

Singapore Market Focus

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DBS Group Research . Equity

2 Mar 2021

Seasonal support ahead

- March and April are seasonally positive months
- S-REIT pullback presents opportunities
- Vaccine beneficiaries back in spotlight
- Stocks going ex-dividend

Dividend and seasonal trend support. Improving outlook for banks, upcoming ex-dividend period and a strong March-April seasonal trend point to a correction low in February at STI 2870, in line with our expectation. China's 13th National People's Congress (NPC) meeting this month will map out the development plan of technological independence and secure supply chains (e.g. semiconductors), sustainability and 'dual circulation'. The FED should leave rates unchanged at the FOMC meeting and maintain a dovish stance.

S-REIT pullback opportunities. We see opportunities amid the recent S-REIT pullback. S-REITs' yield spread of c.4.6% is the widest since 2013. The US 10-year yield spike should stabilise for now, as our interest rate strategist sees a 1.3-1.5% near-term range. Uncertainties are mostly priced in as our revised 2021 US 10-year yield target of 1.75% (previously 1.5%) is just 15bps above the 1.6% YTD high. Our picks are from sectors related to pandemic recovery such as retail (CLCT, LREIT) and hospitality (ART, CDL HT, FEHT, ARA US). Steeping of yield curve should augur well for banks' NIM (OCBC, UOB) in the longer term. Additionally, banks are expected to dish out higher dividends on the back of strong rebound in earnings in FY21.

Vaccine beneficiaries back in the spotlight. Rotational interest returns to aviation and hospitality stocks as the global COVID-19 vaccination drive continues to unfold. The number of COVID-19 infections has fallen amid warming weather in the northern hemisphere and the single-shot vaccine by Johnson & Johnson is the latest vaccine to be approved for public use by US CDC. We maintain our view that the US can be one of the first major developed countries to achieve herd immunity. Our picks are Prime US REIT and ARA US Hospitality Trust for US; ART, CDL HT and FHT for northern hemisphere; FEHT and CDL HT for Singapore, and MAGIC for Hong Kong. Outside of hospitality REITs, ComfortDelGro has 22.7% UK revenue exposure.

Going ex-dividend. Ceteris paribus, stocks with stronger upcoming dividend payouts should see an uptick in interest as their ex-dividend dates draw closer. For large caps, stocks with the highest upcoming dividend rates (%) and yields are Wilmar, ST Eng, Venture Corp, SembCorp Industries and UOL. For small caps, these are China Everbright, APAC Realty, CSE Global, Sasseur REIT, Frencken and Straits Trading.

STI : 2,973.87

Analyst

Kee Yan YEO, CMT +65 6682 3706 keeyan@db.com
Woon Bing Yong +65 6682 3704 woonbingyong@db.com
Janice CHUA +65 6682 3692 janicechuast@db.com

Key Indices

	Current	% Chng
FS STI Index	2974	0.0%
FS Small Cap Index	302	-0.7%
SGD Curncy	1.33	-0.1%

Daily Turnover (S\$m)	2,408
Daily Turnover (US\$m)	1,674

Source: Bloomberg Finance L.P.

Market Key Data

(%)	EPS Gth	Div Yield
2020E	-46.5	3.4
2021F	80.1	4.1
2022F	19.1	4.4
(x)	PER	EV/EBITDA
2020E	27.1	20.4
2021F	15.0	15.2
2022F	18.3	14.0

STOCKS

	Price S\$	Mkt Cap US\$m	12-mth Target S\$	Performance (%)			
				3 mth	12 mth		Rating
Ascott Residence Trust	1.00	2,341	1.20	(4.3)	(15.7)		BUY
CDL Hospitality Trusts	1.23	1,134	1.35	(3.2)	(11.6)		BUY
Far East Hospitality Trust	0.59	865	0.70	(8.7)	(2.5)		BUY
ARA US Hospitality Trust	0.51	287	0.69	15.9	(32.0)		BUY
Prime US REIT	0.80	841	1.00	3.3	(17.3)		BUY
Venture Corporation	19.14	4,182	24.30	2.5	17.3		BUY
ComfortDelGro	1.60	2,611	1.99	(1.2)	(16.4)		BUY
Mapletree North	0.97	2,496	1.05	7.2	(12.3)		BUY
Asia Commercial Trust	24.99	31,481	27.60	11.8	2.8		BUY
UOB	19.14	4,182	24.30	2.5	17.3		BUY
ST Engineering							

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 2 Mar 2021



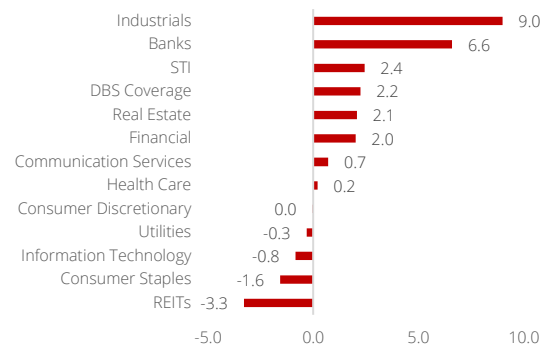
Live more, Bank less

March Market Outlook

Recovery plays back in trend

- The STI rose 2.4% m-o-m to 2,973.54 (as of 25 February) as rising yields and an improved global pandemic outlook buoyed gains in the benchmark
- **Industrials** outperformed, led by improved container volumes at **HPH Trust** and a surge in vaccine recovery names (**SIA**, **SATS**)
- **Banks** (**UOB**, **OCBC**) gained as recovery optimism pushed 10-year yields to a post-pandemic high
- **Consumer staples** performed weaker in the month, potentially due to a rotation out of pandemic resilient names
- **REITs** underperformed as higher yields compressed yield spreads

FTSE ST Indices' relative performance for February



Source: DBS Bank

All eyes on China and FOMC Meeting

- China's 13th National People's Congress
- Implementable policies to achieve goals of 14th Five Year Plan expected to be set out
- Key 14th Five -Year Plan themes include development of technological independence and secure supply chains (such as in semiconductors), sustainability and 'dual circulation'
- March FOMC Meeting
- Fed remains dovish even as COVID-19 vaccinations progress in the US
- Short-term rates not expected to rise until 2023

March event calendar

Date	Event	Comments
4 Mar	China's 13 th National People's Congress	Congress to set policies to achieve goals of 14 th Five-Year Plan
16 Mar	FOMC Meeting	Consensus not expecting negative rates

Source: Bloomberg Finance L.P., DBS Bank

Accommodative tone maintained at budget

- The government expects to incur a deficit of S\$11bn in FY21/22 to support Singapore's recovery

Key Measures:

- Jobs Support Scheme extension to primarily benefit aviation (**SIA**, **SIA Engineering**, **SATS**, **ST Engineering**) and tourism sectors (**CDL HT**, **FEHT**)
- Funding for on-arrival testing and biosafety systems to further boost aviation as air travel demand recovers
- GST on imported low-value goods will level the playing field for local retailers (**Lendlease REIT**, **FCT**)
- Enhanced public healthcare worker salaries raise cost pressure for private players (**Raffles Medical**, **IHH**)
- End of foreign worker levy waivers could raise labour costs at shipyards (**Keppel**, **SMM**)

Key Budget 2021 Measures

Measure	Details
Jobs Support Scheme	JSS subsidy extension to Sep 2021 of up to 30% depending on sector
Aviation Measures	c.S\$870m in support for measures including wage subsidies and on-arrival testing
GST on Low-value Goods	GST imposed on imported low-value goods from 1 Jan 2023
Increase in Healthcare Wages	Nurses and other healthcare workers across public health institutions to receive salary enhancements
Foreign Worker Levy	Waiver for foreign levies to taper off in 2021

Source: Bloomberg Finance L.P., DBS Bank

Powell calms inflation nerves

- FED Chair Powell says US economy is a 'long way' from central bank's goals → no plans to hike interest rates or taper bond-buying stimulus anytime soon
- Our interest rate strategist's current view
 - US 10-year yield of 1.75% in 2021 (YTD high 1.6085%), near-term 1.3-1.5%
 - 2Y/10Y yield spread could steepen further to 140-150bps
 - FED could guide for taper in 2H21 and act in late 2021 to early 2022, rates to rise in 2023 → Watch for taper tantrum in 2H

New COVID-19 infections continue decline

- New global COVID-19 cases were generally on a decline as the US and UK peaked out in January 2021
- The improvement was also replicated in other countries including Germany, France, Japan and South Korea
- Going forward, we believe new global COVID-19 case counts will continue to drop on the back of rising temperatures in most of the top 15 economies

UK and US current vaccination leaders

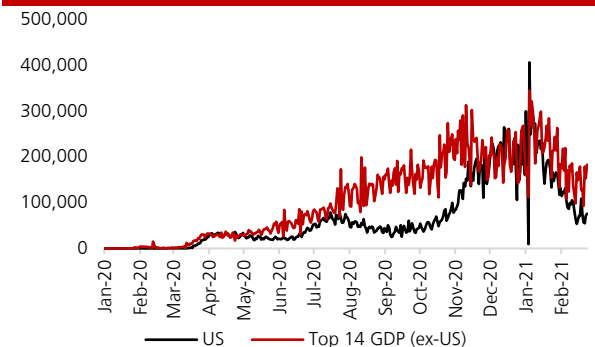
- 140 doses per 100 people to achieve herd immunity assuming (1) two-dose vaccines, and (2) 70% population inoculation required
- UK (27 doses/100 people) and US (19.39 doses/100 people) currently leads the race to achieve population herd immunity
- Singapore is currently at 6.15 doses/100 people
- Single-dose J&J vaccine could be the next vaccine approved for public use, speeding up the vaccination process, especially in the US

US 10-year yield – Interest rate strategist's forecast



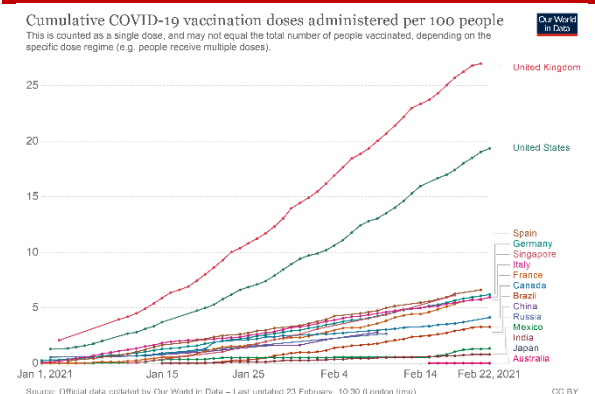
Source: DBS Bank

New COVID-19 cases of top 15 economies



Source: Bloomberg Finance L.P., DBS Bank

Top 15 economies and Singapore



Source: Our World in Data, DBS Bank

Seasonality trend points to February low

- STI seasonality chart from 2011-2019 points to end-February low followed by recovery in March/April
- March-April rise typically dividend-driven as stocks rise ahead of FY ex-dividend dates
- Refer to page 9 for companies with meaningful dividend payouts over the next two months

STI seasonality trend (2011-2019)



Source: DBS Bank

Straits Times Index Outlook

- January pullback supported at 2870, coincides with our stated first support at 2880 and 13.78 (+0.5SD) 12-month forward PE
- Seasonal trend suggests STI February low at 2870 and firming up in the March-April period heading towards the ex-dividend dates for index heavyweights
- Positive outlook from heavyweight banks should also underpin STI

Straits Times Index (Daily)



Source: DBS Bank

Strategy

Pullback in S-REITs an opportunity

The FTSE ST REITs Index retreated as much as 7.8% from its 20 January high as inflation concerns led to a jump in US 10-year yield from 1.08% to as high as 1.60%. We see opportunities amid the pullback in S-REITs over the past 1.5 months because (1) Yield is rising from an absolute low level on the back of economic recovery optimism, (2) S-REITs' yield spread of c.4.6% is the widest since 2013, (3) The near-term spike in US 10-year yield should stabilise for now, as our interest rate strategist sees 1.3-1.5% near-term range, (4) Uncertainties mostly priced in – our revised 2021 US 10-year yield target of 1.75% (previously 1.5%) is just 15bps above the 1.6% YTD high, and (5) FED Chair Powell remains dovish, we expect short-term rates to rise only in 2023.

S-REIT yield spread vs 10-year bond



Source: Bloomberg Finance L.P., DBS Bank

Among S-REITs, we prefer pandemic recovery sectors including retail (**CLCT, LREIT**,) and hospitality (**ART, CDL HT, FEHT, ARA US**) to ride on a recovery in DPUs. Office REITs such as **MCT**, with a diversified portfolio of Grade A and business park assets, are also preferred to capture demand from structural changes in the sector.

Rising yields should also benefit banks (**OCBC, UOB**) as net interest margin (NIM) improves. Both OCBC and UOB have recently guided for a stabilisation in NIM for FY21 at around c.1.55%. Asset quality concerns are also improving with both banks erring on the safe side in recognising additional allowances in FY20. Additionally, the MAS cap on FY20 dividends (capped at 60% of FY19 DPS) may not be extended in FY21, which could be another catalyst to drive further upside for banking names.

Yield Picks

Company	Price 25 Feb (\$)	12-mth Target Price (\$)	Target Return	Rcmd	PER 21 (x)	EPS Growth 21 (%)	Div Yield 21 (%)	Net Debt / Equity 21	P/BV 20 (x)
REITs									
ART	1.00	1.20	20.0%	Buy	33.4	4.0	3.9	0.3	0.9
CDL HT	1.20	1.35	12.5%	Buy	39.3	nm	4.9	0.4	0.9
FCT	2.48	3.00	21.0%	Buy	17.3	8.9	5.2	0.4	1.1
LREIT	0.775	0.90	16.1%	Buy	21.0	281.2	6.7	0.3	0.9
MCT	2.04	2.25	10.3%	Buy	22.4	3.4	4.8	0.3	1.2
Banks									
OCBC	11.07	11.90	7.5%	Buy	11.5	19.1	4.3	nm	1.0
UOB	24.65	26.80	8.7%	Buy	12.0	21.1	4.2	nm	1.0

Source: DBS Bank

Vaccine beneficiaries back in the spotlight

Rotational interest is returning to aviation and hospitality stocks as the global COVID-19 vaccination drive continues to unfold and the single-shot vaccine by Johnson & Johnson becomes the latest vaccine to be approved by the US CDC, paving the way for public use. Aviation stocks **SATS** and **SIA** have led the current recovery.

We maintain our view that the US can be one of the first major developed countries to achieve herd immunity. Our picks are **Prime US REIT** and **ARA US Hospitality Trust** for US exposure.

Europe is making good progress with UK leading the global developed economies' vaccination drive. The coming of warm weather in the northern hemisphere and vaccine rollout among developed economies are positive for hospitality REITs with northern hemisphere exposure. **Ascott Residence Trust** has 28% US/Europe and 26% Japan/China

revenue exposure. **CDL HT** has 26% Europe and 4.1% Japan revenue exposure. **Frasers Hospitality Trust** has 20.4% Europe and 8.8% Japan revenue exposure. Outside of hospitality REITs, **ComfortDelgro** has 22.7% UK revenue exposure.

For Singapore, the resumption of more robust travel bubbles and reciprocal green lanes as soon as early 2Q are potential catalysts. Local staycation demand and the World Economic Forum in August are also positive drivers. **Far East Hospitality Trust** has 100% and **CDL HT** 42% Singapore revenue exposure.

The 7-day moving average of new COVID-19 infections in Hong Kong currently stands at 19 that is well above the <5 pre-condition for the SG-HK travel bubble to resume. With temperatures increasing in Hong Kong and the vaccination programme kicking off, we are cautiously optimistic that new infections will decline, and the travel bubbles will restart.

Mapletree NAC Trust benefits with a 55% revenue exposure.

Vaccine and declining COVID-19 infection beneficiaries

Company	Price 25 Feb	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 (x)
US exposure											
Prime US REIT	0.800	1.00	25%	1,117	BUY	13.7	13.2	2.0	8.3	0.5	0.9
ARA US Hospitality	0.485	0.70	42%	363	BUY	nm	25.7	nm	5.6	0.5	0.6
Northern hemisphere exposure											
ART	1.000	1.20	2%	318	BUY	33.4	17.9	4.7	3.9	0.3	0.9
CDL HT	1.200	1.35	13%	1,469	BUY	39.4	14.9	nm	4.9	0.4	1.0
FHT	0.510	0.70	37%	982	BUY	28.8	17.8	4.4	5.4	0.4	0.8
ComfortDelgro	1.620	1.99	23%	351	BUY	14.6	13.2	288.7	3.4	cash	1.3
Singapore exposure											
FEHT	0.580	0.70	3%	1,139	BUY	27.0	2.2	6.8	4.8	0.4	0.7
CDL HT	1.200	1.35	13%	1,469	BUY	39.4	14.9	nm	4.9	0.4	1.0
Hong Kong exposure											
MAGIC	0.970	1.50	8%	3,331	BUY	16.1	15.9	17.3	7.7	0.4	0.7

Source: DBS Bank

Going ex-dividend

STI seasonal trend (2011-2019) shows a positive return from March-April period as stocks rise ahead of their ex-dividend dates. This year should be no exception. Ceteris paribus, stocks with stronger upcoming dividend payouts should see an uptick in interest as their ex-dividend dates draw closer.

For large caps, stocks with the highest upcoming dividend rates (%) are **Wilmar, ST Eng, Venture Corp, SembCorp Industries** and **UOL**. For small caps, these are **China Everbright, APAC Realty, CSE Global, Sasseur REIT, Frencken** and **Straits Trading**.

Upcoming dividend payout by dollar amount

Company	Price (\$) 26 Feb21	Dividend (\$)	Ex Date	Dividend rate (%)	Rec	12-mth Target Price	Upside (%)
CHINA EVERBRIGHT	0.225	0.01040	29-Apr-21	4.6%	BUY	0.340	51.3
APAC REALTY	0.445	0.01750	28-Apr-21	3.9%	BUY	0.613	37.7
CSE GLOBAL	0.500	0.01500	06-May-21	3.0%	BUY	0.636	27.3
WILMAR INTL	5.280	0.15500	23-Apr-21	2.9%	BUY	6.670	26.3
ST ENG	3.760	0.10000	27-Apr-21	2.7%	BUY	4.200	11.7
VENTURE CORP	19.200	0.50000	10-May-21	2.6%	BUY	24.300	26.6
SEMBCORP IND	1.730	0.04000	27-Apr-21	2.3%	BUY	1.855	7.2
SASSEUR REIT	0.840	0.01935	11-Mar-21	2.3%	BUY	0.900	7.1
FRENCKEN	1.350	0.03000	06-May-21	2.2%	BUY	1.554	15.1
STRAITS TRADING	2.780	0.06000	21-Apr-21	2.2%	BUY	3.896	40.1
UOL	7.390	0.15000	30-Apr-21	2.0%	BUY	8.400	13.7
EC WORLD REIT	0.725	0.01427	12-Mar-21	2.0%	BUY	0.800	10.3
SHENG SIONG	1.560	0.03000	07-May-21	1.9%	BUY	1.766	13.2
DELFI	0.745	0.01430	03-May-21	1.9%	BUY	0.959	28.8
TUAN SING	0.325	0.00600	07-May-21	1.8%	BUY	0.442	36.0
UOB	24.680	0.39000	06-May-21	1.6%	BUY	27.600	11.8
CITY DEV	7.360	0.12000	05-May-21	1.6%	BUY	10.500	42.7
OCBC	10.990	0.15900	12-May-21	1.4%	BUY	11.900	8.3
FIRST RESOURCES	1.450	0.02000	07-May-21	1.4%	BUY	1.830	26.2
KEPPEL CORP	5.080	0.07000	29-Apr-21	1.4%	HOLD	5.850	15.2
KOUFU	0.660	0.00700	04-May-21	1.1%	BUY	0.772	17.0
AEM	4.030	0.04000	14-May-21	1.0%	BUY	5.156	27.9
COMFORTDELGRO	1.610	0.01430	07-May-21	0.9%	BUY	1.990	23.6
UMS	1.150	0.01000	03-May-21	0.9%	BUY	1.362	18.4
IHH HEALTHCARE	5.080	0.04000	30-Mar-21	0.8%	BUY	6.150	21.1
IFAST	5.690	0.01000	03-May-21	0.2%	BUY	7.638	34.2

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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11. Euleen Goh Yiu Kiang, a member of DBS Group Holdings Board of Directors, is a Non-Exec Director / Chairman of SATS as of 31 Dec 2020.
12. Olivier Lim Tse Ghow, a member of DBS Group Holdings Board of Directors, is a Non-Exec Director of Raffles Medical as of 31 Dec 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