Singapore Market Focus

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DBS Group Research . Equity

31 Mar 2020

Easter Bunny gets stay-home notice

- STI rebound capped - Sideways trend ahead from 2,300 to 2,600
- Three COVID-19 themes – (1) Survivors: SGX, AREIT, Wilmar, MINT; (2) Resilient: Starhub, Netlink, Sheng Siong , Dairy Farm, MUST, MCOT; (3) China recovery: CRCT, CapitaLand, Yangzijiang
- Four stocks to top slice: CDLHT, Ascott Residence, CMT, SATS

Recession fears. Virus and global recession fears return after last week's sharp market rebound, triggered by extreme valuation after the selldown, concerted global fiscal stimulus and the FED cutting rates to zero. The COVID-19 situation continues to worsen in US (23% global GDP) and the top 5 economies of Europe (15.2% GDP). Trump has pushed back his plan to reopen business by 12 April, to end-April. It remains to be seen if this is even possible with the number of US infected cases at 142k and rising at a c.18k daily rate. In ASEAN, Indonesia (35% of ASEAN GDP) is the main concern as its high 8.7% fatality rate hints of undetected infections within the country.

Déjà vu October 2008. The concerted global fiscal stimulus and aggressive rate cuts in March is reminiscent of the coordinated global central banks' actions back in October 2008. This temporarily halted the global market plunge, which than swung into a broad sideways trend that lasted three months before sinking to a new low in 1Q09, when GDP contraction was at its deepest point. We expect a similar development with STI likely range bound from 2,300 to 2,600 in the month ahead. STI is trading at about -2SD forward PE after factoring in labour cost savings from the government's supplementary budget. The index bottomed at -3.75SD during GFC, and a similar valuation extreme could see it falling to c.2,050 over time before bottoming.

Three COVID-19 themes. With the panic/margin selling halted at least for now, we see three themes standing out amid the unfolding pandemic: (1) **Survivors -** Companies with low gearing, good cashflow and earnings visibility will likely survive if the pandemic extends into 3Q (**SGX**, **AREIT**, **Wilmar**, **MINT**); (2) **Resilient –** Companies resilient to the short-term supply chain disruption, sharp drop in consumer spending and impact of travel restrictions (**Starhub**, **Netlink**, **Dairy Farm**, **Sheng Siong** , **ManuLife REIT, MCOT;** (3) **China recovery** – Companies that benefit from China's return to normalcy (**CRCT**, **CapitaLand**, **YZJ**).

Four stocks to top slice. Outlook for aviation and travel/tourism sectors remains bleak despite support measures from the Enhanced Jobs Support Scheme. While there will be cost savings for companies with operations in Singapore, the impact to top line and cashflow from COVID-19 remains a key concern. This is especially true for companies with overseas operations. Retail malls will also be affected by the ever-tightening measures to restrict footfall. The stocks to top slice are **CDL HT**, **Ascott Residence**, **CMT** and **SATS.**

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Key Indices

	Current	% Chng
FS STI Index	2481.2	2.7%
FS Small Cap Index	239.67	2.6%
SGD Curncy	1.43	0.2%
Daily Volume (m)	1,349	
Daily Turnover (S$m)	1,880	
Daily Turnover (US$m)	1,315	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2019A	-0.4	5.5
2020F	-7.5	5.4
2021F	13.5	5.6
(x)	**PER**	**EV/EBITDA**
2019A	11.1	11.6
2020F	12.0	12.2
2021F	10.6	10.5

STOCKS

	Price S$	Mkt Cap US$m	12-mth Target S$	Performance (%) 3 mth	12 mth	Rating
Singapore Exchange	9.19	6,908	9.60	0.2	22.0	BUY
Ascendas REIT	2.83	7,176	3.45	(8.8)	(4.8)	BUY
Wilmar International	3.23	14,375	4.00	(25.7)	(7.3)	BUY
Mapletree Industrial Trust	2.43	3,753	3.00	(12.2)	9.5	BUY
StarHub	1.33	1,616	1.40	(7.8)	(12.1)	BUY
NetLink NBN Trust	0.91	2,475	0.95	(5.3)	7.2	BUY
Sheng Siong Group	1.19	1,256	1.45	(6.5)	11.5	BUY
Dairy Farm	4.60	6,222	4.70	(22.5)	(47.1)	BUY
Manulife US Real Estate Inv	0.73	1,137	1.15	(29.7)	(17.8)	BUY
Mapletree Commercial Trust	1.83	4,247	2.60	(23.5)	(3.3)	BUY
CapitaLand Retail China Trust	1.22	1,035	1.75	(26.1)	(24.1)	BUY
CapitaLand	2.85	10,086	4.50	(26.0)	(24.4)	BUY
Yangzijiang	0.83	2,283	1.50	(26.6)	(44.7)	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 31 Mar 2020

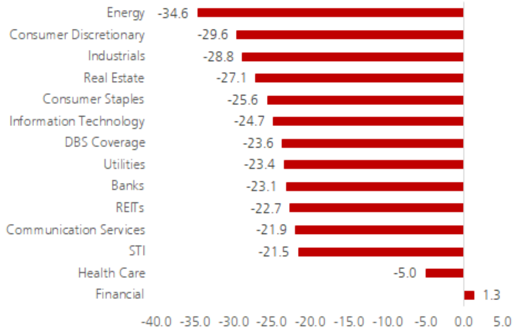
DBS
Live more, Bank less

April Market Outlook

The Great COVID-19 crash

- STI dived 586pts (-19%) m-o-m to 2,425 as the COVID-19 pandemic triggered fears of a global recession even as the situation has improved in China
- **Financials** outperformed led by **Singapore Exchange** which saw high trading volumes as a result of the volatility
- **Energy** fared the worse as **China Aviation Oil** tumbled on concerns of the impact on jet fuel demand from COVID-19
- **Healthcare** declined but outperformed, buoyed by **Riverstone** which is expected to see strong demand for healthcare gloves

FTSE ST Indices' relative performance for March



Source: DBS Bank

No more room for rate cuts by FED

- April FOMC Meeting
  - FED cut rates by a total of 150bps in March to 0.25% as COVID-19 takes a toll on the economy
  - No room left for rate cuts without going negative
  - Consensus does not expect any more cuts at the 29 April FOMC

April event calendar

Date	Event	Comments
15 Apr	South Korea Parliamentary Elections	Elections to continue with coronavirus measures in place
29 Apr	FOMC Meeting	Consensus not expecting further rate cuts

Source: Bloomberg Finance L.P., DBS Bank

Monetary policy response

- FED's move to slash rates by 150bps to between 0.00% and 0.25% led a global easing effort
  - Most central banks in Asia have implemented rate cuts with Hong Kong and the Philippines implementing the steepest cuts of 114bps and 75bps respectively
  - Our economist expects further rate cuts in Indonesia, India and Korea
  - MAS has eased the appreciation of the Singapore Dollar to 'zero slope' and lowered the mid-point of its policy band

COVID-19 rate cuts since February

Country	Rate	Basis Points Cut
Singapore	MAS has eased the appreciation of SGD to 'zero slope' and lowered the mid-point of its policy band	
US	0.25%	150
Malaysia	2.50%	25
Indonesia	4.75%	25
Thailand	0.75%	50
Philippines	3.25%	75
HK	0.86%	114
China	2.40%	10
Korea	0.75%	50,
India	5.15%	No rate cut yet
EU	0.00%	No rate cut

Source: DBS Bank

Fiscal measures announced so far

Country	% of 2018 GDP	Details
Singapore	10.0	S$6bn support package and S$48bn resilience package introduced
Malaysia	1.3	RM270bn stimulus in total
Indonesia	0.8	Two fiscal packages totalling c.US$9bn announced
Thailand	2.5	US$12.7bn stimulus encompassing soft loans, tax reliefs and utilities cost support
Philippines	1.3	US$530m package largely targeting tourism industry announced with second package worth US$3.9bn being prepared
Korea	4.9	US$80bn rescue package announced
US	10.7	US$2.2tr package currently being voted in the Senate detailing direct payments to lower-income citizens, boost in unemployment benefits and loans
France	1.7	€45bn package with various measures such as reduced social security contributions and unemployment benefits
UK	1.4	US$39bn fiscal boost with sizeable allocation to NHS and abolishment of business rates in certain sectors
Germany	20.5	US$810bn package largely comprising loan guarantees

Source: DBS Bank

Concerted fiscal stimulus

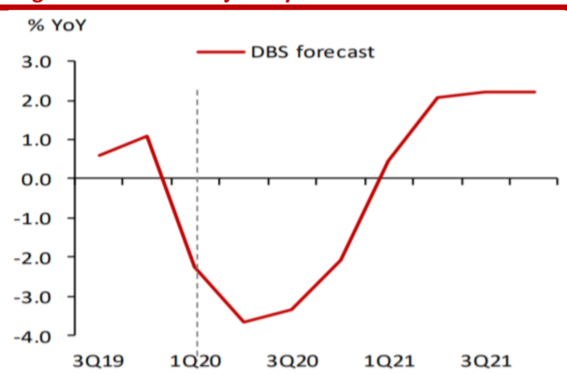
- Governments around the world have introduced measures totalling over US$3tr in concert with monetary policy easing
- Most of the stimulus packages feature three of the following characteristics:

1. Tax breaks aimed at small- and medium-sized enterprises
2. Assistance for workers who face loss of income
3. Liquidity support through loans to help companies tide through this period

Singapore recession looms

- 1Q20 advanced estimates contracted 2.2% y-o-y
- Government forecasts FY GDP contraction of 1% to 4%
- The construction sector led the decline in 1Q20 (-4.3% y-o-y) with services (-3.1% y-o-y) and manufacturing (-0.5% y-o-y) was weak as well
- Our economist has revised FY GDP growth forecast to -2.8%, even worse than during both the global and Asian financial crises

GDP growth forecast trajectory

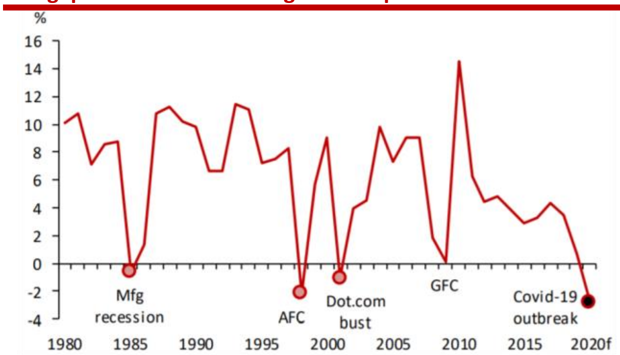


Source: DBS Bank

Singapore's fiscal guns take aim

- Second fiscal package worth S$48.4bn announced with up to S$17bn to be drawn from reserves
- Lifeline for aviation-related and hospitality industries
- Enhanced Jobs Support Scheme (worth S$13.8bn) to cover 25% of monthly wages for local workers up to S$4,600/month for nine months → Benefits **ComfortDelgro, SingTel, Starhub**
- Targeted help for aviation, tourism and F&B sectors which will be entitled to 50-75% wage offsets under the Enhanced Jobs Support Scheme → Benefits **SATS, Genting**
- Enhanced Grocery vouchers → Benefits **Sheng Siong, Dairy Farm**
- A range of support for companies including property tax rebates and bridging and working capital loans

Singapore's historical GDP growth & past recessions



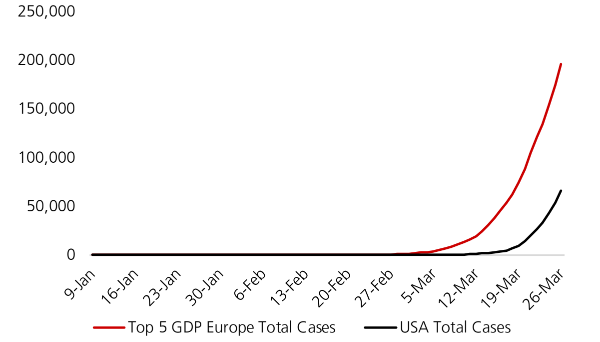
Source: CEIC, DOS, DBS Bank

COVID-19 update

Back to work by 12 April was 'wishful thinking'

- Why it's important
  - US accounts for 23% of global GDP
  - Prolonged impact from COVID-19 could trigger spike in unemployment rate
  - Consumer spending accounts for c.70% of US GDP
- Total cases of 131,400 has exceeded China's figure
- New York is worst hit with 59,500 cases, 19 other states with >1,000 cases currently
- Timeline to outbreak containment still uncertain due to lack of federal government action
- Trump has pushed back his plan to reopen business by 12 April, to end-April
- **US REIT** and **KORE** have both retraced 38.2% of their recent share price plunge → further near-term upside may be limited

Total cases: Europe-5 and US

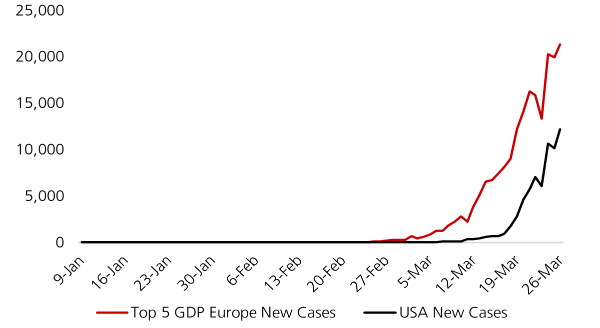


Europe 5 – Germany, Italy, France, Spain, UK
Source: DBS Bank

Europe – Still rising

- Why it's important: Top 5 European economies of Germany, France, Italy, Spain and UK account for 15.2% of global GDP
- Total cases of 97,600 in Italy has exceeded China's figure
- Spain (currently 78,800 cases) and Germany (currently 60,600) could also exceed China in the days/week ahead
- Cases in France (currently 37,500) and UK (currently 19,500) are rising

New daily cases: Europe-5 and US

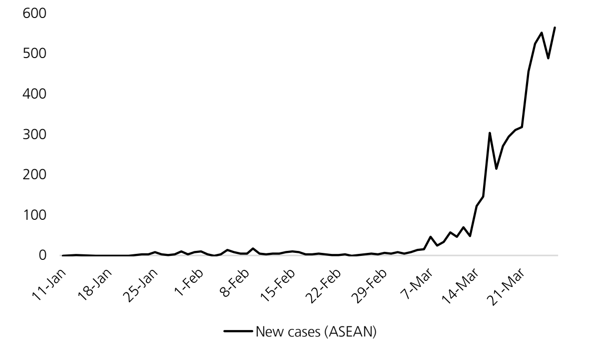


Europe 5 – Germany, Italy, France, Spain, UK
Source: DBS Bank

ASEAN – Indonesia a cause for concern

- Total cases 5,733 and still rising
- Main concern is Indonesia
  - Largest economy with GDP of US$1.04bn, 35% of ASEAN's GDP
  - 893 infections but unusually high fatality rate of 8.7% hints of more undetected infections
- Malaysia has extended lockdown by another two weeks till 14 April
  - Impacts **Venture** and **UMS** with factories there

New daily cases: ASEAN



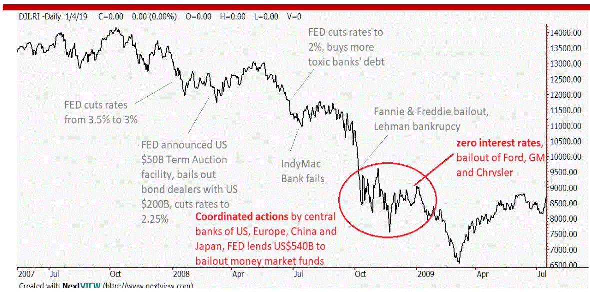
Source: DBS Bank

Yet to hit bottom

Déjà vu October 2008

- Concerted fiscal stimulus across the globe over the past two weeks and FED funds rate slashed to just 0.25%
  - Reminiscence of the coordinated actions by global central banks to prevent financial markets' collapse back in October 2008
  - Stock market rebounded followed by a period of sideways volatility over next three months
  - US stock market bottomed only in 1Q09, when GDP contraction was at its deepest
- We see similarities between current period and October 2008 → Expect volatility in the short term, a lower low in 2Q20 is possible as the full economic impact of COVID-19 pandemic is felt across the globe

Dow Jones: Global financial crisis timeline



Source: DBS Bank, TheNextView

Straits Times Index @ -2SD PE valuation

- Supplementary budget has an estimated 4% cost savings for STI's 2020F earnings
- STI's 2020F EPS growth is now -5% (previously -9%), 2021F EPS grow is 12.4%
- Table on the right shows estimated forward PE levels after adjusting for cost savings
- More earnings cuts can be expected as the risk of global recession increases
- STI currently at 10.81x (-2SD) 12-month forward PE
- Expect broad sideways trend from 2,300 to 2,600 in the weeks ahead
- STI bottomed at -3.75SD during GFC → Similar valuation extreme would see STI at c.2,050

STI 12-month forward PE estimates (post budget)

	-2.5 sd 10.22x PE	-2.25sd 10.52x PE	-2sd 10.81x PE	-1.75sd 11.11x PE	-1.5sd 11.41x PE	-1.25sd 11.7x PE
FY20	2,330	2,398	2,464	2,532	2,601	2,668
FY21	2,519	2,593	2,664	2,738	2,812	2,883
12-mth fwd	**2,393**	**2,463**	**2,531**	**2,601**	**2,671**	**2,739**

Source: DBS Bank

Strategy

We believe three investment themes will prevail as concerns on the impact from shutdowns and other government measures add to worries on supply chain and travel disruptions.

COVID-19 survivors

These are the companies that are likely to survive the current crisis and a recession if the pandemic extends beyond the summer months into 3Q. We prefer companies with low gearing, good cashflow and earnings visibility. **Singapore Exchange**, **Ascendas REIT**, **Wilmar** and **Mapletree Industrial Trust** are our picks.

SGX is seen as a hedge against market volatility as it stands to benefit from spikes in market flows for derivatives and equities. **AREIT** is buoyed by quality assets and long rental WALE while **Wilmar's** well-diversified product line and strong consumer presence in China is irreplaceable. **MINT's** recent foray into data centres has raised its earnings quality and growth outlook.

COVID-19 resilient companies

Stocks that are resilient to the short-term supply chain disruption, sharp drop in consumer discretionary spending and impact of travel restrictions. These would be companies in sectors such as communication services, e-commerce, internet services and consumer staples. Our picks are **Starhub**, **Netlink**, **Dairy Farm**, **Sheng Siong**, Riverstone, **ManuLife REIT** and **Mapletree Commercial Trust. Sheng Siong** benefits from the additional cash handouts from Singapore's supplementary budget and is in a net cash position

COVID-19 recovery in China

We expect **Yangzijiang**, **CapitaLand Retail China Trust** and **CapitaLand** to benefit from a return to normalcy in China. **Yangzijiang** recently secured a large contract and should benefit with an increase in yard activity. **CRCT** and **CapitaLand** may benefit from a pickup in China consumer demand with the former having 100% exposure to China and the latter deriving 83.7% of its FY19 EBIT from Singapore and China.

COVID-19 picks

Company	Price 27 Mar (LCY)	12-mth Target Price (LCY)	Target Return	Sector	Rcmd	PER 20 (x)	PER 21 (x)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Covid survivors										
Ascendas Reit	3.200	3.45	8%	REITs	BUY	22.2	22.2	4.4	0.4	1.5
MINT	2.310	3.00	30%	REITs	BUY	18.2	17.7	5.6	0.3	1.5
SGX	9.040	9.60	6%	Financial	BUY	23.4	21.7	3.3	cash	8.9
Wilmar	3.220	4.00	24%	Cons Staples	BUY	13.3	13.2	3.4	1.0	0.9
Covid resilience										
Dairy Farm (US$)	4.500	4.70	4%	Cons Staples	BUY	17.5	15.6	4.7	0.7	5.0
Mapletree Commercial Trust	1.89	2.60	37.6%	REITS	BUY	20.2	19.8	5.3	0.35	1.2
Manulife US REIT (US$)	0.750	1.15	53%	REITs	BUY	13.6	12.4	8.4	0.5	0.9
NetLink	0.885	0.95	7%	Comm Svcs	BUY	35.4	32.9	5.9	0.2	1.2
Sheng Siong	1.170	1.45	24%	Cons Staples	BUY	20.1	18.9	3.5	cash	5.6
StarHub	1.300	1.40	8%	Comm Svcs	BUY	15.0	14.1	6.9	1.5	7.1
China recovery										
CapitaLand	2.950	4.50	53%	Real Estate	BUY	8.3	7.6	4.1	0.5	0.6
CRCT	1.190	1.75	47%	REITs	BUY	13.4	12.6	8.3	0.4	0.8
Yangzijiang	0.850	1.50	76%	Industrials	BUY	6.2	5.6	4.7	cash	0.5

Source: DBS Bank

Top slice stocks affected by COVID-19 measures

The outlook for the aviation and travel/tourism sector remains bleak despite the support measures from the Enhanced Jobs Support Scheme (JSS). For the aviation and tourism-related, and food services sector, the JSS will support 75% and 50% of the first S$4,600 of employees' gross monthly wages for nine months. The aviation sector will also receive S$350m support to provide cost relief for the sector.

While there will be cost savings for companies with operations in Singapore, the impact to top line and cash flow from

COVID-19 restrictions remains a key concern. Retail malls will also be affected by the social distancing measures that restrict footfall and the Singapore government's advice to avoid non-essential trips to the malls.

Current rebound provides a good opportunity for investors to shift their portfolio towards resilient stocks and trim positions on sectors which are directly hit by COVIT. We advocate top slicing the following stocks on the rebound – **CDL HT**, **Ascott Residence**, **CMT** and **SATS**.

Hospitality and travel

Company	Price 27 Mar (S$)	12mth Target Price (S$)	Target Return	Mkt Cap (S$m)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Ascott Residence	0.810	1.50	85%	1,765	9.4	0.4	0.6
CMT	1.860	2.95	59%	6,861	6.6	0.3	0.9
CDL HT	0.795	1.75	120%	964	11.4	0.3	0.5
SATS Ltd	3.380	2.66	-21%	3,779	3.8	cash	2.3

Source: DBS Bank

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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)
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**Share price appreciation + dividends*

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