

Sector Update

Singapore Banking & Finance Sector

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Asian Pay Television Trust

Company Results

China Aviation (Singapore) Oil

Keppel DC REIT

Cache Logistics Trust

Singapore Exchange Limited

Singapore Banking & Finance Sector

Challenges How is the Singapore Loans Market Shaping Up in 2017?

Jeremy Teong

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24 April 2017

How is the Singapore Loans Market Shaping Up in 2017?

1. A visit to Sing Investment & Finance Limited (“SIF”).
 - We visited the SIF to discuss the changes to Finance Company Regulations announced by MAS on the 14th February 2017.
 - We believe, finance companies are finally unshackled to finance and service better the SMEs in Singapore.
2. Lacklustre business expectations forecast for **next 6 months** may crimp SME loans growth.
 - For the Manufacturing Sector, a net weighted balance of 2% of the respondents anticipate a favourable business situation.
 - And for the Services Sector, a net weighted balance of 14% of the enterprises anticipate a deteriorating business situation.
3. Elevated leverage of households could deter the lifting of Total Debt Servicing Ratio (“TDSR”) policy in the near term.
 - The ratio of Private Property Mortgage Loans to Total Annual Income from Work by Households in Private Properties over a 16-year period from 2000 to 2016 has reached beyond +1 standard deviation since 2012.
 - Growth rate of Average Monthly Income from Work by Households in Private Properties been declining since 2010.
 - The growth rate had also fallen below the private property mortgage loans growth rate even though private property mortgage loans growth had declined sharply after the implementation of TDSR in

June 2013.

How is the Singapore Loans Market Shaping Up in 2017?

1. The three local banks have been boosting Singapore housing loans growth by increasing market share.
 - We estimate that the three local banks' market share of Singapore housing loans at c.47% by end of 2016 compared to c.43% by end of 2014.
 - In 2016, the Singapore housing loans growth for each of the local banks have outpaced the system loans growth of 4%. We estimate Singapore housing loans grew c.10% for OCBC, c.8% for UOB and c.12% for DBS.
 - We expect this trend is expected to continue in 2017.

How is the Singapore Loans Market Shaping Up in 2017?

Regulatory changes to enhance finance companies' ability to finance SMEs

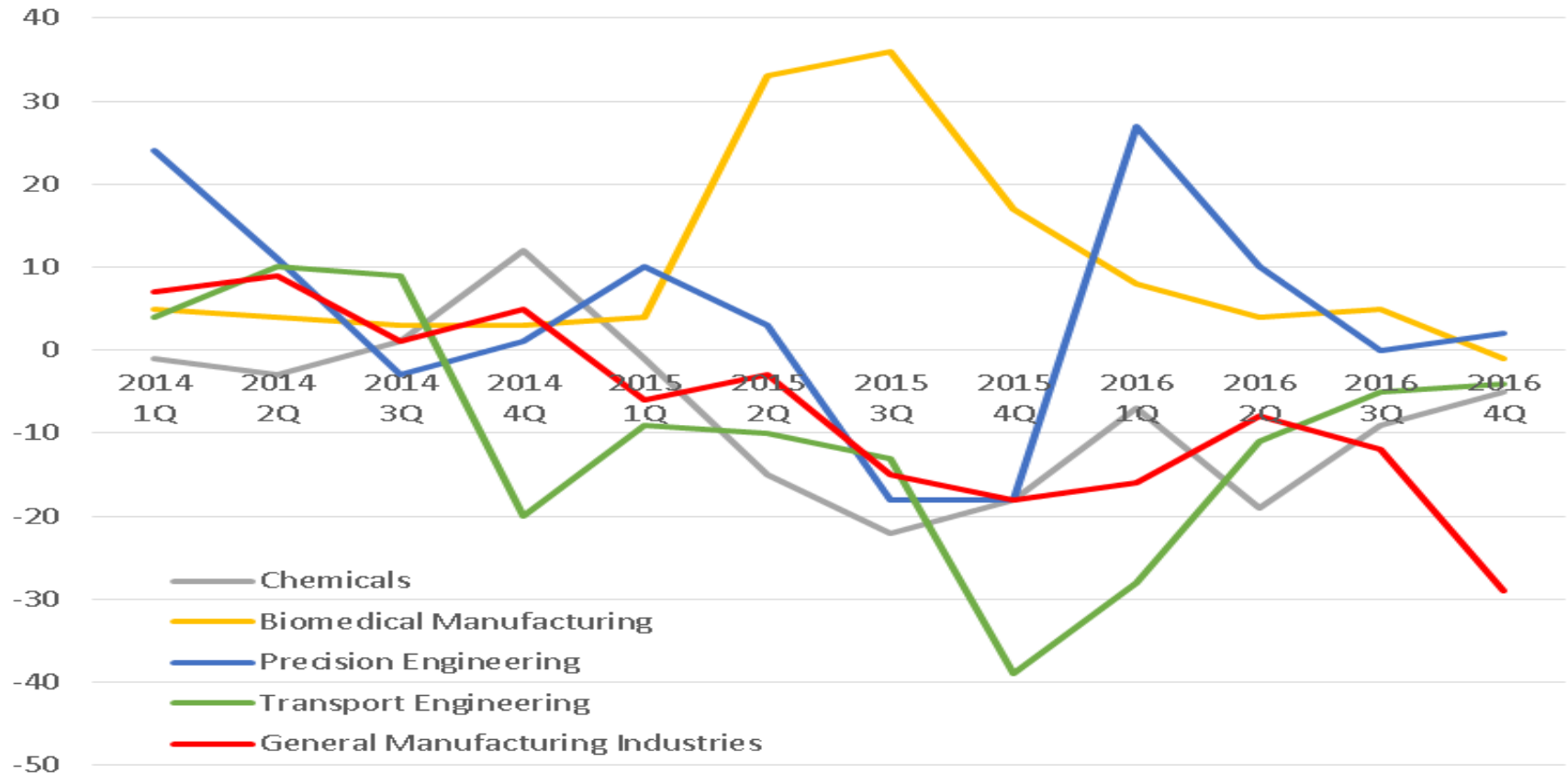
1. Changes to uncollateralised lending.
 - The limit on uncollateralised business loans to a single borrower is raised from S\$5,000 to 0.5% of the finance company's capital funds.
 - Based on SIF's FY2016 Share Capital and Equity Reserves of S\$320mn, SIF's uncollateralised business loan exposure to a single borrower could go as high as S\$1.6mn.
 - The limit on aggregate uncollateralised business loans will also be raised from 10% to 25% of its capital funds thus potentially raising its aggregate uncollateralised business loans limit from S\$32mn to S\$80mn.

2. Current account and chequing services capabilities.
 - Finance companies can capture short term funding and lower their cost of funds.
 - Finance companies will be able to better match their assets to liabilities as they will be able to grow deposits to match the growth in loans.

3. Some back of the envelope estimations for SIF.
 - We assume spread on SIF's uncollateralised loans to be an average of 3% per annum for an aggregate uncollateralised business loan size of c.S\$60mn. This will yield S\$1.8mn in net interest income ("NII") which will potentially add 4.7% to SIF's FY16 NII and hiring charges of S\$38.6mn..
 - Finance companies can start building relationships with SMEs thus lead to better opportunities to extend collateralised business loans by way of a stronger relationship.

How is the Singapore Loans Market Shaping Up in 2017?

Marginally positive General Business Expectations from Jan 2017 to Jun 2017 was supported only by the electronics sector



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

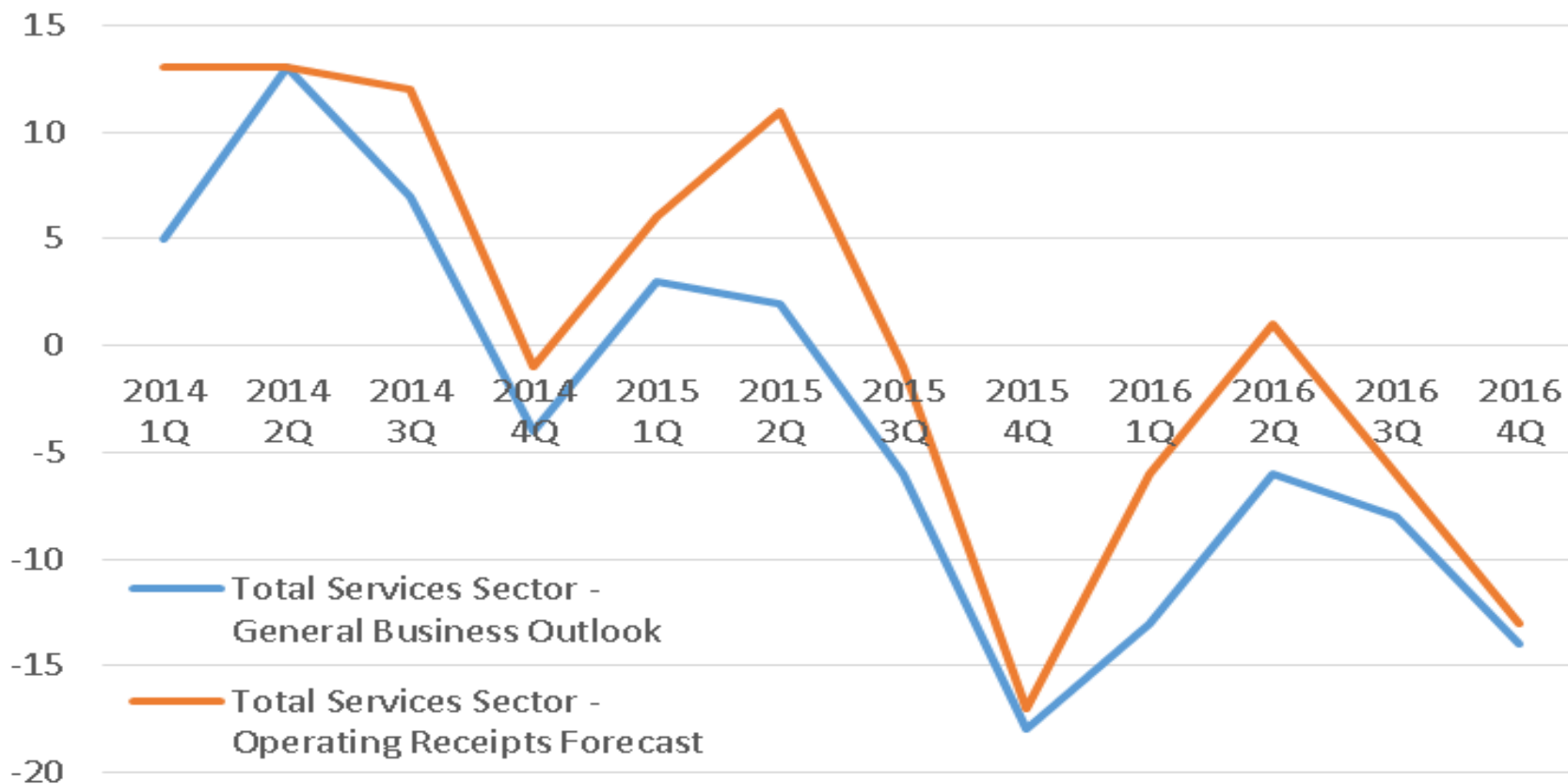
Electronic Sector demonstrated strong business expectations but the sector remains volatile



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

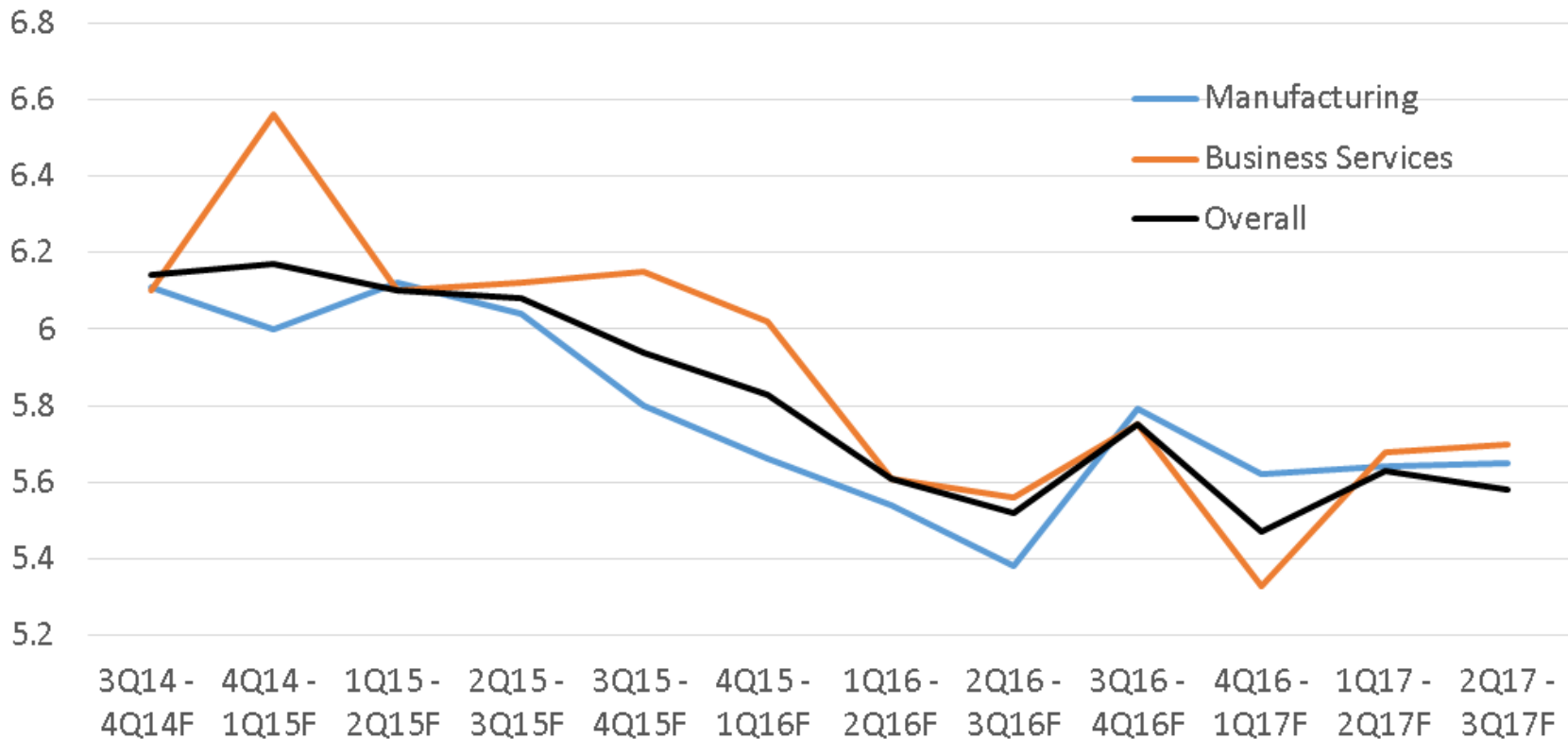
Services Sector Expectations are also weaker.



Source: PSR, company

How is the Singapore Loans Market Shaping Up in 2017?

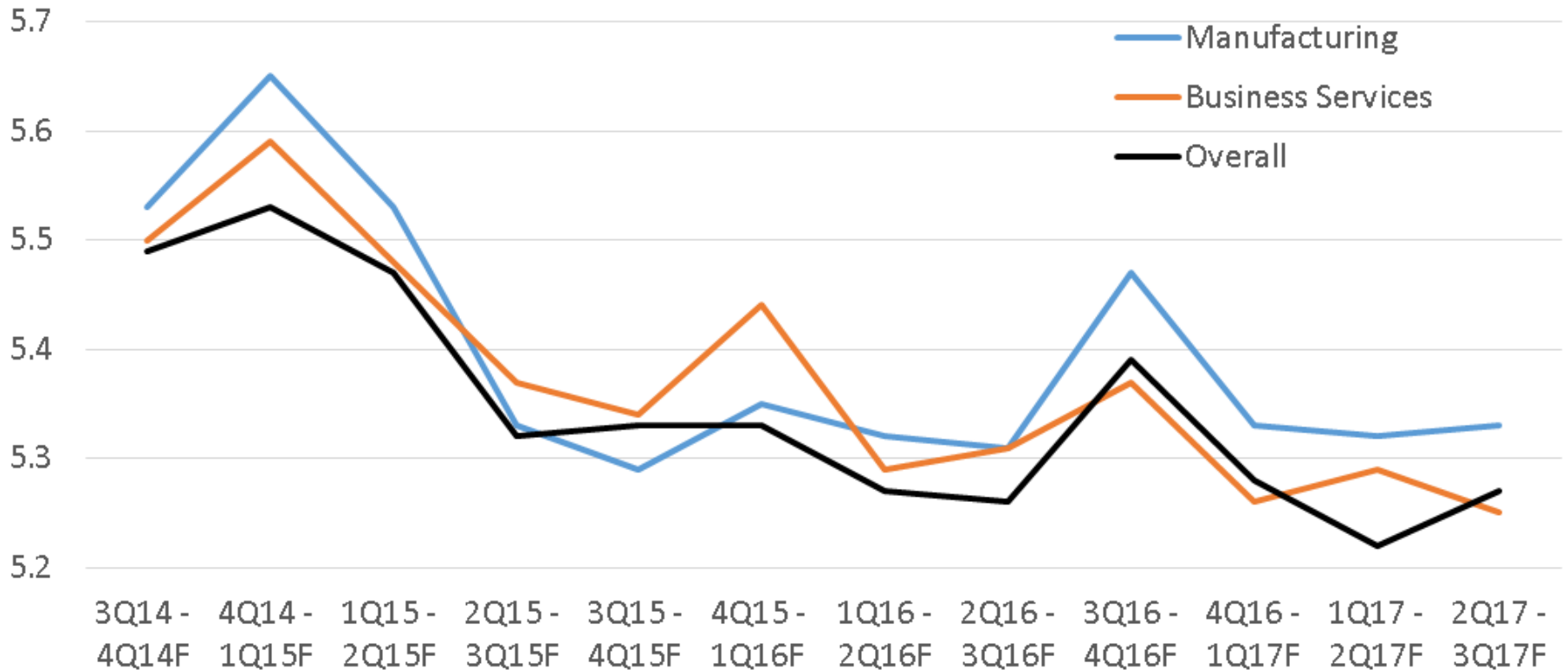
SBF-DP SME Index for Business Expansion Expectations for the next 6 months are on a weak trend.



Source: Singapore Business Federation and DP Information Group, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

SBF-DP SME Index for Capital Investment Expectations for the next 6 months are also weak.

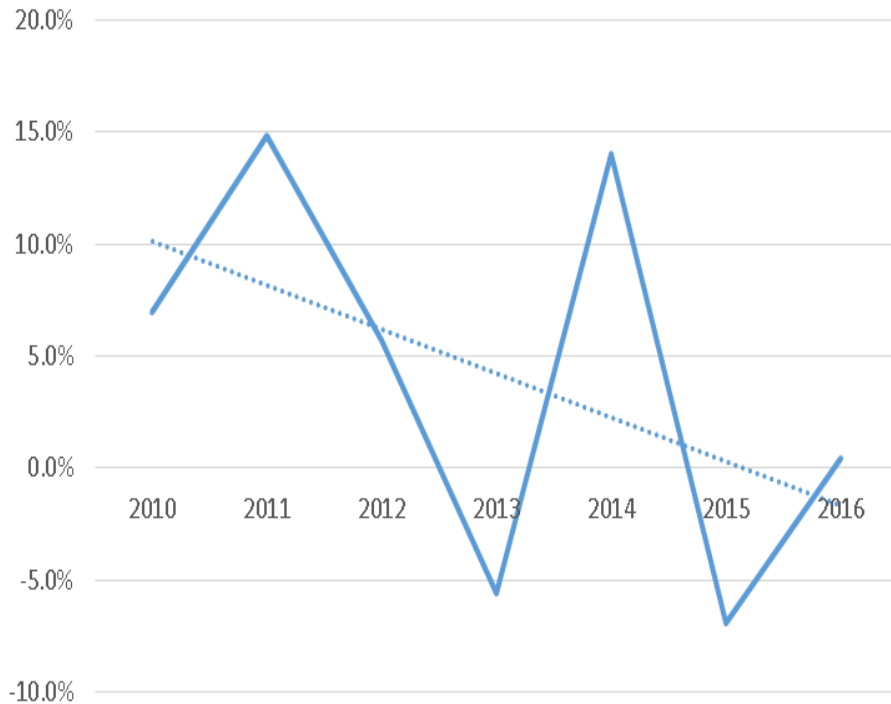


Source: Singapore Business Federation and DP Information Group, PSR estimates

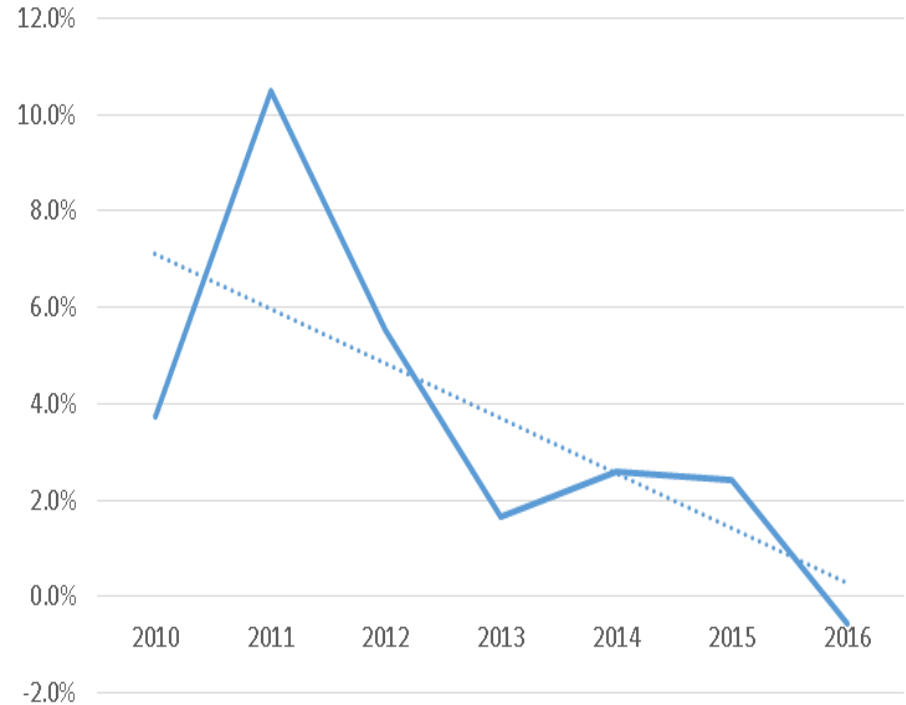
How is the Singapore Loans Market Shaping Up in 2017?

Monthly income of home owners on declining trend.

Growth rate of average monthly income from work by resident households in landed properties.



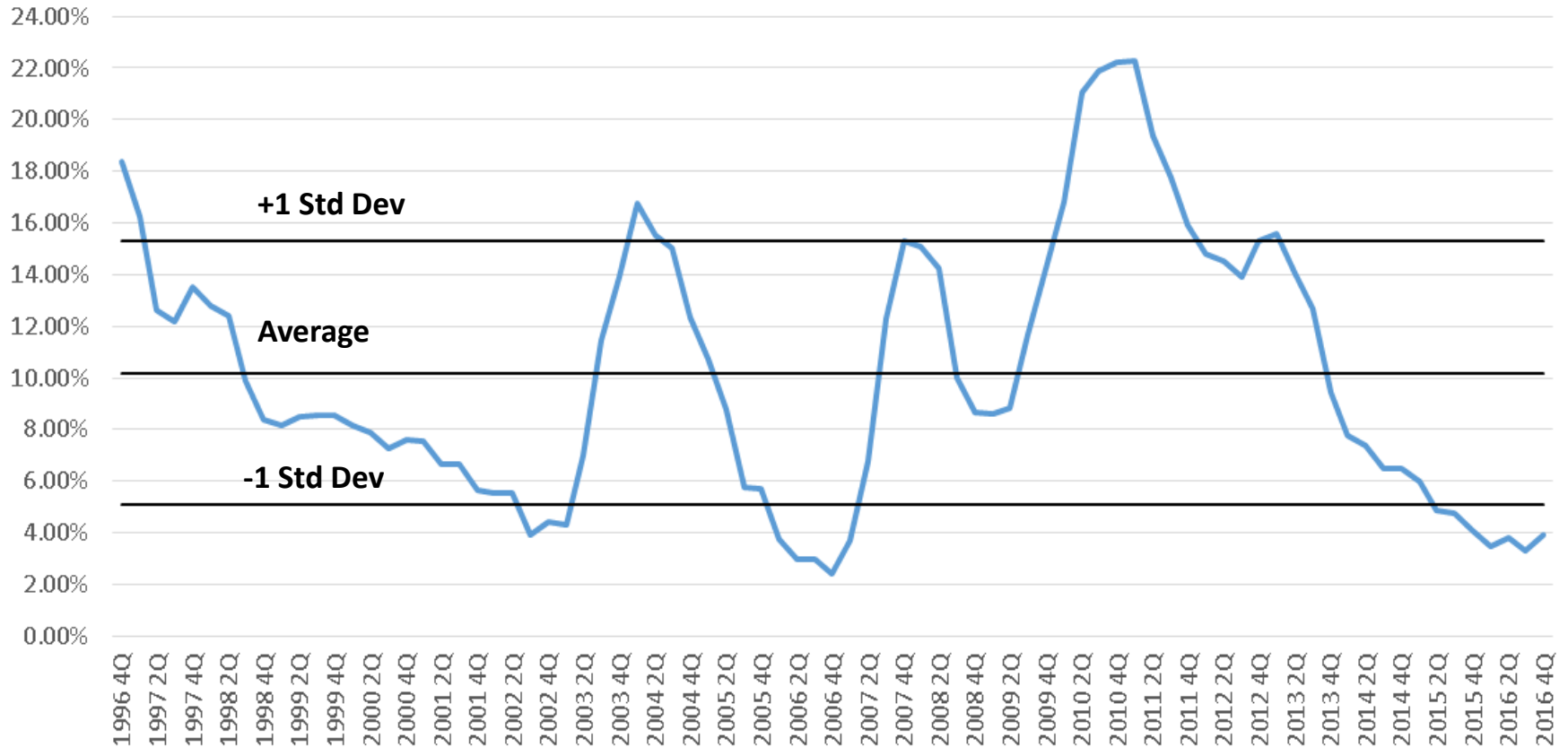
Growth rate of average monthly income from work by resident households in condominiums and other apartments.



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

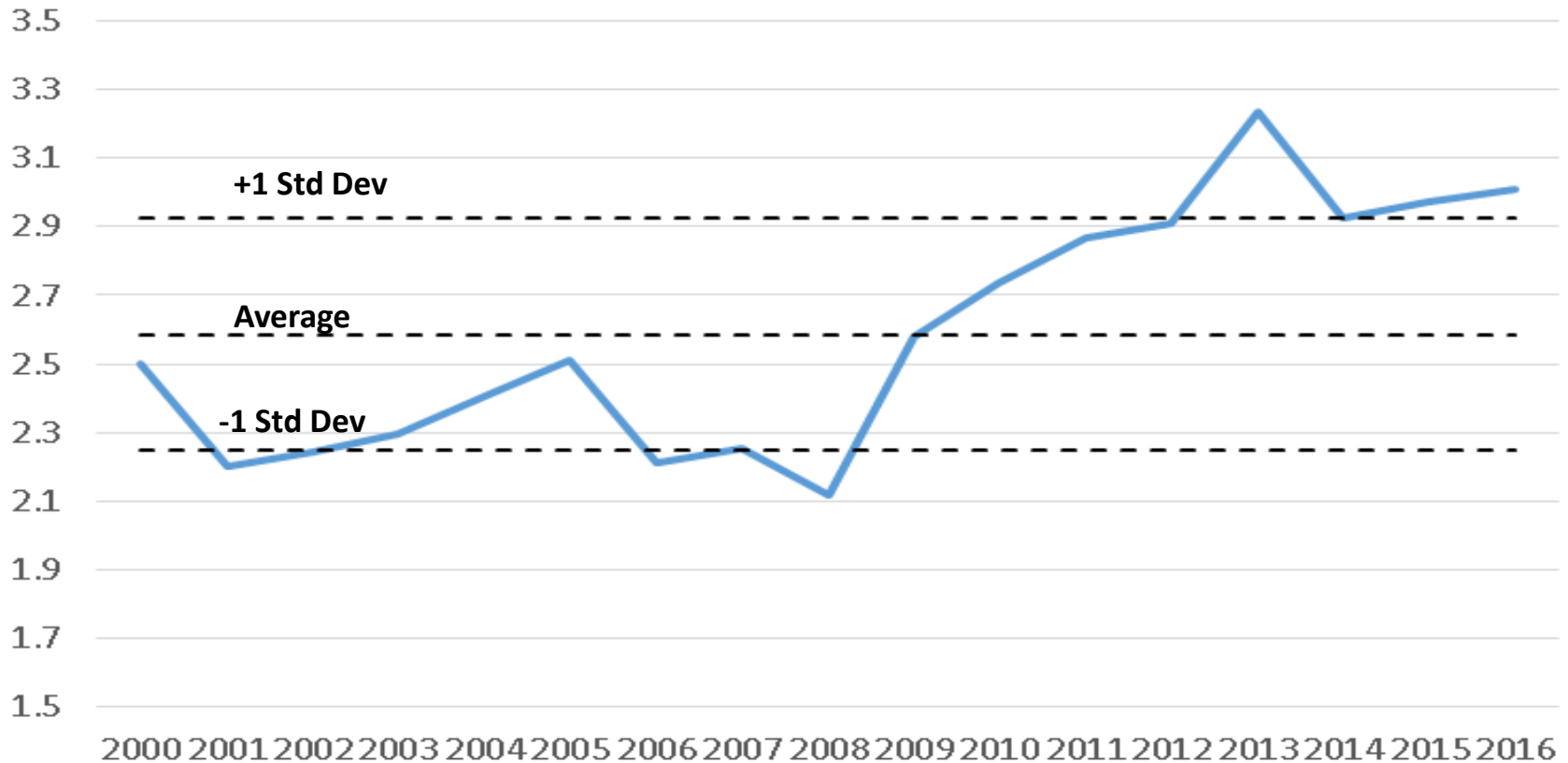
Singapore Private Property Mortgage year-on-year (“y-o-y”) growth rate.



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

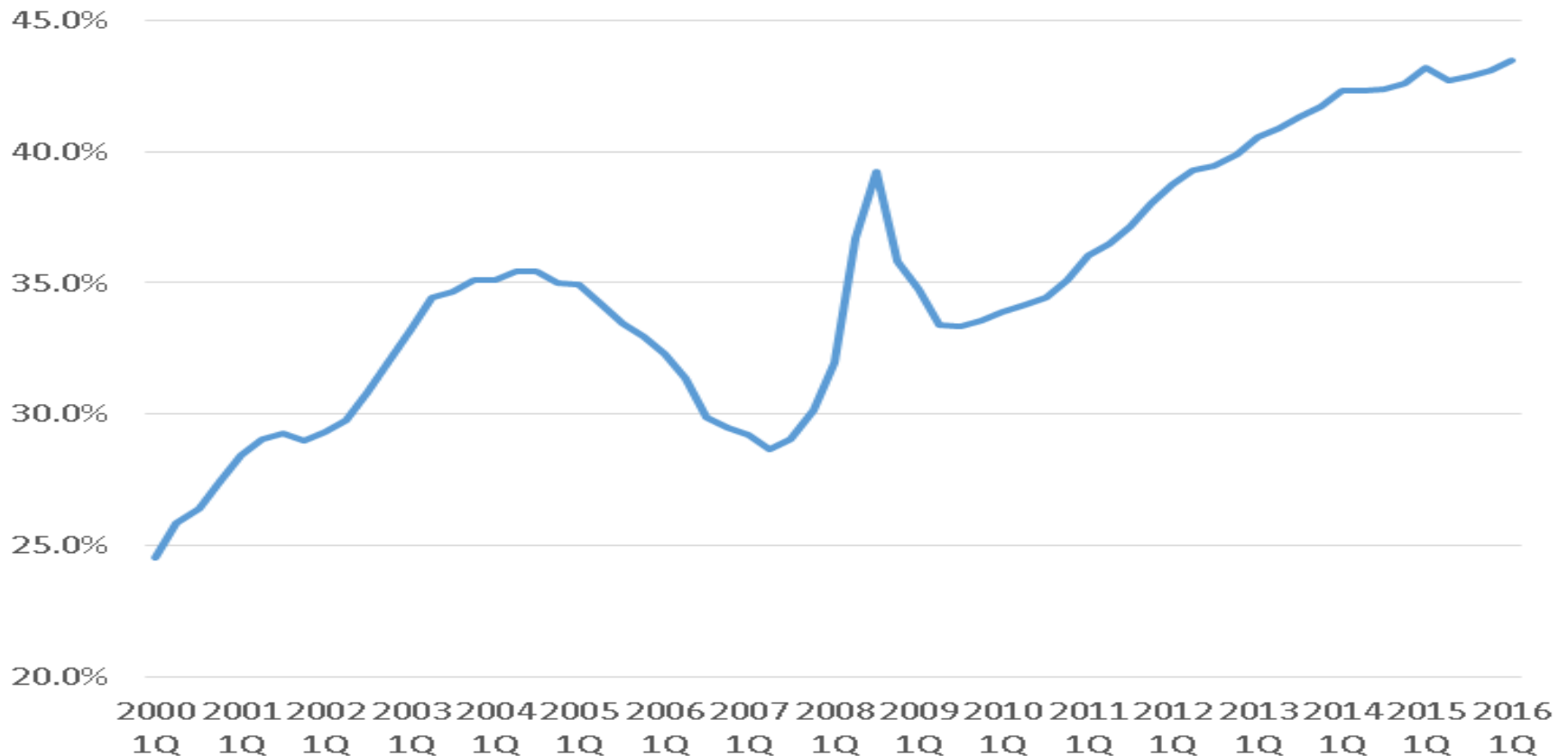
Ratio of Private Property Mortgage to Income is at an all-time high.



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

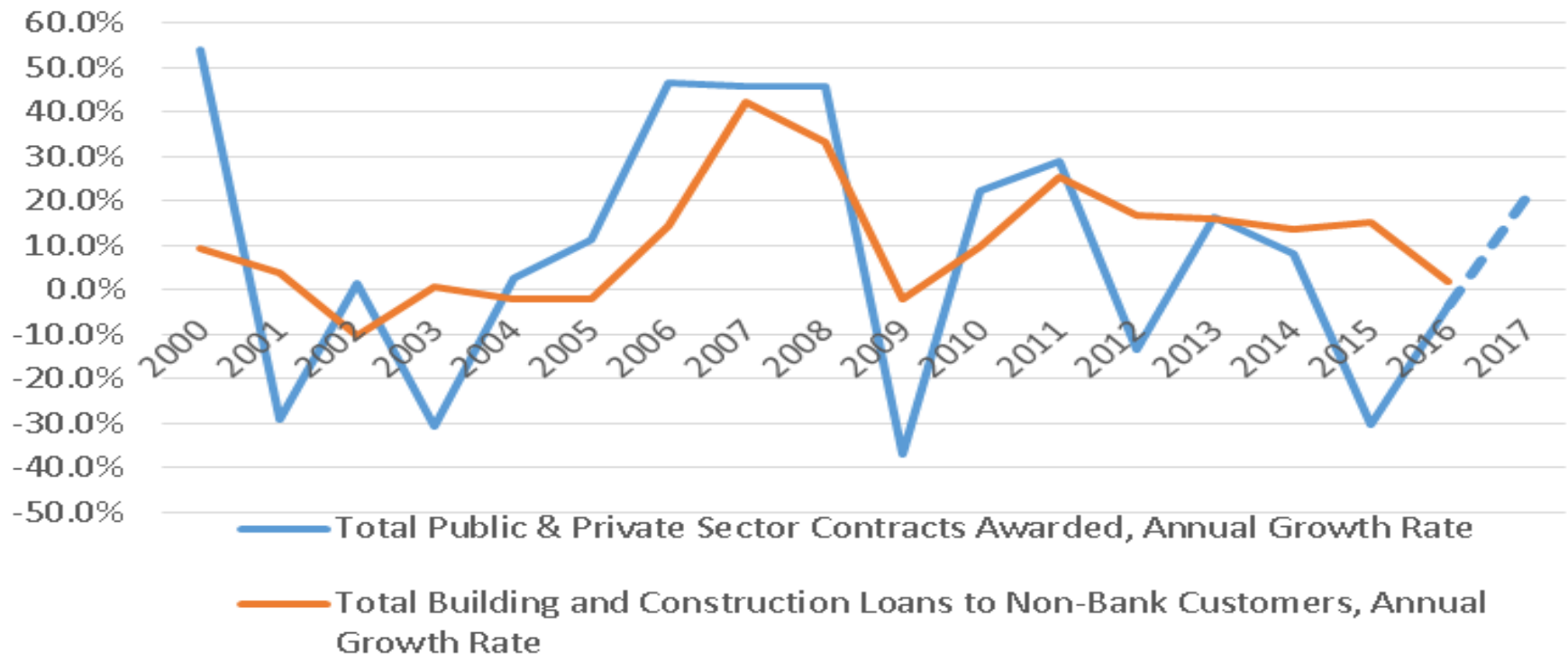
Private property Mortgage Loan to Value at a 16 year high, surpassing the level before the GFC in 2008.



Source: Singstat, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

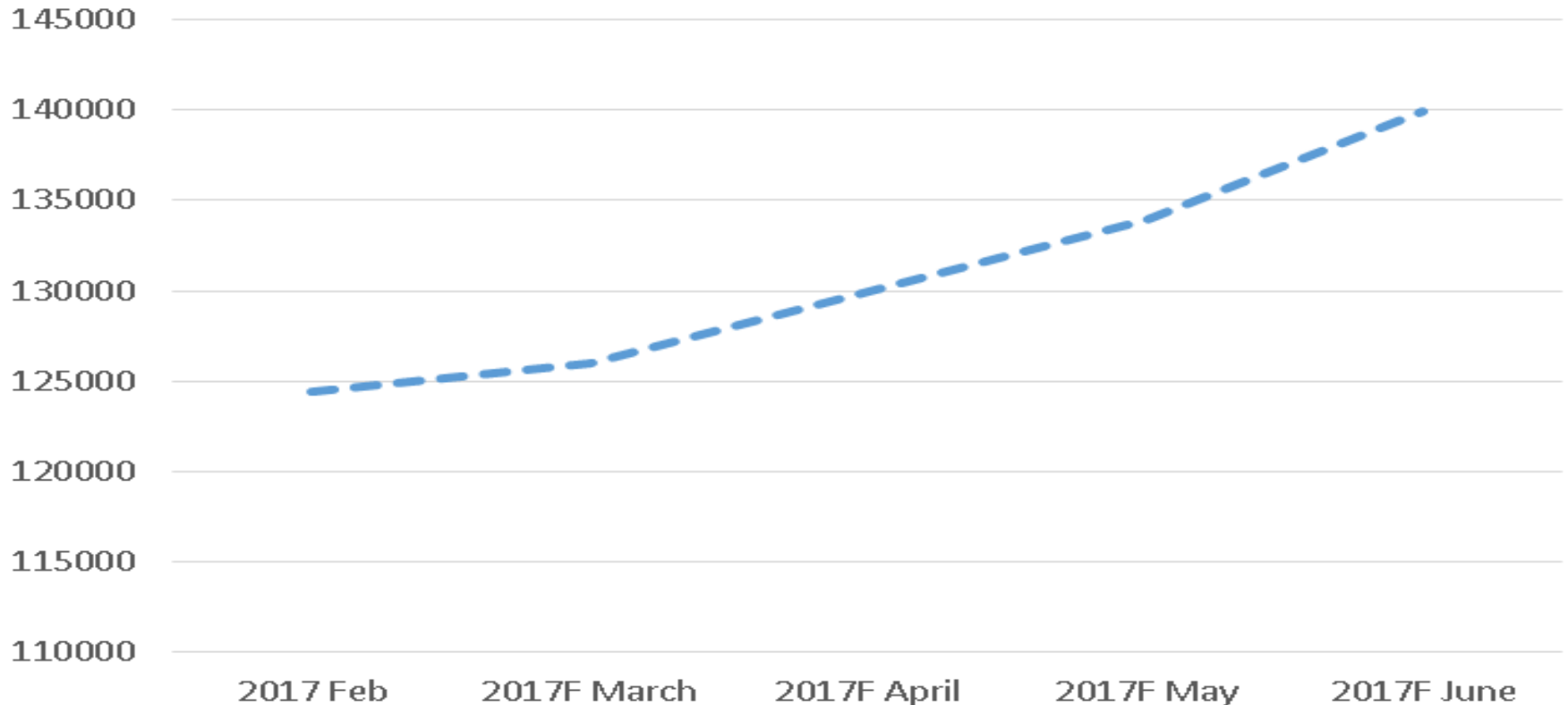
We expect Building and Construction Loans to rise c.20% by end of 2017 in tandem with the expected c.20% growth in Building and Construction Contracts awarded.



Source: BCA, MAS, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

We could see the bulk of the Public Sector Building and Construction Loans added in 2Q17.



Source: MAS, PSR estimates

How is the Singapore Loans Market Shaping Up in 2017?

For the three Singapore Banks, housing loans growth is likely to continue from increasing market share but would also imply weaker margins amid stiffer competition

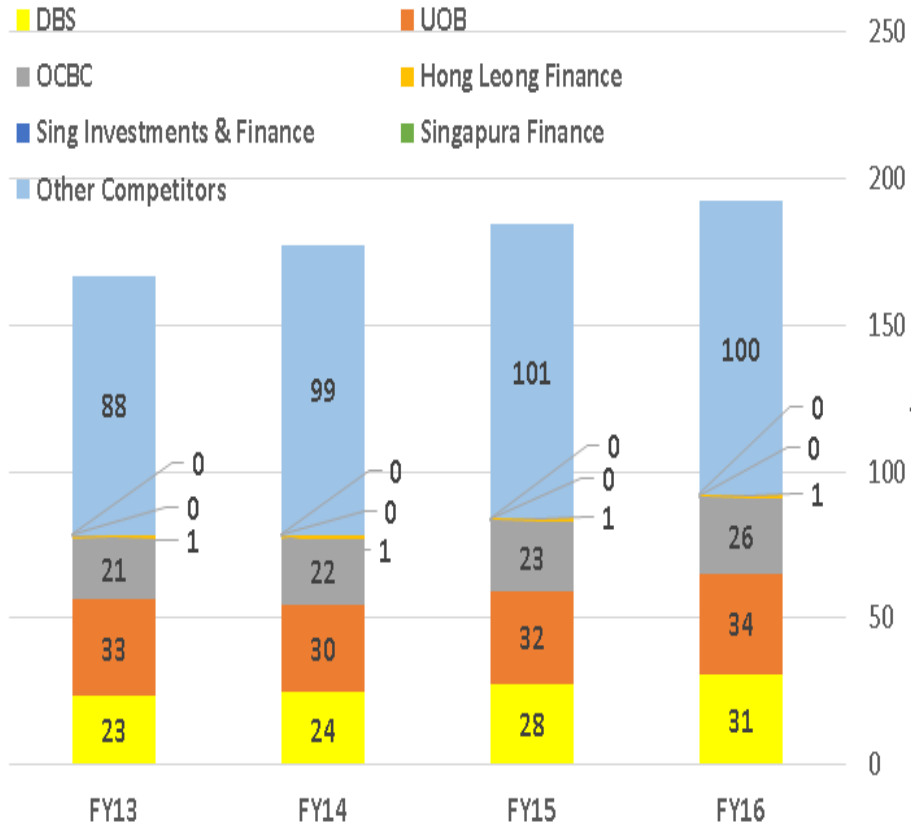
1. Compliance to Net Stable Funding Ratio (“NSFR”).
 - Banks are required to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.
 - Foreign banks may have to reduce their mortgage business, if long term funding is more constrained, to better match the tenure of loans with the tenure of funding.
2. Flight to high quality collateralised loans.
 - Singapore banks having faced loans quality deterioration in the commodities, and oil and gas space are seeking to secure more high quality loans in consumer mortgage loans.
 - Foreign banks with higher costs of funding (compliance to NSFR may also result in higher cost of funding because banks are required to add more costly long tenure funding and be less reliant on cheaper short-term wholesale funding) will then be discouraged to compete and therefore reduce their market share.

However in the Singapore Building and Construction sector, UOB appears to be leading...

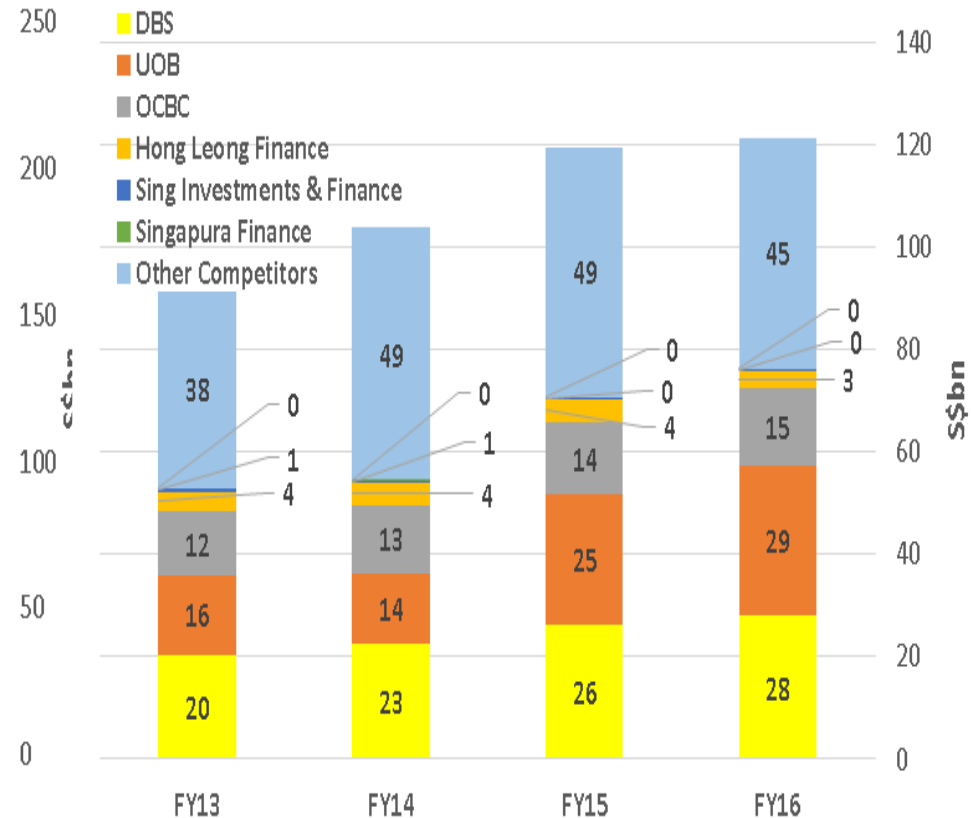
1. By end of 2016, UOB is implied to have taken a lion’s share of other competitors’ share in the Singapore Building and Construction loans market, well ahead of DBS and OCBC.

How is the Singapore Loans Market Shaping Up in 2017?

Our estimation of the Singapore Housing and Bridging Loans Market Share breakdown.



Our estimation of the Singapore Building and Construction Loans Market Share breakdown.



Source: MAS, PSR estimates

Peer Comparison and Investment Action

Name	Ticker	Market Cap (S\$m)	Price	P/E	P/B	ROE (%)	Total Return YTD (%)	Div Yield (%)
DBS GROUP HOLDINGS LTD	DBS SP Equity	48,946	19.25	11.4	1.09	9.97	11.02	3.12
OVERSEA-CHINESE BANKING CORP	OCBC SP Equity	40,572	9.70	11.8	1.13	9.96	8.74	3.72
UNITED OVERSEAS BANK LTD	UOB SP Equity	36,061	22.04	11.9	1.17	10.21	8.04	3.18
HONG LEONG FINANCE LTD	HLF SP Equity	1,241	2.79	23.3	0.73	3.14	30.37	3.23
SING INVESTMENTS & FINANCE	SIF SP Equity	242	1.54	17.4	0.76	4.39	30.64	3.25
SINGAPURA FINANCE LTD	SBD SP Equity	172	1.09	21.9	0.69	0.79	26.16	1.84

Source: MAS, PSR estimates

Investment Action

- **UNDERWEIGHT** on Singapore Banking Sector.
- Maintain “**Reduce**” on **DBS** with a TP of **S\$16.73**.
- Maintain “**Reduce**” on **OCBC** with a TP of **S\$8.48**.
- Maintain “**Reduce**” on **UOB** with a TP of **S\$18.92**.

Asian Pay Television Trust

13% yield from a monopolistic business

Paul Chew

Phillip Securities Research Pte Ltd

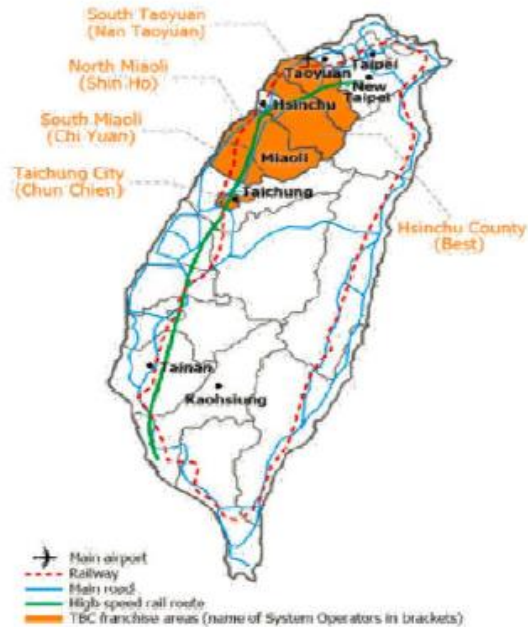
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Initiating coverage

“BUY” rating, TP: S\$0.64, DPS: SG\$0.065 in FY16, Last close: S\$0.49

- **Implied return of 43% including dividend yield of 13%**
- **52-week range: S\$0.37 – S\$0.62**
- **Market Cap: S\$504m**
- **Major shareholder: Temasek Holdings**

Company Snapshot: Taiwan based



- **Cable TV and Broadband Service in Taiwan**
- **Business Trust with 100% economic interest, not full ownership**
- **760,000 customers and 3rd largest cable TV operator in Taiwan**
- **Revenue is from monthly subscription fee**

Source: Company

Investment merits: High and stable yield

- **13% dividend yield and paid quarterly**
- **Monopolistic player because there is no other choice for cable**
- **Annuity like revenue stream from stable base of 760,000 customers where watching TV is popular leisure activity**
- **High infrastructure and content barrier**

Investment risk: The unique risk

- **Regulations and more regulations: price cap, a la carte pricing, compulsory local content for IPTV**
- **Because of ownership restriction rules, APTV does not own 100% but takes 100% economic interest**
- **New entrant post re-zoning**
- **Like all trust structure, reliant on leverage to pay dividends and refinancing risk**

China Aviation (Singapore) Oil

Encouraging for the start of the year

Chen Guangzhi

Phillip Securities Research Pte Ltd

24 April 2016

China Aviation (Singapore) Oil

(Buy (Maintained), TP: S\$2.0, DPS: 5.4 SG cents; Last close: S\$1.65)

Results at a glance

(US\$ mn)	1Q17	1Q16	y-y (%)	Comments
Revenue	3,311.2	1,464.2	↑126.1	Increase in total trading volume of jet fuel and other oil products (1Q17: 7.27mn tonnes vs 1Q16:4.88mn tonnes), and the rebound in oil price
Gross profit	15.5	13.2	↑17.4	Higher gains derived from trading and optimisation activities
Operating profit	11.5	10.7	↑7.1	Increase in administrative expenses and interest burden offset by higher bank interest income and FX gains
Associates and JVs	14.9	14.2	↑5.1	Higher profit contributions from Pudong (1Q17: US\$12.9mn vs 1Q16: US\$12.1mn) offset by decrease in shared profits from other associates
Net profit	25.3	24.1	↑4.7	Higher deferred tax liabilities and provision of income tax

Source: Company, Phillip Securities Research (Singapore)

High growth trading volume with improving margin

- Trading volume in 1Q17:
 - Middle distillates: 3.89mn tonnes with 29.2% Y-o-Y growth
 - Other oil products: 2.72mn tonnes with 123.0% Y-o-Y growth
- Gross profit margin: 0.47% (average over past 6 years: 0.36%)
 - Aiming to optimise trading efficiencies

1Q17 shared profits topped since 2011

- Profits from SPIA grew by 7.1% Y-o-Y to US\$12.9mn

Opportunities and challenges co-exit

- Geopolitical and economic uncertainties
- M&A opportunities

Keppel DC REIT

Acquisition-driven growth; core results in line

Richard Leow

Phillip Securities Research Pte Ltd

24 April 2017

Keppel DC REIT

(Neutral, TP:\$1.15, FY17e DPU: 6.61 cents (5.4%), Last:S\$1.23)



Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	32.22	24.77	↑30.1	Contribution from 90% interest in Keppel DC SGP 3, Cardiff DC and Milan DC, appreciation of AUD vs. SGD; offset by client downsizing at Keppel DC Dublin 1 in 1Q16, and depreciation of GBP, EUR and MYR vs. SGD
Net property income	28.84	21.19	↑36.1	5.7% lower property operating expenses
Distributable income	21.77	14.75	↑47.6	1Q17 includes S\$1.7mn one-off capital distribution in relation to Keppel DC SGP3 acquisition
DPU (cents)	1.89	1.67	↑13.2	Effect of 274-for-1,000 Preferential Offering and one-off capital distribution equivalent to 0.15 cent in 1Q17
DPU, adj. (cents)	1.74	1.67	↑4.2	Adjusted for one-off capital distribution

Source: Company, Phillip Securities Research (Singapore)

Outlook for new demand remains encouraging until 2021

- Highest growth: SGP, AU, MY (mid-teens to low-20%)
- Lower growth: Europe (high-single-digit to high-teens)
- SGP largest single-country exposure: pressure in 2017, but long-term +ve

Three major leases expiring (<10% of total lease) in 2017 still in negotiations

- 4 leases: 1 renewed marginally higher, 3 overseas still in negotiations

Target gearing remains unchanged at 30% for now

- Use balance sheet to gear up and acquire → EFR → pare debt
- 30% target could be relaxed, as asset base grows

Cache Logistics Trust

Soft DPU boosted by capital distribution

Richard Leow
Phillip Securities Research Pte Ltd
24 April 2017

Cache Logistics Trust

(Reduce, TP:\$0.75, FY16e DPU: 6.69 cents (7.6%), Last:\$0.885)



Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	27.06	27.87	↓(2.9)	Lower income from Schenker Megahub and absence of Cache Changi Districentre 3 (divested in 1Q17, 23 Jan 17); offset by contribution from DSC ARC and Spotlight warehouse in Australia (acquired in 1Q17, 22 Mar 17)
Net property income	20.78	22.05	↓(5.8)	Higher property related expenses due to conversions to multi-tenanted leases
Distributable income	16.24	18.25	↓(11.0)	Includes partial capital distribution of S\$0.929mn and S\$1.647mn in 1Q17 and 1Q16 respectively, from divestment proceeds of Kim Heng Warehouse
DPU (cents)	1.80	2.04	↓(11.7)	Includes capital distribution of 0.103 cent and 0.184 cent in 1Q17 and 1Q16 respectively
DPU, adj. (cents)	1.697	1.855	↓(8.5)	DPU from operations only, excludes from capital

Source: Company, Phillip Securities Research (Singapore)

Cache Logistics Trust

(Reduce, TP:\$0.75, FY16e DPU: 6.69 cents (7.6%), Last:\$0.885)



Manageable lease expiry profile for FY17; FY18 not out of the woods

- 4.7% by NLA in 2017, no master leases
- 20.8% by NLA in 2018
 - ~13% from CWT Commodity Hub
 - ~8% from rest of portfolio

Business as usual, pending completion of takeover of CWT Ltd by HNA Holdings Group

- ROFR: no change in manager, AND CWT holds at least 15% of manager

Unchanged view: high gearing is the key idiosyncratic impediment to inorganic growth

- Aggregate leverage: 43.1%, debt headroom ~S\$49mn vs. S\$1.24bn AUM

Singapore Exchange Limited

High Costs and Low Top Line Growth May Drag Full Year Results Down

Jeremy Teong

Phillip Securities Research Pte Ltd

24 April 2017

Singapore Exchange Limited

(Downgrade Neutral. Higher TP:S\$7.45, previously S\$7.75. Last:S\$7.45)



Results at a glance

(SGD mn)	3Q17	3Q16	y-o-y	2Q17	q-o-q	Comments
Securities	55.3	54.8	1%	52.1	6%	SDAV increased 1.6% y-o-y and 13.8% q-o-q to S\$1.24bn.
Derivatives	75.2	82.2	-9%	75.0	0%	Total derivatives volume decreased, offset by higher average fee per contract
Others	72.2	68.7	5%	72.5	0%	Supported by y-o-y increase in Bond Listings and Colocation Services
Total Revenue	202.7	205.8	-2%	199.6	2%	
Opex	99.7	103.2	-3%	97.2	3%	Lower Processing and Royalties expense and absence of one-off fees for Baltic Acquisition a year ago.
Net Income	83.1	89.2	-7%	88.3	-6%	

Source: Company, Phillip Securities Research (Singapore)

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

- SDAV \$1.24bn (1.6% y-o-y) as investor confidence momentum continued post US elections. 189 bond listings compared to 78 bond listings in 2Q16.

Equities and Commodities Derivatives revenue decreased 12.7% y-o-y.

- Total volumes were 18% y-o-y but average fee per contract increased to S\$1.20 compared to S\$1.15 a year ago.

Management maintained FY17e operating expense guidance, meaning expenses will be back loaded to 4Q.

- FY17e expense guidance is at lower end of the S\$405mn to S\$415mn range.
- 1) 4Q expense is seasonally higher. 2) More staff hires in 4Q. 3) Technology expenses piking up in 4Q 4) Higher Processing and Royalties costs expected.

Do not see near term catalysts to boost top line to positively offset the higher costs in 4Q.

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