

Singapore Market Focus

Monthly Strategy

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DBS Group Research . Equity

5 Feb 2018

Expanding on mid-recovery outperformers

- February events - Budget 2018, results season has little room for disappointment
- STI corrects off 3600, near-term support 3450-3480
- Interest on mid-economic expansion outperformers to expand – O&G, basic materials, commodities, consumer
- SMC interest should improve - Roxy Pacific, Frasers Commercial Trust, POSH, Breadtalk, HRNetGroup

Singapore Budget 2018. The Singapore government is expected to focus on mid-term restructuring policies such as measures to strengthen Industry Transformation Programme, support internationalisation and help start-ups. There could also be tax increases for GST, wealth, tobacco, liquor and vehicle tax.

Earnings in focus. We see STI EPS growth of 9.9% y-o-y for FY17E and 7.3% y-o-y for FY18F. Banks (Pick **OCBC**) to benefit from NIM improvement and loan growth. Consumer goods (Picks **Thai Bev**, **Breadtalk**) to see margin improvements, coupled with contribution from JV/associates. O&G (Picks **Keppel Corp**, **SMM**, **SCI**) FY18F earnings recovery, expect S\$3bn order wins for rig builders this year compared to S\$1bn in 2017.

STI consolidates off 3600, near-term support 3450/80 February started with equity markets sell-off on inflation & rate hike worries. New FED Chairman Jerome Powell likely to maintain Yellen's policy for gradual rate increase and balance sheet reduction. Near-term support at 3450-3480. 3450 coincides with 13.89x (+0.25SD) 12-mth fwd PE. Base-case year-end objective 3688, optimistic case 3800.

Interest on mid-economic expansion outperformers to expand. Even as the spotlight on **O&G** and **construction** sectors is likely to continue, interest in the rest of the mid-recovery outperformers, which are the basic materials and commodities sectors, should gradually pick up. Stocks under our coverage are **Midas** and **Olam**. We also continue to take a positive view on consumer stocks. Our picks for large caps are **Thai Beverage** and **Genting**. For small caps, our picks are **Breadtalk** and **Cityneon**. We also like industrial sector laggards **Singapore Post** and **SIA Engineering**.

SMC interest should improve. The upturn in the Singapore market that started from beginning October last year was led mainly by blue chips. Going forward, as the fierce January upward momentum for the blue chips STI tapers off, some of the flows should turn towards small caps. We like **Roxy Pacific**, **Frasers Commercial Trust**, **PACC Offshore Services Holdings**, **Breadtalk** and **HRNetGroup**.

STI : 3,529.82

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Key Indices

	Current	% Chng
STI Index	3,529.82	-0.5%
FS Small Cap Index	416.88	-0.7%
USD/SGD Curncy	1.35	2.1%
Daily Volume (m)	3,894	
Daily Turnover (S\$m)	1,904	
Daily Turnover (US\$m)	1,413	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2017E	11.0	3.5
2018F	9.5	3.4
2019F	9.2	3.1

(x)	PER	EV/EBITDA
2017E	17.4	16.1
2018F	15.9	15.4
2019F	14.5	17.1

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target Price		Performance (%)		
			S\$	3 mth	12 mth	Rating	
Keppel Corporation	8.71	11,966	10.20	14.6	39.4	BUY	
Sembcorp Marine	2.79	4,413	3.10	42.4	84.8	BUY	
Sembcorp Industries	3.57	4,827	4.50	8.2	11.6	BUY	
Midas Holdings	0.189	272	0.36	(12.1)	(17.8)	BUY	
Thai Beverage Public	0.92	17,502	1.07	(4.2)	5.8	BUY	
BreadTalk Group Ltd	1.71	365	2.01	5.9	31.5	BUY	
Genting Singapore	1.33	12,131	1.51	8.6	35.0	BUY	
Dairy Farm (US\$)	8.51	11,509	9.89	3.8	3.3	BUY	
mm2 Asia	0.505	445	0.73	(8.2)	(2.9)	BUY	
Cityneon Holdings	1.07	198	1.45	(6.1)	11.5	BUY	
Frasers Commercial Trust	1.43	878	1.71	2.9	12.6	BUY	
HRNetGroup	0.85	651	0.96	(6.1)	N.A	BUY	
PACC Offshore	0.45	618	0.51	28.6	18.4	BUY	
Roxy-Pacific Holdings	0.59	528	0.69	4.5	15.8	BUY	
SingPost	1.38	2,368	1.61	7.8	(6.8)	BUY	
SIA Engineering	3.33	2,821	3.86	2.2	(6.2)	BUY	


Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 2 Feb 2018




February Market Outlook

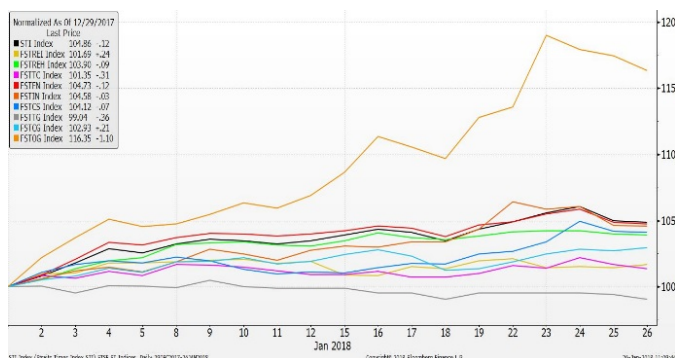
Looking back at January

- STI up 3.85%, driven by 'synchronised global recovery', earnings optimism, rising oil price, weak USD
- High 3609 at 14.64x (+0.75SD) 12-mth fwd PE, above our year-end target peg of 14.27x (+0.5SD) FY19F PE
- Sector leader O&G (+17.7% m-o-m) – **Keppel Corp, SembCorp Marine, SembCorp Industries** (Click  to read our latest rig builders sector report)
- Sector laggard telecom (-0.6% m-o-m)
- Consumer services (+3.1% m-o-m) turns higher from mid-January – **Genting Singapore, ComfortDelgro, SIA**


February Key Events

- Powell takes over from Yellen as FED Chair – No change in three rate hikes forecast, market debating if four is possible
- Singapore 2018 budget (19 February)
 - Focus on mid-term, restructuring policies over counter-cyclical measures
 - Possible measures to strengthen Industry Transformation Programme, Automation Support Package, support internationalisation, help start-ups
 - Possible tax increases for GST, property, wealth, betting, tobacco, liquor and vehicle import duty
 - Click  to read our Singapore economist's thoughts on the upcoming budget

O&G leader, telco lag, consumer services upturn



Singapore Budget on 19 February

Date	Events	Comments
03-Feb	Janet Yellen's term as FED Chair ends	Jerome Powell is next FED Chair. Powell never voted against the chair since 2012 and sided with the dovish wing. We see 3 rate hikes this year with FED funds rate at 2.25% by end 2018
19-Feb	Singapore 2018 Budget	Click  to read our Singapore economist's thoughts about the upcoming budget
Till end-Feb	4Q17 results season	Stocks under our coverage expected to grow 11.4% y-o-y for FY17E, 8.4% FY18F

Source: DBS Bank

STI corrects on inflation worry, near-term support 3480

- February started with global equity markets sell-off on inflation & rate hike worries, US bond yields ↑2.84%.
- New FED Chairman Jerome Powell likely to maintain Yellen’s policy for gradual rate increase and balance sheet reduction
- January’s high of 3611 at 14.8x (+0.75SD) 12-mth fwd PE near-term unsustainable, *above* year-end target valuation peg of 14.4x (+0.5SD) FY19F PE
- Near-term resistance 3600, pullback support at 3480, temporary undershoot support 3450 peg to 13.89x (+0.25SD) 12-mth fwd PE
- Base-case year-end objective 3688, optimistic case 3800

STI consolidates off 3600, near-term support 3500



Source: DBS Bank

Strategy

At January’s high of 3611, STI traded at 14.8x (+0.75SD) 12-mth forward PE and the 8-week RSI reached a high of 79. STI looks technically overbought and forward PE valuation stretched in the near term. While a decline from 3600 is panning out and the upward momentum should taper from January’s 165pt/month climb that is clearly unsustainable, we see opportunities on market pullback.

Singapore’s economic recovery remains intact and is broadening to the services sector. Even the beleaguered construction sector is expected to see increased activities this year. As the recovery progresses, we believe that *rotation* is an important strategy going forward. The first is sector, next is market cap.

Mid-recovery plays O&G and construction sectors outperforming since 4Q17

If you recall seeing the table (sector outperformers at various stages of economic recovery) before and are wondering why we are showing it again, that is because it has worked, and we believe that it will continue to do so. Its first appeared on 13 October last year in the Singapore Market Focus report titled “Jacking Up Gains” where we took a positive stance on the O&G sector as we rightfully anticipated an interest shift from the early to the mid-economic recovery outperformers.

Sector outperformers at various stages of economic recovery

	Economic Phase	Sector Outperformers	Examples
1Q to 3Q17	Late contraction	Financials	UOB, OCBC
		Property	CityDev, UOL etc.
4Q17 to 2018	Early Expansion	Technology	Sunningdale, Hi-P, Venture
		Industrials	Yangzijiang
		Transportation	CAO, SATS, SIAE
Deeper into 2018	Middle Expansion	Construction	Tat Hong, Yong Nam, Lian Beng
		Capitol Goods	Keppel Corp, SembCorp Marine, POSH
	Late Expansion	Basic Materials	Midas, Asia Enterprise, Hupsteel
		Commodities & Energy	Olam, Wilmar, First Resources
	Early contraction	Consumer staples	Dairy Farm, Sheng Siong
	Consumer Services	ComfortDelgro, Jumbo, Katrina	
	Utilities & telco	SingTel, M1, Starhub	

Source: DBS Bank

Indeed, the O&G sector has been the top performing sector since, higher by 20% to outperform STI’s 6.6% rise over the same period. We had also highlighted the construction sector as a mid-expansion phase outperformer that also outperformed. For example, construction stocks under our coverage, e.g. **Chip Eng Seng** rose 19% over the same period.

Sector outperformers at stages of economic recovery



Source: DBS Bank

Spotlight on mid-economic expansion outperformers to continue

Even as the spotlight on O&G and construction sectors is likely to continue, interest in the rest of the mid-recovery outperformers that are the basic materials and commodities sectors should gradually start to pick up. Stocks under our coverage are **Midas** and **Olam**.

With the broadening of Singapore's recovery from the manufacturing to services sector and as regional consumer sentiment improves, we continue to take a positive view on consumer stocks. Our picks for large caps are **Thai Beverage**

and **Genting**. For small caps, our picks are **Breadtalk** and **Cityneon**.

Finally, we also like industrial sector laggards **Singapore Post** and **SIA Engineering**. We upgraded Singapore Post to Buy as we think its postal segment's margin decline may have bottomed out, eCommerce segment's turnaround in place that offsets pressures at logistics segment. We also upgraded SIA Engineering to Buy with stronger JV earnings, new revenue driver in 2019 with GE engine facility and possible S\$14.1mil one-off gain in 4QFY18

Basic materials, commodities and consumer stocks

Company	Price 2 Feb	12-mth Target Price	Target Return	Mkt Cap (\$m)	Rcmd	PER 18 (x)	PER 19 (x)	EPS Growth 18 (%)	EPS Growth 19 (%)	Div Yield 18 (%)	Net Debt / Equity 18	P/BV 17 (x)
Basic Materials & Commodities												
Olam	2.220	2.15	-3%	7,015	HOLD	15.3	15.3	9.8	-0.3	2.7	1.7	1.3
Midas	0.189	0.36	90%	359	BUY	8.8	-	14.5	-	2.7	0.8	0.4
Consumer goods/services												
Thai Beverage	0.920	1.07	16%	23,101	BUY	19.2	17.4	10.5	10.3	3.2	0.2	4.3
Breadtalk	1.710	2.01	18%	481	BUY	22.0	20.5	33.3	7.4	1.8	cash	3.4
Genting	1.330	1.51	14%	16,012	BUY	21.7	21.4	10.8	1.7	2.6	cash	2.1
Dairy Farm (US\$)	8.510	9.89	16%	15,191	BUY	22.0	20.2	10.1	9.1	2.7	0.2	6.8
mm2 Asia	0.505	0.73	44%	587	BUY	16.0	-	31.9	-	-	0.7	3.3
Cityneon	1.070	1.45	35%	262	BUY	10.6	-	51.0	-	-	cash	3.1
SIA	11.320	10.55	-7%	13,386	HOLD	21.0	19.9	-1.6	5.5	2.2	0.1	1.0
ComfortDelgro	2.140	2.18	2%	4,630	HOLD	15.9	15.3	-5.7	4.6	5.0	cash	1.8
Industrials Leggards												
Singapore Post	1.380	1.61	16%	3,125	BUY	21.9	20.5	18.5	7.0	3.2	cash	2.2
SIA Engineering	3.330	3.86	16%	3,724	BUY	21.3	19.4	-0.7	2.3	4.2	cash	2.5

Source: DBS Bank

SMC interest should improve

The upturn in the Singapore market that started from beginning October last year was led mainly by blue chips (e.g. banks **DBS**, **OCBC**, **UOB**, property stock **City Dev**, yards **Keppel Corp**, **SembCorp Industries** and consumer services **Genting**). The FTSE ST mid-cap Index performed nearly as well as the STI while the FTSE ST Small Cap Index lagged. Going forward, as the fierce January upward momentum for the blue chips STI tapers off, some of the flows should turn towards small caps.

STI, SMC and Catalyst's relative performance since October 2017



Roxy Pacific is our small-cap pick in the property space. Roxy, being one of the earliest to land bank in the current market cycle, has six freehold residential developments in Singapore that will be ready for launch in 2018, two of which will be launched within 1Q18. The Navian, a 48-unit freehold development that was launched in October last year, is nearly 50% sold.

Frasers Commercial Trust (FCOT) is our small-cap pick among S-REITs. FCOT's current c.2% yield spread to other large-cap office REITs is too wide considering the average yield spread is 0.8% and the Farnborough Business Park acquisition allays concern that FCOT is ex-growth.

Our positive stance on **PACC Offshore Services Holdings** (POSH) since 4Q last year has clearly paid off. We continue to see POSH as a name to ride the offshore service sector upturn. In the near term, we see a stronger quarter in 4Q17 as the

POSH Arcadia gets a full quarter of utilisation, and more of the Middle East offshore support vessels (OSVs) are deployed. POSH has no bonds outstanding, is cash-generative with positive OCF in 9M17, and remains a privatisation candidate with Kuok (Singapore) Ltd as its majority shareholder (81.89% ownership).

We like **Breadtalk** in the F&B consumer service space. Its core business continues to deliver growth while the sale of AXA Tower is a potential catalyst that could pay around 4.5 Singapore cents (Scts) in special dividends.

Finally, in the industrials support service space, we think **HRNetGroup** is poised to ride on the labour market recovery. It holds a dominant market share in Singapore. Going by the uptick in growth in Singapore's service sector that contributes a majority 70% of workforce, we believe the labour market has bottomed.

Small-cap stocks

Company	Price 31 Jan	12-mth Target Price	Target Return	Sector	Mkt Cap (\$m)	PER 18 (x)	PER 19 (x)	EPS Growth 18 (%)	EPS Growth 19 (%)	Div Yield 18 (%)	Net Debt / Equity 18	P/BV 17 (x)
FCOT	1.46	1.71	17%	REITS	1,184	14.7	14.6	1.3	0.8	6.8	0.4	0.9
HRNetGroup	0.85	0.96	13%	Industrials	860	18.0	17.2	6.5	4.3	2.8	cash	3.1
POSH	0.44	0.51	16%	Oil & Gas	798	nm	nm	nm	nm	-	1.2	0.9
Roxy-Pacific	0.58	0.69	19%	Real Estate	691	16.9	10.1	934.3	66.8	1.5	1.8	1.4
Breadtalk	1.72	2.01	17%	Consumer Services	484	22.2	20.6	33.3	7.4	1.7	cash	3.4

Source: DBS Bank

Significant Reports

Date	Report Title	Sub Title
	Regional	
4-Jan-18	Asia strategy	2018 outlook: Rebound, Rethink, Re-strategise
4-Jan-18	ASEAN Banks	Still has room to shine
18-Jan-18	Asian Telecom Sector	Clear-cut view via the Digital Prism
23-Jan-18	Regional Oil & Gas	Happy new year for oil
31-Jan-18	ASEAN Aviation	Pricing power to pick winners
	Singapore	
5-Jan-18	Monthly Strategy	January Awakening
22-Jan-18	Singapore Rigbuilders	New orders drive rerating
25-Jan-18	Singapore Telecom Sector	Opportunities from Mispricing
30-Jan-18	Industrial REITs	Size really matters!

Source: DBS Bank

Revisions to recommendations

Stock Name	Current	Change Date
Keppel-KBS US REIT Initiating Coverage	BUY	15-Jan-18

Source: DBS Bank

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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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