

S-REITs Sector Update

Earnings Update: Apple

Western Digital

SIA Engineering Company

Nam Lee Pressed Metal (AGM highlights)

Disclaimer

The information contained in this presentation has been obtained from public sources which Phillip Securities Pte Ltd (“PSPL”) has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this presentation are based on such information and are expressions of belief only. PSPL has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and PSPL shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will PSPL be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

This presentation is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

You should seek advice from a financial adviser regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to invest in such products.

Apple Inc

Record high revenue, is it enough

Ho Kang Wei

Phillip Securities Research Pte Ltd

06 February 2017

Apple Inc

(Neutral, TP: US\$129.58, previous: US\$125.81, Last close: US\$129.05)

Y/E Sep, USD bn	1QFY17	4QFY16	1QFY16	qoq	yoy
Revenue	78.4	46.9	75.9	67.2%	3.3%
Services Rev	7.2	6.3	6.1	13.4%	18.4%
Other Products Rev	4.0	2.4	4.4	69.6%	-7.5%
iPhone Rev	54.4	28.2	51.6	93.1%	5.3%
iPad Rev	5.5	4.3	7.1	30.0%	-21.9%
Mac Rev	7.2	5.7	6.7	26.2%	7.4%

- **Revenue grew 3% yoy to a record US\$78.3 bn**
 - iPhones sold less but at higher ASPs
- **Service revenue grew by 18% yoy**
 - 5th consecutive double digit growth quarter
 - Slowest since Services started to grow
- **Weaken guidance for next quarter**
 - Guided US\$ 51.5 – 53.5 bn
 - Expected US\$1.2 bn Forex headwind
 - Positive and negative risk with Trump admin

Western Digital Corp

Beats forecast, gross margin expansion

Ho Kang Wei

Phillip Securities Research Pte Ltd

06 February 2017

Western Digital Corp

(Accumulate, TP: US\$84.11, previous: US\$71.54, Last close: US\$79.13)



Y/E Jun, USD bn, EPS(US\$)	2QFY17	2QFY16	yoy	Comments
Revenue	4.89	3.32	47.4%	Strong storage demand helped pull Revenue up
Gross Profit(non-GAAP)	1.79	0.95	89.6%	
Net Income(non-GAAP)	0.68	0.40	67.5%	Non-GAAP results show better than expected earnings once acquisition cost removed
Gross Margin(non-GAAP)	36.7%	28.5%	8.2%	Margins expanded on SSD and cost improvements
EPS(non-GAAP)	2.30	1.72	33.7%	

- **WDC beat revenue and earnings estimates**
 - Healthier PC market and strong cloud demand
 - Non-GAAP margin expansion due to better product cost improvements and pricing
- **Acquisition synergies on track**
 - WDC reaffirm they are on track to achieve target of US\$175 mn in cost of revenue synergies and US\$300 mn in operating expense synergies
- **Strong Cloud and Enterprise storage demand**
 - Total Exabyte shipped increased 12.6% yoy, Data Center EB shipped grew 16.9% yoy

SIA Engineering Company Ltd

Headline PATMI boosted by one-off; recurring PATMI still weak

Richard Leow

Phillip Securities Research Pte Ltd

6 February 2017

SIA Engineering Company Ltd

(Neutral, TP:S\$3.38, FY17e DPS: 14.5 cents (4.1%), Last:S\$3.52)



Results at a glance

(SGD mn)	3Q17	3Q16	yoy (%)	Comments
Revenue	272.3	275.2	↓(1.1)	Lower fleet management and airframe component overhaul, mitigated by higher line maintenance
EBIT	25.2	29.0	↓(13.1)	3Q17 boosted by S\$4.8mn exchange gain, increase in staff costs mitigated by lower subcontract costs
Associates & JVs	31.6	33.2	↓(4.8)	3Q17 JVs S\$3.2mn lower, associates S\$1.6mn higher
PATMI, reported	52.6	49.4	↑6.5	3Q17 includes S\$2.3mn gain from partial disposal of associate; 3Q16 includes S\$4.3mn loss on liquidation of associate, S\$2.5mn impairment of associate and S\$1.3mn dividend from non-current asset held for sale
PATMI, recurring	50.3	54.9	↓(8.4)	Adjusted for one-offs above

Source: Company, Phillip Securities Research (Singapore)

Headline PATMI exceeded our expectations due to stronger Associates & JVs

- S\$14.3mn contribution from JVs a positive surprise, from 3 consecutive quarters of single-digit contribution

Recurring PATMI still weak; expect flattish +2.3% growth in recurring PATMI for FY17e

- Headline PATMI had one-offs for both 3QFY17 and 3QFY16

49:51 strategic partnership between SIAEC and Moog

- MRO of flight control systems for B787 & A350; pending regulatory approvals

Nam Lee Pressed Metal Industries

Takeaways from FY16 AGM

Richard Leow
Phillip Securities Research Pte Ltd
6 February 2017

Nam Lee Pressed Metal Industries

(BUY, TP:S\$0.52, FY17e DPS: 2.0 cents (5.4%), Last:S\$0.37)



Largest twenty shareholders now hold 76.71%

- Highest in the most recent three financial years
- New institutional interest among them

Capital budgeting: capex guidance for FY17 and expanding into another product line

- S\$15mn ~ S\$20mn; bulk of it to set up its sixth factory in Malaysia
- S\$10mn land & new factory; S\$5mn ~ S\$7mn new and replacement machinery

Capital structure: Cash hoard will continue to be retained on the balance sheet

- Required by major customer for them to have a strong balance sheet
- Two suggestions from shareholders: share buyback & interim dividend

Generally stable outlook for FY17

- Stable demand for speciality aluminium product
- Recognise 80% revenue for a public infrastructure façade project
- Contribution from smaller ongoing HDB projects

Nam Lee Pressed Metal Industries

(BUY, TP:S\$0.52, FY17e DPS: 2.0 cents (5.4%), Last:S\$0.37)



Where we were wrong previously: assumption of dividends

- Cash retained on balance sheet
- Stable dividend policy: payout ratio of a third of earnings (inclusive of special dividends)
- Lowered payout ratio to ~50%; in line with three-year historical

Change in valuation model to FCFE

- Accounts for all cash that is available to equity holders – both cash that is paid as dividends and cash that is retained on the balance sheet
- Adjusted capex assumptions higher & added a small-firm premium to cost of equity

S-REITs Sector Update

Fed normalization of interest rates in 2017/2018 to
end 7 year outperformance of S-REITs

Tan Dehong

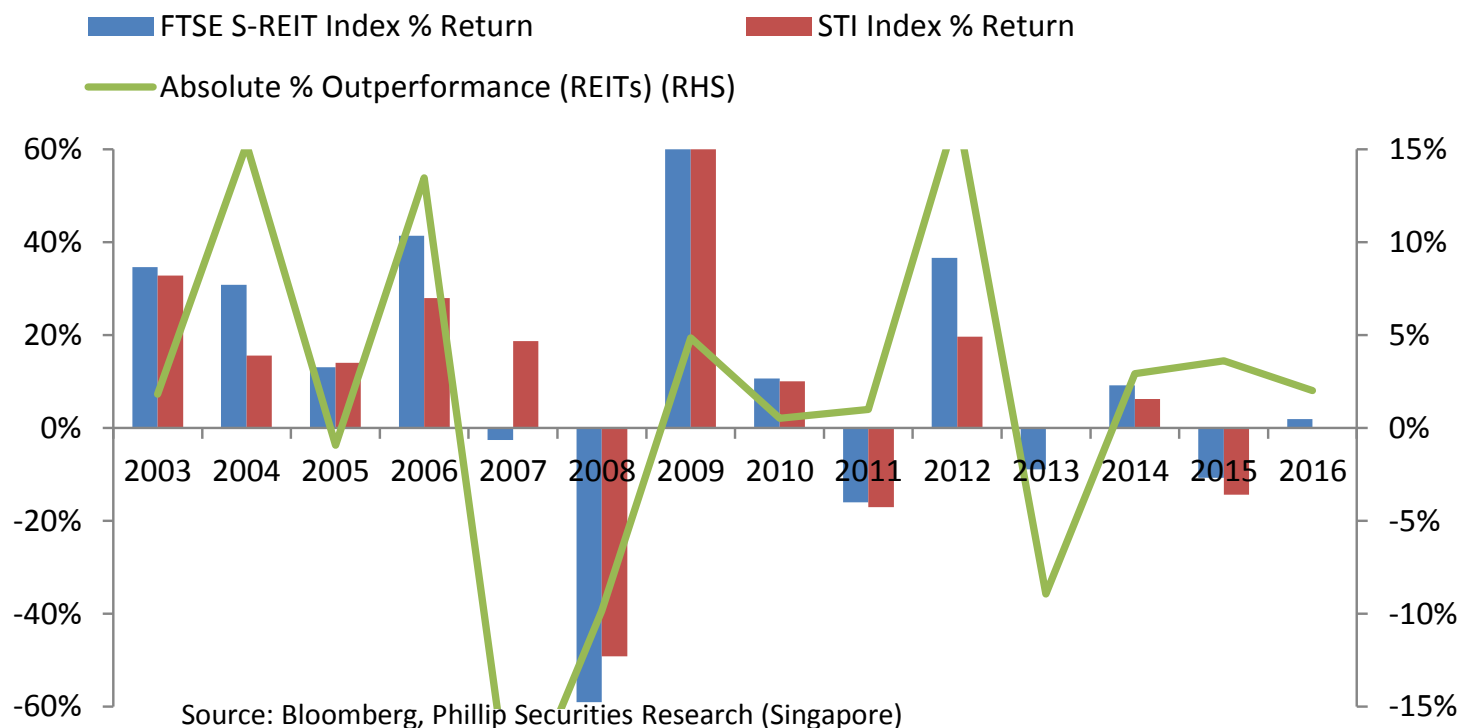
Phillip Securities Research Pte Ltd

6 February 2017

S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle

S-REIT outperformance since post-GFC except in 2013

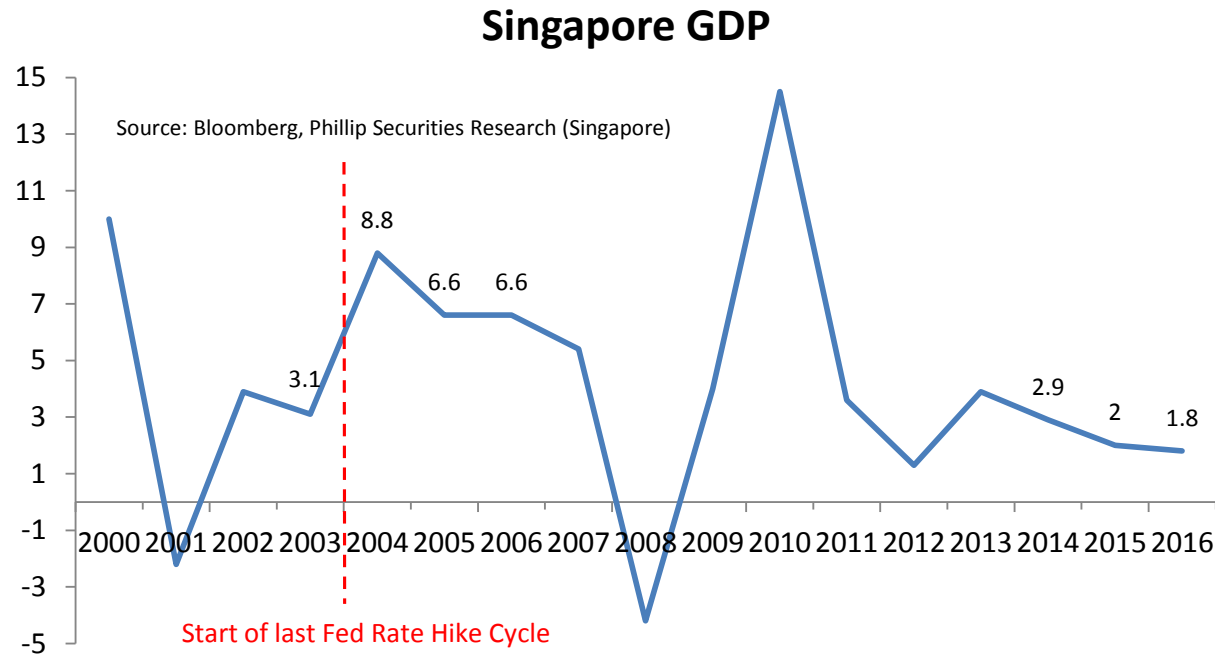
- Major contributing factors – Loose monetary policies, recovering property fundamentals (in early years)
- Normalising of interest rates, deteriorating property fundamentals



S-REITs- Previous rate hike cycle: 27% CAGR 2004-2006

Previous Rate hike cycle 2004-2006

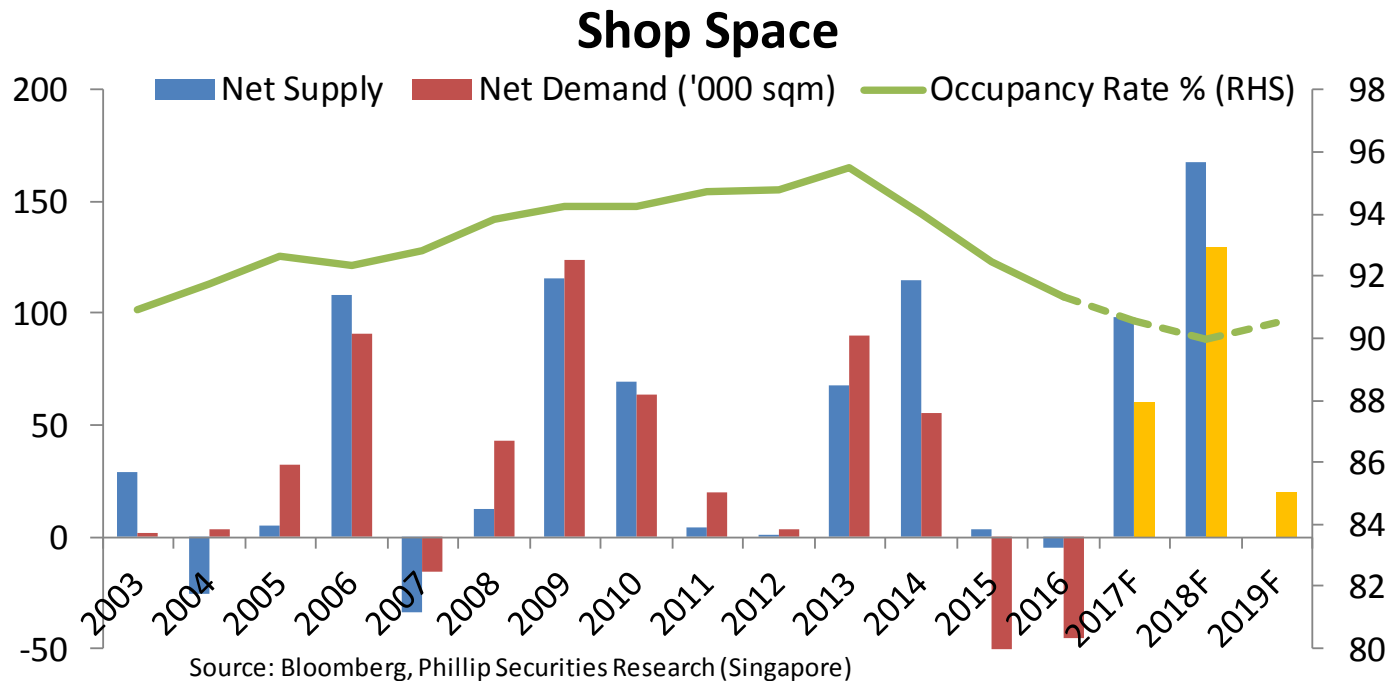
- S-REITs returns CAGR 26.5% (vs STI's 15.9%)
- Stronger property, economic fundamentals
- TECHNOLOGY and GROWTH two key buzzwords



S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: RETAIL

Retail Space: 2017 vs 2004-2006

- **2016: 2nd consecutive year of negative net absorption, occupancy, rental reversions trending down**
- **2004-2006: Increasing net absorption and occupancy**

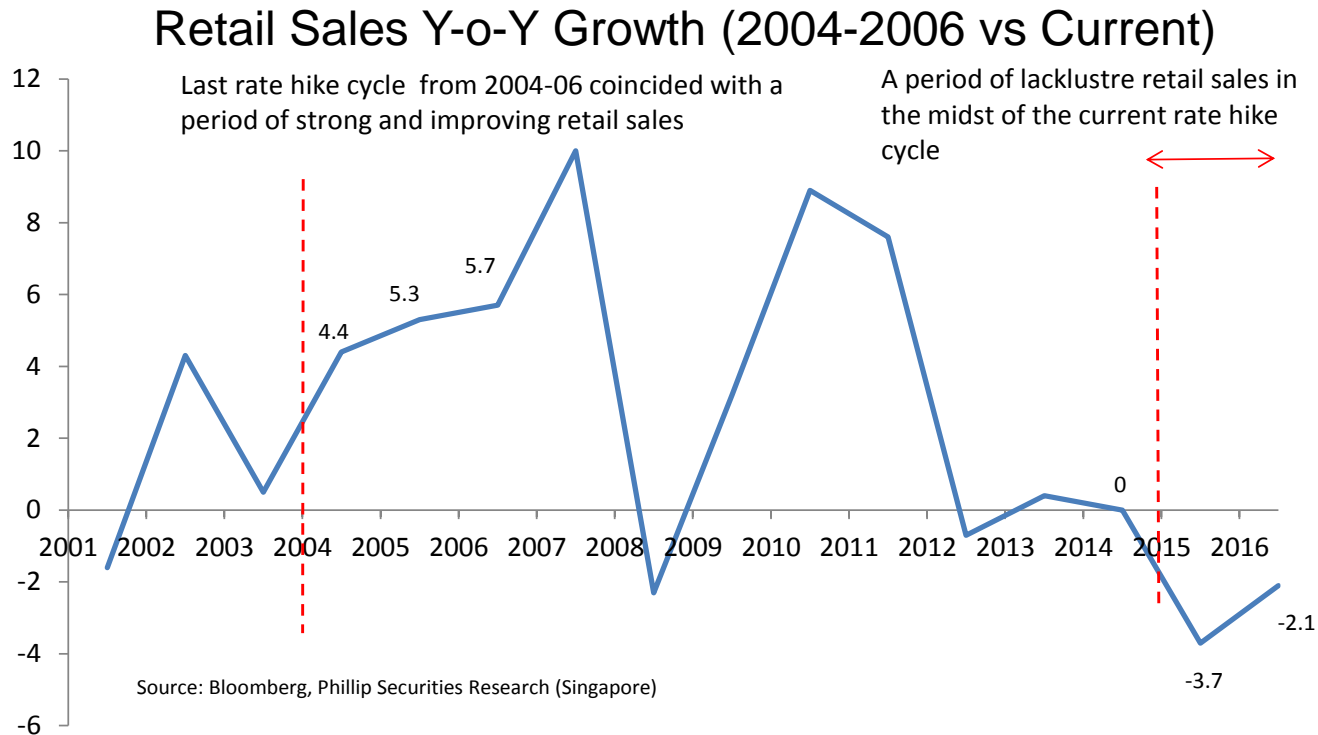


S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: RETAIL

Retail Sales:

2004-2006: Average 5% y-o-y growth

2012-Present: Flat to negative retail sales growth



S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: RETAIL

New Challenges today: Technology, Improvements in Last mile delivery

amazon

LAZADA
Effortless Shopping



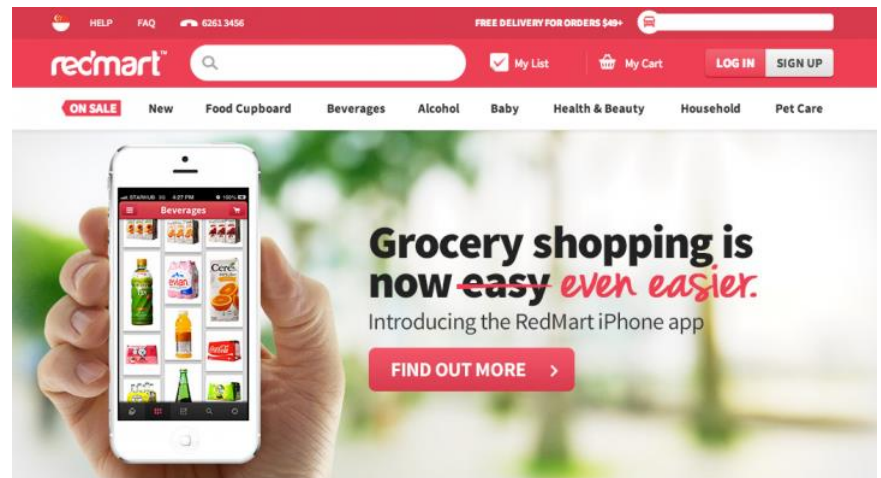
S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: RETAIL

New Challenges today: Technology, Improvements in Last mile delivery



S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: RETAIL

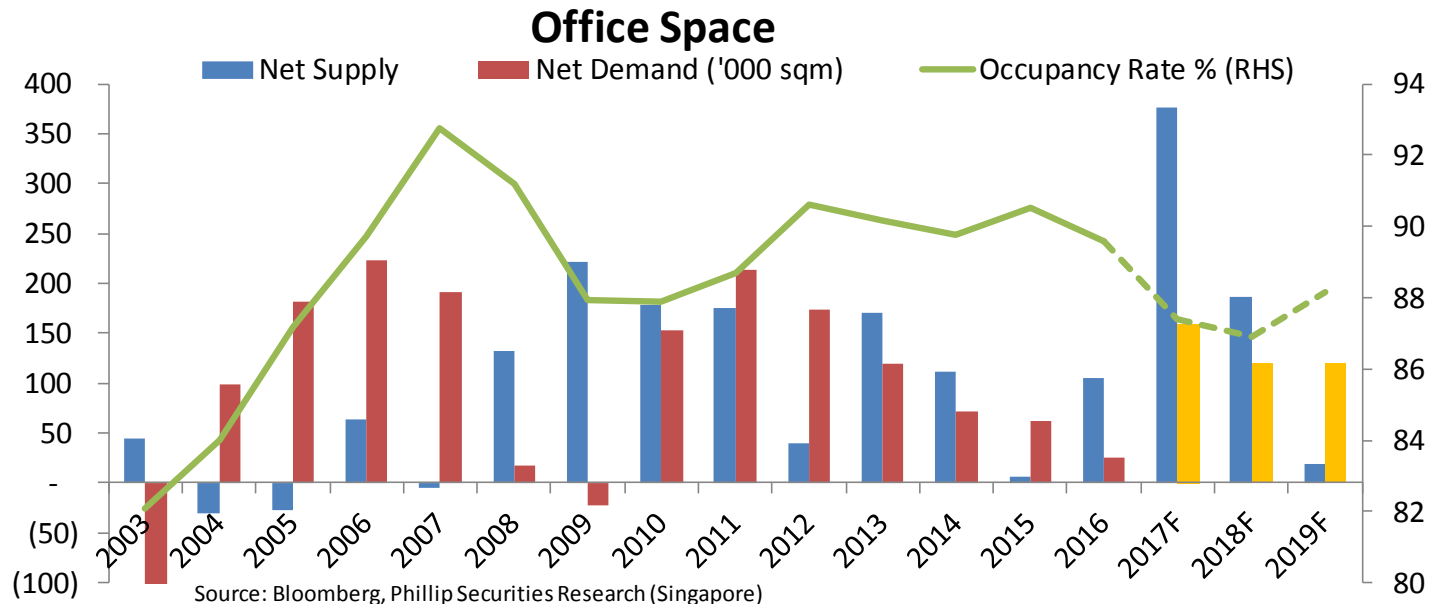
New Challenges today: Traditional “anchor” retailers such as supermarkets, F&B are not spared



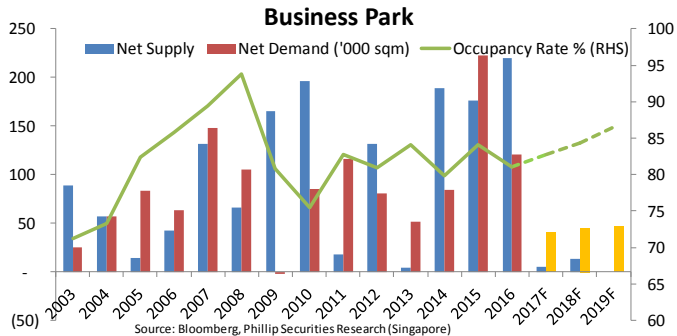
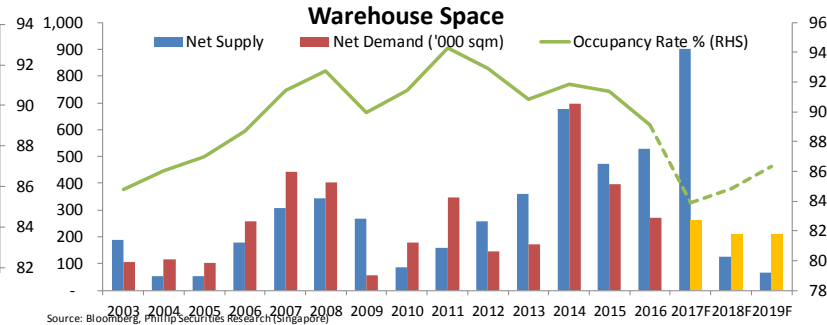
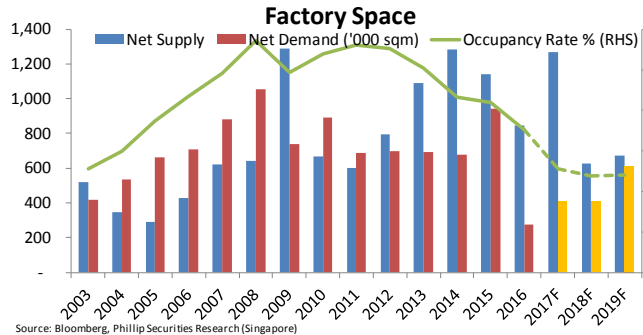
S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: OFFICE

Office Space: 2017 vs 2004-2006

- **2016: 5th consecutive year of falling net demand. Huge supply in 2017/2018**
- **2004-2006: Growing net demand on back of low supply. Office rentals spiked 49.4%.**
- **Recent trends**



S-REITs- Start of a new rate hike cycle: A comparison with the previous cycle: INDUSTRIAL



Industrial Space: 2017 vs 2004-2006

- **2016: Lacklustre net demand amidst high supply, with the exception of Business Parks**
- **2004-2006: Strengthening net absorption and occupancy**

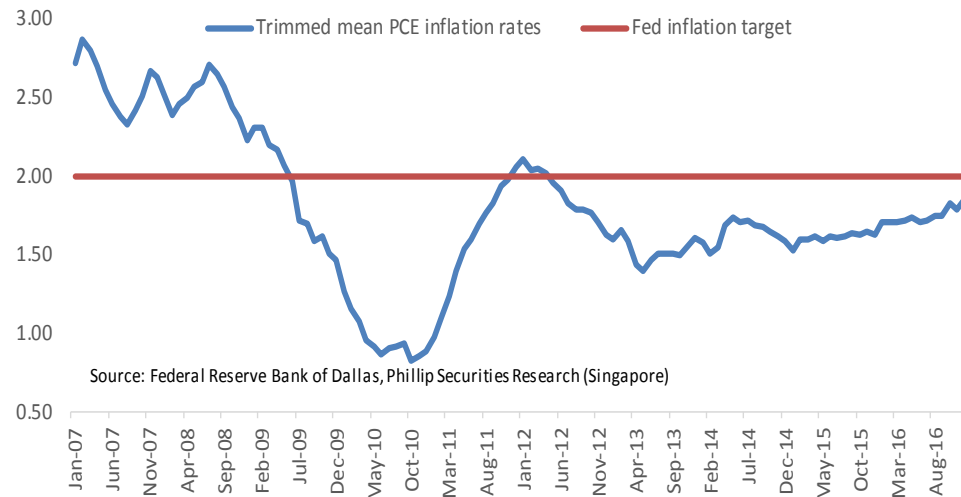
S-REITs – 2013 Taper Tantrum vs 2017

- **2013 Taper Tantrum: SG 10y bond yield spiked to 2.67% then trended down**
- **High bond yields didn't sustain**
- **Stronger economy now vs 2013. Pro-growth Trump policies could stoke inflation.**
- **House view: Fed behind the curve in raising rates**

U.S. Unemployment rate



Trimmed Mean PCE Inflation Rate



- **Structural problems in 2017**

Slower labour force growth caused by tighter immigration policies, industrial overcapacity problems in China, still enforced property cooling measures are current impediments to growth

- **Technological Advancements and other headwinds**

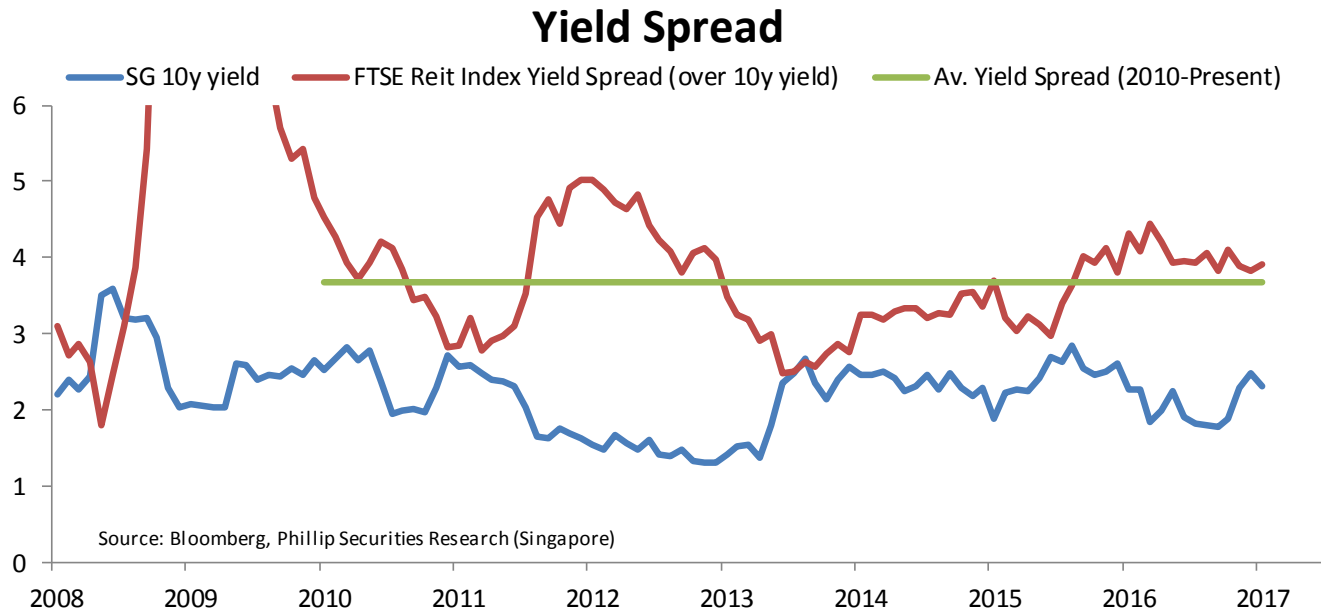
1. The advent of e-commerce, advanced web-conferencing technology allowing employees to work from home, and the increasing digitalisation of information reducing the need for storage space
2. Singapore's increasing trends of decentralization away from city centre to ease the city congestion through setting up of suburban commercial hubs, also affect demand for office space.

S-REITs – Yield Spread Analysis

Current: 3.9% (REIT yield 6.2% - Risk free 2.3%) **vs 7 year average 3.7%**

Spread should stay close to or above 7 year average

- ✓ Deteriorating property fundamentals during the latter part of this 7 year period
- ✓ Decreasing appeal of yield instruments with rising interest rates and tightening monetary conditions



S-REITs – Downgrade to Underweight

Source: Bloomberg (Updated: 6 February 2017)

	Mkt. Cap. (S\$m)	Price (S\$)	PSR RATING	PSR TARGET PRICE (S\$)	P/NAV (x)	trailing yield (%)	TOTAL RETURNS (%)		
							1MTH	3MTH	1YR
Healthcare									
PARKWAYLIFE REAL ESTATE	1,470	2.430			1.42	5.0	2.5	(2.7)	15.5
FIRST REAL ESTATE INVNT TRUST	1,000	1.295	ACCUMULATE	1.32	1.28	6.5	3.6	(0.7)	19.6
Hospitality									
ASCOTT RESIDENCE TRUST	1,901	1.150			0.86	7.2	3.9	4.8	13.0
CDL HOSPITALITY TRUSTS	1,365	1.375			0.89	7.3	5.9	7.9	17.0
FAR EAST HOSPITALITY TRUST	1,074	0.595			0.64	7.4	(0.8)	0.3	0.6
OUE HOSPITALITY TRUST	1,224	0.680			0.89	6.8	1.2	2.4	8.6
FRASERS HOSPITALITY TRUST	1,221	0.665			0.89	10.4	3.1	(1.0)	4.7
ASCENDAS HOSPITALITY TRUST	838	0.745			0.88	7.3	5.0	5.2	3.8
Retail									
CAPITALAND MALL TRUST	6,944	1.960			1.04	5.7	3.6	(1.3)	3.7
MAPLETREE GREATER CHINA COMM	2,647	0.950			0.78	7.8	1.1	(5.9)	21.0
SPH REIT	2,489	0.975			1.04	5.7	3.0	1.4	12.8
FRASERS CENTREPOINT TRUST	1,886	2.050	NEUTRAL	2.00	1.06	5.7	8.4	1.0	14.5
STARHILL GLOBAL REIT	1,636	0.750			0.81	6.8	3.1	(4.1)	9.6
CAPITALAND RETAIL CHINA TRUS	1,226	1.410	NEUTRAL	1.44	0.86	7.1	6.1	(0.8)	6.7
LIPPO MALLS INDONESIA RETAIL	1,108	0.395			1.01	8.5	6.8	3.6	40.3
CROESUS RETAIL TRUST	652	0.860	ACCUMULATE	0.93	0.91	8.2	1.8	0.6	16.1
Commercial									
CAPITALAND COMMERCIAL TRUST	4,505	1.520	NEUTRAL	1.63	0.85	6.0	5.5	0.1	23.5
SUNTEC REIT	4,389	1.725			0.80	5.8	5.5	4.5	21.2
KEPPEL REIT	3,327	1.005			0.70	6.3	0.5	(5.1)	17.3
MAPLETREE COMMERCIAL TRUST	4,305	1.500			1.12	5.4	8.4	1.5	21.5
FRASERS COMMERCIAL TRUST	1,010	1.265			0.82	7.8	1.2	(3.0)	17.5
OUE COMMERCIAL REAL ESTATE I	905	0.695			0.75	7.5	2.1	2.9	21.9
Industrial									
ASCENDAS REAL ESTATE INV TRT	6,975	2.420			1.16	7.5	6.8	6.8	11.8
MAPLETREE INDUSTRIAL TRUST	2,956	1.640	ACCUMULATE	1.67	1.20	6.9	1.4	(2.5)	14.6
MAPLETREE LOGISTICS TRUST	2,625	1.050			1.02	7.0	4.8	4.8	20.5
KEPPEL DC REIT	1,345	1.195	NEUTRAL	1.15	1.25	5.1	2.4	(1.8)	25.4
AIMS AMP CAPITAL INDUSTRIAL	865	1.355			0.92	8.3	1.9	0.2	10.2
CACHE LOGISTICS TRUST	720	0.800	REDUCE	0.73	1.03	9.7	1.7	(0.8)	4.9
CAMBRIDGE INDUSTRIAL TRUST	724	0.555			0.88	7.5	5.6	2.7	19.7
SOILBUILD BUSINESS SPACE REI	664	0.635	NEUTRAL	0.68	0.88	9.6	(0.7)	(2.2)	(2.9)
SABANA SHARIAH COMP IND REIT	448	0.425			0.71	9.8	17.5	(3.4)	(18.2)
VIVA INDUSTRIAL TRUST	736	0.765			0.97	9.1	3.4	4.1	20.7

S-REITs – Downgrade to Underweight

Property related alternatives to REITs

Source: Bloomberg (Updated: 6 February 2017)

	Mkt. Cap. (S\$mn)	Price (S\$)	PSR RATING	PSR TARGET PRICE (S\$)	P/NAV (x)	trailing yield (%)	TOTAL RETURNS (%)		
							1MTH	3MTH	1YR
PROPERTY RELATED ALTERNATIVES									
CITY DEVELOPMENTS LTD	8,566	9.420	ACCUMULATE	9.98	0.95	1.7	11.3	8.8	37.0
HO BEE LAND	1,525	2.290	ACCUMULATE	2.00	0.55	3.1	12.3	7.5	27.2
UOL GROUP	5,294	6.580	ACCUMULATE	7.05	0.66	2.3	5.9	14.4	20.6
CENTURION	266	0.360	BUY	0.42	0.68	5.6	5.9	5.9	7.0

Disclaimer

The information contained in this presentation has been obtained from public sources which Phillip Securities Pte Ltd (“PSPL”) has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the “Research”) contained in this presentation are based on such information and are expressions of belief only. PSPL has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this presentation is subject to change, and PSPL shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will PSPL be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

This presentation is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person.

You should seek advice from a financial adviser regarding the suitability of the investment product, taking into account your specific investment objectives, financial situation or particular needs, before making a commitment to invest in such products.

Ask Questions!

Archived Webinar videos can be accessed at
<https://www.poems.com.sg/education/webinars/>

Analysts

Pei Sai Teng, Macro

Jeremy Ng, Technical Analysis

Jeremy Teong, Banking & Finance

Soh Lin Sin, Consumer | Healthcare

Richard Leow, Transport | REITs (Industrial)

Dehong Tan, REITs (Commercial, Retail, Healthcare) | Property

Peter Ng, Property | Infrastructure

Ho Kang Wei, US Equity

Chen Guangzhi, Oil and Gas | Energy

By Phillip Securities Research

Mohamed Amiruddin, Operations Exec