

## Company Results/Updates

China Aviation (Singapore Oil)

Sembcorp Industries Ltd

Sembcorp Marine Ltd

United Overseas Bank Ltd

Raffles Medical Group

Keppel-KBS US REIT

Micro- Mechanics Holdings

## Strategy Update

Singapore November Monthly Update

## Phillip 20 Portfolio Update

The Phillip 20 October Review

# China Aviation (Singapore) Oil

## Hurt near-term by unexpected events

Chen Guangzhi

Phillip Securities Research Pte Ltd

6 November 2017

# China Aviation (Singapore) Oil

(BUY (Maintained), TP: \$2.00, Last: \$1.67)

## Results at a glance

(US\$ mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	5,223.1	3,939.9	32.6	Increase in total trading volume of jet fuel and other oil products (3Q17: 13.5mn tonnes vs 3Q16: 10.7mn tonnes) and oil prices (Brent: 3Q17: US\$52.2/bbl vs 3Q16: US\$47.0/bbl)
Gross profit	4.3	10.4	(58.3)	Lower gains from trading and optimisation activities as market reclined to backwardation; increase in supply & operational costs incurred due to various supply disruptions caused by weather and refineries outages
Operating profit	1.3	4.4	(69.8)	In line with the above
Associates and JVs	21.5	19.5	10.4	Mild increase in profit contributions from Pudong (3Q17: US\$18.9mn vs 3Q16: US\$17.4mn)
Net profit	21.4	23.2	(7.7)	Higher income tax expenses

Source: Company, PSR

## Trading business continued to expand

- Revenue jumped by 44.9% YoY in 9M17
- Trading volume: up 19.8% YoY; Oil prices: up by 21.7% YoY

## Profits from associates achieved a new high

- Grow by 3.2% YoY to US\$54.8mn in 9M17

## Unexpected unfavorable market conditions hit CAO

- Backwardation on jet fuel market
- Hurricane season and fire at PetroChina Dalian refinery

# China Aviation (Singapore) Oil

(BUY (Maintained), TP: \$2.00, Last: \$1.67)

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## Outlook

- Negative impacts on the short-term operation
- Ongoing expansion of the global deployment and diversity of product mix
- Upcoming operation of the fifth runway in Pudong International airport by the end of this year

# Sembcorp Industries Ltd

## Underlying business trend remains unchanged

Chen Guangzhi

Phillip Securities Research Pte Ltd

6 November 2017

# Sembcorp Industries Ltd

(ACCUMULATE (Maintained), TP: \$3.70, Last: \$3.30)



## Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	1,808	2,140	(15.5)	Higher contribution from Utilities' Singapore and India operations offset by decrease in Marine's revenue
Gross profit	232	298	(22.2)	Higher contribution from Utilities segment offset by lower contribution from Marine segment
PBT	70	88	(20.4)	In line with the above; lower contribution from associates and JVs
PATMI	34	60	(43.9)	In line with the above

Source: Company, PSR

## Utilities' Singapore operation continued to deliver strong performance

- In 3Q17, net profit from Singapore arrived at S\$51.4mn with 52.1% YoY growth
- Improvement of centralised utilities and gas divisions despite the intense competition

## Utilities' India operation was dragged by SGPL's losses

- TPCIL and SGI reported profit gains of S\$11mn and S\$14mn respectively
- SGPL made losses of S\$26mn
- Worsening of spark spread for SGPL
- SGPL is operating on short-term rolling PPA

## Marine segment remained weak profitability

# Sembcorp Industries Ltd

(ACCUMULATE (Maintained), TP: \$3.70, Last: \$3.30)

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## Outlook

- SGPL will suffer from fluctuation of spark spread
- SGI keeps securing new orders to tap into the domestic renewable energy market
- SMM will have more order flows from non-drill solitons, but it will take time for it to improve the profitability

# Sembcorp Marine Ltd

## Performance remains weak

Chen Guangzhi

Phillip Securities Research Pte Ltd

6 November 2017



# Sembcorp Marine Ltd

(NEUTRAL (Maintained), TP: \$1.91, Last: \$2.01)



## Results at a glance

(SGD mn)	9M17	9M16	YoY (%)	Comments
Revenue	1,792.4	2,714.9	(34.0)	Low revenue recognition from rig building and offshore platforms projects. Reversal of revenue due to termination fro rig building and offshore platform projects
Gross profit	108.7	258.0	(57.9)	Lower contribution from rig building and offshore platform projects, costs incurred for a floater project, and the effects of contracts termination and inventories written down
Operating profit	64.1	158.2	(59.5)	FX gain due to revaluation of assets and liabilities
PAT	44.9	44.5	0.9	Gain on divestment of COSCO. Decrease in losses from associates and JVs. Tax credit in 9M17 vs expenses in 9M16

Source: Company , PSR

## Momentum of sector recovery is coming

### ➤ Replenishment of net order book

- Hull carry-over works for FPSO P-68 Tupi Project (contract value: US\$145mn)
- Letter of intent for the design and construction of at least two large Compressed Gas Liquid carriers
- Sale of 9 jack-up rigs for S\$1.77bn, and 6 out of which were from terminated contracts
- Enquires for projects such as floaters, offshore platforms, gas solutions and specialised shipbuilding

## Overstated headline replenishment of net order book

- YTD net order book arrives at S\$2.04bn, of which \$S1.77 was from the sale of 9 jack-ups
- 6 of the 9 rigs were booked into the order book again due to the reselling initiated

# Sembcorp Marine Ltd

(NEUTRAL (Maintained), TP: \$1.91, Last: \$2.01)

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## Outlook

- Gradual recovery of oil prices
- Oil production and drilling activities continue to rejuvenate
- Development of non-drilling solutions is more sustainable for SMM
- Expect more order flows from non-drilling segment

# United Overseas Bank Limited

## Strongest NII Growth since 2014

Jeremy Teong  
Phillip Securities Research Pte Ltd  
6 November 2017

# United Overseas Bank Limited

(Upgrade Accumulate from Neutral with Higher TP: S\$25.22, previous TP S\$23.46. Last close price:S\$24.77)



## Results at a glance

(SGD mn)	3Q17	3Q16	YoY (%)	2Q17	QoQ (%)	Comments
NII	1,408	1,230	14%	1,356	4%	Higher loans growth and higher NIM
Fees & Comm	551	492	12%	517	7%	Higher Fund Mgmt fees, Cards and WM
Other Non Int Income	279	318	-12%	311	-10%	Lower Net Trading Income
<b>Total Revenue</b>	<b>2,238</b>	<b>2,040</b>	<b>10%</b>	<b>2,184</b>	<b>2%</b>	
Expenses	973	919	6%	995	-2%	Higher IT related costs
Allowances	221	185	19%	180	23%	Higher SP in G.China & S'pore
<b>Net Profit</b>	<b>883</b>	<b>791</b>	<b>12%</b>	<b>845</b>	<b>4%</b>	

Source: Company, PSR

## Strong loans growth as global and domestic economic outlook improves.

- 7.7% loans growth YoY. Beating consensus and management guidance.
- Loans growth in line with Singapore domestic loans growth in 3Q17.
- Loans growth led by Manufacturing loans, Financial institutional loans and Housing loans

## Stronger NII as LDR and NIM expanded

- LDR expanded to 85.8% in 3Q17 from 85.0% in 3Q16
- NIM increased to 1.79%, 10bps higher YoY and 4bps higher QoQ as Singapore benchmark rates increased.
- Higher rates on interbank placements supported the NIM expansion

## NPL ratio stable as O&G sector stabilises

- NPL ratio increased to 1.6%, 10bps higher QoQ.
- New NPA formation spiked to S\$799mn in 3Q17 compared to S\$537mn in 2Q17 because of exposure to an O&G company.
- Specific provisions are expected to remain elevated in 4Q17 as provisions will be set aside for exposure to another O&G name.
- Management does not expect elevated specific provisions to continue and there is possibility that the 32bps total credit cost will be lowered in FY18

## WM fee income grew 40% YoY

- FX and interest rate products; and unit trusts with longer duration saw strong sales momentum. But bancassurance is expected to be weaker in the 4Q17.

## What we think

- 3Q16 wasn't an exceptionally weak quarter to be compared with and that in many previous quarters NII had been struggling at low single digit percentage growth rate.
- With a higher NIM outlook, we revise our FY17e PATMI growth estimate to 10% (previously 8.6%) and FY18e PATMI growth estimate to 10.3% (previously 4.6%).

# Raffles Medical Group

## Growth story with hurdles

Soh Lin Sin

Phillip Securities Research Pte Ltd

06 November 2017

# Raffles Medical Group

(▲ Accumulate, ▲ TP: \$1.32 (prev. \$1.27), Last: \$1.14)

## Results at a glance

SGD mn	3Q17	3Q16	YoY (%)	Comments
<b>Revenue</b>	<b>120</b>	<b>119</b>	<b>0.3</b>	Lower contribution from Clinic (-4.2%) offsets stronger demand from Hospital (+3.1%)
EBITDA	22	22	(1.2)	Higher staff costs due to salary adjustment; (Staff costs at 52.4% of Revenue; +0.9 pp YoY)
Operating profits	18	19	(0.9)	
PBT	19	19	(1.4)	
<b>PATMI</b>	<b>16</b>	<b>16</b>	<b>1.0</b>	Lower effective tax rate due to utilisation of tax losses and tax incentive

Source: Company, PSR

## Local patients continued to underpin growth

## MCH and Shaw Centre to generate Operating Profit in FY18

## More revenue streams from additional capacity: *RafflesHospital Extension (4Q17)*; *RafflesHospital Chongqing (4Q18)* and *RafflesHospital Shanghai (4Q19)*

- Estimated start-losses to hit 10-13% of EBITDA p.a. in FY2019-20; 3 years to each hospital's break even
- New China hospitals (i) Diversification with a higher contribution for overseas operation; and (ii) Tapping into China's growth

# Keppel-KBS US REIT (Offer price S\$0.88, Listing 9 Nov)

- **Market cap:** US\$550mn; no of offering shares 448mn
- **Portfolio assets:** 11 office properties (suburban 68%) across key growth markets in US
- **Tenant exposure:** Portfolio WALE 3.7yrs, diversified tenant base - top 10 tenants occupy 22.3% of total rental income. Top tenant sector exposure: Professional services (35%), finance and insurance (29%)
- **Debt info:** Aggregate leverage 36%, av cost of debt 3.35%, 75% hedged on fixed rate

#### Cornerstone Investors (48.4% of offering)

Affin Hwang Asset Mgmt Berhad  
Private banking clients of Credit Suisse  
DBS Bank  
Private banking clients of DBS bank  
Hillsboro Capital

Source: IPO Prospectus

### Investment Merits:

- Diversified office portfolio in key growth US cities
- Visible organic growth opportunities: Built in rental escalations (97.5% of existing leases w. 2-3% built in escalations), potential growth in occupancies, positive rental reversion opportunity

REIT	Market Cap US\$m	P/NAV	Yield (%)	Gearing (%)	% debt fixed	Av cost of debt (%)	Portfolio leasehold	Occupancy
Keppel-KBS US REIT	553	1.05	6.8	36	75	3.4	Freehold	90
Manulife REIT	930	1.08	7.1	33.1	100	2.6	Freehold	95.7

Source: Company, PSR

# Micro-Mechanics Holdings (BUY, TP:S\$2.50 (from S\$2.00), Last: S\$2.17)



## Results at a glance

S\$ mn	1Q18	1Q17	YoY (%)	Comment
Revenue	17.7	13.3	33.1%	More than doubled our expectations of 11% growth
Gross profit	10.8	7.6	42.1%	Margins expanded due to higher utilisation rate of 64% (1Q17:56%) and turnaround in US operations.
Admin. Exp.	(2.5)	(1.9)	31.6%	Rose due to higher bonus incentive accruals.
PATMI	5.2	3.4	52.9%	More than doubled our expectations of 24% growth
Gross margin	61.0%	57.1%	6.8%	

Source: Company, PSR

## Positives

- Revenue and earnings growth more than double our expectations
- Development of front-end precision parts is making headway

## Negatives

- Capex to double from S\$5mn to S\$10mn

## Outlook

- the current double-digit surge in semiconductor sales began in earnest only in Dec16
- last two semiconductor cycles, the positive YoY growth ran for 20 and 26 months; current cycle is only 13 months.



# Singapore Strategy update

Paul Chew

Phillip Securities Research Pte Ltd

6 Nov 2017

## Macro

- No let up in the synchronised boom for global economies; Asian exports close to 7-year highs, German IFO index all time highs, US retail sales 5-year highs, US wage growth 8-year highs
- Secondary effect is new era of rising interest rates; past decade rates plunged from 5.1% to 1.3%; 1) global economy is humming; 2) Fed is adamant inflation is coming; 3) ECB reversing QE; 4) US taking pro-cyclical tax cut stimulus; Singapore macro: robust exports (YTD17 fastest in six years);
- Past cycles, takes 3 years for US economy to fall into recession every Fed tightening cycle; current tightening started end 2015

## BUY sustainable yield, property, coal, banks and electronics

- Yield: AsianPayTV, CCT, Ascendas REIT / Property: CapitaLand, Wheelock
- Banyan Tree: large pipeline of hotel-management contracts for the next several years
- Coal: strong production and beneficiary of SOE reform
- Micro-Mechanics: exposure to semiconductor cycle
- Banking: heading into a perfect 2018 with rising margins + loans growth + WMP + special dividends + lower credit cost

6 November 17, 8.15am/11.15am Morning Call/Webinar

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# The Phillip 20

## October Monthly Review

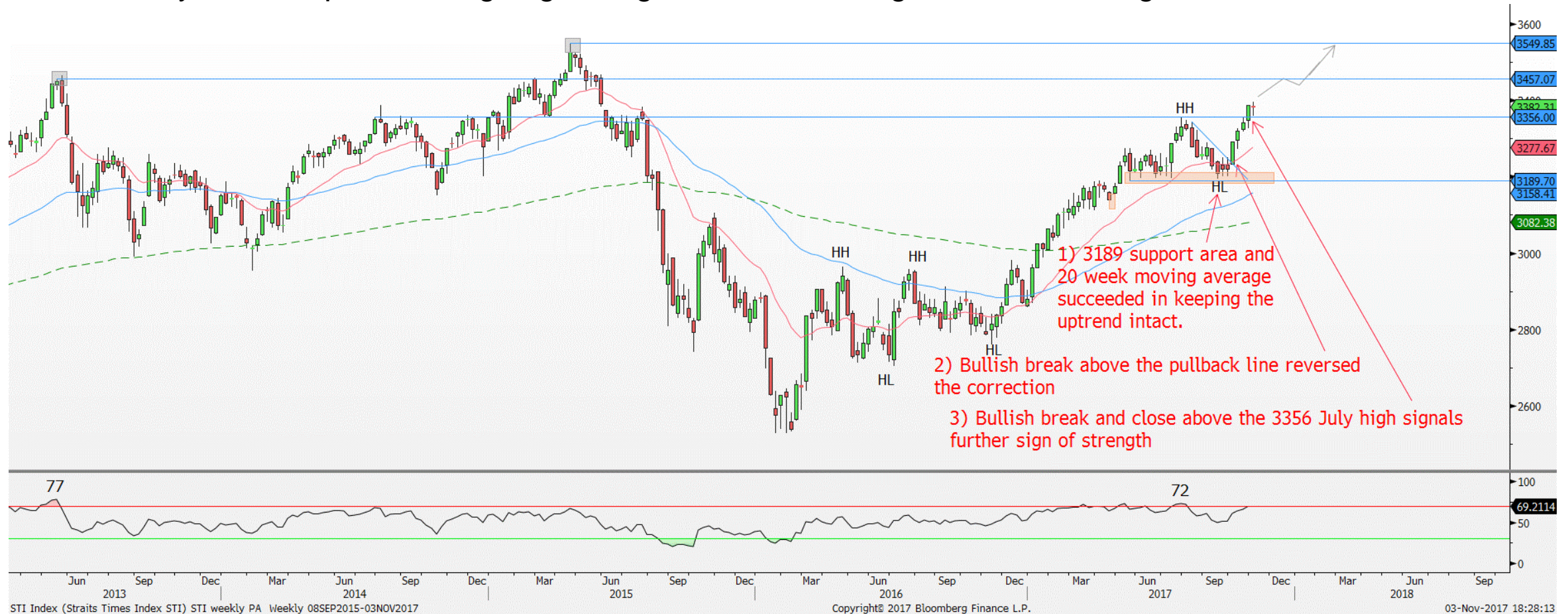
Jeremy Ng

Phillip Securities Research Pte Ltd

6 November 2017

# Straits Times Index – Technical Analysis

STI Weekly Chart : uptrend still going strong with STI breaking new 52-week highs



**+4.79% in Oct 17**

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

# New Entries for October 17

## The Phillip 20 Portfolio - October new entries

Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
HI-P	H17	Long	<a href="#">3-Oct-17</a>	1.410	1.265	1.905	35.11%
OUE	LJ3	Long	<a href="#">9-Oct-17</a>	2.010	1.895	2.050	1.99%
CHASEN	5NV	Long	<a href="#">9-Oct-17</a>	0.093	0.081	0.089	-4.30%

Source: Bloomberg, PSR

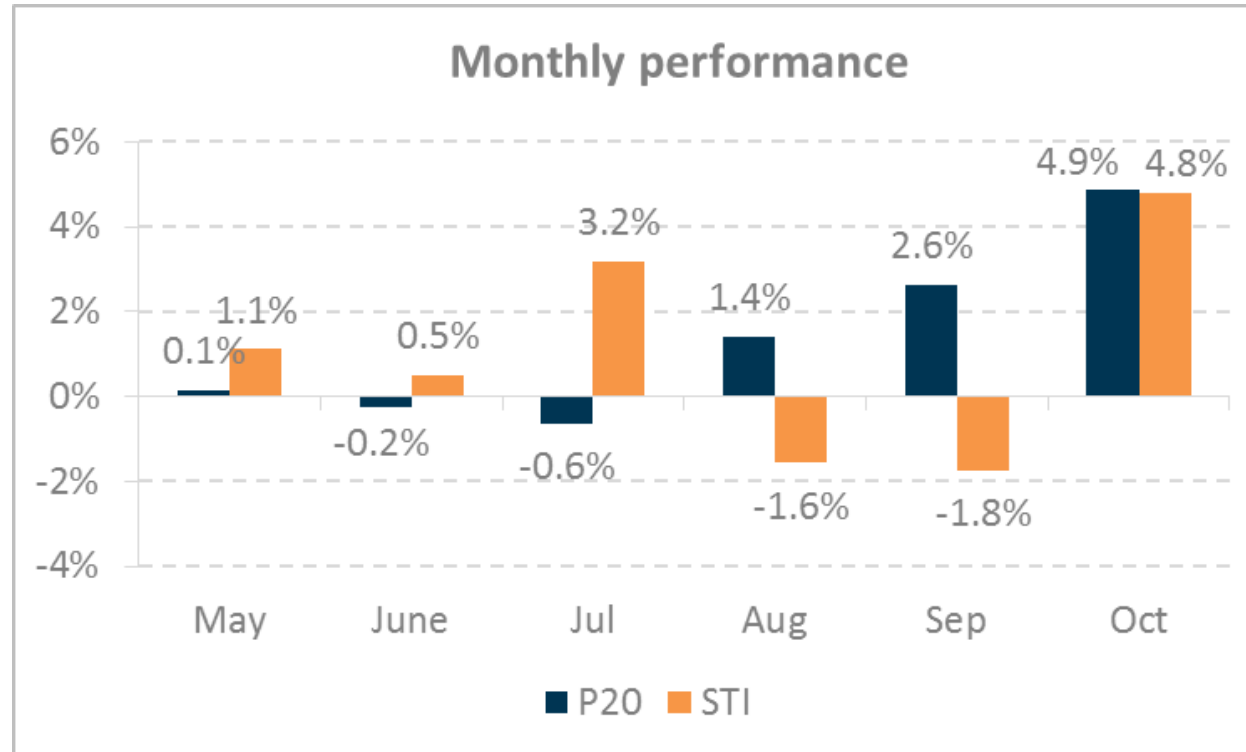
# Realised P&L for October 17

## The Phillip 20 Portfolio - Realised P&L for October 2017

Company Name	Ticker	L	Entry Date	Entry price	Exit date	Exit Price	P&L
HI-P	H17	Long	<a href="#">3-Oct-17</a>	1.410	<a href="#">17-Oct-17</a>	1.660	<b>17.73%</b>
<i>*Average gain is calculated based on equal weight placed on each trade</i>						Realized Average Gain:	<b>0.89%</b>

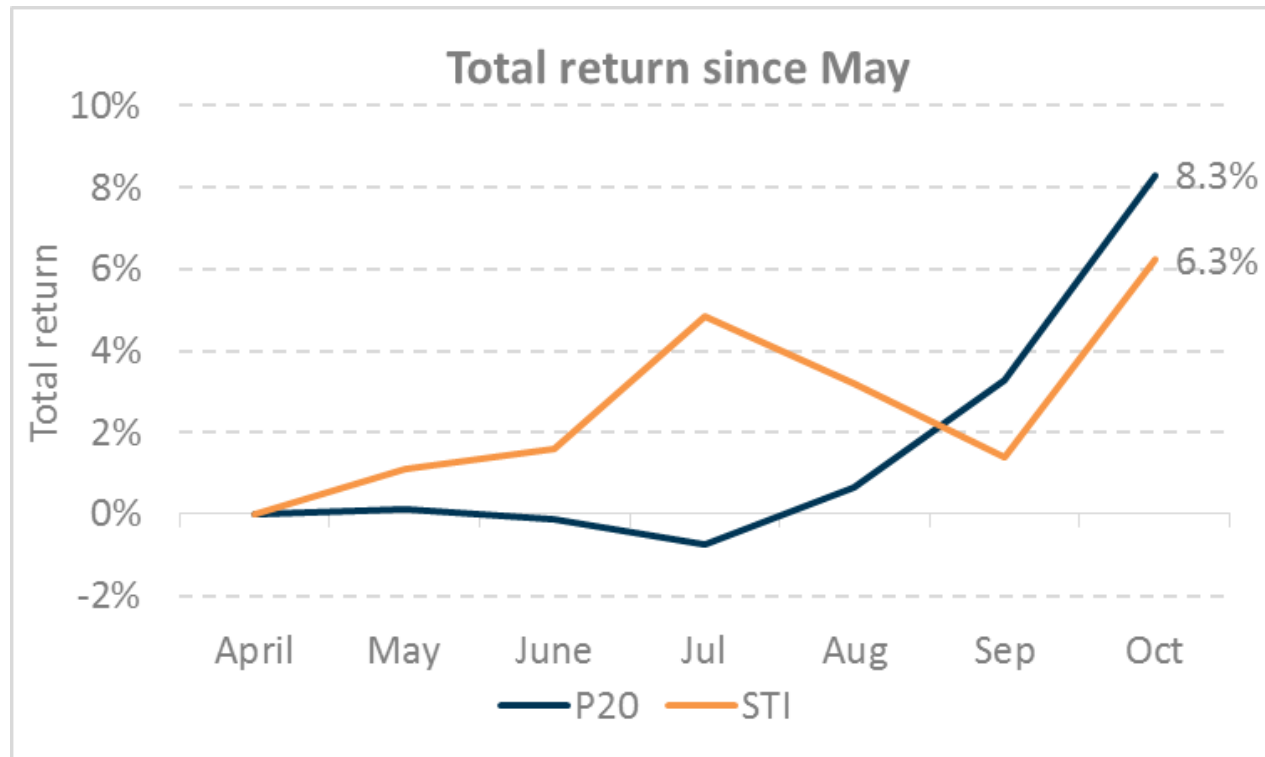
Source: Bloomberg, PSR

# Monthly performance



Source: Bloomberg, PSR

# Total return since May, as of 31 Oct 2017



Source: Bloomberg, PSR



# Watchlist

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- China Sunline
- Sunningdale Tech
- Straits Trading
- Jiutian Chemical
- GSH
- Hotung Inv
- Moya Asia
- Wing Tai
- Fischer Tech
- Asian Pay TV
- UOL
- Avi-Tech
- SingHoldings
- Metro
- Yongnam
- Allied Tech
- Frasers Cpt
- Chip Eng Seng
- CityDev
- Sheng Siong
- Food Empire
- Frasers L&I Tr
- Micro-Mechanics
- Hi-P
- YZJ Shipbldg SGD
- AEM
- Genting Sing
- Memtech Intl
- Wheelock Prop
- Venture
- Banyan Tree
- Serial System
- Sunright
- Oxley
- Cityneon
- Centurion
- Net Pacific Fin
- SBS Transit
- KSH
- Hong Fok
- Ho Bee Land
- Olam

# Current Portfolio

The Phillip 20 Portfolio - Our top technical picks, as of 3 November							
Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
BLACKGOLDNATURAL	41H	Long	<a href="#">6-Jul-17</a>	0.137	0.103	0.113	-17.52%
BREADTALK	5DA	Long	<a href="#">2-Nov-17</a>	1.645	1.470	1.615	-1.82%
COGENT	KJ9	Long	<a href="#">22-Mar-17</a>	0.780	0.725	0.990	26.92%
CHASEN	5NV	Long	<a href="#">9-Oct-17</a>	0.093	0.081	0.088	-5.38%
ELLIPSIZ	BIX	Long	<a href="#">3-Aug-17</a>	0.645	0.575	0.825	27.91%
FRENCKEN	E28	Long	<a href="#">20-Jul-17</a>	0.525	0.445	0.590	12.38%
F & N	F99	Long	<a href="#">24-Mar-17</a>	2.220	2.220	2.540	14.41%
GOLDEN ENERGY	AUE	Long	<a href="#">2-Aug-17</a>	0.425	0.360	0.460	8.24%
HANWELL	DM0	Long	<a href="#">13-Sep-17</a>	0.345	0.295	0.320	-7.25%
HAW PAR	H02	Long	<a href="#">18-Aug-17</a>	10.930	10.500	12.170	11.34%
JUMBO	42R	Long	<a href="#">22-Sep-17</a>	0.575	0.525	0.605	5.22%
MIYOSHI	M03	Long	<a href="#">23-Aug-17</a>	0.074	0.062	0.082	10.81%
OUE	LJ3	Long	<a href="#">9-Oct-17</a>	2.010	1.895	2.070	2.99%
PANUNITED	P52	Long	<a href="#">22-Aug-17</a>	0.550	0.500	0.590	7.27%
RIVERSTONE	AP4	Long	<a href="#">12-Jul-17</a>	1.065	0.995	1.050	-1.41%
SPH	T39	Long	<a href="#">25-Sep-17</a>	2.750	2.530	2.660	-3.27%
SINGAPORE O&G	1D8	Long	<a href="#">14-Sep-17</a>	0.490	0.420	0.510	4.08%
THAIBEV	Y92	Long	<a href="#">14-Mar-17</a>	0.955	0.825	0.960	0.52%
UMS*	558	Long	<a href="#">29-Sep-17</a>	0.788	0.705	1.010	28.17%
<i>*Average gain is calculated based on equal weight of 5% placed on each trade from their respective entry dates</i>						Average Unrealised Gain/loss:	6.18%

\*UMS entry price and stop loss have been adjusted for bonus share issue

Source: Bloomberg, PSR

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