Singapore Market Focus

2020 Outlook and Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity | 12 Dec 2019

Road to recovery

- Bottoming signals in exports fuel recovery optimism
- Broader-based earnings growth from cyclicals and staples
- Volatility beats to drum of trade war, bar bell investment preferred with focus on recovery + yield plays
- M&A deals on a roll

Tepid recovery ahead. A recovery in Singapore's services and bottoming of the manufacturing sector, an expansionary 2020 fiscal budget and an accommodative interest rate environment should lead to a modest +1.4% y-o-y recovery in Singapore's 2020 GDP. While the US-China tariff war remains a significant driver of financial market volatility, the anticipated 'Phase 1' deal should lift confidence. Our base-case (70% chance) STI target of 3500 at 13.18x (average) blended FY20/21 PE is premised on improving US-China trade ties. However, should there be a rapid intensification of the tariff war, the bear-case target is 3,060 at 11.41x (-1.5SD) blended FY20/21 PE.

Broader-based earnings growth. Stocks under our coverage should deliver +8.2% EPS growth for FY20F versus sub 1% for FY19F. Earnings are driven by both cyclicals - property (**CapitaLand**), consumer discretionary (**Genting, Jumbo**), industrials (**SIA, SIA Eng, ST Eng**), information technology (**UMS, AEM**) and non-cyclicals: communication services (**SingTel, Netlink**) and consumer staples (**Wilmar, Thai Bev, First Resources, Bumitama, Sheng Siong**).

Guard against complacency. Total tariff elimination will not occur anytime soon. Events might take a sudden turn and even if a 'Phase 1' deal materialises, the devil is in the details that will set confidence levels for a 'Phase 2' going forward. Yield curves should steepen under a low interest rate environment. We advocate a balanced approach to include REITs and stocks offering yield and growth. Our picks are **AREIT, MLT, MINT, Keppel DC REIT, Suntec REIT, FCT, AIT, CDLHT FEHT, ART, SingTel, ST Eng, SIA Eng.**

Dialing up M&A deals. The momentum in M&A deal flows will continue. **REITS** have been on an acquisition trail, the conducive cost of capital leads to accretive purchases to achieve inorganic growth in DPU. Mergers creating bigger companies and asset portfolios bring the benefit of global index inclusion and attracting international fund flows. Temasek-linked companies will continue to create waves of restructuring to raise shareholders return. Consolidation among shipyards, potential listing of **Singtel's** data centres and possible privatisation of **SIA Engineering** will stir situational interest in due course. Cash rich and undervalued technology companies attract Chinese and global investors seeking to diversify out of China as a result of the trade war. The potential listing of **Thai Bev's** regional beer businesses and **Wilmar's** China operations will unlock value and strengthen their market leadership positions

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Key Indices

	Current	% Chng
FS STI Index	3,193.15	0.6%
FS Small Cap Index	356.13	0.1%
SGD Curncy	1.36	-0.1%
Daily Volume (m)	998	
Daily Turnover (S$m)	1,173	
Daily Turnover (US$m)	863	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2019	0.5	4.1
2020F	8.5	4.2
2021F	7.0	4.3
(x)	**PER**	**EV/EBITDA**
2019	14.9	14.8
2020F	13.7	13.5
2021F	12.8	12.6

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
AEM Holdings Ltd	1.89	375	2.38	70.3	101.1	BUY
Ascendas India Trust	1.57	1,206	1.65	6.8	44.0	BUY
Ascendas REIT	3.01	6,897	3.33	(2.0)	19.7	BUY
CDL Hospitality Trusts	1.62	1,445	1.80	(0.6)	7.3	BUY
Genting Singapore	0.92	8,122	1.20	3.4	(7.6)	BUY
Mapletree Logistics Trust	1.73	4,636	1.90	10.2	36.2	BUY
SIA Engineering	2.82	2,326	3.30	9.7	14.2	BUY
ST Engineering	4.00	9,183	4.64	2.6	15.3	BUY
Thai Beverage Public Company	0.89	16,434	1.04	0.6	50.9	BUY
Wilmar International	4.12	19,203	4.60	8.4	30.8	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 10 Dec 2019

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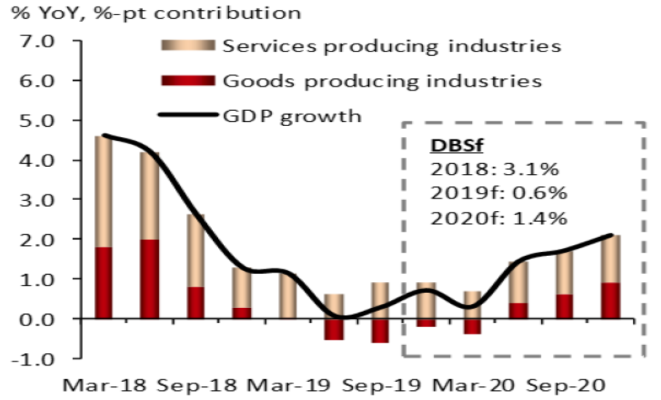
Economy bottoming, tepid recovery ahead

Manufacturing bottoming, services in recovery

- Singapore's 2020 GDP seen rebounding to +1.4% y-o-y from +0.6% in 2019
- Electronics cycle appears to be bottoming that could lead to manufacturing sector turnaround, although the outlook remains challenging
- Services sector a bright spot with loan growth and container throughput growth improving
- Outlook for 2020 is one of cautious optimism, marked by a dependence on a positive resolution in the trade talks and risks such as a slowdown in China and weakness in the Eurozone

Below potential growth

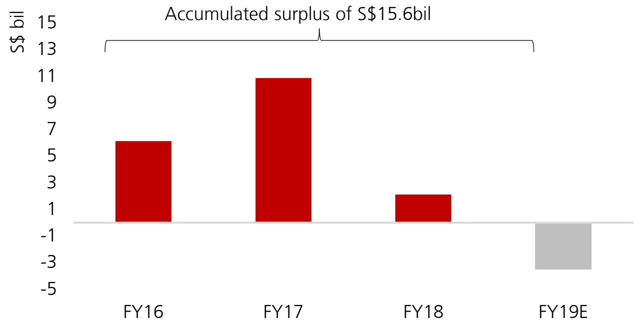


Source: CEIC, DBS Bank

Expansionary 2020 fiscal budget

- Additional fiscal thrust expected in the upcoming budget
- Large accumulated surplus of S$15.6bn coupled with an upcoming election provides impetus for expansionary fiscal budget
- Budget likely to focus on short-term counter-cyclical needs that include measures to aid companies during the economic slowdown and mitigate the impact of a weaker labour market
- Long-term economic transformation will also be a focal point with skills upgrading and technology investment to be emphasised

Accumulated surplus implies room for fiscal support



Source: DBS Bank

Broader-based earnings recovery

- We expect the stocks under our coverage to deliver a higher single-digit EPS growth of +8.2% for FY20F compared to sub 1% for FY19F
- Earnings growth for index-linked stocks is expected to improve by +6.2% for FY20F compared to +2% for FY19F
- Earnings turnarounds are driven by both cyclical and non-cyclical sectors
  - Cyclicals: Property (**CapitaLand**), Consumer discretionary (**Genting, Jumbo**), industrials (**SIA, SIA Eng, ST Eng**) and information technology (**UMS, AEM**)
  - Non-cyclicals: Communication services (**SingTel, Netlink**), consumer staples (**Wilmar, Thai Bev, First Resources, Sheng Siong**)

Sector earnings and valuation

	Earnings Growth (%)			CAGR	PER (x)			Div Yld (%)		
	19E	20F	21F	19-21	19E	20F	21F	19E	20F	21F
Banks	10.2	1.1	3.3	2.2	10.3	10.2	9.9	4.7	4.7	4.7
Comm. Services	-13.6	12.5	3.2	7.8	20.7	18.4	17.8	5.3	5.1	5.2
Cons. Discretionary	-0.5	5.9	8.9	7.4	12.7	12.0	11.0	3.8	3.9	3.9
Cons. Staples	-7.5	13.6	4.1	8.7	19.9	17.5	16.8	2.5	2.7	2.7
Energy	nm	72.0	5.2	34.5	20.1	11.7	11.1	2.5	2.6	2.7
Financial	6.5	5.7	4.4	5.1	21.5	20.3	19.4	4.4	3.7	3.7
Health Care	4.7	35.6	13.4	24.0	59.8	44.1	38.9	0.7	0.8	0.8
Industrials	-3.0	13.3	3.4	8.2	16.4	14.5	14.0	3.6	3.8	4.0
Info Tech	-5.2	7.7	6.4	7.1	14.0	13.0	12.2	4.1	4.1	4.1
Real Estate	-13.2	16.9	25.1	20.9	13.4	11.5	9.2	3.1	3.1	3.4
REITs	6.1	9.0	3.4	6.1	19.4	17.8	17.2	5.2	5.6	5.7
Utilities	6.4	22.0	14.2	18.0	15.5	12.7	11.1	5.4	5.7	6.0
Grand Total	0.6	8.2	6.7	7.5	14.9	13.8	12.9	4.1	4.2	4.3
STI DBS forecast	2.0	6.2	5.6	5.9	13.1	12.3	11.7			

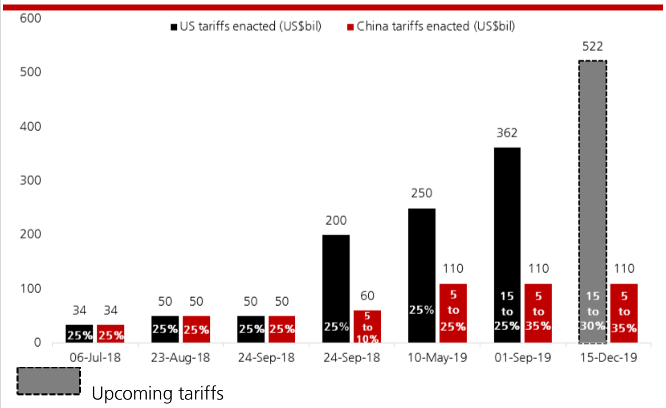
Source: DBS Bank

Guard against complacency

Endgame not in sight for trade war

- Anticipated US-China 'Phase 1' deal to put a stop to tariff war
  - US current tariffs on Chinese imports: 25% on the first US$250bn and 10% on a further US$112bn
  - Tariffs delayed till 15 December: 5% increase to the first US$250bn and 10% on a further US$160bn
- Conditions have improved but endgame to current US-China trade war still not in sight
  - All eyes on 15 December deadline for fresh US tariffs
  - Beyond 'Phase 1', conditions for rollback on existing tariffs will set confidence level of a 'Phase 2' going forward

US-China tariffs

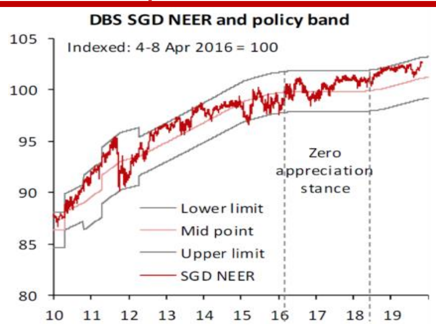


Source: DBS Bank

Accommodative monetary policy

- Global central banks expected to maintain their accommodative monetary policy stance, interest rates to remain low and stable
- MAS likely to stand pat on policy but is ready to ease monetary policy should the downturn resurface
- Yield curve expected to steepen across G3, US 10-year yield should recover to 2.2% (+40bps) and Singapore 10-year yield to 2% (+24bps) by end-2020
- Favour yield with growth
  - REITs: AREIT, MLT, MINT, Keppel DC REIT, Suntec REIT, FCT, AIT, CDLHT FEHT, ART
  - Yield/growth: SingTel, ST Eng, SIA Eng

Flatter SGD NEER slope



Source: DBS Bank

STI target 3500

- Upward PE re-rating potential if macro headwinds subside, given EPS growth of 8.1% and attractive12.9x 12-month forward PE valuation
- Base case (70% chance): 3500 at 13.18x (average) blended FY20/21F PE, premised on a modest 1.4% y-o-y GDP recovery and a stop or even rollback in the US-China tariff war
- Bear case (30% chance): 3,060 at 11.41x (-1.5SD) blended FY20/21F PE if there is a rapid intensification of the US-China tariff war

STI at various forward PE levels

	-1.5sd 11.41x PE	-1.25sd 11.7x PE	-1sd 12x PE	-0.75sd 12.3x PE	-0.5sd 12.59x PE	-0.25sd 12.89x PE	Avg 13.18x PE	+0.25sd 13.48x PE	+0.5sd 13.78x PE
FY20	2,978	3,054	3,132	3,210	3,286	3,364	3,440	3,518	3,596
FY21	3,146	3,226	3,308	3,391	3,471	3,554	3,634	3,716	3,799
Avg 20&21	3,062	3,140	3,220	3,301	3,378	3,459	3,537	3,617	3,698

Source: DBS Bank

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M&A deals on a roll

Reshaping Temasek

- Focus on raising shareholders' return and dividend income.
- Temasek has derived dividend income of S$9bn for FYMar 2019, a 28% jump vs the average of S$7bn over the past decade
- Corporate activities on the rise among Temasek-linked companies over the last 5 years
- SembCorp Marine and SembCorp Industries to play a key role in restructuring of shipyards
- The case for privatisation of SIA Engineering remains strong
- Singtel and ST Telemedia could spin off its data centres for listing

Company	Mkt Cap (US$m)	Price 10 Dec (S$)	12-mth Target Price (S$)	Rcmd	PER 20 (x)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
SembCorp Industries	2,908	2.210	2.90	BUY	9.8	2.6	1.1	0.5
SembCorp Marine	1,925	1.250	1.40	HOLD	nm	1.6	1.4	1.2
SIA Engineering *	2,326	2.820	3.30	BUY	16.6	4.6	cash	2.0
SingTel	54,703	3.350	3.60	BUY	18.0	5.0	0.5	1.9

** FY21 forecast*
Source: DBS Bank

Property & REITS -Bigger is better

- Record S$20bn of M&A deals in Singapore property sector in 2019
- Mega mergers the trend, starting with the Capitaland and Ascendas groups in January 2019
- Creation of bigger companies with more asset base, market capitalisation and liquidity satisfy criteria to be included in global REIT index. This attracts international funds flow, liquidity and raise visibility. Market response for index inclusion has been positive
- Watch the mid cap logistics REITS space for more consolidation in 2020
- ESR's listing provides financial muscle to acquire more and strengthen its control in AIMS and SABANA

Company	Mkt Cap (US$m)	Price 10 Dec (S$)	12-mth Target Price (S$)	Rcmd	Div Yield 19 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
AIMS APAC REIT *	734	1.430	1.50	BUY	7.2	7.4	0.6	1.1
Cache Logistics Trust	571	0.720	0.75	HOLD	7.9	7.8	0.4	1.1
ESR REIT	1,260	0.540	0.58	BUY	7.6	7.7	0.4	1.2
Sabana Shari'ah Compliant REIT	360	0.465	0.48	HOLD	5.7	6.3	0.3	0.8
Soilbuild Business Space REIT	491	0.530	0.55	HOLD	8.2	8.6	0.3	0.9

** FY21 forecast*
Source: DBS Bank

Opportunities from trade diversion in the tech sector

- Trade war affects the tech supply chain
- Push for relocation of manufacturing facilities outside China in favour of South East Asia
- Synergistic acquisitions a quicker solution and offer scale for growth
- Small cap tech companies are undervalued, in net cash position and offer major players in China a good diversification alternative
- Our picks are privatisation or takeover candidates with low free float, in net cash position and remain undervalued vs historical average

Company	Mk Cap (S$m)	Price 10 Dec (S$)	P/BV (x)	Hist. P/E (x)	Net cash as % of mkt cap	% majority owned	6-mth avg daily value (S$'000)
Potential candidate							
Hi-P	1,248.47	1.55	2.16	12.1	14%	84.2%	5,125.5
Fu Yu Corp	188.25	0.25	1.16	15.8	45%	37.6%	300.6
Sunningdale	247.61	1.29	0.67	15.5	-5%	31.6%	251.8
Spindex	111.33	0.97	0.94	7.3	41%	75.0%	4.8

Source: DBS Bank

Unlocking value in brand equity

- Consumer companies to derive value from its brand equity via takeover or listing
- Delfi is attractive as a market leader with 50% market share in branded chocolates in Indonesia. Well-entrenched with strong branding and a wide distribution network but share is trading at a significant discount to peers
- Wilmar's potential listing of its China operations, YKA on China's A share in 1Q20 will unlock value, raise visibility and strengthen its market leadership position in China. Potential special dividend from the listing will be another short-term catalyst for the share.
- Thai Beverage's potential listing of its regional beer assets will unlock value and enable the group to deleverage in 2020. More importantly, the proposed IPO could include premium beer brands which are currently lacking in Thai Bev's portfolio.

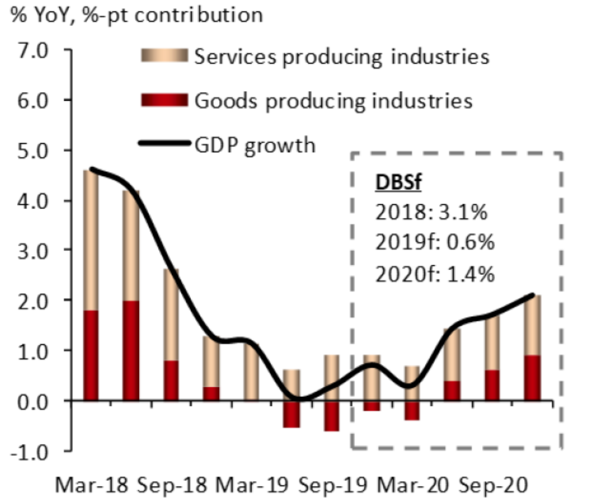
Company	Mkt Cap (US$m)	Price 10 Dec (S$)	12-mth Target Price (S$)	Rcmd	PER 20 (x)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Delfi Ltd	450	1.000	1.51	BUY	15.4	3.6	0.1	2.1
SIA Engineering *	2,326	2.820	3.30	BUY	16.6	4.6	cash	2.0
Thai Beverage Public	16,454	0.890	1.04	BUY	19.3	2.8	1.1	4.3
Wilmar	19,217	4.120	4.50	BUY	15.8	2.5	0.9	1.2

**FY21 forecast*
Source: DBS Bank

Economy is bottoming, tepid recovery ahead

The outlook for 2020 is one of cautious optimism. Singapore's small-open economy should gain if the anticipated interim US-China trade deal materialises, the global electronics cycle turns up and the economies of China and Europe stabilise. Our economist expects 2020 GDP to recover +1.4% y-o-y from +0.6% this year, led by a turnaround in the services and bottoming of the manufacturing sector.

Below potential growth

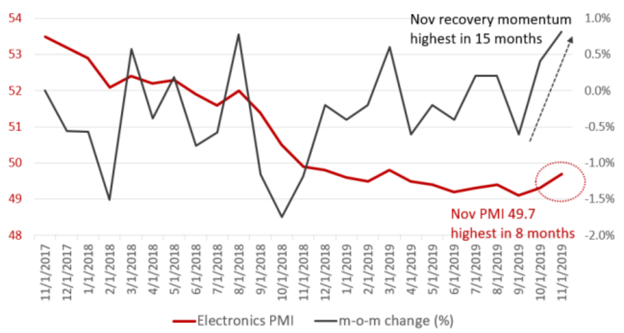


Source: DBS Bank

Manufacturing bottoming, services in recovery

Global semiconductor shipments are rising and semiconductor equipment billings have improved. Singapore's manufacturing sector should be bottoming, in line with the anticipated recovery in the global electronics cycle. Although still in contraction, November electronics PMI reading of 49.7 was the highest since April this year while the m-o-m change of +0.8% was the best since September 2018. The manufacturing sector should receive another uplift if US-China trade ties improve.

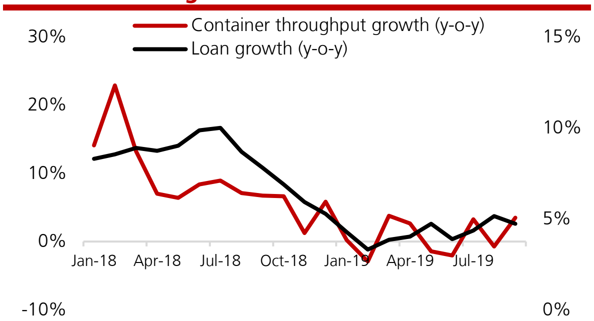
Singapore electronics PMI bottoming



Source: CEIC, DBS Bank

The services sector continues to be a bright spot with loan growth and container throughput growth improving in September 2019. This suggests that trade activity is improving, supported by stronger business loan growth.

Services turning around

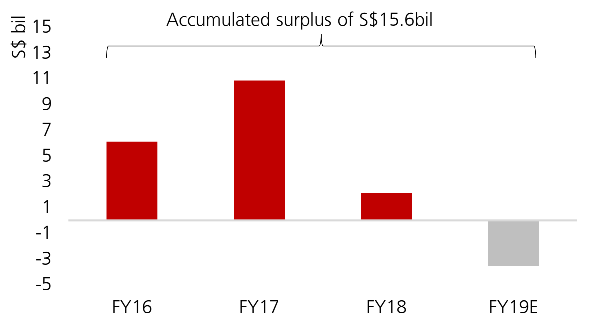


Source: DBS Bank

Expansionary 2020 fiscal budget

We expect a strong fiscal thrust in the upcoming budget given the large accumulated surplus of S$15.6bn that should underpin the domestic economy.

Accumulated surplus implies room for fiscal support



Source: DBS Bank

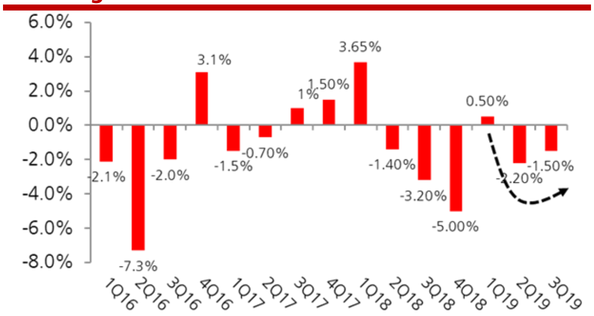
Notably, Singapore's final fiscal balance tends to surprise on the upside which could mean an even larger accumulated surplus. This, coupled with an upcoming election, provides impetus for the government to implement an expansionary fiscal budget.

Policymakers would be aiming to strike a balance between achieving near-term counter-cyclical needs and persevering on long-term economic transformation. The budget will likely focus on short-term counter-cyclical needs such as measures to aid companies during the economic slowdown and mitigate the impact of a weaker labour market. These should be balanced with a need for economic transformation in the long term with support for skills upgrading and technology investment as key focal points.

End in sight for earnings recession trend

Earnings revision trend for stocks under our coverage slipped two consecutive quarters during 2Q and 3Q. The latest 3Q results season saw negative earnings revisions of -1.5% for FY19F and -1.7% for FY20F. However, we see an end to the current earnings 'technical recession' if an interim US-China trade deal materialises.

Earnings revision trend



Source: DBS Bank

Broader-based earnings recovery

Barring a rapid intensification of US-China trade tariffs, we expect the stocks under our coverage to deliver a high single-digit EPS growth of +8.2% for FY20F compared to sub 1% for FY19F. Earnings growth for index-linked stocks is expected to improve by +6.2% for FY20F compared to +2% for FY19F. FY20F dividend yield of 4.2% is among the highest in the region. Earnings turnaround is driven by a good mix of cyclical and non-cyclical sector stocks.

Sector earnings and valuations

	Earnings Growth (%)			CAGR	PER (x)			Div Yld (%)		
	19E	20F	21F	19-21	19E	20F	21F	19E	20F	21F
Banks	10.2	1.1	3.3	2.2	10.3	10.2	9.9	4.7	4.7	4.7
Comm. Services	-13.6	12.5	3.2	7.8	20.7	18.4	17.8	5.3	5.1	5.2
Cons. Discretionary	-0.5	5.9	8.9	7.4	12.7	12.0	11.0	3.8	3.9	3.9
Cons. Staples	-7.5	13.6	4.1	8.7	19.9	17.5	16.8	2.5	2.7	2.7
Energy	nm	72.0	5.2	34.5	20.1	11.7	11.1	2.5	2.6	2.7
Financial	6.5	5.7	4.4	5.1	21.5	20.3	19.4	4.4	3.7	3.7
Health Care	4.7	35.6	13.4	24.0	59.8	44.1	38.9	0.7	0.8	0.8
Industrials	-3.0	13.3	3.4	8.2	16.4	14.5	14.0	3.6	3.8	4.0
Info Tech	-5.2	7.7	6.4	7.1	14.0	13.0	12.2	4.1	4.1	4.1
Real Estate	-13.2	16.9	25.1	20.9	13.4	11.5	9.2	3.1	3.1	3.4
REITs	6.1	9.0	3.4	6.1	19.4	17.8	17.2	5.2	5.6	5.7
Utilities	6.4	22.0	14.2	18.0	15.5	12.7	11.1	5.4	5.7	6.0
Grand Total	0.6	8.2	6.7	7.5	14.9	13.8	12.9	4.1	4.2	4.3
STI DBS forecast	2.0	6.2	5.6	5.9	13.1	12.3	11.7			

Source: DBS Bank

Industrials, consumer discretionary, IT and property lead cyclical recovery

The **industrials** sector should benefit from **SIA Engineering**'s core operating margin improvement, increased workload at its engine shops and recovery in associate/ JV profits; while **ST Engineering** enjoys a strong earnings visibility from its record orderbook of S$15.9bn. Meanwhile, **SIA**'s recovery is driven by higher revenue per ASK (RASK) and firmer revenues.

The **consumer discretionary** sector benefits from rising tourist arrivals that should lift **Genting Singapore**'s earnings recovery next year with the expected rebound in VIP and mass gaming volumes. Higher visitor arrivals benefit **Jumbo Seafood** as well, which is a popular restaurant among seafood lovers.

The **information technology** sector is lifted by the expected recovery of the semiconductor segment (**UMS**, **AEM**). Earnings uplift for **CapitaLand** is the key driver to the **property** sector's recovery.

The index heavy weight **banking** sector is expected to deliver a flat earnings growth next year due to lower NIM, higher credit cost and slower loan growth. However, this sector is supported by a high 4.7% dividend yield. **UOB** is our preferred pick for its defensive qualities.

Cyclical stocks

Company	Price 6 Dec	12-mth Target Price	Target Return	Sector	Mkt Cap (S$m)	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 20 (%)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
UOB	25.460	29.20	15%	Banks	42,474	BUY	10.0	9.6	3.0	4.2	5.0	0.0	1.1
CapitaLand	3.680	4.00	9%	Real Estate	18,538	BUY	10.2	9.2	13.6	10.8	3.3	0.6	0.8
ST Eng	4.050	4.64	15%	Industrials	12,630	BUY	20.3	18.8	8.4	8.0	4.0	0.5	5.4
SIA	8.970	10.40	16%	Industrials	10,631	BUY	11.8	14.7	13.5	-19.4	3.3	0.6	0.8
SIA Eng	2.830	3.30	17%	Industrials	3,170	BUY	16.6	15.7	0.6	5.8	4.6	cash	2.0
Genting	0.915	1.20	31%	Consumer Discretionary	11,032	BUY	15.3	14.4	4.4	6.5	3.8	cash	1.3
Jumbo	0.370	0.47	27%	Consumer Discretionary	237	BUY	18.1	17.2	7.1	5.3	3.6	cash	3.5
UMS	0.975	1.00	3%	Information Technology	523	BUY	12.7	11.1	19.1	14.5	3.6	cash	2.1
AEM	1.910	2.38	25%	Information Technology	515	BUY	9.7	8.9	14.1	8.8	2.6	cash	4.1

Source: DBS Bank

Communication services and consumer staples uphold non-cyclicals

The **consumer staples** sector benefits from higher CPO price for plantation stocks (e.g. **Wilmar Intentional**, **First Resources, Bumitama**). We expect CPO price to rebound by 19% to US$596 per MT in 2020 on plateauing global palm oil supply, coupled with reasonable headroom for soybean price due to positive developments in the US-China trade war and African swine fever. **Thai Bev**'s better performance with growth at Sabeco, breakeven at NAB and stable growth at its Spirits operations should also give the consumer staples sector another earnings boost. Meanwhile, higher margins as a result of better sales mix and new store openings are the driving force behind **Sheng Siong**'s mid-single-digit EPS growth.

Meanwhile, the **communication services** sector is lifted by earlier-than-expected tariff hikes in India from December 2019 onwards for **SingTel** as well as a high 94% fibre penetration and 2% annual growth in households that drive **Netlink NBN Trust**'s earnings.

Non-cyclical stocks

Company	Price 6 Dec	12-mth Target Price	Target Return	Sector	Mkt Cap (S$m)	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 20 (%)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
SingTel	3.430	3.60	5%	Communication services	56,009	BUY	18.4	17.8	14.1	3.5	4.9	0.5	2.0
Netlink	0.940	1.04	10%	Communication services	3,663	BUY	34.5	37.6	15.7	-8.2	6.0	0.2	1.3
Wilmar	4.100	4.50	10%	Consumer Staples	25,978	BUY	15.7	15.4	13.3	1.9	2.5	0.9	1.2
Thai Bev	0.895	1.04	16%	Consumer Staples	22,477	BUY	19.4	18.0	11.2	7.8	2.8	1.1	4.3
First Res	1.830	2.10	15%	Consumer Staples	2,899	BUY	14.4	14.1	72.5	1.9	1.5	0.1	2.3
Bumitama	0.725	0.81	12%	Consumer Staples	1,260	BUY	16.4	15.3	34.4	7.2	3.7	0.5	1.7
Sheng Siong	1.240	1.32	7%	Consumer Staples	1,864	BUY	23.5	22.7	5.9	3.3	3.1	cash	6.0

Source: DBS Bank

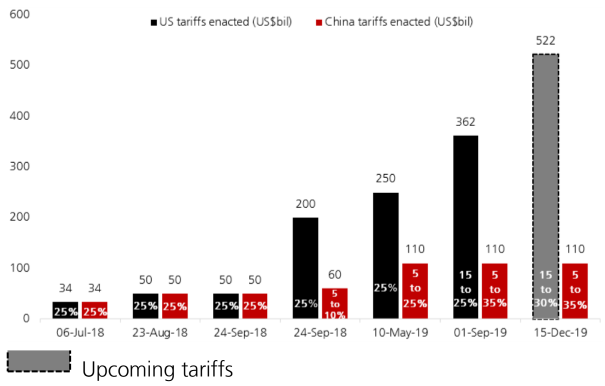
Guard against complacency

We advocate a barbell approach to strike a balanced risk-reward even as the outlook is turning less cloudy.

No endgame in sight

The US-China tariff war remains a significant driver of financial market volatility with a potent mix of economic superpower struggle as well as election and regional politics. Even as positive sentiment on a possible 'Phase 1'deal has buoyed equity markets in recent months, an endgame is not in sight. Events might take a sudden turn, like during mid-2019. Even if a 'Phase 1' deal materialises, the devil is in the details that will set confidence levels for a 'Phase 2' going forward.

Timeline of tariffs imposed



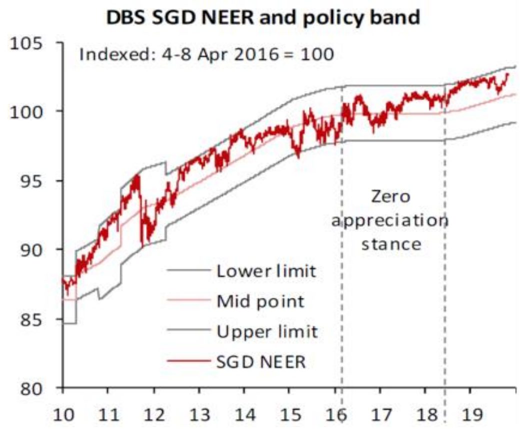
Source: DBS Bank

Accommodative monetary policy

Global central banks are expected to maintain their accommodative monetary policy stance as the declining interest rate trend this year comes to a halt by 1Q20.

In Singapore, the SGD nominal effective exchange rate (NEER) policy band should start appreciating at a tamer pace of +0.5% per year (from +1% previously). Even as the slight economic rebound in 3Q19 has reduced the likelihood of monetary easing going forward, the MAS stands ready to ease monetary policy should the downturn resurface.

Flatter SGD NEER slope



Source: DBS Bank

Our interest rate strategist expects a modest steepening of the yield curve across the G3. Shorter-term rates are likely to be broadly stable as their respective central banks keep the already low policy rates on hold while an improvement in growth dynamics should see longer-term rates drift higher. The US 10-year yield should recover to 2.2% (+40bps) and Singapore 10-year yield to 2% (+24bps) by end-2020.

Favour yield with growth

We favour REITs and yield stocks with growth potential, given the anticipated rise at the long end of yield curve.

While the long end of the yield curve is expected to rise 25bps per annum over the next two years, we expect S-REITs to maintain their current 3.7% yield spread given the DPU growth potential of 2.7% in 2020 (vs 1.9% in 2019). We prefer REITs that can leverage off structural growth trends (logistics, data centres and business parks). Our picks are **Ascendas REIT**, **Mapletree Logistics Trust**, **Mapletree Industrial Trust**, **Keppel DC REIT**, **Suntec REIT**, **Frasers Centrepoint Trust** and **Ascendas India Trust**.

We also believe that hospitality REITs can finally break out on expectations of a turn in RevPAR outlook. Hospitality REITs **CDL Hospitality Trust**, **Far East Hospitality Trust** and **Ascott Residence Trust** should gain from the robust line-up of returning and inaugural conferences next year; coupled with supply growth falling back to only c.1.5% and average hotel occupancies currently close to c.90%.

S-REIT picks

Company	Price 6 Dec	12-mth Target Price	Target Return	Mkt Cap (S$m)	Rcmd	Div Yield 19 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
AIT	1.57	1.65	5%	1,638	BUY	5.2	6.1	0.3	1.5
Ascendas Reit	3.03	3.33	10%	9,432	BUY	5.3	5.4	0.4	1.4
Ascott Residence	1.37	1.45	6%	2,982	BUY	5.3	5.5	0.3	1.1
CDL HT	1.63	1.80	10%	1,975	BUY	5.4	5.8	0.3	1.1
FEHT	0.73	0.80	10%	1,405	BUY	5.3	5.3	0.4	0.9
FCT	2.74	2.95	8%	3,062	BUY	4.4	4.7	0.3	1.2
Keppel DC Reit	2.03	2.20	8%	3,308	BUY	3.8	4.2	0.3	1.9
MIT	2.60	2.75	6%	5,721	BUY	4.7	5.0	0.3	1.7
MLT	1.72	1.90	11%	6,261	BUY	4.7	4.9	0.4	1.4
Suntec REIT	1.84	2.15	17%	5,154	BUY	4.9	5.0	0.4	0.9

Source: DBS Bank

Beyond S-REITs, we look for stocks that offer a yield of at least 4% with good growth prospects. **SingTel** is underpinned by earlier-than-expected tariff hikes in India. **SIA Engineering** should see core operating margin improvement, increased workload at its engine shops and recovery in associate/ JV profits; while **ST Engineering** enjoys a strong earnings visibility from its record orderbook of S$15.9bn.

Dividend with growth stocks

Company	Price 6 Dec	12-mth Target Price	Target Return	Mkt Cap (S$m)	Rcmd	EPS Growth 20 (%)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
SingTel	3.430	3.60	5%	56,009	BUY	14.1	3.5	4.9	0.5	2.0
ST Eng	4.050	4.64	15%	12,630	BUY	8.4	8.0	4.0	0.5	5.4
SIA Eng	2.830	3.30	17%	3,170	BUY	0.6	5.8	4.6	cash	2.0

Source: DBS Bank

M&A deals on a roll

M&A and privatisation deals have been proliferating in Singapore. In 2019, there were 19 companies undergoing privatisation, being merged or acquired. This has surpassed the number of deals done in the last two years – eight in 2018 and 14 in 2017. Cheap valuations, cash-rich companies, low liquidity, and strong brand franchise are some of the factors attracting predators to seek undervalued gems and takeover candidates on SGX. The privatisation momentum was fuelled by cheap valuation, lack of trading activity, cost of maintaining listing, and the need to restructure and streamline operations. In an environment of low interest rates, private equity investors seek higher returns from privatising candidates and relisting them for higher valuations in alternative bourses.

Singapore equities have been de-rated over the past ten years, as both GDP and corporate earnings growth slowed in an economy facing both structural and cyclical challenges. Despite the STI's stable performance in 2019, valuation remains inexpensive vs regional peers. This, coupled with green shoots of recovery, should revive interests in Singapore equities, adding further fuel to the M&A momentum.

We expect this trend to continue. Trade war has also led to Chinese companies seeking alternative manufacturing/logistics hub in Southeast Asia, Singapore included. These companies will be in a sweet spot to complement their operations and value chain. Acquisition of existing facilities will enable them to scale up quickly as opposed to starting greenfield projects.

Reshaping Temasek

Temasek's restructuring adds another spin to the M&A scenario. Changes in the government's 2015 budget to include Temasek in the Net Investment Returns framework will lead to the group's higher contribution to the government's coffers. This has put more pressure on Temasek-linked companies to raise their ROE and dividend payouts. This can be achieved through a) optimal use of capital structure, b) seeking inorganic earnings growth, c) restructuring, mergers and acquisitions to sustain long-term competitiveness in the global arena, d) divestment of companies in non-performing sectors which face long-term challenges, and e) higher dividend payouts for cash-rich companies.

In FY Mar 2019, Temasek has gained S$9bn in dividend income from its net investment portfolio of S$313bn, a 29% jump compared to an average dividend income of S$7bn over the past decade.

Over the past three years, we have seen a number of restructuring and corporates actions among the Temasek-linked companies to raise shareholders' return. Privatisation of SMRT, Tiger Airways, M1, Keppel T & T, sale of NOL and the merger of CapitaLand and Ascendas Singbridge were some of the key restructuring moves in recent years. This trend will continue, particularly among Singapore shipyards. A dearth of orders for drilling rigs, the yards' mainstay, has pushed yards to diversify into new products including newbuild production platforms, gas solutions such as FLNG vessel and Gravifloat LNG terminal. However, orders remain low and insufficient to fill the yards' capacity. SembCorp Marine reported losses over the past few quarters, due to a low baseload, and costs related to learning curve. Strategic review at the yards could lead to further consolidation and asset swaps in this sector. SembCorp Marine and SembCorp Industries are likely to play a key role in any potential restructuring of the sector.

The rationale for SIA Engineering's (SIE) privatisation is pretty strong. SIA currently has close to a 78% stake in its MRO unit, and the benefits of keeping SIE listed is not entirely apparent, given the low liquidity of the stock. Moreover, SIE does not really need to tap the equity capital markets for financing as it is a cash-rich company and does not have significant acquisitions under its belt. Given the structural challenges in the heavy maintenance industry, SIE's share price has been weak over the last two years. The company's current valuation is attractive at close to multi-year lows of about 17.5x forward PE and its dividend yield is healthy at 4.2%.

Telco – hot stock in data centres

Data centres have been hotly pursued as an asset class by SG REITS. Besides Keppel DC, MINT has also added several data centres from the US in its portfolio. Structural changes in demand driven by the rise in internet penetration, growth in IOT and development of 5G has pushed up demand for data storage and data centres. According to 451 Research LLC, demand for such hyperscale data centres is expected to grow at a 16.1% CAGR from 2017-2023F, while demand for insource and outsourced data centres is expected to grow by 4.9% over 2017-2023F. The jewel in Singapore Telecoms and ST Telemedia (wholly owned by Temasek) are their assets in data centres. SingTEL owns about 2m GFA of data centres valued at a ballpark S$2bn while ST Telemedia owns 94 data centres, one of the largest in Asia-Pac. If Singtel seeks to unlock value in these data centres via a public listing, the proceeds can be used to fund Bharti's expansion, which is in need of US$1bn to deleverage and acquire assets. In addition, the value proposition for listing will be enhanced if ST Telemedia combines its data centres with Singtel to create a much larger entity to attract international funds.

Company	Mkt Cap (US$m)	Price (S$) 10/12/2019	Target Price (S$)	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Sembcorp Industries	2,908	S$2.21	2.90	31%	BUY	9.8x	9.0x	0.5x	0.5x	8.1x	8.7x	6%	6%	2.1%	2.6%	8.3
Sembcorp Marine	1,925	S$1.25	1.40	12%	HOLD	nm	69.0x	1.2x	1.2x	26.5x	18.3x	(0%)	2%	0.8%	1.6%	-76.4
SIA Engineering *	2,326	S$2.82	3.30	17%	BUY	16.6x	15.7x	1.9x	1.9x	9.3x	8.8x	12%	12%	4.3%	4.6%	3.2
SingTel *	40,270	S$3.35	3.60	7%	BUY	18.0x	17.4x	1.9x	1.9x	9.6x	9.2x	11%	11%	5.2%	5.0%	0.2

** FY21 & FY22 forecast; Source: DBS Bank, Bloomberg Finance L.P.*

Property & REITs – Bigger is better

2019 started with a bang, on news of CapitaLand acquiring Ascendas Singbridge for S$11bn, followed by a series of M&A among REITS. Close to S$20bn worth of M&A deals involving the four major developers in Singapore have been concluded since the start of the year.

Table of M&A deals announced

	Companies	Acquired	Acquired from	Deal size (S$'m)	DBS remarks
1	CapitaLand	Ascendas	Merger	11,000.0	100% stake in target group
2	UOL	Stake in Marina Centre Holdings	OUE	675.3	25% stake in target companies
3	City Developments	Sincere Group	Vendor	1,360.0	24% stake in target group (S$1,000) / 70% stake in Shanghai Asset (S$247m)
		M & C	Take-over	1,340.0	Remaining stake at 685 pence for GBP776.3m
		IREIT Global	Vendor	77.8	Stake in REIT (S$77.8m) + 50% Stake in Manager (S$18.4m)
4	Frasers Property Limited / Frasers Centrepoint Trust	Stake in PGIM Asia Retail Fund	Vendors	1,300.0	66.6% stake in the PGIM Fund
5	ESR	Sabana REIT	Vendor	61.0	Stake in the REIT + Manager
6	OUE Commercial Trust	OUE Hospitality Trust	Merger	1,300.0	Via a swap for 1 OUE HT = 1.43 OUE Share
7	Ascott REIT	Ascendas Hospitality Trust	Merger	1,200.0	Via cash and swap: 1 ASHT = 0.7942 ART + S$0.0543
	Total M&A deals			18,314.1	

Source: DBS, SGX

REIT managers have been on an acquisition spree, taking strategic steps towards increasing their own assets under management (AUM) and market cap to gain investor visibility. Successful mergers creating an enlarged market capitalisation and liquidity put these REITs on the global chart via inclusion in major property indices such as the EPRA Nareit Global index. That has resulted in positive market reaction with increased international fund flows and better visibility. Manulife US Commercial REIT, Fraser Centrepoint Trust and Keppel DC REIT have been successfully added to the ERPA NAREIT index this year. Next in the running for inclusion is Ascott REIT, upon the completion of its merger with Ascendas Hospitality Trust.

Asset acquisition was a key driver behind growth, followed by bouts of capital-raising exercises. This year saw a high S$9bn raised to fund acquisitions of assets. The CapitaLand/Ascendas merger was followed by notable deals including the merger of Ascott and Ascendas Hospitality assets, merger of OUE Commercial Trust and OUE Hospitality Trust and even smaller-scale REITs like IREIT Global found a new sponsor in City Development. Sabana REIT gained a new sponsor with Vibrant Group selling its stake to ESR group.

We expect the trend of consolidation within the REIT space to continue, especially among mid-cap industrial REITs such as AIMS APAC REIT (AIMS), Cache Logistics (Cache) and Soilbuild REIT. These REITs are trading at attractive yields in excess of 7.0-8.5%, which prohibits them from pursuing acquisitions as they will unlikely be accretive given their high cost of capital. With ESR raising its stakes in AIMS and Sabana, this is the beginning of consolidating its presence in the logistics segment. We believe that the proceeds raised from ESR's recent IPO will provide additional financial power to fund possible M&A of REITs that it is eyeing and also new property acquisitions.

Company	Mkt Cap (US$m)	Price (S$) 10/12/2019	12-mth Target Price (S$)	% Upside	Rcmd	P/BV (x) 19F	P/BV (x) 20F	P/BV (x) 21F	Div Yield (%) 19F	Div Yield (%) 20F	Div Yield (%) 21F	DPS CAGR 19-21 (%)
AIMS AMP Capital Industrial REIT *	734	S$1.43	1.50	5%	BUY	1.1x	1.1x	1.1x	7.2%	7.4%	7.6%	2.3
Cache Logistics Trust	571	S$0.72	0.75	4%	HOLD	1.1x	1.1x		7.9%	7.8%		na
ESR REIT	1,260	S$0.54	0.58	8%	BUY	1.2x	1.2x	1.2x	7.6%	7.7%	7.7%	0.7
Sabana Shari'ah Compliant REIT	360	S$0.47	0.48	3%	HOLD	0.8x	0.8x	0.8x	5.7%	6.3%	6.4%	6.3
Soilbuild Business Space Reit	491	S$0.53	0.55	3%	HOLD	0.9x	0.9x	0.9x	8.2%	8.6%	8.7%	2.9

** FY21 & FY22 forecast;*
Source: DBS Bank, Bloomberg Finance L.P.

Tech sector – Opportunities from trade diversion

Technology sector – At the crux of the trade war. The electronics equipment supply chain that spans across Asia has been affected by the trade war. Suppliers within the supply chain would need to relook their strategies to survive in this trade-challenged environment. Relocation out of China and changing suppliers are some of the options. However, this process would take time and not all the manufacturing processes can be easily transferred out of China.

The M&A or privatisation route could be another option to consider. It makes economic sense for technology companies to adopt the M&A route as some of these companies may have common customers, provide similar services or manufacture similar products. Synergistic acquisitions can also offer other significant benefits such as economies of scale and increased market share. The share prices of these companies have been laggards due to trade war uncertainties. Current levels remain attractive, making technology companies a more likely target for M&A/privatisation. Potential candidates are Hi-P, Fu Yu, Spindex and Sunningdale. These companies are illiquid with low free float, net cash and trading at attractive valuations.

Company	Mk Cap (S$m)	Price (S$) 10/12/2019	P/BV (x)	Hist. P/E (x)	Net cash as % of mkt cap	% majority owned	6-mth avg daily value (S$'000)
Potential candidate							
Hi-P	1,248.47	1.55	2.16	12.1	14%	84.2%	5,125.5
Fu Yu Corp	188.25	0.25	1.16	15.8	45%	37.6%	300.6
Sunningdale	247.61	1.29	0.67	15.5	-5%	31.6%	251.8
Spindex	111.33	0.97	0.94	7.3	41%	75.0%	4.8

Source: DBS Bank, Bloomberg Finance L.P.

Consumer - Unlocking value in brand equity

Consumer companies with strong brand equity are highly sought after, as seen by privatisations and takeovers of OSIM, Eu Yan Sang and Super Group. Delfi, Thai Bev and Wilmar stand out with their brand franchise, market leadership as well as strong distribution network. Besides privatisation, these groups are looking at ways to monetise their assets and brand equity via public listings.

Delfi (DELFI SP, BUY; TP S$1.51)

Delfi could be an attractive takeover or privatisation target. The company had previously spun off its upstream cocoa processing business. In 2013, Delfi sold the division to Barry Callebaut AG for US$950m. Delfi is now left with a strong branded consumer business in Indonesia. It is a market leader with c.50% share in the branded chocolate market in Indonesia. Its competitive advantage lies in its first-mover advantage and extensive network across Indonesia, which gives it considerable reach in the country. Global players are already competing in the market but their market shares remain relatively low. We believe Delfi's strong brand and network will be attractive to investors who are keen to dominate the chocolate space in Indonesia. Despite its strong brand equity, the stock has been illiquid, and undervalued with a forward PE of 15x vs peers in Indonesia which are trading at 22x.

Wilmar International ((WIL SP, BUY, TP: S$4.60)

Listing to unlock value Wilmar's potential listing of its China operations (YKA) on China's A-share market in 1Q20 will raise its visibility and provide the company with a solid footing to further grow its market share and earnings. Wilmar is heading towards a more stable business model and earnings profile with higher contribution from consumer branded products. Wilmar's franchise value is underappreciated, and as the market leader in each segment, the company's presence makes it difficult for competitors to operate meaningfully in each region. YKA's listing in 1Q20 and potential special dividend following the listing will be a short-term catalyst in 2020.

Thai Beverage (THBEV SP, BUY, TP S$1.04)

ThaiBev is planning for an IPO of its regional beer assets in 2020, according to a Bloomberg report. The regional portfolio is likely to include breweries in Thailand, Vietnam and Myanmar. The listing will enable ThaiBev to deleverage (gearing ratio at 1.3x) and unlock value within the group. The majority of its debt (Bt150bn out of its net debt of Bt190bn) arose from its acquisition of Sabeco in December 2017. More importantly, the proposed IPO could include premium beer brands which we believe is lacking within ThaiBev's portfolio.

Company	Mkt Cap (US$m)	Price (S$) 10/12/2019	12-mth Target Price (S$)	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Delfi	450	S$1.00	1.51	51%	BUY	15.4x	14.1x	1.9x	1.8x	7.4x	6.9x	13%	13%	3.3%	3.6%	12.8
SIA Engineering *	2,326	S$2.82	3.30	17%	BUY	16.6x	15.7x	1.9x	1.9x	9.3x	8.8x	12%	12%	4.3%	4.6%	3.2
Thai Beverage	16,454	S$0.89	1.04	17%	BUY	19.3x	17.9x	3.9x	3.5x	15.1x	13.6x	21%	21%	2.4%	2.8%	12.6
Wilmar International	19,217	S$4.12	4.60	12%	BUY	15.8x	15.5x	1.1x	1.1x	12.7x	12.4x	7%	7%	2.2%	2.5%	-3.1

** FY21 & FY22 forecast*

Source: DBS Bank, Bloomberg Finance L.P.

M&A Deal – 2017 to2019

Company	Date announced	Offer details	Offer price	Last close prior to offer	Premium/ (Discount)
Healthway Medical Corp	07-Feb-17	Voluntary cash offer by Lippo-linked group at S$0.042 per share.	S$0.042	S$0.040	5%
Auric Pacific	07-Feb-17	Privatization offer by controlling shareholder, (Riady family) at S$1.65 cash per share.	S$1.650	S$1.455	13%
Spindex (not successful)	09-Feb-17	Proposed privatisation of Spindex by founder via a Scheme of Arrangement at S$0.85 per share.	S$0.850	S$0.700	21%
Spindex	03-Mar-17	Scheme was terminated. Founder announced a mandatory general offer at S$0.85 per share, after crossing the 30% take-over threshold.	-	-	-
Spindex	03-Mar-17	Following the offer announcement, Star Engineering, a subsidiary of Northstar Equity Partners, announced a potential offer at higher than S$0.85 per share. However, Star Engineering did not put forward a firm offer or a specific offer price.	-	-	-
International Healthway Corp	16-Feb-17	Mandatory cash offer by major shareholder OUE at S$0.106 per share.	S$0.106	S$0.104	2%
Kingboard Copper Foil	03-Mar-17	1st attempt: Voluntary offer by the Kingboard Chemical group at S$0.40 cash per share.	S$0.400	S$0.340	18%
Nobel Design	02-May-17	Privatisation offer by CEO-led team at S$0.51 per share.	S$0.510	S$0.470	9%
United Engineers (lapsed)	13-Jul-17	Privatisation offer by Yanlord-led consortium at S$2.60 per share.	S$2.600	S$2.710	-4%
Global Logistics Properties	14-Jul-17	Privatisation by consortium at S$3.38 per share.	S$3.380	S$2.700	25%
Poh Tiong Choon Logistics	20-Sep-17	Founder made privatisation offer at S$1.30 per share.	S$1.300	S$1.280	2%
Rotary Engineering	02-Oct-17	Privatisation offer by Chairman at S$0.46 per share.	S$0.460	S$0.380	21%
Cogent Holdings	03-Nov-17	Privatisation offer by Cosco Shipping at S$1.02 per share.	S$1.020	S$0.970	5%
CWG International	28-Dec-17	Privatisation offer by Chairman and CEO at S$0.195 per share.	S$0.195	S$0.153	27%
Tat Hong Holdings	11-Jan-18	Privatisation offer by Group CEO and private equity fund at S$0.50 per share.	S$0.500	S$0.460	9%
Lee Metal Group	21-Feb-18	Offer by BRC Asia at S$0.42 per share.	S$0.420	S$0.410	2%
Tat Hong Holdings	26-Apr-18	Privatisation offer by Group CEO and private equity fund at revised offer price of S$0.55 per share.	S$0.550	S$0.460	20%
CH Offshore	10-Aug-18	Offer by Baker Technology at S$0.13 per share	S$0.130	S$0.130	0%
Delong Holdings	27-Sep-18	Offer by Chairman and CEO at S$7 per share	S$7.000	S$6.870	2%
M1	27-Sep-18	Privatisation offer by Konnectivity, jointly owned by Keppel Corp and SPH, at S$2.06 per share.	S$2.060	S$1.630	26%
Keppel T&T	27-Sep-18	Privatisation offer by Keppel Corp at S$1.91 per share	S$1.910	S$1.360	40%
Cityneon	29-Oct-18	Cash offer by founder Mr Ron Tan, together with Mr Johnson Ko, at S$1.30 per share	S$1.300	S$1.260	3%
Wheelock Properties	19-Jul-18	Cash offer by major shareholder and holding company, Wheelock & Co, at S$2.10 per share.	S$2.100	S$1.740	21%
PCI Ltd	04-Jan-19	Acquisition by global investment fund, Pagani Holdings, at S$1.33 per share.	S$1.330	S$1.040	28%
Declout	07-Jan-19	Voluntary offer by Kyowa, a leading Japanese conglomerate in the construction and supply of telecommunications infrastructure, electrical, civil and environmental engineering services, systems solutions and integration services, at S$0.13 per share	S$0.130	S$0.110	18%

Source: Bloomberg Finance F.P.; SGX; DBS Bank

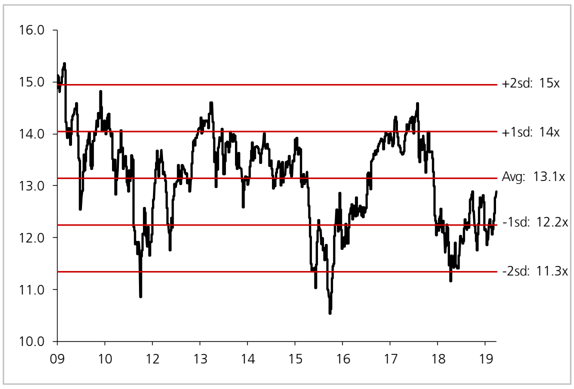
Company	Date announced	Offer details	Offer price	Last close prior to offer	Premium/ (Discount)
Capitaland/Ascendas	15-Jan-19	Capitaland buys Ascendas & Singbridge group from Temasek for S$11bn	-	-	-
Courts Asia	18-Jan-19	Voluntary offer by Nojima, an electrical appliance retail chain listed on the Tokyo Stock Exchange, at S$0.205 per share	S$0.205	S$0.152	35%
Fabchem	15-Mar-19	Mandatory cash offer at S$0.158 per share, after acquiring stake from substantial shareholder	S$0.158	S$0.158	0%
Challenger Technologies (lapsed)	20-Mar-19	Exit offer by founder at S$0.56 per share	S$0.560	S$0.530	6%
Kingboard Copper Foil	04-Apr-19	2nd attempt: Voluntary offer by the Kingboard Chemical group at S$0.60 cash per share.	S$0.600	S$0.550	9%
OUE Commercial REIT/OUE Hospitality Trust	08-Apr-19	Merger of OUE Commercial REIT and OUE Hospitality Trust	-	-	-
Indo Agri Resources (lapsed)	11-Apr-19	Privatisation offer by parent PT Indofood Sukses Makmur at S$0.28 per share. The offer price was raised to S$0.3275 per share. Despite the revision, the offer was lapsed with 88-08% acceptance, short of the 90% level for the deal to proceed.	S$0.328	S$0.260	26%
800 Super Holdings	06-May-19	Founder made privatisation offer at S$0.90 per share.	S$0.900	S$0.775	16%
JEP Holdings	13-May-19	Mandatory cash offer by UMS Holdings at S$0.15 per share, after increasing stake to 38.8%	S$0.150	S$0.156	-4%
Memtech International	14-May-19	Privatisation offer by founder at S$1.35 per share.	S$1.350	S$1.090	24%
Boardroom	15-May-19	Privatisation offer by major shareholder, GK Goh at S$0.88 per share.	S$0.880	S$0.770	14%
Millennium & Copthorne Hotels plc	07-Jun-19	Privatisation offer by major shareholder, City Developments at 685 pence per share.	685 pence	500 pence	37%
First Ship Lease Trust	07-Jun-19	Mandatory offer by FSL Holdings at S$0.0585 per share.	S$0.0585	S$0.044	33%
Hupsteel	28-Jun-19	Privatisation offer by founder at S$1.20 per share.	S$1.200	S$0.790	52%
Ascott REIT/Ascendas Hospitality Trust	03-Jul-19	Merger of Ascott Residence Trust (A REIT) and Ascendas Hospitality Trust (A-HTRUST). A-HTRUST is valued at S$1.0868 per unit, comprising S$0.0543 cash and 0.7942 Ascott REIT unit valued at S$1.30 each.	HTRUST: S$1.0868	S$0.975	11%
Health Management Int'l	05-Jul-19	Privatisation offer at S$0.73 per share.	S$0.730	S$0.660	11%
Keppel Corp	21-Oct-19	Partial cash offer for 30.55% stake by Temasek at S$7.35 per share.	S$7.350	S$5.840	26%
Yanlord Land	25-Oct-19	Mandatory offer for United Engineers (UE) at S$2.60 per share, and also WBL at S$2.5947 per share.	UE:S$2.60	S$2.660	2%
Frasers Property	02-Dec-19	Merger of Frasers Logistics & Industrial Trust and Frasers Commercial Trust. Unitholders of FCOT to receive S$1.680 per unit, to be satisfied by S$0.151 cash and 1.233 new FLT units valued at S$1.24 per unit.	-	-	
Average Premium / (Discount) :-					
2017					12%
2018					14%
2019 (YTD)					19%
All (2017 - 2019 YTD)					16%

Source: Bloomberg Finance L.P.; SGX; DBS Bank

Market Outlook and Valuation

PE re-rating a potential catalyst
Singapore market's defensive-yield at a reasonable PE-growth rate amid increasing hope for recovery makes it an attractive investment proposition for investors heading into 2020. Singapore is one of the more attractive markets in Asia with its high single-digit EPS growth of 8.1% that trades at 12.9x 12-month forward PE, which is slightly below the 10-year average. Its dividend yield of 4.2% is among the highest in Asia. We see upward PE re-rating potential should the macro headwinds subside.

Singapore 12-month forward PE



Source: Thomson Reuters, DBS Bank

Base case (70%): Our STI target for next year is 3500 that coincides closely with 12.59x (-0.5SD) FY21F PE and 13.18x (average) blended FY20/21 PE. This is premised on a modest 1.4% y-o-y recovery in Singapore's GDP as the manufacturing sector recovers and a stop or even rollback in the US-China tariff war.

Bear case (30%): A rapid intensification of the US-China tariff war whereby both countries pull away from negotiations of an interim deal and reignite tit-for-tat tariffs against each other. Under this scenario, our bear-case STI target is 3,060 at 11.41x (-1.5SD) blended FY20/21 PE.

With the 2020 US GDP looking to slow to +1.9% (from +2.2% 2019F) in 2020F and that for China dipping to +5.8% (from +6.1%), we see a good reason for both countries to work towards an interim trade deal. Thus, we attach a high 70% probability of the base case developing.

STI at various 12-month forward PE

	-1.5sd 11.41x PE	-1.25sd 11.7x PE	-1sd 12x PE	-0.75sd 12.3x PE	-0.5sd 12.59x PE	-0.25sd 12.89x PE	Avg 13.18x PE	+0.25sd 13.48x PE	+0.5sd 13.78x PE
FY20	2,978	3,054	3,132	3,210	3,286	3,364	3,440	3,518	3,596
FY21	3,146	3,226	3,308	3,391	3,471	3,554	3,634	3,716	3,799
Avg 20&21	3,062	3,140	3,220	3,301	3,378	3,459	3,537	3,617	3,698

2020 year-end target
Source: DBS Bank

Stock picks

Company	Mkt Cap (US$m)	Price (S$) 10/12/2019	12-mth Target Price (S$)	% Upside	Rcmd	DPU / EPS (c) 18A	DPU / EPS (c) 19F	DPU / EPS (c) 20F	DPU / EPS (c) 21F	PE (x) 19F	PE (x) 20F	PE (x) 21F	P/BV (x) 19F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 19F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 19F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	Div Yield (%) 21F	DPS CAGR 19-21 (%)
AEM Holdings	375	S$1.89	2.38	26%	BUY	12.4	17.3	19.7	21.5	10.9x	9.6x	8.8x	4.1x	3.1x	2.5x	7.1x	5.8x	4.7x	44%	37%	31%	2.3%	2.6%	2.8%	11.4
Ascendas India Trust *	1,206	S$1.57	1.65	5%	BUY	7.33	8.18	9.62	9.65	19.0x	16.2x	16.1x	1.5x	1.5x	1.5x	18.1x	15.4x	15.1x	8%	10%	9%	5.2%	6.1%	6.1%	8.6
Ascendas REIT *	6,897	S$3.01	3.33	11%	BUY	16.05	16.12	16.47	16.64	19.3x	18.6x	18.7x	1.4x	1.4x	1.4x	22.2x	21.5x	21.4x	7%	8%	8%	5.4%	5.5%	5.5%	1.6
CDL Hospitality Trust	1,445	S$1.62	1.80	11%	BUY	8.88	9.39	9.54	9.65	24.1x	21.7x	21.2x	1.1x	1.1x	1.1x	22.7x	21.7x	6.3x	5%	5%	5%	5.5%	5.8%	5.9%	1.3
Genting Singapore	8,122	S$0.92	1.20	31%	BUY	6.3	5.7	6.0	6.4	16.1x	15.3x	14.4x	1.4x	1.3x	1.2x	6.1x	6.3x	6.4x	9%	9%	9%	3.8%	3.8%	3.8%	5.4
Mapletree Logistics Trust *	4,636	S$1.73	1.90	10%	BUY	8.02	8.04	8.38	8.72	22.5x	21.8x	20.8x	1.4x	1.4x	1.5x	25.0x	24.5x	23.4x	6%	7%	7%	4.6%	4.8%	5.0%	4.1
SIA Engineering *	2,326	S$2.82	3.30	17%	BUY	16.0	16.1	17.0	18.0	17.4x	16.6x	15.7x	2.0x	1.9x	1.9x	9.9x	9.3x	8.8x	12%	12%	12%	4.3%	4.6%	4,9%	5.8
ST Engineering	9,183	S$4.00	4.64	16%	BUY	16.9	18.4	20.0	21.6	21.8x	20.0x	18.5x	5.3x	5.0x	4.7x	12.9x	11.4x	10.7x	25%	26%	26%	3.8%	4.0%	4.3%	8.2
Thai Beverages	16,454	S$0.89	1.04	17%	BUY	0.0	0.0	0.0	0.0	21.6x	19.3x	17.9x	4.3x	3.9x	3.5x	17.3x	15.1x	13.6x	20%	21%	21%	2.4%	2.8%	2.9%	9.5
Wilmar International	19,217	S$4.12	4.60	12%	BUY	27.7	23.0	26.1	26.6	18.4x	15.8x	15.5x	1.2x	1.1x	1.1x	14.0x	12.7x	12.4x	7%	7%	7%	2.2%	2.5%	2.5%	7.5

** FY21 & FY22 forecast*

Source: DBS Bank, Bloomberg Finance L.P.

AEM Holdings (AEM SP; BUY; TP: S$2.38)
Beneficiary of rising new technologies. AEM Holdings, as a solutions provider for the back-end testing of the semiconductor manufacturing process for its key customer, Intel is a key proxy to ride on the cycle recovery. Intel is increasing its capex and production capacity, which should drive demand for test handlers, where AEM is believed to be the sole supplier to Intel's test handlers. New technology (AI, 5G, and data centers) is also expected to drive longer test times, leading to higher demand for test handlers. Furthermore, AEM is also working towards diversification of revenue through new projects and customers. New initiatives include supplying cable testing solutions for Huawei's 5G rollout.

Ascendas India Trust (AIT SP; BUY; TP: S$1.65)
We remain excited on Ascendas India Trust (a-iTrust) as one of the fastest-growing S-REITs who has grown c.15% CAGR in the past few years. We see a myriad of growth opportunities for the REIT. Firstly, its expansion into the modern Indian warehouse sector warrants a premium not only from the boost to a-iTrust's near-term DPU oulook but more importantly, the ability to accelerate earnings growth in the medium term. Its pipeline of forward purchase projects will also boost its GFA by over 73% in the medium term. In the longer term, the continued execution of its landbank at ITPB (Bangalore) and The V (Hyderabad) offer opportunities to extract value for unitholders. Furthermore, a-iTrust remains on the forefront as the key vehicle of the group's (CapitaLand Limited) plans to double its exposure in India over the medium term. With the Sponsor's capital backing, the future remains bright for a-iTrust.

Ascendas REIT (AREIT SP; BUY; TP: S$3.33)
We continue to like A-REIT for their leading status as the largest industrial landlord in Singapore. Mainly focusing in the business parks and hi-specifications segments, these properties cater mainly to the industries within the precision engineering, IT, media and bio-sciences sectors that continue to see strong demand growth. Its acquisitions in UK, Australia and USA offer increased diversification and stability given their longer weighted average lease expiries (WALEs). Looking ahead, we believe that A-REIT continue to offer an attractive pipeline for growth from its Sponsor, which we believe will be well received by investors. Organic growth momentum is also on the upswing as we project rental reversions to head high on low expiring rent levels. Stock offers an attractive 5.3% yield with upside coming from acquisitions which we have not priced in at current levels.

CDL Hospitality Trust (CDREIT SP; BUY; TP: S$1.80)
We believe CDL Hospitality Trusts (CDL HT) is a prime beneficiary of a projected sustained turn in the performance of the Singapore hospitality sector. With a robust line-up of returning and inaugural conferences in 2020, we anticipate a higher number of visitors to translate into stronger demand for rooms. With supply growth falling back to only c.1.5% in 2020 and average hotel occupancies at close to 90%, the next leg of growth will be driven by room rates. In addition, the recent announcement of Liang Court redevelopment which saw CDL HT trading up its Novotel Clarke Quay with The W, a luxury lifestyle hotel which will enhance its growth runway, in our view.

Mapletree Logistics Trust **(MLT SP; BUY; TP: S$1.90)**
We believe that all growth engines are firing and Mapletree Logistics Trust (MLT) remains firmly on the acquisition growth path to be a leading logistics player in ASEAN. Opportunities will likely come from its Sponsor which has an extensive pipeline of acquisition opportunities. Well-timed acquisitions and ongoing asset reconstitution strategy is projected to augment a steady DPU growth profile of c.4.0% CAGR over FY21-22F with upside from potential gains from divestments that the manager typically shares when it happens. In addition, organic growth momentum is also picking up with the tightening supply in MLT's key markets of Hong Kong and Singapore where earnings visibility is strong.

ST Engineering (STE SP, BUY, TP: S$4.64). STE ended 3Q19 with another record-high orderbook of S$15.9bn, underpinning healthy growth prospects in the near-to-medium term. We continue to like STE for: i) strong inorganic growth potential from recent acquisitions, plus ii) near-term organic growth driven by an increase in workload at engine MRO shops, ramp-up of Airbus's Passenger-to-Freighter programme and margin improvement in the Marine division; and iii) medium- to long-term growth from Smart City and IoT-related products and contracts, as well as robotics and automation solutions in transport, logistics, healthcare and hospitality domains. Dividend yield is at a decent 3.7% and we expect the stock to remain on investors' radar amid the uncertain market environment

SIA Engineering (SIE SP, BUY, TP: $3.30). We see several promising earnings drivers like: i) further expansion in SIE's core operating margin, bolstered by cost-cutting initiatives and progress in its transformation programme, ii) increased workload at its engine shops owing to persistent problems with the Trent-1000 engines, iii) recovery in associate/JV profits from the low in 1HFY20 as start-up costs related to new engine capabilities have mostly been accounted for, and iv) a boost in maintenance work volumes due to delays in retiring older aircraft following the protracted global grounding of the B737 MAX aircraft. While privatisation remains a crucial catalyst for the stock, the current valuation for SIE is attractive at close to multi-year lows at about 17x forward PE and dividend yield is healthy at 4.3%.

Genting Singapore (GENS SP, BUY, TP: S$1.20). We believe the market has yet to price in a slight pick-up in mass and VIP volumes from 2020, and its Japan optionality, despite the fact that GENS is one of the frontrunners for the Osaka integrated resort (IR) project. On a valuation basis, GENS has lagged global peers by an unjustifiably wide margin - the stock is trading at 7.0x (FY19) EV/EBITDA, which is at c.-1.5sd below its historical average, and considerably below regional peers' median of 12.8x. Its trough valuation and decent dividend yield of c.3.5% should provide support to its shares and offer an attractive entry point. Catalyst for stock performance comes from Genting clinching either the Osaka (winner to be selected by 3Q20) or Yokohama (by 4Q20) Integrated Resort project.

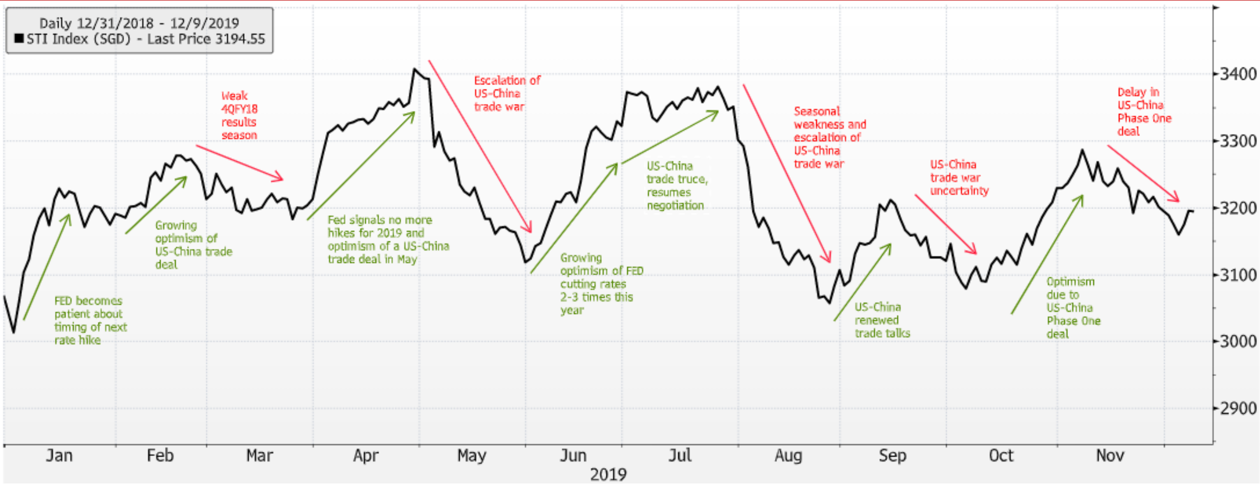
Thai Beverage (THBEV SP, BUY, TP: S$1.04). We maintain our BUY recommendation with sum-of-the-parts (SOTP) based TP of S$1.04, premised on; (i) steady 11% growth in net earnings in FY20F, (ii) improved contributions from Sabeco and lower losses from Non-Alcoholic Beverages (NAB), (iii) continued deleveraging from its strong and stable cash flow, as well as potential monetisation of assets. We believe the deleveraging strategy remains among the top priorities of its management. Valuation is reasonable at 19.1x FY20F PE, below its historical 5-year forward average PE of 22x.

Wilmar International (WIL SP, TP: S$4.60) is undervalued considering its market leading positions within and outside China for several product segments. The public listing of its China operations YKA will free up more cash for WIL and hence, higher dividend prospect for shareholders.

2019 year in review

2019 was a volatile year with the STI largely moving sideways, ending off with an increase of 125.16 points (+4.08%) YTD. The STI traded within a valuation band of -1.25SD to +0.25SD of its 12-month forward PE. The US-China trade war was the single-largest dictator of the markets throughout the year. Rate cuts moved the markets earlier in the year but have since quietened down with the Fed indicating that it will be keeping rates at current levels.

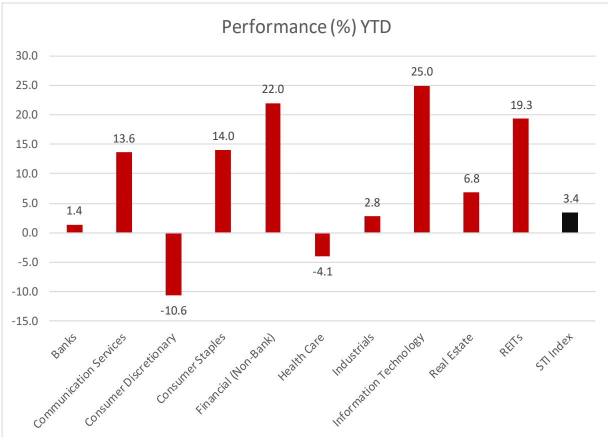
What happened in 2019



Source: DBS Bank

Consumer goods increased 23.0% YTD on the back of strong performance from **Thai Beverage** and **Wilmar**, largely driven by a recovery in Thai alcohol consumption and a rise in CPO prices. REITs rose 19.4% YTD mainly due to **Keppel DC REIT** and **Mapletree Commercial Trust** as they went on accretive acquisitions, boosting DPU. Consumer services fell 14.8% YTD as **Genting** and **Jardine Cycle & Carriage** weighed on the sector due to the increased entry levies for Singapore casinos and a weak automotive market in Indonesia respectively.

Sector performance



Source: DBS Bank

Sector Outlook

DBS
Live more, Bank less

Consumer Goods Sector

Overweight

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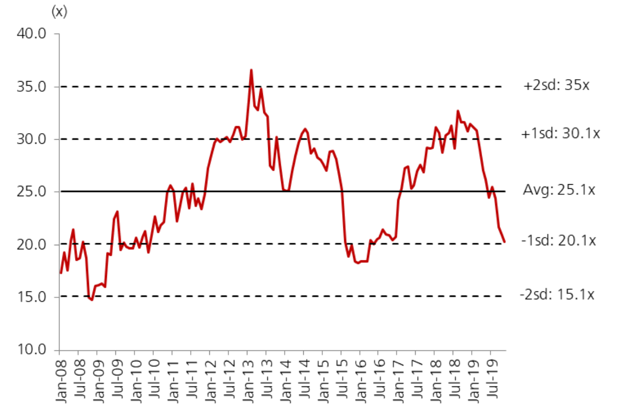
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
BreadTalk Group	0.63	0.61	HOLD	26.5	2.4	7
Dairy Farm (US$)	5.90	7.99	HOLD	20.7	3.6	7
Delfi Ltd	1.00	1.51	BUY	15.4	3.3	8
Jumbo Group	0.37	0.47	BUY	18.1	3.2	6
Koufu Group	0.77	0.88	BUY	14.8	3.3	1
Sheng Siong	1.26	1.32	BUY	23.8	2.9	5
Thai Beverage	0.89	1.04	BUY	19.3	2.4	9

Source: DBS Bank

DBS Singapore's consumer 10-year forward PE chart



Source: Bloomberg Finance L.P., DBS Bank

GDP growth of ASEAN countries

	2019F	2020F	Chg
Singapore	0.6%	1.4%	+0.8 ppt
Malaysia	4.5%	4.6%	+0.1 ppt
Indonesia	5.0%	5.0%	0.0 ppt
Philippines	5.9%	6.3%	+0.4 ppt
Thailand	2.5%	3.0%	+0.5 ppt
Vietnam	6.9%	6.8%	-0.1 ppt

Source: DBS Bank

Macro positives to drive growth

- **Singapore's 2019F GDP set to accelerate slightly from 0.6% in 2019F to 1.4% in 2020F driven by manufacturing sector**
- **Consumer sector growth supported by macro tailwinds as economic recovery kicks in**
- **Expect consumer stocks with clear growth strategies and attractive valuations to be in play**
- **Stock picks: Thai Beverage (THBEV SP), Sheng Siong (SSG SP), Koufu Group (KOUFU SP), Delfi (DELFI SP)**

Outlook

- Tailwinds for GDP recovery in 2020. Based on our economics desk's projection, Singapore's 2020 gross domestic product (GDP) forecast is expected to accelerate from 0.6% in 2019F to 1.4% in 2020F. The stronger uptick in GDP growth is expected to be led by uplift and bottoming out of the manufacturing sector, with the services sector remaining stable and resilient going forward. Although GDP is expected to bottom out, recovery could be weak amid trade talks, geopolitical risks and slowing growth momentum in the US, Eurozone and China.

- F&B, supermarket sales dominate Singapore retail spending as GDP slowed in 2019. Singapore's 2019 retail sales saw a general decline in discretionary spending in favour of consumer staples such as food items. Food and beverage (F&B) food service and supermarket sales largely improved. Restaurants and fast food outlets have done well in recent months. We believe that the weak economy in 2019 also contributed to poor discretionary spending.

- Growth in ASEAN countries expected to accelerate. Our economics team currently projects the Association of Southeast Asian Nations (ASEAN)-6 ex-Singapore's GDP to grow by 3.0-6.8% in 2020F. Growth in most ASEAN economies are expected to pick up pace from 2019 with government spending and stimulus the key reasons for accelerating momentum of regional growth.
Regional elections and infrastructure reforms will support investment growth and consumption in Indonesia. Malaysia announced budget 2020 which aims to boost near term economic growth through digitising the economy, investing in human capital and fostering inclusive growth. Government spending, especially on infrastructure projects, is expected to support growth and private consumption in the Philippines. Growth in Thailand will be supported by resilient private consumption and government spending while growth in Vietnam continues to be robust driven by manufacturing and construction.

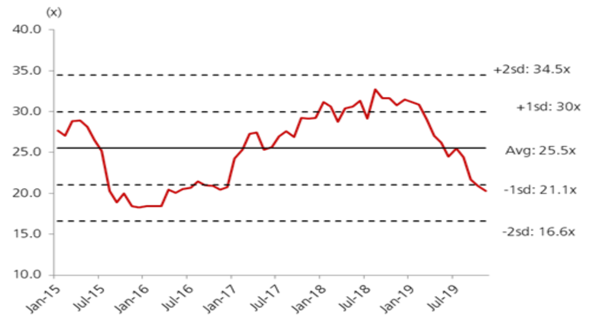
- **FY20F earnings growth driven by better margins and cost efficiencies.** Based on our coverage of Singapore's downstream consumer sector, we are projecting that earnings will grow by c.8.8% in FY20F, on margin expansion and revenue growth of 6.1%. Companies under our coverage are expected to ring in productivity gains, better sales mix and a more efficient operational expenditure (opex). Revenue growth will largely be driven by higher volume sales from market penetration and a larger store network.

- **Positive on companies with exposure to Singapore and Vietnam, less on China-exposed companies.** We are more positive on domestically exposed companies. We expect margins to improve slightly on productivity initiatives along with more robust domestic driven spending on consumer staples. We remain cautious on companies with significant exposure in China due to a potential slowdown and competition. We are also positive on Thai Beverage (THBEV) and its penetration into the Vietnam market through Saigon Beer Alcohol Beverage Corp (Sabeco). We like stocks which are predominantly exposed to staples consumption in Singapore and Vietnam.

Risks

- **Prolonged external headwinds may hamper anticipated economic recovery.** The risk to our view of an improvement in the global economic outlook hinges on a positive resolution in the US-China trades talk that is currently far from conclusive. In addition, Brexit, Eurozone weakness and China's slowdown could weigh on and hamper economic recovery. We remain cautious on companies which have significant exposure to China due to increasing competition and a potential slowdown in demand. There are less risks on the currency front and input costs as the Singapore Dollar/US Dollar (SGD/USD) are expected to gradually strengthen. We also note that soft commodities/food input prices have generally risen in 2019 and could pose risks beyond companies' hedging period.

DBS Singapore's consumer 5-year forward PE chart



Source: Bloomberg Finance L.P., DBS Bank

Valuation & Stock Picks

- **Valuation attractive, currently below 5-year historical mean.** The sector valuation (based on stocks under our coverage) is currently at 20x price-to-earnings (PE), which is about -1SD (standard deviation) below its 5-year historical average of 25x. We see growth kicking in as regional economies recover. We prefer stocks with clear growth strategies in the ASEAN region as well as stable earnings, strong cash flows/balance sheets and/or attractive valuations.

- **Sheng Siong (SSG SP, TP: S$1.32).** We maintain our BUY recommendation for Sheng Siong (SSG) with target price (TP) of S$1.32 as we continue to see growth driven by more new stores. It opened five new supermarkets this year with one more due to open in 1Q20. Recently opened stores have performed well. Singapore's retail sales for supermarkets have generally been positive this year. SSG's growth should continue to be driven by new stores, Dividend yield is decent at 3-3.5% with potentially higher payout.

- **Thai Beverage (THBEV SP, TP: S$1.04).** We maintain our BUY recommendation with sum-of-the-parts (SOTP) based TP of S$1.04, premised on; (i) steady 11% growth in net earnings in FY20F, (ii) improved contributions from Sabeco and lower losses from Non-Alcoholic Beverages (NAB), (iii) continued deleveraging from its strong and stable cash flow, as well as potential monetisation of assets. We believe the deleveraging strategy remains among the top priorities of its management. Valuation is reasonable at 19.1x FY20F PE, below its historical 5-year forward average PE of 22x.

- **Koufu Group (KOUFU SP, TP: S$0.88).** We maintain our BUY rating for Koufu Group (KOUFU) with a TP of S$0.88 based on 17x FY20F PE. We continue to like KOUFU for its stable earnings, decent yield of 3.4%, decent cash flow generation, strong balance sheet and steady store expansion plans. Store expansion is expected to continue with two new food courts due to open in FY20F including one in Macau. The number of tea outlets in Singapore and Macau will reach 29 by the end of 2019, including its first outlet in Malacca. Longer-term drivers include the setting up of an integrated facility aimed at delivering economies of scale, and overseas growth from Macau.

- **Delfi (DELFI SP, TP: S$1.51).** We like DELFI for its attractive valuations vis-à-vis an earnings turnaround traction. We expect earnings growth to accelerate via margin expansion through premiumisation, and regional growth through higher penetration of the Van Houten brand. We believe the company is also a potential takeover target for its dominance in Indonesia's general trade channel for chocolate confectionery. The stock currently trades at an attractive 16x PE.

Peer Valuations

Company	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
BreadTalk Group	259	S$0.63	0.61	-3%	HOLD	26.5x	23.1x	2.5x	2.3x	2.3x	2.0x	9%	10%	2.4%	2.4%	6.7
Dairy Farm	7,981	US$5.90	7.99	35%	HOLD	20.7x	19.0x	6.3x	5.7x	5.0x	4.6x	32%	32%	3.6%	3.6%	7.1
Delfi Ltd	450	S$1.00	1.51	51%	BUY	15.4x	14.1x	1.9x	1.8x	7.4x	6.9x	13%	13%	3.3%	3.6%	8.4
Jumbo Group	175	S$0.37	0.47	27%	BUY	18.1x	17.2x	3.2x	3.0x	8.6x	8.0x	18%	18%	3.2%	3.6%	6.2
Koufu Group	312	S$0.77	0.88	15%	BUY	14.8x	14.9x	3.5x	3.2x	3.0x	2.8x	25%	22%	3.3%	3.4%	0.9
Sheng Siong	1,395	S$1.26	1.32	5%	BUY	23.8x	23.1x	5.7x	5.3x	17.0x	15.9x	25%	24%	2.9%	3.0%	4.6
Thai Beverage	16,454	S$0.89	1.04	17%	BUY	19.3x	17.9x	3.9x	3.5x	15.1x	13.6x	21%	21%	2.4%	2.8%	9.5

Source: Bloomberg Finance L.P., DBS Bank

REITs

Overweight

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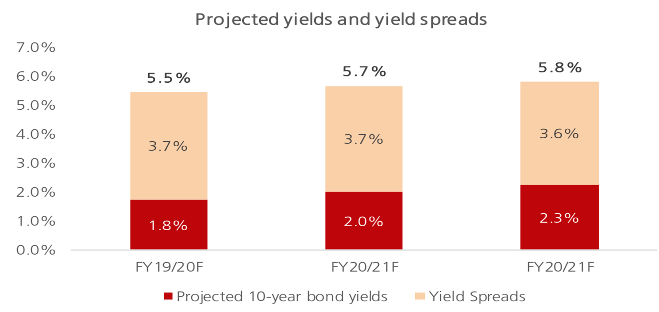
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	Div Yld 2020F (%)	Div Yld 2021F (%)
Ascendas REIT	3.01	3.33	BUY	5.5	5.5
Mapletree Industrial Trust	2.61	2.75	BUY	5.0	5.0
Mapletree Logistics Trust	1.73	1.90	BUY	4.8	5.0
Suntec REIT	1.84	2.15	BUY	5.0	5.2
Frasers Centrepoint Trust	2.75	2.95	BUY	4.6	4.7
Ascendas India Trust	1.57	1.65	BUY	6.1	6.1
Far East Hospitality Trust	0.74	0.80	BUY	5.3	5.5
Keppel DC REIT	2.03	2.20	BUY	4.2	4.5

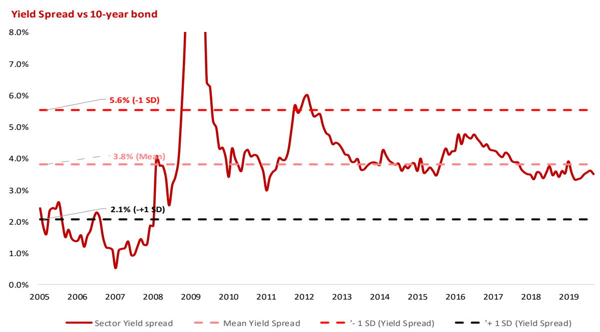
Source: DBS Bank

Projected S-REIT yield spreads can be maintained



Source: Bloomberg Finance L.P., DBS Bank

Projected S-REIT yield spreads can be maintained



Source: Bloomberg Finance L.P., DBS Bank

Insatiable growth appetite

- **Cyclical upturn to continue on the back of still healthy demand and easing supply pressures**
- **Acquisitions to continue to feature strongly on the back of visible pipeline of injection opportunities from sponsors**
- **Steepening of the yield curve a key data-point but dividend growth momentum to keep yield spreads stable**
- **Prefer names with structural growth stories. Picks: A-REIT, MLT, MINT, SUN, FCT, AIT, FEHT and KDCREIT**

Outlook

- SG Property Sector enters second year of recovery. The real estate market is projected to be in the second year of recovery on the back of a supply tail-off beginning in 2018. With passing (or expiring) rents in 2020 across most sectors being lower than current rent levels, we remain comfortable that most real estate sub-sectors can continue to deliver positive rental reversions in 2020. We see the rentals in the industrial, retail and hospitality sectors in their early stages of the recovery while the office sector is expected to see more modest growth after posting close to a 18% rise in spot rents from the lows in 2017.

- S-REITs to deliver an acceleration in DPU growth to 2.7% in 2020, riding on improving fundamentals. The S-REITs are expected to benefit from the projected positive demand-supply dynamics supported by a gradual rebound in Singapore's economy heading in 2020. This, on top of robust acquisition activities in 2019, will drive S-REITs to deliver a DPU growth of 2.7% in 2020 (vs 1.9% in 2019). However, forward growth ranges between 1% and 5%. We see higher growth in the industrial and retail names, followed by office and hospitality S-REITs.

- S-REITs to continue to pursue acquisitions in FY20; further upside to growth projected. Looking ahead, we expect S-REITs to look to tap their sponsors' pipelines for more growth, given the still conducive cost of capital where acquisitions remain accretive, which we believe will result in a potential reflation in share prices. We see the REITs under the CapitaLand Group (CMT, CCT, CRCT and A-REIT) as being the most active, followed by selected Mapletree REITs (MLT and MINT) and FCT, which continue to drive upside to distributions, ahead of forecasts.

- **The sweet spot – extended WALEs and WADEs boost income visibility.** The pursuit of acquisitions overseas has brought diversity for S-REITs but also improved income visibility as overseas acquisitions are typically supported by long weighted average lease expiries (WALEs) which boosted income growth. At the same time, S-REIT managers have also taken advantage of the lower interest rates to lock in debt costs for longer tenures. With an improved top-line and debt cost visibility, we believe this combination will result in stronger income growth potential.

- **Re-rating for the S-REITs if the Monetary Authority of Singapore (MAS) lifts the gearing limit further.** We expect the conclusion of the MAS consultation paper to result in a potentially higher regulatory cap and drive expectations of more debt-funded acquisition activities, given renewed firepower to compete more actively in the global landscape. In our sensitivity analysis, we found that every 5% increase in the sector's gearing (from 35% to 40%/45%/50%) will imply up to S$10-15bn in new potential acquisitions, a rise of 7-27% from current levels. At an assumed 3% spread (initial yield – average debt costs), we see average sector yield of 5.2% rising by another c.30bps (at 40% gearing) to c.60bps (at 45% gearing) and c.100bps (at 50% gearing).

- **Watch out for the steepening of the yield curve; S-REITs with growth and pipelines preferred.** DBS expects a 25-bp increase per annum steepening in the yield curve by the end of 2020 and 2021 to 2.0% and 2.25% respectively. As S-REITs are typically priced off 10-year bonds, we take comfort that current yield spreads of 3.7% can be maintained given a similar pace of DPU growth. In fact, we see potential upside in growth momentum if the S-REITs continue to acquire or tap their sponsors for acquisitions, which are not priced in at this moment.

- Hence, we expect investors to look out for and gravitate towards metrics such as (i) REITs which leverage on structural growth drivers like the industrial sector (data centres, logistics and business parks) where demand for space is less elastic and thus remain on an upward momentum, and (ii) REITs with high inorganic growth potential with visibility from untapped pipelines from their respective sponsors.

- **The dark horse.** The hospitality sector, in our view, may be the "dark horse" given the triple boost from (i) diversion in traffic from other cities in the region, (ii) more conference travellers and participants due to a robust event outlook, and (iii) merger & acquisition activities. With the sector largely under the radar among institutional investors, the ability to surprise on the upside is high. While we are only projecting a 1.0% rise in DPUs in our estimates, we believe there could be an upward surprise.

Risks

- **Steeper-than-expected climb of the yield curve.** While the US Federal Reserve is expected to keep rates flat next year, a return to a hike momentum could present downside risk to our DPU estimates and valuations. As S-REITs are priced off 10-year bond yields, expectations of declining yield spreads could result in a de-rating of the sector.

- **Lower-than-expected rise in spot rents, translating into weak rental reversions.** While we expect demand to continue to remain healthy leading to a recovery in rents, the ongoing trade war poses downside risk to our occupancy and rental assumptions.

Valuations and Stock Picks

- **Yield spreads are still attractive.** While S-REITs currently trade at a forward FY19/20F yield of c.5.5% at +1 standard deviation, yield spread remain attractive at 3.7% close to their historical yield spread levels. The ability to deliver a sustained growth in DPUs will be the key to maintaining current valuations.

- **Overweight with preference for names with structural growth and acquisition pipelines.** We see a divergent share price performance for S-REITs, with investors preferring to stay vested in stocks which can leverage off structural growth trends (logistics, data centres and business parks) while hospitality REITs could finally break out on expectations of a turn in RevPAR outlook.

- Our picks in this space are Ascendas REIT (A-REIT), Mapletree Logistics Trust (MLT), Mapletree Industrial Trust (MINT), Suntec REIT (SUN), Frasers Centrepoint Trust (FCT), Ascendas India Trust (a-itrust), Far East Hospitality Trust (FEHT) and Keppel DC REIT (KDCREIT).

Peers Valuation

Company	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price (S$)	% Upside	Rcmd	DPU (c) 18A	DPU (c) 19F	DPU (c) 20F	DPU (c) 21F	P/BV (x) 19F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 19F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 19F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	Div Yield (%) 21F	DPS CAGR 19-21 (%)
Ascendas REIT *	6,897	S$3.01	3.33	11%	BUY	16.05	16.12	16.47	16.64	1.4x	1.4x	1.4x	22.2x	21.5x	21.4x	7%	8%	8%	5.4%	5.5%	5.5%	1.6
Mapletree Industrial Trust *	3,889	S$2.61	2.75	5%	BUY	12.16	12.25	12.97	13.17	1.6x	1.7x	1.7x	23.5x	22.4x	22.1x	8%	8%	8%	4.7%	5.0%	5.0%	3.7
Mapletree Logistics Trust *	4,636	S$1.73	1.90	10%	BUY	8.02	8.04	8.38	8.72	1.4x	1.4x	1.5x	25.0x	24.5x	23.4x	6%	7%	7%	4.6%	4.8%	5.0%	4.1
Suntec REIT	3,790	S$1.84	2.15	17%	BUY	9.99	9.00	9.26	9.60	0.9x	0.9x	0.9x	32.4x	30.0x	26.6x	3%	3%	4%	4.9%	5.0%	5.2%	3.3
Frasers Centrepoint Trust	2,260	S$2.75	2.95	7%	BUY	12.02	12.07	12.78	12.97	1.2x	1.2x	1.3x	29.7x	25.0x	24.5x	5%	5%	6%	4.4%	4.6%	4.7%	3.6
Ascendas India Trust *	1,206	S$1.57	1.65	5%	BUY	7.33	8.18	9.62	9.65	1.5x	1.5x	1.5x	18.1x	15.4x	15.1x	8%	10%	9%	5.2%	6.1%	6.1%	8.6
Far East Hospitality Trust	1,047	S$0.74	0.80	8%	BUY	4.00	3.83	3.90	4.10	0.9x	0.9x	0.9x	28.2x	26.0x	24.7x	3%	4%	4%	5.2%	5.3%	5.5%	3.4
Keppel DC REIT	2,223	S$2.03	2.20	8%	BUY	7.32	7.80	8.60	9.07	1.9x	1.7x	1.7x	24.0x	21.7x	21.8x	8%	8%	8%	3.8%	4.2%	4.5%	7.9

** FY20, 21 & 22 forecast*
Source: DBS Bank

Plantation

Overweight

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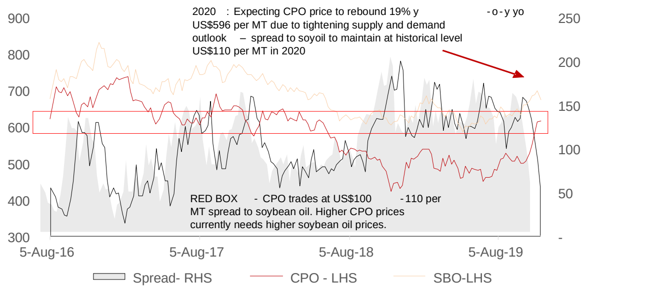
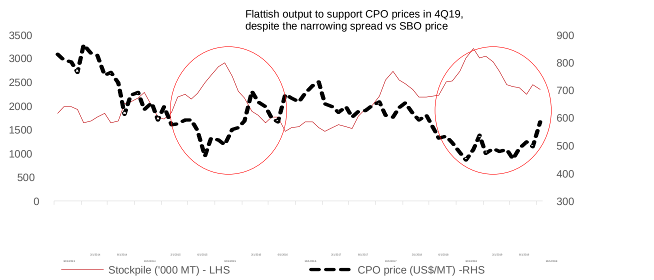
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
Bumitama Agri	0.75	0.81	BUY	16.9	3.6	20
First Resources	1.85	2.10	BUY	14.5	1.5	33
Indofood Agri	0.33	0.29	HOLD	28.7	0.0	149
Wilmar	4.12	4.60	BUY	15.8	2.5	8

Source: Bloomberg Finance L.P., DBS Bank

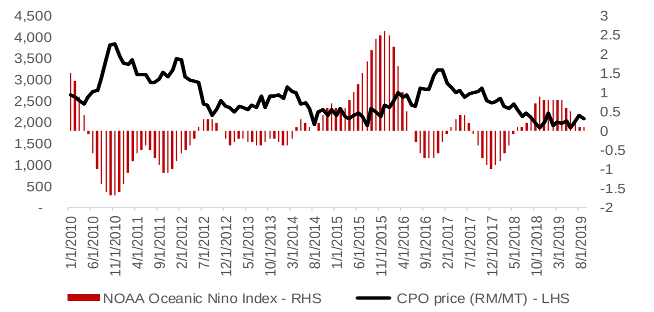
CPO and SBO price trends



Malaysia stockpile vs CPO price



CPO price vs ENSO NOAA Index



Source: Bloomberg Finance L.P, DBS Bank

Earnings rebound on the horizon

- **Earnings recovery for plantations on the cards**
- **Average CPO prices set to recover 19% y-o-y in 2020 on tightening supply and demand outlook**
- **Indonesia's biodiesel to cushion CPO prices in 2020**
- **Top picks: WIL and FR**

Outlook

- Earnings recovery in 2020. Plantation companies' earnings are expected to rebound in 2020 on higher crude palm oil (CPO) prices and stable yields. We are expecting earnings recovery for upstream CPO planters in 2020. This would come from a low base in 2019 and mainly driven by higher average selling price (ASP). Furthermore, we are expecting 13% y-o-y earnings growth for Wilmar International (WIL) accounting for the recovery of its oilseed crushing segment in the first nine months of 2019.

- CPO prices to sustain recovery in 2020. The worst is probably over for CPO prices. We are expecting average annual CPO price to rebound by 19% to US$596 per MT in 2020 on tightening outlook for supply and demand. Palm oil production slowed down in 2H19 and this is likely to persist in 2020. With reasonable headroom for soybean prices due to positive developments in the US-China trade war and African Swine Fever (ASF), we expect more headroom for palm oil to perform.

- Demand to remain sound on CPO affordability. Demand for palm oil demand has been steady. This scenario will likely sustain into 2020 driven by India and China. Palm oil remains the cheapest edible oil in the world. This will continue to attract food and fuel based demand around the world. Fully weaning countries away from palm oil will be challenging. India palm oil imports remain solid despite a 44% import tax; the European Union (EU) is likely to resume imports before 2030 the Renewable Energy Directive II (RED II) initiative kicks in.

- Indonesia's B30 limits downside risks. Indonesia's biodiesel B30 programme will protect plantations from downside risks. B30 may potentially absorb at least 6m MT of palm oil or 10% of global supply and demand. If necessary, Indonesia could ramp up biofuel absorption next year to 8m MT given the availability of refining capacity and subsidies from the CPO fund.

ed: KK sa: JC, CS

Risks

- **Weather factors.** Weather is the key short-term risk to our forecasts. The weather will impact soybean planting and harvesting in the US and South America, and may also affect productivity of oil palm trees. For our CPO price forecast, we take into account the lagging effects of dry weather in 2019 which may affect tree productivity in 2020. A worse-than-expected productivity trend next year would be an upside risk to CPO prices.

- **Trade war development.** The US-China trade war has sparked fears over China's soybean imports and affected market sentiment on soybean prices. Unless China imports soybeans from elsewhere, this sentiment could affect US soybean futures contracts and global soybean spot prices. Low soybean prices would also pressure CPO prices.

- **Indonesia's biodiesel programme.** Delivery of Indonesia's B30 programme is an upside risk to our CPO price forecast. We are assuming only 6.2m MT of palm oil absorption in 2020. A full implementation of the programme will absorb 8m MT. CPO prices could breach US$600 per MT in 2020, assuming all other factors remain constant.

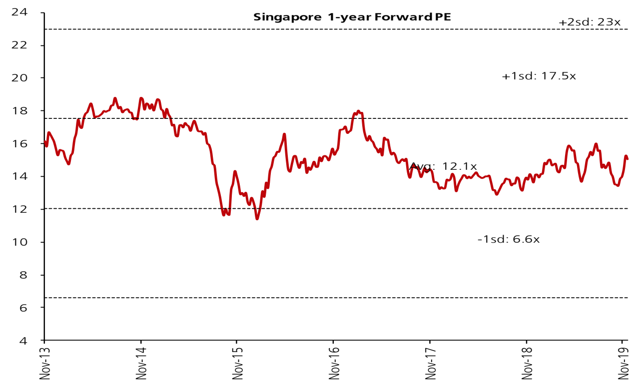
Valuation & Stock Picks

- **Below +1 SD of five-year PE multiple.** Before the recent share price recovery, Singapore's listed plantation companies' valuation de-rated from +1SD (standard deviation) of its 5-year price-to-earnings (PE) multiple in 2016, close to its 10-year mean due to weak CPO prices in 2016-2019. Dividend yields should support share prices, with First Resources (FR) yielding close to c.2% and Wilmar International (WIL) yielding close to c.4% ex. special dividend. We expect earnings recovery to drive plantation companies share price. Furthermore, the initial public offering (IPO) of WIL's China operations Yihai Kerry Arawana Holdings (YKA) and special dividend could offer further catalysts for its share price in 2020.

- **FR for CPO play; WIL for YKA listing and special dividend.** The top picks among our plantation universe are First Resources (FR) and Wilmar International (WIL). We like FR as it is the best play to capitalise on higher CPO prices y-o-y. This is mainly due to its stronger-than-peers profitability profile. It is targeting 72% y-o-y earnings growth in 2020.

  We like WIL because it's undervalued considering its market leading positions within and outside China for several product segments. The public listing of its China operations YKA will free up more cash for WIL hence, higher dividend prospect for shareholders.

Singapore plantation: Rolling forward P/E band (5-year)



Source: Bloomberg Finance L.P., DBS Bank

Peers Valuation

Company	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Bumitama Agri	S$0.75	S$0.81	9%	BUY	16.9x	15.7x	1.7x	1.6x	9.9x	8.8x	10%	10%	3.6%	3.6%	20.0
First Resources	S$1.85	S$2.10	14%	BUY	14.5x	14.3x	2.0x	1.8x	7.4x	7.2x	15%	14%	1.5%	1.5%	32.6
Indofood Agri	S$0.33	S$0.29	-12%	HOLD	28.7x	15.0x	0.4x	0.4x	9.3x	7.8x	1%	3%	0.0%	0.0%	149.2
Wilmar	S$4.12	S$4.60	12%	BUY	15.8x	15.5x	1.1x	1.1x	12.7x	12.4x	7%	7%	2.2%	2.5%	7.5

Source: Companies, Bloomberg Finance L.P., DBS Bank

Technology

Overweight

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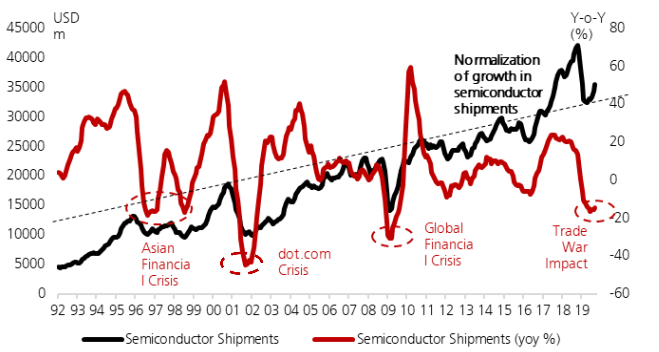
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 18-2021 (%)
AEM	1.89	2.38	BUY	9.6	2.6	11
UMS	0.99	1.08	BUY	12.9	3.5	17
Frencken	0.95	1.06	BUY	9.0	3.3	9

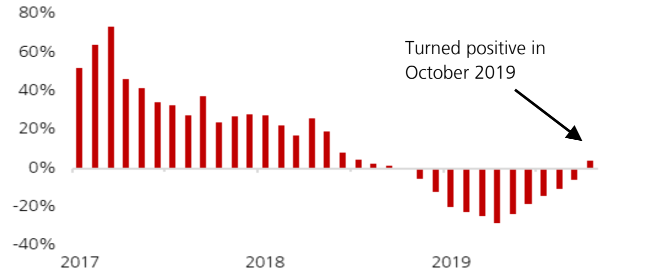
Source: Bloomberg Finance L.P., DBS Bank

Global semiconductor shipments and y-o-y growth



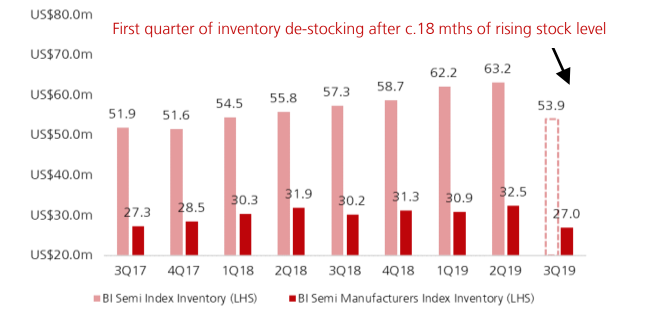
Source: CEIC (WSTS), DBS Bank

Semiconductor equipment billing for North America



Source: Bloomberg Finance L.P.,SEMI

Major semiconductors (chip makers) and semiconductor manufacturers' (equipment) inventory



Source: Bloomberg Finance L.P., DBS Bank

Clear skies ahead

- **New technologies and 5G driving demand**
- **Positive 2020 industry outlook**
- **Shipment and inventory trends turning positive; historically strong recovery after major crisis**
- **Stock picks: AEM, UMS, Frencken**

Outlook

- **Turnaround in semiconductor a prelude to recovery in the technology supply chain.** The semiconductor sector is widely seen as a leading indicator in the entire technology supply chain. The uptick in this industry should lead to an improvement in demand for other segments down the technology value chain, including the electronic component makers, software and electronic packaging players

- **New technologies and 5G driving demand.** Major new growth drivers are emerging from new technologies (Internet of Things (IoT), Big Data, Artificial Intelligence) and 5G, driving demand in the semiconductor industry. This sets the stage for a turnaround in the semiconductor industry that has been plagued by a slump in memory chip demand, among others, over the last two years. The semiconductor market is now larger and less volatile than before, due to growth and diversification of demand drivers, spanning consumer and enterprise end markets. The nascent recovery in semiconductor is driven by: 1) Adoption of new technologies; 2) New products, including speech recognition devices, wearables and 3-D printing; and 3) Product enhancements for mobile phones, technology nodes (e.g. from 14 nanometer to 10 nanometer and below)

- **Positive industry trend in 2020.** Both The World Semiconductor Trade Statistics (WSTS) and SEMI are expecting a recovery in the semiconductor market in 2020, after a steep drop in 2019 following an all-time high in 2018. International Data Corporation (IDC) estimates that the consumer semiconductor segment will grow at a compound annual growth rate (CAGR) of 6.4% during 2018-2023 on the back of consumer IoT devices and home automation gaining traction and scale. Bigger players in the semiconductor space like Applied Materials, Micron, Intel and TSMC are also guiding for a better outlook ahead.

- **Shipment, billing and inventory trends for semiconductor turning positive.** Semiconductor shipments bottomed out in April 2019 as new technology started to usher in demand for more advanced chips and equipment. The current shipment level seems to have stabilised at the normalised long-term growth level. Based on past trends, we also observed a strong recovery after every major crisis. Billing for semiconductor equipment turned positive in October on a y-o-y basis after 11 consecutive months of decline while inventory level is decreasing.

- **Margin pressure still prevalent for mid-downstream players.** The trade war and the global economic slowdown has created uncertainty and margin pressure for manufacturing companies, especially those with manufacturing facilities in China. However, we are hopeful that a sustainable recovery in the semiconductor space, which is at the upstream of the technology value chain, should benefit these players in 2020.
- **Worst could be over for Singapore's manufacturing sector.** In Singapore, our economist is of the view that the manufacturing sector could be bottoming out. The worst of the manufacturing cycle could be over, but growth in this sector could remain lacklustre amid weak global demand and uncertainties surrounding the ongoing trade talks between the US and China.

Risks

- **Escalation or continued prolonging of geopolitical events.** A prolonged US-China trade war, faster-than-expected slowdown in China, political crisis in Hong Kong and trade tensions between Japan and South Korea could hamper global growth and disrupt supply chains. A further escalation or protraction could slow down the development of new technology which would impact the entire technology value chain.

- **Weaker-than-expected end demand.** Weak consumer sentiment would lead to a cut back in consumer spending and adversely impact confidence and business investment, with firms cutting back production and delaying investment plans.

- **Tepid global economic growth.** Against the backdrop of political and market volatility, global growth is forecast at 3.0 percent for 2019, its lowest level since 2008–09. Growth is projected to pick up to 3.4 percent in 2020, according to the International Monetary Fund (IMF). Disappointing macro indicators and less firm macroeconomic outlook going forward could dampen the recovery of the technology supply chain. A prolonged period of heightened uncertainty will keep the global economy entrenched in weakness.

Valuation & Stock Picks

- **More upside for semiconductor plays. Our picks: AEM, UMS.** The pure semiconductor plays staged a strong recovery in share price and earnings, due to: 1) The uptick in global semiconductor shipments; 2) optimistic guidance from global players and positive forecasts on industry trends; and 3) valuation re-rating towards the price-to-earnings (PE) multiple achieved in the previous peak cycle for the semiconductor plays. We expect more upside in 2020, as an upcycle typically lasts for more than one year, based on historical trends.

  The pure semiconductor plays like **AEM, UMS, Avi-Tech** and **Micro-Mechanics** are currently trading at >30% below peak cycle valuations, except for **Frencken**, which has a c.20% exposure to the semiconductor industry.

- **Sustainable turnaround in semiconductor to benefit players in mid-downstream technology value chain - Venture, Hi-P.** A sustainable turnaround in the upstream semiconductor division, which includes the front-end equipment manufacturing and the semiconductor back-end assembly and testing process, would benefit other players in the mid to downstream space. Companies in this space include the electronic component makers, software and electronic packaging players. We adopt a neutral stance for now, pending better earnings visibility and improvement in margins in 2020.

Peer Valuation

Company	Bloomberg Code	Shr Cap (m)	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 19F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Semiconductor (upstream)																			
AEM Holdings	AEM SP Equity	270	375	S$1.89	S$2.38	26%	BUY	9.6x	8.8x	4.1x	3.1x	2.5x	5.8x	4.7x	37%	31%	2.3%	2.6%	11.4
UMS Holdings	UMSH SP Equity	536	391	S$0.99	S$1.08	9%	BUY	12.9x	11.2x	2.2x	2.0x	1.8x	10.2x	8.5x	16%	17%	3.5%	3.5%	16.8
Frencken Group	FRKN SP Equity	424	296	S$0.95	S$1.06	11%	BUY	9.0x	8.3x	1.3x	1.2x	1.1x	4.6x	4.1x	14%	14%	3.1%	3.3%	8.8
Avi-Tech	AVIT SP Equity	171	52	S$0.41	S$0.47	15%	NR	11.9x	11.1x	1.4x	1.3x	1.2x	4.1x	3.4x	11%	11%	7.5%	2.5%	16.7
Micro-Mechanics	MMH SP Equity	139	185	S$1.81	S$2.13	18%	NR	16.8x	15.1x	4.3x	4.2x	4.0x	9.8x	9.0x	25%	27%	5.5%	5.5%	13.5
Component Markets (mid-downstream)																			
Hi-P	HIP SP Equity	804	918	S$1.55	S$1.39	-10%	HOLD	14.5x	13.7x	2.0x	1.9x	1.7x	5.9x	5.3x	13%	13%	2.6%	2.8%	7.0
Venture Corp	VMS SP Equity	288	3,314	S$15.61	S$17.20	10%	HOLD	12.4x	11.8x	1.8x	1.7x	1.6x	7.5x	7.0x	14%	14%	4.5%	4.5%	4.5

^ June year end; data for FY19A and FY20F

Source: Companies, Bloomberg Finance L.P., DBS Bank

Transportation

Overweight

Analyst
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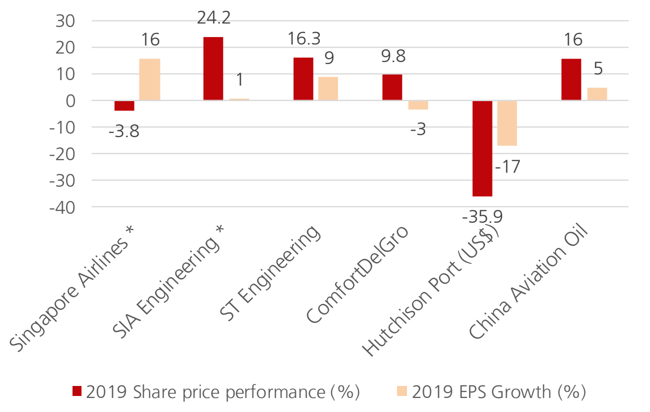
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2019-2021 (%)
Singapore Airlines*	8.97	10.40	BUY	11.8	3.3	11
SIA Engineering	2.83	3.30	BUY	16.6	4.2	6
ST Engineering	4.05	4.64	BUY	20.3	3.7	8
ComfortDelGro	2.40	2.48	HOLD	17.2	4.4	2
HPH Trust (US$)	0.16	0.23	HOLD	16.4	10.6	7
China Aviation Oil	1.22	1.85	BUY	7.3	3.8	6

*Source: DBS Bank, * FYE Mar 21 Forecast*

2019 share price performance vs EPS growth



Source: Bloomberg Finance L.P., DBS Bank

Brent Crude Oil Price

Source: DBS Bank

Decent growth and yields

- **In a low-growth environment, we favour names that have a defensive or resilient business model that also provide an attractive and sustainable dividend yield**
- **A relatively benign oil price outlook could provide breathing room for companies to better execute their business strategies**
- **Watch out for potential privatisations or mergers**
- **Our top picks are ST Engineering (BUY, TP: S$4.64) SIA Engineering (BUY, TP: S$3.30) and Singapore Airlines (BUY, TP: S$10.40)**

Decent yields coupled with decent growth

- **Yield of over 4% on offer across the sector.** All six companies in our sector offer a prospective dividend yield of at least 3.3% (SIA), to as much as 11.4% for HPH Trust. Meanwhile, two of our top picks ST Engineering and SIA Engineering are offering fairly attractive prospective dividend yields of 3.9% and 4.6% respectively.

- **Modest earnings growth on modest economic recovery.** We are cautiously optimistic that global economic growth is bottoming out and that we are likely see a modest recovery in 2020, the strength of which would depend on potential outcomes in the US-China trade talks, Brexit, and monetary policies. On a simple average basis, the sector is projected to post a modest 6.8% y-o-y CAGR in EPS from 2018-2020F against a simple average FY20F PE of 14.9x.

Could a privatisation or merger be on the cards?

- **2019 was a year of privatisations and mergers.** There were numerous privatisation offers (such as Boardroom and Millennium & Copthorne Hotels) as well as merger offers (OUE Commercial REIT with OUE Hospitality; and Frasers Logistics & Industrials Trust with Frasers Commercial Trust) in 2019 and we are likely to see more of such corporate activities in 2020 as valuations remain conducive.

- **SIA Engineering (SIA EC) could be a prime privatisation or merger target, while HPH Trust may also come into play.** We believe that SIA EC could be privatised by its parent SIA, which already has a c. 78% stake in the former, given that SIA EC has low float and trading liquidity and little need to tap the equity markets while giving SIA time and room to restructure or streamline SIA EC as needed. A merger between SIA EC and ST Aerospace should also not be ruled out.

Meanwhile, HPH Trust is now trading at an all-time low and investors could be looking towards Hutchison Port Holdings to take it private, as the Kuok Group did with POSH recently.

Risks and Catalysts

- **Significantly higher oil prices would directly impact SIA and HPH Trust.** Fuel costs (after hedging) currently account for c.30% of SIA's operating costs while we estimate that energy costs account for about 15% of HPH Trust's total operating costs. As such, an increase in fuel prices would pressure the margins of these two players, especially as both do not have significant pricing power. However, should oil prices fall significantly, this will help SIA and HPH Trust. DBS forecasts brent crude to average US$60-US$65 per barrel in 2020F compared to an average of c. US$64 in 2019.

- **Stronger demand from a pick-up in economic activity could help lift earnings across the sector.** A better-than-expected economic growth and activity globally would help improve demand volume and pricing for the transport sector, which will help improve the companies' profitability.

Valuations and Stock Picks

- **Our 2020 top picks are:**

  Singapore Airlines (SIA SP, BUY, TP S$10.40). We like SIA and have higher-than-consensus earnings forecasts as we are positive on SIA's transformation programme paying off. While parent airline SIA continues to enjoy the fruits of the transformation programme in the form of higher revenue per ASK (RASK) and firmer revenues, the weaker-than-expected performances of SIA Cargo, Silkair and Scoot will drag SIA's earnings recovery to be at a more moderate pace than expected. We project the company's FYE Mar '21 EPS to improve by 13.5% y-o-y. The stock is trading at 0.9x FY20 P/BV, which we see as attractive with ROE projected to rebound to 6.8% by FY21.

  SIA Engineering (SIE SP, BUY, TP: $3.30). We see several promising earnings drivers like: i) further expansion in SIE's core operating margin, bolstered by cost-cutting initiatives and progress in its transformation programme, ii) increased workload at its engine shops owing to persistent problems with the Trent-1000 engines, iii) recovery in associate/JV profits from the low in 1HFY20 as start-up costs related to new engine capabilities have mostly been accounted for, and iv) a boost in maintenance work volumes due to delays in retiring older aircraft following the protracted global grounding of the B737 MAX aircraft. While privatisation remains a crucial catalyst for the stock, the current valuation for SIE is attractive at close to multi-year lows at about 17x forward PE and dividend yield is healthy at 4.3%.

  ST Engineering (STE SP, BUY, TP: S$4.64). STE ended 3Q19 with another record-high orderbook of S$15.9bn, underpinning healthy growth prospects in the near-to-medium term. We continue to like STE for: i) strong inorganic growth potential from recent acquisitions, plus ii) near-term organic growth driven by an increase in workload at engine MRO shops, ramp-up of Airbus's Passenger-to-Freighter programme and margin improvement in the Marine division; and iii) medium- to long-term growth from Smart City and IoT-related products and contracts, as well as robotics and automation solutions in transport, logistics, healthcare and hospitality domains. Dividend yield is at a decent 3.7% and we expect the stock to remain on investors' radar amid the uncertain market environment

Peers' Valuations

Company	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Singapore Airlines *	7,820	S$8.97	S$10.40	16%	BUY	11.8x	10.9x	0.8x	0.8x	5.8x	12.1x	7%	7%	3.3%	3.3%	11.3
SIA Engineering *	2,332	S$2.83	S$3.30	17%	BUY	16.6x	15.7x	1.9x	1.9x	9.4x	8.8x	12%	12%	4.2%	4.6%	5.8
ST Engineering	9,291	S$4.05	S$4.64	15%	BUY	20.3x	18.8x	5.1x	4.7x	11.5x	10.8x	26%	26%	3.7%	4.0%	8.2
ComfortDelGro	3,824	S$2.40	S$2.48	3%	HOLD	17.2x	17.1x	1.9x	1.8x	6.1x	5.7x	11%	11%	4.4%	4.4%	1.8
Hutchison Port	1,368	US$0.16	US$0.23	46%	HOLD	16.4x	15.3x	0.4x	0.4x	8.0x	7.5x	3%	3%	10.6%	11.4%	7.4
China Aviation Oil	772	S$1.22	S$1.85	52%	BUY	7.3x	7.0x	0.8x	0.8x	2.4x	1.8x	12%	12%	3.8%	4.1%	6.3

Source: DBS Bank

Banks

Neutral

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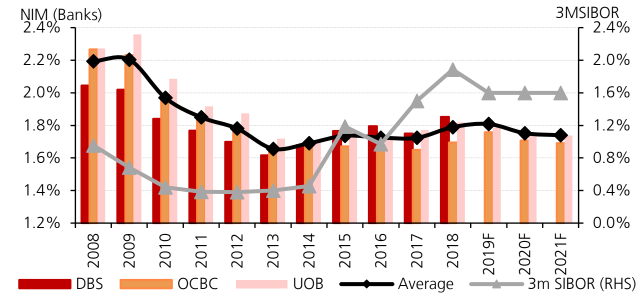
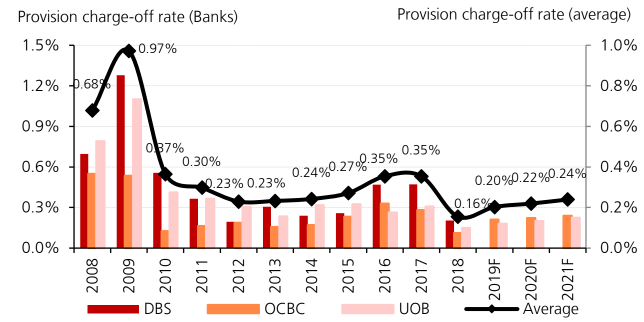
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
DBS *	24.95	NA	NR	10.2	4.8	1
OCBC Bank	10.62	11.50	HOLD	10.0	4.6	2
UOB	25.31	29.20	BUY	10.5	5.1	4

DBS based on Bloomberg consensus
Source: Bloomberg Finance L.P., DBS Bank

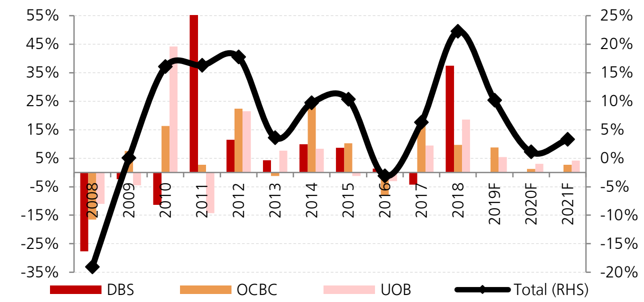
Singapore Banks: NIM expected to decline



Singapore Banks: Credit costs expected to be higher



Singapore Banks: Earnings growth to slow to c.1-2% in FY20F



Source: Companies, DBS Bank (No forecasts for DBS)

Dividend yields a bright spot

- **Earnings growth to slow despite support from fee income**
- **Valuations underpinned by dividend yield and asset quality**
- **UOB continues to be our preferred pick**
- **Key risks: Lower-than-expected NIM, deteriorating credit environment, Hong Kong exposure**

Outlook

Earnings growth to slow in FY20F despite support from fee income. Against a slowing macroeconomic environment, we look towards the following trends in FY20F: (1) lower NIM on more downside to SIBOR, (2) higher credit costs with downside risks from higher specific provisions, (3) slower loan growth due to moderating business environment outlook. As such, we believe that earnings growth will moderate to c.1-2% in FY20F. This follows the sector's c.10% earnings growth in FY19F. Fee income continues to be a bright spot for Singapore banks in FY20F with the banks guiding for mid-single to double-digit growth.

NIM set to decline. We expect NIM to decline 5-7bps in FY20F, with downside risk on more rate cuts than expected. With 3MSOR correcting c.51bps from its peak in May 2019, we believe there is further downside to 3MSIBOR which has corrected by only c.24bps to 1.76%. There is potential downside to SIBOR and we continue to keep watch on MAS which has signalled its willingness to further ease should the macroeconomic backdrop worsen.

Higher credit costs. We expect credit costs for Singapore banks to head higher to 20-24bps in FY20F (from 18-22 bps in FY19F), with downside risk to the economic outlook should growth forecasts in underlying economies worsen, leading to potential earnings risk from special provisions.

Moderating loan growth. We are projecting overall loan growth for Singapore banks to slow from c.5% in FY19F to c.4% in FY20F amid US-China trade tensions. In the medium-to-longer term, we believe Singapore banks may benefit from broader cross-border flows into Southeast Asia.

Valuations supported by dividend yield and asset quality. Singapore banks are now trading at c.1.1x FY20F P/BV, below their average 10-year forward P/BV of 1.2x. Valuations are supported by strong capital levels and high dividend yields of c. 4.3-4.7%, and benign asset quality amid slower earnings growth. We believe asset quality is the key factor to underpin Singapore banks' valuations. Should the broader economy continue to grow albeit slowly, and the current benign credit environment holds up without systemic non-performing loans (NPLs), Singapore banks' valuations should find strong support at c. 1x P/BV. We believe that Singapore banks may benefit from any potential liquidity flowing into Asia as investors continue to search for yields in a lower-rate environment.

Risks

Asset quality trend reversal. While new NPL formation has ticked up slightly, Singapore banks' asset quality remains relatively benign and NPL ratio remains low at c. 1.5-1.6%. A larger-than-expected NPL arising from non-systemic and/or systemic sectors could indicate that the local economy is slowing faster than expected, and posing a risk to earnings should credit costs continue to rise. Based on our sensitivity analysis, every 5-bp uptick in credit costs may negatively impact sector earnings by c. 2.5%. We continue to keep watch on the Hong Kong situation, though DBS and OCBC have put in general provisions in 3Q19.

NIM under pressure. According to our sensitivity analysis, every 25-bp cut in interest rates will reduce FY20F NIM by 2-3bps, and lower earnings by 1.1-2.3%. Therefore, every 10-bp change in NIM will impact the banks' FY20F bottom line by 6-8%. We believe there is downside risk to SIBOR. If rate cuts are steeper than expected (the market is currently pricing in Fed cuts to be on hold), this would put NIM under further pressure.

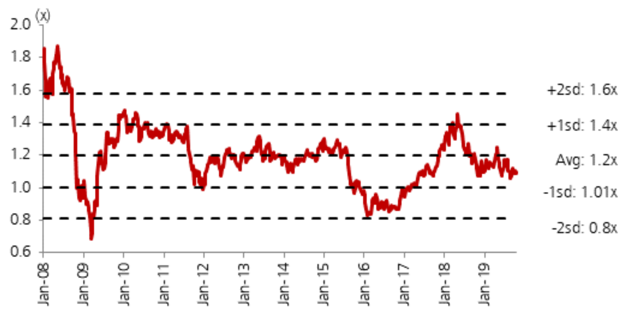
Slower-than-expected loan growth. A technical recession in Singapore, breakdown in US-China trade talks, disappointing macro indicators, worsening Hong Kong situation and a less firm macroeconomic outlook going forward could temper our loan growth and business momentum expectations. Although loan growth is less sensitive to earnings, any deceleration as a result of weaker sentiment would dent top-line prospects. A sharper-than-expected slowdown in the Singapore property market will cause mortgage books to shrink faster. However, any trade diversion flows may bolster cross-border loan growth in the Southeast Asian region in the longer term.

Valuations and Stock Picks

UOB is our preferred pick. We continue to like **UOB (UOB SP, BUY, TP S$29.20)** as a defensive pick for (1) its attractive dividend yield of c. 4.7%, (2) smaller exposure to China among the local banks and a more defensive wealth management franchise as UOB continues to navigate cautiously in a moderating growth environment. We believe current valuation of c.1.1x FY20F P/BV is inexpensive.

We currently have a HOLD call on **OCBC (OCBC SP, TP S$11.50).** Near-term merger and acquisition (M&A) opportunities could continue to weigh on OCBC's near-term share price performance. We are also cautious on OCBC's non-performing asset (NPA) coverage which is the lowest among peers, as well as its slower loan growth outlook. However, should there be no impending M&A, any increase in dividend payout ratio, given its high CET1 ratio post scrip dividends, would be viewed positively.

Singapore Banks: Rolling forward P/BV band (10-year)



Source: Bloomberg Finance L.P., DBS Bank

Singapore Banks: Peers' Valuations

	Mkt cap (US$m)	Price (S$/s)	12-mth TP (S$/s)	Rating	PE (x) FY18A	FY19F	FY20F	CAGR^ (%)	PBV (x) FY18A	FY19F	FY20F	ROE (%) FY20F	Net div (%) FY19F
DBS*	46,921	24.95	NA	NR	11.8x	10.2x	10.2x	5%	1.3x	1.3x	1.2x	12.4%	4.8%
OCBC	34,431	10.62	11.50	HOLD	10.5x	10.0x	9.8x	2%	1.1x	1.1x	1.0x	10.5%	4.3%
UOB	31,083	25.31	29.20	BUY	11.1x	10.5x	10	3%	1.2x	1.1x	1.1x	10.6%	4.8%
Simple average					11.1x	10.3x	10.1x		1.2x	1.2x	1.1x	11.2%	4.6%
Weighted average					11.2x	10.2x	10.1x		1.2x	1.1x	1.1x	11.4%	4.6%

^ Refers to 2-year EPS CAGR for FY18-20F ** Based on Bloomberg consensus*
Source: Companies, Bloomberg Finance L.P., DBS Bank (Closing price as of 10 Dec 2019)

DBS
Live more, Bank less

Property

Neutral

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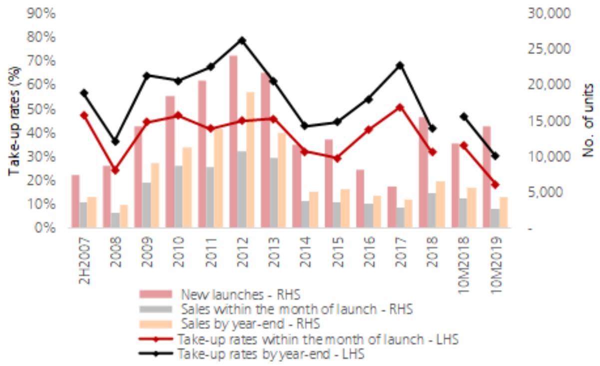
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
CapitaLand	3.68	4.00	BUY	10.2	3.3	12
City Developments	10.55	11.00	BUY	16.4	1.5	6

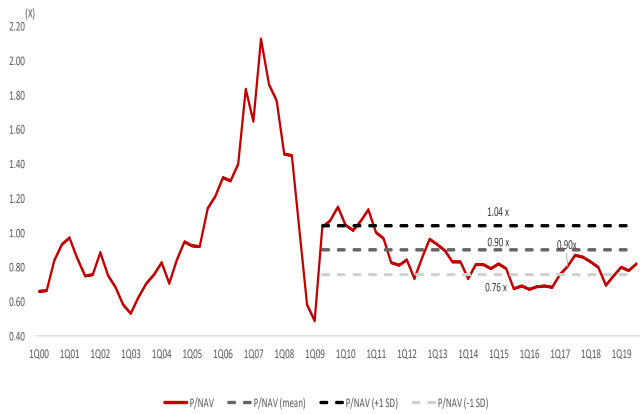
Source: Bloomberg Finance L.P., DBS Bank

Project sell-through rates have generally declined



Source: Bloomberg Finance L.P., DBS Bank

Developers P/NAV and discount to RNAV



Source: Bloomberg Finance L.P., DBS Bank

Big brother is watching you!

- **Property prices to remain stable as primary volumes expected to remain fairly strong**
- **Listed developers have outperformed peers in terms of sell-through rates; focus is on driving their recurring revenues which form 70-75% of EBITDA**
- **Further government tightening measures a rising risk if property prices increase at an unabated pace or if foreigner buying seeps into the suburbs**
- **Prefer diversified landlords like CAPL and CDL**

Outlook

- New project launch momentum to dip in 2020. After a robust year of property launches in 2019, we are anticipating a dip in momentum come 2020 as the pipeline of new supply starts to taper off. As of 3Q19, there were 39,000 units (45,000 in 3Q18) in the supply pipeline which will be introduced to the market progressively over time. We note that there is a higher percentage of homes within the core central region (CCR) which implies that actual sell-through rates may start to slow before picking up through the development cycle. As such, we project primary sales volumes to remain stable at 10,000 units in 2020, a similar level to that in 2019.

- Property prices to remain firm (+1-2% in 2020) after a year of positive surprises. The Singapore property price index (PPI) is expected to remain on an upward trend and is projected to rise by another 1-2% on the back of a potential 3.0% rise in the PPI in 2019. Prices for new launches and new phases for existing launched projects are likely to be inched up as developers look to lock in additional margins post launch weekend.

- Upgrader demand the key to watch! The government's move towards enhancing grants to increase the affordability of new households to buy their first home in the public market (HDB primary and resale), in our view, has led to improved sentiment for the overall property market. With more transactions expected within the HDB resale market, we believe this will kick-start a trend of HDB owners upgrading to their aspired private properties and as such result in a steadier HDB resale price outlook.

- **Sales momentum has been weak; but selected developments continue to find buyers**. Sell-through rates have been weak across most project launches in 2019 as buyers have more choices while developers have also turned more cautious in their launch strategy and have opted to offer a smaller number of units at each launch. Project sell-through rates have fallen as expected to c.20-30% vs 50-60% after a year of launch. However, selected projects with good attributes have been able to attract more buyers than the market. Sell-through rates have declined to <40%, implying that developers will take a longer time to sell all their units. We do not rule out price cuts yet but only in the medium term if sales momentum fails to pick up towards the 5-year ABSD deadline.

- **Residential supply pipeline still high.** With a pipeline of close to 30,000 units (estimated from remaining units to be launched from existing projects and unlaunched projects in the pipeline), the slowing sales momentum will mean a built-up in unsold supply of units going forward. Based on the estimated primary sales transaction volumes of 7,500-8,500 units for 2019, this will mean an absorption rate (total unsold supply/total primary sales) of 3.5-4.0x, which historically coincide with property price weakness.

- **Most property segments in Singapore seeing stronger operating outlook**. While the residential market is showing increasing signs of stability, the other property subsectors are projected to remain on a cyclical upturn, largely driven by an improvement in demand-supply dynamics, giving landlords the upper hand in rental negotiations going into 2019. We continue to see a recovery in rents in the office and industrial (warehouse and business parks) sub-sectors while hotels will also see a near-term uptick. This is made possible as supply risks drop off significantly on the back of a robust demand outlook as conference pipelines remain strong. The retail sub-sector, given abating supply risk, should start to see higher rentals.

- **Asset recycling to remain high on the agenda for most developers.** Property developers have executed close to S$15bn in merger and acquisition (M&A) activities in 2019 and most are looking at crystallising value through asset recycling into their listed REITs or other platforms to drive higher returns and returns on equity (ROE).

Risks

- **Higher interest rates, coupled with slowing economic outlook, could reel in price increase momentum**. With global interest rates expected to remain low in 2020, buyers and investors may continue to look at investing in properties. However, a key uncertainty will be the pace of increase negatively impacting homebuyers' affordability as mortgage burden rises. In addition, with the Singapore economy expected to slow on a y-o-y basis, this could impact sentiment and investments in the physical market.

- **Further government policies to be introduced if property prices rise at an unabated pace**. The government is expected to closely monitor the price performance of the Singapore market amid rising interest in the Singapore residential sector from foreigners. If property prices continue to rise unabatedly, we do not rule out further tightening to be introduced in 2019 to further curb demand for homes. Some of these measures could include (i) a further hike in both buyer and seller stamp duties, and (ii) an increase in supply in the government land sales programme.

Valuations and Stock Picks

- **Positive sentiment to drive valuations higher.** Property developers' share prices have in general rebounded by c.8% (FSTREH Index) and now trade at 0.8x P/NAV on average, which is at +0.5 standard deviation (SD) of its 5 year historical average. This is on the back of (i) improved sentiment given the higher-than-expected residential sales, and (ii) M&A activities. With a more stable property outlook and potential further value-crystallisation activities, we expect property developers to trade closer to their mean of 0.9x P/NAV.

- **Focus on diversified landlords.** Our picks for the sector is CapitaLand Limited (CAPL) and City Developments Limited (CDL) which have been focusing on growing their recurring income base either through M&A or repositioning strategies. CAPL should deliver the strongest ROE among developers at c.9.5-10.0%, which we believe will lift valuations higher. CDL have also delivered on all fronts – stronger-than-peer residential sales, growing recurring income and potential value-unlocking activities through the sale of selected hotels to its REITs or platforms.

Peers' Valuations

Company	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	:V/EBITDA (x 20F	:V/EBITDA (x 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
CapitaLand	13,637	S$3.68	S$4.00	9%	BUY	10.2x	9.2x	0.8x	0.7x	14.1x	11.8x	9%	9%	3.3%	3.3%	12.2
City Development	7,038	S$10.55	S$11.00	4%	BUY	16.4x	15.2x	0.9x	0.8x	12.9x	10.6x	5%	6%	1.5%	1.5%	6.5

Source: Bloomberg Finance L.P., DBS Bank

Telecommunications

Neutral

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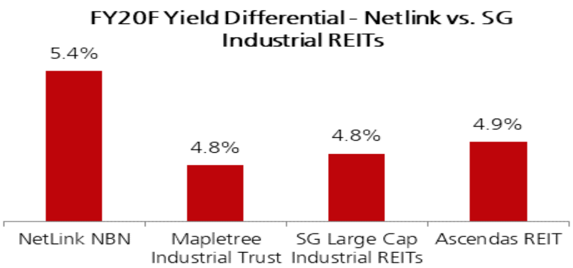
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
NetLink NBN Trust	0.95	1.04	BUY	34.9	5.9	13
Singtel	3.35	3.60	BUY	18.0	5.0	9
StarHub	1.44	1.43	BUY	16.0	5.0	(8)

Source: Bloomberg Finance L.P., DBS Bank

NLT should trade at a lower yield



Source: Reuters, DBS Bank

Singtel 12 month PE chart

Source: Companies, DBS Bank

Starhub 12 month PE chart

Source: Companies, DBS Bank

Growth revival on top of dividends

- **Netlink to benefit from StarHub expanding use of Netlink's fibre for enterprise customers. We like Netlink for its 5.4% yield versus an average of 4.8% offered by large-cap industrial S-REITs**
- **Earlier-than-expected 15%-50% tariff hikes in India turn us positive on Singtel who offers annual earnings growth of 8% over FY19-21F and dividend yield of more than 5%**
- **Netlink is our top pick; prefer Singtel to StarHub for offering superior growth**

Outlook

- The outlook for Singapore telecom players has improved due to three key surprises: a) On 2 December, all three leading telecom players in India announced 15%-50% tariff hikes, earlier and and steeper than our expectations. This is certainly good news for Singtel, as each 10% mobile tariff hike at Bharti would contribute an additional ~3% earnings to Singtel, b) Singapore's fourth mobile player – TPG, paid ~S$9m to StarHub (possibly S$27m to all three telcos) in for acessing in-tunnel equipments, reflecting TPG's struggle to fulfill its network rollout obligations. This further strengthens the case for a sooner-than-later consolidation in the telco sector, c) StarHub reduced its FY19F capex guidance to 8-9% of total revenue from 11-12%before as it limits investments in cable TV and broadband segments and will expand the usage of the Next Generation Nationwide Broadband Network (Next Gen NBN) to serve enterprise customers as well. This will benefit Netlink who provides the fibre for Next Gen NBN for a monthly fee.

- StarHub and M1 likely to collaborate on the nationwide 5G network roll-out. StarHub has been keen on inking a network-sharing deal with M1 since 2017, which was delayed due to challenging operating conditions in the mobile market and changes in M1's ownership structure. 5G license in 2020 presents an ideal opportunity for network-sharing. With only two nationwide 5G network licences up for grabs, StarHub, as the second biggest operator in terms of subscribers, is likely to bid for for one of the two licences in Jan 2020, via a tie-up with M1 to reduce 5G's capex burden. However, we are not ruling out the possibility of Singtel opting to partner with another telco for the roll-out.

- **Singapore mobile sector still on tepid waters.** The number of mobile service providers has ballooned to seven mobile virtual network opertors (MVNOs) and four Mobile Network Operators (MNOs) from just three service providers in 2016. TPG, the fourth MNO, is expected to do a commerical launch in 1Q20. Naturally, competition intensified driven by data-centric offerings by the MVNOs (e.g. Circles.life is offering 1GB of data free of any monthly fees to customers). Singtel for example offering as much as 20GB for S$20 on SIM-only plans. Consequently, mobile service revenues are likely to contract by ~6.5-7% in FY20F, driven by intense competition and migration to SIM-only offerings.

Risks

- **Mobile sector to contract by ~8% in FY19/20F if TPG disrupts.** Singapore's mobile sector is likely to contract by ~8% in FY19/20F, vs. our base-case expectation of 6.5-7% if TPG increases its current capex spend thereby posing a threat to the incumbents.

- **Singapore Pay-TV business' may suffer longer than expected.** We believe that the Pay-TV sector's outlook remains dim. Pay TV providers are trying to pay for content via revenue-sharing with content producers, moving away from fixed cost structure. This should allow Pay-TV providers to turn around their loss-making Pay-TV businesses, However, if more content providers stick to thei demand for fixed content cost, then Pay TV providers may suffer for longer than expected

- **Bharti may opt for a rights issue if Adjusted Gross Revenue (AGR) dues are to be paid within three months, requiring Singtel to chip in.** Bharti has appealed to the Supreme Court to allow the telco and the government to agree on the quantum of AGR dues that need to be paid and the timeline for payments, to soften the financial blow. Meanwhile Bharti is looking to raise ~INR210bn (US$3bn) to pay the AGR dues, either via a rights issue (if due soon) or via debt-raising (if the timeline to pay AGR dues is extended).

- **Singtel continues to face significant emerging market and forex risks.** Investments in telcos in several emerging markets such as India, Indonesia, Philippines and Thailand, expose Singtel to emerging market risks. With regional associates and Optus contributing ~57% and ~23% respectively to earnings, it faces significant forex risk.

Valuation & Stock Picks

- **Pick Netlink for a superior yield and growth.** Netlink is trading at ~5.4% FY20F yield, versus an average yield of 4.8% offered by large-cap industrial S-REITs. We argue that Netlink should trade at a lower yield than S-REITs as the company's (1) distributions are largely independent of the economic cycle, due to the regulated nature of its business; (2) gearing is less than half of S-REITs' with ample debt headroom to fund future growth; and (3) asset life is much longer than S-REITs as Netlink incurs annual capex to replenish its regulated asset base (RAB). Netlink offers FY19-21F EBITDA CAGR of 5.8% as it benefits from 100% migration to fibre and rising use of its network for enterprise customers by StarHub.

- **Earlier-than-expected tariff hikes in India turn us positive on Singtel.** On the back of tariff hikes in India from December 2019 onwards, we are confident of a sharp rise in regional associates' profit contribution in FY21F, which has been the most critical factor in Singtel's share price performance historically. Despite weakness in Singapore and Australia, Singtel offers annual earnings growth of 8% over FY20F-22F, coupled with over 5% yield.

Singapore Telecom: Peer Valuation

Company	Mkt Cap (US$m)	Price 10/12/2019	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	PE (x) 21F	P/BV (x) 20F	P/BV (x) 21F	EV/EBITDA (x) 20F	EV/EBITDA (x) 21F	ROAE (%) 20F	ROAE (%) 21F	Div Yield (%) 19F	Div Yield (%) 20F	EPS CAGR 19-21 (%)
Netlink NBN Trust *	2,725	S$0.95	S$1.04	9%	BUY	34.9x	31.8x	1.3x	1.4x	14.7x	14.1x	4%	4%	5.7%	5.9%	12.7
Singtel *	40,270	S$3.35	S$3.60	7%	BUY	18.0x	17.4x	1.9x	1.9x	9.6x	9.2x	11%	11%	5.2%	5.0%	8.7
Starhub	1,836	S$1.44	S$1.43	-1%	BUY	16.0x	17.0x	6.4x	5.9x	6.5x	6.8x	41%	36%	6.3%	5.0%	-8.3

**FY21 & FY22 forecast*
Source: Companies, Bloomberg Finance L.P., DBS Bank

Healthcare Sector

Underweight

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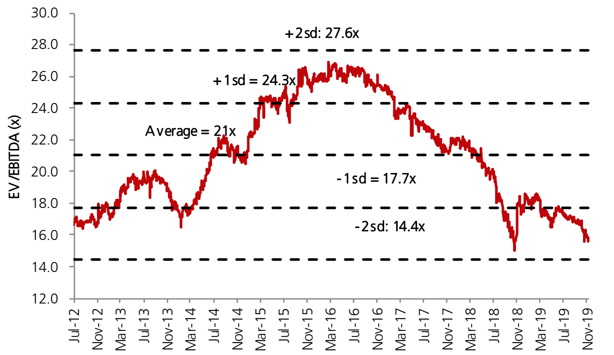
	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
IHH Healthcare	RM5.25	RM6.40	BUY	42.7	0.4	29
Parkway Life REIT	3.23	3.35	BUY	24.5	4.0	0
Raffles Medical	0.98	1.12	HOLD	30.0	2.6	3

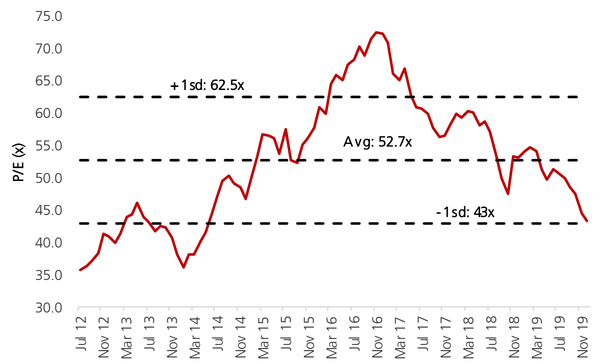
Source: Bloomberg Finance L.P., DBS Bank

Large cap healthcare stocks trade at 15.6x FY20E EV/EBITDA, close to 2-SD below historical average



Source: Bloomberg Finance L.P., DBS Bank

Healthcare sector trades at 45x FY19F PE, at 1-SD below historical average (post-IHH's listing)



Source: DBS Bank

Are we there yet?

- **Riding out gestation period/roadblocks for future growth**
- **Growth of foreign patients a wild card**
- **Attractive valuations but with medium-to-long term growth prospects**
- **Top picks: IHH Healthcare and Parkway Life REIT**

Outlook

- China is up and running; next up Shanghai. Both Raffles Hospital Chongqing and IHH's Gleneagles Chengdu were finally opened in December 2018 and October 2019 respectively. While it is early stages for Gleneagles Chengdu, Raffles Medical has shown discipline cost management with first year start-up losses expected to remain within management's expectations of S$8m to S$10m. IHH and Raffles Medical are expected to open their Shanghai hospitals by 2020. While we believe in the potential future growth driven by these expansion plans as they begin to unfold in phases over the next 3-5 years, near term earnings growth will continue to be weighed down by start-up costs and pre-operating costs. Short term pain continues with long term gain in sight!

- Overcoming obstacles in India. While Fortis Healthcare has been delivering accretive earnings before interest, tax. depreciation and amortisation (EBITDA) post consolidation with ongoing improvements in operations, it is unfortunate that the Supreme Court of India issued a *suo moto* notice of contempt to Fortis Healthcare on its acquisition by IHH Healthcare (for more details *IHH Healthcare: Back in Limbo*). IHH remains firm that the acquisition of 31.1% stake in Fortis Healthcare was through a subscription that was conducted in a fair and transparent manner. While the ongoing legal proceedings may delay some of Fortis Healthcare's restructuring/expansion plans, the bigger worries include the impact of a potential reversal of the acquisition by the court. Nevertheless, we believe IHH's management remains committed in its Fortis Healthcare investment and will try its best to resolve this.

- Foreign patients growth a wild card! Despite foreign patients' growth in Singapore tapering off over the past few years due to the strong Singapore Dollar (SGD) vs the region, we have seen intermittent periods when this growth returned. A more sustainable uptrend in foreign patients would benefit both IHH and Raffles Medical. While Raffles Hospital Singapore will benefit now with Raffles Hospital's extension, IHH will be able to cast its net wider with its Malaysia and Hong Kong hospitals capturing regional patients such as Indonesians and Chinese looking for alternatives to Singapore healthcare. In addition, IHH has seen an increasing trend of medical tourism in Turkey, especially its hospitals in Istanbul. IHH's strong organic growth of c.30% in 9M19 were partially led by higher foreign patients.

Risks

- **Higher-than-expected start-up/pre-operating costs.** Following China's healthcare reform, we have seen an interest especially from the larger-cap healthcare companies expanding into China. While the market is promising, the operating environment of private healthcare companies is relatively uncertain with the possibility of longer-than-expected period of stabilising operations. Higher-than-expected start-up/pre-operating costs are other risks that could derail earnings growth.

- **Macroeconomic headwinds.** While healthcare demand is resilient and defensive amid macroeconomic uncertainties, private healthcare demand is not fully sheltered from headwinds. With expectations of rising interest rates, costs, taxes and potential risks to unemployment, patients may turn to public healthcare for cheaper alternatives. In addition, growth in medical tourism may remain slow moving.

- **Pressured by health care cost inflation.** Healthcare is often seen as a social need and there could be potential political pressure to manage cost inflation in the sector. Following recent concerns by insurance service providers and industry stakeholders, the Singapore government conducted a study and published guidelines to manage healthcare cost inflation. While there have not been any major changes to the healthcare system and regulations on private healthcare, potential pressure from stakeholders may change the landscape of the private healthcare sector in the longer term.

- **Forex risks.** As healthcare companies expand overseas (China - RMB and India - INR), foreign exchange (forex) volatility could impact headline earnings given macro uncertainties such as the trade wars. In addition, the strengthening of the US Dollar (USD) could potentially have an impact on some costs (consumables are priced in USD), albeit minimal. For IHH, any further depreciation in Turkish Lira (TRY) will continue to impact its headline earnings. However, its management has successfully reduced volatility by lowering its non-TRY debt to US$250m and expected to reduce further to below US$200m by year-end.

Valuation & Stock Picks

- **Large-cap healthcare service providers trade at 15.6x FY19E EV/EBITDA, close to 2-SD below historical average.** Large-cap healthcare service providers are trading at 15.6x FY19F enterprise value (EV)/EBITDA, close to 2-SD (standard deviation) below historical average. The sector currently trades at very attractive levels. However, we remain cautious on its near-term growth moderated by the gestation period of new hospitals and brownfield expansion plans. While we are positive on the long-term prospects of the healthcare sector driven by an ageing population and growing affluent society in Asia, we are selective on our stocks and prefer those with good near- to medium-term growth prospects.

- **Top picks are IHH and Parkway Life REIT.** Our top picks are; i) IHH for its larger size. It is the only hospital with platforms in China and India, two highest growth potential market for healthcare. Its diversified portfolio could cushion the drag from start-up losses, pre-operating costs and legal impact, ii) Parkway Life REIT for its steady earnings stream, defensive profile and a beneficiary of potential upward trends in Consumer Price Index (CPI).

Peers Valuation

	Mkt Cap	Price	12-mth Target	%		DPU / EPS (c)		PE (x)		P/BV (x)		EV/EBITDA (x)		ROAE (%)		Div Yield (%)			DPS CAGR 19-21
Company	(US$m)	10/12/2019	Price	Upside	Rcmd	20F	21F	20F	21F	20F	21F	20F	21F	20F	21F	19F	20F	21F	(%)
IHH Healthcare	11,061	S$5.25	S$6.40	22%	BUY	4.0	4.6	42.7x	37.5x	1.9x	1.8x	14.8x	13.0x	4%	5%	0.4%	0.6%	0.5%	28.7
Parkway Life Reit	1,439	S$3.23	S$3.35	4%	BUY	12.92	13.10	24.5x	24.8x	1.7x	1.7x	27.9x	27.6x	7%	7%	4.0%	4.0%	4.0%	0.1
Raffles Medical	1,319	S$0.98	S$1.12	14%	HOLD	3.3	3.7	30.0x	26.8x	2.1x	2.1x	21.9x	20.1x	7%	8%	2.6%	2.6%	2.6%	3.5

Source: Bloomberg Finance L.P., DBS Bank

Offshore & Marine Sector

Underweight

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	Price 10 Dec (S$)	12-mth Target Price (S$)	Rec	PE 2020F (x)	Div Yld 2020F (%)	EPS CAGR 2018-2020 (%)
Sembcorp Industries	2.21	2.90	BUY	9.8	2.6	8
Sembcorp Marine	1.26	1.40	HOLD	nm	1.6	nm
Yangzijiang	1.09	1.68	BUY	7.3	4.4	(8)

Source: Bloomberg Finance L.P., DBS Bank

LNG carriers are expected to see strong newbuild demand

Expected timing	Project	Owner	Country	# of LNGCs to be ordered	
				Minimum	Maximum
3Q19~4Q19	Papua New Guinea LNG project	KPH	Papua New Guinea	15	20
3Q19~4Q19	US LNG export terminal expansion project	ExxonMobil	US	15	20
4Q19~1Q20	Artic LNG 2 project	Novatek	Russia	15	20
4Q19~1Q20	Mozambique LNG project	Anardako	Mozambique	15	20
1Q20~2Q20	Northfield LNG project	Qatargas	Qatar	60	100
Total				120	180

Source: Cheniere Energy, NH I&S Research Center

SMM's valuation vs contract wins

Source: DBS Bank, Bloomberg Finance L.P.

Slow uptick, keen competition

- **Brent crude oil prices expected to average US$60-65/bbl in 2020, similar to 2019 levels**
- **Order books running low, stronger contract wins momentum required to re-rate shipyards**
- **Asset owners improving utilisations but day rate hike possible beyond 2020**
- **Selective BUYs: Yangzijiang (TP S$1.68), SCI (TP S$2.90),**

Shipyards: Order wins momentum remains disappointing

- **Yangzijiang (YZJSGD SP, BUY, TP S$1.68) - good buying opportunity; underappreciated near trough of 0.6x P/Bv and net cash level of S$1/share.** As the largest and most cost-efficient private shipbuilder in China, Yangzijiang is well-positioned to ride the sector consolidation and shipbuilding recovery. Its strategy to move up into the liquefied natural gas/ liquefied petroleum gas (LNG/LPG) vessel segment through partnership with Mitsui strengthens the longer-term prospects of the yard. In addition, it is also a beneficiary of a stronger US Dollar (USD). It has a solid balance sheet, sitting on net cash of S$1 per share (includes investments), representing ~65% of net tangible asset (NTA). It offers a steady dividend yield of ~4-5%. Share prices are set to spike if its Chairman returns from a leave of absence. The correction from S$1.50 levels over fears of the Chairman's assistance in investigations, which are non-shipyard related, seem overdone.

- **Sembcorp Industries (SCI SP, BUY, TP S$2.90) is a safer proxy for O&M exposure.** Sembcorp Industries (SCI) offers a unique value proposition as a proxy to ride the cyclical offshore and marine (O&M) upturn, supported by a defensive utilities business. Assuming our fair value for Sembcorp Marine (SMM) at S$1.40, SCI's utilities segment is way undervalued at 0.55x price/book value (P/BV) and 5.6x price-to-earnings (PE) against 6% return on equity (ROE). At Group level, SCI is trading below its historical trough of 0.6x PB (implied share price of ~S$2.40) in January 2016. We believe continuous improvements in India will re-rate SCI's utilities business and recovery of marine orders and earnings

- **Sembcorp Marine (SMM SP, HOLD, TP S$1.40) awaits big orders to flow through.** Contract flows YTD have disappointed for the second year in a row, with SMM securing only S$845m orders. This was lower than last year's S$1.2bn and a far cry from breakeven order levels of ~S$2bn, which the market was expecting in early 2019. While we are hopeful of a stronger recovery in 2020, supported by steady oil prices and capital expenditure (capex) increases, leading to conclusion of project Final Investment Decisions (FIDs) that were pushed back the past 2-years, we need more evidence before turning positive again on the counter.

Potential sizeable contracts are expected to come largely from production platforms and LNG related products. The long-awaited settlement with Sete in October 2019 to complete and deliver the first two rigs could also result in accretions to order book. On the yard merger front, we think it is premature to gauge the impact on SMM without any details on potential restructuring, which may only take place after 6-12 months at least.

Macro view – oil prices to remain range-bound; service sector has bottomed but recovery seems gradual

- **OPEC+ deal to establish a US$60/bbl floor; oil prices should continue trading sideways on neutral supply-demand dynamics.** While we are now slightly more positive on crude oil prices, we still maintain our 2020/2021 average Brent crude oil price forecast of US$60-65/bbl, near the current level, as global crude oil supply and demand growth in 2020 will be largely balanced. Lower OPEC+ supply will be offset by considerable supply growth from other sources like the US, Norway and Brazil. On the demand front, while a more promising macroeconomic outlook is expected to underpin a pick-up in growth to 1.0mmbpd in 2020 (up from 0.8mmbpd in 2019E), it will be barely adequate to absorb the 0.8-10mmbpd increase in global supply. Upside in oil prices from here on will be limited unless there is better-than-expected OPEC+ compliance, faster roll-back of US- China tariffs or escalation of geopolitical tension in the Middle East.

- **Singapore's rigbuilders: Diversification to non-drilling solutions could drive order recovery.** Both yards have made a breakthrough into high-value non-crude solutions (>US$200m each) and this has brightened the order outlook. While order flow of Singapore's rigbuilders, in particular SMM, has been rather disappointing YTD hovering at 2017's ~S$3bn range, we expect a recovery to ~S$6-7bn in 2020, stemming from production platforms and LNG related products.

- **Visible signs of life in selected Asian offshore markets, but recovery continues to be gradual.** Upstream capital spending in the region has been trending up as per our initial estimates (2019E: +12-15% y-o-y), and is expected to grow by another 8-10% in 2020. Asset-class wise, the jack-up market in particular is leading the pack, with average jack-up total utilisation expected to hit around 73% in 2019 (65% in 2018). Similarly, total utilisation of offshore support vessels (OSVs) will improve to around 58-60% in 2019 (51-53% in 2018), partly constrained by the return of cold-stacked vessels into the market. Going into 2020, although we anticipate a moderate uptick in jack-up day rates owing to favourable demand-supply dynamics, day rate improvement for OSVs will likely be hindered by stiff competition amongst OSV service providers, who are actively looking to put their vessels to work.

- **Shipbuilding recovery underway.** The overall conventional shipping market is expected to resume its recovery, after removal of uncertainties from the International Maritime Organisation 2020 (IMO 2020) regulations. Global order book-to-fleet ratio has dropped to a low of less than 10%, implying moderating new supply going forward. LNG carriers are the brightest spot, followed by tankers, bulkers and containerships.

Risks and Catalysts

- **Lower oil prices.** A bear scenario of lower oil prices in the event of higher than expected supply and lower than expected demand growth, would defer any uptick in oil company spending, and derail a recovery in the services and newbuilding sectors.

- **Execution risk is salient for shipyards.** As Singapore's rigbuilders diversify their order books away from the drilling rig market (e.g. Sembcorp Marine's modularised LNG terminals), execution of the fabrication of new product types will be crucial for margins and earnings.

Peers Valuation

Company	Share price 10/12/2019 (local)	Market cap (US$m)	P/E		P/B	ROE (%)		Net D/E	Div yld (%)
			CY20F	CY21F	Current	CY20F	CY21F	Current	Current
Korea *									
Hyundai Heavy Inudstries	341000	4,649	7.2x	6.3x	0.6x	9.3%	9.8%	0.6x	5.4%
Samsung Heavy Industries	7100	3,744	77.4x	32.8x	0.7x	1.1%	2.3%	0.2x	nm
Daewoo Shipbuilding	27900	2,504	15.5x	10.9x	0.8x	4.3%	5.6%	0.7x	0.1%
Han kuk Carbon	7390	272	15.4x	12.0x	1.0x	6.5%	7.8%	Net cash	1.4%
Singapore									
Sembcorp Industries	2.21	2,908	9.8x	9.0x	0.6x	5.6%	5.8%	1.1x	2.1%
Sembcorp Marine	1.26	1,925	nm	69.0x	1.2x	-0.2%	1.7%	1.3x	0.8%
Yangzijiang Shipbuilding	1.09	3,144	7.3x	7.5x	0.7x	9.5%	9.4%	Net cash	4.4%
China *									
China Shipbuilding Industry Co (CSIC)	5.19	16,869	78.6x	83.7x	1.4x	1.6%	1.5%	Net cash	0.3%
Shanghai Zhenhua Heavy Industries	3.55	2,288	24.8x	22.2x	1.2x	3.9%	4.8%	2.0x	nm
China CSSC	21.00	4,113	56.3x	62.5x	1.9x	2.6%	3.3%	Net cash	0.1%

** based on bloomberg consensus*

Source: DBS Bank, Bloomberg Finance L.P.

Report contributed by 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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