Singapore Market Focus

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DBS Group Research . Equity

13 Jan 2020

Stabilising after a wobbly start

- STI support at 3195 as Phase 1 deal in focus and uncertainties did not escalate
- Positive on hospitality sector – CDL HT, FEHT, Genting, Jumbo
- Bombed-out cyclicals with recovery potential – Yangzijiang, Genting, SIA, HK Land

Shaky start to the year. 2020 got off to a shaky start with an escalation in US-Iran tension that led to a jump in oil price and the Wuhan pneumonia rekindled bad memories of the 2003 SARS outbreak. Fortunately, investors' fear of a US-Iran military conflict eased, and oil price fell back to "pre-tension" levels. Travel and tourism stocks have held up well despite the Wuhan pneumonia as the number infected has not accelerated (<100 vs 8,422 for SARS), with zero fatality (vs 11% for SARS) and no evidence of human-to-human transmission so far. The Australian bushfire disaster has also had no material financial impact on listed companies here.

Phase 1 deal in focus. While the events above warrant continued monitoring, we see investors' focus turning to the anticipated signing and details of the US-China Phase 1 deal on 15 January. Unless the developments stated above degenerate rapidly, we continue to see STI support at 3195 (more likely) or at worst 3160 (less likely).

Positive on hospitality sector. We stay optimistic on rising visitor arrivals going forward with the robust line-up of new and returning conferences this year and a dip in hotel supply growth that should lead to a 3% RevPAR recovery for 2020. Our picks are **CDL HT** and **FEHT** for hospitality REITs, as well as **Genting Singapore** and **Jumbo**. The January to April period is seasonally the strongest period for CDL HT and FEHT stock prices. With the ex-dividend dates for CDL HT (semi-annual) and FEHT (quarterly) coming up in February, we see this as an opportune time to be invested in these two hospitality REITs.

Bombed-out cyclicals with recovery potential. Recovery optimism is on the uptick with US-China trade tensions on the mend, accommodative monetary policies and fiscal stimulus likely to pick up. We see opportunity in cyclical stocks with good earnings recovery potential that are trading at a depressed valuation. Our picks are (1)**Yangzijiang** – Near net cash of S$1/share and 0.7x P/BV -1SD of its 4-year average; (2) **Genting** - 7.0x EV/EBITDA (FY19) that is around -1.5SD of its mean and notably below the 12.8x median of regional peers; (3) **SIA** - 0.87x FY19 & FY20 P/BV that is c. -1SD against its 10-year average, ; and (4) **Hong Kong Land** - 54% discount or near -2SD of 61% discount over 10-year period.

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Key Indices

	Current	% Chng
FS STI Index	3,256.0	0.3
FS Small Cap Index	356.9	-4.7%
SGD Curncy	1.36	0.1%
Daily Volume (m)	1,574	
Daily Turnover (S$m)	1,173	
Daily Turnover (US$m)	863	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2019	0.3	4.0
2020F	8.4	4.1
2021F	7.7	4.3
(x)	PER	EV/EBITDA
2019	15.3	15.1
2020F	14.1	13.8
2021F	13.1	12.8

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	Performance (%) 12 mth	Rating
CDL Hospitality Trusts	1.64	1,474	1.80	0.6	9.3	BUY
Far East Hospitality Trust	0.75	1,080	0.80	6.4	23.0	BUY
Genting Singapore	0.93	8,267	1.20	1.7	(10.2)	BUY
Jumbo Group	0.39	185	0.47	4.0	(2.5)	BUY
Yangzijiang Shipbuilding	1.17	3,399	1.68	20.6	(9.3)	BUY
Singapore Airlines	8.95	7,862	10.40	(1.2)	(5.9)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 10 Jan 2020

DBS
Live more, Bank less

ed: TH/ sa: YM, PY, CS

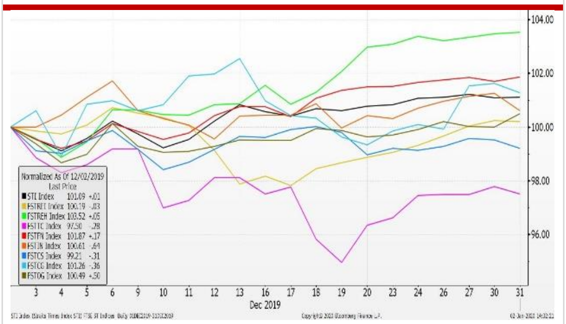
Live more, Bank less

January Market Outlook

Ending 2019 positively

- STI ended December 2019 higher at 3223 (+0.9% m-o-m) on recovery optimism and the signing of US-China Phase 1 deal in January 2020
- STI rose 5% y-o-y in 2019, average daily value of shares traded was S$1,041.8m (-11.1% y-o-y)
- Real estate (CityDev, UOL, CapitaLand) outperformed on hope that authorities may extend the ABSD deadline for developers to build and sell all units on a development site
- Telecommunications underperformed as SingTel shares went ex-dividend (6.8 Scts)

FTSE ST Indices Relative Performance for Decemb



Source: Bloomberg Finance L.P., DBS Bank

US-China Phase 1 deal well anticipated

- Signing of the US-China Phase One Trade Deal
  - Anticipated to be on 15 January at the White House
  - Agreement includes protection for intellectual property, food and farm goods, financial services and foreign exchange, and a provision for dispute resolution.
  - China will increase imports of mainly US agricultural as well as other goods, and the US will ease tariffs on Chinese imports.
  - Trump will head to Beijing to begin Phase 2 discussions after Phase 1 is signed

January event calendar

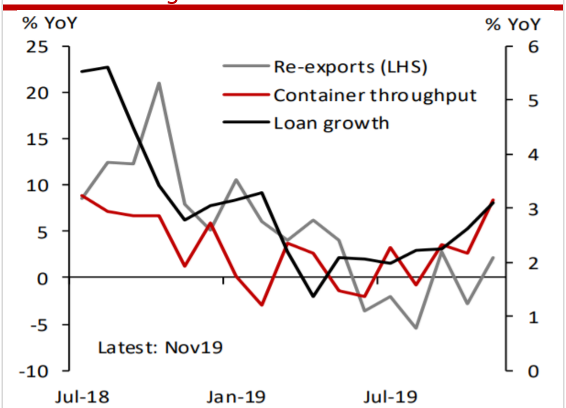
Date	Event	Comments
15 Jan	Signing of the US-China Phase 1 trade deal	Phase 1 already well anticipated. Investors will look at the details of the deal and conditions for Phase 2 going forward, if any
30 Jan	FOMC meeting	FED is likely to keep interest rate unchanged

Source: DBS Bank

Better year ahead

- Our economist sees Singapore's growth cycle as having just passed its trough, expects gradual pick-up ahead
- Expect 2020 GDP growth of +1.4% y-o-y (below +2.5% growth potential)
- Services sector grew 2.4% q-o-q saar, 1.4% y-o-y
  - Services (two-thirds of economy) remains the stable growth engine
  - Re-export growth has turned positive, container throughput is rising, and loan growth has bottomed out
- Manufacturing turnaround
  - NODX and industrial production still in contraction and choppy at times
  - Bottoming signs led by semiconductor turnaround

Services turning around

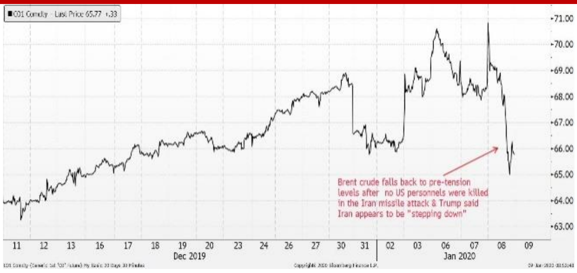


Source: DBS Bank

Middle East tensions

- Brent has risen as much as 4.1% to US$71pbl YTD as US-Iran tensions spiked but has since retreated to December 2019 levels of around US$66pbl as tensions eased
- With the US presidential election approaching, we think Trump will not risk a fresh military conflict unless badly provoked
- We continue to monitor the situation as any negative turn and spike in oil price can be positive for defence-related stocks and upstream O&G operations (e.g. E&P); negative for downstream O&G operations (e.g. refineries) and oil consumers (transportation)

Brent crude (Daily)



Source: DBS Bank

Wuhan pneumonia

- As at 7 January, 59 patients (seven in critical condition, first case on 12 December 2019) from Wuhan had been infected, 30 suspected cases from Hong Kong
- None from Singapore affected, compulsory temperature screenings for travellers arriving on flights from Wuhan
- Chinese health authority says virus is a new strain from the family of pathogens that includes SARS but there is no evidence of human-to-human transmission so far
- SG hospitality stocks resilient so far
  - Number of infected in HK/China not accelerating (vs 8,422 SARS cases) and no deaths so far (vs 11% fatality rate for SARS)
  - Strong line-up of upcoming conferences
  - Picks **FEHT, CDLHT, Genting Singapore, Jumbo**

Wuhan pneumonia current situation

Source: DBS Bank

Singtel catches fire in Australia

- **Singtel:** Optus had 17 base stations down due to power outages and fire. Seven locations are confirmed damaged due to the fire, but Optus does not expect material financial impact
- **ComfortDelgro, Ascendas REIT, Keppel Infrastructure Trust:** Unaffected

Companies with Australia operations

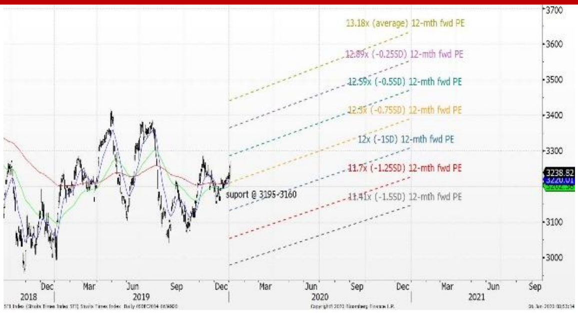
Date	Company	Impact
07 Jan	Singtel	Shutdown of some of Optus's base stations in south eastern Australia, Optus does not expect material financial impact
06 Jan	ComfortDelgro Ascendas REIT Keppel Infras Trust	Not impacted

Source: Business Times, DBS Bank

Straits Times Index – Support at 3195, 3160

- Signing of the US-China Phase 1 deal a positive, scheduled to take place on 15 January
- Unless the US-Iran tension or Wuhan pneumonia situation degenerates rapidly, we see STI support at 3195 (more likely), at worst 3160 (less likely)
- 3160 level coincides closely with 12x (-1SD) 12-month forward PE

Straits Times Index (Daily)



Source: DBS Bank

Strategy

Positive on hospitality sector

We maintain our positive stance on the Singapore hospitality sector. Unless the developing Wuhan pneumonia situation worsens rapidly to have a major impact on international travel, we are optimistic on rising visitor arrivals going forward. Thankfully, the spread of the virus seems well contained with no deaths and no evidence of human-to-human transmission so far.

Our picks are **FEHT**, **CDL HT**, **Genting Singapore** and **Jumbo Seafood**.

Hospitality sector picks

Company	Price 8 Jan	12 mth Target Price	Target Return	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)
CDL HT	1.63	1.80	10%	1,977	BUY	21.8	21.3	10.6	2.1	5.8	0.3	1.1
Far East HT	0.745	0.80	7%	1,448	BUY	23.1	21.5	10.2	7.3	5.2	0.4	0.9
Genting	0.925	1.20	30%	11,153	BUY	15.5	14.6	4.4	6.5	3.8	cash	1.4
Jumbo	0.380	0.47	24%	243	BUY	18.6	17.6	7.1	5.3	3.6	cash	3.5

Source: DBS Bank

The robust line-up of new and returning conferences (e.g. Singapore Airshow, Food and Hotel Asia) this year also bods well for Singapore hospitality stocks. In addition, with hotel supply growth falling back to only c.1.5% in 2020 and average hotel occupancies at close to c.90%, the next leg of growth for Singapore's hospitality REITs will be driven by room rates. We project a 3% recovery in RevPAR for 2020 that drive yields to c.5.9%.

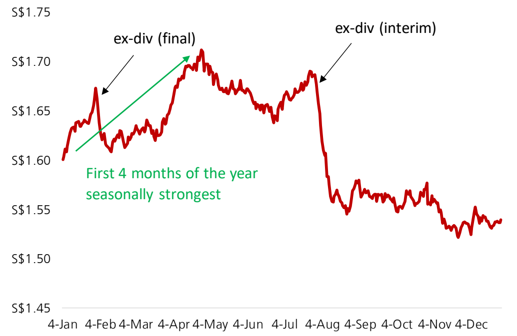
Key events to push visitor arrivals to a new high

Meetings	Quarter	Expected no. of attendees
Singapore Airshow	1Q20	48,000 (2018 attendance)
Food and Hotel Asia	April'20 (2Q20)	78,000
The International Trademark Association 142th conference	April'20 (2Q20)	11,000
103rd Lions Club International Convention	Middle 20	20,000
Industrial Transformation Asia-Pacific (ITAP)	Oct'20	18,000
Gamescom Asia	Oct'20	30,000

Source: DBS Bank

The seasonal trend for hospitality REITs **CDL HT** and **FEHT** reveals that the period from January to April is the strongest period of the year. With the ex-dividend dates for **CDL HT** (semi-annual) and **FEHT** (quarterly) coming up in February, we see this as a great time to be invested in these two hospitality REITs.

CDL HT seasonality trend – 2011 to 2019



Source: DBS Bank

FEHT seasonality trend – 2013 to 2019

Source: DBS Bank

Bombed-out cyclicals with recovery potential

Recovery optimism is on the uptick with US-China trade tensions on the mend, accommodative monetary policies and fiscal stimulus likely to pick up. We thus see opportunity in cyclical stocks with good earnings recovery potential that are trading at a depressed valuation. Our picks are **Yangzijiang**, **Genting**, **SIA** and **Hong Kong Land.**

Yangzijiang is well positioned to ride on the sector consolidation and shipbuilding recovery. The company's strategy to move up into the LNG/LPG vessel segment strengthens its longer-term prospects. Order flow is trending up as IMO2020 approaches. The Chairman's recent return is a positive development that removes a major overhang on the stock price. The stock trades near its net cash of S$1/share and 0.7x P/BV which is at -1SD of its 4-year average.

We expect a mid-teen earnings recovery in FY20F and FY21F for **SIA** as we remain positive that the company's transformation programme will pay off for parent airline SIA. We note that SIA has hedged 75% of its fuel consumption at c. US$76pbl for the rest of FY20, which provides some downside protection should a negative turn in the Middle East tension lift jet fuel prices. The stock trades at an attractive 0.87x FY19 and FY20 P/BV, which is c. -1SD against its 10-year average. We see good technical support at S$8.83.

For **Genting Singapore**, we see a bottom in casino volumes in FY19, expect 2-3% recovery in rolling chip and mass gaming volume in FY20-21 underpinned by a more positive macroeconomic outlook, and a vibrant line-up of returning and inaugural conferences this year. The ability to clinch either the Osaka (winner to be selected by 3Q20) or Yokohama (by 4Q20) IR project is a potential re-rating catalyst. Genting shares trade at 7.0x EV/EBITDA (FY19), which is around -1.5SD of its mean and notably below the 12.8x median of regional peers.

HK Land trades at a 54% discount (near -2SD of 61% discount over 10-year period) to our current estimated NAV of US$12.5. While we expect the reversionary growth for its Central office portfolio to moderate as the market there has peaked out, the stock's steep discount to NAV cushions downside risk.

Bombed-out cyclicals

Company	Price 8 Jan	12-mth Target Price	Target Return	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 20 (%)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Genting	0.925	1.20	30%	BUY	15.5	14.6	4.4	6.5	3.8	cash	1.4
HK Land	5.730	6.64	16%	BUY	12.8	11.5	0.5	11.5	3.8	0.1	0.3
SIA	8.990	10.40	16%	BUY	11.9	10.9	13.5	9.0	3.3	0.6	0.8
Yangzijiang	1.160	1.68	44%	BUY	7.7	7.9	-3.1	-3.0	4.1	cash	0.8

Source: DBS Bank

Report contributed by: CHUNG Wei Le

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
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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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