Singapore Market Focus

Singapore Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity 4 Jul 2018

Buckle up for a rough ride

- Selldown presents opportunity to trade on rebound in near term, stay with liquid blue chips or stocks with specific catalysts
- 3Q outlook clouded by triple worries – trade war leading to potential currency war, rate hikes
- All eyes on trade war, cutting back STI YE target to 3650 in base case, and 2915 in a bear-case scenario
- Prefer domestic plays, recession-resistant stocks, stocks with high yield and beneficiaries of strengthening USD

Trade the rebound. Market is grappling with rising uncertainties from interest rate hikes, global trade war threatening to slow economic growth and strengthening USD. Potential downside to earnings in almost all sectors (except properties and REITS) could scale back earnings growth from 15.7% to 13% in the upcoming reporting season. That said, the recent correction has priced in earnings cut and pushed valuations to attractive levels, STI trading at -1SD or 12x forward PE. Our picks to trade on near-term rebound – UOB, Keppel Corp, City Devt, SATS, YZJ, CDL HT and APAC Realty are liquid names with catalysts for upside.

Base case: Trade war threats to subside by year-end, STI YE target cut to 3650. Beyond the rebound, volatility will increase, as trade war worries and tightening liquidity will cap bounces. We set a base-case scenario assuming that the current trade war cries are mainly political rhetoric ahead of the November mid-term election, and should subside towards year-end. That said, newsflow on trade war is likely to get worse before it gets better. We cut our base-case STI target to 3650, taking into account possible earnings cut and lower risk premium.

Bear case – STI could head for 2915 if 'all-out' trade war escalates. While we think a full-blown trade war is unlikely, we consider the downside impact, and conclude that STI could head for 2915, pegged to 10.5x PE(-2SD) which is in line with the two previous stock market bottoms over the past 10 years post GFC – during Eurozone crisis (2011) and oil price crash (2016).

As trade war rumblings unfold in 3Q, we prefer to stay defensive on companies with net cash, decent dividend yield and domestic consumption plays – Dairy Farm, Sheng Siong, SIA Engineering, ST Engineering, Singtel and Netlink Trust. We upgraded ComfortDelgro to BUY on potential growth of its taxi fleet, instead of contraction, backed by its attractive dividend yield of 4.6%.

STI : 3,235.90

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Key Indices

	Current	% Chng
STI Index	3,235.90	-0.1%
FS Small Cap Index	367.02	0.0%
USD/SGD Curncy	1.35	-1.3%
Daily Volume (m)	1,840	
Daily Turnover (S$m)	1,111	
Daily Turnover (US$m)	824	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2017	7.9	4.3
2018F	15.8	4.2
2019F	8.2	4.3

(x)	PER	EV/EBITDA
2017	16.1	15.2
2018F	13.9	14.6
2019F	12.8	13.5

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
Trade on rebound						
APAC Realty	0.80	208	1.22	(32.2)	N.A	BUY
CDL Hospitality Trusts	1.53	1,349	2.00	(9.5)	(3.9)	BUY
City Developments	10.92	7,275	15.40	(15.9)	1.8	BUY
Keppel Corporation	7.02	9,330	10.20	(9.2)	11.6	BUY
SATS Ltd	4.93	4,024	5.64	(4.3)	(3.5)	BUY
UOB	26.73	32,707	33.20	(0.9)	15.6	BUY
Yangzijiang	0.89	2,582	1.82	(24.6)	(25.2)	BUY
Defensive with yield						
ComfortDelGro	2.30	3,648	2.59	12.2	0.0	BUY
Dairy Farm	8.85	11,97	9.77	8.9	12.3	BUY
NetLink NBN Trust	0.75	2,127	0.87	(8.6)	N.A	BUY
Sheng Siong Group	1.06	1,168	1.21	12.2	7.1	BUY
SIA Engineering	3.11	2,548	3.92	(2.2)	(23.8)	BUY
Singtel	3.02	36,133	3.70	(10.7)	(22.4)	BUY
ST Engineering	3.25	7,430	4.10	(8.7)	(11.7)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 3 Jul 2018

ed: TH / sa: JC, CW, CS

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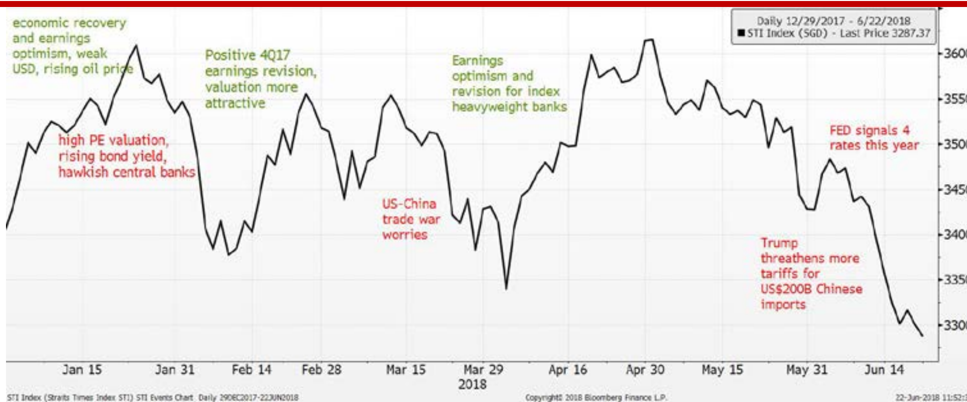
1H18 Review

1H was a roller-coaster ride!

We won't blame you if you felt that 1H resembled a ride on Battlestar Galactica at Universal Studios Singapore. The benchmark Straits Times Index gyrated within a wide 11% range (-4% to +7% YTD change). STI rose to a high of 3641, just 47 points shy of our 2018 base-case objective highlighted in our 2018 Singapore Strategy report back in 27 November titled 'Recovery, Revision, Re-rating'.

Sentiment swung from optimism about a broader-based domestic economic recovery and improving corporate earnings to pessimism and fear of the impact of a US-China trade war and liquidity crunch as central banks adopt a more aggressive tightening path.

Straits Times Index YTD

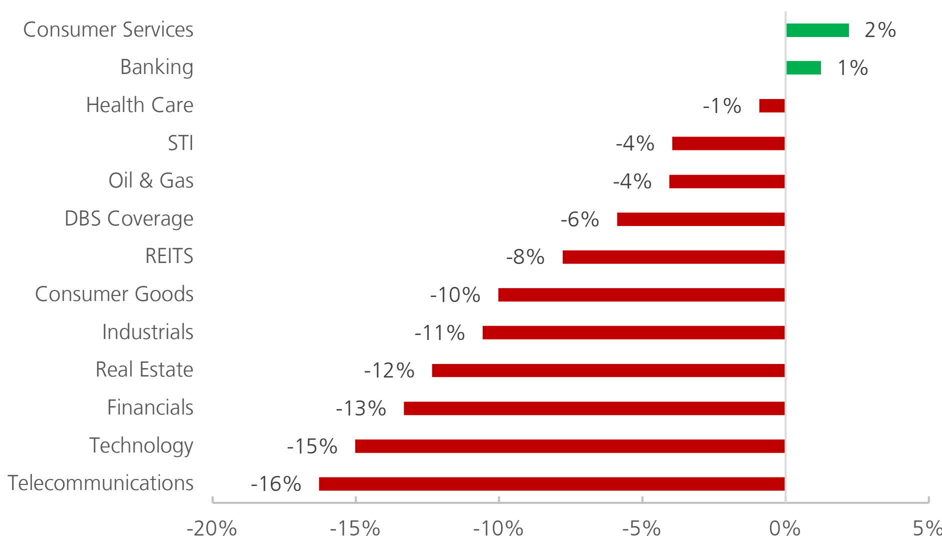


Source: DBS Bank

All sector indices ended down. Banks (-3.25% YTD) and consumer services (-3.26%) were the best performers while telecom (-14.34%) and technology (-10.15%) fared the worst.

Looking back, our sector overweight on bank and underweight telco calls have been proven right.

6 months' STI & sector performance



Source: DBS Bank

Selldown in May removed 1H's gains

YTD on a relative performance basis, the MSCI Singapore Index (-7.25% YTD) outperformed the MSCI South East Asia Index (-10.9% YTD) given the country's relative safe-haven status.

However, the Singapore market underperformed the MSCI World Index (-0.95% YTD) and the MSCI Asia Ex-Japan (-5.11% YTD) as worries about US-China trade war and tightening liquidity took its toll on the local bourse.

MSCI country indices' relative performance (YTD)

Source: DBS Bank

Outlook – Triple whammy

Expect volatile swings in 3Q as risk events unfold

We expect 3Q to be a volatile quarter for equities as investors juggle between developing risk factors such as (1) the escalating US-China trade friction, (2) tightening liquidity, (3) USD strength and rising bond yields versus a global economy that continues to be on a moderating recovery path.

Risk Event 1: Trade wars are bad and not easy to win

A major trade war outbreak is the risk factor that has rattled equity markets. The concern here is that a further escalation of the current trade battle will derail the 'synchronised global recovery' and Singapore, being a small-open economy, will be negative affected.

The developing trade tension between US-China will be closely monitored. Investors will be watching whether Trump carries out his threat to slap a 10% tariff on US$200bn worth of Chinese imports.

Trump has twitted that 'trade wars are good and easy to win'. But we think the reality is far from that. Firstly, Trump's first salvo on steel and aluminium imports triggered retaliatory actions not just from China but also the EU, Canada and India.

Worse, Trump's argument that tariffs will save US jobs looks to be starting to backfire. The US's largest nail manufacturer Mid-Continent Nail has just laid off 60 workers and warned that all 500 employees could lose their jobs by September, blaming it on the negative effect of Trump's steel and aluminium tariffs. Next, Harley-Davidson said it will be moving some "production" offshore after the EU hit US motorcycle imports with a 31% tariff.

US jobs – Hit by friendly fire?

The Tax Foundation, a US non-profit organisation that studies the impact of US tax policies, predicts 48,585 full-time job losses and a negligible -0.06% impact on long-term US GDP from the tariffs Trump has already enacted. However, this figure is set to soar to over 255,283 full-time job losses with a -0.3% impact on long-term US GDP if Mr Trump imposes tariffs on another US$200bn of Chinese products.

Trump had cried out 'jobs jobs jobs' to the American people. He could be shooting his own foot with these tariffs. It remains to be seen if he will carry out his US$200bn tariff threat.

All-out trade war the biggest fear

In 2017, US imported US$505bn worth of goods from China while China imported US$130bn from US. An all-out trade war, which our chief economist defines as a 10-25% tariff on all products that are traded between China and the US, could shave off 0.25% GDP from both economies' this year, while the damage would be far greater in 2019, with both countries looking at a 0.5% or more downside. Considering that China grows at 6-7% and the US at 2-3%, the negative impact would be greater to the US than on China.

For Singapore, our economist sees a 0.8% downside risk to the current 3% 2018 GDP forecast and a more severe 1.5% downside risk to the current 2.7% 2019 GDP forecast in the event of an all-out trade war.

Tariff actions so far

US tariffs
1. 25% tariff on steel and 10% tariff on aluminium imports from China, Canada, Mexico and EU
2. 25% tariff on US$34bn worth of Chinese goods effective 6 July, another US$16bn worth of Chinese imports under review
3. Trump directs the USTR to identify US$200bn worth of Chinese imports to be hit with a 10% tariff

China retaliates
1. Up to 25% tariffs valued at up to US$3bn of 128 US food imports in retaliation to US tariffs on steel/aluminium
2. Retaliates with 25% tariff on US$34bn worth of US imports effective 6 July that includes soybeans and electric vehicles, while another US$16bn worth of US imports are under review

EU retaliates
1. 25% tariff on €2.8bn worth of US imports effective 22 June in retaliation to US tariffs on steel/aluminium

Canada retaliates
1. Tariff on US$12.8bn of US imports takes effect on 1 July in retaliation to US tariffs on steel/aluminium

India retaliates
1. Brings up $241m retaliatory tariff hike on 30 US products

Source: DBS Bank

Risk Event 2: Tightening liquidity

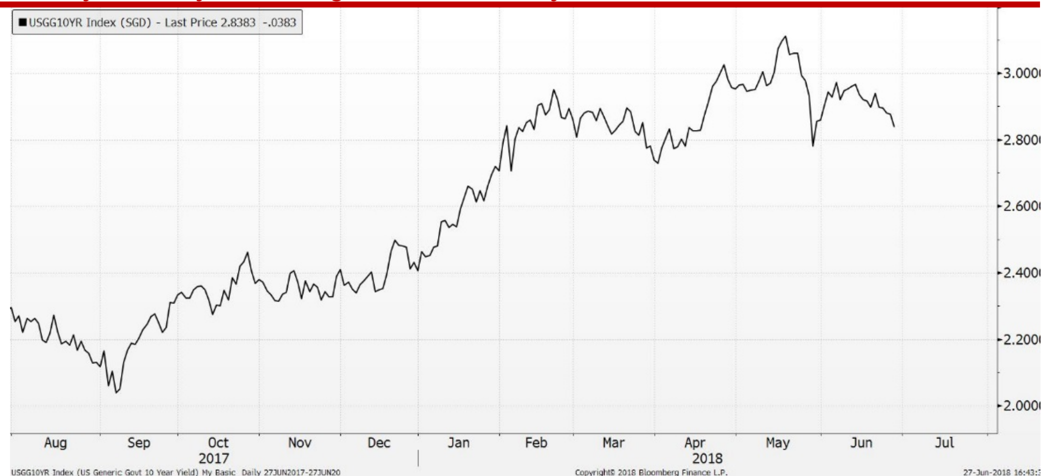
A faster-than-expected pace in US rate hike was one of the risk factors that we highlighted in our 2018 outlook back in November last year. The FED signalled a tightening pace of one hike per quarter for a total of four hikes this year at the June FOMC meeting. The move is in line with our own forecast for four hikes this year and the next that will lift the FED funds rate to 2.5% by end-2018 and 3.5% by end-2019. The FED also maintained its quantitative tightening schedule with accelerating balance sheet reduction. At the same time, the ECB is set to reduce by half its bond buying to €15bn/mth by October and terminate the QE programme entirely by year-end.

After years of ultra-loose monetary policy, central banks are reining in liquidity and look set to tighten further going forward. This will negatively impact flows to the equity market.

Risk Event 3: Strengthening USD, higher bond yield

With the risk of a developing trade war occupying investors' minds, US 10-yr bond yield has corrected to around 2.9% after touching a high of 3.12% in Q2. Still, we think US rates are unlikely to head lower amid a hawkish FED, unless US economic indicators start to falter. But this has not happened as US macro data appears to be holding relatively better than the rest of the world. DBS Research sees US 10-yr yield edging up to 3.2% by end-2018 and 3.5% by end-2019.

US 10-yr Treasury off YTD high but rates unlikely to head much lower amid hawkish FED



Source: DBS Bank

Our currency strategist says the FED's hawkish outlook continues to be the trump card for the USD this year. He sees the USDSGD strengthening further, from his original projection of 1.38 to 1.40 by year-end.

The combination of tightening liquidity, strengthening USD and steady bond yield could lead to more outflows from equity markets, especially if the current global trade tension worsens.

Valuation and earnings

Not all doom and gloom, Singapore raised to Overweight

Despite the uncertainties, we don't think it's all doom and gloom ahead. DBS Research raised Singapore to Overweight from Neutral for the following reasons:

(1) Singapore equity market valuation has fallen to an attractive level - The MSCI Singapore Index 12-mth forward PE swung down by 2 standard deviations (SDs) from 14.6x (about +1SD) in January down to 12.43x (about -1SD) currently, which is deep by historical standards. Furthermore, corporate earnings revision has been on an upward path in the past three quarters.

MSCI Singapore – 12-mth FWD PE ratio

Source: DBS Bank

(2) Singapore is a safe haven - Singapore is one of the few AAA-rated economies and the SGD has proven to be less volatile in times of global uncertainties. Singapore maintains a healthy current account surplus of S$20.5bn.

(3) Government policies to steer the economy towards the services sector (e.g. services, financials) have benefitted the Singapore economy this year even as growth in the manufacturing sector moderates.

(4) Rising bond yields and oil prices are not that negative for the market as banks, which form nearly 40% of STI's weightage, and the oil & gas (O&G) sector will benefit from these increases respectively.

The benchmark Straits Times Index is down a steep 11% in the past two months. STI's 12-mth forward PE valuation swung down 1SD from more than 13.5x PE (average) to 12x (-1SD) over the same period. The down move came even as corporate earnings revision has been on an upward path in the past three quarters, led by bank stocks.

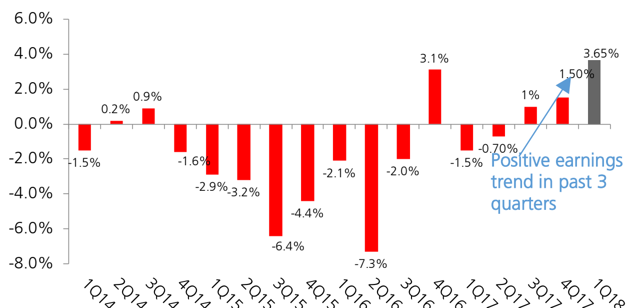
Sector earnings growth and PE valuation

	Earnings Growth (%)			CAGR	PER (x)			Div Yld (%)		
	17A	18F	19F	17-19	17A	18F	19F	17A	18F	19F
Banking	7.4	31.4	9.1	19.7	14.1	10.8	9.9	4.2	3.9	3.9
Consumer Goods	17.0	12.5	11.5	12.0	15.0	13.4	12.0	3.4	3.3	3.5
Consumer Service	65.1	11.0	7.5	9.2	18.5	16.6	15.5	3.3	3.6	3.7
Financials	-15.3	7.8	6.0	6.9	20.7	19.2	18.1	5.4	5.8	6.0
Health Care	-24.5	24.3	10.8	17.3	65.3	52.6	47.5	0.9	0.8	0.9
Industrials	1.9	2.9	10.0	6.4	17.6	17.1	15.6	4.1	4.2	4.3
Oil & Gas	-24.7	52.5	35.7	43.8	26.0	17.0	12.6	2.3	2.4	3.1
Real Estate	15.6	4.3	-1.9	1.2	13.0	12.5	12.7	2.9	3.1	3.2
REITS	5.7	7.2	4.4	5.8	17.3	16.1	15.4	5.8	6.2	6.4
Technology	72.4	13.9	10.9	12.4	16.3	14.3	12.9	5.6	4.5	4.6
Telecommunicatio	-10.2	-6.2	3.4	-1.5	13.9	14.9	14.4	6.8	5.9	5.7
DBS Coverage	**7.9**	**15.8**	**8.2**	**11.9**	**16.1**	**13.9**	**12.8**	**4.3**	**4.2**	**4.3**
STI DBS forecast	**7.8**	**15.7**	**8.0**	**11.8**	**15.1**	**13.0**	**12.1**			
STI consensus	**7.8**	**12.7**	**8.5**	**10.6**	**15.1**	**13.4**	**12.4**			

Source: DBS Bank, Bloomberg Finance L.P.

Is the earnings revision cycle over?

Earnings Revision Trend



Source: DBS Bank

We had reiterated that the upward earnings revision seen over past few quarters could lead to a re-rating of the STI, which saw it peak at 3641, or close to +1SD. Against the backdrop of the triple risks (interest rates, currency and trade war) threatening to derail recovery, our team of analysts re-examined their earnings to ascertain potential upside or downside to sector earnings.

We expect potential downside risks to most sectors – oil & gas, consumer goods, technology exposed to global trade and vulnerable to external uncertainties. Downside for telecoms' earnings depend largely on the success of new player TPG's campaign to secure new subscribers. Banks are in a sweeter spot, the stronger USD and tighter liquidity will underpin NIM recovery, although loan growth may slow if trade uncertainties continue.

The only sectors with upside are domestic sectors Property and REITs, due to acquisition growth, stable recurring rental income due to easier supply for hotels, offices, and fair value gains for properties. Overall, we could expect earnings cuts in the quarters ahead, given the fluid situation of the global economy. Thankfully, STI's forecast earnings growth of 16% for 2018 allows some room for trimming, which means growth could remain fairly decent at above 10%.

Risks to sector earnings

Sector	Earnings growth	FY18F earnings upside/ downside bias	Reasons
Consumer Services	FY17 : +65% FY18F :+11% FY19F: +8%	No change	• Consumer services sector's earnings growth under DBS coverage is estimated at 11% for FY18F, after a strong 65% growth for FYE Mar'18, driven largely by SIA's earnings recovery (+405% FYE Mar'18/FYE Mar'17). • Overall, we do not expect changes to our forecasts. Although there could be net minor downside from stronger USD and jet fuel prices, this is partially mitigated by better yields for SIA. • We expect marginal upside from ComfortDelGro with the bottoming out of Singapore taxi fleet contraction, along with contribution from its recent acquisitions.
Banks	FY17: +11% FY18F: +25% FY19F: +11%	Downside	• Riding on NIM improvement in 2018 following sustained rise in SIBOR/SOR as four hikes (increased from three) now expected in 2018 with another three hikes in 2019. • Continued USD strength likely to be beneficial for SIBOR/SOR. • Downside risks to arise from (1) lower trade-related income, and (2) slower-than-expected loan growth on cautious investment mode from trade war tensions, (3) lower-than-expected contributions from Greater China (Greater China contributed c.24% to Singapore banks' PBT in 1Q18).

Sector earnings risks (cont'd)

Sector	Earnings growth	FY18F earnings upside/ downside bias	Reasons
Consumer Goods	FY17: +17% FY18F: +13% FY19F:+11%	Downside	• Current projections of 13% earnings growth for FY18F (vs 10% growth seen in FY17) could have potential downside earnings driven by current uncertainty in trade rhetoric, input costs, consumer demand and currency fluctuations. • For Plantations, the pressure could arise from higher input costs, due to more intense fertilising application this year, while for Wilmar, higher soybean tariffs could crimp margins and affect crushing plant utilisation. • Downstream food producers such as ThaiBev and Delfi could also see downward revisions from our current projections. The expected consumption recovery in Thailand post mourning has been slower than expected, undermining our forecasts for ThaiBev, while for Delfi, a weaker IDR vs USD could have an impact on margins and translation.
Healthcare	FY17: -25% FY18F: 24% FY19F: 11%	Downside	• Current projection of 24% earnings growth for FY18F (vs -25% growth seen in FY17) is largely due to low-base effect from IHH as FY17A earnings were impacted by high start-up costs from Gleneagles HK. • However, there could be potential downside earnings risk due to forex fluctuations, largely from TRY depreciation (IHH) and to a smaller extent, a prolonged appreciation of USD resulting in higher costs of some consumables. • Both IHH and Raffles Medical will be impacted by larger-than-expected start-up costs of new hospitals in China.
Offshore and Marine	FY17: -25% FY18F: +52% FY19F: +36%	Downside	• Current projections of high 52% earnings growth for FY18F (vs 25% earnings decline seen in FY17) largely attributable to low-base effect. The Offshore and Marine (O&M) sector is expected to bottom out after three consecutive years of earnings decline, hit by oil crisis in 2014. • There could be potential downside to earnings caused by slower-than-expected contract wins and operating leverage improvement. • For rigbuilders, the pressure could arise from lower margins for newbuild projects at competitive pricing and cost overruns due to learning curve for new project types. Keppel Corp's property segment could however beat expectations on divestment gains. • For OSVs, losses are expected to narrow with higher utilisation. However, rates remain competitive (rate reversal expected towards 2019) and unforeseen cost might incur in preparation of demand recovery, i.e. cost for reactivation or deployment of vessels.
Technology	FY17 : +72% FY18F : +14% FY19F : +11%	Downside	• Current projections of 14% earnings growth for FY18F (vs 72% growth seen in FY17) could have potential downside to earnings if the trade war uncertainty further clouds outlook and earnings visibility. • Tech stocks are also exposed to forex risk as their customers are mainly global companies while their manufacturing plants are mostly in developing countries. A strengthening USD is generally positive for tech stocks as their revenue is mainly in USD. • Companies with manufacturing plants in China while end-customers are mainly global MNCs, including American, could be more vulnerable if the trade issues between US and China worsen.

Sector earnings risks (cont'd)

Sector	Earnings growth	FY18F earnings upside/ downside bias	Reasons
Telecommunication	FY17: -10% FY18F: -6% FY19F: +3%	Downside	• Singtel's expected earnings recovery next year could be delayed further if intense competition in the Indian telecom market driven by Reliance JIO persists, further depressing contributions from Bharti Airtel. • If TPG is able to launch a good network while offering almost free pricing for more than six months, M1 and StarHub could see their EBITDA decline 10% next year versus our base case of a mid-single-digit decline. • M1 and StarHub could see potential earnings upside in FY18/19F if TPG's commercial launch in late 2018 is delayed by another 12 months or so due to operational challenges
Property	FY17: +15.6% FY18F: +4.3% FY19F: -1.9%	Upside	• Current projections of 4.3% earnings growth for FY18F (vs 15.6% growth seen in FY17) could have potential upside earnings partially due to fair value gains which have yet to be factored into our earnings estimates, offset by potential slower-than-expected profit recognition from development properties depending on progress of completions. • For fair value gains, there could be earnings upside in CapitaLand's FY18F earnings growth (vs currently -36%) as we have included fair value gains in CapitaLand's FY17A earnings but have yet to factor in potential fair value gains in FY18F earnings on the basis on being conservative. • Profit recognition for development properties could be slower-than-expected for newer projects except City Developments' completed projects such as New Futura and South Beach Residences. • Recurring income should remain relatively stable (excluding potential asset recycling) as rental rates (office and retail) and RevPAR for hotel portfolios are on an upward trend.
REITs	FY17: 0% FY18F: +1% FY19F: +3%	Upside	• We expect S-REITs to meet our earnings/DPU estimates in the upcoming reporting season with an upward bias given office rents year to date have increased at a faster-than-expected rate. Hotels should start to see a y-o-y increase in RevPARs from 2Q18 onwards. • Given our house view that we are not entering a major trade war, the Singapore economy is expected to grow at 2.8-3.0% over 2018 and 2019 and modest new supply, we believe we are at a start of a multi-year upturn in rents across most real estate sub-segments. • With rising rents supplemented with S$5bn worth of acquisitions over the last six months, this should translate into stronger DPU growth ahead as seen by 3% growth in FY19 versus 1% growth in FY18 and flat performance in FY17.

Source: DBS Bank

Trade on Rebound

Possible rebound after rapid sell-down to attractive valuations
While trade war uncertainties continue to boil, we believe that the stock market is oversold in the short term and a tactical bounce is close. At today's level, the STI has priced in earnings cut of 11% over the next twelve months. We think the equity market should take a pause from the recent selldown on possible short-term bargain hunting and short-covering activities in July.

June was all about the flexing of US's trade war arsenal, July could see some degree of trade negotiations that provide relief. The 2Q results season that starts soon should also provide a distraction as focus turns to corporate earnings.

On a side note, we think the World Cup lull period has just ended as the Round-of-16 has begun. Watching three matches per night has a major impact on sleep deprivation compared to one match per night. In our view, soccer fans are likely to return as short-term bargain hunters as valuation has fallen to an attractive level.

We offer a list of stocks to trade the rebound based on the following criteria : a) Share price decline of >10% from May selldown, b) attractive valuations, c) large caps with decent liquidity, d) specific catalysts to drive share price.

Stocks to buy on rebound

Company	Mkt Cap (US$m)	Price (S$) 29-Jun	PE (x)		Div Yield (%)		EPS/DPU Growth (%)		Comments
			18F	19F	17A	18F	18F	19F	
UOB (BUY, TP: S$33.20 24% upside)	32,615	26.76	10.6x	9.6x	3.7%	3.7%	22	10	• Higher dividends are here to stay (full-year dividend of S$1/share) with potential upside to dividends. • Expect SOR/SIBOR uptrend to translate positively to NIM. • Stock is currently trading at c. 1.2x P/BV, below its 10-year average of c. 1.3x P/BV offering c. 3.7% dividend yield.
Keppel Corporation (BUY, TP: S$10.20, 43% upside)	9,504	7.15	13.0x	10.6x	3.1%	3.1%	20	23	• Keppel's property segment remains undervalued, notwithstanding Keppel's huge historical land bank of over 6m sqm held at a low cost; O&M segment is on the cusp of recovery. • We expect decent 2Q18 profits of S$200-250m, lifted by potential disposal gains of c.S$70m. • Decent dividend yield of ~3%.

Stocks to buy on rebound (cont'd)

Company	Mkt Cap (US$m)	Price (S$) 29-Jun	PE (x) 18F	PE (x) 19F	Div Yield (%) 17A	Div Yield (%) 18F	EPS/DPU Growth (%) 18F	EPS/DPU Growth (%) 19F	Comments
City Development (BUY, TP: S$15.40, 41% upside)	7,293	10.93	12.6x	11.9x	1.3%	1.5%	76	6	• Largest pipeline of residential units to be launched with close to 3,000 residential units in the pipeline. • Good track record with strong take-up rates of its recent launches such as New Futura (84% sold as at 1Q18) and The Tapestry (73% sold as at 1Q18). • Key catalysts: i) strong take-up rates achieved for upcoming launches such as South Beach Residences, West Coast Vale and Former Boulevard Hotel site, ii) improved RevPAR and rental rates from its investment properties, and iii) the successful launch of its first private fund under its fund management segment. • Share price has fallen some 20% from the recent peak, close to the share price before the change in sentiment on Singapore Property. Currently trading at 1x FY18F P/BV vs its historical peak of 1.3x.
SATS* (BUY, TP: S$5.64, 13% upside) ** FY 19 & 20 forecasts*	4,095	5.00	20.5x	19.5x	3.6%	3.6%	13	5	• Changi's air and passenger traffic growth of +5% y-o-y YTD, and cargo growth of 4% y-o-y YTD will see continued support for earnings growth in FY19F. • Long-term growth drivers stem from 1) passenger and air traffic growth at Changi Terminal 4; 2) automation and staff productivity driving modest cost increase and better margins in the next few years; 3) the development of a flight kitchen in Turkey; and 4) the opening of Terminal 5. • Stock currently trades at a dividend yield of3.6%, a YTD high.
Yangzijiang (BUY, TP: S$1.82, 101% upside)	2,636	0.905	8.2x	7.3x	5.1%	5.1%	(20)	13	• Rock-bottom valuation of 0.6x P/BV, which is at a ~30% discount to global peers' average P/BV of 0.9x, notwithstanding its attractive 5% yield and higher ROE of 8-9% vs peers' 4-5%. • Yangzjiang prudently made provisions in 4Q17, taking into account the lower USD at 6.15 Rmb and higher steel cost of Rmb4,800/t. With the strengthening USD to 6.65Rmb, every Rmb0.10 increase is expected to result in Rmb300m writebacks upon delivery of vessels. • For 2Q18, we expect Yangzijiang to deliver core shipbuilding margins of 17%, similar to 1Q18, bolstered by a stronger USD and deliveries of higher margin mega containerships. This should reignite confidence into the stock.

Stocks to buy on rebound (cont'd)

Company	Mkt Cap (US$m)	Price (S$) 29-Jun	PE (x)		Div Yield (%)		EPS/DPU Growth (%)		Comments
			18F	19F	17A	18F	18F	19F	
CDL Hospitality (BUY, TP: S$2.00, 27% upside)	1,387	1.57	20.2x	19.1x	5.9%	6.5%	10	4	• Leveraged to multi-year upturn – We remain bullish on CDREIT post its recent correction given its leverage to the expected multi-year upturn in the Singapore hospitality market given limited new supply over the next three years. Evidence of the rebound can be seen by the 4.7% y-o-y increase in revenue per available room (RevPAR) year to date (up to end-April 2018). • Trading below replacement costs – Based on the current share price, the implied CDREIT's Singapore portfolio is valued at c.S$650,000 per key which is at the bottom end of recent sale of hotels of between S$650,000 and S$1m per key and replacement costs of at least $700,000 per key. • Attractive yield – CDREIT offers an attractive 6.5% yield growing at CAGR of 6% per annum over the next three years.
APAC Realty (BUY, TP: S$1.22, 47% upside)	216	0.83	9.8x	9.1x	2.4%	6.1%	16	7	• Current valuation is attractive at 9.5x forward PE or -1.5SD, which is even lower than the c.10x forward PE when it was listed in Sep'17. • APAC is one of the purest proxies to ride on the uptrend in the Singapore property market. • 2H18 earnings are expected to be stronger with more projects slated for launch. • Low risk fee-based business model enables APAC to ride on the property upcycle and protects it in a down cycle. • Recent acquisition of an office headquarters allows the group to build recurring rental income.

Source: DBS Bank

Straits Times Index

Source: DBS Bank

Impact of trade war - Setting base and bear cases for 2H18

Beyond July, we expect the equity market to be volatile (i.e. both ups and downs) in 3Q as trade war worries and tightening liquidity will cap bounces.

We see STI ranging from 3200 [12x (-1SD) 12-mth forward PE] to 3417 or below 12.76x (-0.5SD) 12-mth forward PE in 3Q with another resistance level noted at 3355.

	-2sd 10.49x PE	-1.5sd 11.25x PE	-1 sd 12x PE	-0.5 sd 12.76x PE	-0.25 sd 13.14x PE	Avg 13.51x PE
FY18	2,699	2,895	3,088	3,283	3,381	3,476
FY19	2,915	3,126	3,335	3,546	3,652	3,755
Avg 18&19	2,807	3,011	3,211	3,415	3,516	3,615

Source: DBS Bank

Outcome of trade war developments key to year-end direction

Base case – Cutting STI target to 3650 from 3850

Our base-case assumption is that the current 'battle cry' by the US against her trade partners is mainly political rhetoric ahead of the November mid-term election as Trump attempts to deliver his campaign promises. While we should hear more developments on the 10% tariffs on US$200bn Chinese imports, the tariffs ultimately may not be enacted given the potential damage to US jobs, inflation, consumption and GDP. That said, newsflow on trade war is likely to get worse, over the next few months, before it gets better, putting equity markets under pressure and creating more volatility.

The current trade war cries should subside towards year-end, giving stocks a lift as a result. In our base-case scenario, we see STI heading towards 3650, pegged to 13.1x (-0.25SD) 12-mth forward PE. This is lower than our previous YE target of 3850.

Straits Times Index – Base-case scenario

Source: DBS Bank

Bear case – 'All out' trade war!

In this alternate scenario, an all-out trade war erupts whereby a 10-25% tariff is imposed on all products that are traded between China and the US. If this happens, it will affect consumer demand, defer capex spending by industries, lead to higher inflation in the US which could derail the global economic recovery. This could shave 0.25% of GDP for both China and US this year, and 0.5% or more of GDP downside in 2019. Our economist sees a 0.8% downside risk to the current 3% 2018 GDP forecast for Singapore and a more severe 1.5% downside risk to the current 2.7% 2019 GDP forecast in this scenario, Singapore being an export-driven economy.

Should this occur, we see STI heading lower to as low as 2915, pegged to 10.5x (-2SD) FY19F PE. This valuation peg in an extreme bear-case scenario is in line with the previous 2 stock market bottoms over the past 10 years post GFC. The first was in 2011 during the Eurozone sovereign debt crisis. The other was in early 2016 when oil price collapsed to sub US$30pbl and fear of recession surfaced.

Straits Times Index – Bear case scenario

Source: DBS Bank

MSCI Singapore – 12-mth FWD PE ratio

Source: DBS Bank

While the outcome of trade war is one big swing factor for equity markets, key impact is on sentiment and risk appetite at this juncture, rather than on GDP growth or corporate profits, as no one is able to foresee if the unpredictable Trump will push through the proposed tariffs. However, further developments on the US-China or even global trade tension could continue till year-end, ahead of the US elections, putting a resistance on market advances. Bad news could get worse before it gets better by year-end.

While US/China are the focus point of the trade war, Singapore will be affected given that it is small, open and export driven. Direct impact is likely to be on transport – shipping, aviation, transport related (ports) and export sectors such as technology sector. We would avoid stocks exposed to this risk till there is better clarity in coming months – SIA, Hutchison Port, Hi P. We highlight the potential impact on these sectors in the table below.

Trade war impact on sectors

Sector	Impact
Airlines (marginal to negative)	• Air cargo earnings are not a major proportion of overall profit for most airlines, the most being up to 30% for Cathay Pacific, and up to 15% for SIA. For LCCs and Chinese carriers, air freight contribution is less than 10% of earnings. Carriers not based in China or HK is in addition not expected to be materially impacted by any trade war between China and the US. • There may be some impact on US-China air routes and some indirect impact on overall global travel if a trade-war does escalate and materialise, and these would impact China or HK based carriers more than others. • Year-to-date passenger traffic growth has been strong through May, with indications that yields are also on the mend for most Asian carriers. Meanwhile, cargo continues to be generally firm, especially in North Asia. • Trade-war concerns impacting currency movements will have a more real impact on the earnings of airlines, with a stronger USD resulting in higher costs for Asian carriers. Higher interest rates will also lead to higher interest costs for airlines
Ports (negative)	• Based on data from the world bank, global container port traffic in 2016 was 701.4m TEUs, of which US accounted for 48.4m TEUs or 6.9% of total throughput and China 199.6m TEUs or 28.5% of total throughput. In contrast, the EU accounted for 108m TEUs or 15.4%. We estimate that China-US container trade is less than 5% of global container trade. • Year-to-date and current outlook remains positive for trade between US and Asia (including China). US trade with Asia rose by 3.8% y-o-y in the first quarter of 2018, led by import growth of 8.9% to 3.9m TEUs. Throughput volume at China's top 20 container ports rose 6.5% from Jan-Apr 2018 to 66.8m TEUs. Meanwhile, both US and China manufacturing sectors continue to do well – registering PMIs of 56.4 and 51.1 respectively in May, and the US housing market is also going strong – with an expansion in housing starts expected to drive demand for anything from lumber to white goods. • Should overall container volumes decline, this would impact freight rates negatively but will not lower container handling charges materially, impacting liners much more than ports – especially with profit margins far thinner for shipping liners than ports. China Merchants Ports and COSCO SHIPPING Ports have also in recent years, diversified out of China, and will be less impacted by a trade-war compared to a China/HK-focused port operators like HPH Trust.
Oil (negative)	• Sentiment wise - high oil & gas prices are not great news for the upcoming midterms in the US, so it is in President Trump's interest to talk down oil prices (to an extent) by threatening intensification of trade wars. • Fundamentally, a slowdown in trade would affect demand for fuels from shipping industry and trucking industry, which together account for roughly 27-28% of global oil demand. • Container shipping ton-miles make up roughly 16% of all shipping ton-miles, and assuming Transpacific ton-miles make up around 30% of container shipping, and 6-7% of Transpacific trade would be affected by trade wars, that would impact global oil demand by around 0.1mmbpd. Slowdown in grains and steel trades in dry bulk could take the impact up to 0.2mmbpd. For reference, we were expecting global oil demand to grow by around 1.4-1.5mmbpd in 2018/19. • In addition, if an all-out trade war were to shave off 0.25-0.60% of GDP growth from countries like US or China, that would further bring down global oil demand growth towards 1.0mmbpd or even lower in 2019, limiting oil price uptrend. • The oil & gas industry would also need to deal with higher material prices, e.g. steel needed for pipelines and offshore equipment, which would depress margins.

Trade war impact (cont'd)

Sector	Impact
Container Shipping (negative)	• Impact likely to be limited to eastbound Transpacific headhaul trade from Far East to North America, westbound trades not that relevant for revenues. • According to Alphaliner, China is the largest origin for containerised cargo into the US, accounting for 46% of all container imports or 4.14m TEUs of cargo in the first five months of 2018. • Alphaliner also estimates that China accounts for 68% of Transpacific container volumes and hence a 10% drop in volumes would affect 6.8% of Transpacific volumes, if the goods are not replaced by imports from other Far East origins. Estimates from Clarkson Research meanwhile point at around 6% impact to headhaul Transpacific trade. • This would have a negative effect on freight rates in 2H18, which are already under pressure from overcapacity. • Despite low orderbook to fleet ratio of 12% currently, demand-supply growth is expected to be only well matched in 2018, with both growing at c.5% y-o-y. Risks to demand growth from trade wars thus do not leave much buffer before we enter demand-supply mismatch zone.
Dry Bulk Shipping (insignificant)	• Outlook for the dry bulk market from trade wars is less obvious for now, mainly due to the seasonality of the trade. • Expect reduced demand for agricultural products, recycling materials, and other dry bulk products; steel and soybean trades likely to be hardest hit. • Overall, however, Clarkson Research estimates that the volume of dry bulk trade which has been or could be affected by the US-China trade wars only represents around 1% of global seaborne dry bulk trade, as major dry bulk trades like coal and iron ore will not be affected.
Tanker Shipping (negative)	• China has emerged as a major importer of US crude since restrictions on US crude exports were lifted in December 2015 as it sought to diversify sources of supply (importing 0.2mmbpd out of total 0.9mmbpd seaborne exports). • This trade adds substantially to ton-mile voyage owing to long distances involved and most of this trade has been on VLCCs. • China has proposed 25% tariffs on import of crude and other energy products from the US as a retaliatory measure. • If China lowers purchases of US oil amid a trade war, this would hurt the VLCC market, and instead could benefit smaller tankers like Aframaxes, if US exports land up in Europe instead.
Technology (negative, uncertain)	• Technology sector is one of the most at risk sector from the US-China trade war. With many Asian technology companies being contract manufacturers for the US companies, we see the risk of disruption in the supply chain for companies with manufacturing in China. Contract manufacturers based outside of China could end up being beneficiaries in our view. • Asian technology companies could see weaker orders from the US companies due to higher tariffs on "Made in China" products. This could accelerate the business case for shift of production from China into other Asian countries such as Vietnam & Malaysia with lower cost of production but lack of proper supply chain. This may potentially lead to recognition of losses on production assets in China along with disruptions in the supply chain. • Companies with manufacturing outside China could end up benefitting from the currency war and larger order wins. Most of their revenue is in rising USD while majority of costs are in cheaper local currencies uplifting their earnings. Order wins could benefit with smaller portion going to China based companies • Among the technology stocks in our coverage, Hi-P has six out of 13 manufacturing plants in China while only one of Venture's over 10 manufacturing sites is based in China. Meanwhile, UMS solely operates out of Singapore, Malaysia and the US.

Source: DBS Bank

Strategy

A) Domestic and recession-resistant stocks to ride a cautious 3Q18

With a cautious tone set for 3Q that could stretch through the entire 2H18, on the back of rising interest rates, a strengthening USD and the rise of the trade war issues, we stay defensive and avoid stocks affected by the trade war, preferring domestic consumption plays. Against this backdrop, we sieve for stocks that are less cyclical in nature, and meet most of the criteria:- 1) a consistent and satisfactory level of dividend payouts; 2) net cash position, 3) decent growth of at least 5% going forward, and 4) domestic consumption plays. Stocks that fit these criteria are mainly consumer stocks – **Dairy Farm, Sheng Siong**; Transport & related – **ComfortDelgro** and **SIA Engineering**; Defence – **ST Engineering**; and **Telecommunication & related** stocks – **Singtel** and **Netlink Trust**.

Domestic plays, recession-resistant stocks

Company	FYE	Mkt Cap (S$m)	Price (S$) 4-Jul-18	Target Price (S$)	% Upside	Rcmd	Div Yield (%) FY17	Div Yield (%) FY18F	Net Deb/ Equity (x) FY18F	EPS CAGR 17-19 (%)	Earnings Gth (%) FY18F	Earnings Gth (%) FY19F	P/E (x) FY18F	P/E (x) FY19F
ComfortDelgro	Dec	5,130.1	2.37	2.59	9%	BUY	4.4	4.5	cash	0.9	(2.8)	4.8	17.5	16.7
Dairy Farm	Dec	16,337.8	8.85	9.77	10%	BUY	2.4	2.4	0.37	8.8	9.1	8.4	23.0	21.3
NetLink Trust	Mar	2,903.2	0.75	0.87	17%	BUY	4.3	6.3	0.15	29.6	47.9	13.6	39.3	34.6
Sheng Siong	Dec	1,593.7	1.06	1.21	14%	BUY	3.1	3.2	cash	6.2	4.8	7.7	21.9	20.3
SIA Engineering	Mar	3,477.6	3.11	3.92	26%	BUY	4.2	4.5	cash	6.8	(3.2)	4.8	19.9	18.3
Singtel	Mar	49,313.7	3.02	3.70	23%	BUY	6.8	5.8	0.33	(0.5)	(5.9)	5.1	14.8	14.1
ST Engineering	Dec	10,140.9	3.25	4.10	26%	BUY	4.6	4.8	0.11	6.1	3.6	8.7	19.1	17.6

[shaded] meet our criteria of dividend yield >3%, net cash and >5% earnings growth

Data for companies with March year-end refer to FY18 and FY19F
Source: DBS Bank

ComfortDelgro

With competition in taxi/ private hire cars industry ceding, we believe downside risks are limited, coupled with its public transport exposure which is relatively resilient through economic cycles. We have upgraded our recommendation to BUY from HOLD, and a revised TP of S$2.59, on the back of: (i) bottoming out in taxi fleet contraction in Singapore with potential increase; (ii) earnings upside revision from further acquisitions. Looking into 2Q18, while we still expect the group to post y-o-y declines in profits, we expect them to be of a smaller magnitude vis-à-vis that seen in 1Q18, suggesting improvement in operations. We project operations to improve sequentially in 2H18, reversing back into growth profile in FY19F. With its strong balance sheet and operating cashflow, dividend yield is projected at 4.6% for FY18F.

Dairy Farm

We turn more positive on DFI's recent deal with Robinson's Retail Holdings Inc. (RRHI) to spin off Rustan Supercenter Inc. for an 18% stake in RRHI. We assess that the deal will add US$0.23 to our TP, raising it to US$9.77. We see the 18% stake in RRHI translating into an immediate net value for DFI as Rustan is still incurring losses, and hence swapping a loss-making business into shares of RRHI would present upside to both earnings and TP. Current share price ex-Yonghui and RRHI values DFI's core business at just 18x forward PE, below the regional peers' average and its 9-year historical average forward PE of 24x.

NetLink Trust

We believe that NetLink NBN Trust's (NLT) FY19F yield of c.6.4% remains highly attractive given the low volatility in its share price and we argue that it should trade at FY19F yield of 4.9% (versus 6.4% now) reflecting lower earnings volatility and ample debt headroom for future growth. NLT's business environment is less volatile as 92% of its businesses are regulated. Projected FY19F total debt-to-EBITDA ratio of 2.7x is much lower than the 5.3x average for Business Trusts in Singapore/Hong Kong, implying room for higher growth by optimising its capital structure.

Sheng Siong

We remain positive on Sheng Siong as we see growth led by improving margins. We believe expansion of its distribution centre will continue and the company will sustain gross margins going forward. Margins remain on the uptrend – supported by the increase in direct sourcing, bulk handling, and fresh mix – contributing to earnings growth. Stock is trading attractively at 21.9x FY18F PE, compared to its historical average of 23x since listing. Yield is decent at 3.2%.

SIA Engineering

SIA Engineering's (SIE) forward PE and P/BV ratios are below -1SD levels, which we view as a buy-in opportunity, as there are some positive earnings drivers ahead: i) an upswing in the engine MRO cycle is already underway, with workload boosted further by visits from the problematic Trent 1000 engines (whose repair campaign could last up to 2-3 years); ii) cabin retrofitting work on Singapore Airlines's (SIA) legacy A380s is expected to come in at the end of 2018; iii) the new GE facility which should be operational in 2019 or early 2020 has the potential to be a large contributor to JV/associate income; iv) expansion of the line maintenance segment in Japan (with a view towards other countries as well) could help drive the top line.

Singtel

We expect Singtel's earnings to rebound by FY20F, driven by the potential earnings recovery of Bharti (earnings recovery may be delayed to FY21F under our bear-case scenario for Bharti). Excluding market cap of its associates, Singtel's core business is trading at only 5.5x FY19F EV/EBITDA, at ~15-20% discount to its local peers. With 5.7% yield, we see potential risk of -4% vs potential reward of +26%.

ST Engineering

ST Engineering's (STE) recent share price retreat ex-final dividend payout is a good buying opportunity for patient investors. We like STE for a combination of factors: i) award of some of the larger contracts that STE is vying for (e.g. US Postal Service vehicle contract and US Marine Corps contract) are expected to be announced in 2018, providing potential upside catalysts if STE (and partners) are chosen; ii) improved visibility from STE's target to more than double smart city revenues by 2022 and grow other segment revenues at 2-3x the global GDP growth rate; iii) Aerospace segment rebound, with margins improving this year on stronger CFM engine MRO demand, and in the longer term, sizeable contribution expected from P2F programmes currently in ramp-up phase; iv) expected deliveries of the two problematic ConRo vessels in 2Q/3Q18 which should help shipbuilding turn profitable, though it is slightly later than expected. Meanwhile, dividend yield is around 4.6%, which should provide support to the stock price.

B) Beneficiaries of strong USD

Trade war /currency war?

The US/China trade war salvo has sparked fears of a potential currency war, after China retaliates by cutting its reserve requirement ratio. This led to the worst monthly fall in the yuan. The 3.2% depreciation in June trumped the 2.7% fall during the yuan's one-off devaluation in August 2015.

Against a hawkish FED, our currency strategist has raised his year-end target for the USD against the SGD to 1.40 from 1.38. More downward adjustments cannot be discounted.

Based on our coverage, there are more beneficiaries than losers of the strengthening USD. Key USD revenue earners are companies in the manufacturing/tech sector – Venture, Hi-P, UMS, Riverstone; transport-related companies – Ezion, Yangzijiang or Hutchison Port; Aviation-related players – SIA Engineering and ST Engineering; and Ascott Residence Trust with assets in the US. However, manufacturing and transport-related sectors are vulnerable to trade war uncertainties. We prefer aviation-related companies : ST Engineering and SIA Engineering, which are more defensive, and offer good dividend yields.

Impact on net profits on strong USD rate of US$1 to S$1.40 (end-2018)

Name	% of Sales In US$	% of Cost in US$	Amount of loan in US$	Sensitivity Analysis %chg in net profits / 10% rise in US$	Comments
Beneficiaries					
Ascott Residence Trust	20%	n/a	22%	+2% change in DPU	Incremental beneficiary of USD strength from its US assets which may be offset by slower demand from emerging market exposure (30% of revenue).
Cityneon	10%	30%	n.a.	+5%	Contribution from permanent site in Las Vegas in USD.
Ezion	90%	80%	US$1bn	+US$7-8m	Reporting and functional currencies are both in USD. Natural hedge as bulk of the receipt and cost are denominated in USD as well as bank borrowings. The main exposure is the SGD bonds and PERPs totalling ~S$300m, which will result in forex gain as USD strengthens.
HPH Trust	100%	85%	4,240m	+5%	Benefits from stronger USD as all of its revenue is in USD or HKD while some costs are in RMB. Reporting currency is USD, and dividends are also in USD.
Hi-P	95%	40%	n.a.	+10%	Bulk of sales in USD but overheads are mainly in RMB and the reporting currency is SGD.
Olam	n/a	n/a	>70%	The majority of commodities are priced in USD. Typically commodity prices are negatively correlated to movements in USD.	18% of revenues from Americas. Olam does not provide a breakdown between North America and South America and how much is directly related to the US. The majority of commodities are priced in USD with Olam reporting in SGD, so it should benefit from a stronger USD.
Riverstone Holdings	80%	35%	n.a. (Net Cash)	+6%	Generates a surplus in USD - every 10% depreciation of the MYR vs USD could boost earnings (in MYR terms) by c.15%. Bulk of revenues are denominated in USD but raw material costs only represent 30% of revenues, on average. However, we believe that the actual impact might be smaller and closer to 6% as the current competitive landscape among glove manufacturers might entail Riverstone to share more of its forex gains with customers through lower ASPs (in USD terms) in the event of a strong USD rally.
SIA Engineering	20%	30%	NA	+6.0%	USD exposure is via its Associates and JVs, which contribute around 60-65% of net profit. 100% of Assoc/JV sales is in USD but about 30-50% of cost is naturally hedged via materials. Full currency translation benefits as SIE reports in SGD.
ST Engineering	20%	18%	NA	+2.0%	About 20% of sales from US customers and 25% of assets in US. STE has recently announced redemption of its USD bond, so USD coupon payments will no longer offset other currency-related gains.
UMS Holdings	99%	35%	n.a. (Net Cash)	+10%	Almost all of UMS's revenues are denominated in USD, while costs (mainly raw materials) incurred in USD only represent <35% of revenue, as operating costs are mainly denominated in MYR. Reporting currency is in SGD. Every 10% depreciation of MYR vs USD could boost earnings (in SGD terms) by c.10%.

Source: DBS Bank

Impact on net profits on strong USD rate of US$1 to S$1.40 (end-2018) (cont'd)

Name	% of Sales In US$	% of Cost in US$	Amount of loan in US$	Sensitivity Analysis %chg in net profits / 10% chg in US$	Comments
Beneficiaries					
Venture	95%	70%	n.a. (Net Cash)	+15%	While less than 6% of Venture's business activity is derived from the US, majority of its subsidiaries are functional in USD. With most of its contracts denominated in USD against approximately 70% of costs incurred in the greenback – mainly from components/raw materials, we estimate that every 10% depreciation of SGD versus USD will have >15% positive impact on the bottom line. Also, given that c.55% of Venture's labour costs are generated in MYR, we estimate that every 10% depreciation of MYR versus SGD could have c.5% positive impact on its bottom line. However, actual impact may be lower as a stronger USD could hurt demand for consumer products in the near term.
Yangzijiang	80%	50%	US$450m	+ 20%	Yangzijiang is a beneficiary of stronger USD as bulk of receipts are in USD while reporting currency is in Rmb. Bulk of the net exposure, c.40% of revenue, was unhedged as of end-2017. Yangzijiang has prudently made a provision of Rmb1.2bn for its outstanding contracts, assuming rate at Rmb6.15/USD and higher steel cost. Hence, strengthening USD by Rmb0.10 would result in writeback of approximately Rmb300m. We have already assumed higher USD of Rmb6.60 in our earnings forecasts.
Losers					
Delfi	5%	60%	na	-6.7%	Every 10% depreciation of IDR vs USD has a -10% impact on forecasts. Almost all its revenue are booked in IDR and PHP, while 60% of costs are in USD. Actual impact may be lower as the company is likely to adjust selling prices in response to weaker currencies.
SIA	15%	40-50%	S$100m	-10.0%	Jet fuel costs, aircraft leasing costs, as well as certain MRO costs are billed and denominated in USD.
Singtel	<1%	<1%	Negligible	-5%	Almost 50% of its earnings stem from regional associates. ~25% from Telkomsel Indonesia, ~10% from AIS Thailand, ~5% from Bharti India and ~5% from Globe Philippines. We have assumed that INR, IDR and PHP will fall 10% versus SGD when USD rises 10% versus SGD.

Source: DBS Bank

Sector Overview

Sector	Recommendation	Key points	Stock picks
Banking	Overweight	• Riding on NIM improvement in 2018 following sustained rise in SIBOR/SOR coupled with loan growth recovery amid positive macro indicators. • Lower credit costs expected as bulk of oil & gas exposures have been settled; keep tab on changes expected from the implementation of IFRS9/SFRS109. • Long-term revenue growth still hinges on wealth management business and regional agenda.	UOB
Consumer Goods & Services	Overweight	• Macro outlook continues to bode well for consumer stocks as we see GDP growth forecast of 3%/2.7% for 2018F and 2019F driven by services sector supporting domestic consumption. • Our economics team expects any trade war to be balanced by synchronised global recovery. • Singapore retail sales index (ex-motor vehicles) has generally been positive and is up by 5.6 points YTD excluding inflationary impact. • We believe real wage growth which is also positive at +3.2% y-o-y for 2017 will support domestic consumption demand going forward.	Sheng Siong, Dairy Farm, Genting
Offshore & Marine	Overweight	• Expect y-o-y higher oil prices above US$70/bbl Brent crude in 2018 to drive oil majors' capex and stimulate offshore activities. • Shipyards are poised for stronger order flow ahead with robust order pipeline. • Asset owners could see more significant upswing towards end-2018 as the capex effect filters through.	Sembcorp Marine, Keppel Corp, Yangzijiang,
Plantation	Neutral	• Maintain our CY18/CY19 CPO price forecast of US$616/US$608 per MT. • Modest CPO output expansion in Malaysia and Indonesia in second semester will help to reduce Malaysia's high CPO stockpile, which is at 2.1m MT at May 2018. • CPO price competitiveness vs. other edible oils will continue to drive CPO global demand. • Indonesia biodiesel consumption will provide cushion for CPO prices in 2018. • Buy planters with strong CPO yield outlook which should lead to sound revenue growth and profitability performance.	Bumitama, First Resources, Wilmar
Property	Neutral	• Strong presales in the upcoming launches in July'18-Aug'18 across the island (Park Colonial, Stirling Residences, Daintree Residence, Riverfront Residences, The Jovell, Jade Scape, The Tre Ver, The Woodleigh Residences) will infuse confidence back to the market. • Uptick in earnings from commercial and hotel portfolio, resulting in potential upside to dividends. • Successful land-banking activities to result in RNAV upside for developers. • Further clarity on government policy measures, if any.	City Developments, UOL Group, Frasers Property Ltd

Sector	Recommendation	Key points	Stock picks
REITs	Neutral	• Improving demand prospects as Singapore property market enters a cyclical upturn to outweigh risk of interest rate hikes. • Office and hotel sector to lead the Singapore property market recovery given expectations of accelerating market rents; Industrial (Business Park and Warehouse space) to see a stronger take-up as supply risk falls. • Interest rate risk substantially hedged with impact of a 1% rise to be modest in the immediate term.	Ascendas REIT, CapitaLand Commercial Trust, Mapletree Logistics Trust, Frasers Centrepoint Trust, CDL Hospitality Trust
Transport Related	Neutral	• Air travel demand growth has continued to be strong through the first five months of the year, and yields are likely to be turning up as well. • A higher cost of fuel, coupled with a stronger USD, will put pressure on costs for transport operators while higher interest rates would hurt highly indebted companies like HPH Trust. • Concerns over a potential escalation of the US-China trade war situation has dampened sentiment on transport-related stocks, and value has emerged for certain names, in particular HPH Trust, which is offering 9.3% dividend yield.	Singapore Airlines, China Aviation Oil, Comfort Delgro
Healthcare	Underweight	• Overseas expansion plans rolling out progressively but gestation period may keep growth muted. • Potential downside earnings risk from forex fluctuations; interest rates hike and trade war fears could have minimal impact on healthcare demand in the short term. • Long-term positive outlook; near- to medium-term potential drag to growth from start-up and pre-operating losses.	IHH, ParkwayLife REIT
Telecom	Underweight	• We project an annual mobile industry contraction of 4% over 2018-22 due to rising adoption of cheaper SIM-only plans by Mobile Virtual Network Operators (MVNOs) and telcos ahead of TPG's entry in late 2018. • Singtel has guided for stable core EBITDA this year versus potential decline at M1 and StarHub mainly due to Singtel targeting cost savings of S$500m and revenue share gains from Telstra in Australia. • After multi-year declines, Bharti is expected to resume earnings growth from next year onwards led by revenue share gains from Vodafone-Idea, leading to resumption of earnings growth at Singtel	Singtel

Source: DBS Bank

Significant Reports

Date	Report Title	Sub Title
	Regional	
11-Jun-18	Regional Thematic Focus	US-North Korea summit
26-Jun-18	Asia Strategy	Safety First
	Singapore	
4-Jun-18	Singapore Monthly Strategy	A temporary slumber
14-Jun-18	APAC Realty	Opportunity to accumulate
19-Jun-18	AIMS AMP Capital Industrial REIT	Making the right moves
18-Jun-18	Singtel	Favourable risk-reward, -7% risk vs. +21% reward
18-Jun-18	Singapore REITs	Pedal to the metal
26-Jun-18	Singapore Telecom Sector	Few years of pain to turn TPG unviable

Revisions to recommendations

Stock Name	Current	Previous	Change Date
AIMS AMP Capital Industrial REIT Initiating Coverage	BUY	-	19-Jun-18
Starhub	HOLD	FULLY VALUED	26-Jun-18

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

Completed Date: 4 Jul 2018 17:55:19 (SGT)
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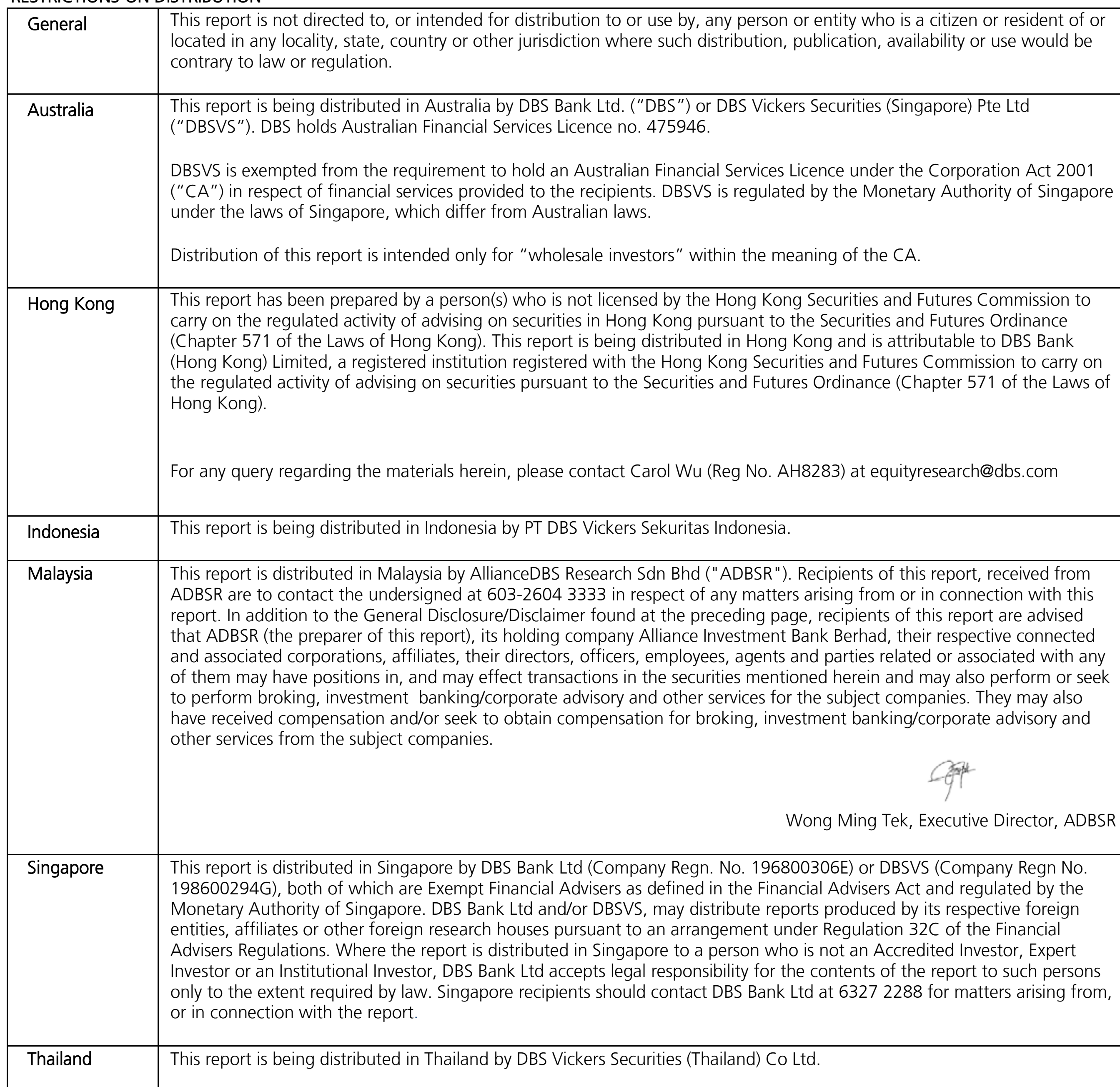

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