

# Singapore Banking & Finance Sector

Singapore Exchange Ltd  
Singapore Banking Sector 3Q17 Earnings Preview

## Company Results

CapitaLand Commercial Trust  
CapitaLand Mall Trust  
Keppel DC REIT

## Macro Strategy

Phillip Monthly Recession Tracker

## Company Visit

First REIT  
UG Healthcare Corp

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# Singapore Exchange Ltd

## Strong Start to FY18

Jeremy Teong

Phillip Securities Research Pte Ltd

23 October 2017

- **Maintain Accumulate on SGX with higher TP of S\$8.39 (previous TP S\$7.63) representing an upside of 9.8% from last close price of S\$7.64.**
- Expect strong SDAV and DDAV to continue in FY18 (FYE June) on the back of synchronous global recovery, peppered with regional volatility.
- Stronger performance from China A50, USD/CNH and INR/USD futures as changes in domestic regulation make SGX a favourable overseas trading platform.
- But new IPOs have not been able to keep pace with the number and size of companies slated for delisting.
- Revising our FY18e SDAV to c.S\$1.16bn from previous estimate of S\$1.08bn as stock market capitalisation and trading volumes improve because of risk on momentum building up across the globe.
- FY18e operating expenses could come in slightly above the guided range of S\$425mn to S\$435mn as business activity picks up.
- Expect SGX's 1Q18 revenue to come in at S\$218mn and PATMI to be at S\$93.5mn, up 12.5% YoY.

# Challenges to SGX's Securities Market

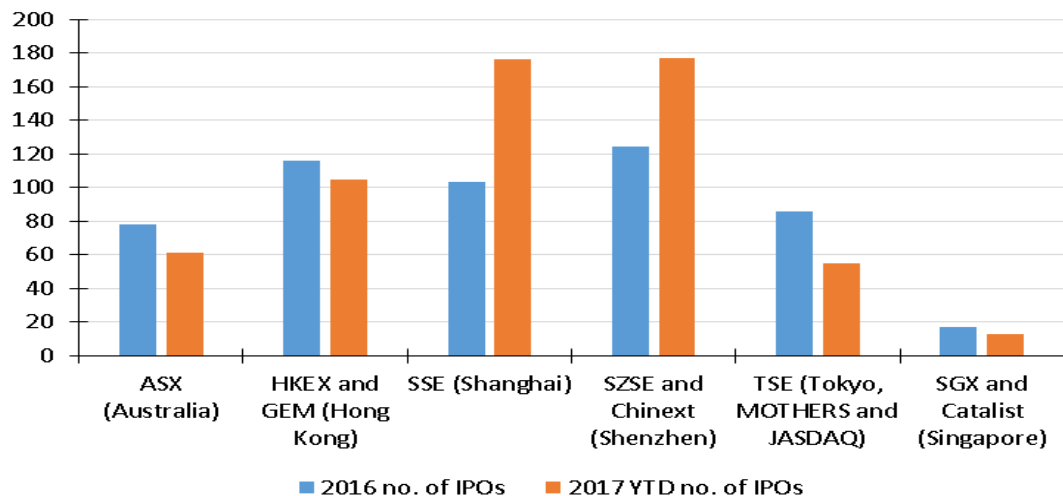
- Competition from HKEX Stock Connect with Shanghai and Shenzhen.
  - ❑ Wider audience from mainland via southbound trades. (largest concentration of HNWI individuals in Pearl River Delta area, Shanghai, Hang Zhou and Beijing).
  - ❑ But Individual investors must have a balance of RMB500,000 in their cash and securities accounts to be eligible to trade Hong Kong listed stocks.



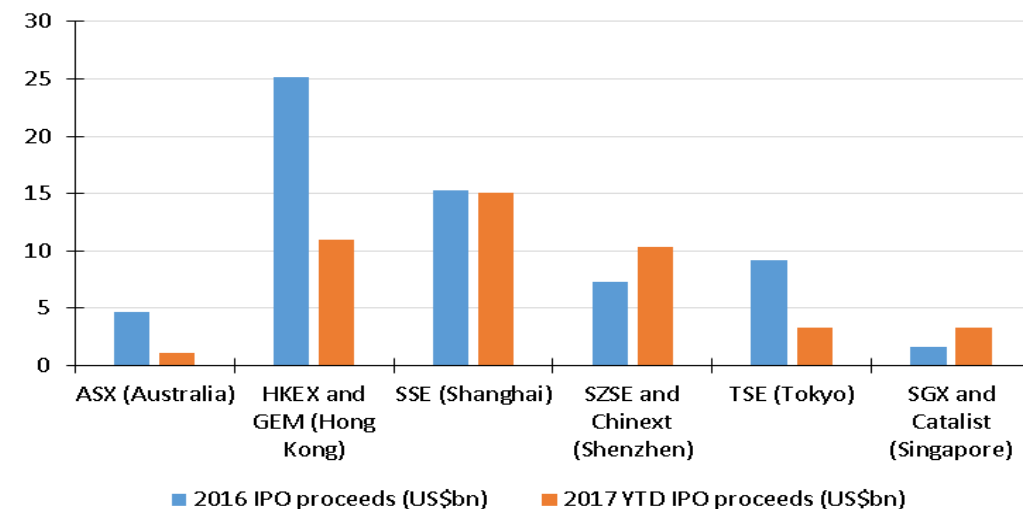
Source: HKEX Investor Presentation August 2017

- SGX's IPO listing requirements are stricter.
  - ❑ Stricter profitability requirements and threshold, higher revenue and market cap threshold
- More costly to maintain listing on SGX.
  - ❑ Additional costs from quarterly reporting and issuance of annual sustainability reports may discourage issuers from listing on SGX.
- Better valuation from overseas listing.
  - ❑ Singapore companies with strong brands overseas
- Singapore's IPO market has been slow but pipeline strategy in the works.
  - ❑ IMDA and SGX partnership

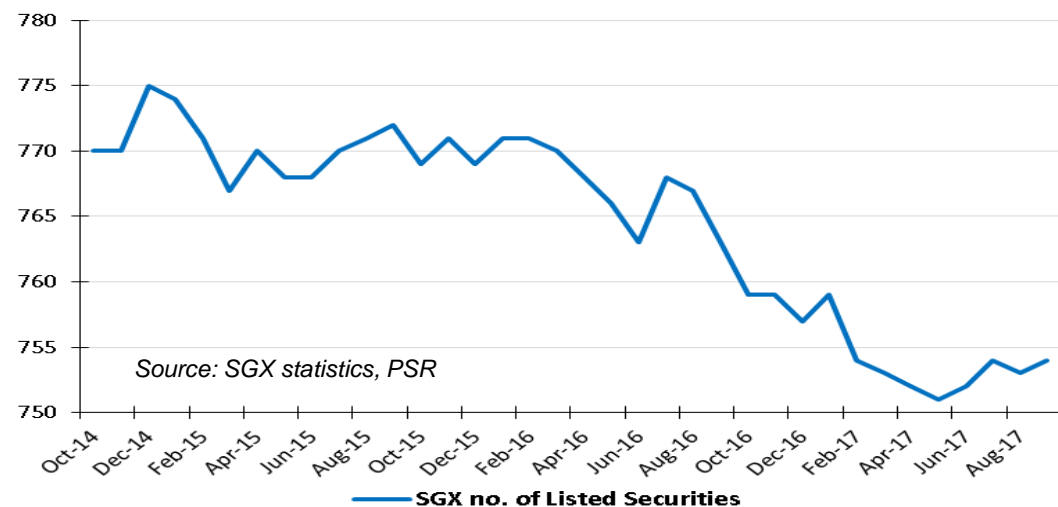
# Challenges to SGX's Securities Market



Source: EY Global IPO Trends Q3 2017, PSR



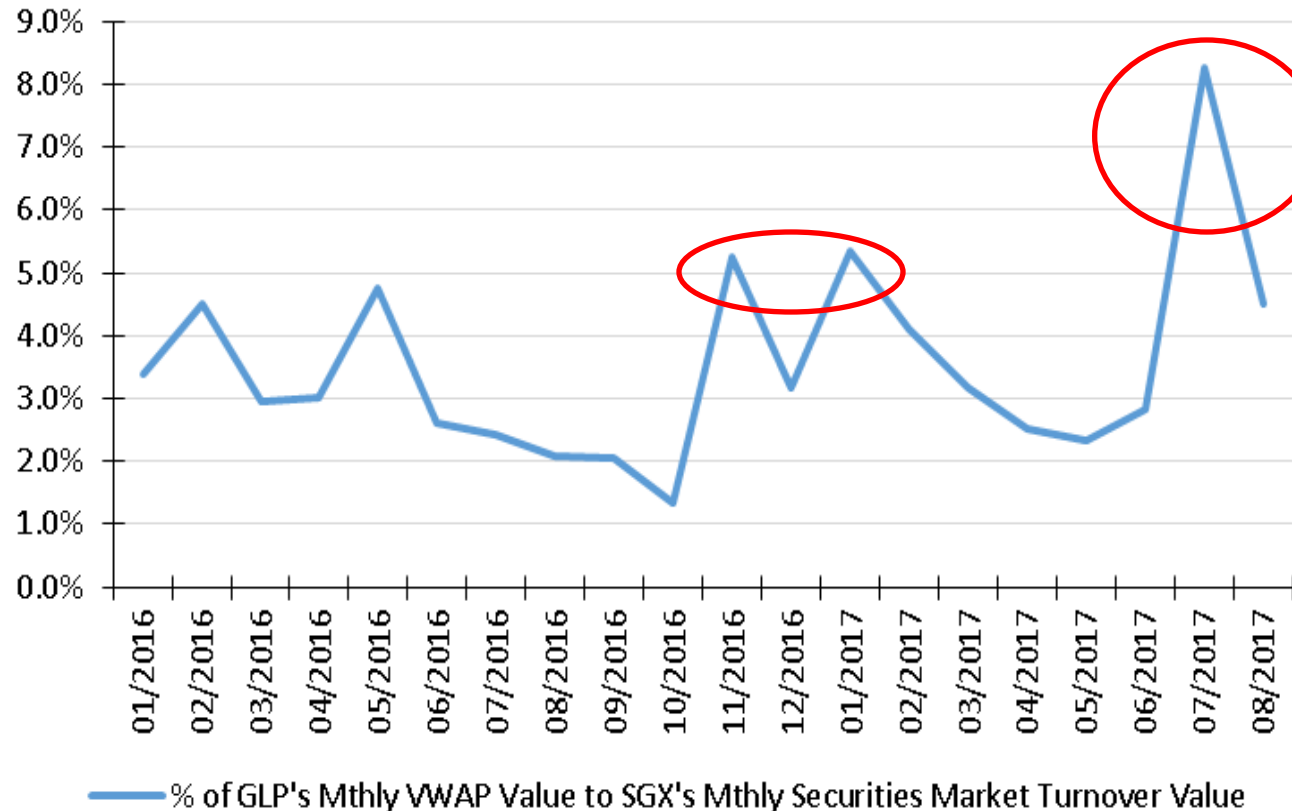
Source: EY Global IPO Trends Q3 2017, PSR



Source: SGX statistics, PSR

- SGX's YTD IPOs pale on comparison with peers
- SGX's 2017 YTD IPO proceeds exceeded 2016 because of the Netlink Trust IPO which raised S\$2.3bn.
- SGX's listed securities are on a decline as IPOs had been slow and delistings are accelerating.

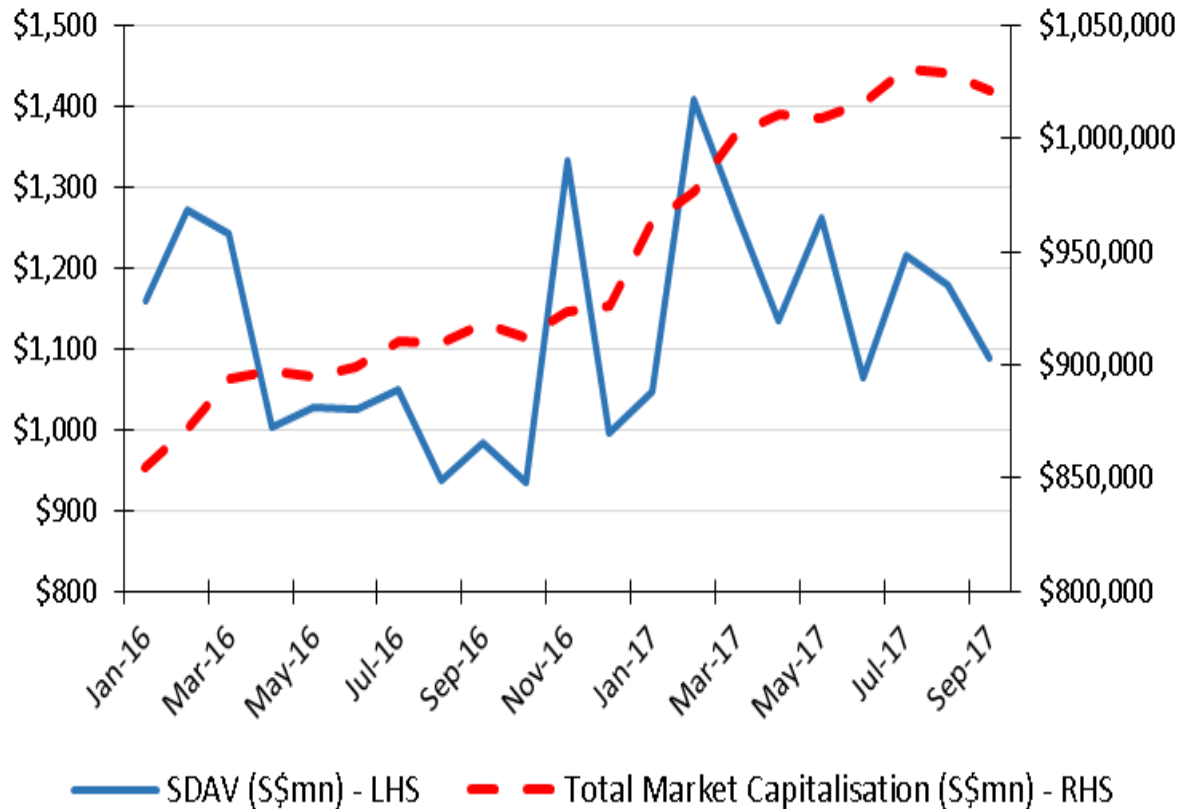
# Impact from Delisting GLP on 14 April 2018



- With a market capitalisation of S\$15.5bn, GLP is ranked 11 in the STI stocks list by market capitalisation. GLP has a free float of c.38%. As of 29 Sept 2017, GLP's total return YTD is 52.8%.
- GLP's (VWAP) turnover value (monthly average VWAP x monthly volume) over the period from January 2016 to August 2017 to be S\$851mn. This is about **3.6% of SGX's average monthly securities market turnover value of S\$23.6bn.**
- Net Link Trust has a free float of c.75% (Twice of GLP's free float) but the market capitalization of S\$3.2bn is only slightly more than one-fifth of GLP's market capitalisation.

Source: Bloomberg, SGX updates and statistics, PSR

# Nonetheless, SDAV performance is well supported



Source: SGX statistics, PSR

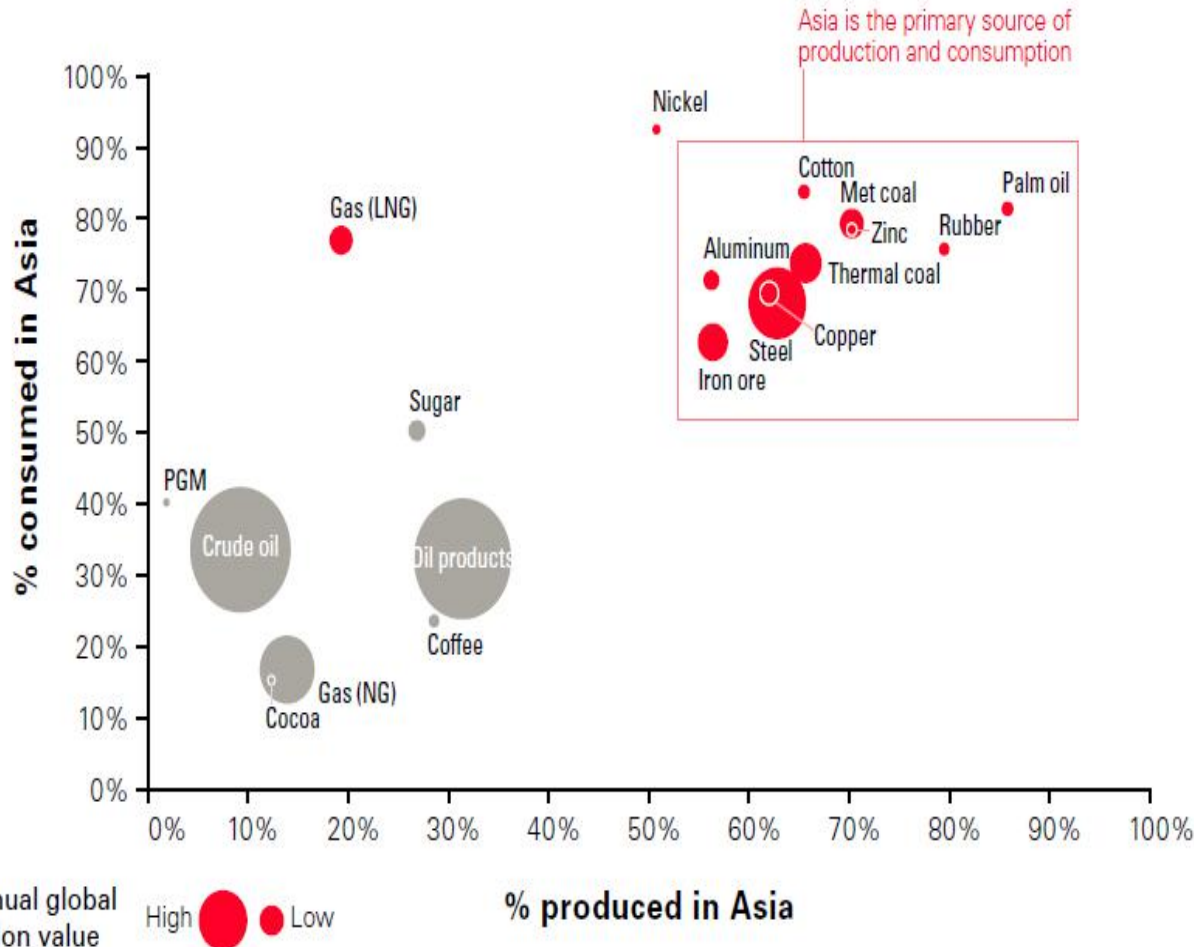
- Rising market capitalisation of large cap financial, consumer services, technology and industrial stocks supporting the SDAV.
- As of 29 Sept 2017, the 30 largest STI stocks by market capitalisation returned 14.3% YTD. The 5 largest STI stocks; Jardine Strategic Holdings, Jardine Matheson Holdings, Singtel, DBS and OCBC have an average YTD return of 17.9%.
- Financials make up 48% of the securities market turnover value and we expect the financials to continue to perform as loans volume and capital markets improve.
- Expect property stocks to lead the charge in 2018 as enbloc momentum builds up.
- **As risk on sentiments are revived, SDAV will have strong tailwinds of better volume and higher market capitalisation.**
- We estimate PATMI sensitivity is c.S\$3mn per S\$100mn in SDAV per quarter. (c1% of SGX's operating revenue)



# Major Developments to SGX Derivatives Business

- Continued market dominance in iron ore derivatives market outside China.
  - ❑ Outside China market: SGX 95% and CME 5%.
  - ❑ CME's presence is only rep office
  - ❑ CME operates in European time zone and does not see most of the trading in Asian time zone. (Iron ore is Asian centric product)
- INR/USD futures performance shot through the roof as regulations in India's domestic derivatives market tightens and volatility picked up
  - ❑ Foreign use of Indian domestic derivative products through P-Notes is now restricted for the purpose of hedging equity shares held
  - ❑ Foreign market participants will not be able to trade the volatility onshore but trade them offshore (SGX) as global portfolio managers cut their exposure to Indian equities between July and August.
- Korean Peninsula tensions, Chinese central bank action and improving China A50 traded volume helped boost USD/CNH futures volume and market share.
  - ❑ CNH moves amid North Korean missile tensions and Chinese Central Bank policy.
  - ❑ Relaxation of stock index futures trading rules in China early 2017 by reducing margin requirements and raising the daily limit on contract volume. (Recall the Chinese government's intervention during the 2015 Chinese stock market turbulence)
- Listing of Asia Pacific Exchange (Apex) as the third derivatives exchange in Singapore
  - ❑ Apex plans to open its exchange with refined palm oil contracts which SGX does not offer as a derivatives product.
  - ❑ Apex is majority owned by a China markets veteran, Mr Eugene Zhu Yuchen who held a senior position at Dalian Commodity Exchange.
  - ❑ Being based in Singapore, the adherence to stricter rules pertaining to "risk-based" exposures such as margin requirements and maintenance of special reserve funds would raise the bar for Apex's growth strategies.

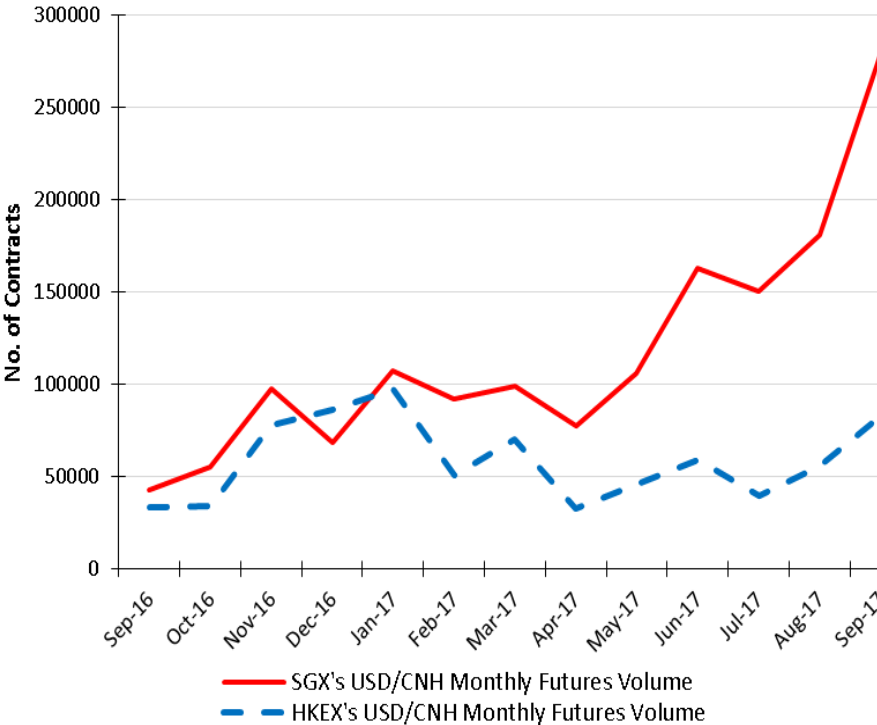
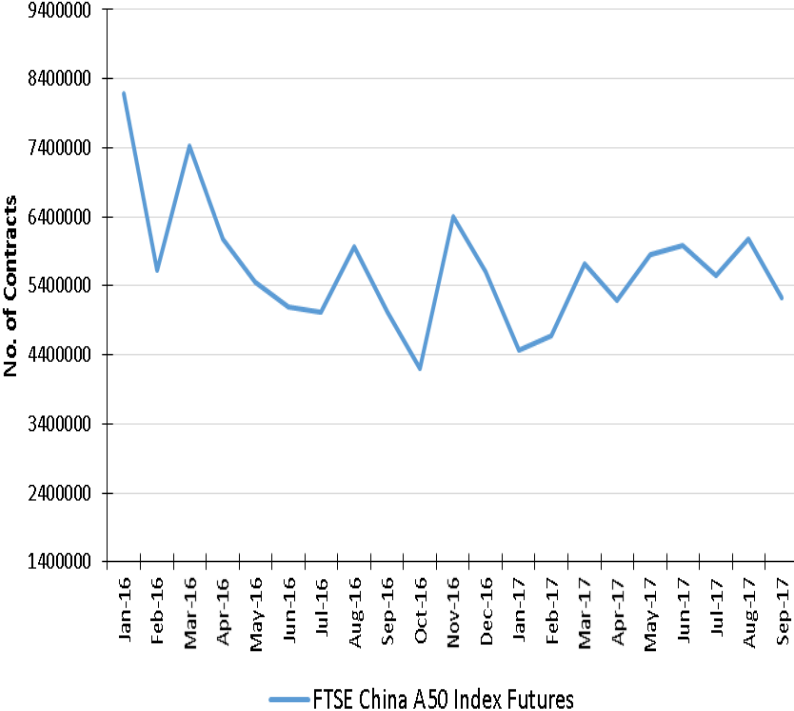
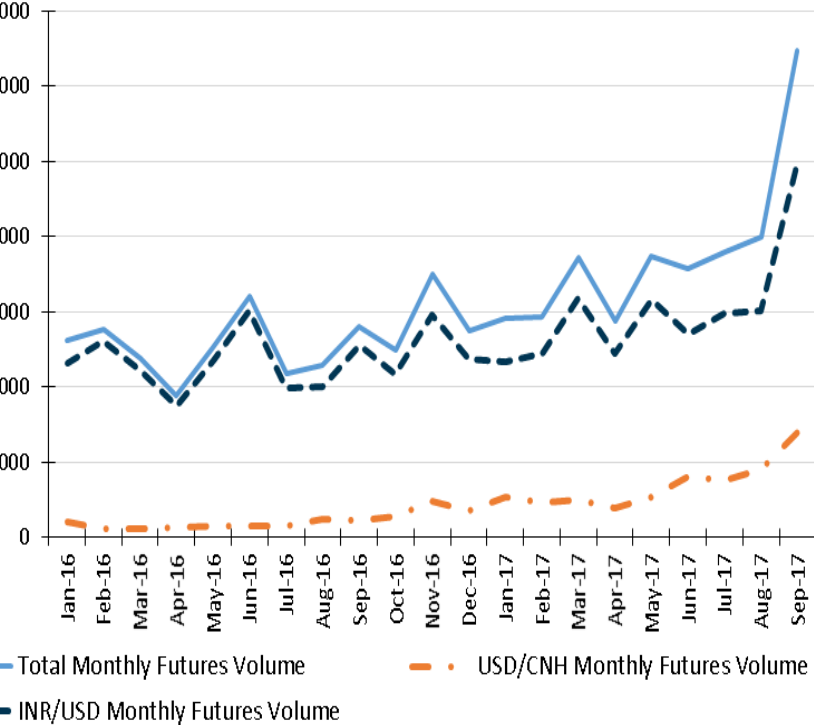
# SGX is well entrenched to capture Asian centric derivative products



- Singapore's banking sector: No. 2 in the world with dedicated teams to deal with commodities.
- 3rd largest global Foreign Exchange market after London and New York.
- 3rd largest pool of RMB deposits and has the 3rd highest global USD daily average Foreign Exchange turnover.
- Over 65% of the global base metals and 80% of thermal coal consumption is located within a 6 hour flight radius from Singapore.

Source: IE Singapore's report titled *Commodity Trading Hubs, Singapore's role and proposition*, Oliver Wyman analysis and market benchmarks.

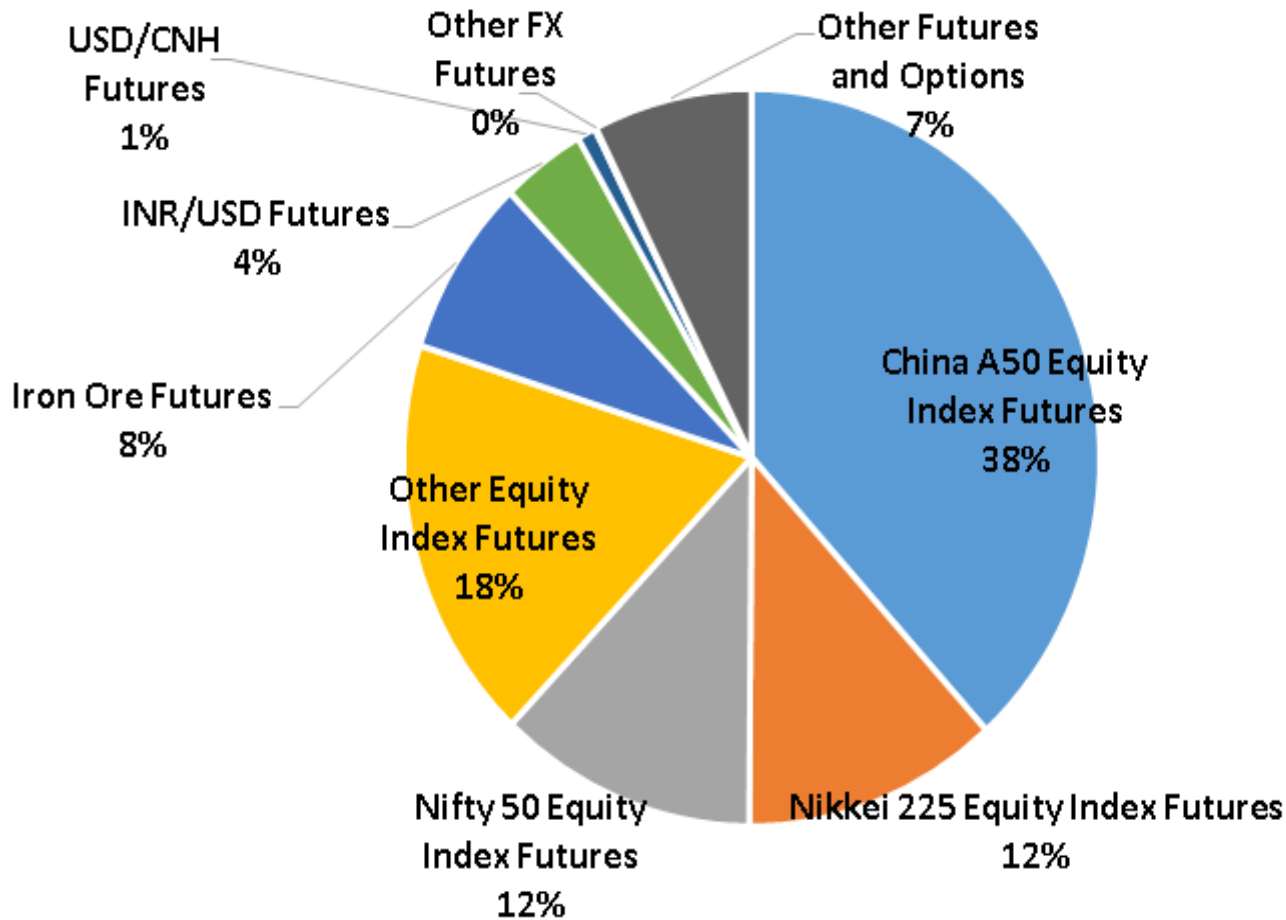
# Currency and Equity Index Futures have performed well



Source: SGX statistics, HKEX statistics, PSR

- INR/USD and USD/CNH futures are SGX’s main FX derivatives products with INR/USD futures making the bulk of it.
- China A50 volume bottomed out in early 2017 following the relaxation of stock index futures trading rules in China.
- SGX outperformed HKEX because of the synergy between USD/CNH and China A50 Futures offered by SGX as market participants will also trade the FX/Equity pairing. HKEX does not offer a Chinese equity index futures product.
- SGX now controls 75% of the USD/CNH futures market. We estimate that HKEX makes up most of the other 25% market share.

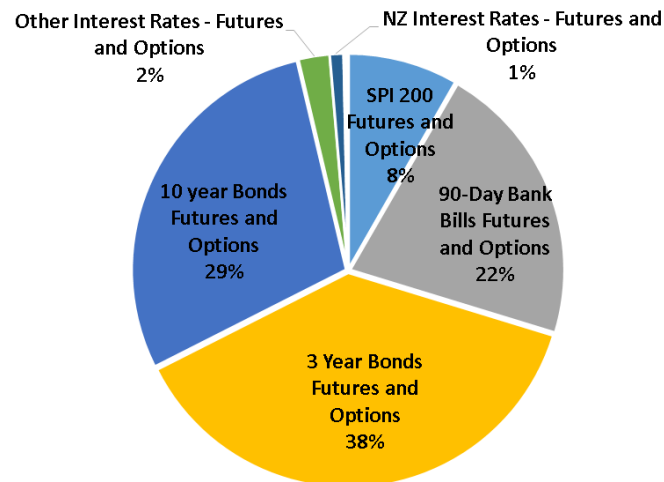
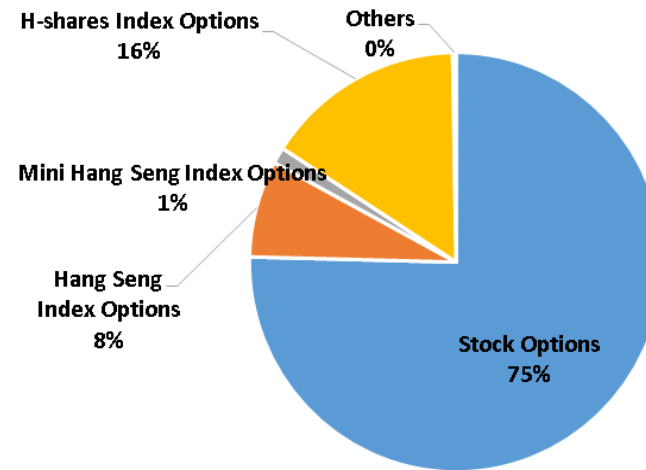
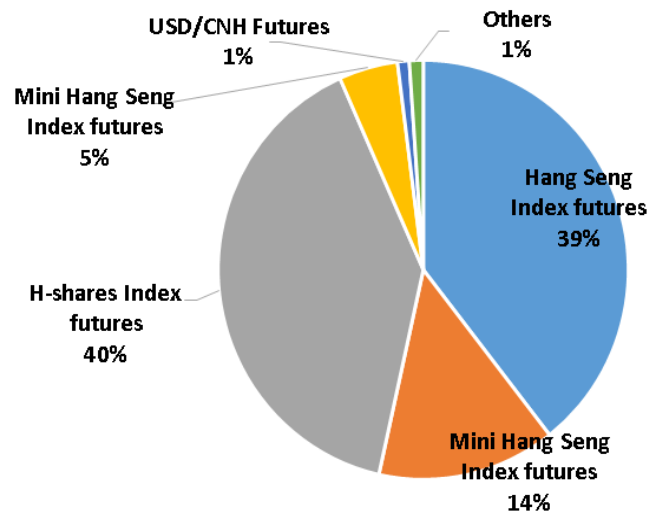
# SGX has one of the most diversified derivatives portfolio



Source: SGX statistics, PSR

- Equity Index Futures make up 80% of SGX's derivatives business. Unlike HKEX and ASX, the underlying of SGX's Equity Index Futures are non-domestic.
- SGX also has a larger portion of commodities and foreign exchanges futures in the mix of derivatives as compared to ASX and HKEX.
- SGX is able to further enhance its value proposition in the market place by offering margin offset not only for Long/Short positions in single derivatives product but also for different product pairings such as FX/Equity and FX/Commodity. But margin offsets are not available for Equity/Commodity pairings.

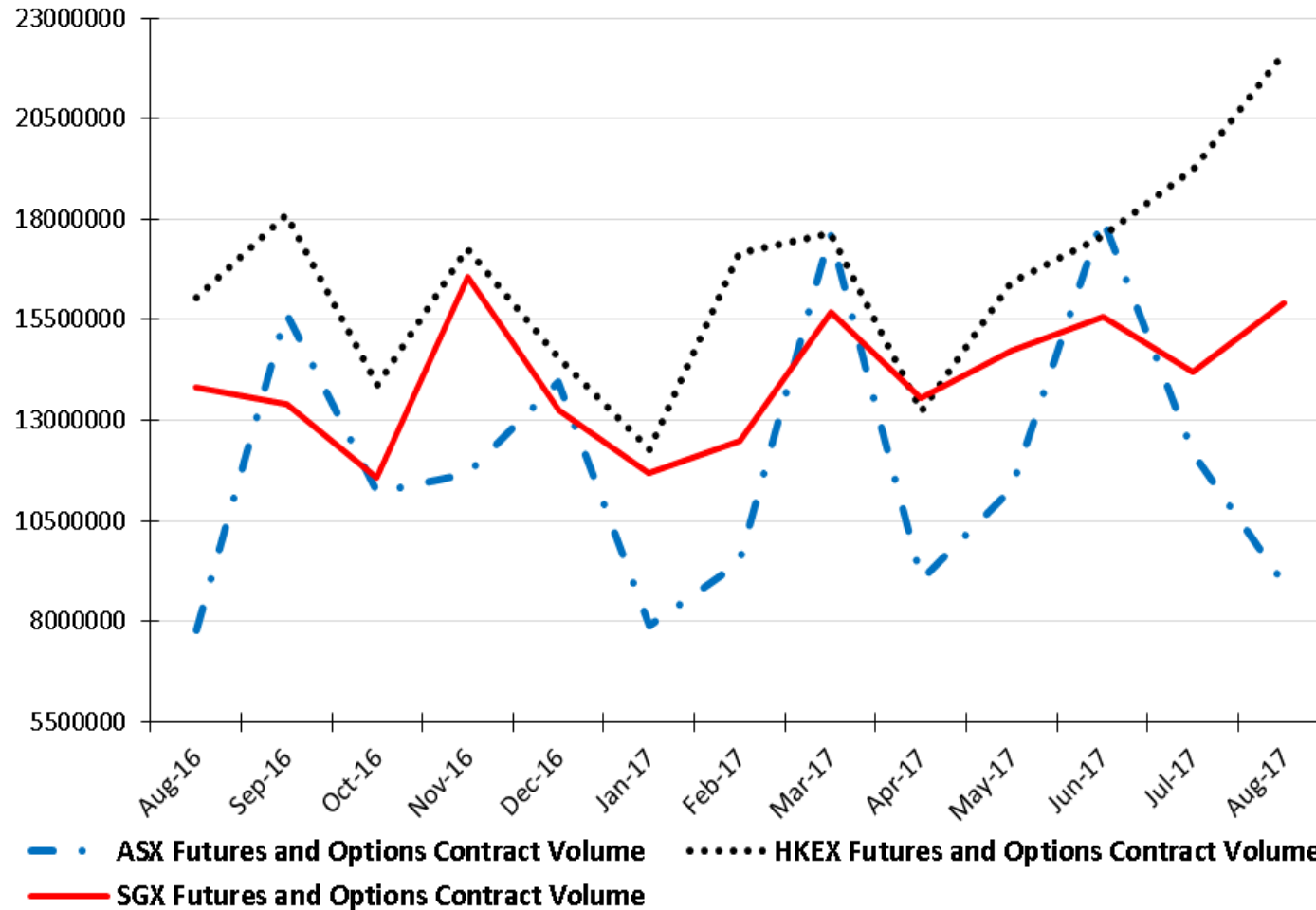
# A look at HKEX's and ASX's derivatives portfolio



- HKEX's derivatives business comprise mainly Hang Seng Index futures and options; and H-shares Equity Index Futures and options; and Stock Options.
- There is negligible activity in their commodities and foreign exchange derivatives business except for the USD/CNH futures contracts which SGX also offers.
- Some of the notable HKEX commodity futures products are base metal Mini Futures (Aluminium, Zinc, Copper, Lead, Nickel and Tin) and Gold Futures
- 97% of ASX's derivatives business is made up of domestic Interest Rate Futures and Options and the SPI 200 (S&P/ASX 200) Equity Index Futures and Options.
- ASX's main commodity products are domestic electricity futures and options; and soft commodities futures and options but these products have almost negligible contributions to the overall derivatives business.

Source: HKEX and ASX statistics, PSR

# SGX's derivatives monthly volume is comparable to HKEX and ASX



- SGX's total monthly derivatives volume is comparable with HKEX and ASX even without core domestic products.
- HKEX derivatives strong performance in July and August was mainly attributed to stronger QoQ growth in its stock options business.

Source: SGX statistics, HKEX statistics, ASX statistics, PSR

# Peer Comparison

Ticker	Name	Market Cap (\$\$mn)	Total Return YTD(%)	Revenue T12M (\$\$mn)	P/E FY17	P/E FY18e	P/E FY19e	P/B	ROE (%)	ROA (%)	Div Yield (%)	EPS Growth FY18e (%)	EPS Growth FY19e (%)
SGX SP Equity	SGX	8,183	9.7	801	24.1	22.1	20.7	7.9	33.6	16.4	3.7	9.4	5.7
8697 JP Equity	JPX	13,531	27.1	1,314	25.9	25.7	25.5	4.5	17.6	0.1	2.3	4.3	0.7
388 HK Equity	HKEX	47,450	21.0	1,825	42.4	38.1	34.0	7.7	19.1	2.9	2.1	21.2	12.1
ASX AU Equity	ASX	10,960	12.3	813	23.9	23.2	22.1	2.7	11.2	3.7	3.8	3.1	5.2
BURSA MK Equity	Bursa Malaysia	1,714	18.4	158	25.4	24.3	23.5	5.9	24.4	9.0	3.7	13.9	4.9
<b>Market Weighted Average</b>			<b>19.6</b>		<b>35.0</b>	<b>32.1</b>	<b>29.4</b>	<b>6.5</b>	<b>19.3</b>	<b>4.0</b>	<b>2.6</b>	<b>14.7</b>	<b>8.5</b>

Source: Bloomberg, PSR estimates

\*Exchange rates: SGD1:JPY82.9834, SGD1:HKD5.764, SGD1:AUD0.9438, SGD1:MYR3.1208

- SGX has the best ROE and ROA amongst its peers.
- SGX's EPS growth forecast is higher than JPX and ASX but forward PE ratio is the lowest therefore implying that SGX is conservatively valued compared to peers.

# Singapore Banking Sector

## 3Q17 Earnings Preview

Jeremy Teong

Phillip Securities Research Pte Ltd

23 October 2017



## **Singapore Banking Sector : Upgrade to Accumulate from Neutral**

- 3Q17 loans growth in mid-single digits YoY and NII increase by 6% - 11% YoY across the three banks. Rising Singapore enbloc sales momentum is a strong tailwind for banks. (stronger property growth, growing optimism and more HNWI's)
- 3Q17 NPL expected to be stable as utilisation of rigs has improved from the beginning of the year.
- Expect 3Q17 NIMs to expand by only 1 to 3 bps QoQ
- OCBC expected to report one-off gains of c.S\$100mn from the sale of stake in United Engineers, BCS and BCSIS.
- We update our Singapore banks' target prices as we roll over to FY18e valuations.
- We expect strong 3Q17 earnings performance as we estimate NII to increase 6% to 11% YoY and provision expenses decline sequentially across the three banks.

## **DBS**

- **Upgrade to BUY from ACCUMULATE. TP: S\$25.70, previously S\$21.45**
- Reporting 3Q17 earnings on 6<sup>th</sup> November
- PSR's 3Q17 PATMI estimate is S\$1.306bn, up 21.9% YoY

## **OCBC**

- **Upgrade to ACCUMULATE from NEUTRAL. TP: S\$11.95, previously S\$10.81**
- Reporting 3Q17 earnings on 26<sup>th</sup> October
- PSR's 3Q17 PATMI estimate is S\$1.182bn, up 25.3% YoY

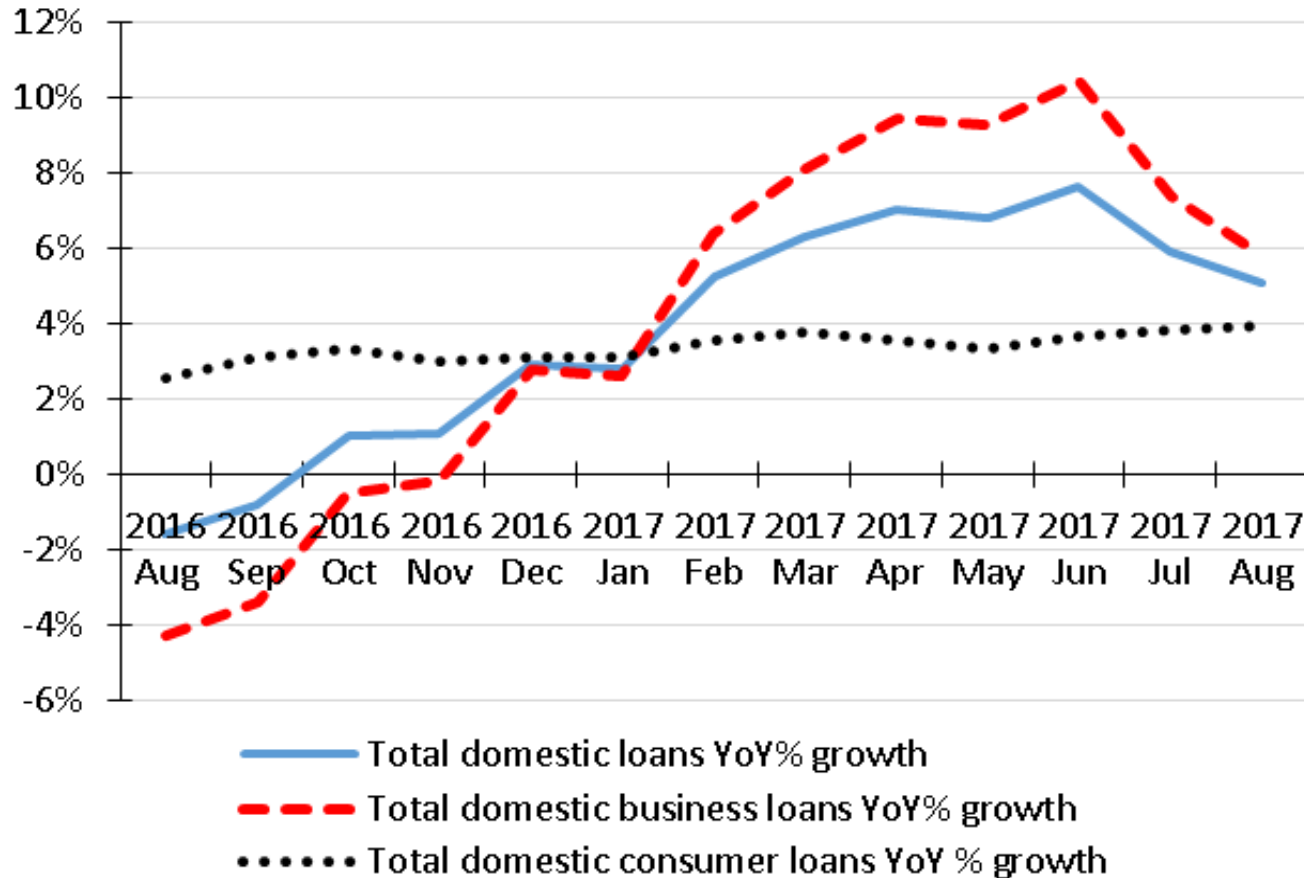
## **UOB**

- **Maintain REDUCE. TP: S\$21.61, previously S\$20.18**
- Reporting 3Q17 earnings on 3<sup>rd</sup> November
- PSR's 3Q17 PATMI estimate is S\$0.85bn, up 7.7% YoY

# Consensus estimates

	Phillip Securities Research estimates			Consensus estimates			Commentary
	DBS	OCBC	UOB	DBS	OCBC	UOB	
<b>Loans growth (YoY)</b>	4.0%	4.7%	3.1%	3.7%	5.1%	3.8%	We expect DBS loans growth to be marginally higher than consensus as we believe DBS has turned more aggressive in competing for loans.
<b>NIM</b>	1.77%	1.67%	1.74%	1.78%	1.69%	1.74%	Our expectations for NIM is lower than consensus due to the impact of competition.
<b>Allowances</b>	c.S\$1.16bn	S\$650mn	S\$727mn	S\$1.32bn	S\$723mn	S\$724mn (32bps)	Our estimates for FY17 allowances is lower because we believe that the oil and gas sector will show some recovery in 2H17.
<b>3Q17 PATMI</b>	S\$1,306mn	S\$1,182mn	S\$850mn	S\$1,121mn	S\$965mn	S\$783mn	Our PATMI growth outlook is due to stronger NII growth outlook and lower provisions expected.
<b>NPL</b>	Expect NPA ratio to be unchanged YoY as a mixture of recoveries and write-offs offsets new NPA formation. And we expect coverage ratio to remain low.			NPA ratio higher 14% YoY			

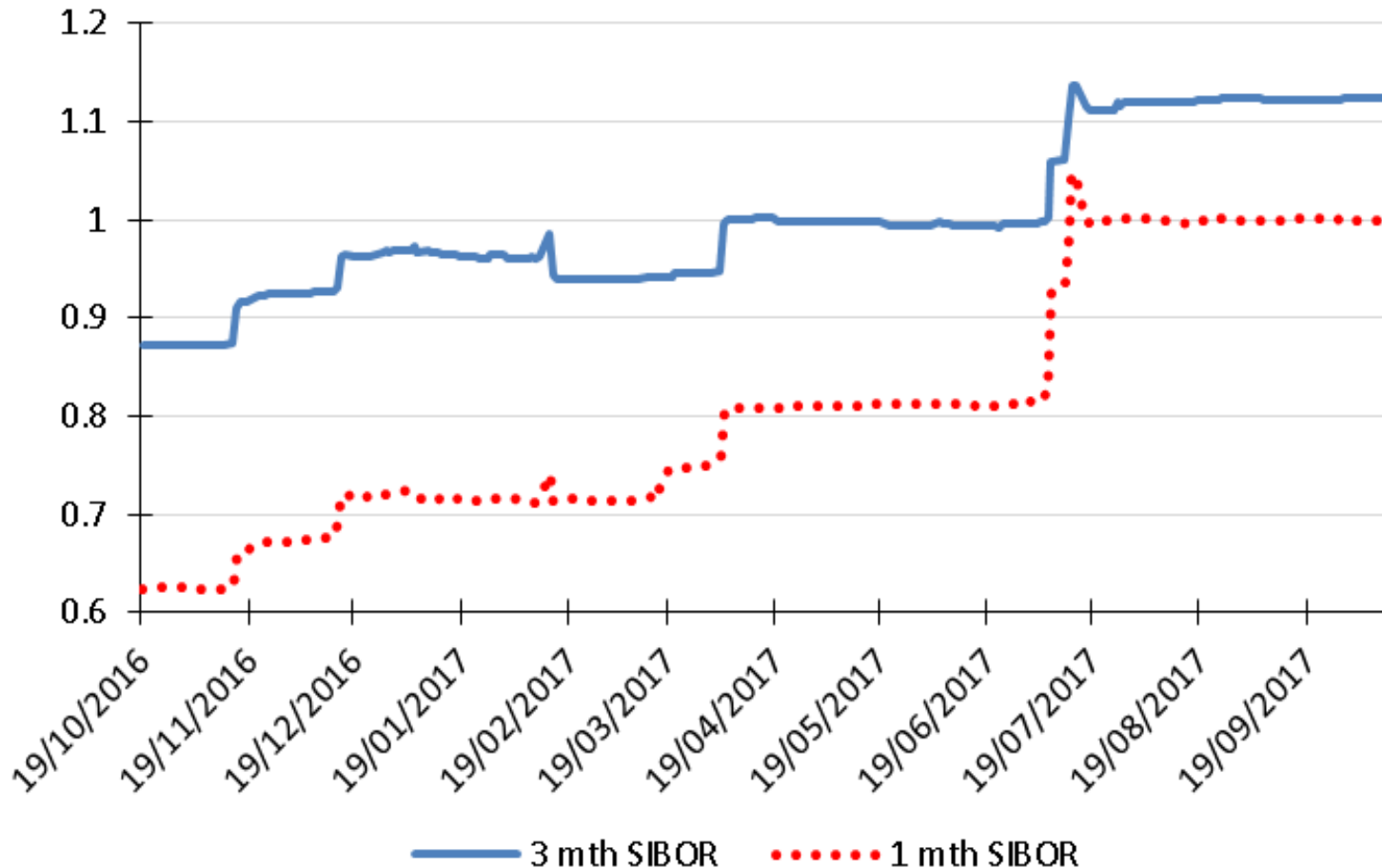
# Singapore domestic loans growth



- Business loans have been leading the YoY growth in 2017. We expect housing loans to pick up strongly in 2018 as the continued enbloc sales momentum drives up demand for housing loans.
- Loans growth YoY will appear to slow down in the 2H17 because growth will be compared to a higher base in 2H16 (recall that 1H16 loans was weak before improving in 2H16).

Source: MAS, PSR estimates

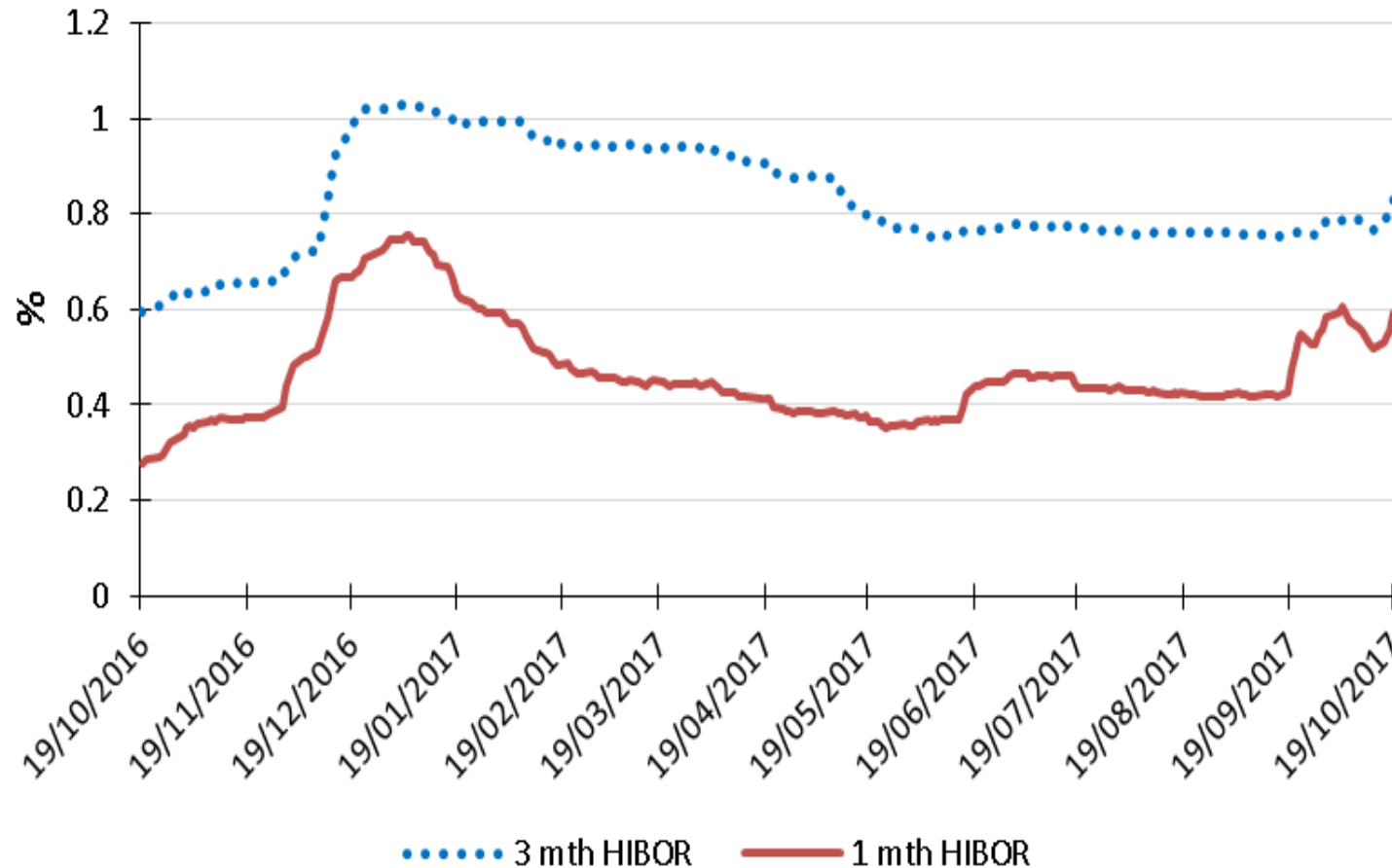
# SIBOR moved higher



- 3 month SIBOR and 1 month SIBOR have risen by c.10bps and c.20bps respectively from early July.
- We expect SIBOR pegged loans to experience better margins but SIBOR pegged housing loans packages are experiencing some competition.
- We compared the mortgage rates between Sept and Oct and found that the universal banks – Citibank, HSBC and Standard Chartered Bank have generally reduced their 1-month SIBOR pegged housing loan packages. The Singapore and Malaysian banks' loan packages are largely unchanged.

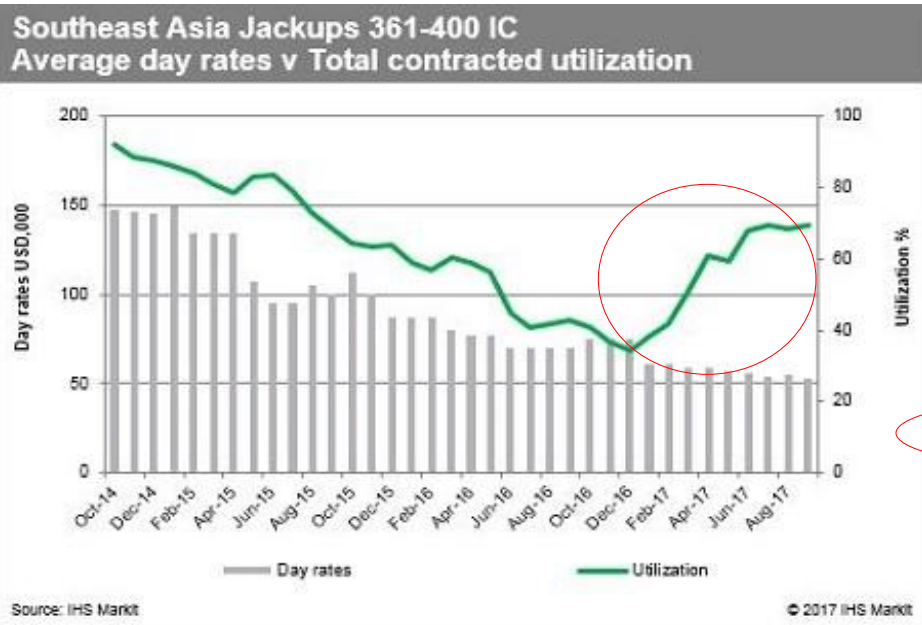
Source: Bloomberg, PSR estimates

# 1-month HIBOR moved higher too



- The Singapore banks generally price their Hong Kong housing loans against 1-month HIBOR.
- 2Q17 the Singapore banks' Hong Kong NIMs were weak because 1-month HIBOR remained low.
- The 1-month HIBOR rose in later half of June and rose again in the later half of Sept 2017. therefore we expect stronger Hong Kong NIM expansion in 4Q17.

# Green shoots of recovery in offshore oil and gas sector



## Maersk Drilling reactivates semi-submersible for Southeast Asia job



Maersk Drilling has reactivated a semi-submersible for work in Southeast Asia following a new contract awarded by JX Nippon for a duration of an estimated 30 days.

The contract will utilise the deepwater semi-submersible Maersk Deliverer to work on a well located in offshore Malaysia 160 km northwest of Kota Kinabalu at a water depth of 1,200 m. The

contract is set to start in the fourth quarter of 2017.

"We see an increase in demand for deepwater rigs in the Southeast Asian market, and this is a great opportunity to get closer to deepwater customers in the region, like JX Nippon, and thereby enable them to fulfil their business objectives safely and efficiently," said Lars Ostergaard, chief commercial officer of Maersk Drilling.

Since April 2016, Maersk Deliverer has been warmed stacked in Namibia.

The reactivation of the rig has already commenced, and the main work scopes will be carried out during its voyage to Malaysia, saving valuable time. Maersk Deliverer is the fifth rig that Maersk Drilling has successfully reactivated from warm stacking within the past eight months.

Posted 06 October 2017

Source: <http://www.seatrade-maritime.com/news/asia/maersk-drilling-reactivates-semi-submersible-for-southeast-asia-job.html>

- SEA Jackups utilization has rebounded in the beginning of 2017.
- Deepwater activity in SEA appears to be coming back but ultra deep remains weak.
- Keppel Corp net order book may have bottomed out with a QoQ increase in net order book in 3Q17.

Keppel Corp net order book S\$bn	End 2014	Sept 2015	End 2015	End-Mar 2016	End-June 2016	End-Sep 2016	End 2016	End-Mar 2017	End-June 2017	End-Sept 2017
Newbuild Jackups	3.9	1.9	1.5	1.3	1.1	1.1	1.0	0.9	0.7	N.A
Newbuild Semis	5.5	4.6	4.4	4.3	0.3	0.2	0.2	0.2	0.2	N.A
<b>Total</b>	<b>12.5</b>	<b>10.0</b>	<b>9.0</b>	<b>8.6</b>	<b>4.3</b>	<b>4.1</b>	<b>3.7</b>	<b>3.5</b>	<b>3.4</b>	<b>3.9</b>

Source: Keppel Corp quarterly result presentation

# CapitaLand Commercial Trust

## First rebound in office rents in 9 quarters

Tan Dehong

Phillip Securities Research Pte Ltd

23 October 2017

# CapitaLand Commercial Trust (ACCUMULATE, TP: S\$1.8, Last close: S\$1.66)



## Results at a glance

(SGD mn)/Dec Yr End	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	74.1	74.4	(0.4)	<b>Due to divestments of One George Street, Wilkie Edge, Golden Shoe CP, offset by stronger performance from CapitaGreen</b>
Net property income	58.6	57.0	2.7	<b>Lower property taxes from divestments</b>
Distributable income	73.1	68.3	7.0	<b>Includes S\$3.3mn top up for loss of income from divestments.</b>
<b>DPU (Cents)</b>	<b>2.36</b>	<b>2.30</b>	<b>2.6</b>	

Source: Company, PSR

- Divestment proceeds used to top up the rental shortfall from divestments this year (along with higher revenue from CapitaGreen)
- Portfolio renewals still experiencing negative rental reversions; Likely to continue into 2018
- Recovery of office rents after 9 quarters to mitigate the impact of potential negative reversions in 2018

## Maintain “Accumulate” with unchanged TP of S\$1.80

- FY18e yield of 5.0% and P/NAV of 1.0



# CapitaLand Mall Trust

## No signs of recovery in tenant sales yet

Tan Dehong  
Phillip Securities Research Pte Ltd  
23 October 2017

## Results at a glance

(SGD mn)/Dec Yr End	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	169.4	169.7	(0.2)	<b>Lower rental from Bedok Mall, Plaza Singapura, Junction 8</b>
Net property income	121.4	119.5	1.6	<b>Lower property tax and utilities expenses which improved NPI margins</b>
Distributable income	98.7	98.4	0.3	
<b>DPU (Cents)</b>	<b>2.78</b>	<b>2.78</b>	-	

Source: Company, PSR

- Improvements in NPI margins sustained a 1.6% increase in NPI despite flat revenue
- No signs of recovery in tenant sales yet, YoY flat. Contrast with slight recovery in overall retail sales tracked by Singstats.
- Selected malls continue to be under pressure in rental reversion, especially in the east

## Maintain “Neutral” with unchanged TP of S\$2.01

- FY18e yield of 5.6% and P/NAV of 1.0

# Keppel DC REIT

## Acquisition driven growth

Richard Leow  
Phillip Securities Research Pte Ltd  
23 October 2017

# Keppel DC REIT

(Neutral, TP: \$1.36, DPU: 7.36 cents (5.4%) , Last: \$1.34)



## Results at a glance

(SGD mn)	3Q17	3Q16	YoY	Comments
Gross revenue	35.5	22.7	56.6%	Contribution from Milan DC, Cardiff DC, B10 DC and 90% interest in KDC SGP 3; offset by lower Basis Bay DC. Appreciation of GBP, EUR and AUD vs. SGD; depreciation of MYR vs. SGD
Net property income	32.3	22.7	42.1%	Absence of one-off net property tax refund recorded in 3Q16
Distributable income	20.2	16.8	20.2%	16.6% higher finance costs and 27% higher manager's fees
DPU (cents)	1.74	1.90	-8.4%	Effect of 274-for-1,000 Preferential Offering
DPU, adj. (cents)	1.74	1.49	16.8%	Adjusted for Preferential Offering
DPU, adj. (cents)	1.74	1.67	4.2%	Adjusted for one-off net property tax refund

Source: Company, PSR

## Portfolio WALE remains long, despite shortening QoQ from 9.4 years to 9.2 years

- Expect WALE to be extended, when two major tenants in the Singapore properties renew this year

## Aggregate leverage remains low at 32.1%, despite rising QoQ from 27.7%

- Drawdown of ~€66 mn (~S\$101 mn) loan to acquire B10 Data Centre in Dublin in mid-September

## Keppel DC Dublin 1 still under-utilised at 57.6%

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

## Possibility of equity fund raising soon

- Current gearing of 32.1% is close to the historical high of ~32.5% after the acquisition of Milan DC
- Current price is 1.4x P/NAV; ripe to raise new equity with the next acquisition

# Phillip Monthly Recession Tracker

## All remains well

Jeremy Ng

Phillip Securities Research Pte Ltd

23 October 2017

# Phillip Monthly Recession Tracker

- None of our recession indicators are flashing red
- Broad-based equity market should continue to grind higher next with the 20 and 60 day moving average acting as the springboard

Indicator	Threshold	Last	Previous	Bearish Signal
Ted Spread	Above 1%	0.29%	0.31%	Unconfirmed
2s10s Spread	Below 0%	0.77%	0.81%	Unconfirmed
CB Consumer Confidence	Below uptrend line/112	119.8	122.9	Unconfirmed
Umich Consumer Sentiment	Below uptrend line/93.4	101.1	97.6	Unconfirmed
Bloomberg Consumer Comfort	Below uptrend line/47	51.1	52.8	Unconfirmed
Unemployment rate	Above 12 MA/4.6%	4.2%	4.4%	Unconfirmed
Fed Funds Rate	Halting of the rate hike cycle/tightening phase	1.25%	1.25%	Unconfirmed
S&P 500	Below 10MA/2423	2562	2357	Unconfirmed
Value Line Geometric	Below uptrend line/444	542	518	Unconfirmed

*\*Our Phillip recession tracker is based off nine fundamental and technical indicators. The threshold represents the levels where bearish signal arises.*

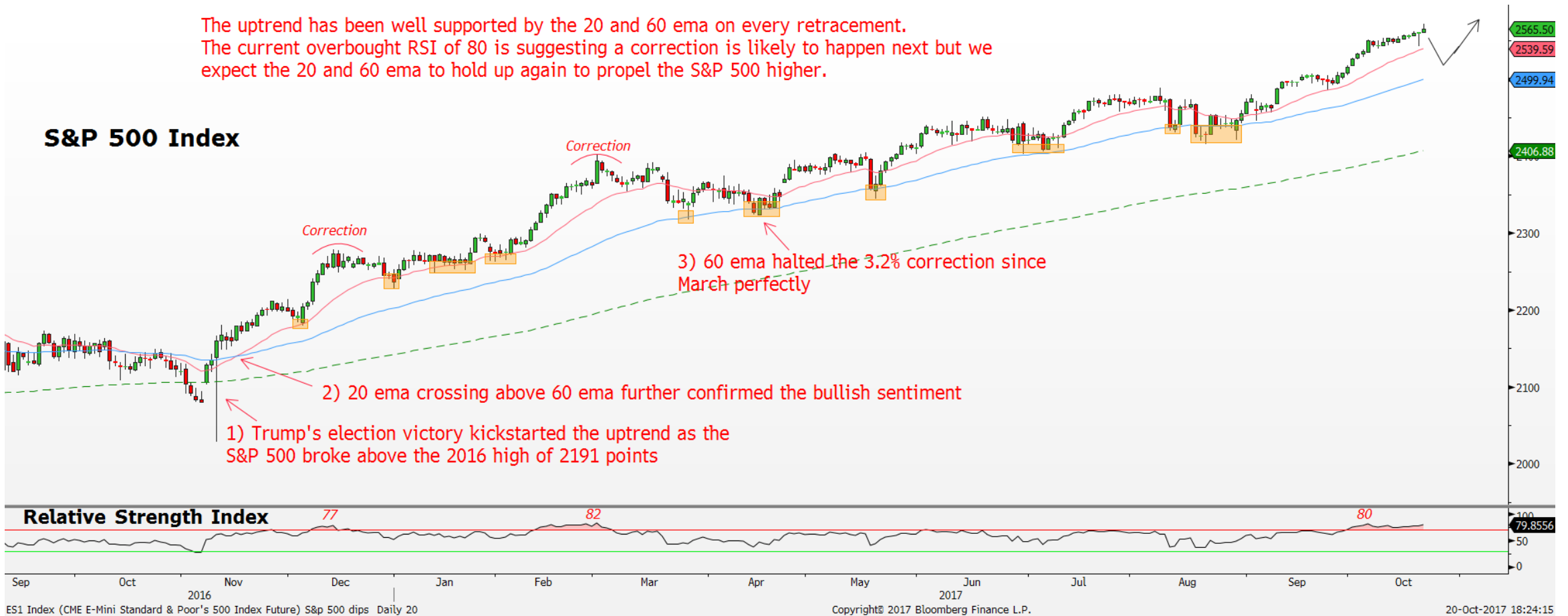
*Red/Green represents a decline/increase from the prior month. Otherwise, it is unchanged.*

Source: Bloomberg, PSR

# Dip buying roadmap – S&P 500

## S&P 500 Daily Chart : 20 and 60 ema lifting the uptrend

The uptrend has been well supported by the 20 and 60 ema on every retracement. The current overbought RSI of 80 is suggesting a correction is likely to happen next but we expect the 20 and 60 ema to hold up again to propel the S&P 500 higher.



Source: Bloomberg, PSR Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average

# Dip buying roadmap – DJIA

DJIA Daily Chart : 20 and 60 ema lifting the uptrend



Source: Bloomberg, PSR Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average



# Dip buying roadmap – Nasdaq 100

Nasdaq 100 Daily Chart : 20 and 60 ema lifting the uptrend



Source: Bloomberg, PSR Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average

US equity market should continue to grind higher until the thresholds are breached

## **ETF**

SPDR DJIA Trust - (AMEX-DIA)

SPDR S&P 500 ETF Trust - (AMEX-SPY)

Powershares QQQ Nasdaq 100 - (Nasdaq:QQQ)

## **CFD**

Wall Street Index USD1 CFD – DJI

US SP 500 Index USD5 CFD – INX

US Tech 100 Index USD5 CFD – NDX.X

Link to previous report [“all clear for now.”](#)

Link to Webinar [“all clear for now.”](#)

# UG Healthcare Corp

## A site visit

Paul Chew

Phillip Securities Research Pte Ltd

23 October 2017

# UG Healthcare Corp site visit (S\$0.20; Non-rated)

Company	1 Mth	3 Mth	YTD	Share Px	Mkt. Cap.	PE			P/BV	Dividend	ROE	EV/	EBITDA
	Perf.	Perf.	Perf.	Local Crcy	(US\$ m)	Yr 0	Yr +1	Yr +2	Yr 0	Yield	Yr 0	EBITDA	Margin
<b>Rubber Gloves</b>													
Hartalega Holdings	18%	14%	59%	7.70	3,008	44.9	32.9	28.9	7.2	1.1%	19.7%	22.3	23.1%
Top Glove	17%	13%	20%	6.40	1,899	24.1	20.7	18.6	4.0	2.3%	17.4%	13.7	13.3%
Kossan Rubber	8%	3%	8%	7.15	1,082	27.4	21.9	18.8	4.0	0.0%	16.0%	13.1	15.1%
Riverstone	2%	0%	19%	1.05	572	20.1	17.7	15.5	4.2	2.0%	23.7%	12.0	24.2%
Supermax Corp	13%	4%	-4%	2.00	313	18.9	13.5	12.1	1.3	2.3%	6.8%	9.1	14.3%
UG Healthcare	-17%	-20%	-30%	0.20	28	15.7	11.6	9.1	1.0	0.0%	6.5%	9.1	3.3%
	15%	10%	34%		6,903	29.7	23.7	21.0	5.3	1.4%	18.2%	17.0	18.8%

Source: Bloomberg

Jun-17	Revenue (RM mn)	PAT (RM mn)	Capacity (bn)	end2018 (bn)	Nitrile	Latex & others
<b>SGX Listed</b>						
UG Healthcare	202	7	2.4	2.9	56%	44%
Riverstone	769	127	6.2	9	100%	0%
<b>Malaysia</b>						
Top Glove	3590	343	49.1	59.7	36%	64%
Hartalega	2021	323	31.7	36.4	100%	0%
Kossan	1843	170	25.0	29.5	72%	28%
Supermax	1127	73	23.4	23.4	n.a.	n.a.
			137.8	160.9		

Source: Various companies, media, PSR; Note T12M as at Jun17

- Glove manufacturer from Malaysia
- Plans to expand capacity from 2.4bn to eventually 3.2bn pieces
- Different strategy of building brands and distribution network
- Smallest, cheapest but lower margins and ROE
- Industry growing 7% CAGR and lower per capita consumption in emerging countries can help drive growth
- China and Brazil per capita consumption is 4 and 31 gloves; US is 216.
- Vinyl glove supply disruption

# First REIT

## A visit to hospitals in Jakarta

Tan Dehong

Phillip Securities Research Pte Ltd

23 October 2017

## **State of the art equipment in Siloam Hospitals**

- Pioneer in rolling out the latest technology in healthcare in Indonesia, eg CT Scan 256 Slice, Gamma Knife
- Siloam Lippo Village, for instance, houses the only Gamma Knife facility in the whole country

## **Nationwide healthcare insurance BPJS driving healthcare demand in Indonesia**

- Jump in revenue from BPJS. 20% in FY16 from BPJS (5-7% in FY15)
- Nationwide coverage by 2019
- Affordable insurance premium payment for BPJS
- Potential demand from private healthcare insurance. 8% private health insurance penetration rate

## **Rapid expansion in hospital assets in Indonesia - Overcoming the shortage of doctors in Indonesia**

- Low number of doctors per 1,000 population of 0.3 in 2012. Thailand (0.7), Msia (1.3), Singapore (2.0)
- Only local doctors are allowed to practise in Indonesia
- Lippo Group's Universitas Pelita Harapan (UPH) has its own medical faculty where it trains doctors who will work in Siloam hospitals upon graduation

## **Maintain “Neutral” with unchanged TP of S\$1.32**

- FY18e yield of 6.5% and P/NAV of 1.21

Figure 1: Inpatient registration counters, Siloam Lippo Village



Figure 2: Entrance lobby, Siloam Kebun Jeruk





Figure 3: Class 3 Ward, MRCCC – Indonesia’s only private cancer hospital. This ward qualifies for BPJS insurance.



Figure 4: Rp1.4mn/night (c.S\$140) VIP ward in Siloam, Lippo Village. Ward ranges from Class 3 (6 bedder, S\$25/night) to Presidential Suite (S\$390/night)



**Figure 5: Linear Accelerator in MRCCC, for cancer radiotherapy. Therapy duration can be shortened to 5 minutes with this. Only 2 available in all private hospitals in Indonesia.**



**Figure 6: Neuroscience and Heart Centre, the Centre of Excellence at Siloam, Lippo Village.**



Figures 7 and 8: Indonesia's only Gamma Knife facility



Figure 9: Helipads available at selected Siloam Hospitals, to bypass traffic jams in the country



Figure 10: Siloam Hospitals has a nationwide emergency ambulance call number. Indonesia does not have a universal emergency call number across the country as yet.



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