

Sector Update

Singapore Banking Sector

Company Results

First REIT

CapitaLand Commercial Trust

Frasers Centrepoint Trust

SGX

First REIT

Strong sponsor acquisition pipeline to look forward to

Tan Dehong

Phillip Securities Research Pte Ltd

23 January 2017

First REIT

(Maintain Accumulate, TP:\$1.32, FY17e DPU:8.6 cents (6.6%), Last:S\$1.3)



Results at a glance

(SGD mn)	FY2016	FY2015	y-y (%)	Comments
Gross Revenue	107.0	100.7	6.3%	Mainly due to contribution from Kupang Property (acquired Dec 15)
Net property income	105.8	99.3	6.5%	High flow through from gross revenue due to properties being on triple net lease
Distributable income	65.2	61.9	5.3%	
DPU (Cents)	8.47	8.30	2.0%	

Source: Company, PSR

Operational Updates

	FY2016	FY2015	y-y (%)	Comments
Gearing Ratio	31.1%	34.0%		Company issued perpetual securities in 2016, at 5.68% for first five years, which lowered gearing ratio
% debt on fixed rate	92.3%	88.6%		
Portfolio Valuation (S\$m)	1,227.1	1,221.5	0.5	Excluding new acquisitions, FY16 valuation would be S\$1206.5m, down 1.2%
NAV/unit (SG cents)	100.8	103.9	(3.0)	

Source: Company, PSR

Key Takeaways:

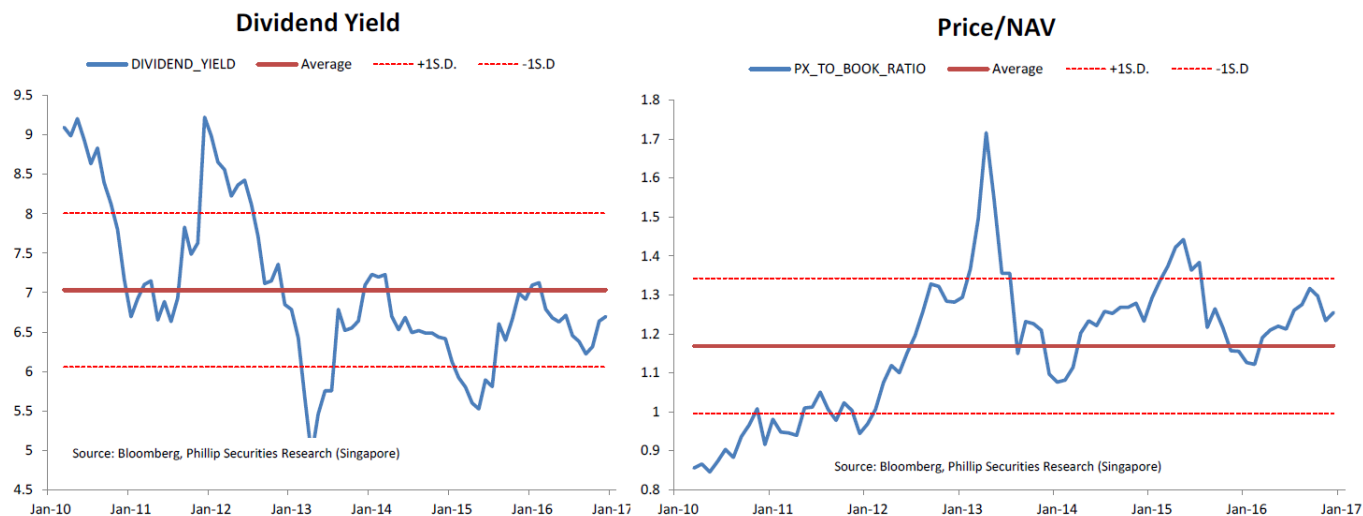
- Lower property valuations due to weaker CPI. Improved outlook for SG CPI.
- Acquisition targets for 2017 lined up. Demonstrates sponsor commitment.

First REIT

(Maintain Accumulate, TP:\$1.32, FY17e DPU:8.6 cents (6.6%), Last:S\$1.3)



First REIT Historical Dividend Yield and Price/NAV



Peer Comparison Table

Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
FIRST REIT	ACCUMULATE	1,017	1.32	6.39	1.28	30.0	4.00%
PARKWAY LIFE REIT		1,519	2.51	4.95	1.50	38.2	1.40%

Source: Bloomberg, Phillip Securities Research (Singapore)

Frasers Centrepoint Trust

Supported by the Causeway Point pillar again

Tan Dehong
Phillip Securities Research Pte Ltd
23 January 2017

Frasers Centrepoint Trust

(Maintain Neutral, TP:\$2, FY17e DPU:11.8 cents (6.0%), Last:S\$1.965)



Results at a glance

(SGD mn)	1Q17	1Q16	y-y (%)	Comments
Gross Revenue	44.1	47.1	-6.4%	Mainly due to loss of revenue from Northpoint Asset Enhancement works
Net property income	31.6	33.5	-5.7%	
Distributable income	27.7	27.7	-0.2%	Higher % of asset management fees paid in units, freeing up more cash for distribution
DPU (Cents)	2.89	2.87	0.7%	

Source: Company, PSR

Key Takeaways:

- Supported by the Causeway Point pillar again.
- A closer look at the continued strong performance of Causeway Point.

	Causeway Point	Tampines Mall
Net Lettable Area (NLA)	415,774	354,688
Annual Shopper Traffic (mn)	24.9	26.1
Gross Revenue S\$ (2015)	81.0	76.8
NPI S\$ (2015)	59.1	56.8
Population Catchment size	Woodlands Town: 250,290	Tampines Town: 261,230
Key Tenants	Metro, Courts, Cold Storage, Food Republic, Cathay	NTUC, Isetan, H&M, GV, Kopitiam
Population Age distribution	Similar	
Average gross rent S\$/sq ft/mth	16.23	18.04

Source: Company Annual Reports, SingStats

Frasers Centrepoint Trust

(Maintain Neutral, TP:\$2, FY17e DPU:11.8 cents (6.0%), Last:S\$1.965)



Key Takeaways:

- Discussions with Northpoint tenants over post AEI re-tenancy going well.
- We expect improving retail sales as 2017 progresses, though structural challenges facing the retail industry remain.

Singapore Exchange Limited

Securities Business Charged Up by “Animal Spirits”

Jeremy Teong

Phillip Securities Research Pte Ltd

23 January 2017

Singapore Exchange Limited

(Maintain Accumulate. Higher TP:S\$7.75, previously S\$7.69. Last:S\$7.53)



Results at a glance

(SGD mn)	2Q17	2Q16	y-o-y	1Q17	q-o-q	Comments
Securities	52.1	46.6	12%	47.1	11%	SDAV increased 17% y-o-y and 10% q-o-q to S\$1.09bn
Derivatives	75.0	77.6	-3%	70.8	6%	Total derivatives volume increase offset by lower average fee per contract
Others	72.5	70.4	3%	72.9	-1%	Supported by y-o-y increase in Bond Listings and Colocation Services
Total Revenue	199.6	194.6	3% 	190.8	5%	
Opex	97.2	97.1	0%	93.7	4%	Lower Dep. Costs offset by one-off costs for the Baltic Exchange acquisition
Net Income	88.3	83.7	5% 	83.1	6%	

Source: Company, Phillip Securities Research (Singapore)

Equities and Fixed Income Business boosted by higher SDAV and bond listings

- SDAV \$1.09bn (17% y-o-y) as investor confidence was boosted post US elections. 204 bond listings compared to 73 bond listings in 2Q16.

Equities and Commodities Derivatives revenue decreased 2.8% y-o-y

- Total volumes were 5% y-o-y but average fee per contract declined to S\$1.16 compared to S\$1.28 a year ago.

Management lowered FY17e operating expense guidance

- FY16 Opex S\$409mn. PSR's FY17e Opex before 2Q17 results was S\$429mn. Mgmt's guidance on FY17e Opex is S\$405mn to S\$415mn, lower than previous guidance of S\$420mn to S\$430mn

Near term strategy

- Expect SGX to leverage their >90% market share in Iron Ore futures to expand the Freight business as an adjacent market

Singapore Banking Sector

Challenges to Loans and Net Interest Income Growth

Jeremy Teong

Phillip Securities Research Pte Ltd

23 January 2017

1. Banks' Net Interest Income entering low growth phase

- Singapore banks' LDRs are still trending on a high side therefore they have less bandwidth to lose deposits faster than loans amid rising interest rates
- Expect periodically intense price competition for deposits if LDRs remain elevated. Therefore deposit rates should have more upward bias relative to loan rates.
- As interest rates increase, demand for credit could fall further and deposits rise as rates become more attractive. This will cause a stronger downside bias for Singapore Banks' LDR.

2. Rising non-performing loans amid weak net interest income growth

- Weaker ability to set aside provisions to increase coverage ratio
- NPLs could rise further as higher interest rates reduces ability to service debt repayments

3. Expectations of a strengthening USD weakens demand for USD loans by Asian borrowers

- The USD being a global currency is a critical medium for Singapore banks to provide loans to regional borrowers.
- Expect the Singapore banks' USD loans growth to be negatively affected in 2017 as Asian borrowers cut USD borrowing and the loss of USD loans would offset the benefits of earning interest from USD loans.

Challenges to Loans and Net Interest Income Growth



Case Study

Base case scenario

	Deposit	Loan
	1000000	900000
Rate	1.0%	3.0%
Int. Expense	10000	
Int. Return		27000
Net int. income	17000	
Net int. income growth	0.00%	
NIM	1.89%	
LDR	90.0%	

When interest rates increase, Banks seek to raise loan rates more than deposit rates.

	Deposit	Loan
	1000000	850000
Rate	1.1%	3.2%
Int. Expense	11000	
Int. Return		27200
Net int. income	16200	
Net int. income growth	-4.71%	
NIM	1.91%	
LDR	85.0%	

Do not raise Deposits Rates and you don't lose too much deposits.

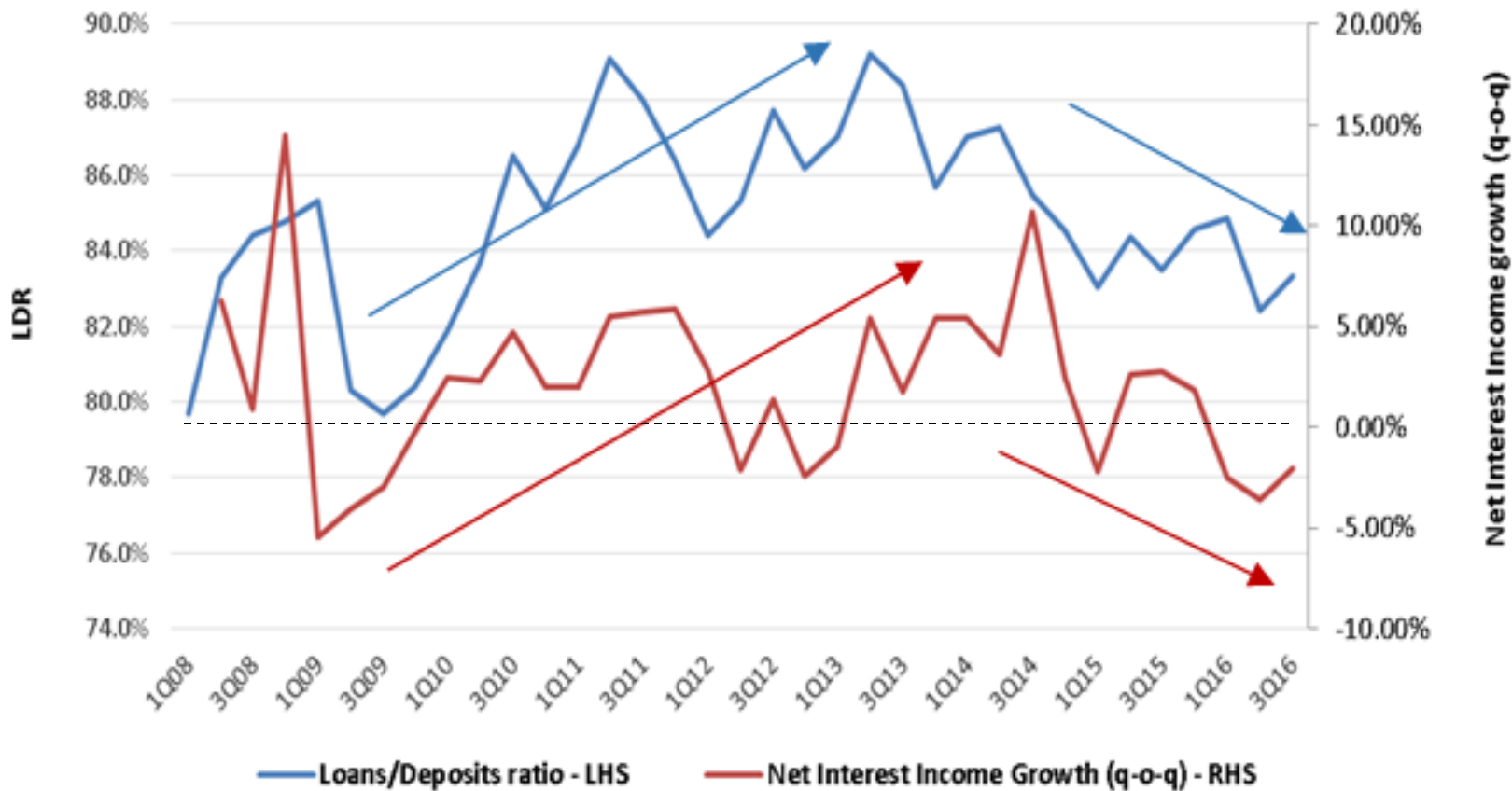
	Deposit	Loan
	950000	850000
Rate	1.0%	3.2%
Int. Expense	9500	
Int. Return		27200
Net int. income	17700	
Net int. income growth	4.12%	
NIM	2.08%	
LDR	89.5%	

Do not raise Deposits Rates but you lose more deposits than expected. However market sees highest NII and NIM growth

	Deposit	Loan
	900000	850000
Rate	1.0%	3.2%
Int. Expense	9000	
Int. Return		27200
Net int. income	18200	
Net int. income growth	7.06%	
NIM	2.14%	
LDR	94.4%	

Banks' NII Entering Low Growth Phase

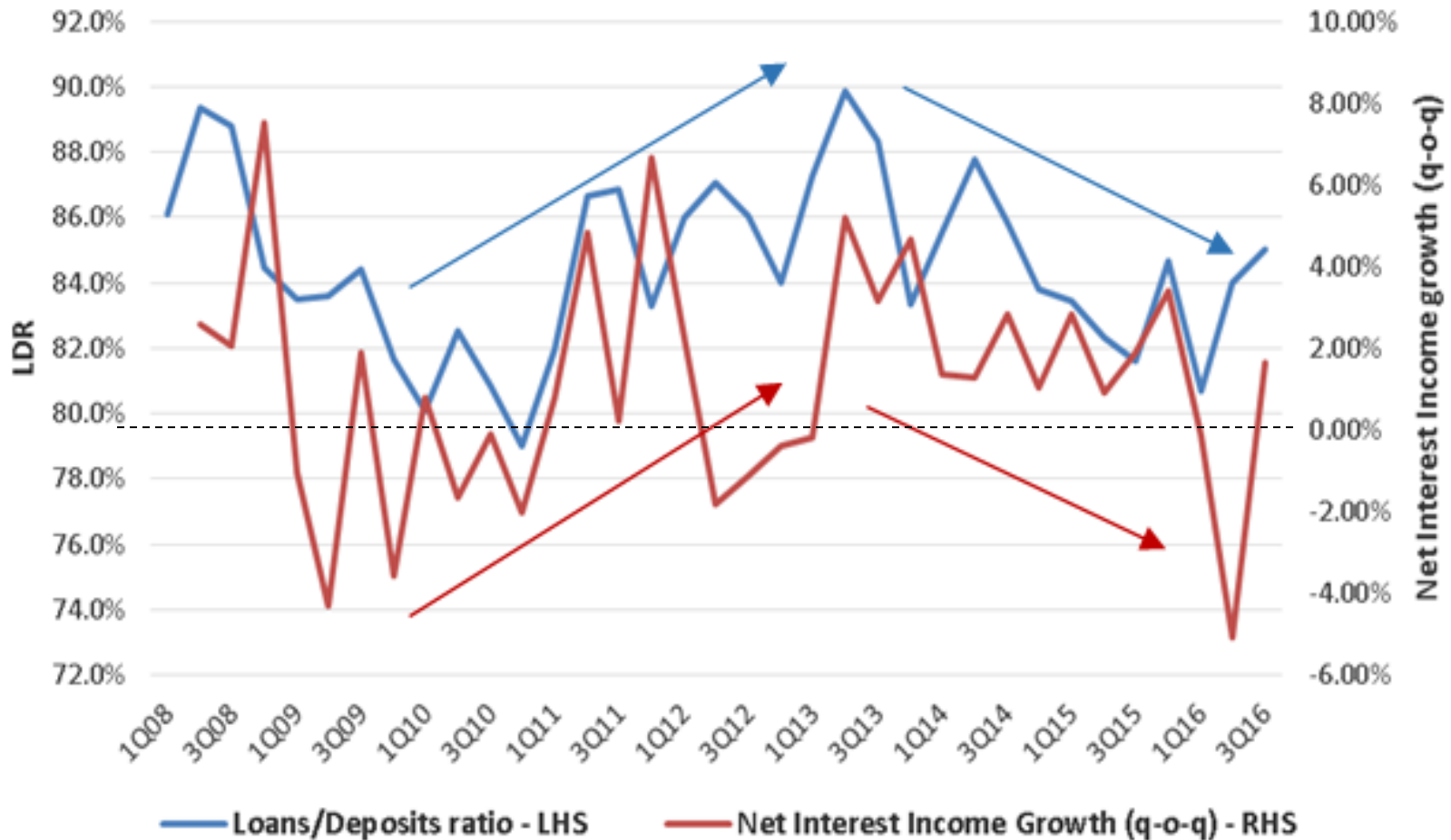
OCBC: Lowest LDR among the local banks as at 3Q16; but waiting to strike



Source: PSR, company

Banks' NII Entering Low Growth Phase

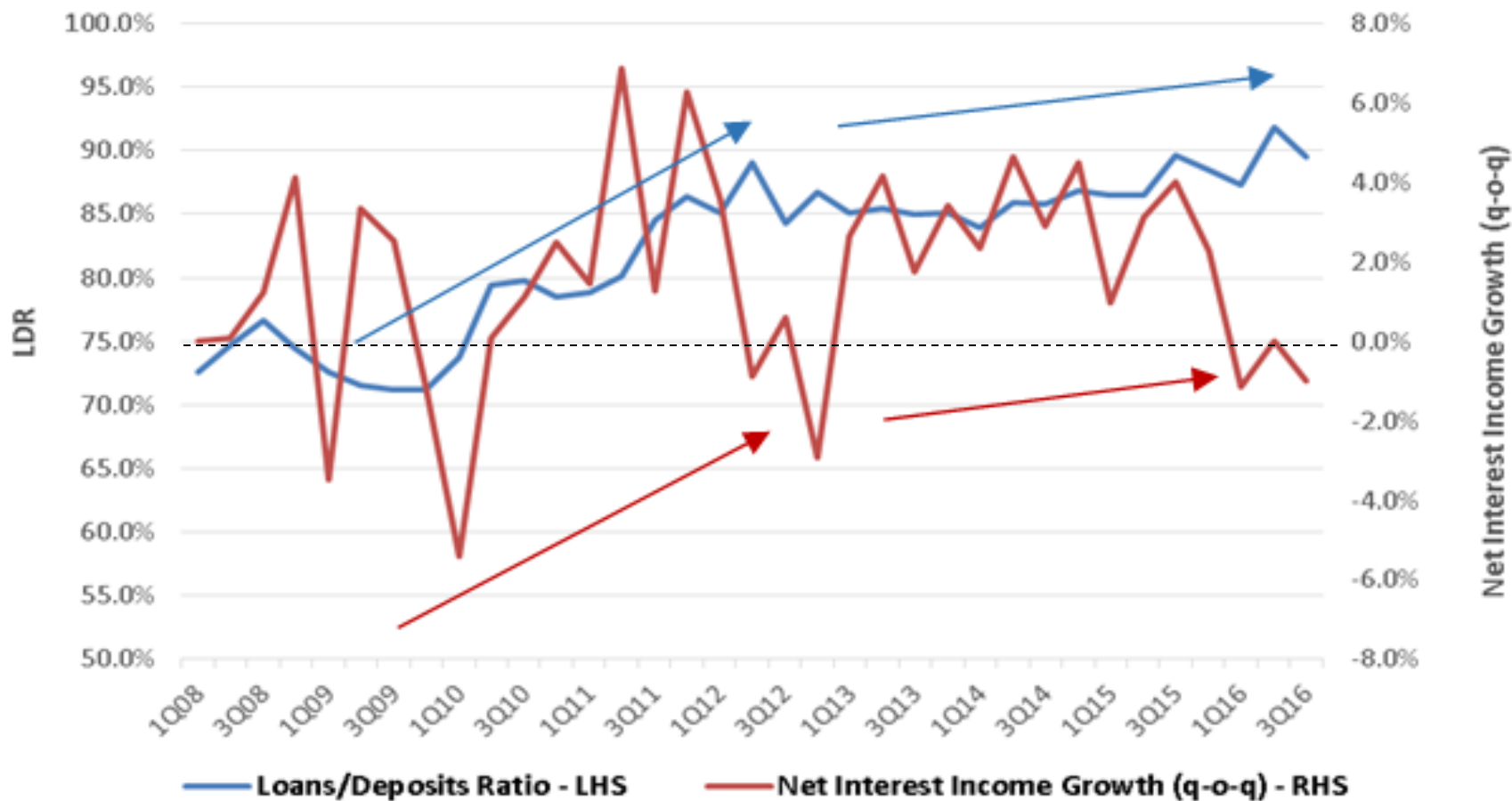
UOB: Lending aggressively to riskier borrowers to support net interest income growth



Source: PSR, company

Banks' NII Entering Low Growth Phase

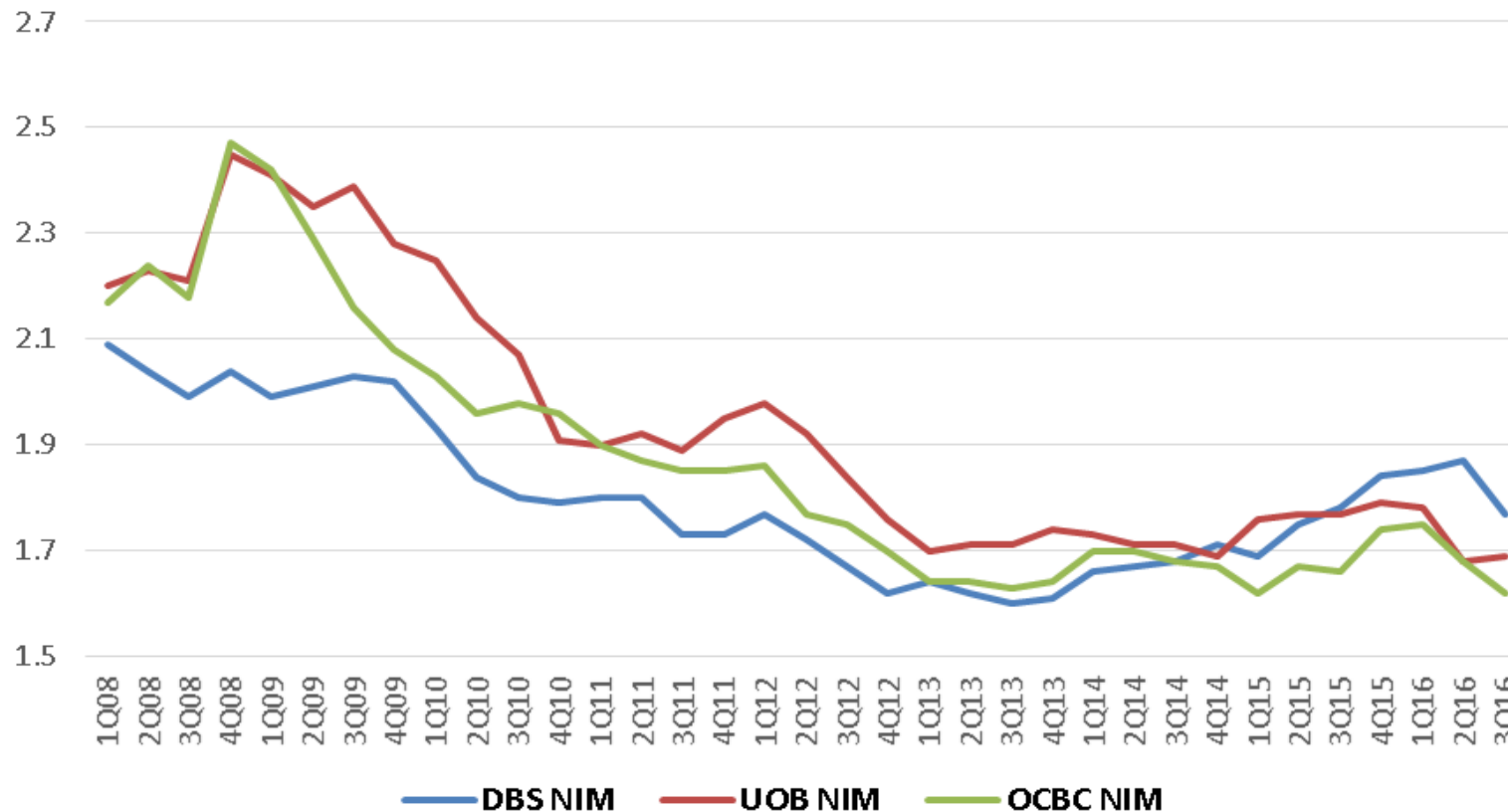
DBS: Highest LDR among the banks; likely to seek growth from acquisitions



Source: PSR, company

Banks' NII Entering Low Growth Phase

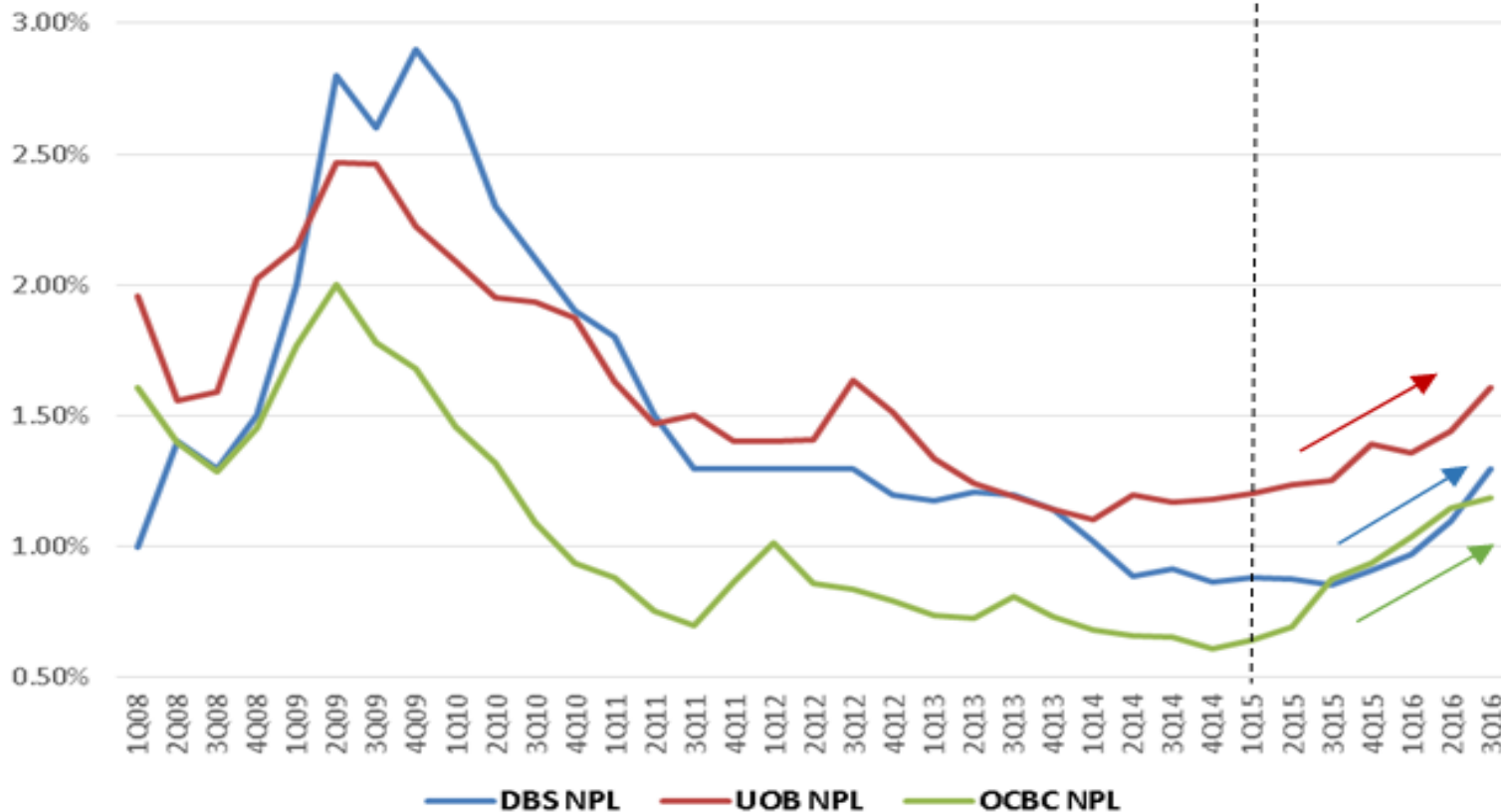
NIM expansion could be cramped by faster rising cost of funds



Source: PSR, company

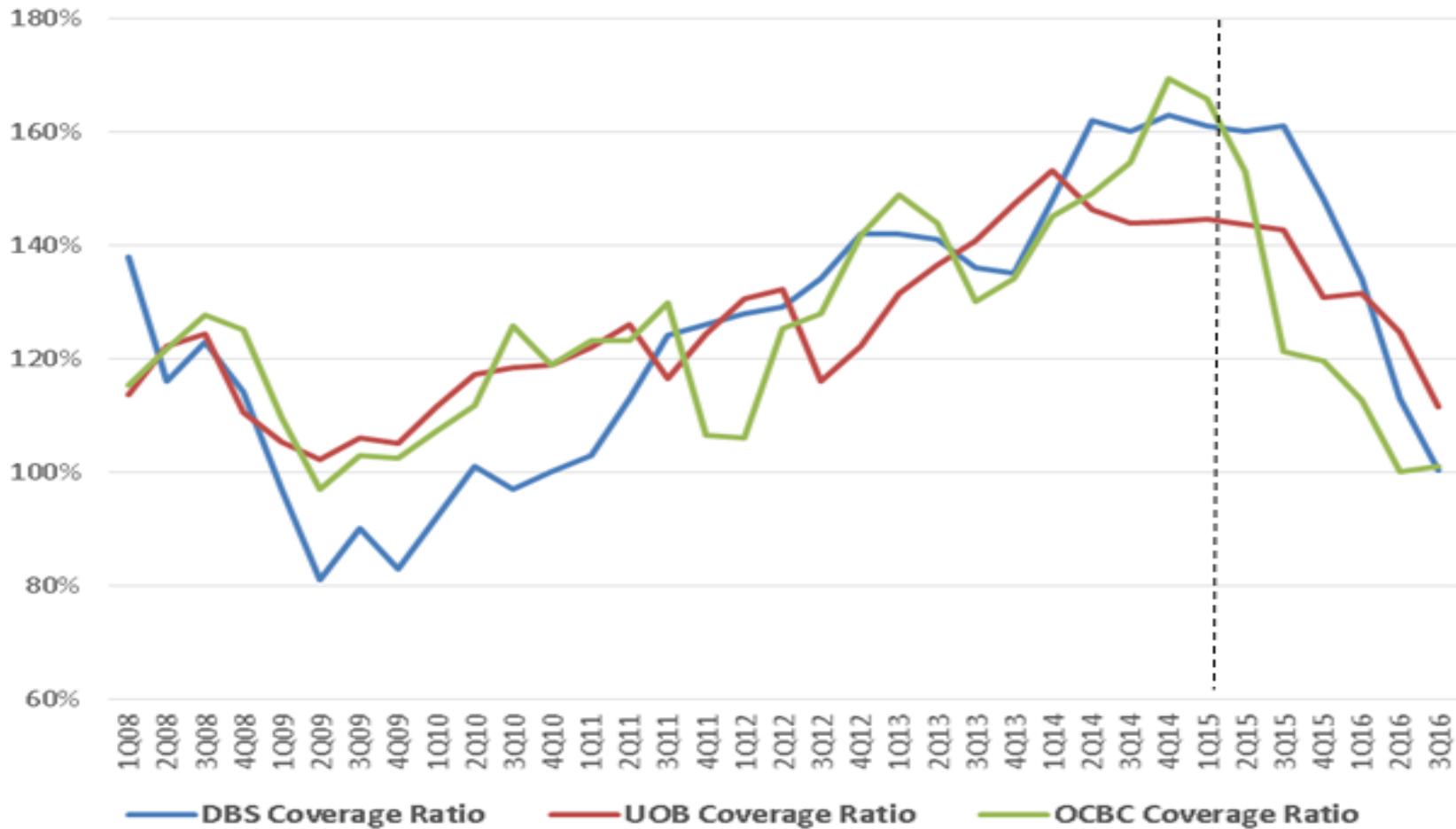
Rising non-performing loans amid weak NII growth

Low net interest income growth also affects banks' ability to set aside more provisions to rebuild the coverage ratio



Source: PSR, company

Rising non-performing loans amid weak NII growth



Source: PSR, company

Comparing with Multinational Banks

Large American Banks generally reduced their LDRs from 2011 to 2014 while QE kept interest rates low.

	Q1 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
U.S. Bancorp	96.7%	92.1%	92.5%	90.7%	90.3%	90.8%	91.0%	90.9%	90.6%	91.6%	91.7%
Bank of America	91.8%	88.7%	87.1%	84.7%	82.8%	84.3%	84.6%	84.7%	83.6%	82.2%	80.9%
Wells Fargo	87.6%	80.9%	79.9%	78.6%	77.0%	76.7%	74.8%	73.8%	72.3%	72.1%	71.0%
Citigroup	73.8%	74.4%	72.3%	71.0%	69.9%	69.9%	69.5%	70.0%	68.9%	68.8%	69.3%
JPMorgan Chase	74.0%	65.1%	66.3%	65.9%	64.0%	63.4%	62.0%	60.5%	58.8%	58.7%	59.3%

Source: <http://www.forbes.com/sites/greatspeculations/2014/09/25/a-look-at-loan-to-deposit-ratios-at-the-countrys-largest-banks/#754247b47bc1>

The contributors to the Forbes article compiled the ratio of the average loans outstanding with the average total deposits for each quarter provided by the banks in their quarterly SEC filings.

Comparing with Multinational Banks

Low LDR prepares banks to perform better when interest rates increase

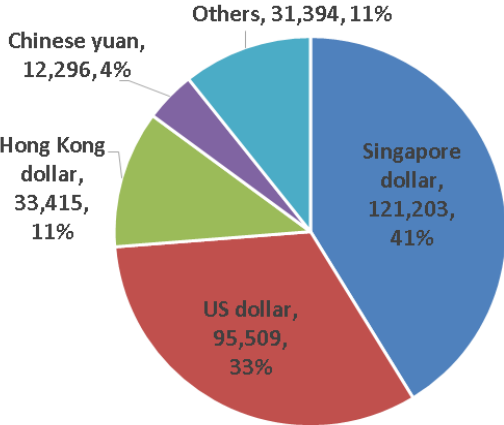
Multinational Banks	Ticker	Country	NIM (%)	Total Loans to Total	NPL to Total	Market Cap (bn)
				Deposits (%)	Loans (%)	
U.S. Bancorp	USB US Equity	USA	3.10	82.75	0.45	US\$88.45
The Bank of Nova Scotia	BNS CN Equity	Canada	1.71	79.23	1.11	C\$92.86
Deutsche Bank AG	DBK GY Equity	Germany	1.61	76.33	1.88	€ 23.80
Canadian Imperial Bank of Commerce	CM CN Equity	Canada	2.09	78.13	0.54	C\$44.47
Wells Fargo & Company	WFC US Equity	USA	2.90	77.51	1.22	US\$286.97
Bank of Montreal	BMO CN Equity	Canada	1.77	76.19	0.65	C\$62.12
Bank of America	BAC US Equity	USA	2.28	74.26	1.03	US\$233.33
UBS Group AG	UBSG VX Equity	Switzerland	0.94	74.22	0.52	CHF64.88
Citigroup Inc.	C US Equity	USA	2.86	71.74	0.81	US\$171.1
Royal Bank of Canada	RY CN Equity	Canada	1.77	69.15	0.75	C\$101.79
Toronto-Dominion Bank	TD CN Equity	Canada	2.01	69.08	0.60	C\$122.14
HSBC Holdings PLC	HSBA LN Equity	UK	1.61	68.63	2.54	£129.64
JPMorgan Chase & Co.	JPM US Equity	USA	2.17	64.53	0.77	US\$305.91
Standard Chartered PLC	STAN LN Equity	UK	1.73	74.32	4.83	£21.44
Simple Average			2.04	74.00	1.26	

Source: Bloomberg

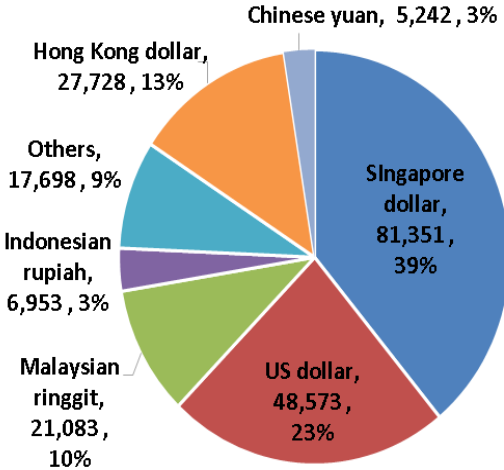
Expectations of strong USD weakens demand for USD loans by Asian Borrowers

USD loans are the 2nd largest component in each of the Singapore banks' customer loans

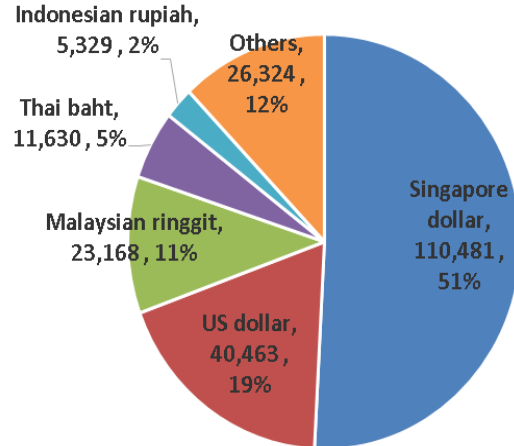
3Q16 DBS Loans by Currency



3Q16 OCBC Loans by Currency



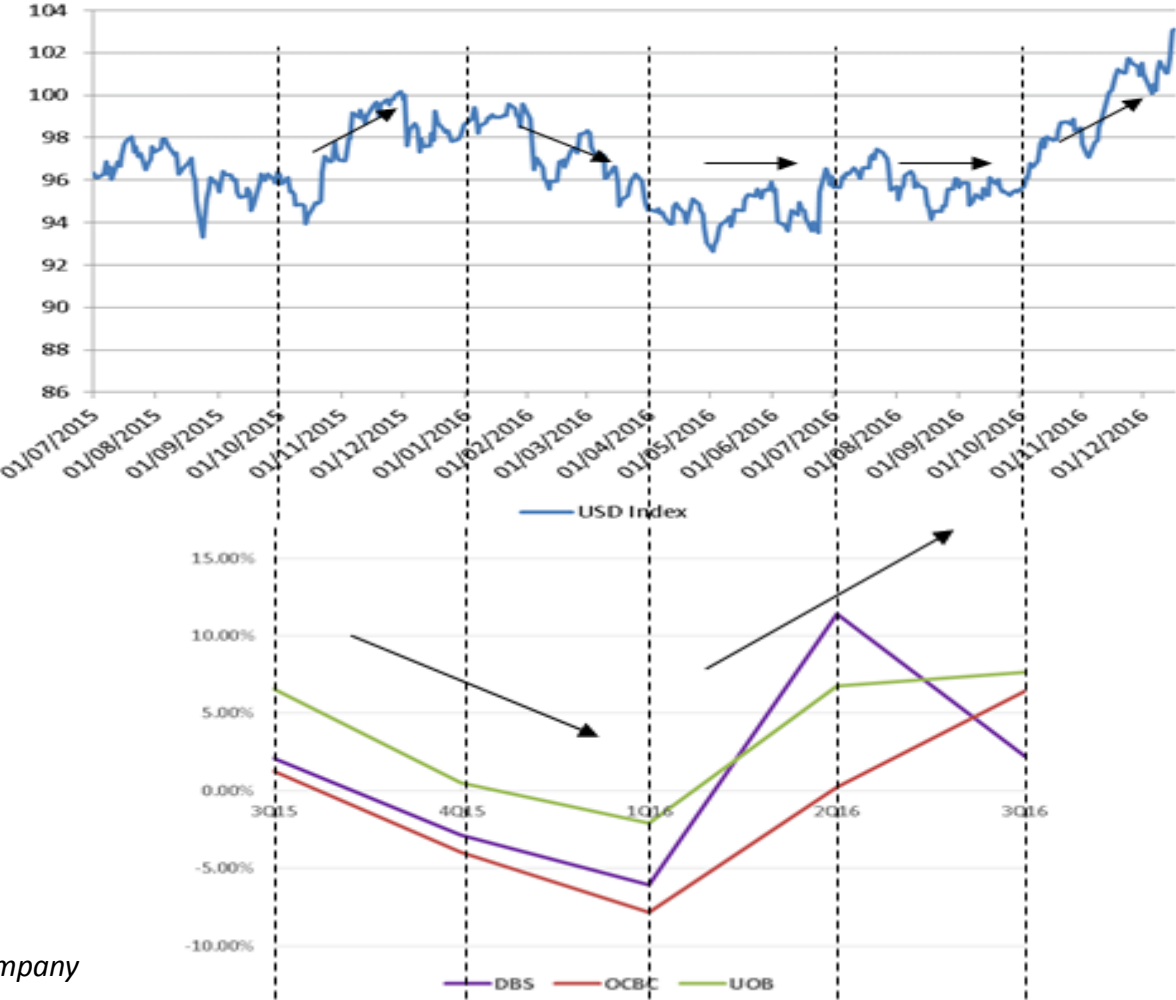
3Q16 UOB Loans by Currency



Source: PSR, company

Expectations of strong USD weakens demand for USD loans by Asian Borrowers

USD Index vs Singapore Banks' USD loans q-o-q growth



Source: PSR, company

Conclusion and Investment Action

Expectations for 2017

- DBS
 - a) On the lookout for more acquisitions to bolt on loans and deposits to grow NII.
 - b) Impact of strengthening of USD may be more significant for DBS' customer loans.
- OCBC
 - a) May work LDR towards c.80% so NII growth may be weak in near term but this provides head room to expand LDR if interest rates rise further.
 - b) GEH could benefit from interest rate increases.
- UOB
 - a) May keep LDR c.85% and manage an optimal balance of riskier loans to keep net interest income growth positive.
 - b) Recent weak performance by Singapore construction industry could weigh on UOB's customers' loans.

Investment Action

- **UNDERWEIGHT** on Singapore Banking Sector.
- Downgrade “**Neutral**” rating from previous “Accumulate” on **DBS** with a higher TP of **S\$16.85** (previously S\$15.71) as we roll over to FY17e valuation.
- Maintain “**Neutral**” on **OCBC** with a higher TP of **S\$8.55** (previously S\$8.25) as we roll over to FY17e valuation.
- Downgrade “**Reduce**” rating from previous “Neutral” on **UOB** with a higher TP of **S\$18.97** (previously S\$17.63) as we roll over to FY17e valuation.

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