

# Regional Market Focus

## Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

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## Singapore's resilience amid trade war blues

- **Strong supportive factors from cheaper valuations, high dividend yields, bottoming expectations and dovish Fed**
- **Downside for Singapore market should be less than 10% as valuations are already below -1SD**
- **We look for stocks with lower valuations, higher earnings visibility and domestic demand to cushion downside risks from a full-fledged trade war**

### Regional equity strategist

Joanne Goh +68-68785233  
joannegohsc@db.com

### Regional research team

equityresearch@db.com

Given the ongoing hostility between China and US over trade and tech issues, the Singapore market is unlikely to be spared from volatility and portends downside risks in the coming weeks.

Fortunately for Singapore, we think the downside is less than 10% as there are many factors supporting the market. Following the recent correction, Singapore is now the cheapest market within Asia, trading at less than -1SD away from average, and has the highest dividend yield.

### Singapore 12-month forward PE



Source: IBES, Thomson Reuters, DBS Bank

Our calculations show that there will be 10% and 4% downside respectively if the markets were to test both the low valuations of 2016 and 2018. The 2016 market selloff was due to the Brexit referendum while the trade war grabbed headlines in 2018. These two niggling worries are still simmering at this point but we think the market has priced in most of the negatives, unless they get worse.

### Bottoming out in terms of expectations

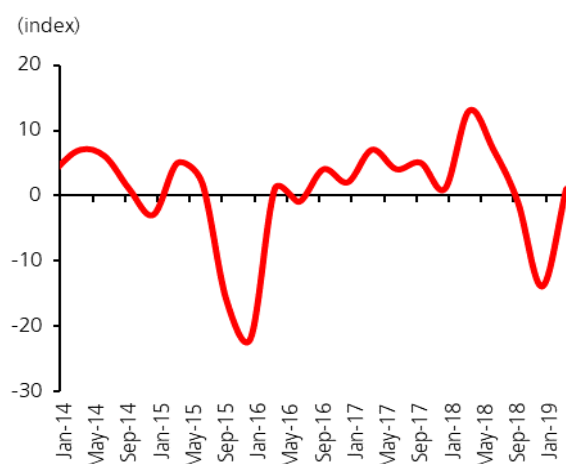
Investors can also find comfort in an environment where expectations are a lot lower than last year before the trade war threats surfaced. In March last year, business expectations for manufacturing activities were the strongest but had since collapsed to a low point by the end of the year. It has picked up slightly recently but not to exuberant levels.

Meanwhile, we think the trade war could give rise to opportunities for ASEAN countries to capture some of the trade diversion and manufacturing diversification from China. Singapore, being an ASEAN regional hub, should benefit from some of these activities.



## Flash Note

### Singapore Business expectations survey: Manufacturing outlook for the next six months



Source: IBES, Thomson Reuters, DBS Bank

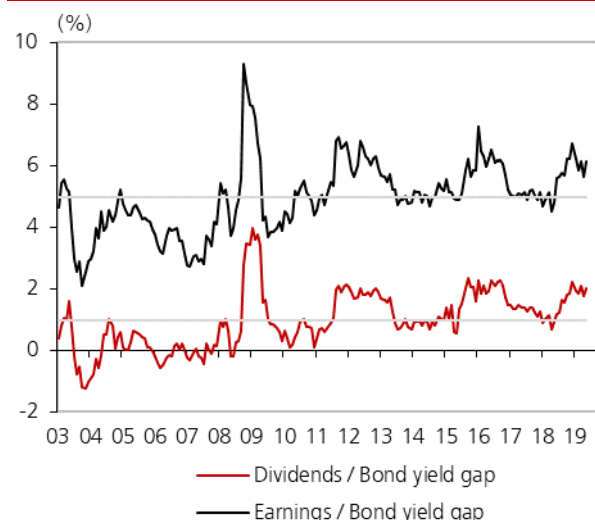
### A hawkish vs dovish Fed

We believe we are at the top of the interest rate cycle in the near term with possible rate cuts should the downturn worsen. The liquidity environment in Asia should be better compared to last year when the Fed was still hiking interest rates and on "auto-pilot" mode, versus "neutral" and data-watching approaches currently. Asia bonds and currencies should see less pressure from outflows and central banks should have the flexibility to cut rates if the global environment worsens.

In Singapore, there are risks of contingent impact from flows out of the emerging markets in the region, especially bond outflows from Indonesia. However, DBS fixed income strategist thinks that Indonesia government bonds are the most undervalued, and the last time Indonesia displayed this level of relative undervaluation was during the height of the emerging market selloff in 3Q18. We believe value investors will return to bargain hunt in the region and stabilise flows.

Lower interest rates are negative for Singapore Banks but should cushion the economy from downside risks and deem the market more attractive from a dividend yield perspective.

### Singapore: Earnings and dividends vs Bond yield gap

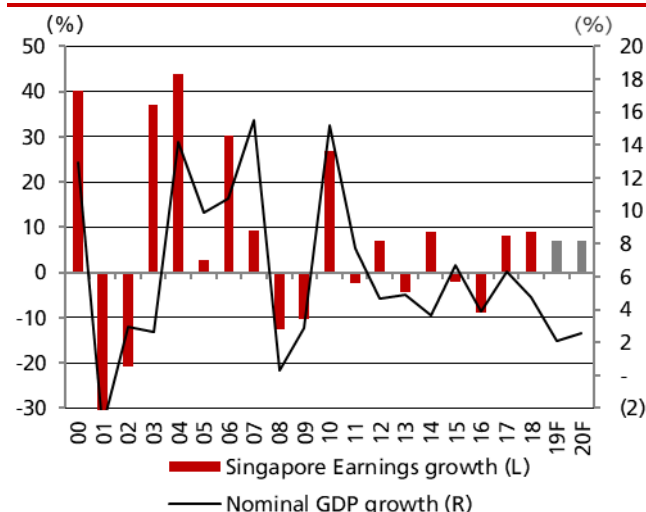


Source: IBES, Thomson Reuters, DBS Bank

### Concerns on earnings

We are concerned that the current consensus earnings growth expectation, at 7.1%, is too high and runs the risk of seeing more downgrades. This is high by historical standards, especially when economic growth is moderating. We think realistically, it is likely to be around below 5%.

### Singapore: Nominal Earnings growth and GDP growth



Source: IBES, Thomson Reuters, DBS Bank

## Flash Note

The Banking sector sticks out with downside risk where consensus growth forecast is at 7.4%. We believe downside risks are present on loan growth as the economy weakens. NIM (net interest margin) is unlikely to expand much as the Fed stands pat on interest rates, and due to the tight liquidity in the system amid competition for deposits.

Meanwhile, Industrials are a mixed bag of stocks with their own drivers. We look for stocks with higher earnings visibility to avoid disappointment.

### IBES Consensus Singapore earnings growth by sector

Sector	DY (%)	Fwd PE (x)		Growth (%)		
		19F	20F	18	19F	20F
Discretionary	3.8	12.7	12.1	18.0	2.0	5.8
Staples	2.8	14.2	12.6	-1.7	0.1	12.6
Financials	4.2	10.6	10.0	17.9	7.4	6.5
Real Estate	4.2	17.2	16.2	0.5	9.5	6.0
Industrials	3.7	14.1	13.0	5.5	8.2	7.9
IT	4.4	11.7	11.0	1.0	5.9	6.2
Telcos	5.3	16.9	15.7	-17.8	5.2	7.6
IBES Singapore	4.2	12.6	11.7	8.9	7.1	6.9

Source: IBES, Thomson Reuters, DBS Bank

### What could be worse

DBS chief economist forecasts that at the worst-case scenario where both US and China levy 25% tariffs on all trade, we expect:

- China's growth to fall to 5%
- US's growth to fall to 1.5%
- RMB to 8/USD
- DXY to soar past 100
- Oil to correct sharply (caveat: Iran)
- Fed to consider cutting rates
- China to add more stimulus
- Global growth to weaken by 0.75%

Singapore's economic growth under this scenario will need to be shaved off by 1.5%. Needless to say, all bets will be off if we succumb to this scenario. **However, Singapore should still be deemed as fairly defensive among Asian countries with its innovative long-term growth policies and attractive valuations.**

Stocks with lower valuations, higher dividend yields, domestic demand oriented, and stronger earnings visibility should be cushioned from the downside risk.

**Flash Note**

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**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

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*Share price appreciation + dividends*

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## DBS Regional Research Offices

### HONG KONG

#### DBS (Hong Kong) Ltd

Contact: Carol Wu  
13th Floor One Island East,  
18 Westlands Road,  
Quarry Bay, Hong Kong  
Tel: 852 3668 4181  
Fax: 852 2521 1812  
e-mail: dbsvhk@dbs.com

### INDONESIA

#### PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel: 62 21 3003 4900  
Fax: 6221 3003 4943  
e-mail: research@id.dbsvickers.com

### MALAYSIA

#### AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek (128540 U)  
19th Floor, Menara Multi-Purpose,  
Capital Square,  
8 Jalan Munshi Abdullah 50100  
Kuala Lumpur, Malaysia.  
Tel.: 603 2604 3333  
Fax: 603 2604 3921  
e-mail: general@alliancedbs.com

### THAILAND

#### DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9th, 14th-15th Floor  
Rama 1 Road, Pathumwan,  
Bangkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: research@th.dbs.com  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand

### SINGAPORE

#### DBS Bank Ltd

Contact: Janice Chua  
12 Marina Boulevard,  
Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel: 65 6878 8888  
Fax: 65 65353 418  
e-mail: equityresearch@dbs.com  
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