

Singapore Market Focus

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DBS Group Research . Equity

13 Oct 2020

Awakening from September slumber

- 3Q results season picks – AEM, UMS, CAO, Thai Bev, CMT
- Vaccine and reopening air hub– SATS, SIAE, STE, FEHT, ART, CDL HT
- Towards Phase 3 – ComfortDelgro, KREIT, Suntec REIT, MCT, Lendlease, CMT

Mix of earnings, politics and medicine. (1) STI trades at slightly above average PE as the 3Q results season starts. YE target is lowered to 2750 (from 2850) at 13.8x (+0.5SD) FY21F PE. We maintain that the worst of the earnings cuts has passed. STI likely touched a major low last month at our stated 2440 technical support, (2) Biden's average poll score has widened to a 9-pt lead vs Trump's. A Biden victory would lift sentiment for Asian and Singapore's small/open economy as he pledges to end the trade war with EU and reconsider China tariffs, (3) The outcome of the first Phase 3 COVID-19 vaccine trials could be this month with more to follow in coming months. One or more positive outcomes followed shortly by approval for public use will be a major boost for the crippled travel sector.

Picks for upcoming 3Q results season. **AEM** revised its FY20 revenue guidance upwards to S\$480-500m (from S\$460-480m) in September. **UMS** will benefit from the recovery in supply chain while demand for semiconductors remain strong. **China Aviation Oil** benefits from China's domestic air travel recovery to near/at pre-COVID levels. Strong demand from the October Golden Week holiday was an added lift. We expect **Thai Bev's** resilient revenue and EBITDA performance despite COVID-19 to continue into 4Q. Watch **CapitaLand Mall Trust** given the strong rebound in traffic to c.82% and c.73% of pre-COVID levels for IMM and Plaza Singapura/The Atrium.

Aviation/hospitality. Look beyond a lacklustre 3Q results season and concerns of a second infection wave. Anticipation of full-scale vaccine production next year and the gradual reopening of air space to include general travel going forward bode well for Singapore's aviation and hospitality sectors. Our picks are **SATS, SIAE, ST Eng, FEHT, ART** and **CDL HT**. At least five vaccine makers are looking to produce 500m to >1bn doses by end-2021 if approved. Meanwhile, Singapore will look to reopen its air borders without the 14-day stay-home-notice while guarding against inbound COVID-19 risks.

Path towards New Normal. Singapore will be progressively revealing more information about the transition into Phase 3 soon. Beneficiaries are: (1) Suntec Convention Centre's capacity to hold large MICE events is positive for **Suntec REIT**, and (2) Centrally located retail properties **CMT, MCT** and **Lendlease**, office REIT **Keppel REIT** and public transport **ComfortDelgro** will benefit from more employees returning to work.

STI : 2,552.42

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Key Indices

	Current	% Chng
STI Index	2,552.42	0.8%
FS Small Cap Index	290.25	-0.2%
USD/SGD Curncy	1.35	-0.7%
Daily Volume (m)	1,400	
Daily Turnover (S\$m)	988	
Daily Turnover (US\$m)	733	

Market Key Data

(%)	EPS Gth	Div Yield
2019	0.2	4.8
2020F	(34.1)	4.0
2021F	38.0	4.6
(x)	PER	EV/EBITDA
2019	12.6	13.5
2020F	19.1	17.4
2021F	13.8	13.3

Source: Bloomberg Finance L.P.

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth		Rating
			Target S\$	Performance (%) 3 mth 12 mth	
AEM Holdings	3.68	747	4.96	14.6 206.7	BUY
CapitaLand Mall	1.94	5,284	2.40	(4.9) (27.3)	BUY
China Aviation	1.00	635	1.20	(1.0) (16.0)	BUY
Far East Hospitality Trust	0.56	809	0.60	8.7 (20.6)	BUY
Keppel REIT	1.08	2,710	1.40	(1.8) (13.6)	BUY
SATS Ltd	3.10	2,561	3.66	11.5 (35.7)	BUY
Suntec REIT	1.44	2,998	1.81	0.0 (23.4)	BUY
ST Engineering	3.63	8,349	3.80	11.0 (9.7)	BUY
Thai Beverage Public Company	0.585	10,845	0.90	(14.0) (32.4)	BUY
UMS Holdings	1.03	406	1.37	10.2 63.5	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 12 Oct 2020



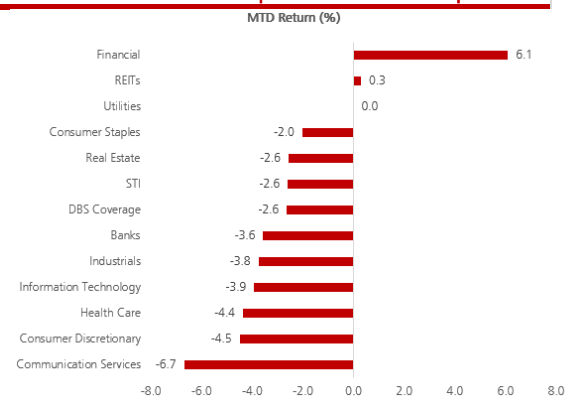
Live more, Bank less

October Market Outlook

Wake me up when September ends

- STI declined 2.6% m-o-m to 2,466.62 amid concern about COVID-19's second resurgence in EU and US
- **Financials (SGX, iFAST)** outperformed, led by the **SGX** as it lists the world's largest Chinese pure government bond ETF
- **Communication Services** underperformed the most as **SingTel** declined 8% on 1) selling pressure due to profit taking on its associate, Bharti Airtel, and 2) a weak operating outlook
- **Consumer Discretionary** underperformed as **Genting** declined 4% on reporting a loss in 1H20 and **Jumbo** fell 13% amid a tough operating environment
- **Health Care** declined 4.4% as **Riverstone** fell 13% after co-founder/CEO Lee Wai Keong trimmed his position from 10.92% to 8.82%

FTSE ST Indices' relative performance for September

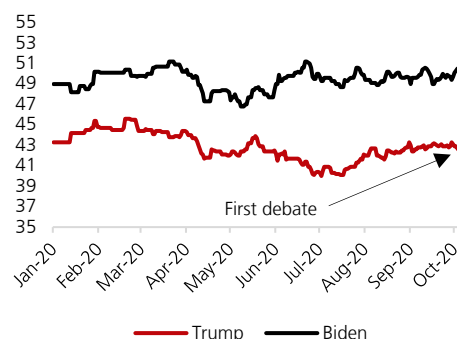


Source: DBS Bank

Biden maintains lead in the election

- Biden's average poll score has widened to a 9-pt lead (6 October) from a 6.1-pt lead (29 September) after the first US presidential election debate (29 September) and Trump contracting COVID-19 (2 October)
- Given that the polls are close, the second (15 October) and third (22 October) election debates could affect the outcome of the election
- If Biden wins
 - Anti-tariff, will end trade war with EU and reconsider tariffs with China → Positive for Asia, especially Singapore's small and open economy
 - Supports clean energy
- If Trump wins
 - Trade tension with China may worsen, manufacturing relocation out of China accelerates
 - Pro-deregulating O&G sector

Real Clear Politics 2020 Elections Polling Average

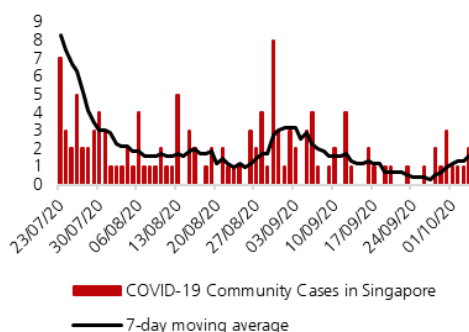


Source: Real Clear Politics, Bloomberg Finance L.P., DBS Bank

Easing into Phase 3

- Singapore's government is set to release details on Phase 3 transition in coming weeks
- Plans including the timeline, changes to regulations on the size of group gatherings, and the participation of mass events will be unveiled in the coming weeks
- Potential beneficiaries include MICE (**Suntec REIT**) and retail REITs with assets located in the central region (**Lendlease REIT, Mapletree Commercial Trust, CapitaLand Mall Trust**)
- Office REITs (**Keppel REIT**) and public transport company **ComfortDelgro** to benefit as companies target 50% of non-essential workers returning to office

Community cases in Singapore remain low

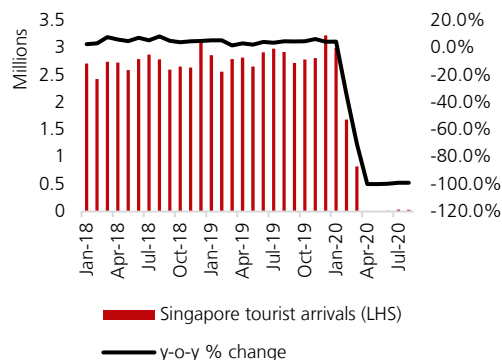


Source: Ministry of Health, DBS Bank

Reopening Singapore’s air borders

- Singapore government committed to restoring air connectivity and reviving air hub status
- Singapore looks to reopen its air borders without the 14-day stay-home-notice while guarding against inbound COVID-19 risks
- This is done by (1) unilaterally reopening borders to visitors from countries that have controlled COVID-19, and (2) possible repeated testing, close movement tracking and separation from the community for visitors from countries with higher infection rates
- Changi Airport sets up facility to conduct 10,000 daily swab tests, capable of increasing when need arises
 - This represents c.20% of Singapore’s average daily visitor arrivals in 2019
- We believe the beneficiaries include the aviation industry (**Singapore Airlines, SATS, and ST Engineering**), hospitality REITs (**CDL Hospitality Trust, Far East Hospitality Trust, and Ascott Residence Trust**), and gaming (**Genting**).

Singapore’s tourist arrivals plunge



Source: Ministry of Health, DBS Bank

Singapore’s Travel Arrangements with Different Countries

Announced Date	Country	Type
28 May 20	China	Business
	Brunei	Leisure
21 Aug 20	New Zealand	Leisure
02 Sep 20	Korea	Business
11 Sep 20	Japan	Business
	Malaysia	Work
30 Sep 20	Australia	Leisure
30 Sep 20	Vietnam	Leisure

Source: ICA, DBS Bank

YE target lowered to 2,750

- Singapore market currently trades between 13.18x (average) to 13.78x (+0.5sd) 12-month forward PE
- Lower YE target to 2,750 (from 2,850) or 13.8x (+0.5SD) FY21F PE
- Our stated technical support of 2,440 was tested in October and held up well
- Investors likely to look beyond FY20 earnings
 - Worst of earnings cuts is likely behind
 - STI may continue to trade at average/above forward PE as focus turns to progress in vaccine development, phased reopening and gradual recovery
- Singapore market P/BV of 0.84x is near -2SD of its 15-year history and slightly lower than the GFC trough

Straits Times Index Daily



Source: DBS Bank

Strategy

Picks for 3Q upcoming results season

Attention should turn to the 3Q results and business update season this month. Interest should return to technology and semiconductor stocks following their price correction in the past two months. The electronics PMI strengthened further in 3Q20 into expansionary territory from August and is now above pre-COVID levels. Our picks are **AEM** and **UMS**. In September, AEM revised its FY20 revenue guidance upwards to S\$480-500m (previously S\$460-480m) while UMS will continue to ride on the upcycle in semiconductor.

We are positive about the outlook of **China Aviation Oil** with the recovery in China's domestic air travel to near/at pre-COVID levels. According to global travel data firm ForwardKeys, domestic arrivals at Chinese airports reached 86% of last year's levels, while flight bookings hit 98% in the

second week of August. The figure should improve further with strong demand from the October Golden Week holiday.

The 9M business update for **Thai Bev** showed resilient revenue and EBITDA performance despite COVID-19 and we see this trend continuing into 4Q. Recent liquor and beer data in Thailand suggest that the worst is over since the lifting of lockdown and alcohol sales ban in mid-June. For Vietnam, September beer sales data also showed stabilisation and recovery from the second COVID-19 infection in August. The recent price lethargy for Thai Beverage looks unjustified, which we see as a buy opportunity ahead of its FY results.

Among S-REITs, watch **CapitalLand Mall Trust** given the strong rebound in traffic to c.82% and c.73% of pre-COVID levels for IMM and Plaza Singapura/The Atrium. CMT's suburban retail malls are dominant given their location near/on-top of transportation nodes that have been prime beneficiaries in recent weeks. These malls contribute c.52% of total revenues.

Picks for 3Q business update/results season

Company	Price 7 Oct	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	3.710	4.96	34%	1,020	BUY	11.2	10.3	69.0	2.3	cash	7.5
CMT	1.950	2.40	23%	7,196	BUY	17.9	15.6	-16.6	5.1	0.3	0.9
CAO	0.950	1.20	26%	817	BUY	11.1	7.4	-45.8	2.7	cash	0.7
Thai Bev	0.61	0.90	48%	15,321	BUY	16.3	14.0	-6.4	3.0	1.1	3.1
UMS	1.00	1.37	33%	549	BUY	12.0	11.3	37.1	6.6	cash	2.3

Source: DBS Bank

Vaccine development

Anticipation of vaccine production and the gradual reopening of air space to include general leisure travel going forward

bode well for Singapore's aviation and hospitality sectors. Our picks are **SATS**, **SIAE**, **ST Engineering**, **FEHT**, **ART** and **CDL HT**.

Aviation and hospitality

Company	Price 7 Oct	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)
ART	0.890	1.10	24%	2,763	BUY	55.5	19.3	188.1	3.0	0.4	0.7
CDLHT	1.060	1.30	23%	1,293	BUY	48.0	21.0	128.3	4.6	0.3	0.7
FEHT	0.545	0.60	10%	1,067	BUY	27.6	20.5	34.7	4.9	0.4	0.6
SATS	2.900	3.66	26%	3,245	BUY	nm	24.9	nm	-	cash	2.0
ST Eng	3.53	3.80	8%	11,000	BUY	18.6	19.7	-5.8	4.2	0.6	5.0
SIA Eng	1.700	2.40	41%	1,906	BUY	13.3	19.0	-25.2	4.7	cash	1.2

Source: DBS Bank

Until a vaccine becomes widely available, Singapore will look to reopen its air borders without the 14-day stay-home-notice while guarding against inbound COVID-19 risks. This is done by (1) unilaterally reopening borders to visitors from countries that have controlled COVID-19, and (2) possible repeated testing, close movement tracking and separation from the community for visitors from countries with higher infection rates.

The outcome for most of the 10 COVID-19 vaccine candidates currently under Phase 3 trials will likely be known in the next few months. The first could come as early as this month, starting with the vaccine developed by BioNTech-Pfizer-FosunPharma. If approved, 1.3bn doses can be produced by end-2021 that will inoculate up to 650m people. Other vaccine candidates from the US and China are also looking to reveal the outcome of their Phase 3 trials during end-2020 to early-2021. Several vaccine makers are looking to produce 500m to >1bn doses by end-2021.

Tracking vaccine candidates under Phase 3 vaccine trials

Company	Country of origin	No of doses	Launched date	Est. outcome	Comments	Production capacity if approved
BioNTech, Pfizer, Fosun Pharma	US, China, Germany	2	27-Jul	As soon as October	If approved, US will acquire 100m by December 2020 with option for 500m more doses, Japan 120m doses and EU 200m doses.	1.3bn doses by end-2021
Moderna	US	2	27-Jul	End-2020 to early 2021	US will acquire 100m doses, Canada 20m doses if vaccine is proven safe and effective.	500m to 1bn doses by end-2021
Johnson & Johnson	US	2	23-Sep	Earliest end-2020	If approved, US will pay \$1bn for 100m doses	1bn doses by end-2021
Novavax	US	2	Sept (UK), Oct (US)	Early 2021	If approved, US will receive 100m doses by 1Q21	2bn-dose production capacity from mid-2021
AstraZeneca, University of Oxford	UK-Sweden	1	End-Aug	-	EU will order 400m doses if vaccine is approved. On 6 September, Phase 3 trials were halted after one volunteer developed a severe side effect. Trials in Brazil and UK have resumed but those in US, South Africa and India remains halted	2bn-dose total manufacturing capacity
Gamaleya Research Institute	Russia	2	Sept	-	-	Several million doses per month by 2021
CanSino Biologics	China	1	Aug	-	On 25 June, the Chinese military approved the trial vaccine for a one-year limited use	More than 1bn doses from Chinese vaccine makers by 2021
Sinovac Biotech	China	2	Jul	-	Chinese government approved the vaccine for emergency use in July. Plans worldwide distribution in 2021	

Wuhan Institute of Biological Products	China	2	Jul	-	UAE approved the vaccine for emergency use on healthcare workers from mid-September
Sinopharm, Beijing Institute of Biological Products	China	2	Jul	-	UAE approved the vaccine for emergency use on healthcare workers from mid-September

Source: DBS Bank, Reuters, Bloomberg, Global Times

Changi Airport has set up facility to conduct 10,000 (c.20% of Singapore's average daily visitor arrivals in 2019) daily swab tests, capable of increasing when required.

The path towards New Normal

Singapore's phased reopening is progressing very well with less than five daily community cases for more than a month. Currently in Phase 2, the government will be progressively revealing more information about the transition into Phase 3 soon.

Among the changes – (1) Allow MICE events up to 250 attendees, (2) more details on increasing the 5-person cap for group gatherings will be released, (3) increase in group size limits for key life events such as weddings and religious activities to 100 people, (4) 50% of workplace employees can now return to office, and (5) Cruise-to-nowhere to start from November.

Beneficiaries are: (1) Suntec Convention Centre's capacity to hold large MICE events is positive for **Suntec REIT**, and (2) Centrally located retail properties **CMT**, **MCT** and **Lendlease**, office REIT **Keppel REIT** and public transport **ComfortDelgro** benefitting from more employees returning to work.

Phase 3 reopening beneficiaries

Company	Price 7 Oct	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)
CMT	1.950	2.40	23%	7,196	BUY	17.9	15.6	14.4	5.1	0.3	0.9
ComfortDelgro	1.430	1.96	37%	3,098	BUY	46.5	13.1	254.0	1.1	0.0	1.2
Keppel REIT	1.080	1.40	30%	3,671	BUY	30.0	25.3	18.8	5.2	0.4	0.8
LendLease	0.670	0.90	34%	785	BUY	69.1	18.1	281.2	4.5	0.3	0.8
MCT	1.980	2.25	14%	6,562	BUY	22.5	21.7	3.4	4.6	0.3	1.2
Suntec REIT	1.480	1.81	22%	4,175	BUY	31.3	23.3	34.5	4.8	0.4	0.7

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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