

Singapore Market Focus

Singapore Monthly Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Sep 2019

Back to the negotiation table

- STI's next move hinges on trade talks – 3110 pivotal, STI should rise to 3215 if positive or fall to 3030 if negative
- Buy early cyclical if trade negotiation ends positively – UOB, City Developments, UOL, CapitaLand & Venture Corp
- Go defensive & yield-seeking if trade negotiation collapses – Thai Beverage, Koufu, Sheng Siong, ST Eng, CDL HT, MINT, MLT
- Staying positive on hospitality sector – CDL HT, Jumbo, Genting

US-China trade talks This focal event will likely determine the direction of global equity markets. The latest news of US considering curbs on investments to China has raised uncertainty ahead of talks. With the surprisingly weak Singapore August industrial production, a positive outcome should lift business confidence while a collapse should spell a further slowdown, raising the odds of a technical recession.

Policy decision Consensus is split about a rate cut at the October FOMC meeting, and the bias is for a cut in December. Meanwhile, MAS is seen easing monetary policy by lowering the slope of the band in October.

STI's next move hinges on trade talks Singapore market currently trades at an inexpensive 12x (-1SD) 12-mth fwd PE. October's directional trend will hinge on the outcome of US-China trade talks. Progress should see the pivotal support of c.3110 hold up with a retest of the September high at 3215 and if this resistance clears, the STI should head towards 3320 in the month/s ahead. However, if the talks collapse, expect a decline to 3030.

Back to the negotiation table Early cyclical outperformers should benefit if the upcoming trade talks opens the door for more negotiations or the enactment of upcoming tariffs is further postponed. In this scenario, our picks are **UOB, City Developments, UOL, CapitaLand and Venture Corp.** However, such bets are off if the upcoming talks collapse. Defensive and yield picks should outperform in this scenario. Our picks are **Thai Beverage, Koufu, Sheng Siong, ST Engineering, CDL HT, Mapletree Industrial Trust and Mapletree Logistics Trust.**

Staying positive on Singapore hospitality sector We maintain our view that the hospitality sector is at the starting point of a multi-year upturn. Visitor arrivals rose 16.1% m-o-m to 1.8mil in July with a 46% m-o-m surge in Chinese tourist arrivals to 389k. The trend should continue this month with increased visitor arrivals from China during the Golden Week holiday. The recent F1 GP event drew 268k (+2% y-o-y) attendees, the second highest in the event's 12-year history. **CDL Hospitality Trust** is our top pick. Besides hoteliers, **Jumbo Seafood**, which is a popular tourist draw, and **Genting Singapore** should also benefit from increased tourist arrivals.

STI : 3,125.63

Analyst

Kee Yan YEO, CMT +65 6682 3706
keeyan@dbbs.com

Janice Chua +65 6682 3692
janicechuast@dbbs.com

Key Indices

	Current	% Chng
STI Index	3,125.63	0.0%
FS Small Cap Index	337.58	0.1%
USD/SGD Curncy	1.35	-2.5%
Daily Volume (m)	875	
Daily Turnover (S\$m)	820	
Daily Turnover (US\$m)	608	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2018	6.8	4.2
2019F	1.7	4.3
2020F	8.6	4.4

(x)	PER	EV/EBITDA
2018	14.5	13.9
2019F	14.2	14.3
2020F	13.1	13.1

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target S\$	Performance (%)		Rating
				3 mth	12 mth	
UOB	25.6	31,014	29.20	(1.7)	(5.4)	BUY
City Developments	9.72	6,382	11.00	2.6	8.0	BUY
UOL Group	7.50	4,579	8.53	(0.7)	9.2	BUY
CapitaLand	3.52	12,837	4.00	(0.3)	3.8	BUY
Venture	15.2	3,187	18.60	(6.3)	(14.2)	BUY
Thai Beverage	0.89	16,181	0.91	7.2	29.9	BUY
Koufu Group	0.73	293	0.88	5.8	14.1	BUY
Sheng Siong Group	1.13	1,230	1.32	2.7	0.9	BUY
ST Engineering	3.84	8,676	4.64	(7.3)	7.9	BUY
Mapletree Industrial Trust	2.42	3,545	2.75	8.0	22.8	BUY
Mapletree Logistics Trust	1.62	4,263	1.85	1.9	30.7	BUY
Jumbo Group	0.38	174	0.47	(1.3)	(20.2)	BUY
Genting Singapore	0.88	7,681	1.20	(4.4)	(17.0)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 27 Sep 2019



Live more, Bank less

October Market Outlook

Hot and Cold

- STI ended September at 3121 (+0.5% m-o-m), paring its intra-month gain amid Middle East geopolitical tensions and uncertainty heading to the October US-China trade talks
- Oil & Gas** sector outperformed (**Keppel Corp**, **SembCorp Industries**, **SembCorp Marine**) as oil prices jerked upwards following the drone attacks on Saudi Aramco's oil facilities
- Consumer goods** underperformed, dragged lower by **Wilmar** and **Golden Agri** – the latter fell amid concerns about its association with the trans-boundary haze
- Yangzijiang** increased 13.2% on order contract wins and upgrade in TPs from covering analysts

Trade talks in focus

- US-China trade talks
 - Trump lifted hopes as he said a trade deal could come sooner than expected
 - But latest news of US considering curbs on investments to China raises uncertainty ahead of talks
- MAS policy meeting
 - SGD NEER is approaching the mid-point of the policy band that makes the case for a monetary policy easing stance.
 - Our economist expects MAS to lower the slope of the band
- October FED Meeting
 - Consensus is split about a rate cut in October, with a bias for a December cut
 - Our economist thinks unless there is further escalation in the US-China trade war, Jerome Powell may find it hard to cut rates again this year

August industrial production casts shadow on 3Q GDP

- Weak August industrial production (actual -7.5% m-o-m, consensus -0.5%) fuels concerns over 3Q GDP
- Current forecast is for 3Q19 GDP to register +2.1% q-o-q saar (+0.4% y-o-y) growth
- Outcome of October US-China trade talk a crucial factor in determining if manufacturing sector can recover for the rest of 2019

FTSE ST Indices Relative Performance for September



Source: Bloomberg Finance L.P., DBS Bank

October event calendar

Date	Event	Comments
2 nd week of Oct	US-China Trade Talks	Outcome of trade talks likely to set tone for the month and even 4Q
Not later than 14 Oct	MAS monetary policy statement	Expect MAS to lower the slope of the band in October
30 Oct	FOMC Rate Decision	Consensus is split about an Oct cut, bias is for a Dec cut

Source: Bloomberg Finance L.P., DBS Bank

Singapore August industrial production (m-o-m)

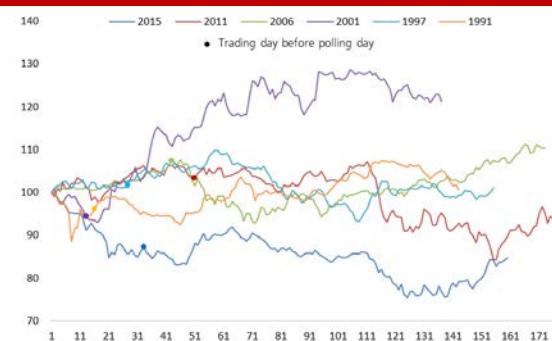


Source: DBS Bank, CEIC, DOS

Little/no market impact in lead-up to GE

- Election Boundaries Review Committee (EBRC) convened on Sept 4, and the report generally takes 2-4 months to complete
- STI's performance over a 4-mth period after the release of the EBRC report since 1991
 - No specific directional trend observed
 - Stock market driven more by macro-economic factors, e.g. post-Sept 11 recovery in 2001, oil price correction and growth uncertainty in 2015
- STI's performance post polling day
 - Tends to rise over a 30-day period when the incumbent sees an increase in popular vote (2015: +6.8%, 2001: +20.2%, 1997: +6.9%).

STI performance from EBRC Report publishing

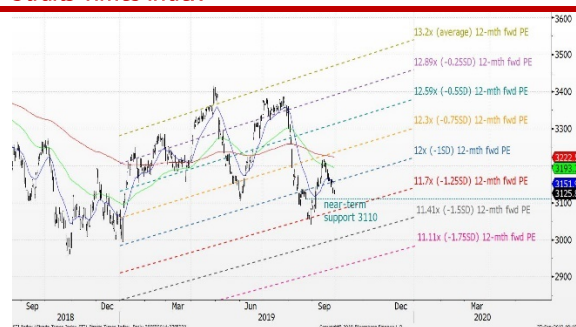


Source: DBS Bank

Straits Times Index Outlook

- Singapore market currently trades at an inexpensive 12x (-1SD) 12-mth fwd PE
- October's directional trend hinges on outcome of US-China trade talks
- Positive outcome
 - Additional tariffs are halted/postponed, or progress is seen towards a trade deal
 - 3115 pivotal support holds, STI proceeds to retest September high of 3215 and if this resistance is cleared, STI should head towards 3320
- Negative outcome
 - Talks end with no progress, additional tariffs proceed as scheduled or worse, new tariffs are introduced
 - STI declines to 3080 (11.7x, -1.25SD 12-mth fwd PE), stronger support at 3030 (11.4x, -1.5SD 12-mth fwd PE)

Straits Times Index



Source: DBS Bank

Strategy

Back to the negotiation table

The outcome of the US-China trade talks will set the tone for October and possibly the rest of the year. Optimists think with US corporate earnings growth under threat, tariffs at risk of pushing up consumer prices and the presidential election barely a year later, the Trump administration may work towards an 'interim trade deal' at least, with China in the months ahead. But scepticism remains, given the numerous disappointments over the past one year.

Early cyclical outperformers such as banks, properties and technology should benefit if the upcoming trade talks opens the door for more negotiations or the enactment of upcoming tariffs is further postponed. In this scenario, our picks are **UOB, City Developments, UOL, CapitalLand** and **Venture Corp.**

Stocks to buy if the US-China trade talks progress positively

Company	Price 25 Sep	12-mth Target Price	Target Return	PER 19 (x)	PER 20 (x)	EPS Growth 19 (%)	EPS Growth 20 (%)	Div Yield 19 (%)	Net Debt / Equity 19	P/BV 18 (x)
UOB	25.380	29.20	15%	10.2	9.8	6.2	4.8	5.0	0.0	1.1
UOL	7.420	8.53	15%	19.2	15.1	-6.3	27.1	2.4	0.2	0.6
City Dev	9.670	11.00	14%	15.8	15.0	-10.0	5.4	1.7	0.3	0.9
CapitalLand	3.480	4.00	15%	11.0	9.7	-23.7	13.6	3.4	0.7	0.8
Venture Corp	15.120	18.60	23%	12.0	11.1	-1.5	7.6	4.6	cash	1.9

Source: DBS Bank

However, it will be risk off again if the upcoming talks end with both sides refusing to come to a compromise and the US declares additional tariffs. Defensive and yield picks should

outperform in this scenario. Our picks are **Thai Beverage, Koufu, Sheng Siong, ST Engineering, CDL HT, Mapletree Industrial Trust** and **Mapletree Logistics Trust**.

Stocks to go for if the US-China trade talks stall again

Company	Price 25 Sep	12-mth Target Price	Target Return	EPS Growth 19 (%)	Div Yield 19 (%)	Net Debt / Equity 19	P/BV 18 (x)
CDL Hospitality Trust	1.660	1.80	8%	8.5	5.3	0.3	1.1
Koufu Group Ltd	0.730	0.88	20%	9.1	3.4	cash	4.4
Mapletree Industrial Trust	2.490	2.75	10%	-5.7	4.9	0.3	1.7
Mapletree Logistics Trust	1.620	1.85	14%	7.3	5.0	0.4	1.3
Sheng Siong Group	1.130	1.32	17%	6.0	3.2	cash	5.9
ST Engineering	3.850	4.64	21%	6.8	3.9	0.6	5.4
Thai Beverage Public	0.890	0.91	3%	12.0	2.5	1.3	4.1

Source: DBS Bank

Staying positive on Singapore hospitality sector

We maintain our view that the hospitality sector is at the starting point of a sustained 3-yr upturn, anchored by a lack of new supply and a turnaround in RevPAR.

According to the Singapore Tourism Board, visitor arrivals rose 16.1% m-o-m to 1.8m in July with a 46% m-o-m surge in Chinese tourists' arrival to 389k. Visitor days reached nearly 6.2m (+10% m-o-m, +5% y-o-y). This bodes well for October that is likely to see increased visitor arrivals from China during the Golden Week holiday.

Further supporting our positive view of the hospitality sector, the recent F1 GP event drew 268k (+2% y-o-y) attendees, the second highest in the event's 12-year history. To a smaller

scale, visitors from South Korea are also on the rise with the launch of direct flights from Busan and Singapore seen as an alternative vacation spot amid the on-going trade row with Japan.

Hospitality REITs have been a sector laggard YTD and still relatively under owned, which we view positively considering the anticipated upturn of the hospitality segment.

CDL Hospitality Trust is our top pick and hospitality REIT leader. Other hospitality REITs are **FEHT** and **QUE HT**. Besides hoteliers, **Jumbo Seafood**, which is a popular tourist draw, as well as **Genting Singapore** should also benefit from an anticipated increase in tourist arrivals.

Beneficiaries of rising tourist arrivals

Company	Price 25 Sep	12-mth Target Price	Target Return	Rcmd	EPS Growth 19 (%)	Div Yield 19 (%)	Net Debt / Equity 19	P/BV 18 (x)
Hospitality REITs								
CDL HT	1.660	1.80	8%	BUY	8.5	5.3	0.3	1.1
Far East HT	0.685	0.70	2%	HOLD	-7.6	5.6	0.4	0.8
QUE HT	0.730	0.85	16%	BUY	0.5	6.8	0.4	1.0
F&B and entertainment								
Genting	0.885	1.20	36%	BUY	-7.1	4.0	cash	1.4
Jumbo Group	0.380	0.47	24%	BUY	7.9	3.3	cash	3.7

Source: DBS Bank

Report contributed by: CHUNG Wei Le / YONG Woon Bing

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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 share price catalysts within this time frame)

**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

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

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
Company Regn. No. 196800306E

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

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: indonesiaesearch@dbs.com