

Singapore Market Focus

Singapore Monthly Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Jul 2020

Gradual recovery ahead

- **2Q was the inflexion point, gradual recovery ahead**
- **COVID resilient stocks holding firm heading to results season**
- **Pullback in 'Phase 2 beneficiaries' an opportunity**
- **Travel/tourism stocks will lag 'Phase 2 beneficiaries'**
- **Yield stocks still in favour**

Election and earnings season in focus Singapore's General Election (GE) will divert some investor attention away from the stock market with polling day on 10 July. There has been no history of a pre-election rally, but there is positive correlation over a 1-mth period after polling day for STI to track the change in the incumbent's popular vote. This was 69.9% (average 66.3%) in the 2015 GE. Focus to return to earnings after the GE.

2Q inflexion, recovery gradual. The resurgence of COVID-19 cases in the US and caution ahead of the 2Q results season ended the sharp market rally in June. We see limited downside to STI post the mid-June pullback. Valuation is reasonable at below 12.6x (-0.5SD) 12-mth fwd PE after YTD cuts of 26% and 18% to FY20F and FY21F earnings respectively. Support levels are at 2550 and 2500. Expect a gradual recovery, but worst is likely behind us in 2Q. Attention should return to the phased reopening in coming months.

COVID resilient. This group outperformed ahead of the earnings season as investors anticipate a more stable or even positive 2Q report card. Be selective as the buy-in-anticipation can give way to sell-on-news if earnings merely come in-line. Our picks are **Thai Bev**, **MINT**.

"Phase 2 beneficiaries" pullback an opportunity. We see opportunity in the current pullback amid the "Circuit Breaker Phase 2" reopening of the Singapore economy. Beyond the 2Q results, the uptick in domestic demand benefits **CMT**, **FCT**, **Lendlease** and **ComfortDelGro**.

Travel/Tourism lagging "Phase 2 beneficiaries". Inbound tourism remains prohibited and outbound is greatly discouraged. But the reopening of 13 local attractions and resumption of domestic tours for local customers is seen as the first step towards reopening of both inbound and outbound tourism down the road. Limited downside for **ART**, **FEHT**, **CDL HT** and **SATS** although share price recovery for now will continue to lag "Phase 2 reopening" beneficiaries.

Still seeking yield. Yield stocks to remain in favour with interest rates expected to remain depressed till end-2021. Our picks for non-REIT large cap stocks with a dividend yield of at least 4.5% are **SingTel** and **Dairy Farm**. S-REIT picks are **AREIT**, **CCT**, **MINT**, **FLT** and **FCT**.

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Key Indices

	Current	% Chng
STI Index	2,610.17	0.8%
FS Small Cap Index	289.84	-0.2%
USD/SGD Currency	1.35	-3.3%
Daily Volume (m)	1,695	
Daily Turnover (S\$m)	826	
Daily Turnover (US\$m)	613	

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2019	1.0	4.8
2020F	(20.3)	4.4
2021F	19.3	4.7
(x)	PER	EV/EBITDA
2019	12.5	13.4
2020F	15.6	15.2
2021F	13.1	13.0

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target S\$	Performance (%)		Rating
				3 mth	12 mth	
Ascendas REIT	3.19	8,282	3.45	13.5	4.2	BUY
Ascott Residence	1.00	2,220	1.10	29.0	(23.1)	BUY
CapitaLand Mall Trust	2.00	5,295	2.15	15.6	(25.1)	BUY
CapitaLand Commercial Trust	1.72	4,766	1.95	17.8	(21.1)	BUY
ComfortDelGro	1.48	2,301	1.68	0.7	(45.2)	BUY
Dairy Farm (US\$)	4.58	6,195	5.10	2.7	(37.0)	BUY
Frasers Centrepoint Trust	2.32	1,864	2.95	10.5	(10.4)	BUY
Frasers Logistics & Commercial Trust	1.20	2,940	1.40	40.4	(0.8)	BUY
Koufu Group Limited	0.70	277	0.75	20.9	(2.8)	BUY
Lend Lease Global Commercial REIT	0.68	568	0.85	29.8	N.A	BUY
Mapletree Industrial Trust	2.90	4,581	3.25	18.4	30.0	BUY
Singtel	2.47	28,940	3.09	(2.0)	(29.2)	BUY
Thai Beverage Public Company	0.68	12,118	0.90	12.5	(19.2)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 1 Jul 2020



Live more, Bank less

July Market Outlook

Positive sentiment from reopening tempered by second wave

- STI rose 3.2% m-o-m to 2590 as gains from early June led by optimism of global reopening fell back amid a strong resurgence in US COVID-19 cases
- Singapore, and most European and Asian nations moved ahead to reopen their economies
- **Consumer staples** outperformed led by **Wilmar, Thai Bev and Dairy Farm**
- **Consumer discretionary** underperformed, dragged down by **Genting** and **SIA** as COVID-19 restrictions took their toll

No to negative rates

- Singapore General Elections
 - Incumbent received an above average 69.9% votes in 2015 GE
- July FOMC Meeting
 - Rates likely to remain unchanged despite US COVID-19 resurgence
 - FED has reiterated that it will not resort to negative rates during an economic downturn

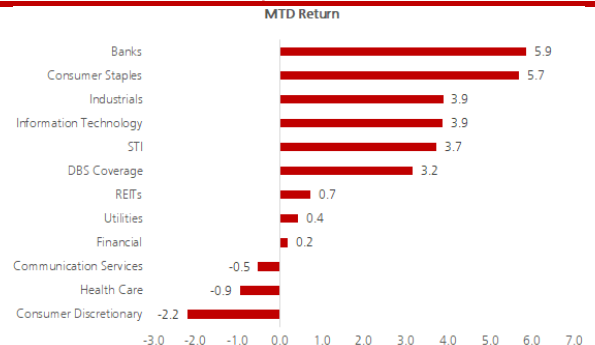
Reopening optimism checked by resurgence concern

- US suffers surge in new COVID-19 cases, setting a record of 45,255 cases on 26 June
 - Of concern is the surge in California, Texas, and Florida, the US's first, second and fourth largest states in GDP terms → shutdown will impact US GDP
- Keep an eye on EU countries
 - New COVID-19 cases appear to have stabilised
 - Intra-EU travel and tourism have begun among numerous countries (e.g. Germany, France, Italy)
 - We monitor the region for COVID resurgence as borders and tourism reopen

Biden's poll lead may raise corporate concerns

- As of 25 June, polls on an average put Joe Biden in a firm lead (+10.0 pts) over Trump
- Joe Biden's candidacy for President could be viewed negatively by the markets given his campaign promises
- Specifically, companies could face higher costs due to promises to:
 - Raise corporate income tax rate from the current 21% to 28%
 - Strengthen unions and implement federal minimum wage of US\$15/hr (from US\$7.25)
 - Renew efforts to fight climate change, which will benefit green industries but not energy industries

FTSE ST Indices' relative performance for June



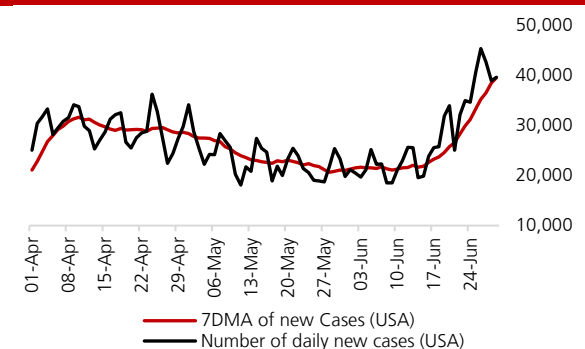
Source: Bloomberg Finance L.P., DBS Bank

July event calendar

Date	Event	Comments
10 July	Singapore General Elections	Incumbent received 69.9% votes in the 2015 election
29 July	FOMC Meeting	Consensus not expecting negative rates

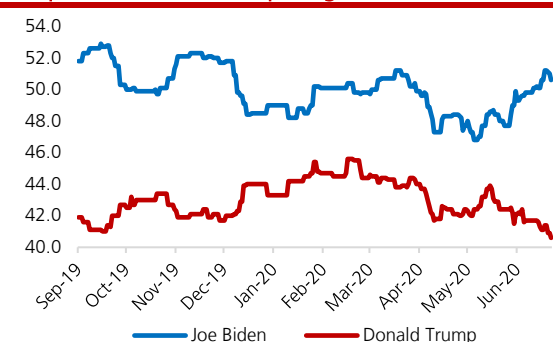
Source: Bloomberg Finance L.P., DBS Bank

New US cases have climbed past previous peak



Source: Bloomberg Finance L.P., DBS Bank

US polls show Joe Biden pulling ahead

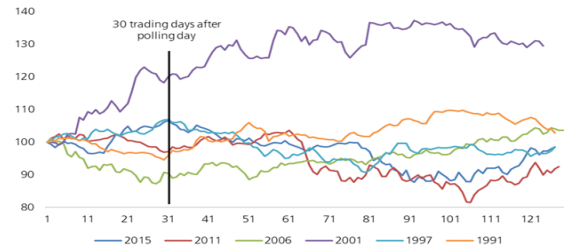


Source: Bloomberg Finance L.P., DBS Bank

Singapore stock market behaviour post GE

- 10 July Polling Day - No evidence of pre-election rally in Singapore based on the past six General Elections
- Post polling day STI performance based on past six General Elections
 - Strong correlation over a 1-mth period for STI to track the directional change in incumbent's popular vote
 - No clear trend beyond the first month as economy and corporate earnings overshadow initial post GE sentiment

STI performance after polling day



Source: Bloomberg Finance L.P., DBS Bank

Incumbent votes and STI performance

Year	Votes (%)	STI change after polling day (%)		
		1 month	3 months	6 months
2015	69.9 ↑	3.8 ↑	-1.8 ↓	-2.0 ↓
2011	60.1 ↓	0.5 ↓	-3.4 ↓	-8.1 ↓
2006	66.6 ↓	-9.0 ↓	-5.7 ↓	3.7 ↑
2001	75.3 ↑	11.9 ↑	35.2 ↑	31.1 ↑
1997	65.0 ↑	3.2 ↑	-3.7 ↓	-3.5 ↓
1991	61.0 ↓	-3.1 ↓	2.3 ↑	4.2 ↑

Ave. 66.3

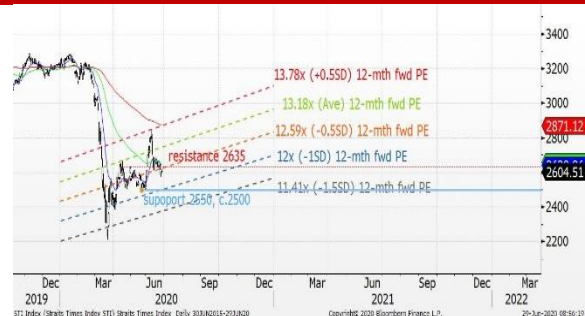
Median 65.8

Source: DBS Bank, Bloomberg Finance L.P.

STI supported by inexpensive valuation, phased reopening

- STI currently trades near 12.3x (-0.75SD, 2571) 12-mth fwd PE and 11.41x (-1.5SD, 2566) FY21F PE → valuation is inexpensive
- Early June rally unsustainable as US COVID-19 resurgence and 2Q results season uncertainty overshadowed Phase 2 reopening
- Phased reopening both within and inter-borders; localised lock-down compared to draconian measure and progress in vaccine development limits downside
 - Near-term support 2500, 2550
 - Near-term resistance 2635, upside break necessary to signal positive turn

Straits Times Index (Daily)



Source: DBS Bank

Strategy

The US COVID-19 resurgence and concern of more outbreaks globally as economies reopen has put a check on the early June rally driven by optimism of a cyclical recovery. There is also a sense of caution heading to the 2Q results season as the full impact of the economic shutdown due to the 'circuit breaker' that lasted a little over 2 months will be felt.

Despite this, we see limited downside to the STI post mid-June pullback because (1) STI's valuation is reasonable at below 12.6x (-0.55SD) 12-mth fwd PE despite the YTD cuts of 26% and 18% to FY20F and FY21F earnings respectively (2) Recovery may be gradual but worst (2Q) is likely behind us with the phased reopening of Singapore's economy both within and external to the country and (3) Localised lock-down is likely to replace draconian country-wide shut downs across the globe.

Focus for July should temporarily turn to the 2Q results season before attention returns to the gradual cyclical recovery as the phased reopening progresses in the months ahead.

COVID resilient stocks

COVID resilient stocks have outperformed cyclicals in the current market pullback as investors anticipate a more stable or even positive 2Q report card. While these stocks should remain firm in the near-term, we do not rule out a buy-in-anticipation, sell-on-news if results come in-line or below consensus expectations. These stocks would be glove maker **Riverstone**, semiconductor solutions provider **AEM**, spirits/beer producer **Thai Bev**, supermarket operator **Sheng Siong** as well as data centre REITs **Mapletree Industrial Trust (MINT)** and **Keppel DC REIT**.

COVID resilient stocks

Company	Price 30 Jun	12-mth Target Price	Target Return	Mkt Cap (\$m)	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 20 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
AEM	3.140	3.53	12%	861	BUY	9.5	9.0	68.3	2.7	cash	6.3
Sheng Siong	1.650	1.66	0%	2,481	BUY	26.1	24.9	25.4	2.7	cash	7.9
Thai Bev	0.675	0.90	33%	16,953	BUY	17.3	14.9	-6.4	2.9	1.1	3.2
Keppel DC Reit	2.540	2.55	0%	4,148	HOLD	27.8	24.8	11.3	3.3	0.3	2.2
MINT	2.870	3.25	13%	6,318	BUY	23.9	23.8	-19.9	4.3	0.3	1.8

Source: DBS Bank

Current pullback in COVID casualties an opportunity

COVID casualty stocks pulled back over the past 2 weeks amid profit taking ahead of the upcoming 2Q results season. While sentiment has been tentative heading to the 2Q results season, we see opportunity in the current pullback amid the Phase 2 reopening of the Singapore economy that should see an uptick in domestic demand underpinning retail REITs **CapitaLand Mall Trust (CMT)**, **Frasers Centrepoint Trust (FCT)** and **Lendlease Global**, transport operator **ComfortDelgro**, F&B operator **Koufu**.

While inbound tourism is currently prohibited and outbound tourism greatly discouraged, the reopening of 13 local attractions and the resumption of domestic tours for local customers only is seen as the first step towards the reopening of both inbound and outbound tourism later. Downside for hospitality REITs **Ascott Residence Trust (ART)**, **Far East Hospitality Trust (FEHT)** and **CDL HT** as well as airport services provider **SATS** should be limited although recovery for now will continue to lag that of "Phase 2 reopening" beneficiaries.

Pullback in COVID casualties an opportunity

Company	Price 30 Jun	12-mth Target Price	Target Return	Mkt Cap (\$m)	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Phase 2 reopening beneficiaries											
CMT	1.960	2.15	10%	7,233	BUY	18.0	15.7	14.4	5.0	0.3	0.9
FCT	2.310	2.95	28%	2,587	BUY	22.1	18.9	16.9	4.4	0.3	1.0
Lendlease Global	0.680	0.85	26%	797	BUY	19.5	18.0	8.8	7.1	0.3	-
ComfortDelgro	1.450	1.68	16%	3,142	BUY	17.3	12.5	37.9	2.9	cash	1.2
Koufu	0.690	0.75	9%	383	BUY	16.4	14.7	11.4	3.0	cash	3.7
Inbound-outbound tourism reopening beneficiaries											
ART	1.000	1.10	10%	3,095	BUY	32.0	16.7	91.0	4.5	0.4	0.8
CDL HT	1.020	1.30	27%	1,241	BUY	46.2	20.2	128.3	4.8	0.3	0.7
FEHT	0.495	0.60	21%	968	BUY	25.0	18.6	34.7	5.4	0.4	0.6
SATS Ltd	2.860	2.64	-8%	3,196	HOLD	nm	41.8	nm	2.3	0.0	2.0

Source: DBS Bank

Hunt for yield continues

Yield stocks are likely to remain in favour with interest rates expected to remain depressed till end-2021. Non-REIT large

cap stocks with a dividend yield of at least 4.5% are banks **UOB** and **OCBC**; telco stocks **SingTel** and **Netlink Trust**; gaming stocks **Genting Singapore** as well as **ST Engineering** and **Dairy Farm**.

Potential candidates for yield

Company	Price 30 Jun	12-mth Target Price	Target Return	Rcmd	PER 20 (x)	PER 21 (x)	EPS Growth 20 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
UOB	20.230	17.50	-13%	HOLD	11.5	9.8	-32.2	5.4	0.0	0.9
Genting	0.760	0.75	-1%	HOLD	156.1	24.0	-91.6	5.3	cash	1.1
NetLink	0.970	1.02	5%	HOLD	40.2	37.2	20.4	5.3	cash	1.3
OCBC	9.000	7.90	-12%	HOLD	11.2	10.1	-27.3	5.1	0.0	0.8
SingTel	2.460	3.09	26%	BUY	15.1	14.5	8.0	5.0	0.4	1.5
ST Eng	3.300	3.40	3%	HOLD	20.1	18.9	-13.5	4.5	0.7	4.6
Dairy Farm (US\$)	4.650	5.10	10%	BUY	20.9	18.6	-8.0	4.5	0.7	5.2

Source: DBS Bank

Ascendas REIT (AREIT), CapitaLand Commercial Trust (CCT), Mapletree Industrial Trust (MINT), Frasers Logistics &

Commercial Trust (FLT) and Frasers Centrepoint Trust (FCT) are our picks among S-REITs.

S-REITs picks

Company	Price 30 Jun	12-mth Target Price	Target Return	Mkt Cap (\$m)	Rcmd	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
AREIT	3.17	3.45	9%	11,470	BUY	5.2	0.4	1.5
CCT	1.69	1.95	15%	6,527	BUY	4.4	0.4	0.9
MINT	2.87	3.25	13%	6,318	BUY	4.3	0.3	1.8
FLT	1.19	1.40	18%	4,056	BUY	6.0	0.4	1.2
FCT	2.31	2.95	28%	2,587	BUY	4.4	0.3	1.0

Source: DBS Bank

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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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