

Singapore Market Focus

Budget 2019

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DBS Group Research . Equity

19 Feb 2019

Healthcare and Defence stocks are Budget winners

- 2019 expansionary budget focuses on security, companies' competitiveness and building a caring and inclusive society
- Muted stock market effects but interesting to watch for upcoming developments by various ministries
- Market to refocus on US-China trade deal and results season
- Base-case STI objective of 3,250 at mid-year; bull case of 3,500 by year-end

Focusing on security, deepening companies and individuals' competitiveness, widening social safety for an inclusive society.

On the back of a challenging economic climate and shifting geopolitics, Budget 2019 continues to focus on strengthening Singapore's security, enhancing economic transformation and competitiveness, and fostering a caring and inclusive society. The Budget is largely within our economist's expectations, in particular the government's stance to enhance the existing schemes for companies to build their capabilities. Besides the Merdeka Generation Package (citizens aged between 60-69), a S\$1.1bn Bicentennial Bonus will help to defray cost of living for lower income groups. The government expects an overall budget deficit of S\$3.5bn (0.7% of GDP), which our economist considers as fairly prudent, considering the accumulated surplus of about S\$14-15bn, after accounting for the projected deficit in 2019.

Muted equity market effect, watch for details from Committee of Supply. Budget 2019 has little/no impact on the Straits Times Index (STI) component stocks, except for **ST Engineering**, which has a low index weight. Other mild potential beneficiaries are **SembCorp Marine**, domestic staple consumer companies (**Sheng Siong**), and **healthcare stocks**. Looking ahead, the Committee of Supply by the various ministries would be of interest, where we look forward to more details such as the **URA Master Plan 2019** on potential plans for Greater Southern Waterfront region, **Zero Waste Masterplan** on food waste, e-waste and packaging waste (including plastics) and the new **Home Team Science & Technology Agency** to develop science and technology capabilities.

Market to refocus on trade deal, results season. Market focus continues to be on a possible US-China trade deal and the 4Q results season. The former could be a "buy in anticipation, sell on news". The 4QFY18 results season currently in progress here, points to a 2.8% cut to FY18 and 1.2% cut to FY19 earnings thus far. We are keeping our base-case objective of 3250 at mid-year pegged to 12x (-1SD) blended FY19/20F PE and a bull-case objective of 3500 by year-end pegged to 12.6x (-0.5SD) FY20F PE.

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Key Indices

	Current	% Chng
STI Index	3,265.97	0.8%
FS Small Cap Index	346.74	-1.0%
USD/SGD Curncy	1.35	-0.7%
Daily Volume (m)	1,465	
Daily Turnover (S\$m)	917	
Daily Turnover (US\$m)	681	

Market Key Data (%)

	EPS Gth	Div Yield
2018F	6.6	3.9
2019F	7.6	4.0
2020F	7.2	4.1

(x)	PER	EV/EBITDA
2018F	15.8	15.7
2019F	14.7	15.1
2020F	13.7	14.3

Source: Bloomberg Finance L.P.



Singapore Budget 2019 – Continuing on expansionary path

The Singapore Budget 2019 was announced by the Finance Minister on 18 February 2019, as the city state celebrates its bicentennial year of the founding of modern Singapore. In light of the rapid changes in the global environment, technological advancement and changing demographic patterns, Budget 2019 sets its sights on the strategic plan to focus on several key areas to build a Strong, United Singapore. They are:

- ❖ A Safe and Secure Singapore
- ❖ A Vibrant and Innovative Economy
- ❖ A Caring and Inclusive Society
- ❖ A Global City and Home for All
- ❖ A Fiscally Sustainable Future

The government expects an overall budget deficit of S\$3.5bn (0.7% of GDP), which our economist considers as fairly prudent, considering the accumulated surplus of about S\$14-15bn, after accounting for the projected deficit in 2019.

Budget 2019 has little impact on benchmark index

Ceteris paribus, while Budget 2019 has a mild positive impact on selective stocks (e.g. **SembCorp Marine, Sheng Siong, healthcare stocks**), its impact on the benchmark STI is limited. **ST Engineering** is one index component stock that can benefit from the government's continued focus on defence spending and smart nation initiatives, but its index weight is low.

US-China trade deal a 'buy in anticipation, sell on news'

Global stock markets have recovered 15.3% from their December lows in anticipation of a US-China trade deal and on optimism that the FED is likely to dial down on rate hikes this year. The US stock market currently trades at 16.7x forward PE or just slightly below +1SD of its 10-year history. Singapore's benchmark STI has also recovered to slightly above 12.59x (above -0.5SD) 12-month forward PE, from below -1SD at the start of the year.

With equity markets moving up in anticipation of a US-China trade deal, we certainly do not rule out a 'sell on news' once a deal is signed, as investors take profit on recent trades. After the ceremony comes the uncertainty of monitoring both sides' compliance with the agreements drawn.

No earnings season boost thus far

Thus far into the 4QFY18 results season, the negative earnings revision trend from 2Q and 3Q FY18 looks set to continue with a 2.8% cut to FY18 and a 1.2% cut to FY19 earnings. This is a particularly pivotal week with numerous index component stocks releasing results. The outcome could still swing but with 4Q GDP advanced estimates coming in slightly below expectations at +2.2% y-o-y (consensus +2.3%) on the back of trade uncertainties and slowing global growth, we think our earlier view that the "earnings recession" trend could extend for another two quarters, should pan out.

We are keeping our base-case objective of 3250 by mid-year pegged to 12x (-1SD) blended FY19/20F PE and a bull-case objective of 3500 by year-end pegged to 12.6x (-0.5SD) FY20F PE.

STI at various forward-PE levels

	-1.25sd 11.7x PE	-1 sd 12x PE	-0.75 sd 12.3x PE	-0.5 sd 12.59x PE	-0.25 sd 12.89x PE	Avg 13.19x PE
FY19	2,983	3,060 (-86)	3,136	3,210 (-91)	3,286	3,363 (-95)
FY20	3,222	3,305 (-41)	3,388	3,467 (-44)	3,550	3,633 (-45)
12mth fwd	3023	3100	3178	3253	3330	3408

Source: DBS Bank

Key highlights from Singapore Budget 2019 and impact on specific sectors

Offshore Marine – Neutral (HO Pei Hwa)

Foreign work levy hikes deferred by another year – positive for the marine sector. As the marine shipyards have only begun showing early signs of recovery, the foreign worker levy hikes in the marine sector will be deferred by one more year till end-June 2020. This brings about cost savings of S\$50 and S\$100 per basic tier R1 and R2 worker respectively, with levies staying at the current S\$300 and S\$400 respectively. We estimate that the move could save Singapore rigbuilders S\$3-4m each in 2019 and 2020. While this may not be a very significant amount, every bit helps given the competitive operating environment and plunge in profitability.

Land Transport – Neutral (Andy SIM)

Increase in diesel taxes by S\$0.10/litre. Following on from Budget 2017, where the volume-based duty of S\$0.10/litre of diesel was introduced, there will be a further increase of S\$0.10/litre of diesel, to S\$0.20/litre. This, as per two years ago, will increase the cost for taxi drivers. However, to offset the increase as per 2017, there will be a permanent reduction of S\$850/year on Special Tax on diesel taxis. This will bring the Special Tax down to S\$3,400/year (or S\$1,700/6 months), from S\$4,250/year currently. We expect ComfortDelGro (CD) to fully pass on the cost savings to the taxi drivers.

With the increase in diesel tax, we believe this would continue to provide further reasons for management to eventually realign its fleet towards petrol-hybrid and/or full electric vehicles. Out of CD's 12,600-vehicle fleet, it already has over 2,000 hybrid taxis (Toyota Prius and Hyundai Ioniq) (or about 17%) and we understand that management intends to replace its diesel fleet over time, subject to demand and market conditions. Overall, the impact on CD is neutral, in our view.

Healthcare – marginally positive (Rachel TAN)

In this budget, the government shared more details on the extension of the Community Health Assist Scheme (CHAS) which was first announced by PM Lee Hsien Loong at the National Day Rally 2018. The government will be extending the CHAS subsidies at GP clinics in three ways:

- i) Extend CHAS to cover all Singaporeans for chronic conditions, regardless of income
- ii) CHAS subsidies for orange cardholders (lower- to middle-income Singaporeans) will be extended from covering chronic conditions only, to cover common illnesses
- iii) Increase the subsidies for complex chronic conditions

In addition, the all Merdeka Generation seniors (regardless of income) will enjoy i) additional subsidies for outpatient care for life, including special CHAS subsidies (higher than CHAS Blue subsidies) for common illnesses, chronic conditions and dental procedures, and ii) 25% off their subsidised bills (on top of the prevailing subsidies available) at polyclinics and public Specialist Outpatient Clinics. CHAS subsidies were previously only available to the Pioneer Generation and lower- to middle-income Singaporeans.

We believe this bodes well for participating CHAS GP and dental clinics with the higher subsidies, especially the extension of subsidies to cover chronic conditions to all Singaporeans, regardless of income. Though the impact could be limited, GP and dental clinic chains in the listed space that could benefit from this include Raffles Medical (RFMD SP), Singapore Medical Group (SMG SP), Healthway Medical Group (HMED SP) and Q&M Dental Group (QNM SP). In addition, Health Management International (HMI SP), which recently invested in StarMed facility (an ambulatory care centre) and Plus Medical Holdings (a chain of primary care clinics in Singapore), could benefit from the increase in subsidies.

On a strategic perspective, aside from reducing the burden on public polyclinics and medical centres, we believe this could indicate the government's intention to progressively pass on more treatment (especially day treatment and long-term care treatment) on to the GP clinics' network to reduce its healthcare burden and expenditure in the long term.

Consumer sector – neutral (Alfie YEO)

Special Employment Scheme extended. The Special Employment Credit (for workers above the age of 55) and the Additional SEC scheme (for workers above 67) will both be extended for another year till 31 December 2020 to continue incentivising employers to hire senior Singaporean workers. We estimate this amount to be marginal for HRnet, Jumbo, Koufu, BreadTalk, Sheng Siong, Dairy Farm, all at less than 1% of annual profit before tax.

Downstream F&B may have to improve staff productivity.

There is continued reduction in foreigner worker dependency with a slight adjustment on dependency ratio ceiling (DRC) for the services sector from the current 40% to 38% in 2020 and to 35% in 2021. This could benefit food service and retailers in the long term if they choose to implement technology to replace foreign manpower or other staff productivity initiatives. Companies could otherwise see slightly higher staff costs if they choose to hire more Singaporeans to directly replace reduced foreign manpower. That said, the quota reduction is very marginal for Jumbo, Koufu, BreadTalk, Sheng Siong and Dairy Farm as these companies have at least 600 to over 1,000 in total staff strength.

Possible slight positive for consumption. We see slight positive overspill to domestic consumption as GST import relief (S\$150 to S\$100 for travel <48 hours and S\$600 to S\$500 for >48 hours) for travellers is reduced from 19 February. Alcohol duty-free concession is also tightened from 1 April to two litres from three previously. S\$132m of Service & Conservancy Charges rebates for 930,000 HDB households, GST vouchers, tax rebates, and bonus Workfare Income Supplement Scheme (WIS) cash payouts will also raise consumption to a very small extent.

Property – space to watch! (Derek TAN)

URA Master Plan 2019 to drive Singapore's future development. The 2019 version of Urban Redevelopment Authority (URA) will guide the planning parameters of Singapore's urban development over the next 10-15 years. While there might be potential tweaks to plot ratios or land uses to support the ongoing transformation of the city landscape, we believe that most interesting piece of development will come from the potential plans for the Greater Southern Waterfront region, with the Tanjong Pagar container ports moving out in the coming decade. Plans to redevelop the Greater Southern Waterfront, together with Pulau Brani into a new vibrant waterfront precinct, will be an anchor to the planned rejuvenation of the area.

In addition, the Urban Redevelopment Authority (URA) is also widely expected to unveil a "first" Underground Master Plan in a comprehensive look at subterranean spaces to support potential uses and needs. In previous media releases, some of the potential uses may expand to include data centres, utility plants, bus depots, a deep tunnel sewerage system, warehouses or even water reservoirs.

Singapore REIT investors will also cheer on the extension of tax concessions for S-REITs to 31st Dec 2025 (from 31st Dec 2020). The sunset clause for the tax exemption on S-REITs distributions will be removed for individuals while there are no changes to income tax concessions. Lookout for more details from MAS in May'19.

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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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