

Company Results

Cogent

Nam Lee Pressed Metal

Geo Energy Resources

Sector Report

Singapore Consumer

US Technical Update

Recession Tracker

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Cogent Holdings Ltd

Results eclipsed by ongoing take-over Offer

Richard Leow
Phillip Securities Research Pte Ltd
4 December 2017

Cogent Holdings Ltd

(Reject the Offer, TP: \$1.12, Last: \$1.02)

Results at a glance

(SGD mn)	3Q17	3Q16	YoY	Comments
Revenue	35.3	34.1	3.6%	Higher container depot management services and transportation management services
EBIT	9.8	10.1	-2.7%	6.1% higher opex, mainly from higher depreciation and higher contract services
PBT	9.13	9.39	-2.7%	1.8% lower net finance costs
NPAT	7.36	7.83	-6.0%	14% higher income tax expense

Source: Company, PSR

Opex: 6.1% YoY higher → NPAT: 6.0% YoY lower (within expectation)

Voluntary Cash Offer of \$1.02 per share (Offer Price) from COSCO

Offer Price is below our expectation and below recent Offer for a similar business

- \$1.12 target price is 10% higher than Offer Price
- Offer Price is 15x trailing P/E; Poh Tiong Choon Logistics Offer 23x trailing P/E

Huge potential from the JICLF project and China COSCO's plans for Cogent

Becoming a subsidiary of COSCO is inevitable and delisting faces a low hurdle

- Irrevocable ~84.33% from Undertaking Shareholders
- Require ~5.67% acceptance to garner 90% to compulsorily acquire all Shares and delist Cogent

Reject Offer; take partial profit and hold out for a failed delisting

Nam Lee Pressed Metal Industries

Dividend level maintained, yield intact

Richard Leow

Phillip Securities Research Pte Ltd

4 December 2017

Nam Lee Pressed Metal Industries

(Buy, TP: \$0.56, FY18e DPS: 2.5 cents (6.3%) , Last: \$0.40)

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Revenue	141.9	129.4	9.7%	Higher revenue from the aluminium segment.
Gross profit	27.8	28.0	-0.6%	Change in product mix with lower profit margin
PBT	12.5	13.5	-7.9%	\$3.2mn or 43% YoY higher other operating costs, mainly attributable to the provision for a one-off replacement cost for a past building product project
PATMI	10.2	9.1	12.1%	FY17 lower effective tax rate of 18.9%, compared to 31.0% in FY16.

Source: Company , PSR

1.0/1.0 cent final/special dividend, 47% payout (FY16: 1.0/1.0 cent, 53% payout)

- Met expectations; policy to pay a third of earnings, actual: fluctuates about 50%

Clean balance sheet with cash hoard

- Net cash of \$40.8 mn represents 42% of mkt cap
- NCAV of \$0.374/share → limited downside risk

Stable to positive outlook

- Tone of management commentary is more upbeat than previous quarters
- Recovery in US economy driving the aluminium frames business
- Now forecast 2.5 cents total dividend for FY18

Geo Energy Resources Ltd

Amass war chest amid robust production

Chen Guangzhi
Phillip Securities Research Pte Ltd
4 December 2017

Geo Energy Resources Ltd

(BUY (maintained), TP: \$0.44)

Results at a glance

(US\$ mn)	3Q17	3Q16	YoY (%)	Comments
Revenue	74.9	56.9	31.6	Increase in revenue from coal mining segment resulted from higher sales volume and ASP
Gross profit	16.2	12.7	27.0	Higher sales volume and cash profits
EBIT	13.0	11.7	11.6	Higher overhead costs
PATMI	8.6	7.4	15.6	In line with the above

Source: Company, PSR

Soaring coal price and production volume drove a stunning performance

	3Q17	3Q16	YoY (%)	9M17	9M16	YoY (%)
Production volume (tonnes)	1.9	1.8	5.6	5.6	3.1	76.6
ASP (US\$/tonne)	38.6	30.8	25.5	39.5	28.6	37.8
Cash cost (US\$/tonne)	28.3	23.0	23.0	26.6	22.1	20.2
Revenue from coal mining (US\$m)	73.9	56.9	29.9	219.4	90.2	143.4

Source: Company, PSR

Issuance of the new note enhanced solvency and liquidity

- A new senior note with aggregate principal amount of US\$300mn

Higher cash costs suppressed margin in 3Q17

Outlook

- Full year sales target is revised down from 10mn tonnes to 7mn~8mn tonnes in FY17
- Production target will range from 12mn to 15mn tonnes in FY18

Singapore Consumer

Grasping the new e-commerce reality

Soh Lin Sin

Phillip Securities Research Pte Ltd

04 December 2017

Competition edge against e-tailers

- Fresh products are the least vulnerable to Amazon's threat
- Lack of customer loyalty to a single platform: Price, variety and convenience
- Capital-intensive nature to invest in extensive infrastructure, logistics and marketing shunned e-commerce business
- Physical stores are irreplaceable, click-and-collect is the new way of shopping, SG has a very high store density

The Unknowns

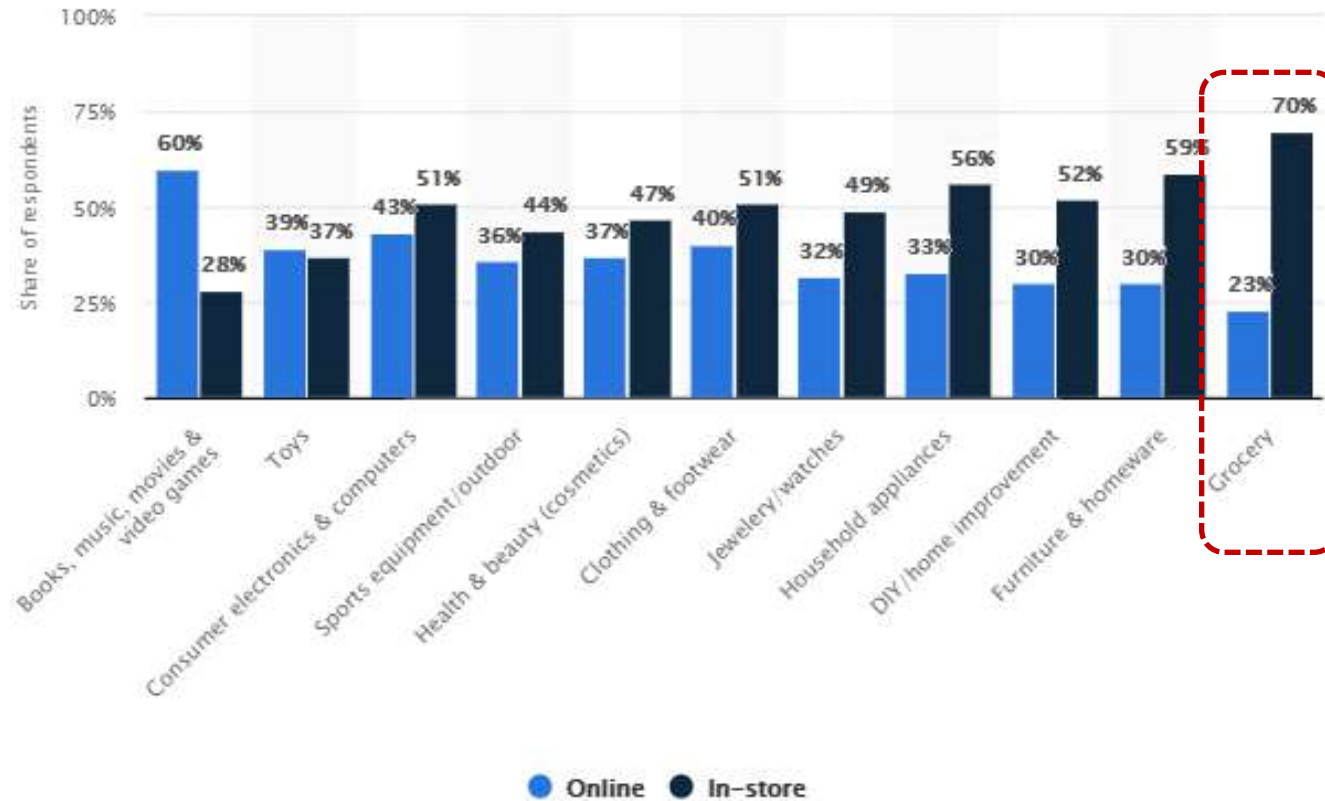
- Goods and services tax (GST) on online purchase
- Response from other brick-and-mortar operators

Investment actions

- **Overweight** on Singapore Consumer Sector
- **Buy** on both **Sheng Siong (TP: S\$1.13)** and **Dairy Farm (TP: US\$9.89)**
- Others – F&B segment:
 - **Buy** on **Old Chang Kee (TP: S\$0.98)** and **Thai Beverage (TP: S\$1.18)**
 - **Accumulate** on **FNN (TP: S\$2.83)**

Fresh products – A sweet spot

Online or in-store shopping preference for selected product categories by consumers worldwide as of 2017



Source: Statista

- Amazon's core product offerings are the electronics, video games, books and clothing, shoes & jewellery. **Groceries are available, but limited.**
- PwC's 2017 Total Retail Survey:
 - only c.10% of shoppers in US purchase their groceries online
 - about two-thirds of Singapore consumers prefer to make grocery purchases in-store, roughly in-line with global average at 70%
- Singaporeans will still prefer to handpick perishables or fresh produce, such as fresh meat, and fish
 - driven by rising demand on quality and safety awareness

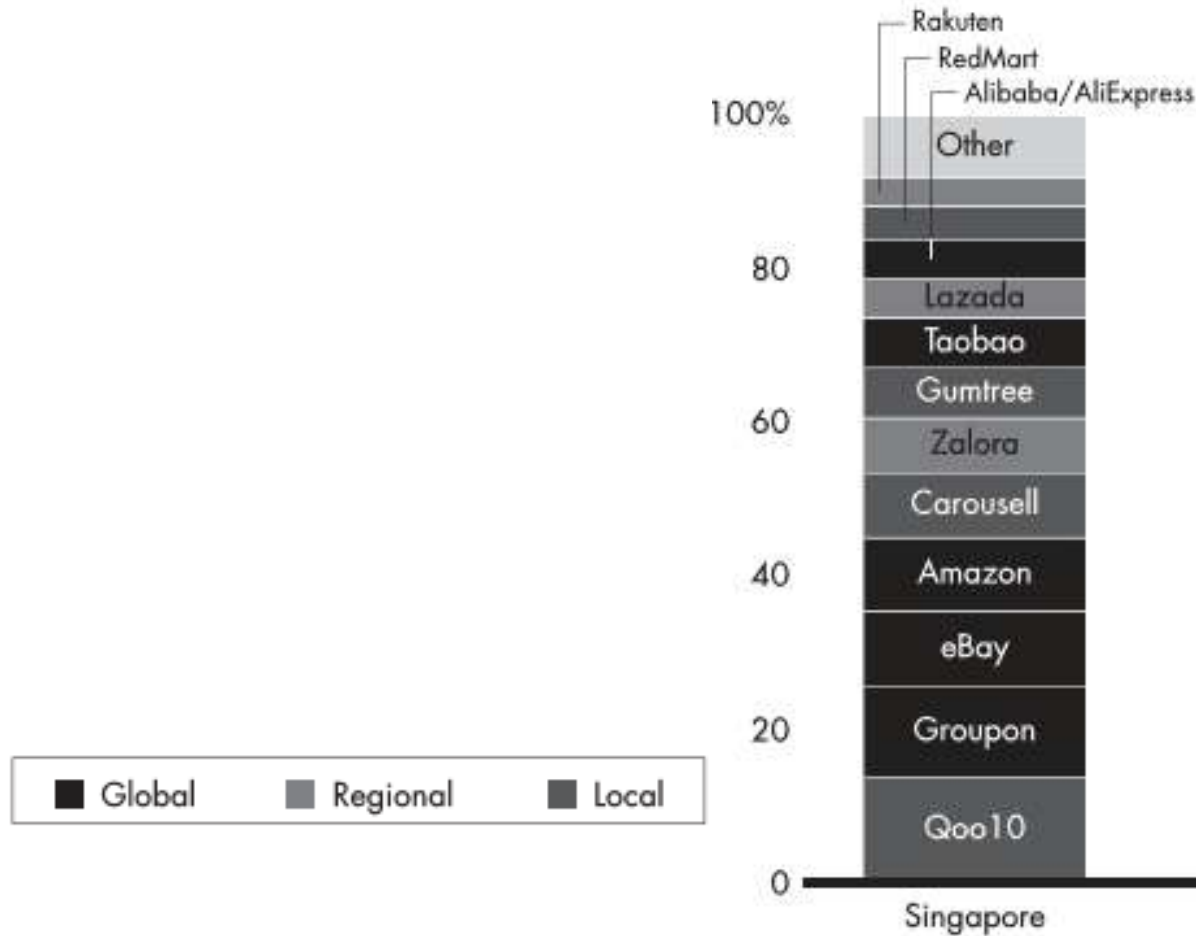
Both Dairy Farm and Sheng Siong are strengthening their fresh product offerings

Company	Warehouse Size
NTUC FairPrice	730,000 sqft Distribution Centre in Joo Koon
Dairy Farm	260,000 sqft Warehouse in Tampines + 75,000 sqft Fresh Distribution Centre
Sheng Siong	500,000 sqft (+ 50,000 sqft by 2018) Distribution Centre at Mandai Link
Amazon Prime	100,000 sqft Warehouse at Mapletree Logistics Hub, Jurong
Redmart	100,000 sqft Warehouse at Fishery Port Road, Jurong

Source: Companies

Price sensitive consumers

Preferred platforms for online transactions (% consumers)



Source: Bain & Company (Can Southeast Asia Live Up to Its E-commerce Potential, 2016)

Lack of customer loyalty to a single platform

- Fragmented market with no retail platform is the preferred platform for >20% of consumers
- Consumers are price sensitive
- Internet increased price transparency, leading to more bargain-hunting consumers

Price, variety and convenience

A typical household grocery basket

Typical Grocery Basket	NTUC	Giant	Sheng Siong	Amazon Prime	Redmart
Fruits & Vegetables					
China Premium/Large Fuji Apple (4S)	\$3.30	Not Available	\$4.29	Not Available	\$3.45
Xiao Bai Chye	\$0.75 for 220G	\$0.75 for 350G	\$0.90 for 250G	\$1.90 for 200g	\$0.75 for 220G
Meat, Poultry & Seafood					
Fresh Chicken (Whole Chicken 1.4KG)	\$7.45	\$7.20	\$6.85	\$7.10	\$7.10
Dairy & Fresh Produce					
Fresh Eggs (10 Eggs)	\$1.45	\$1.80	\$1.35	\$2.35	\$1.80
Nestle Milo (1.4KG)	\$13.20	\$13.20	\$13.20	\$13.20	\$13.20
Marigold HL Milk - Plain (1L)	\$3.20	\$3.20	\$3.20	\$2.75	\$3.20
Carnation Full Cream Evaporated Milk (390G)	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60
Rice, Noodles & Oil					
Royal Umbrella Fragrant Rice (5KG)	\$15.80	\$15.80	\$15.80	\$14.80	\$15.20
Naturel Canola Oil (1L)	\$4.90	\$4.50	\$4.90	\$4.50	\$4.50
Canned Food & Instant Food					
Maling Pork Luncheon Meat (397G)	\$2.85	\$2.85	\$2.85	Not Available	\$2.85
Bakery					
Gardenia White Bread (400G)	\$2.00	\$2.00	\$2.00	\$1.90	\$1.90
Baby Products					
Enfamil A+ S-2 360DHA+ Pdx+Gos (900G)	\$52.75	\$55.75	\$55.75	\$52.75	\$55.75
Huggies Platinum Diapers - New Born (< 5KG) (66S)	\$19.95	\$19.95	\$19.95	Not Available in single unit	\$19.95
Personal Care & Household Items					
Beautex Box Tissue (3PLY x 120S x 5)	\$5.50	\$5.50	\$5.50	\$5.25	\$5.50
TOTAL	\$134.70	\$134.10	\$138.14	\$108.10	\$136.75

- Although Amazon Prime is relatively cheaper compared to peers, consumers may not be able to find their preferred type and brand of products in the preferred amount in one single online store
- Among groceries, fresh products are least vulnerable to online threat.
 - NTUC, Giant and Sheng Siong have an edge in both aspects of availability and price
 - As supermarket chains have larger scale, they can benefit from lower input prices

Source: Respective online website (as at 1st Nov17)

Note: Highlighted are the lowest prices offered among the five marketplaces)

Sustainable cost structure

- Online players could save on rental and labour costs, but in return high CapEx in extensive infrastructure, logistics and marketing
- Unsustainable cost structure over the long term
 - Rakuten closed its marketplaces in Singapore, Malaysia and Indonesia in Mar-16
 - Amazon Prime cut prices and absorb delivery costs to attract buyers
 - Redmart has an operating loss of S\$21mn in 2015 (operating loss margin at 78%)

Prime annual membership ranges from S\$31.52 to \$142.20 globally

Sovereignty	Local Currency	Monthly	Annual	FX rate	Annual fee (SGD equivalent)	Remarks
United States	USD	\$10.99	\$99	1.36	\$134.64	
Canada	CDN	N/A	\$79	1.07	\$84.53	
United Kingdom	GBP	£7.99	£79	1.80	\$142.20	
Germany	EUR	€ 8.99	€ 69	1.58	\$109.02	
France	EUR	€ 3.99	€ 49	1.58	\$77.42	Monthly fees will revise to EUR 5.99/month in Apr-18
Italy	EUR	N/A	€ 19.99	1.58	\$31.58	
Spain	EUR	N/A	€ 19.95	1.58	\$31.52	
Japan	JPY	¥400	¥3,900	0.012	\$46.80	
Singapore	SGD	Free on trial period				

Source: Amazon Prime websites

SG consumers get free delivery on orders of more than S\$40, during its limited free trial

In addition, to enjoy same-day delivery for fresh and frozen products, Prime members would have to fork out an additional monthly Amazon Fresh membership fee of US\$14.99 (approximately S\$20.39)

Physical stores are irreplaceable

- Able to offer wider breadth and depth of products; Consumers generally prefer one-stop shopping
- Ability to showcase products
- Provide a personalised in-store experience and enhance customers' interactions
- Close proximity to a store or shopping mall; According to JLL, Singapore has about 11.6 sqft of retail space per capita, compared with Hong Kong's 11.5 sqft, Bangkok's 8.6 sqft and Shanghai's 4.8 sqft
- Click and collect is the new way for shopping
- More and more pure e-commerce players are adopting online-to-offline strategy

Pervasive brick-and-mortar network

Company	Store count
NTUC FairPrice	Over 290 outlets as at 31 Dec-15, which includes its FairPrice supermarkets, FairPrice Finest, FairPrice Xtra, FairPrice Xpress and Cheers and convenience stores
Dairy Farm	531 stores as at 31 Dec-16, which includes its hypermarkets, supermarkets and convenience stores
Sheng Siong	43 stores as at 30 Sep-17; 4 new stores in 4Q17 and 1Q18 (from recent biddings)

Source: Companies

The unknowns

GST on online purchase could level the playing field between local GST-registered retailers and offshore retailers

Response from other brick-and-mortar operators could intensify competition

Comparison on cross-border e-commerce tax

Country	Cross-border e-Commerce tax	Tax relief	Remarks
Singapore	7%	Tax-free for online purchases under \$400	In the midst of review
China	17%	Currently with temporary 30% discount (i.e. 70% x 17%) Tax-free for a maximum of RMB2,000 of single transaction and a maximum of RMB20,000 per person per year	
Japan	10%		Started with 8% in 2015; revised up to 10% in Apr-17
South Korea	10%		
Australia	Nil		10% levy starting in 1 Jul-18
Indonesia	Nil		In the midst of review
Thailand	Nil		In the midst of review
Malaysia	Nil		In the midst of review

Maintain Overweight on the SG Consumer Sector

- Expect the present rebound in economic conditions to continue and filter down to better consumer sentiment

‘Buy’ on both supermarkets, Sheng Siong (TP: S\$1.13) and Dairy Farm (TP: US\$9.89)

- Own warehouse in SG, allowing them to ramp up fresh offerings as well as to leverage economies of scale
- Fresh products are less vulnerable to Amazon’s threat and yield higher margins
- Improving operating efficiencies will support their profitability and thus more resilient and sustainable
- Expanding their stores network, bringing their presence closer to consumers

Others: F&B segment, ‘Buy’ on Old Chang Kee (TP: S\$0.98) and Thai Beverage (TP: S\$1.18); ‘Accumulate’ on FNN (TP: S\$2.83)

- Food and beverage manufacturers could collaborate with online intermediaries, to complement their existing distribution network
- E.g. Old Chang Kee’s engaging Food Panda for delivery services, products of Thai Beverage and F&N are available on Lazada, Redmart, and Amazon Prime

US Equity Market

All clear for now part 2

Jeremy Ng

Phillip Securities Research Pte Ltd

4 December 2017

US economic cycle – suggesting late stage economic cycle

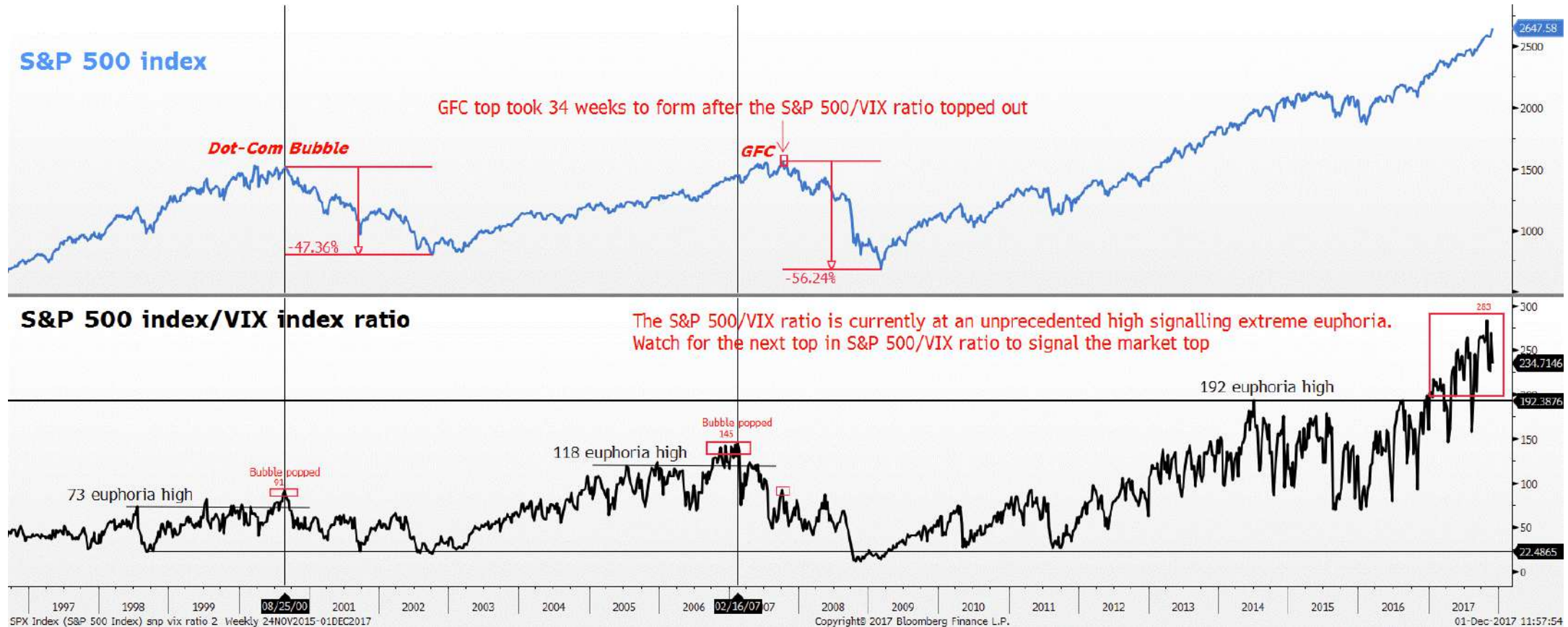
- Third longest economic expansion in history at 101 months
- Average expansionary cycle is about 60 months

Economic Expansion	Duration of Economic Expansion	Economic Contraction	Duration of recession
1933 - 1937	51 month	1937 - 1938	12 month
1938 - 1945	81 month	1945 - 1945	7 month
1945 - 1948	38 month	1948 - 1949	10 month
1949 - 1953	46 month	1953 - 1954	9 month
1954 - 1957	40 month	1957 - 1958	7 month
1958 - 1960	25 month	1960 - 1961	9 month
1960 - 1970	107 month	1970 - 1970	10 month
1970 - 1973	37 month	1973 - 1975	15 month
1975 - 1980	58 month	1980 - 1980	6 month
1980 - 1981	12 month	1981 - 1982	16 month
1982 - 1990	92 month	1990 - 1991	9 month
1991 - 2001	119 month	2001 - 2001	8 month
2001 - 2007	73 month	2007 - 2009	18 month
2009 - ?	101 month and counting	?	?

Source: Bloomberg, PSR

S&P 500/VIX index ratio – suggesting unprecedented euphoria

- New extreme record high of 283
- Way surpassed the 192 euphoria high



Source: Bloomberg, PSR

VIX Index – exhibiting signs of vulnerability

- Small down days in S&P 500 index led to violent spike in VIX index of up to 30% or more in recent days



Source: Bloomberg, PSR

New list of indicators to spot for significant weakness

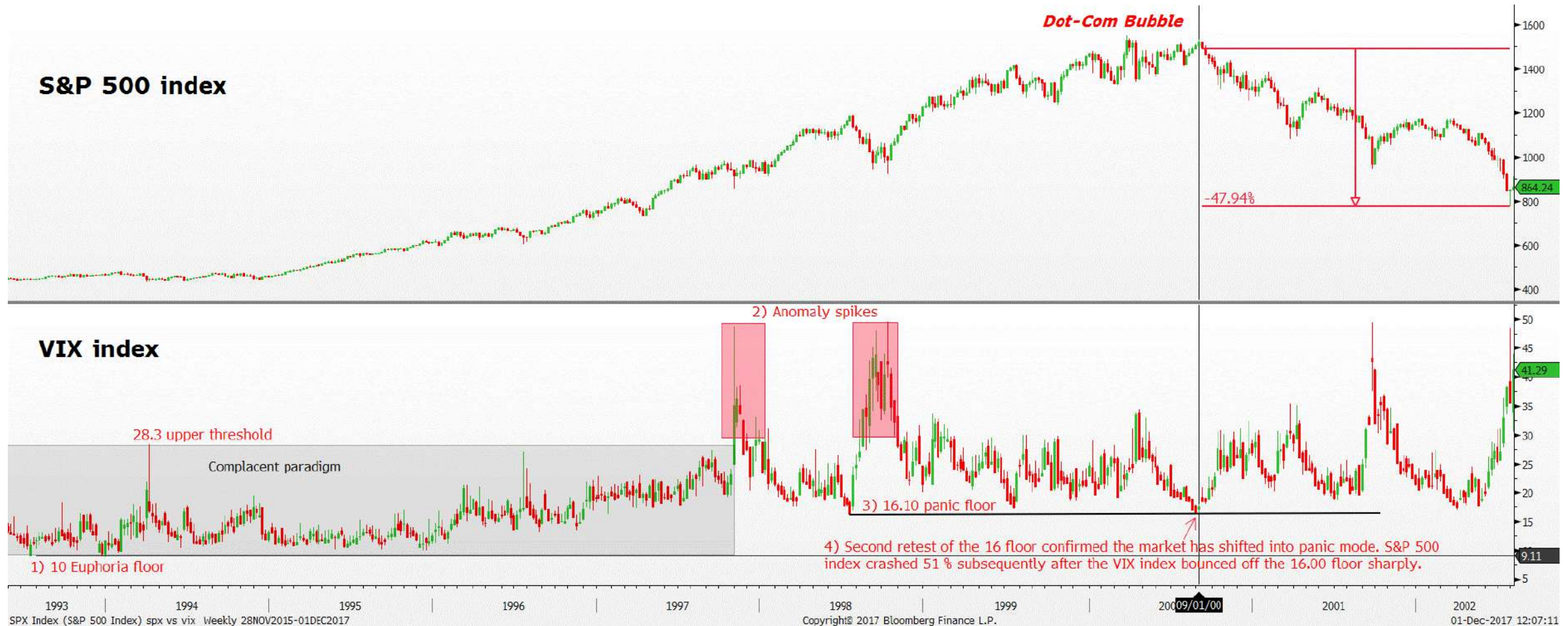
- **Price action related**
 - VIX Index
 - S&P 500 index quarterly timeframe
 - 10 Year Treasury Yield
- **Economic data**
 - ISM Manufacturing PMI
 - Unemployment Claims YoY
 - Retail Sales YoY

Indicator 1: VIX Index

- Signs of trouble are highlighted by a paradigm shift higher in the VIX index shown by the following criteria:
 1. VIX index needs to consolidate around 10 euphoria floor for a prolonged period to signify bubble-like behaviour as market participants anticipate low volatility
 2. Unexpected sharp spikes in VIX index leading to a breakout higher above the normal range high suggests a shift in the prior complacent paradigm
 3. VIX index builds a new floor around the 16 level to signal the paradigm shift away from the 10 euphoria floor
 4. The second retest of the 16 level confirms the new panic floor as the following surge in VIX index tends to lead to the equity market meltdown

Source: Bloomberg, PSR

Indicator 1: VIX Index- Dot-Com case study



Source: Bloomberg, PSR

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Indicator 1: VIX Index- GFC case study



Source: Bloomberg, PSR

Indicator 1: VIX Index- current

- Currently hovering around the 10 euphoria floor (criteria 1)
- All seems well for now until a breakout higher above the 27.7 threshold occurs



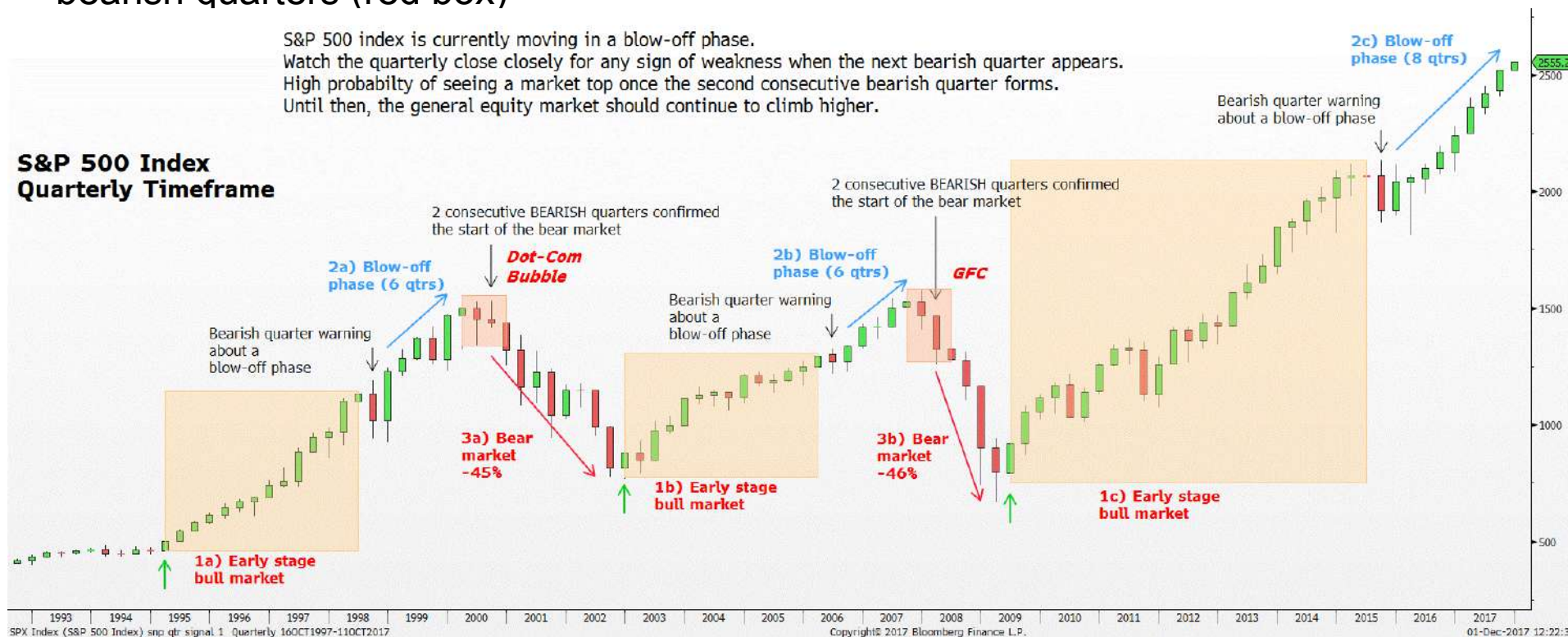
Source: Bloomberg, PSR

Indicator 2: S&P 500 quarterly timeframe

The general structure of the market can be divided into the following three stages:

1. Early stage bull market highlighted by consecutive bullish quarters (yellow box)
2. Late-stage bull market/Blow-off phase highlighted by a bearish quarter disrupting the previous bullish quarter streak
3. End of the bull market and start of the bear market highlighted by two consecutive bearish quarters (red box)

S&P 500 index is currently moving in a blow-off phase.
Watch the quarterly close closely for any sign of weakness when the next bearish quarter appears.
High probability of seeing a market top once the second consecutive bearish quarter forms.
Until then, the general equity market should continue to climb higher.



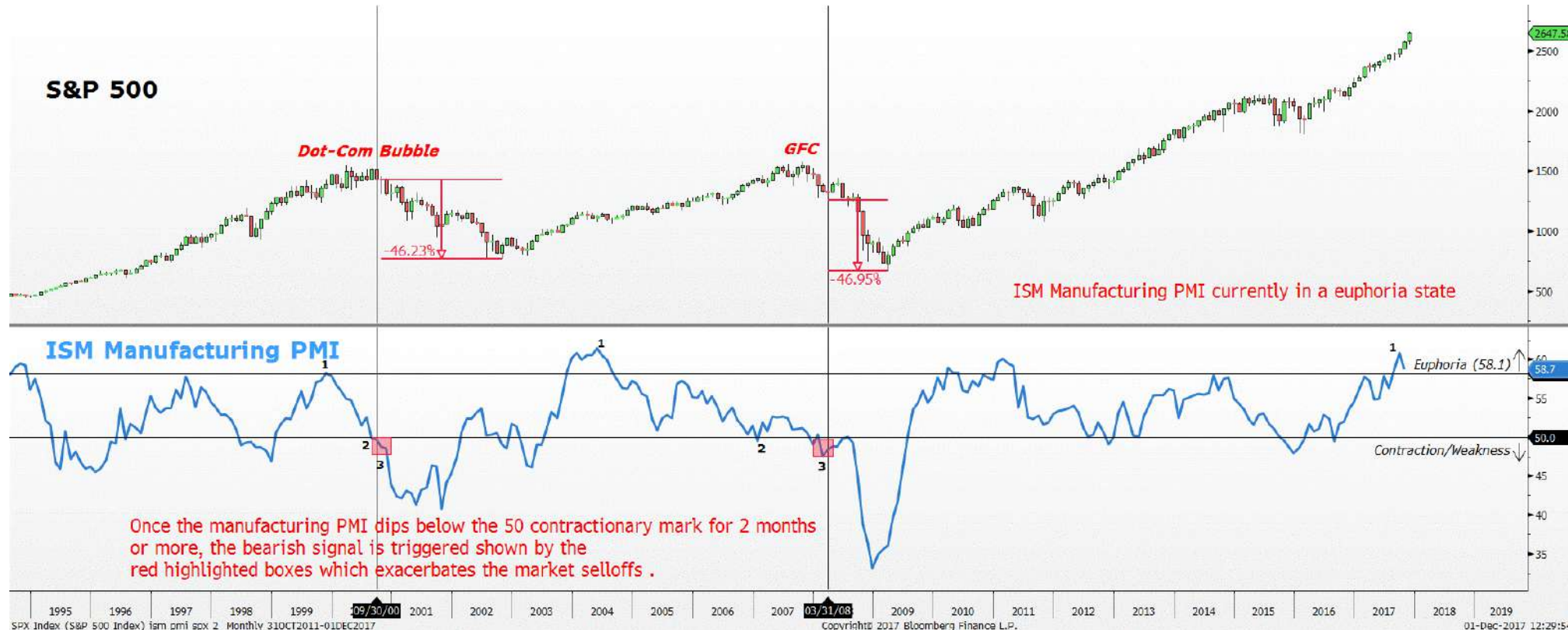
Currently in a blow-off phase with no end in sight yet

Source: Bloomberg, PSR

Indicator 3: ISM Manufacturing PMI

To spot for significant market weakness, the following criteria needs to be present:

1. ISM manufacturing PMI entering into euphoria high of 58.1
2. Reversal of trend to the downside off the 58.1 high to below 50
3. ISM Manufacturing PMI needs to stay below 50 for at least two months to signal sustained weakness



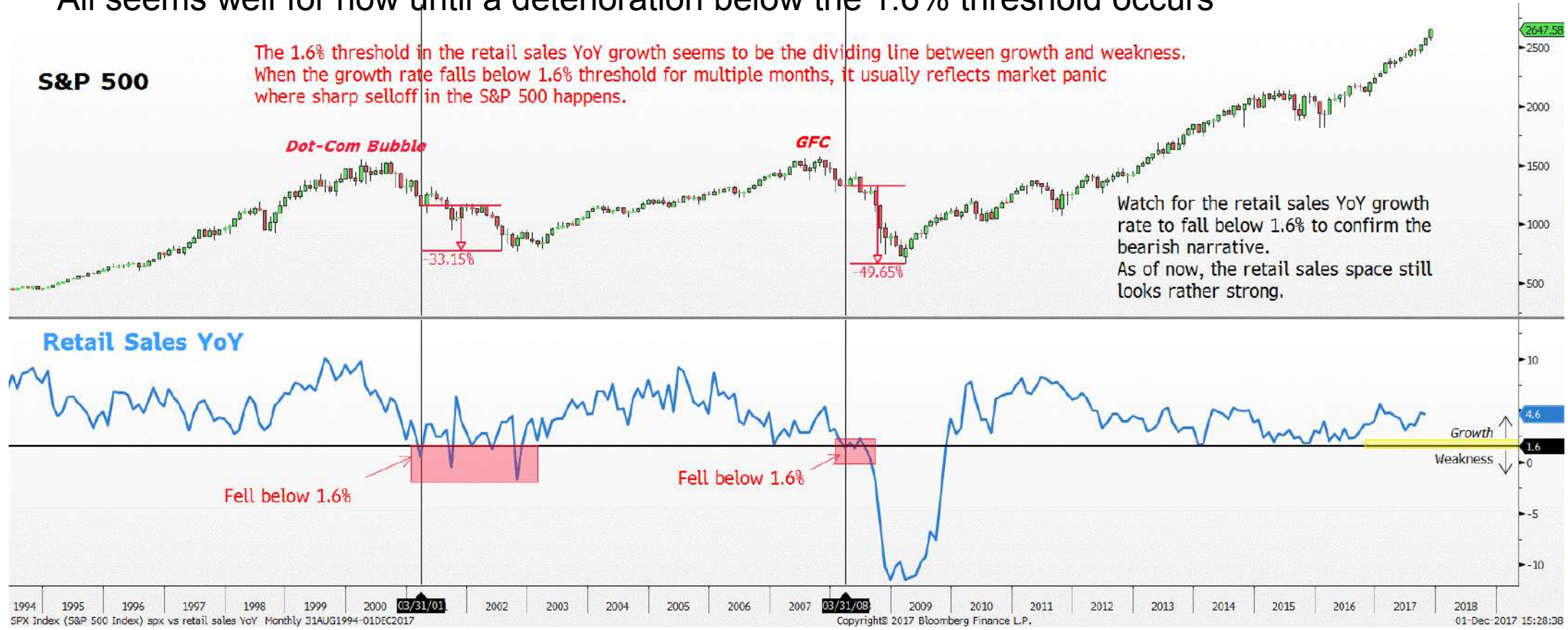
Currently in the euphoria state

*Vertical line demarcates the point where the ISM Manufacturing PMI falls below 50 for two consecutive months

Source: Bloomberg, PSR

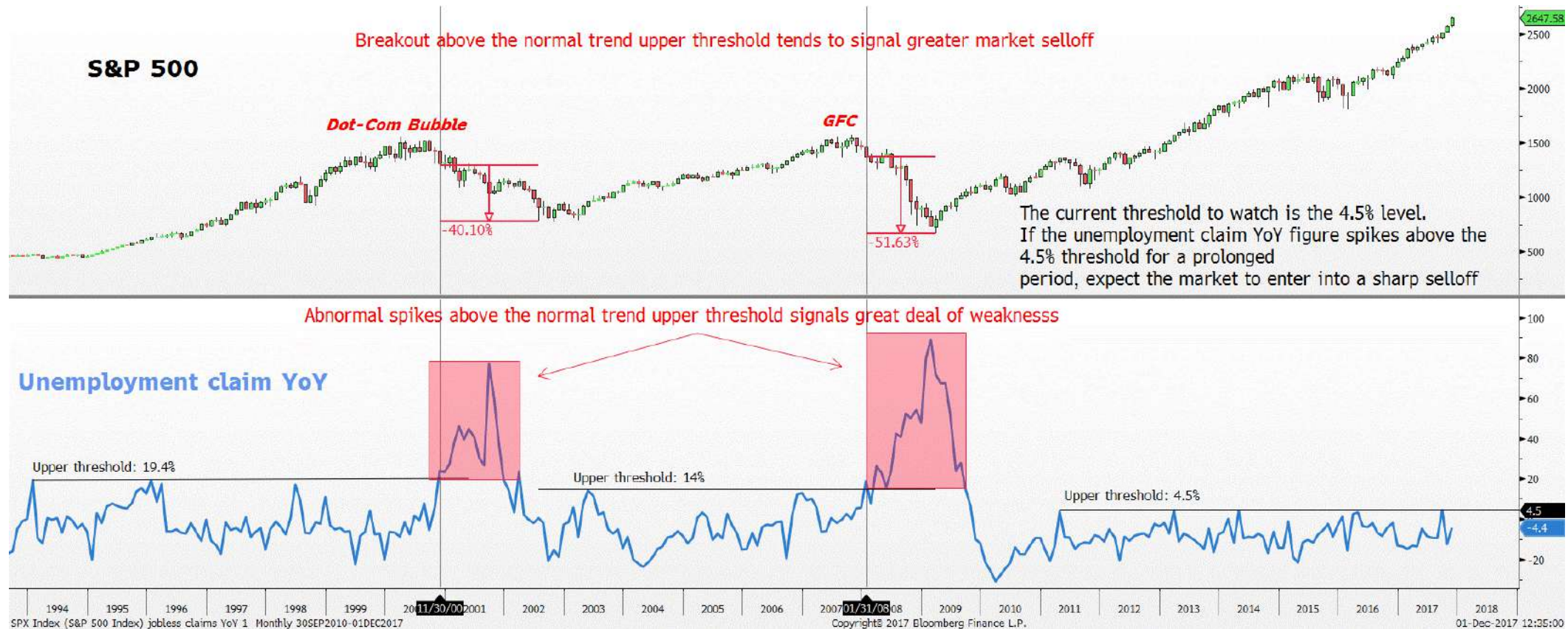
Indicator 4: Retail Sales YoY

- Key threshold to watch for significant market weakness is the 1.6% level
- Currently still growing at a healthy pace
- All seems well for now until a deterioration below the 1.6% threshold occurs



Indicator 5: Unemployment Claims YoY

- Key threshold to watch for significant market weakness is the 4.5% level
- Currently staying well within the normal range
- All seems well for now until a deterioration above the 4.5% threshold occurs



Source: Bloomberg, PSR

*Vertical line demarcates the point where Unemployment Claim YoY change breaks above the respective upper threshold, leading to the meltdown in the equity market

Indicator 6: 10 Year Treasury Yield – staying well above 2% threshold

- 10 Year Treasury yield tends to top out before the Equity market rolls over
- Key threshold to watch for significant market weakness is when the 10 year T yield breaks below the multi-year uptrend line and 52-week low
- 2% is the key threshold for the current market to confirm the top in the 10 year T yield



Summary: Recession Tracker

Indicator	Threshold	Last	Bearish Signal
VIX Index	Above 27.7	11.2	Unconfirmed
S&P 500 Index quarterly timeframe	2 consecutive bearish quarters	Bullish quarter	Unconfirmed
ISM Manufacturing PMI	2 consecutive months below 50	58.7	Unconfirmed
Retail Sales YoY	Below 1.6%	4.6%	Unconfirmed
Unemployment Claims YoY	Above 4.5%	-12.3%	Unconfirmed
10 Year Treasury Yield	Below 2.00%	2.41%	Unconfirmed
Ted Spread	Above 1%	0.23%	Unconfirmed
2s10s Spread	Below 0%	0.61%	Unconfirmed
CB Consumer Confidence	Below uptrend line/112	129.5	Unconfirmed
Umich Consumer Sentiment	Below uptrend line/93.4	98.5	Unconfirmed
Bloomberg Consumer Comfort	Below uptrend line/47	51.6	Unconfirmed
Unemployment rate	Above 12 MA/4.4%	4.1%	Unconfirmed
Fed Funds Rate	Halting of the rate hike cycle	1.25%	Unconfirmed
S&P 500	Below 10MA/2462	2647	Unconfirmed
Value Line Geometric	Below uptrend line/444	559	Unconfirmed

Source: Bloomberg, PSR

S&P 500 Index – Dip buying roadmap

- 20 and 60 day exponential moving average acted perfectly as a springboard on every correction
- The dip buying pattern off the 20 and 60 EMA should continue to play out until some of the recession indicators are triggered



Source: Bloomberg, PSR

Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average

Nasdaq 100 Index – Dip buying roadmap

- 20 and 60 day exponential moving average acted perfectly as a springboard on every correction
- The dip buying pattern off the 20 and 60 EMA should continue to play out until some of the recession indicators are triggered



Source: Bloomberg, PSR

Red line = 20 period moving average, Blue line = 60 period moving average, Green line = 200 period moving average

Summary

- S&P 500 index currently in a blow-off phase but could last longer than expected
- US equity market should continue to grind higher until the thresholds are breached
- “Buy the dips” strategy should continue to dominate the market

Tradable instruments:

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

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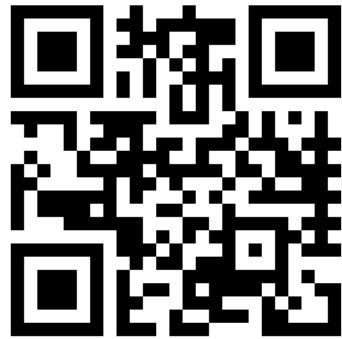
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