

Singapore Market Focus

Singapore Monthly Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

3 Nov 2020

Stay focused on the positives

- STI should hold above March low, nears 2380 support
- A Biden victory would be positive for China-related stocks
- Not all doom and gloom for travel stocks – SATS, STE, FEHT, CAO
- Yield curve steepens – UOB, selective on S-REITs: AREIT, FCT, CDL HT, FEHT

Look beyond the immediate term. We believe that the current market sell-off will end above March lows. It should come as soon as 2380 and if not, should hold above 2300. Asia is on the recovery, led by China. Singapore's GDP has also passed its inflexion point and is set to register positive 2021 y-o-y growth. The world is also closer to a COVID-19 vaccine than before. Watch the US presidential election outcome for clues. A Biden win is seen as positive for Asian equities; a blue wave is a bonus while a Trump second term may spell more uncertainty.

All eyes on US election. Asia prefers a Biden victory as he will likely adopt a more "open and negotiable" approach with China. Tariffs may be reduced, which is positive for China's recovery that should lift sentiment for China-related stocks, e.g. **CAO, HPH Trust**. Companies such as **Hi-P** and **Valuetronics**, with production facilities in China and sales exposure to the US, may also benefit. A Trump second term, on the other hand, may underpin sentiment for O&G stocks such as **Keppel Corp** and **CSE Global**.

Not all doom and gloom for travel stocks. The COVID-19 resurgence in the US and Europe has dampened sentiment. The world will know the outcome of the first COVID-19 vaccine candidates currently under Phase 3 trials by end-November to early December. Meanwhile, the Singapore government's commitment to restore air connectivity is positive for **SATS, ST Engineering, CDL HT** and **FEHT**. We are also positive on **China Aviation Oil** with the recovery of China's domestic air demand to pre-COVID levels.

Yield curve steepens. S-REITs underperformed banks recently amid a bear steepening of the yield curve in anticipation of a second US fiscal stimulus package. The US 10-year yield has room to rise further to 1.3% next year on positive vaccine development news and recovery in the US economy next year. Negative developments allowing smaller companies to end lease obligations without penalty will be an overhang on selected retail, office and industrials REITs. We will top slice S-REITs with forward yields of c.4% or lower such as **Keppel DC REIT** and **MINT**. Our large-cap pick is **AREIT** for its resilient operating metrics and FY20F/21F yields of 5.1% and 5.6% respectively. We also prefer **FCT** to ride on Singapore's reopening as well as **FEHT** for the anticipated recovery in travel next year. **UOB** is our pick for banks as we believe that its negatives are largely priced in.

STI : 2,443.13

Analyst

Kee Yan YEO, CMT +65 6682 3706 Wei Le CHUNG +65 6878 7869
keeyan@dbs.com weilechung@dbs.com

Janice CHUA +65 6682 3692
janicechuast@dbs.com

Key Indices

	Current	% Chng
STI Index	2,443.13	0.8%
FS Small Cap Index	273.64	-0.5%
USD/SGD Curncy	1.35	-1.4%
Daily Volume (m)	1,213	
Daily Turnover (S\$m)	1,132	
Daily Turnover (US\$m)	840	

Market Key Data

(%)	EPS Gth	Div Yield
2019	0.4	5.1
2020F	(33.3)	4.3
2021F	37.3	4.9
(x)	PER	EV/EBITDA
2019	11.9	12.9
2020F	17.8	16.5
2021F	13.0	12.7

Source: Bloomberg Finance L.P.

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target S\$	Performance (%)		Rating
				3 mth	12 mth	
Ascendas REIT	2.94	7,789	4.00	(14.8)	(5.5)	BUY
CDL Hospitality	0.97	866	1.30	2.7	(40.9)	BUY
China Aviation Oil	0.92	579	1.20	(0.5)	(25.2)	BUY
Far East Hospitality Trust	0.55	789	0.60	12.2	(25.2)	BUY
Fraser's Centrepont Trust	2.08	2,571	2.94	(10.4)	(22.9)	BUY
Hutchison Port Holdings Trust	US\$0.14	1,237 US\$0.14		31.5	(8.4)	BUY
SATS Ltd	3.07	2,516	3.66	15.4	(39.2)	BUY
ST Engineering	3.49	7,958	3.80	8.4	(13.0)	BUY
UOB	19.03	23,297	22.20	(0.2)	(28.4)	BUY

Source: DBS Bank, Bloomberg Finance L.P.

Closing price as of 2 Nov 2020



Live more, Bank less

November Market Outlook

October – not a great month

- STI rose by a meagre 1.9% as fears of COVID-19 resurgence in US and Europe worsened
- **Banks (OCBC, UOB)** outperformed as the US 2/10 spread widened from 0.56% (30 September) to 0.62% (27 October)
- **Financials** outperformed on iFast's strong 3Q20 results and potential digital bank wholesale licence
- **Consumer Staples** underperformed as **Wilmar** completes its listing of YKA
- **REITs** underperformed as a group as the US 10-year yields rose from 0.69% (30 September) to 0.78% (27 October)

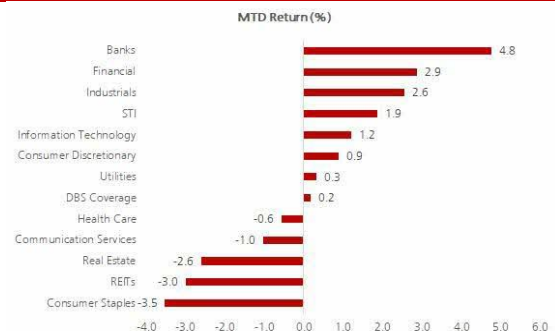
Polls point to a Biden victory

- Biden has a 7.5-pt lead as at 28 October, heading to the 3 November 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
 - ➔ 'Blue wave' preferred as it should also lead to smooth passage of second US fiscal stimulus
 - Supports clean energy
- If Trump wins
 - Trade tension with China may worsen, manufacturing relocation out of China should accelerate
 - Pro-deregulation of O&G sector

Brace for a third wave in the US

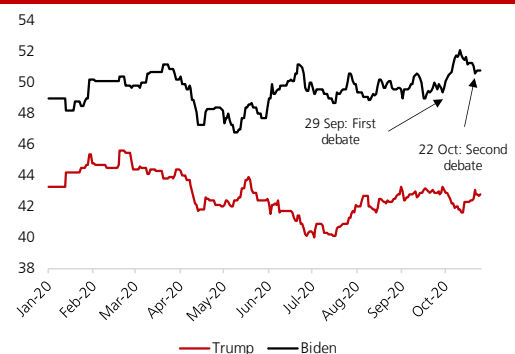
- Mass gatherings at election rallies have triggered a third wave of COVID-19 as the colder autumn/winter months start → Number of daily new cases has surpassed that of the first two waves
- Stocks with revenue exposure in the US that may be negatively affected are **Ascott Residence Trust (ART)** and **Manulife US REIT (MUST)**
- Near-term uncertainty till news on outcome of vaccine candidates' Phase 3 testing in late November to mid-December

FTSE ST Indices' relative performance for October



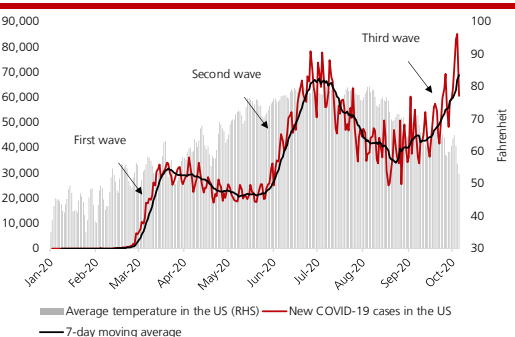
Source: DBS Bank

Real Clear Politics 2020 Elections Polling Average



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

Third COVID-19 wave hits the US

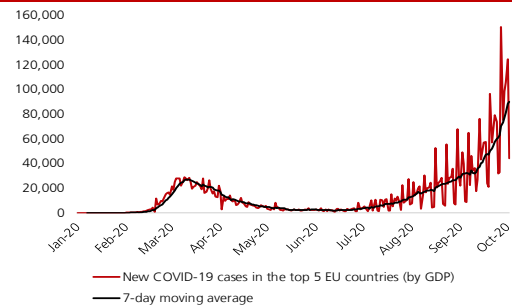


Source: Johns Hopkins University, Weather Services International, Bloomberg Finance L.P., DBS Bank

Second wave in Europe

- The second wave in the top five countries (by GDP) in Europe (Germany, UK, France, Italy and Spain) continues to increase as the colder autumn/winter months start
- France in one-month national lockdown; Germany closes restaurants, bars and cafes for a month; anti-lockdown protests erupt in Italy and Spain
- Stocks affected are **Ascott Residence Trust (ART)** and **ComfortDelGro (CD)** that have exposure in Europe
- Near-term uncertainty till news on outcome of vaccine candidates' Phase 3 testing in late November to mid-December

COVID-19 second wave continues in Europe



Source: Johns Hopkins University, Bloomberg Finance L.P., DBS Bank

Countries: Germany, UK, France, Italy and Spain

Singapore gets ready for Phase 3

- The Singapore government has announced plans to gradually ease into Phase 3
- Take-up rate of TraceTogether token and app must hit 70% before Phase 3 can begin
- The Multi-Ministry Taskforce is piloting the use of pre-event COVID-19 testing for larger-scale and higher-risk activities
- Potential beneficiaries include MICE (**Suntec REIT**), retail REITs with properties in the central region (**MCT**, **CMT**), public transportation (**ComfortDelgro**) and F&B (**Koufu**)

Possible implementations in Phase 3

Category	Potential changes
Group size	Gatherings and the number of visitors allowed to home visits increased from 5 to 8 persons
Capacity limits	Allow events with multiple zones of 50 people

Source: Ministry of Health, DBS Bank

Reopening Singapore's air borders

- Singapore government commits to restoring air connectivity while guarding against COVID-19
- In October, Changi Airport was able to test more than 27,000 people daily using swab tests and is on track to conduct more than 40,000 tests per day by November
 - 40,000 tests per day covers c.80% of Singapore's average daily visitor arrivals in 2019
- Singapore currently has travel arrangements with 10 other countries which vary from essential travel (business/official purposes) to the first bilateral travel bubble with Hong Kong
- Looking beyond near-term drag of COVID-19 resurgence in US/Europe, the beneficiaries include the aviation industry (**SIA**, **SATS**, and **ST Eng**), hospitality REITs (**CDL HT**, **FEHT**), and gaming (**Genting**)

Singapore's Travel Arrangements with Different Countries

Announced Date	Country	Type
28 May 20	China	Business
21 Aug 20	Brunei	Leisure (unilateral)
21 Aug 20	New Zealand	Leisure (unilateral)
02 Sep 20	Korea	Business
11 Sep 20	Japan	Business
	Malaysia	Work
30 Sep 20	Australia	Leisure (unilateral)
30 Sep 20	Vietnam	Leisure (unilateral)
15 Oct 20	Hong Kong	Leisure (bilateral)
23 Oct 20	Germany	Business

Source: ICA, DBS Bank

Banks outperformed REITs as yield curve steepens

- S-REITs started to underperform banks from mid-September
- Coincides with the bear steepening of the UST yield curves on rising expectation of a second US fiscal stimulus package of c.US\$2tr
- DBS interest rate strategist sees further steepening, expects US 10-year yield to reach 1.3% (currently 0.78%) in 2021, premised on positive vaccine news and a recovery in the US economy

S-REITs have underperformed banks from mid-Sept



STI – Look beyond the immediate term

- Weak in the immediate term amid lockdowns in Europe and surging US virus cases
- Vaccine Phase-3 testing outcome should return to focus towards month-end
- US election outcome – Biden victory is seen as positive for Asian equities while a Trump second term may spell more uncertainty
- Current sell-down should end above March low
 - Asia is on the recovery, led by China
 - Closer now to a vaccine
- Technical support at 2380, 2300 should hold up

Straits Times Index (Daily)



Strategy

US presidential election

If Trump wins - We believe one of the key beneficiaries of Trump's second term are the oil & gas players which have exposure in the US. Trump's support and the deregulating of the US oil & gas industry have led to the country's crude oil production growing to a record 12.9 million barrels per day (November 2019), up 44.9% from 8.8 million barrels per day (January 2017) since he was inaugurated.

A second term for Trump may be positive for oil service providers in the US such as **CSE Global**. CSE is currently trading at 8.2x FY21F PE (-0.8 SD) and with its outlook improving as oil prices stabilise and economies gradually reopen, we think its valuations are undemanding. Deregulation of the energy industry and a lift to drilling activities could spur demand for rigs and vessels for **Keppel Corp** and drive contract wins closer to S\$4-5bn p.a.

If Biden wins - Biden will adopt a more "open and negotiable" approach with China and has said that he will consider removing or reducing tariffs. Companies that have production facilities in China and sales exposure to the US will benefit.

Valuetronics and **Hi-P** have c.40-50% and c.30% revenue exposure to the US respectively. Valuetronics has a strong balance sheet (cash of HK\$1.05bn and no long-term borrowings) and is currently trading 10.4x/9.7x FY21F/22F PE, which is at a discount to its peer average of 20.6x/14.2x. Hi-P is currently trading at 12.3x/11.7x FY21F/22F PE.

A Biden victory and easing of US-China trade tensions is positive for China's recovery that should lift sentiment for China-related stocks. **HPH Trust** derives 90% of its profits from Yantian Port and 30% of Yantian Port's business are exports to the US. **China Aviation Oil** derives 60-65% of profits from Shanghai Pudong Intl Airport Aviation Fuel services, which should benefit from a strong rebound in domestic air travel at Shanghai Pudong Intl Airport.

US presidential election winners

Company	Price 29 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)
Trump 2nd term											
CSE Global	0.445	0.57	28%	227	BUY	9.2	8.0	15.8	6.2	0.2	1.3
Keppel Corp	4.270	5.50	29%	7,761	BUY	nm	9.4	nm	2.6	0.9	0.7
Biden victory											
CAO	0.925	1.20	30%	796	BUY	10.7	7.2	49.8	2.8	cash	0.7
HPHT	0.148	0.14	-5%	1,763	BUY	22.4	19.9	12.7	7.8	0.5	0.4
Hi-P	1.210	1.34	11%	976	HOLD	12.3	11.7	5.1	1.6	cash	1.6
Valuetronics	0.565	0.53	-6%	246	HOLD	7.8	10.4	-25.0	6.2	cash	1.2

Source: DBS Bank

Yield curve steepens

S-REITs have underperformed banks in recent weeks as a rebound in the US 10-year yield in anticipation of a second US fiscal stimulus package led to a bear steepening of the yield curve. The US 10-year yield has room to rise further to 1.3% next year on positive vaccine development news and recovery in the US economy. This may lead to near-term profit taking in view of the fragile economic growth. That said, forward yields of 6.5% (5.2% spread vs 10-year bond) should lend some support.

Negative developments allowing smaller companies to end lease obligations without penalty will be an overhang on selected retail, office and industrials REITs.

We turn more cautious on REITs, top slice those REITs which have performed well with forward yields of c.4% or lower such as **Keppel DC REIT** and **MINT**. Our large-cap pick is **AREIT** for its resilient operating metrics and FY20F/21F yields of 5.1% and 5.6% respectively. We also prefer **Frasers Centrepoint Trust** that is positioned to ride on Singapore's Phase 3 reopening, as well as **Far East Hospitality Trust** and **CDL HT** for the anticipated recovery in travel when a COVID-19 vaccine is available.

Banks's relative outperformance should continue if yields continue to rise. Our pick is **UOB** as we believe that its negatives are largely priced in and further improvement in loans under moratorium figures should be viewed positively.

Yield curve steepens

Company	Price 29 Oct	12- mth Target Price	Target Return	Mkt Cap (\$m)	PER 20 (x)	PER 21 (x)	EPS Growth 21 (%)	Div Yield 20 (%)	Net Debt / Equity 20	P/BV 19 (x)
Picks for banks and REITs under bear steepening										
UOB	19.110	22.20	16%	31,967	10.8	9.5	13.6	4.1	0.0	0.8
AREIT	3.000	4.00	33%	10,861	18.8	18.8	0.0	5.4	0.4	1.4
FEHT	0.565	0.60	6%	1,106	28.6	21.2	34.7	4.8	0.4	0.7
FCT	2.170	2.94	35%	2,960	20.6	17.3	18.8	4.8	0.3	1.0
3 REITs with yields of c.4% or lower										
CDLHT	0.99	1.30	31%	1,208	44.9	19.7	128.3	5.0	0.3	0.6
KDC REIT	2.960	2.80	-5%	4,834	30.4	27.2	11.9	3.0	0.3	2.6
MINT	3.120	3.25	4%	7,333	27.3	24.5	11.3	3.8	0.4	1.9

Source: DBS Bank

Balancing COVID-19 resurgence, vaccine news and reopening

Travel-related stocks took a beating last week after the strong COVID-19 resurgence in Europe led into a month-long nationwide lockdown and restrictions for Germany, Spain and Italy. Mass gatherings at election rallies have triggered a third wave of COVID-19 in the US. The fear is that with the cold autumn/winter months just starting in the northern hemisphere, the beleaguered aviation and hospitality sectors will be dealt an extended blow in the months ahead.

But it is not all doom and gloom. The world will know the outcome of the first COVID-19 vaccine candidates (e.g. by Pfizer and Moderna) currently under Phase 3 trials by end-November to early December. A positive outcome will likely mark a recovery from major lows for travel-related stocks.

The Singapore government's commitment to restoring air connectivity while guarding against COVID-19 will position our aviation and hospitality stocks as among the first to ride on the recovery in international travel once a vaccine is readily available. In the meantime, the 'Singapore discovers' vouchers from the government will help lift demand for domestic staycations.

Among the hospitality REITs, our preferred picks in the current pre-vaccine environment is **FEHT** (100% Singapore revenue exposure) and **CDL HT**.

Our pick to ride on Singapore's airspace reopening is **SATS and ST Engineering**. We are also positive on **China Aviation Oil** with the recovery of China's domestic air demand to pre-COVID levels.

Travel-related stocks

Company	Price 29 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)
SATS	3.000	3.66	22%	3,359	BUY	nm	25.7	nm	-	cash	2.1
CAO	0.925	1.20	30%	796	BUY	10.7	7.2	49.8	2.8	cash	0.7
CDLHT	0.99	1.30	31%	1,208	BUY	44.9	19.7	128.3	5.0	0.3	0.6
ST Eng	3.540	3.80	7%	11,030	BUY	18.6	19.8	-5.8	4.2	0.6	5.0
FEHT	0.565	0.60	6%	1,106	BUY	28.6	21.2	34.7	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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12. Peter Seah Lim Huat, Chairman & Director of DBS Group Holdings, is a Director / Chairman of Singapore Airlines Limited as of 30 Sep 2020.

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission,
Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com