

Regional Market Focus

Market Focus

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jan 2020

Catching the Wuhan bug

- Current Wuhan pneumonia statistics – 581 infected across 8 countries, 17
- Current outbreak appears less virulent compared to SARS; how China contains the virus during CNY period is key
- Potential sector beneficiaries – Groceries, hospitals, pharmaceuticals, gloves, telco, e-commerce
- Potential sector losers – Hospitality/Hotel, airlines/airport services, F&B, Wuhan production facilities

Headline news to worsen The spread of the Wuhan pneumonia (WHP) outbreak that has gripped Asia is set to worsen amid the most massive annual human migration that takes place during the Lunar New Year period. The number currently infected with WHP stands at 581 (98% from China) across 8 countries with 17 fatalities. With Chinese nationals estimated to make a total of 3bn trips during the CNY period, the fear is that the outbreak will degenerate into a global pandemic as infection rate surges further, and the virus spreads to more countries as Chinese citizens return to work after the holiday period.

WHP vs SARS While how the outbreak unfolds from here is uncertain, we see early signs that the current WHP virus may be better contained compared to SARS. Initial data suggests that WHP is less virulent with a lower fatality rate of about 3% (9.6% for SARS) and lower disease spread among healthcare workers at 2.9% (21.1% for SARS). The virus also appears to be less lethal to the young as all the current fatalities are aged above 48. Healthcare authorities are also better prepared, and the public is more vigilant. Most importantly, the Chinese authorities have taken the unprecedented measure of shutting down travel out of Wuhan, Huanggang and Ezhou. *We believe how China contains the spread of WHP during/after the crucial Lunar New Year period is key.* Back in SARS, stock markets bottomed in Mar03, merely 1 month after China notified WHO. The timing coincided with the start of Operation Iraqi Freedom.

Potential sector beneficiaries (1) Grocery stores - Sheng Siong (2) Private hospitals - Raffles Medical, Siloam Hospitals, Hermina (3) Pharmaceutical companies supplying pneumonia test kits and treatment such as CTRM (570HK) and Bayushan (874 HK) (4) Glove manufacturers – Top Glove, Hartalega, Kossan Rubber, Riverstone (5) Telecom - Advanced Info Service, DTAC, Singapore Telecom, XL Axiata (6) E-commerce - Koolearn Technology, Alibaba

Potential sector losers (1) Hospitality REITS/Hotel – CDL HT, Far East Hospitality Trust, Ascott Residence, Erawan (2) Airlines/airport services – China Eastern, SIA, Asia Aviation, Air Asia, Garuda, SATS, AOT, Malaysia Airports (3) F&B – Haidilao, Jumbo, Breadtalk, Koufu (4) Production facilities in Wuhan - Yangtze Optical FC

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Key Indices

	Current	% Chng
STI Index	3,234.56	-0.6%
HSI Index	27,909.12	-1.5%
KLCI Index	1,574.44	-0.2%
SET Index	1,573.70	-0.1%

Source: Bloomberg Finance L.P.

Market Key Data

	Earnings Gth (%)		PE (x)	
	20F	21F	20F	21F
Singapore	8.5	7.6	14.0	13.0
HK HSI	8.1	13.8	9.7	8.6
Thailand	9.0	6.0	15.7	14.8
Indonesia	7.3	6.3	17.3	16.3

STOCKS

STOCKS

	Price LCY	Mkt Cap US\$m	12-mth		Performance (%)		Rating
			Target LCY		3 mth	12 mth	
Potential sector beneficiaries							
Sheng Siong	1.27	1,413	1.41		10.4	14.4	BUY
CTCM	3.93	2,540	7.00		7.7	(19.6)	BUY
Riverstone	1.02	559	1.16		4.6	(7.3)	BUY
Baiyunshan	27.35	5,706	15.50		4.2	(10.3)	BUY
Singtel	3.34	40,361	3.80		3.1	10.6	BUY

Potential sector losers

The Erawan	4.60	380	6.30	(15.6)	(33.3)	BUY
Asia Aviation	1.93	307	2.85	(27.4)	(51.8)	HOL
AirAsia Group	1.61	1,321	1.95	(15.3)	(46.5)	HOL
Haidilao	30.00	20,459	35.10	(17.1)	70.3	HOL
Yangtze						
Optical Fibre	15.66	706	18.40	28.4	(28.2)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 23 Jan 2020



Live more, Bank less

Wuhan Pneumonia Outbreak

Headline news will worsen in the weeks ahead

A new strain of a coronavirus that originated from Wuhan has gripped Asia in the past week. The situation is likely to degenerate in the weeks ahead as the Chinese Lunar New Year period triggers the most massive annual human migration. The outbreak that started from Wuhan was first alerted by the Chinese authorities on 31 December last year. The number of those infected has since increased to 580 (98% from China) across 8 countries with 17 fatalities.

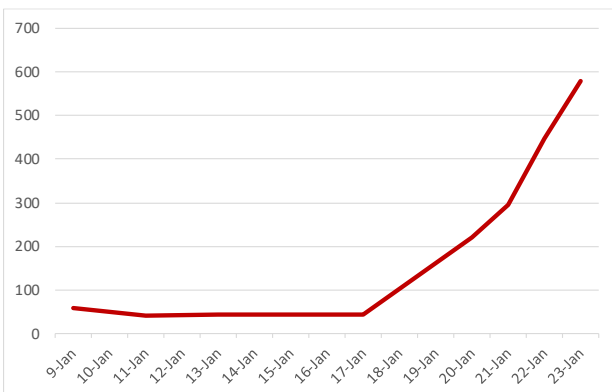
Spread of Wuhan pneumonia as on 23 Jan

Country	Infected	Deaths
China	571	17
Thailand	4	0
Japan	1	0
South Korea	1	0
Macau	1	0
Taiwan	1	0
Singapore	1	0
US	1	0

Source: DBS Bank

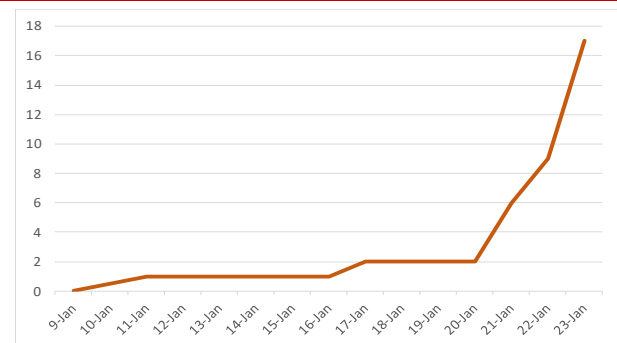
The total number of those infected has accelerated rapidly from 43 to 581 since 17 January, as the public became aware of the virus spread and symptoms emerging post incubation period, which is currently suspected to be about 2 weeks. The number of deaths has also picked up over the past week from 2 to 17. The current fatality rate is about 3%.

Number infected is accelerating



Source: DBS Bank

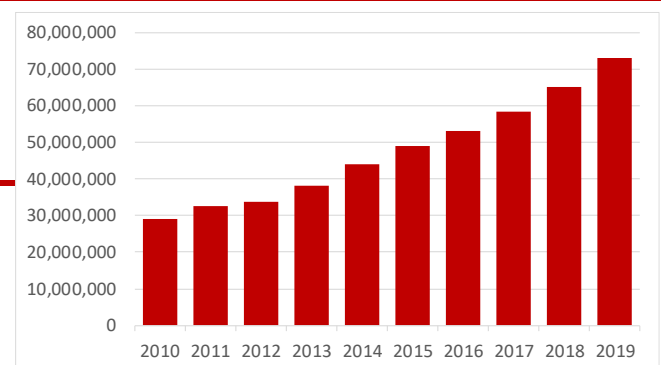
Deaths are rising



Source: DBS Bank

The Chinese health authorities have said that the virus is transmittable from human-to-human. The number of those infected and deaths will rise as both domestic and international travel passengers to/from China will surge during and post the Chinese Lunar New Year period. According to Bloomberg, it is estimated that Chinese citizens will make a total of 3 billion trips during this Lunar New Year period. China's railways expect 440 million trips (+8% y-o-y) while air passengers reach 79 million (>+8% y-o-y). The worry is a degeneration into a global pandemic as infection rates surge further, and the virus spreads to more countries as overseas Chinese citizens return to work after the holiday period.

Chinese air passengers during CNY holidays



Source: Civil Aviation Administration of China, forecast for year 2019

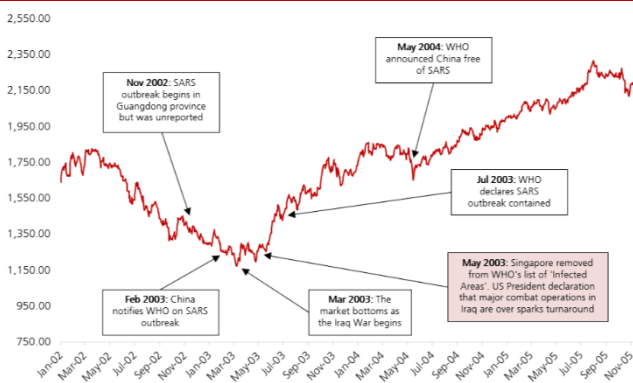
Lessons from SARS – It's the economy and Saddam

Observations on how Singapore market behaved during Nov02 to Jul03 SARS:

1. STI bottomed in Mar03, merely one month after China notified WHO on SARS outbreak

2. Mar03 bottom coincided with Operation Iraqi Freedom (2nd Iraq war) that saw a swift victory for the US
3. STI rose above consolidation sideways pattern in May03 and rallied c.20% by Aug03 after WHO removed Singapore from the list of SARS infected area, Operation Iraqi Freedom ended, and the global economies began a multi-year growth period.

SARS 2002-2003



Source: Civil Aviation Administration of China, forecast for year 2019

Early signs suggest current outbreak won't be as bad as SARS

The headline news will get worse in the weeks ahead and investors' confidence will be further stressed. The concern is that the Wuhan pneumonia will be a repeat of the 2002-2003 SARS incident that lasted 7.5 months before the World Health Organisation announced that the global SARS outbreak was contained.

While how the outbreak unfolds from here is uncertain, we see early signs that the Wuhan pneumonia outbreak may be better contained compared to SARS:

- **Initial data suggests that the Wuhan virus is less virulent compared to SARS** - While the current virus outbreak is still in its early phase, we observe that the fatality rate at about 3% is lower than 9.6% for SARS. The spread of the disease among health care workers provides a rough guide to how easily transmittable the virus is between humans. Based on current available data, the spread among healthcare workers is 2.6%, much lower than the 21.1% for SARS. The virus

also appears to be less lethal to the young as all the current fatalities are aged above 48.

Here, we stress that the outbreak is still developing, and the numbers will change as time passes.

Statistics -Wuhan pneumonia vs SARS

	SARS (Initial)	SARS (Final)	Wuhan pneumonia (Current)
Number of confirmed cases	305	8,096	580
Number of deaths	5	774	17
Spread to healthcare workers	c.91	1,706	15
Fatality rate	1.6%	9.6%	2.9%
Spread rate among healthcare workers	c.30%	21.1%	2.6%

Source: DBS Bank

- **Healthcare authorities are better prepared, and the public is more vigilant** – Healthcare authorities are now better prepared to tackle the spread of infectious diseases compared to during the SARS incident 17 years ago. Most importantly, with immediate effect, China has taken the drastic measure of shutting down air and rail travel, halting public transportation, cancelling public events and mandating the use of facial masks in Wuhan, the epicentre of the outbreak. More countries are now screening inbound travellers from the affected cities in China while Singapore will screen all inbound travellers from China.

Equally important, the public is better educated about personal hygiene and lifestyle changes necessary to minimise the risk of getting infected. In Singapore for example, we hear of workers reporting to work wearing facial masks.

The Chinese authorities have taken the tough, even brutal measure of shutting down travel out of Wuhan, Huanggang and Ezhou, home to about 20 million people in total.

We believe how China contains the spread of the Wuhan pneumonia during/after the crucial Lunar New Year period is key to how the outbreak develops from here.

Measures taken internationally

Country	Screening of travellers and quarantine of suspected cases	Additional Measures
China	Wuhan	<ul style="list-style-type: none"> ▪ Shutdown of travel out of Wuhan, Huanggang and Ezhou – outward flights and trains suspended, subways, buses, ferries halted, large public events cancelled ▪ Mandate to wear masks in public places in Wuhan ▪ Travel advisory for travel to Wuhan
Thailand	Wuhan, Beijing, Shenzhen	<ul style="list-style-type: none"> ▪ Strengthen surveillance of pneumonia cases in health facilities nationwide
Malaysia	Wuhan	
Indonesia	General	<ul style="list-style-type: none"> ▪ Travel advisory for all countries affected by coronavirus
Hong Kong	Wuhan	<ul style="list-style-type: none"> ▪ Train ticket sales to Wuhan cancelled ▪ Medical practitioners required to report suspected cases if patients have either a fever or symptoms of respiratory illness and had visited a mainland hospital or Wuhan ▪ Additional disinfection measures of planes and trains from Wuhan ▪ Travel advisory for travel to Wuhan
Japan	Wuhan	<ul style="list-style-type: none"> ▪ Travel advisory for travel to Wuhan
South Korea	Wuhan	<ul style="list-style-type: none"> ▪ Strengthen surveillance of pneumonia cases in health facilities nationwide ▪ Travel advisory for travel to Wuhan, warning against travel to Hubei
Taiwan	Whole of China including Hong Kong and Macau	<ul style="list-style-type: none"> ▪ Suspension of tour groups travelling to and from Wuhan ▪ Strengthen surveillance of pneumonia cases in health facilities nationwide ▪ Travel advisory for travel to Wuhan
United States	Wuhan, screening only at airports of San Francisco, Los Angeles, New York, Chicago, Atlanta	
Singapore	Whole of China	<ul style="list-style-type: none"> ▪ Set up of multi-ministry task force ▪ Travellers with pneumonia/acute respiratory infection and those developing symptoms within 14 days after travelling to China will be isolated ▪ Travel advisory for travel to Wuhan
Australia	Wuhan	<ul style="list-style-type: none"> ▪ Travel advisory for travel to Wuhan
WHO		<ul style="list-style-type: none"> ▪ Delayed decision on labelling of Wuhan coronavirus as a 'international emergency' ▪ Provided advice on how to monitor for sick people, test samples, treat patients, control infection in health centres, maintain the right supplies, and communicate with the public about this new virus

Source: DBS Bank

Potential sector beneficiaries

Potential beneficiaries

		Price (LCY)	12-mth Target Price	% Upside	Rcmd	PE (x) 20F	P/BV (x) 20F	EPS Growth (%) 20F	Comments
Company		23-Jan							
Groceries									
Sheng Siong	S\$	1.27	1.41	11%	BUY	22.5x	5.7x	9	Heartland stores could see boost in sales as people eat out less
Hospital									
Raffles Medical	S\$	1.00	1.12	12%	HOLD	30.6x	2.2x	(4)	People avoiding crowded public hospitals may drive demand
Siloam International	Rp	6,675	9,100	36%	BUY	119.0x	1.7x	76	
Medikaloka Hermina	Rp	3,400	4,650	37%	BUY	34.0x	3.4x	19	
Pharmaceutical									
China Traditional Chinese Medicine	HK\$	3.93	7.00	78%	BUY	9.3x	1.0x	16	May see rise in demand for pneumonia treatment products
Guangzhou Baiyunshan Pharma	RMB	37.68	41.65	11%	BUY	16.2x	2.2x	18	
Glove manufacturers									
Top Glove	RM	5.36	4.25	-21%	HOLD	30.5x	5.1x	21	Expected to repeat higher glove sales seen during SARS and H1N1
Hartalega	RM	5.89	4.00	-32%	FULLY VALUED	46.5x	8.1x	(9)	
Kossan Rubber	RM	4.64	4.00	-14%	HOLD	24.1x	3.8x	13	
Riverstone	S\$	1.02	1.16	14%	BUY	15.3x	2.6x	8	
Telecom, e-commerce									
Advanced Info Service	Bt	5.36	4.25	-21%	HOLD	30.5x	5.1x	21	Potential rise in data consumption as people avoid going outdoors
Total Access Communication	Bt	5.36	4.25	-21%	HOLD	30.5x	5.1x	21	
Singtel*	S\$	3.34	3.80	14%	BUY	17.9x	1.9x	14	
XL Asiat	Rp	3,220.00	4180.00	30%	BUY	28.5x	1.7x	80	School shutdown could see higher demand for online courses
Koolearn Technology	HK\$	22.95	11.40	-50%	FULLY VALUED	nm	na	nm	
Alibaba Group	US\$	222.37	242.00	9%	BUY	36.3x	6.5x	24	

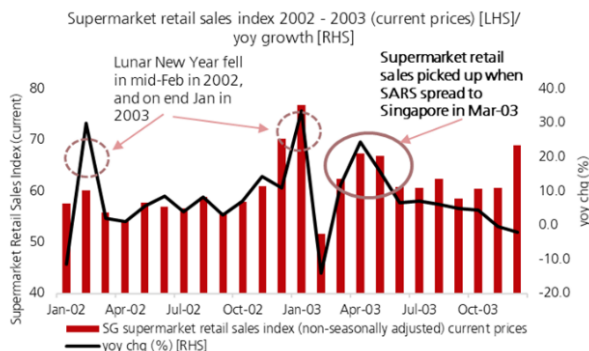
Source: Bloomberg Finance L.P., DBS Bank

Groceries

During the SARS episode in 2003, Singapore's supermarket retail sales surged during the outbreak as consumers minimised exposure to crowded areas (e.g. shopping centres, restaurants) and instead have their meals at home, and stocked up on essentials.

That said, comparing then to now, the key difference would be the growing prevalence of online grocery shopping. While that could limit the benefit to brick-and-mortar supermarket players, we believe counters like **Sheng Siong** could still be a beneficiary as the location of their stores are within the heartlands, i.e. closer to residential areas.

Singapore supermarket retail sales index during SARS



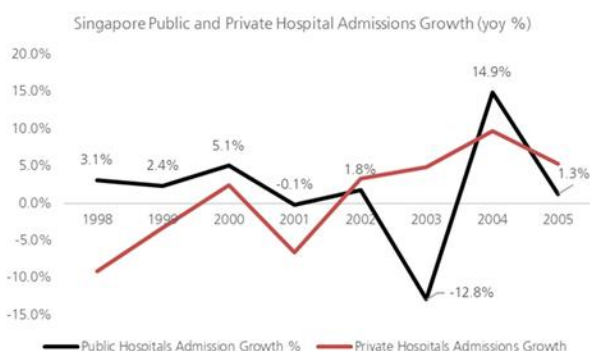
Source: Thomson Reuters, DBS Bank

Healthcare & pharmaceutical

Admissions to public hospitals during the SARS outbreak plummeted in 2003 while those at private hospitals such as **Raffles Medical** remained resilient. In Singapore, the general public avoided public hospitals especially Tan Tock Seng, which was designated as the screening and treatment centre.

While healthcare services may see an uptick from those preferring a less crowded private clinic to the public healthcare centres, we are also cognizant that hospital players could face higher operating costs as use of consumables and preventive measures increase during the outbreak, and elective procedures are postponed. That said, private hospitals could see a surge in patients post the period as delayed elective procedures are performed.

Singapore public/private hospital admissions



Source: DBS Bank

In Indonesia, **Siloam Hospitals** is the largest private hospital chain operator with c.40 hospitals around the country and more exposure to private patients and foreign tourists as well.

Herrmina is one of the largest private hospital chains in Indonesia that serves insurance patients.

Pharmaceutical stocks listed in Hong Kong such as **CTCM (570 HK)** and **Baiyushan (874 HK)** that produce Chinese medicine products to treat pneumonia patients and diagnostic kits for Wuhan pneumonia should see a strong uptick in demand for their products.

Glove manufacturers

Malaysian glove makers such as **Top Glove**, **Hartalega** and **Kossan Rubber**, and Singapore's **Riverstone** could benefit. The growing anxiety of the deadly virus is expected to result in higher consumption of medical gloves that could translate into better earnings for glove makers for 1Q20. A prolonged outbreak will further increase glove shipments.

Telecom and e-commerce

Data consumption should rise as people avoid going out and would spend more time on social media and data streaming. This is positive for telco companies such as **Advanced Info Service**, **DTAC**, **Singapore Telecom** and **XL Asiat**.

Alibaba (BABA US) may benefit from traffic boost, use of ecommerce platforms, and use of social media as shoppers stay home in lieu of going out. Meanwhile, China-based online education company **Koolearn Technology** should see increasing demand for online courses in the spring semester under the current situation. If the situation turns even worse, e.g. schools shut down in spring semester, the demand would be even higher.

Potential sector losers

Potential losers

Potential Risks									
		Price	12-mth			PE /		EPS/	
		(LCY)	Target	%		*Dis	P/BV	*DPU Growth	
Company		23-Jan	Price	Upside	Rcmd	Yld	(x)	(%)	Comments
Hospitality									
*CDL Hospitality	S\$	1.64	1.80	10%	BUY	5.7%	1.1x	6	
*Far East									
Hospitality Trust	S\$	0.74	0.80	9%	BUY	5.3%	0.9x	2	Impact likely to be great as tourists and business traveller figures plunge
*Ascott Residence									
Trust	S\$	1.35	1.45	7%	BUY	5.6%	1.1x	3	
The Erawan Group	Bt	4.60	6.30	37%	BUY	22.0x	1.9x	25	
Airlines and Airport Services									
China Eastern									
Airlines	HK\$	3.77	5.10	35%	BUY	7.7x	0.7x	46	
Singapore									
Airlines**	S\$	8.85	10.40	18%	BUY	11.9x	0.8x	14	Decline in passenger load to hurt revenue
Asia Aviation	Bt	1.93	2.85	48%	HOLD	71.9x	0.5x	nm	
AirAsia Group	RM	1.61	1.95	21%	HOLD	50.4x	0.8x	2,540	
Garuda Indonesia	Rp	424.00	670.00	58%	BUY	4.4x	0.7x	11	
SATS Ltd**	S\$	4.88	5.06	4%	HOLD	21.2x	3.2x	11	
Airports of									Decline in regional travel should reduce airport service operations
Thailand	Bt	71.25	90.00	26%	BUY	35.6x	5.6x	12	
Malaysia Airports	RM	6.86	10.25	49%	BUY	16.5x	1.3x	18	
F & B									
Haidilao									
International	HK\$	30.00	28.70	-4%	HOLD	45.1x	12.1x	31	
Jumbo	S\$	0.37	0.47	27%	BUY	18.1x	3.2x	7	Lower customers as people refrain from heading outdoors
BreadTalk	S\$	0.60	0.61	1%	HOLD	25.5x	2.4x	(1)	
Koufu	S\$	0.78	0.88	13%	BUY	15.0x	3.6x	2	
Others									
Yangtze Optical									
Fibre and Cable	HK\$	15.66	16.40	5%	BUY	9.8x	1.1x	56	Disruption of (60%) operations in Wuhan

** FY21 forecast

Source: Bloomberg Finance L.P., DBS Bank

Hospitality, tourism and airlines

The hospitality, tourism and airline sectors are susceptible to plunging tourist arrivals and business travellers as corporates curb non-essential travel if the current situation worsens into an epidemic or worse, pandemic.

For example, **Singapore** is approaching the start of a continued ramp up of upcoming conference events in 1H20 (Singapore

Airshow, Food & Hotel Asia) which are expected to attract up to 80k trade event participations. While we do not expect any cancellations at this moment, the impact on hoteliers' performance can be significant if an epidemic/pandemic scenario develops, which would lead to a plunge in occupancy rates (AOR) and hotel room rates (ADR).

Back during the SARs outbreak in Feb-03, there was a steep drop in Singapore's AOR to 42% in 2Q13, which was below

the average breakeven point of 55%-60% for a hotel. This would be close to a 30 percentage-point drop from an average of 70%-75% in 2020. Rates are also likely to fall at a similar magnitude. The rebound was quick, recovering back to the 70+% occupancy levels following swift measures from the authorities to contain the further spread of SARs.

Hotel REITs (e.g. **CDL HT**, **Far East Hospitality Trust**, **Ascott Residence**) will naturally be impacted negatively (share price, DPU outlook etc), especially given the cyclical nature of its rentals (pegged to hotel operating performance). Using the Global Financial Crisis as an example, valuation of hotel REITs like CDLHT dropped to a low of 0.4x P/NAV from 1.1x PNAV before the event in anticipation of a drop in Hotel RevPAR.

At the height of SARS, we note **SIA**'s passenger load factors fell below 50% for a couple of months and SIA reported an operating loss for the most affected quarter. Share price also dipped as load factors fell. However, both load factors and share price recovered quickly once the pandemic subsided.

Should regional travel decline, we expect **SATS**' ground, ramp, gateway and flight kitchen operations in Singapore to be affected. During the SARS period, net profit fell 15% from S\$183.7m to S\$155.9m on the back of 9.3% y-o-y decline in revenue to S\$868.7m.

With air travel in and out of Wuhan suspended, **China Eastern** should suffer a loss of revenue on routes to and from Wuhan. Furthermore, China's domestic and international travel demand in the near term will also be affected by news of the outbreak.

For Thailand, the losers are **Asia Aviation**, **Erawan** and **AOT**. Asia Aviation's exposure to Chinese tourists currently accounts for almost one-third of total passenger revenue. Pure hotel play **Erawan** may struggle as c.80% of room revenue is contributed from foreign tourists that puts more pressure on its performance besides the current intense competition. International tourist arrivals account for c.60% of total passengers for **AOT**. Furthermore, AOT's airports may face higher expenses to control the virus outbreak.

In Malaysia, **Malaysia Airports** and **AirAsia** stand out as the potential losers as China is currently Malaysia's third biggest tourism market after Singapore and Indonesia. This may further derail the Visit Malaysia 2020 campaign that is anticipated to draw record high tourist arrivals this year.

Retail malls, F&B

Malls along popular tourist shopping belts such as Orchard Road in Singapore could suffer from lower tourist receipts while suburban malls remain more resilient.

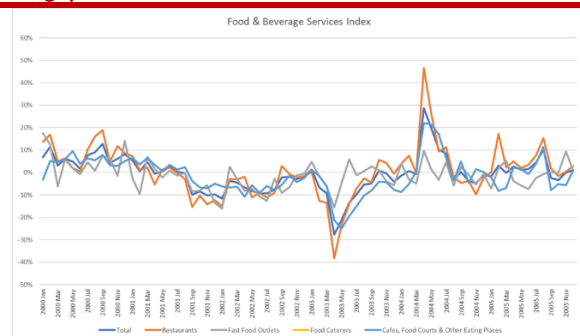
Still, back during the SARS outbreak, malls maintained good occupancies of above 90% - 95%, demonstrating strong resilience in both occupancy and rents. At the Orchard Road belt and established suburban locations, prime malls generally recorded stable occupancy of 95% for the full year, with positive rental reversions.

Suburban malls are generally less vulnerable compared to malls in the central as people may cut back on travelling and public transport, as seen during the SARS period. However, the closure of certain F&B tenants in malls is a concern. F&B tenants normally make up a big percentage of mall contribution by gross rental income (GRI), in the range of 40%. During the SARS outbreak, there was a prominent dip in the food and beverages index, that saw restaurants dipping close to 40% on a y-o-y basis.

F&B retail sales suffered, seeing y-o-y drop of 22% in April and May 2003, at the height of the outbreak. In the event of an epidemic, we could see food service/ restaurant players like **BreadTalk**, **Jumbo** and **Koufu** being impacted.

Hong Kong listed **Haidilao** should suffer a significant drop in traffic footfall in impacted cities as consumers avoid crowded areas including malls, restaurants and other entertainment facilities. If we refer to Hong Kong during the SARs period, overall restaurant receipts declined by 19% y-o-y in 2Q03.

Singapore F&B services index



Source: DBS Bank

Singapore supermarket & F&B retail sales growth during SARS



Source: Thomson Reuters, DBS Bank

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

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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