

# Singapore Market Focus

# Singapore Strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Feb 2021

## Pausing for a higher climb

- Healthy correction currently with STI support at 2880 and 2790
- Earnings watch – Sheng Siong, Riverstone, Medtecs, AEM, CAO, iFast, HPHT to deliver strong earnings
- US could reach herd immunity by Sept or Oct and potential beneficiaries include MUST, Prime US REIT, ARA Hospitality REIT
- Beyond green lane suspension – Favor SATS, FEHT, ART, CDLHT
- M&A momentum to pick up – Valuetronics, CAO, AIMS, HPHT

**Not the beginning of the end.** The current decline is a 'healthy correction' rather than the start of a major downturn. Singapore's manufacturing sector continues to recover. Impact of new COVID-19 strains are uncertain, but current infection rates are falling in the US and Europe. The trend should continue as we approach warmer weather. Vaccinations have started globally and should pick up pace in the months ahead as vaccine supplies increase.

**Earnings watch.** Investors will look to corporate earnings for guidance as the 4Q results season unfolds amid market uncertainties. COVID-19 beneficiaries such as **Sheng Siong**, **Riverstone** and **Medtecs** should post good earnings on border closures and virus resurgence. **iFast** will benefit from strong AUA growth while **AEM** is a proxy to ride on the strength of the semiconductor upcycle. **China Aviation Oil** is dependent on key associate SPIA benefiting from domestic travel recovery. **HPH Trust** is on track for a strong 2H20 as throughput has picked up firmly since June 2020 on firm China exports

**America's Midway moment.** The US has suffered heavily during the COVID-19 pandemic. Going forward, we are cautiously optimistic that the US can be one of the first major developed countries to achieve herd immunity. Biden aims to inoculate 300 million Americans (c.90% of population) by Sept/Oct 2021. With nearly 8% of its population infected, the US is likely to see a high vaccine acceptance rate. Stocks that will benefit if the US vaccination timeline progresses well are **Manulife US REIT**, **Prime US REIT** and **ARA US Hospitality REIT**.

**Beyond green lane suspension.** Green lane arrangements with Malaysia, Germany and South Korea have recently been suspended but we believe downside for **SATS**, **FEHT**, **ART** and **CDLHT** is limited as investors look towards a vaccine-driven recovery. The World Economic Forum will be held in Singapore in May 2021, which could be a sentiment booster for the local hospitality sector.

**M&A rolls on.** Preferred M&A plays include **Valuetronics**, **China Aviation Oil**, **Aims APAC REIT**, and **HPH Trust**.

STI : 2,902.52

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### Key Indices

	Current	% Chng
STI Index	2,902.52	-2.5%
FS Small Cap Index	312.14	0.0%
USD/SGD Curncy	1.33	0.0%
Daily Volume (m)	2,821	
Daily Turnover (S\$m)	1,862	
Daily Turnover (US\$m)	1,401	

Source: Bloomberg Finance L.P.

### Market Key Data

(%)	EPS Gth	Div Yield
2020	(34.7)	3.5
2021F	45.5	4.1
2022F	13.8	4.5

(x)	PER	EV/EBITDA
2020	21.9	19.8
2021F	15.1	14.9
2022F	13.2	13.9

### STOCKS

	Price	Mkt Cap	12-mth	Performance (%)		
	S\$	US\$m	Target	3 mth	12 mth	Rating
AEM Holdings	3.99	827	5.16	18.1	97.5	BUY
AIMS APAC REIT	1.29	686	1.40	9.3	(9.8)	BUY
China Aviation Oil	1.13	731	1.38	22.8	(4.2)	BUY
Hutchison Port Holdings Trust	0.21	1,786	0.27	41.4	25.8	BUY
iFAST Corp	5.51	1,129	6.40	49.3	440.2	BUY
Prime US REIT	0.82	867	1.00	10.8	(17.6)	BUY
Riverstone	1.50	1,673	1.85	(21.1)	158.6	BUY
SATS Ltd	3.85	3,244	4.50	29.2	(17.7)	BUY
Sheng Siong	1.62	1,833	1.90	(3.0)	28.6	BUY

Source: DBS Bank, Bloomberg Finance L.P.  
Closing price as of 29 Jan 2021



Live more, Bank less

**February Market Outlook**

**Positive start to 2021**

- STI rose 2% to 2902, off the month's high of 3017 as US market volatility tapered on recovery optimism
- **Financials** outperformed as **iFast's** share price surged on continued strong growth of its assets under administration ("AUA")
- **Consumer Staples** outperformed - **Wilmar** closed the valuation gap with its China subsidiary and **Thai Bev** revived plans to list its regional beer assets
- **Energy** outperformed on optimism that **China Aviation Oil** is poised to benefit from the recovery in China's domestic air traffic
- **Healthcare** underperformed as travel borders remained closed to foreign patients

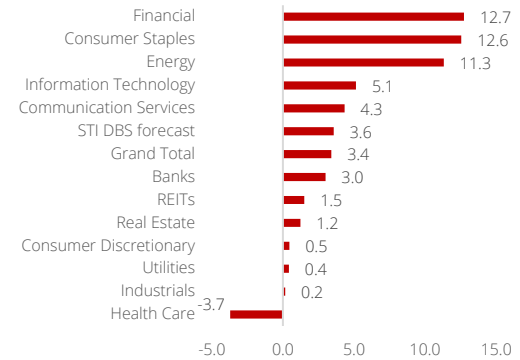
**Budget to support the recovery**

- Budget 2021 on 16 February likely characterised by targeted policy measures
- Anticipated overall deficit of SGD10-12bn (2.1-2.5% nominal GDP)
- Support for sectors still struggling – Hotel & aviation (**SATS, SIAE, SIA, hospitality REITs**), building materials (e.g. **Pan U**)
- Job support scheme for the tourism related and aviation sectors will likely remain in place.
- Enhanced Aviation Support Package and funding support for tourism recovery
- Support measures for industries that have outperformed will be allowed to lapse or taper off
- Temporary measures such as rental waivers, tax rebates, loan deferments, FWL waivers etc, are unlikely to be extended

**History suggests that equity markets are unlikely to suffer a major downturn in Biden's 1<sup>st</sup> 100 days**

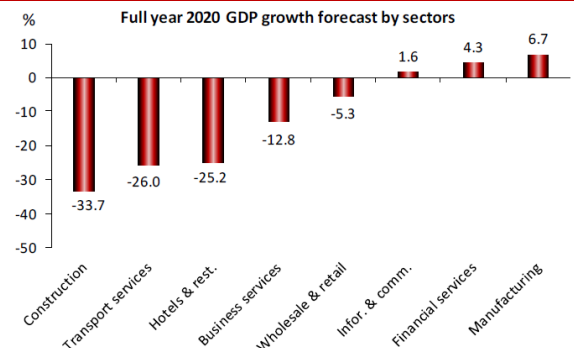
- Since 1985, the US stock market tends to perform well in the first 100 days of a new presidency (exception was George W. Bush)
- Often due to positive market impact from the swift action taken by the newly inaugurated President
- Biden's 2 key objectives in his first 100 days are (1) Curb the spread of COVID-19 (2) US\$1.9trillion economic assistance for struggling families
- US 7-day moving average of daily new cases have fallen from 282K to 170K, downtrend should continue with approach of warmer weather
- Based on historical data, the US equity market may not see a major downturn in the next 3 months
  - Biden was inaugurated 20 Jan @ S&P500 3851, index is down 2.6% since then

**FTSE ST Indices' MTD Performance for Jan 2021**



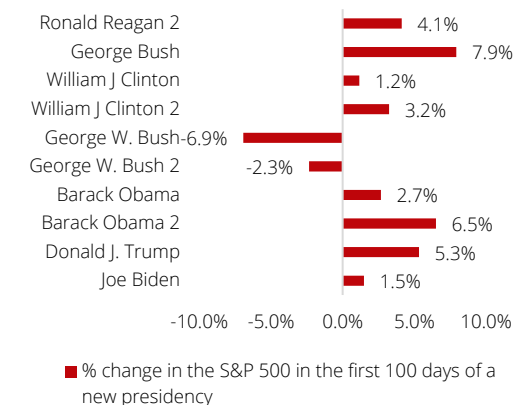
Source: DBS Bank

**Fiscal support for struggling sectors**



Source: DBS Bank

**S&P 500's performance in the first 100 days of a new presidency**

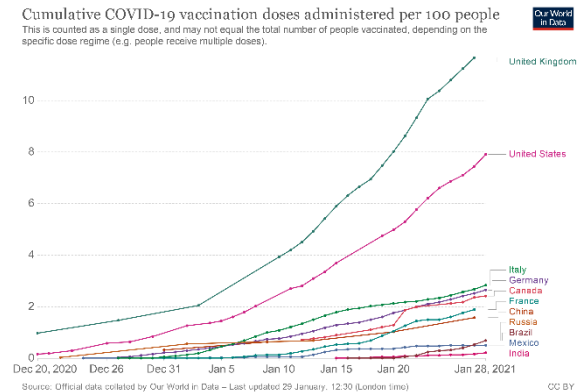


Source: Bloomberg Finance L.P., DBS Bank  
\*2 denotes second term

**The race to vaccinate the world**

- Vaccinations have started with UK (11.67 doses/100 people) and US (7.91 doses/100 people) currently leading the pack among major economies
- Uncertainties developing are new variants that threaten to be more transmittable
  - B.1.1.7 (UK strain): current vaccines appear equally effective against this
  - B.1.351 (South African strain): current vaccines appear less effective against this

**Vaccination doses per 100 people by country**

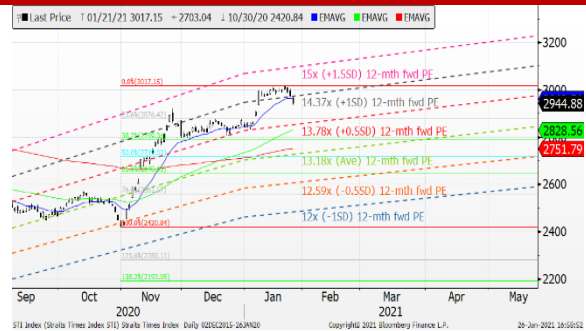


Source: Our World in Data

**Support at 2880, 2790**

- Mid-January pullback from 3017 was expected
  - Forward PE valuation was above 14.37x (+1SD) 12-mth fwd PE
  - Results season hesitance
  - Uncertainty over vaccine efficacy on South Africa COVID-19 strain
  - Realisation that the new Biden administration won't lower tariffs on China any time soon
- STI support at 2880 coincides with 13.78x (+0.5SD) 12-mth fwd PE and 2790 @ 13.2x (ave) 12-mth fwd PE.

**Straits Times Index (Daily)**



Source: DBS Bank

## Strategy

**Some uncertainty as earnings season starts.** Unattractive PE valuation, high COVID-19 daily infection rates in numerous countries, uncertainty about the Biden administration's stance on China and the uncertain impact on market stability from the "retail vs hedge fund" battle in the US triggered profit taking over the last week. Investors fled for the sidelines at the start of the 4Q20 results season.

**STI support at 2880 and 2790.** We see the current decline as a 'healthy correction' rather than the start of a major downturn. Support for the Singapore market is at STI 2880 13.78x (+0.5SD) 12-mth fwd PE and 2790 13.2x (ave) 12-mth fwd PE.

**Strong December data.** The manufacturing sector continues to recover with Singapore's December NODX (+6.8% y-o-y, expectation -0.7%), electronics export (+13.7% y-o-y, previous -3.8%) and industrial production (+14.3% y-o-y, expectation +12%) coming in better than expected.

**Infection rates down, new strains a concern.** COVID-19 infection rates, although still high in US and Europe, have come off substantially from their peaks. For example, the US 7-day moving average of daily new cases has fallen from 282K to 170K in recent weeks and the downtrend should continue as warmer weather approaches. Vaccinations have started across the globe with the US and UK leading the pack among major developed economies. The approval of more COVID-19 vaccines going forward will accelerate the vaccination rate. The developing uncertainty is the transmission of new COVID variants B.1.1.7 (UK strain) and B.1.351 (South Africa strain) that appears more transmissible.

**First 100 days.** The US stock market has a strong tendency to end positively in the first 100 days of a new Presidential term. If this trend continues to hold true for Biden, the current US stock market volatility that is affecting global bourses should eventually find a bottom with US equities heading to fresh YTD highs by/before end of April.

### Green lane suspension - Look beyond the dark clouds

The suspension of Singapore's green lane arrangement with Germany, Malaysia and South Korea underscores the difficulties of restarting international travel in the absence of herd immunity against COVID-19.

Stocks potentially affected in the near-term are **SIA** and **SATS** as well as hospitality REITs with significant Singapore exposure such as **FEHT** and **CDL HT**. But we won't press the panic button just yet. We believe downside to most of these stocks is limited as there is a good possibility that investors, having rode through nearly a year of pandemic uncertainty, won't mind holding on a little while longer as the light at the end of the tunnel draws closer.

The World Economic Forum to be held in Singapore in May 2021 is a sentiment booster. Next, we think the grim global COVID-19 situation may improve soon. Spring will soon arrive in the Northern hemisphere. The warmer weather will give many countries that were badly affected by COVID-19 during the cold winter months a better chance of bringing the pandemic under control. Vaccine rollout is also poised to pick up pace as more supplies become available and vaccine acceptance improves. These factors brighten the prospect of a recovery in international travel before the end of this year.

### Aviation and hospitality stocks

Company	Price 29 Jan (S\$)	12-mth Target Price (S\$)	Target Return	Rcmd	PER 21 (x)	PER 22 (x)	EPS Growth 21 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
Ascott Residence	1.05	1.20	14%	BUY	35.1	18.8	4.0	3.7	0.3	0.9
CDL HT	1.23	1.35	10%	BUY	32.0	14.1	81.9	5.1	0.3	0.8
FEHT	0.59	0.70	19%	BUY	27.4	20.4	6.7	4.7	0.4	0.7
SATS	3.85	4.50	17%	BUY	28.4	20.0	nm	1.0	cash	2.9
SIA	4.11	3.60	-12%	FV	nm	38.1	nm	-	0.3	1.2

Source: DBS Bank

### America's Midway moment

America has suffered heavily in the COVID-19 pandemic. Going forward, we are cautiously optimistic that the US can be one of the first major developed countries to achieve herd immunity.

Our reasons are:

- (1) the Biden administration has rolled out a comprehensive 'war-time' COVID-19 plan that includes an aggressive vaccination campaign
- (2) Biden is ordering enough vaccines to inoculate 300million Americans (c.90% of population) by the end of summer to early fall → Dr Anthony Fauci has said that if the vaccination campaign progresses well, the US can achieve herd immunity by early fall (Sept/Oct 2021).

- (3) Single shot vaccine by Johnson & Johnson could be the 3<sup>rd</sup> to be approved by FDA, increasing vaccine supply and speeding up vaccination rate
- (4) US public vaccine acceptance rate should be high given the country's high 7.9% infection rate and high death toll
- (5) US has a head start - 26mil of Americans have been already been infected → nearly 7.9% of population current has anti-bodies: bad news gets turn around when the focus is herd immunity

Stocks that benefit if the US vaccination timeline progresses as expected are **Manulife US REIT**, **Prime US REIT** and **ARA US Hospitality REIT**

### REITs with US exposure

Company	Price 29 Jan (US\$)	12-mth Target Price (US\$)	Target Return	Mkt Cap (\$m)	Rcmd	Div Yield 20 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
Manulife US REIT	0.735	1.00	36%	1,546	BUY	7.9	8.4	0.5	0.9
Prime US REIT	0.820	1.00	22%	1,153	BUY	7.9	8.0	0.5	0.9
ARA US Hospitality Trust	0.475	0.69	45%	358	BUY	-	5.7	0.5	0.6

Source: DBS Bank

### Earnings watch

We think investors will fall back on corporate earnings as the 4Q results season unfolds amid developing market uncertainties. COVID-19 beneficiaries such as supermarket player **Sheng Siong** and PPE manufacturers **Riverstone** and **Medtecs** should continue to post good earnings as borders remain close and virus resurgence in many countries continues to drive demand for PPEs. **iFast** will ride on the strong growth in AUA, as well as earnings upside from the new eMPF project from Hong Kong.

Singapore's stronger-than-expected December electronics exports growth of 13.7% y-o-y should underpin earnings

expectation of technology stocks. Names such as **AEM** should continue to ride on the strength of the semiconductor sector.

We look at **China Aviation Oil** (CAO) and **HPH Trust** to deliver earnings recovery. CAO's 2H20 earnings is poised for a strong rebound, led by key associate SPIA as traffic at Shanghai Pudong International Airport has bounced on firm domestic air travel.

Overall throughput has picked up firmly since June 2020 and HPH Trust is on track for a strong 2H20. Container volumes at Yantian port rose by 27% y-o-y in October while Kwai-Tsing port also posted 3% growth.

## Earnings Watch

Company	Price 29 Jan (\$)	12-mth Target Price (\$)	Target Return	Rcmd	PER 21 (x)	PER 22 (x)	EPS Growth 21 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
AEM	3.99	5.16	29%	BUY	10.6	10.3	9.2	2.5	cash	5.3
China Aviation Oil	1.13	1.38	22%	BUY	9.2	9.9	45.0	3.3	cash	0.8
HPH Trust (US\$)	0.205	0.27	32%	BUY	26.6	25.2	5.7	6.3	0.4	0.5
Medtecs	1.04	1.30	25%	BUY	5.5	12.9	-40.0	1.8	cash	2.3
Riverstone	1.50	1.85	23%	BUY	8.1	15.1	48.1	4.9	cash	6.0
Sheng Siong	1.62	1.90	17%	BUY	21.3	20.3	-15.6	3.3	cash	6.9

Source: DBS Bank

## M&amp;A and undervalued stocks

M&A activity is picking up again. With the pandemic still casting a pall on economic outlook, small-to-mid-sized businesses with less robust cash positions will struggle as government support dries up. This presents an additional M&A angle as weaker companies seek shelter while the strong hunt for new strategic opportunities.

Our preferred picks on potential M&A activities include **Valuetronics (VALUE SP)**, **China Aviation Oil (CAO SP)**, **Aims APAC REIT (AAREIT SP)**, and **HPH Trust (HPHT SP)**.

**Valuetronics (VALUE SP)** – Valuetronics has a high net cash level, accounting for c.69% of its market capitalisation and offers c.5% FY21F dividend yield. It is currently trading at c.3.7x FY21F EV/EBITDA, which is at a significant discount to its peer-average of c.11.8x.

**China Aviation Oil (CAO SP)** – CAO is currently trading at <3x FY21F ex-cash PE, and its share price could re-rate further if the company is able to make significant earnings-accretive acquisitions. It has net cash of c.US\$400m (accounting for c.50% of its market capitalisation), which it can use to make earnings-accretive acquisitions. We are beginning to see domestic travel momentum pick up in China and believe there is deep value in this stock.

**Aims APAC REIT (AAREIT SP)** – AAREIT is trading slightly below its book value (0.95x P/NAV). While it is not cheap from a M&A point of view, we believe its high-quality assets (business parks and modern ramp-up facilities) make it an attractive target.

**HPH Trust (HPHT SP)** – HPHT could be a privatisation candidate given that its share price is trading c.80% below its IPO price of US\$1.01, its prospects and earnings are turning more positive, and it has strong shareholders (Hutchison Port Holdings and Temasek, who own nearly 42%).

## M&amp;A theme

Company	Price 29 Jan (\$)	12-mth Target Price (\$)	Target Return	Mkt Cap (\$m)	Rcmd	PER 21 (x)	PER 22 (x)	EPS Growth 21 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
AIMS APAC REIT	1.290	1.40	8%	912	BUY	14.1	13.8	11.5	6.9	0.6	0.9
China Aviation Oil	1.130	1.38	22%	972	BUY	9.2	9.9	45.0	3.3	cash	0.8
HPH Trust (US\$)	0.205	0.27	32%	2,373	BUY	26.6	25.2	5.7	6.3	0.4	0.5
Valuetronics	0.635	0.53	-16%	276	HOLD	12.3	12.2	-13.5	4.1	cash	1.2

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)

**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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