)	Div Yield 18 (%)	Net Debt / Equity 18	P/BV 17 (x)
Cityneon	10 to 15	0.96	1.45	51%	BUY	9.5	51.0	-	cash	2.7
ST Eng	24	3.27	3.70	13%	HOLD	20.1	3.9	4.4	0.0	4.6
Venture Corp	NA	21.42	26.00	21%	BUY	16.6	12.5	2.6	cash	2.8

Source: DBS Bank

At your service!

The latest 4Q GDP estimates have reinforced our view that the improvement in Singapore's real economy is broadening steadily from the manufacturing to the services sector. Among the three major sectors, services is the only one that registered positive growth on a y-o-y and q-o-q basis. Growth strengthened further to 7.5% q-o-q, up from 3.4% q-o-q in 3Q. On a y-o-y basis, growth was up 3%. Meanwhile, after a solid 3Q, growth in the manufacturing sector moderated in 4Q, down 11.5% q-o-q. The construction sector stayed in contraction territory.

Against this backdrop, we see interest uptick for services sub-segments such as consumer, financial, transportation, retail and storage.

Services sub-segments

Company	Price 3 Jan 2018	12 mth Target Price	Target Return	Rcmd	PER 18 (x)	EPS Growth 18 (%)	Div Yield 18 (%)	Net Debt / Equity 18	P/BV 17 (x)
Banking & financial services									
OCBC	12.49	14.00	8%	BUY	11.2	13.3	3.3	0.0	1.4
UOB	26.63	29.50	3%	BUY	11.2	9.8	3.1	0.0	1.2
HL Finance	2.73	3.20	17%	BUY	13.8	9.6	4.9	0.0	0.7
Transportation									
SIA	10.67	10.30	-3%	HOLD	20.5	-4.2	2.3	0.1	0.9
ComfortDelgro	2.01	2.18	8%	HOLD	15.0	-5.7	5.3	cash	1.7
Leisure									
Genting	1.32	1.51	14%	BUY	21.6	10.8	2.7	cash	2.1
mm2 Asia	0.53	0.73	37%	BUY	16.8	31.9	-	0.7	3.4
Cityneon	0.96	1.45	51%	BUY	9.5	51.0	-	cash	2.7
Retail / F&B									
Courts Asia	0.32	0.36	11%	HOLD	9.0	-4.9	3.7	0.9	0.7
Jumbo Group	0.58	0.61	5%	HOLD	21.9	18.1	2.5	cash	5.7

Source: DBS Bank

Significant Reports

Date	Report Title	Sub Title
	Regional	
20 Dec 17	ASEAN Consumer	A better year ahead
	Singapore	
11 Dec 17	ESR REIT	Returning to the growth path
11 Dec 17	Mapletree Commercial Trust	Room to surprise on the upside
12 Dec 17	Roxy-Pacific Holdings	Sexy Roxy
13 Dec 17	SPH REIT	A longer wait
15 Dec 17	Singapore Property & REITs:	The Quantum Leap
18 Dec 17	Delfi Ltd	Position for a better year ahead
3 Jan 18	HRNetGroup Ltd	Opportune time to hunt

Source: DBS Bank

Revisions to recommendations

Stock Name	Current	Previous	Change Date
ESR REIT	HOLD	BUY	11 Dec 17
Mapletree Commercial Trust	HOLD	BUY	11 Dec 17
SPH REIT	BUY	HOLD	13 Dec 17
Delfi Ltd	HOLD	BUY	18 Dec 17

Source: DBS Bank

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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