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Singapore Weekly Update

SG Strategy (Week 3, July 24)

Company Initiation

Sing Investments & Finance Limited

Company Results

CapitaLand Commercial Trust
CapitaLand Mall Trust
First REIT
Keppel DC REIT
Cache Logistics Trust
SATS Ltd

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Singapore weekly update

- Maintain Neutral : STI Target 3270

- Macro backdrop
  - ECB: pushed the QE tapering decision to Sep17; expectations are Jan18 commence.
  - China: Nominal GDP 11.4% YoY, property sales and FAI resilient despite tightening
  - SG: Exports rebounded (Jun+8.2%;May+0.4%) and advance GDP

- BUY sustainable yield and property
  - Yield: AsianPayTV, CCT, Ascendas REIT
  - Property: CapitaLand, Wheelock, Chip Eng Seng, SinarmasLand
  - Others: Thai Beverage, Sing Investments & Finance

- Company updates
  - CCT : Upgraded to Accumulate; after 8 quarters decline office rents picked up; first cap rate compression since 2012.
  - CMT: Rental reversions spiral down from 5-6% (2015) to 1-3% (1H17).
  - Keppel DC REIT: Need acquisitions to justify valuations
  - SATS: high valuations and modest growth; pressure from SIA restructuring

Source: CEIC, PSR

Sing Investments & Finance Limited

(SGX: S35; Bloomberg: SIF)

Massive 40% PATMI Growth in FY17e

Jeremy Teong
Phillip Securities Research Pte Ltd
24 July 2017

SIF Snapshot

Previous Close (21th Nov 2016): $1.475

Target Price : $1.670 (“Accumulate”)

Forecasted Dividend (FY17) : 7.9 Cents (Dividend yield 5.35%)

52-week range : $1.130 – $1.600

Market Capitalisation : $232.5 million

Source: Bloomberg

Investment Highlights

(BUY, TP: S$1.670, Last Close: S$1.475)

FY17e will be a strong year for SIF

- Twin tailwinds of rising interest rates and regulatory changes to finance business
- Expect 40% PATMI growth in FY17e because of pass through of higher customer loan rates, roll out of lower cost Current Account services and normalization of provision expenses as NPL stabilises.

Regulatory changes announced on 14 Feb 2017 will be a multi-year driver to earnings

- Volume upside as SIF enters the uncollateralised loans business and penetrate deeper into SME business.

Visible and rapid developments in SEA E-commerce scene

- Expect Ecommerce players to aggressively develop credit finance capabilities through partnerships.
- Credit finance companies can leverage on Ecommerce data analytics and uncollateralised business loans to confidently extend loans to the low/middle market.

SIF ranks best in cost to income and other efficiency metrics

- Operating efficiency to support improvement in its ROE performance.
- PB valuation is conservatiove compared to its ROE performance.

SIF’s source of income

SIF’s Loan Products and Credit Facilities include:

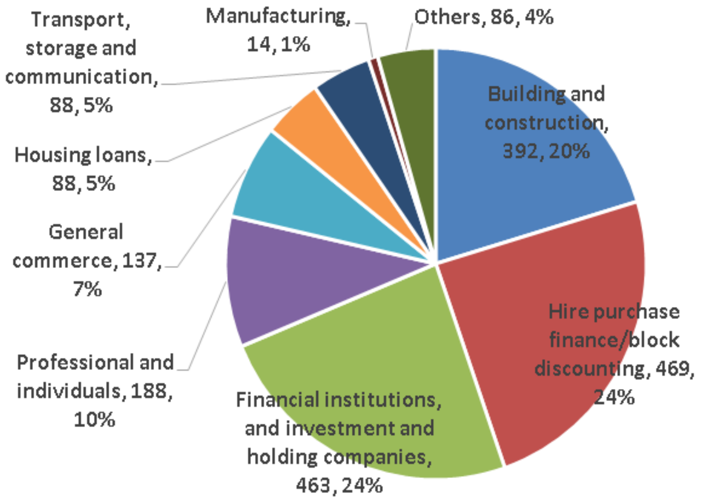
- Residential and Commercial Property Loans
- Land and Construction Loans
- Machinery Loans under the Local Enterprise Finance Scheme
- Motor Vehicle Loans (End user consumer auto loans)
- Block Discounting Facility (Secured by receivables of Auto dealers)
- Floor Stock Facility (Revolving credit inventory financing for Auto dealers)
- Share Financing (Singapore listed equities)
- Shipping Loan
- Invoice Factoring/ Account Receivables

SIF’s income is derived from:

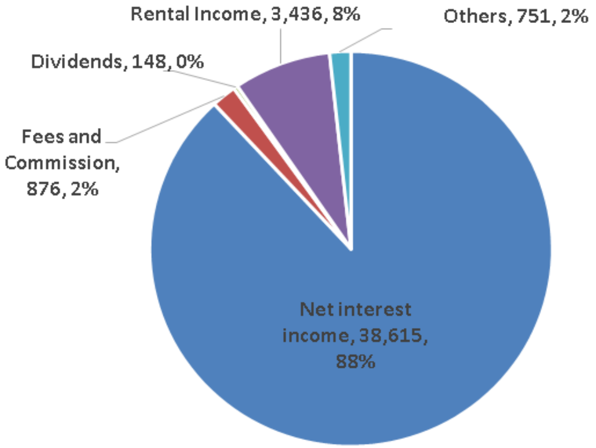
- Net interest income from loans and deposits
- Interest income from Singapore Government Securities and Cash
- Fees and commissions from loans and deposits business
- Dividends from quoted equity securities
- Rental income from investment properties

SIF’s source of income

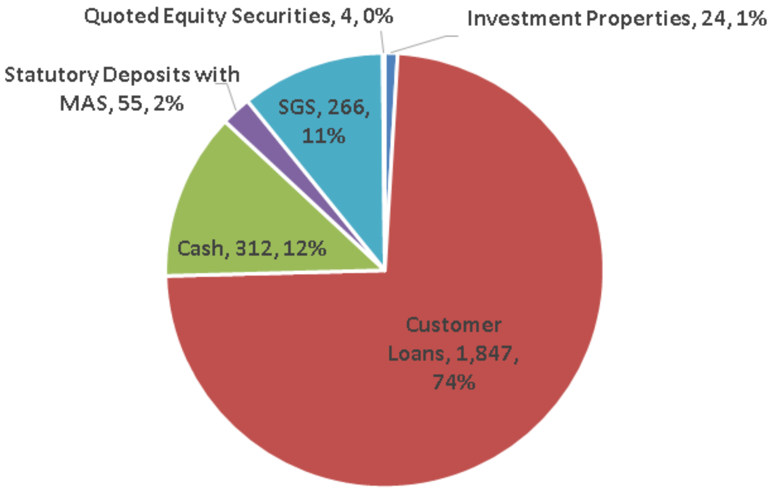
SIF’s FY16 Customer Loans Breakdown (S$mn)



SIF’s FY16 Income Breakdown (S$’000)



SIF’s 1Q17 Income Generating Assets (S$mn)

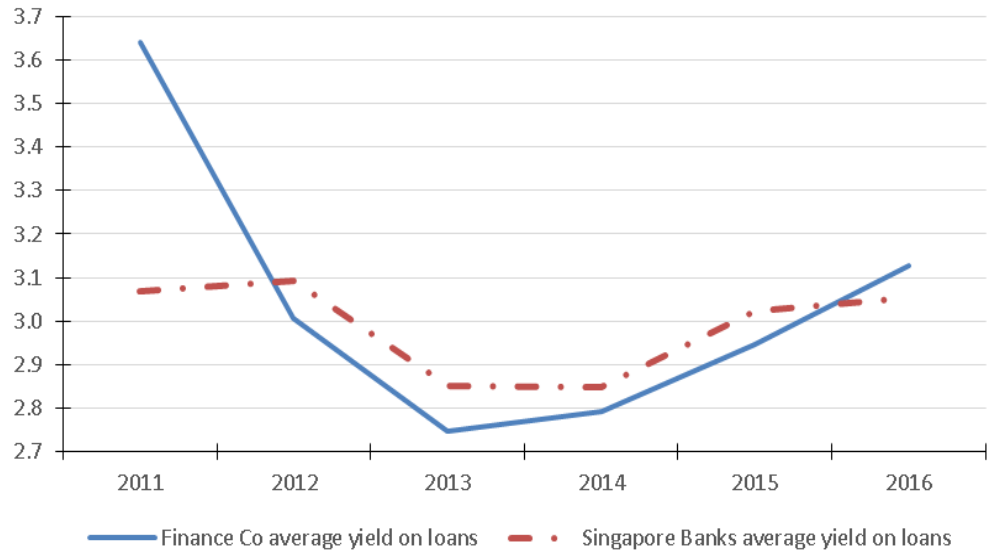


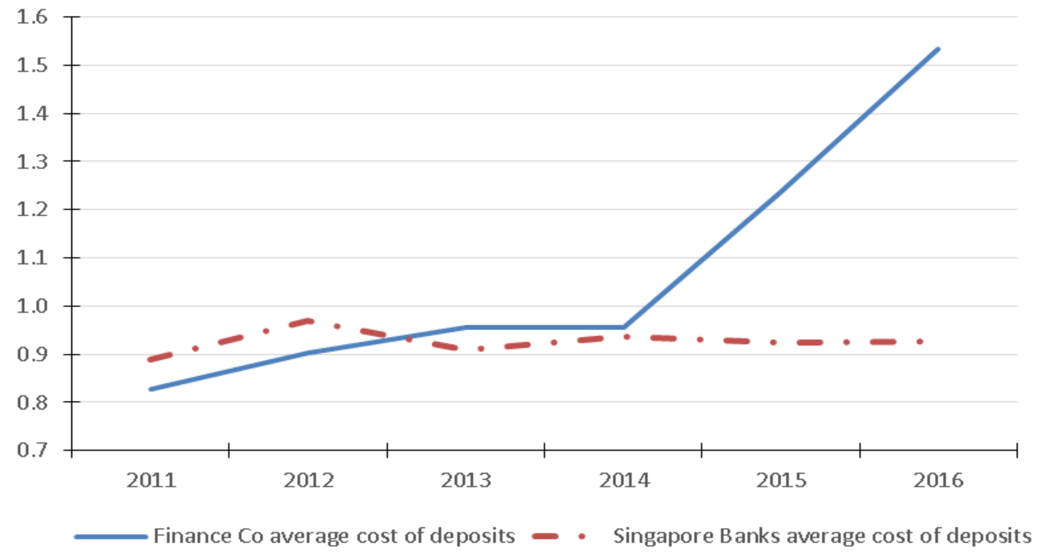
Source: Company, PSR

Investment Thesis

Singapore's credit finance companies have greater potential to improve their Net Interest Margins ("NIMs") because of regulatory changes and rising interest rates.

- Credit finance companies' customer loan rates have been more volatile than the banks.
- Low and middle market clients (S$5mn to S$100mn revenue companies) are more sensitive to the general economy and interest rate environment.
- Better pass through of interest rates as the low and middle market compared to large corp.



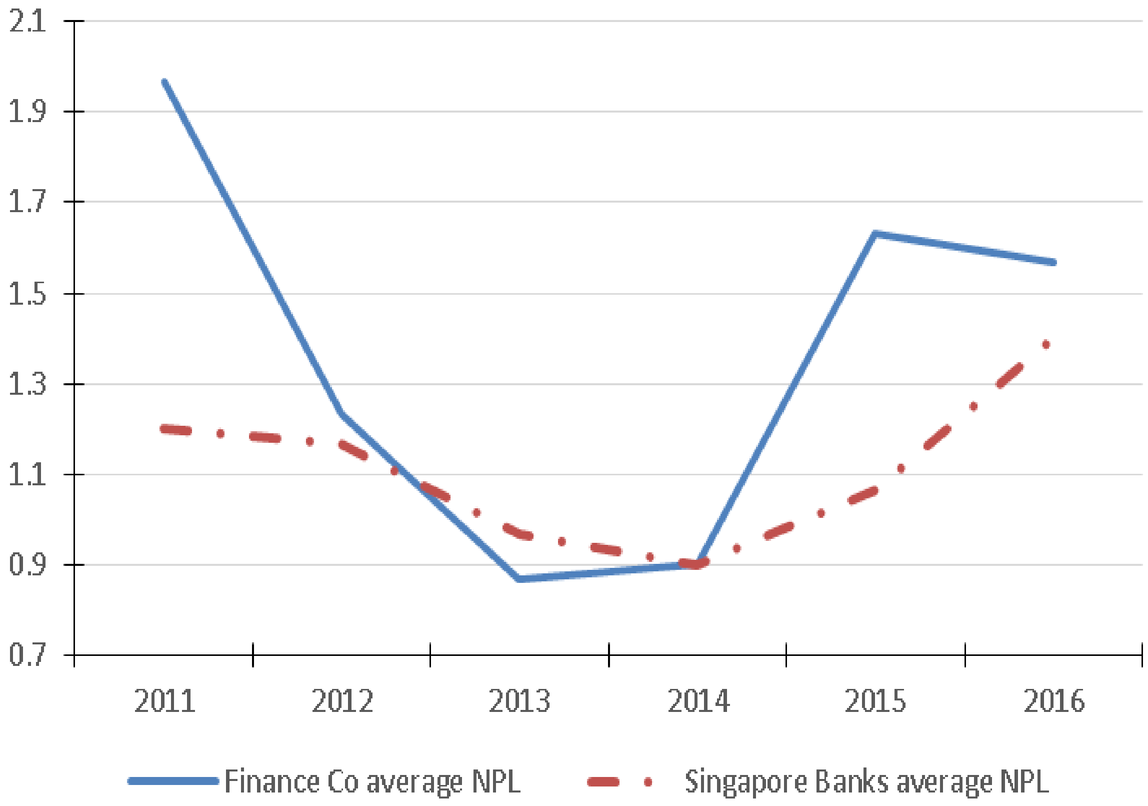


Source: Company, PSR

Investment Thesis

We believe banks will not compete intensely with credit finance companies for low and middle market loans in the near term.

- We expect the banks to prioritise high quality collateralised loans over the higher risk low and middle market loans.
- Clients to Relationship Managers ratio for Credit Finance Companies is lower than banks.
- Credit finance companies offer "Private Banking" experience for SMEs.
  - business + personal needs are addressed based on a single profile
  - long tail low and middle market (especially the low market segment) lack the economies of scale for larger scale banking business.



Source: Company, PSR

Investment Thesis

Partnering E-commerce operators to finance their supply chain is an untapped potential

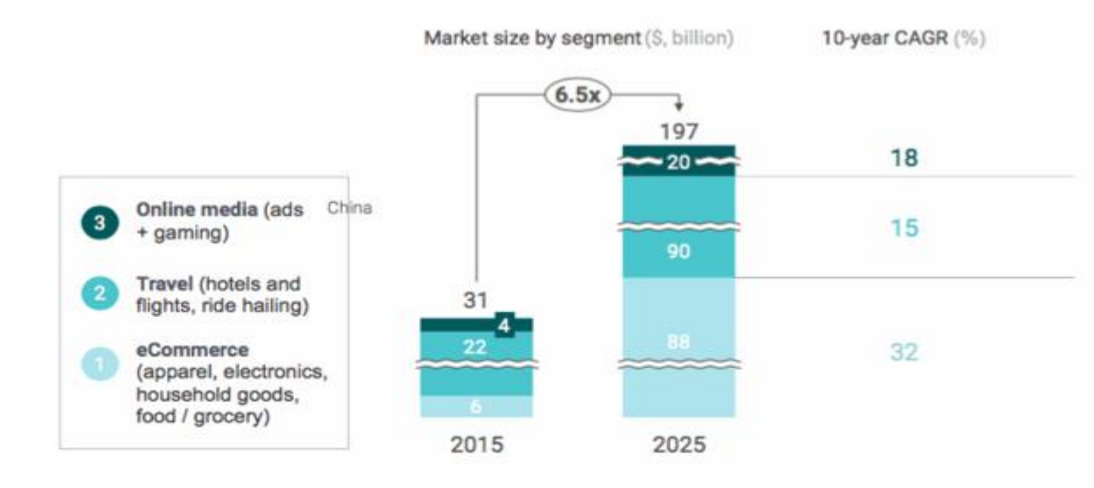
- Size of the **Amazon's sellers' loans programme about doubled** from US$337mil in 2015 to US$661mil in 2016. (c.0.4% of Sg banks loans book of S$200bn to S$240bn)
- Fact that sellers' loans programme can double in a year indicates that the low and middle market clients have a **better value proposition from Amazon and/or underserved by banks**
- **Ecommerce and credit finance firms have a common major clientele** they desire to serve – the low and middle market.
- **Ecommerce players will need overseas partners** in credit finance just as they have for logistics and e-payments to reach out globally.
- Such partnerships will offer **opportunities to scale up the loans growth** while providing better certainty and control over loans quality through use of big data analytics.

Investment Thesis

The loans origination growth potential in South East Asian's (SEA) E-commerce space is enormous.

- In a report jointly issued by Google and Temasek, titled "Unlocking the $200billion digital opportunity in Southeast Asia", the total first-hand E-commerce market* in SEA** is expected to grow at a 10-year CAGR of 32% to US$88bn by 2025 (US$5.5bn in 2015) outpacing offline retail's 10-year CAGR of 7% and it is also expected to be the fastest growing compared to online media and travel

*Dollar spend on apparel, electronics, household goods, food/groceries
**defined as Philippines, Thailand, Vietnam, Indonesia, Malaysia, and Singapore



Source: Google and Temasek's joint report titled "Unlocking the $200billion digital opportunity in Southeast Asia."

Investment Thesis

Singapore's finance companies to benefit from the E-commerce ecosystem not only because of government initiatives but also as part of the next stage of E-commerce development in SEA.

- **Government initiatives** to attract Ecommerce players to help SMEs internationalise
- **Ease of doing business** in Singapore
- E-commerce players have boosted logistics capabilities and e-payment capabilities to be ahead of the game. We expect the **next area of focus for E-commerce platforms is the provision of financing to sellers** to enhance their value proposition to SMEs and further differentiate themselves ahead of competitors.
- The **liberalisation of shareholding policy** for finance companies is an explicit opportunity for Ecommerce players to further that value proposition by forming a potential partnership with Singaporean finance companies.

Investment Merits

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The regulatory changes could catalyse a meaningful increase in SIF's net profit.

Based on SIF's FY2016 Share Capital and Equity Reserves of S$320mn

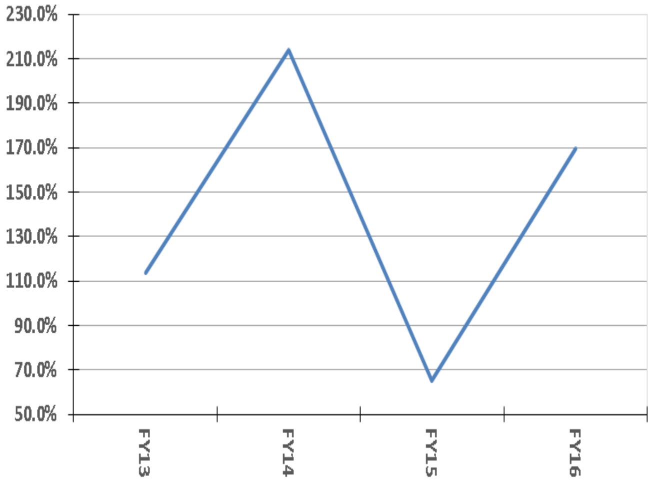
- SIF's uncollateralised business loan exposure to a single borrower could go as high as S$1.6mn.
- The limit on aggregate uncollateralised business loans will also be raised from 10% to 25% of its capital funds thus potentially **raising its aggregate uncollateralised business loans limit from S$32mn to S$80mn.**
- Potential net interest income contribution to SIF from uncollateralised business lending is c.S$1.8mn thus **adding 4.7% to SIF's FY16 NII of S$38.6mn**. Our estimations are based on the assumptions of a spread of c.3% per annum on an aggregate uncollateralised business loan size of c.S$60mn.
- Finance companies can start building relationships with fledgling SMEs through uncollaterised lending, and when these SMEs expand, there will be better opportunities to extend collateralised business loans by way of a stronger relationship.

Investment Merits

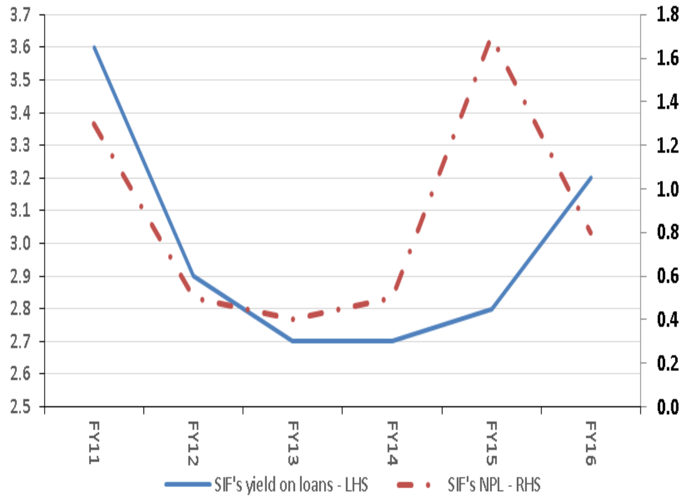
Higher NIM and normalising of bad loans provisioning expense this year will also boost ROE and PATMI significantly.

- Higher yields from customer loans and lower upward pressure on deposit costs.
- NPL formation improved. Ample bad loans coverage. Expect FY17e bad loans provisioning expense to normalise.

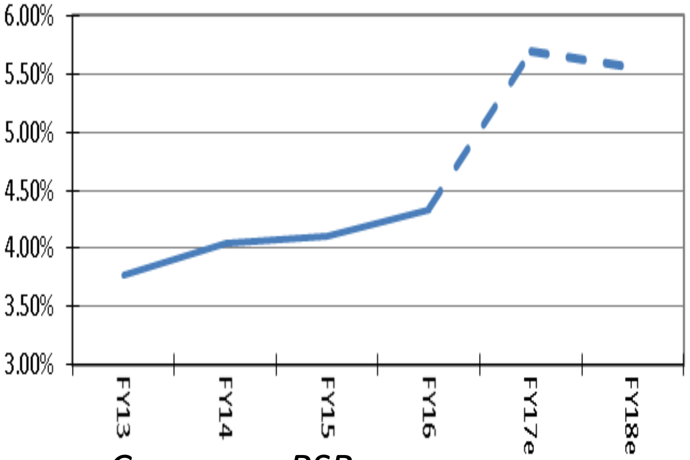
SIF's Bad loans coverage ratio



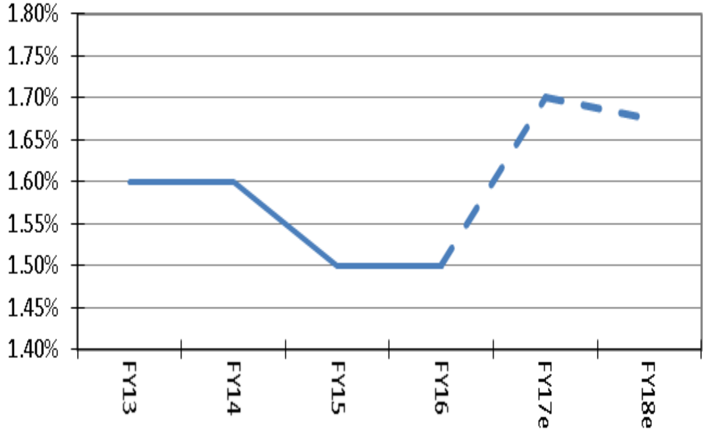
SIF's NPL vs loans yield



SIF's ROE



SIF's NIM



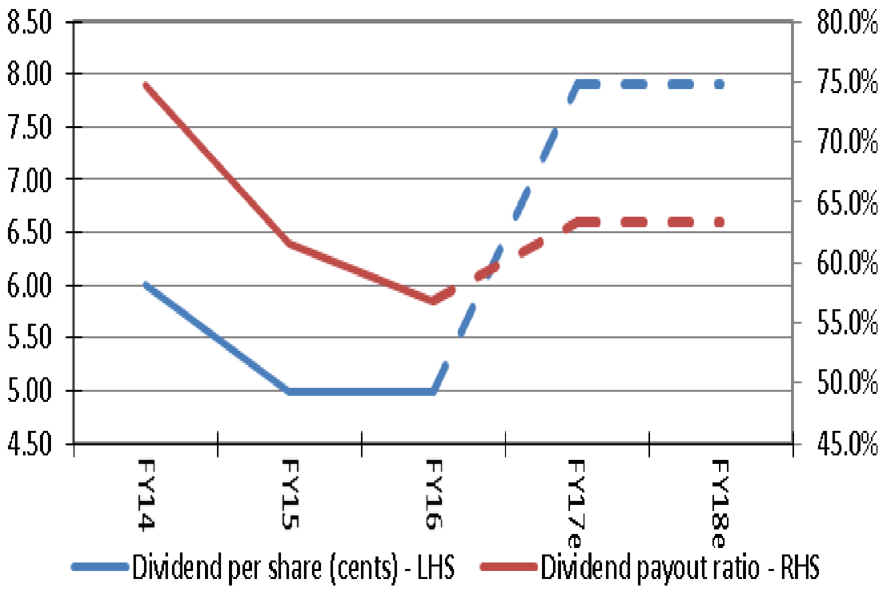
Source: Company, PSR

Investment Merits

High double digit percent net profit growth in FY17e could lead to an increase in dividends.

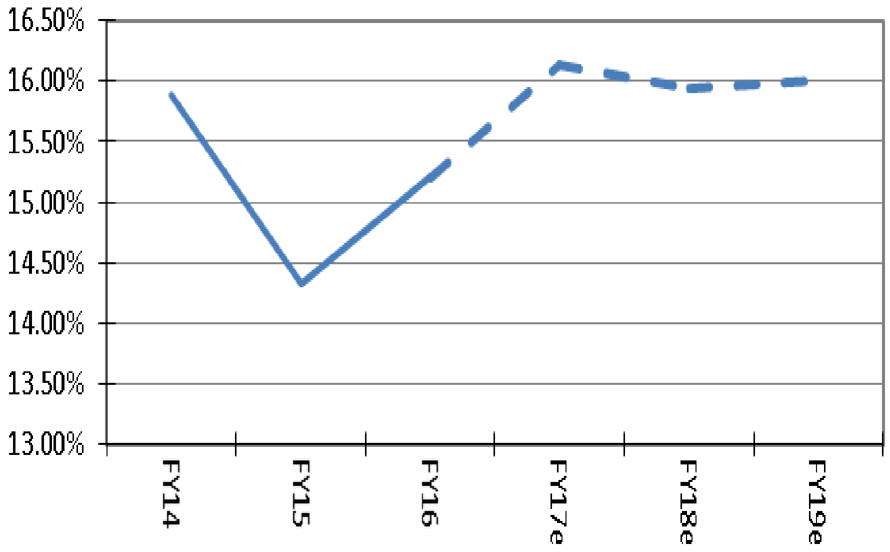
- Potentially increase its dividend per share (“DPS”) from 5 cents per share to 7.9 cents per share if the pay-out ratio of c.63% is maintained in FY17e and FY18e
- Maintain Capital Adequacy Ratio (“CAR”) above the 12% required by the Finance Companies Act

Dividend per share and pay-out ratio



Source: Company, PSR

Capital Adequacy Ratio, CAR



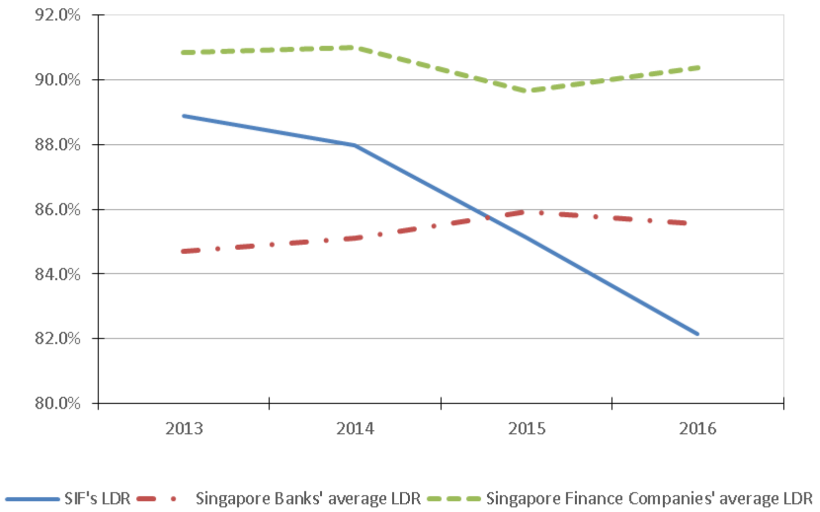
Investment Merits

Strong Financials

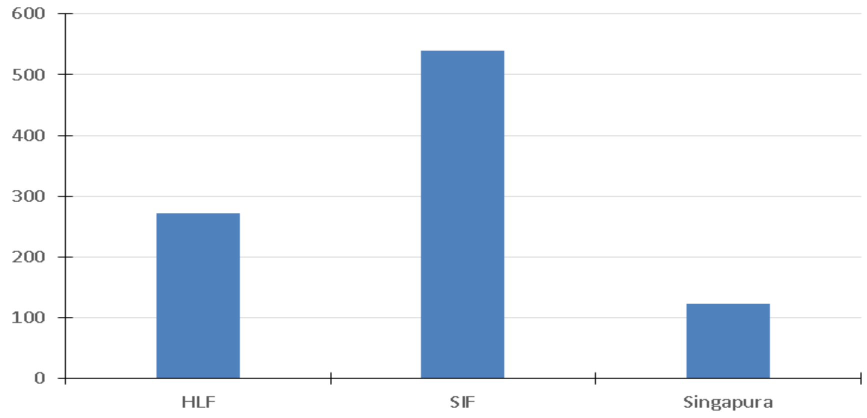
- Clean Balance sheet
- Good headroom to expand LDR to boost net interest income.

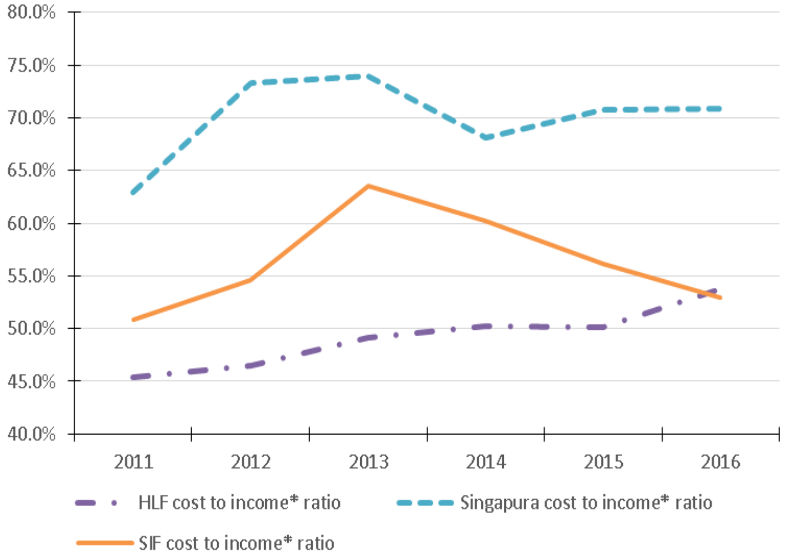
SIF has the best operating efficiency and maintains pricing flexibility on loans and deposits.

- Most efficient deposit management amongst peers
- Improving operating efficiency



Deposit (S$mn) per branch as of 1Q17





**Only Net Interest Income, Hiring Charges and Fee and Commission are used in calculation of income in this graph*

Source: Company, PSR

Investment Risks

- **Credit Risks –** risk of financial loss to SIF if a borrower or counter party to a credit exposure fails to meet its contractual obligations.

- **Liquidity Risks –** risk that SIF is unable to service its cash obligations in the present and future

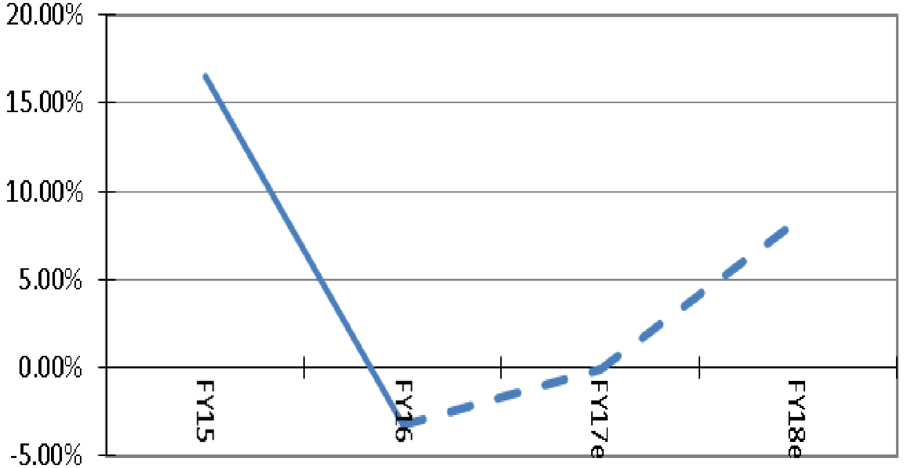
- **Interest Rate Risks –** SIF may be exposed to a loss in earnings due to effects of fixed and floating interest rates of its assets and liabilities.

- **Market Risks –** Market risk is the risk that the value of a portfolio will decrease due to the change in the value of the market risk factors. The market risk factors are credit spreads, interest rates, equity prices, foreign exchange rates, commodity prices and their associated volatility.

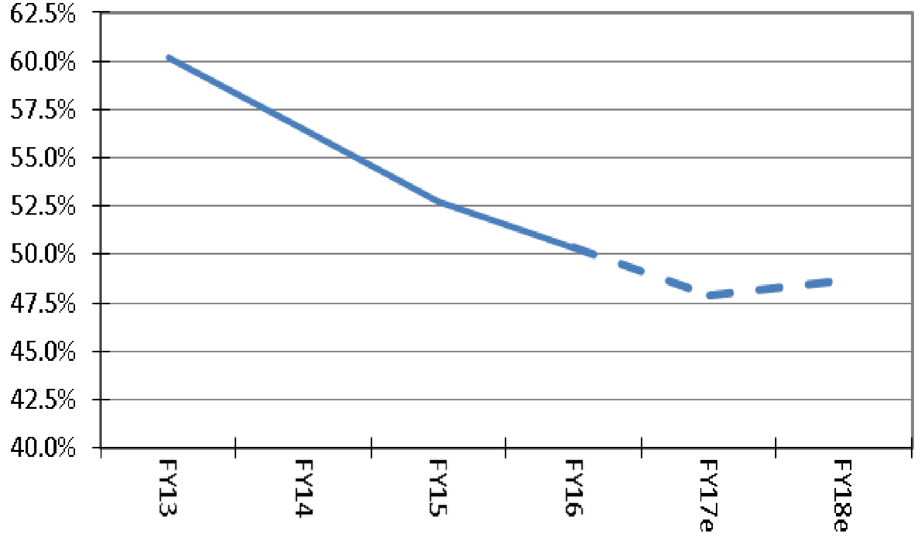
Forecast Assumptions

- **Loans growth flat in FY17e but expected to pick up in FY18e**
- **Cost to Income Ratio improves from 50.4% in FY16 to c.48% in FY17e**
- **Loans volume growth from E-commerce opportunities is not factored in yet.**

SIF's Customer loans growth forecast



Cost to income ratio is expected to improve further in FY17e



Source: Company, PSR

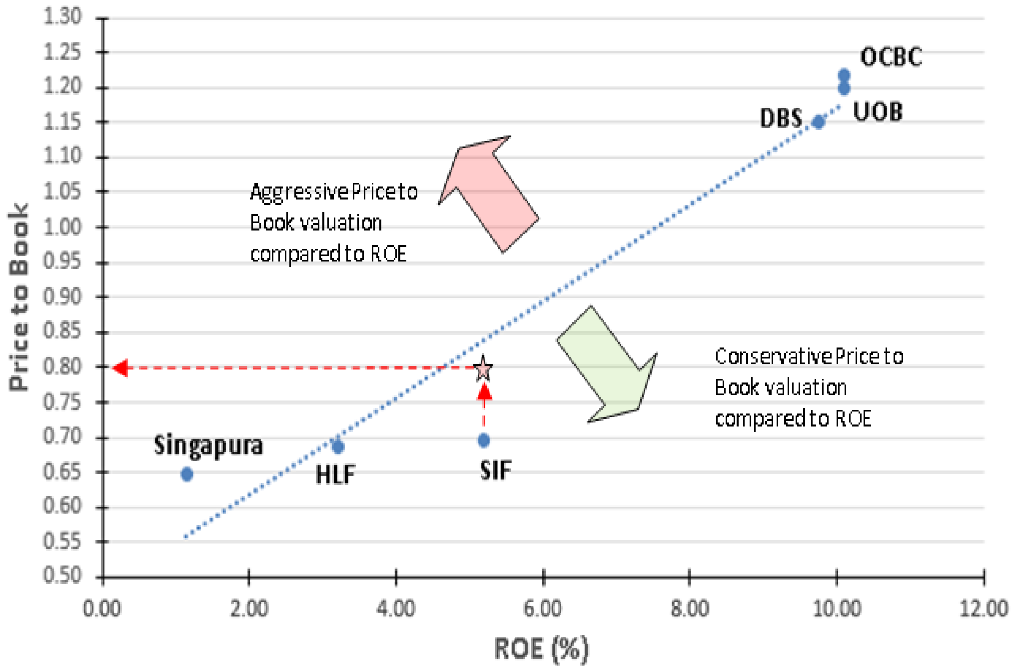
Valuation

Gordon Growth Model

Item	Description	Value
R_f	Risk-free rate	2.1%
E	Equity-risk premium	6.0%
B	Beta	0.544
COE	Cost of Equity	5.4%
ROE	FY17e Return on Equity	5.7%
g	Terminal growth rate	1.5%
$\frac{(ROE-g)}{(COE-g)}$	FY17e Target Price to Book	1.08
	FY17e BVPS, S$	2.16
	FY17e Valuation, S$	2.34

Source: Bloomberg, PSR

PB vs ROE dispersion chart



Our view is that the banks and finance companies trade at a book value ratio which are positively correlated with their ROE.

We believe that SIF should be priced closer to 0.8 times price to book to be in line with its current ROE.

As of 1Q17, SIF's book value per share is S$2.09. At 0.8 times price to book, we expect SIF's share price to be $1.670.The **target price of S$1.67** represents an 18.58% upside (including FY17e dividends) from the current price of S$1.48.

Valuation

3 Years Historical Price to Book Ratio

Source: Bloomberg, PSR

Performance

1-Year historical performance relative to FTSE Straits Times Financial Index

Source: Bloomberg, PSR

Peer Comparison

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E	P/B	ROE (%)	ROA (%)	NIM (%)	NPL ratio	Div Yield	Total Return YTD
DBS GROUP HOLDINGS LTD	DBS SP Equity	53,236	12.3	1.15	9.74	0.9	1.8	1.6	2.9	21.9
UNITED OVERSEAS BANK LTD	UOB SP Equity	38,531	12.4	1.20	10.08	0.9	1.7	1.5	3.0	15.7
OVERSEA-CHINESE BANKING CORP	OCBC SP Equity	44,730	12.6	1.22	10.09	0.9	1.7	1.3	3.4	21.9
SINGAPURA FINANCE LTD	SBD SP Equity	164	24.8	0.6	1.1	0.2	2.1	N.A	1.9	22.6
SING INVESTMENTS & FINANCE	SIF SP Equity	229	13.5	0.7	5.2	0.7	1.7	N.A	3.4	28.0
HONG LEONG FINANCE LTD	HLF SP Equity	1,180	21.4	0.7	3.2	0.4	1.2	1.1	3.4	26.6

Figures are based on latest quarter results

Source: Bloomberg, PSR

SWOT Analysis

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Strengths	Weaknesses
▪ Most of SIF's rates are floating. Therefore, it has pricing flexibility ▪ Superior operating efficiency and deposit management efficiency ▪ Strong broker distribution network and direct client relationship ▪ Clientele in low and middle market loans business, therefore, better pricing power	▪ There remains substantial regulatory oversight on the finance business which may limit some business opportunities (e.g. New branch opening, dealing with other asset classes) ▪ SIF's market is entirely based in Singapore, therefore, has concentration risk ▪ Performance is sensitive to domestic economic cycle ▪ Volatile non-performing loans ("NPL") profile
Opportunities	**Threats**
▪ Favourable volume and rate dynamics as interest rates rise ▪ Regulatory changes to current and chequing account facilities helps alleviate deposit cost pressures ▪ Lower LDR than peers allows it to cut higher cost deposits faster ▪ Regulatory changes to allow credit finance companies to offer uncollateralised loans enhances engagement with SMEs ▪ Visible and rapid developments in the E-commerce space present opportunities for loans origination	▪ Rise of multiple dominant alternative lenders (e.g. Peer-to-Peer lending platforms) in the industry ▪ Major E-commerce platforms in ASEAN region decide to create their financing platforms ▪ Banks find a way to productively engage the low and middle market clientele

Appendix: Summary of Changes to Finance Company Regulation

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Description	Before	After	Impact
1. Limit to finance company's aggregate uncollateralised loans	10% of capital funds	25% of capital funds	Greater capacity to service SMEs
2. Limit on uncollateralised business loans to a single borrower	Up to S$5,000	Up to 0.5% of finance company's capital funds	Credit finance companies can start building meaningful relationship with SMEs at early stage
3. Current account and chequing services to business customers	Not available	Available	Credit finance companies can lower their cost of funds
4. Electronic payment networks	Not in network	In network	Enhanced service and convenience for clients
5. Foreign currency exposures and derivatives trading	Restricted	Restricted	
6.Liberalisation of shareholding policy	Not Allowed	Subject to approval. Prospective merger partner and acquirer commits to maintain SME financing as a core business and must demonstrate expertise in SME financing and present proposals to enhance the finance company's SME lending activities with new technologies, methodologies and business models.	Potential for Ecommerce companies to partner with local credit finance companies to originate more loans for sellers on Ecommerce platforms.

CapitaLand Commercial Trust

Bottoming of office rents in sight

Tan Dehong

Phillip Securities Research Pte Ltd

24 July 2017

CapitaLand Commercial Trust

(Upgrade to ACCUMULATE, TP: S$1.80, Last: S$1.75, FY17e DPU: 9.14c)

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Results at a glance

(SGD mn)/Dec Yr End	2Q17	2Q16	YoY (%)	Comments
Gross Revenue	87.5	67.6	29.5	**Increase in ownership in CapitaGreen from 40% to 100% in Aug 2016**
Net property income	69.1	51.5	34.3	**Higher property expenses from CapitaGreen offset by lower property tax**
Distributable income	69.5	65.1	6.7	
DPU (Cents)	**2.27**	**2.20**	**3.2**	**In-line with higher distributable income**

Source: Company, PSR

Pace of drop in office rentals slowing

- CBRE Grade A office rents flat QoQ at S$8.95 for 2Q17, after 8 quarters of declines since 1Q15.

Cap rate compression/Attractive divestment yields boosted NAV

- Compression in cap and discount rates (first since 2012) increased portfolio valuation by 2.8% from Dec 2016.
- Divestment gains total S$170mn, 6c boost in NAV

Upgrade to ACCUMULATE with higher target price of S$1.80

- Management committed to maintain DPU; Forecast cash top up to DPU from divestment proceeds. FY17e/FY18e DPU adjusted upwards by 4.7%/10.8%
- Translates to FY17e yield 5.1% and P/NAV 0.93.

CapitaLand Mall Trust

Still a challenging operating environment

Tan Dehong, Peter Ng
Phillip Securities Research Pte Ltd
24 July 2017

CapitaLand Mall Trust

(Maintain NEUTRAL, TP: S$2.01, Last: S$2.04, FY17e DPU: 11.2c)

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Results at a glance

(SGD mn)/Dec Yr End	2Q17	2Q16	YoY (%)	Comments
Gross Revenue	168.6	170.9	(1.3)	**Mainly due to closure of Funan for redevelopment**
Net property income	117.6	116.1	1.2	**Lower property expenses due to lower utilities and maintenance fees**
Distributable income	97.2	97.1	0.1	
DPU (Cents)	**2.75**	**2.74**	**0.4**	

Source: Company, PSR

Rental reversions continue to stay weak; More malls could see negative reversions for 2H17

- Weakness for quarter driven by Bedok Mall/Westgate. 1H17 rental reversions at -1.6% (1H16 +1.7%)

Tenant sales in 2Q17 held steady driven by new tenants and promotions; F&B and Supermarkets remain weak.

- 1H17 tenant sales flat YoY, after -0.7% YoY in 1Q17. New better performing tenants and promotions in Music/Entertainment/Electronics sectors. F&B/Supermarkets remain weak

Cap rate compression boosted portfolio valuations

- Cap rates across portfolio compressed 50bps on average, boosting portfolio valuations by 2% from Dec 2016.

Maintain NEUTRAL with unchanged TP of $2.01.

- Forecasted DPU, target price unchanged. Translates to FY17e yield of 5.6%, P/NAV 1.00.

First REIT

Business as usual after CEO succession plan

First Acquisition of 2017 at attractive rental yield of 10%

Tan Dehong

Phillip Securities Research Pte Ltd

24 July 2017

First REIT

(Maintain NEUTRAL, TP: S$1.32, Last: S$1.34, FY17e DPU: 8.6c)

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Results at a glance

(SGD mn)	2Q17	2Q16	YoY (%)	Comments
Gross Revenue	27.5	26.6	3.3%	Contribution from Siloam Hospitals Labuan Bojo acquired in December 2016. Revenue from existing portfolio grew 1% as a result of higher variable rents.
Net property income	27.2	26.3	3.2%	
Distributable income	16.6	16.2	2.5%	
DPU (Cents)	2.14	2.11	1.4%	

Source: Company, PSR

Acquisition and higher variable rent boosted earnings

▪Revenue from existing properties grew 1% due to higher variable rents. This cushioned flat base rents due to weak Singapore 2016 CPI.

Lower finance costs for quarter; Likely stable future interest costs for debt due for refinancing this year.

▪8.9% lower finance costs for quarter after perps proceeds used to pare down debt. Bank offerings remain competitive for debt due for refinancing this year (34% of total).

Acquisition of Siloam Hospitals Buton at high rental yield on cost of 10%

▪Expected to be fully debt-funded. Comfortable spread over average cost of debt 4.1%.. Assuming 40-60 debt-equity ratio, average cost of capital is 5.1%.

Maintain NEUTRAL with unchanged TP of $1.32.

▪Forecasted DPU, target price unchanged at S$1.32. Translates to FY17e yield of 6.5% P/NAV 1.22.

Keppel DC REIT

Awaiting more acquisitions

Richard Leow

Phillip Securities Research Pte Ltd

24 July 2017

Keppel DC REIT

(Neutral, TP: $1.28, DPU: 6.84 cents (5.4%) , Last: $1.30)

Results at a glance

(SGD mn)	2Q17	2Q16	YoY	Comments
Gross revenue	**34.5**	**24.9**	**38.8%**	**Contribution from 90% interest in Keppel DC SGP 3, Cardiff DC and Milan DC, appreciation of AUD vs. SGD; offset by depreciation of GBP, EUR and MYR vs. SGD**
Net property income	31.4	22.1	41.9%	Growth in gross revenue out-paced the 14.2% increase in property expenses
Distributable income	20.1	14.7	36.5%	
DPU (cents)	**1.74**	**1.67**	**4.2%**	**Effect of 274-for-1,000 Preferential Offering**

Source: Company, PSR

QoQ longer WALE, but QoQ lower occupancy

- Client at Basis Bay Data Centre Malaysia renewed lease for 5 years, but only for two of the three data centre floors

27.7% aggregate leverage among the lowest in S-REIT universe

- Debt headroom of ~$300m (40% leverage), potentially growing portfolio by ~20%

Keppel DC Dublin 1 still under-utilised at 56.3%

- Upgrade to power supply at the end of this year; more attractive to prospective tenants

Stable outlook

- Two remaining major 2017 leases have in-principle agreement and pending finalisation of lease distribution

Cache Logistics Trust

Rebalancing strategy paying off

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Cache Logistics Trust

(Neutral, TP: $0.86, DPU: 7.03 cents (7.5%) , Last: $0.94)

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Results at a glance

(SGD mn)	2Q17	2Q16	YoY	Comments
Gross revenue	**27.9**	**28.1**	**-0.7%**	**Divestment of Cache Changi DC 3, lower income at 51 Alps Avenue; offset by contribution from DSC ARC and the Australian properties**
Net property income	21.7	22.6	-4.0%	Higher property expenses due to 51 Alps Avenue and conversion of Hi-Speed Logistics Centre to multi-tenancy in 4Q16
Distributable income	16.3	17.8	-8.8%	2Q17 includes capital distribution of S$0.118 mn; underlying DI from operations is 9.5% lower
DPU (cents)	**1.80**	**1.99**	**-9.5%**	**2Q17 includes capital distribution of 0.013 cents; underlying DPU from operations is 10.2% lower**

Source: Company, PSR

QoQ higher occupancy from new leases signed: 97.2% → 98.3%

- Cache Cold Centre, Cache Changi Districentre 1 and DSC ARC

Negative rent reversions during the quarter

- Passing rent -8% to -10% YoY; outlier renewal at -20% reversion

Unchanged QoQ DPU of 1.80 cents from top-ups

- Underlying DPU from operations +5.3% QoQ

Stable to negative outlook

- Australia: Rebalancing strategy paying off → DPU stabilising QoQ
- Singapore: Oversupply persists; 1.8% NLA expiry in 2H 2017; CWT Commodity Hub master lease April 2018

SATS Ltd

Growth in underlying net profit

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SATS Ltd

(Neutral, TP: $5.08, DPS: 17.0 cents (3.3%), Last: $5.08)

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Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Revenue	**427**	**424**	**0.5%**	**5.6% higher Gateway Services; offset by 2.9% lower Food Solutions**
EBIT	53.5	54.5	-1.8%	0.9% higher expenditure, resulting in lower margin of 12.5% from 12.8%
Associates & JVs	15.5	12.2	27%	Higher contribution from both Food Solutions and Gateway Services
PATMI	**57.3**	**64.1**	**-10.6%**	**1Q17 includes one-off asset disposal gain of $9.3 mn and $0.7 mn loss on divestment in associate**
Underlying PATMI	**57.3**	**55.5**	**3.2%**	**Excluding one-offs above; higher margin of 13.4% from 13.1%**

Source: Company, PSR

Gateway Services revenue

- Higher cargo volumes, flights and passengers handled

Food Solutions revenue

- Negative surprise from 11% YoY lower TFK Corp. revenue; weaker meal volumes arising from flight cuts by Delta Air Lines and Japan Airlines
- Non-Aviation Food in Singapore lower, in a relation to a major contract; temporary

Higher associates/JVs compensated for lower EBIT, keeping underlying PATMI positive

- Higher opex from higher licence fees arising from cessation of fee rebates at Changi

Stable to positive outlook

- Key theme of air travel growth and demand for safe food remains intact
- Pricing pressure for SATS, as airlines facing low yields, but could have opportunities

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