

8 January 18, 8.15am/11.15am Morning Call/Webinar

ComfortDelGro Corp Ltd

Earnings to bottom out in FY17e

Singapore Banking & Finance Sector

2018 Strategy

The Phillip 20

December Monthly Review

S&P 500

Why we are not hard-negative yet

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ComfortDelGro Corp Ltd

Earnings to bottom out in FY17e

Richard Leow

Phillip Securities Research Pte Ltd

8 January 2018

ComfortDelGro Corp Ltd

Buy, TP: \$2.63, FY17e DPS: 10.3 cents (5.0%) , Last: \$2.04



Bus: Recognition of higher revenue in FY18e

- Service quality incentives for bus services performed in FY17: est. +\$9mn YoY PATMI
- Take-over of Seletar package in 1Q 2018: est. +\$4.2mn YoY PATMI

Rail: Operating losses estimated to narrow by ~70% YoY in FY18e

- Commencement of DTL3: est. +\$18.9mn YoY PATMI

Taxi: Rental cars growth moderating; tie-up with LCR is a near-term positive

- Fleet contraction and margin compress: est. -\$13mn YoY PATMI

No changes to forecast made for ComfortDelGro-Uber partnership, pending outcome of public consultation

Singapore Banking Sector

2018 Strategy

Jeremy Teong

Phillip Securities Research Pte Ltd

08 Jan 2018

A Review of 2017 Performance

1H2017

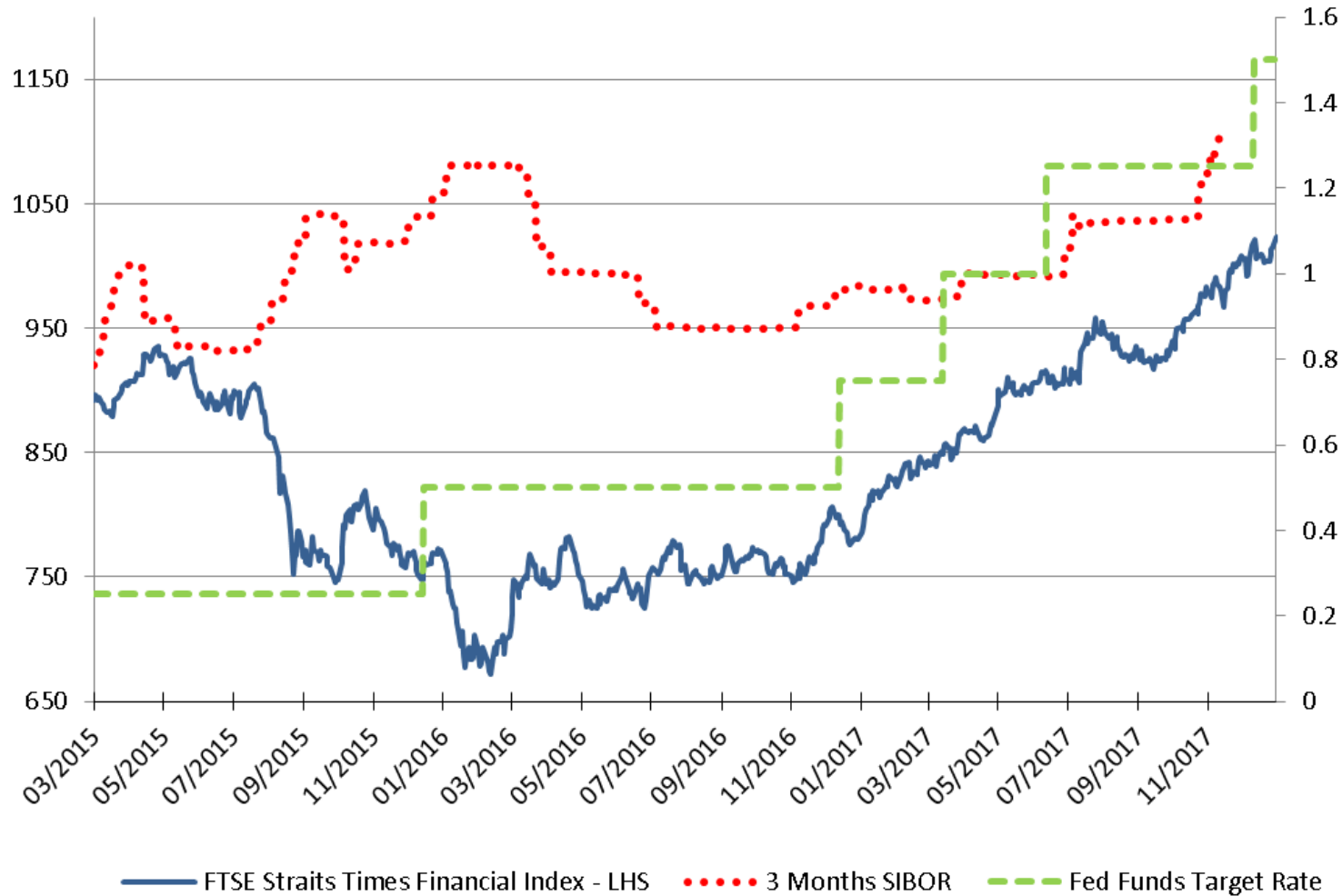
- Singapore's manufacturing PMI was picking up but business expectations with exception of electronics sector remains subdued.
- Loans growth was led mainly by real estate related loans.
- Competition was intense for residential mortgage loans.
- Loans growth rebounded with a weaker base effect from 1H16.
- NIMs were weak.

2H2017

- Broad based pickup of business expectations in Singapore's Services and Manufacturing Sector.
- Domestic business loans growth continue to be robust following a strong performance from 2Q17.
- 3Q17 GDP growth in Hong Kong and Singapore beat expectations in October.
- Synchronous pickup in economic activity across the globe continued to support the domestic business loans growth.
- Loans volume and rates are rising implying a firmer pass through of higher interest rates thus NIMs started to increase.
- Offshore oil and gas loans quality issues continued to linger.

- NIMs will continue to rise on favourable loan and volume dynamics.
- Expect pass through of higher rates across majority of the Singapore banks' loans book as SIBOR and HIBOR are rising quickly.
- Virtuous cycle of strong economic growth and rising market sentiments forms the bedrock for banks' share price to rise higher.
- Singapore banks are going into the current upcycle with superior operating leverage and cost to income ratio because of digital capabilities.
- Loans demand will be more broad based. Therefore banks can focus on more bespoke lending solutions to support better margins.
- Oil and gas asset problems to truly take a back seat because of better utilisation and presumably better day rates as the USD60 per barrel price mark looks sustainable.
- Expect FY18 Net Interest Income growth to be double digit percentage points compared to low single digit in 2016/1H2017.
- Expect FY18 PATMI growth to be high double digit in the teens (DBS could be even higher because of the low base effect from the balance sheet clean up in 3Q17).

FTSE ST Financial Index Performance



Source: Bloomberg, PSR

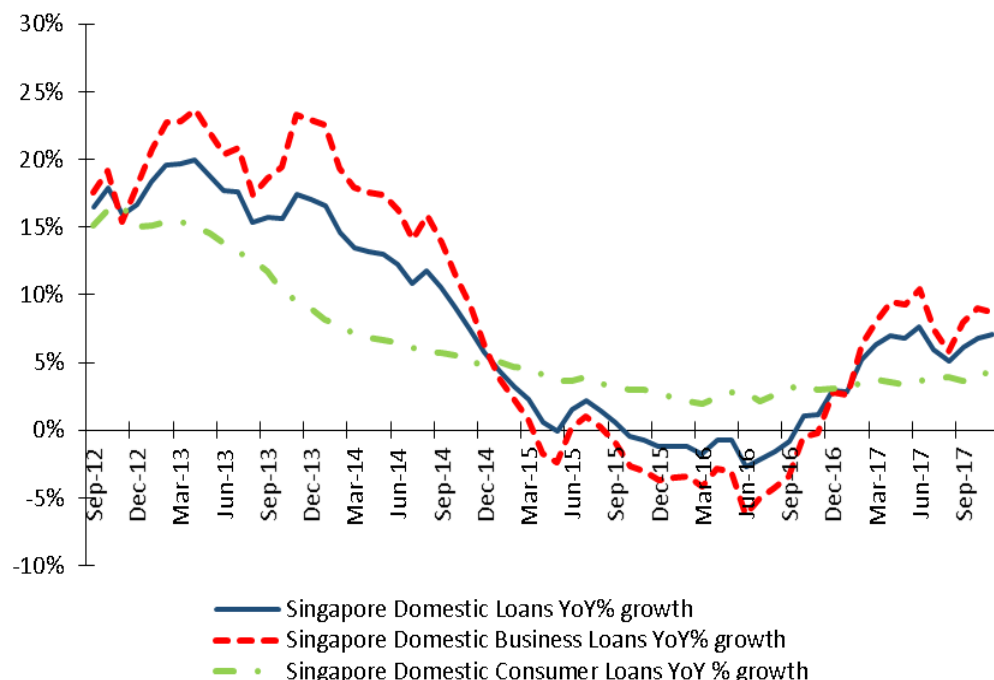
- Between 2H15 and 1H16, NIM was expanding, NII growth double digit. But pessimistic sentiments were building up (travails in Chinese capital markets and the oil price collapse).
- 1H2016 saw weakening loans growth as market confidence wanes. Brexit in June 2016 caused major uncertainty. Recall OCBC built up its deposits to shore up liquidity in 2Q16 because of Brexit.
- From the start of 2017, SIBOR and HIBOR started to catch up with the Fed Funds rate. Conditions favourable for NIMs expansion.

Consensus Estimates

FY18	Phillip Securities Research estimates			Consensus estimates			Commentary
	DBS	OCBC	UOB	DBS	OCBC	UOB	
Loans growth (YoY)	c.7%	c.6%	c.6%	c.7%	c.6.6%	c.6.3%	Loans growth is expected to remain robust while rates growth will become the dominant earnings driver in 2018.
NIM	c.1.9%	c.1.8%	c.1.85%	1.81%	1.73%	1.83%	Our expectations for NIM is higher than consensus as we expect the strong economy in FY18 to support the pass through of higher interest rates. We see NIMs expand by 10bps to 20bps in 2018.
Allowances	c.S\$800mn	c.S\$600mn	S\$686mn (28 bps)	S\$1.016bn	S\$689mn	S\$721mn (c.29 bps)	We expect DBS' allowance to be significantly lower after a major spring cleaning in 3Q17
PATMI	c.S\$6.2bn	c.S\$4.9bn	S\$4.1bn	S\$5.55bn	S\$4.47bn	S\$3.77bn	Our PATMI growth outlook is due to stronger NII growth and lower provisions.
NPA	c.1.7%	c.0.8%	c.1.3%	c.1.8%	N.A	c.1.6%	Expect NPL ratios for the Singapore banks to decline as new NPA formation in 2018 decelerates. We expect a robust economy to support the banks' asset quality.

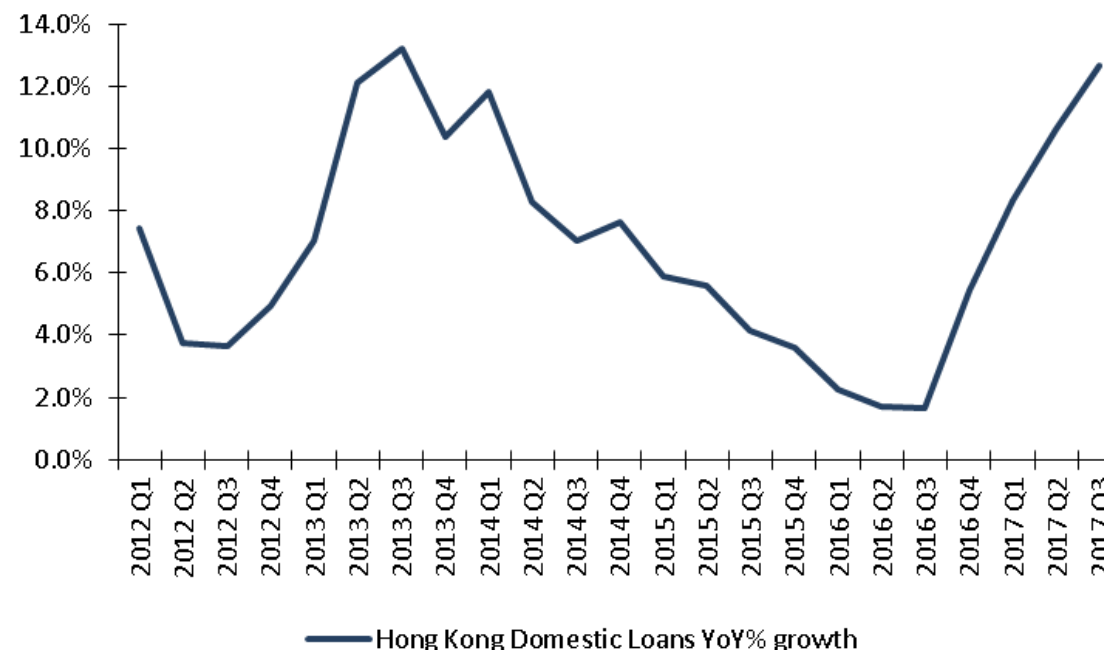
Source: Bloomberg, PSR

Loans growth continues to be strong



Source: MAS, PSR

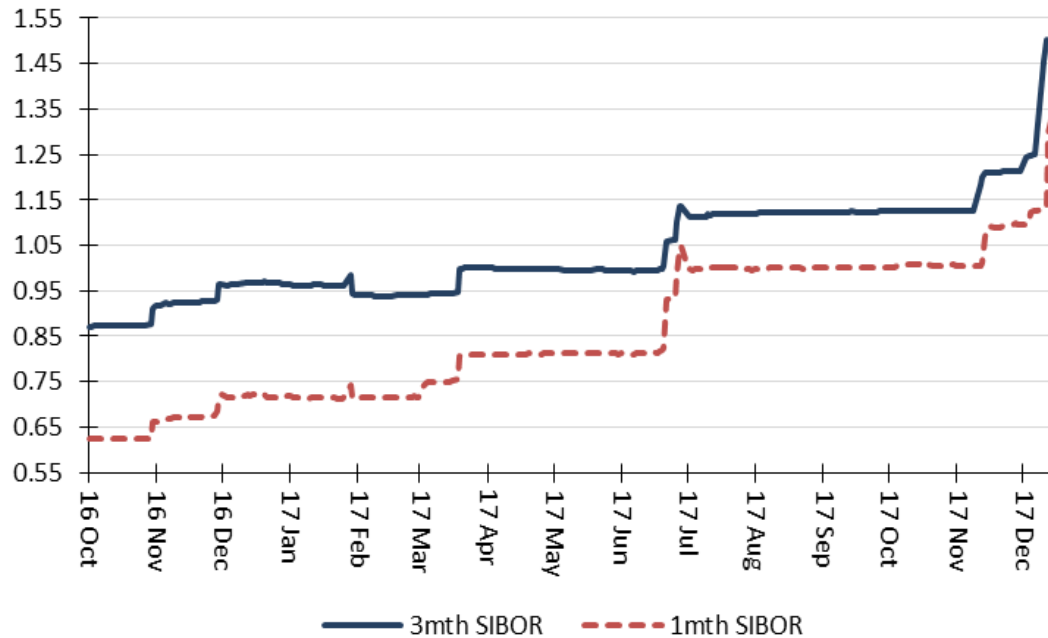
- November consumer loans recorded the highest growth since March 2015. Led by Housing loans.
- November business loans continue to the high single digit % growth despite a higher base in 2017.



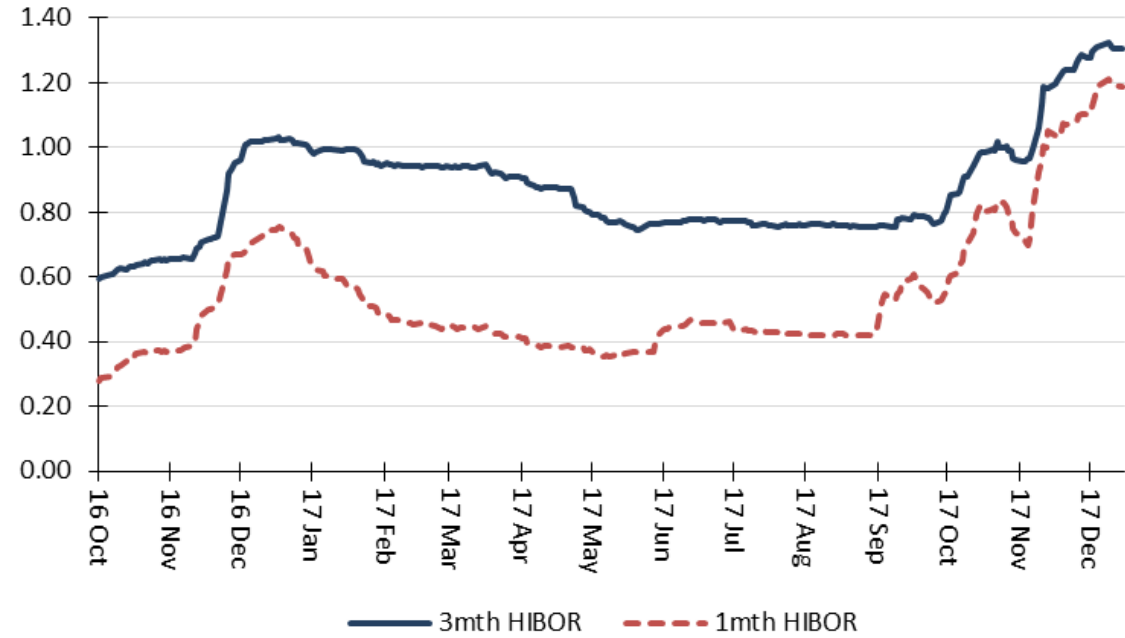
Source: HKMA, PSR

- 4Q17 Hong Kong System loans looks set to continue the strong double digit % growth in the high teens.
- November system loans fell 3% MoM but excluding the IPO loans of c.HK\$379bn straddling at end of October, November growth would have been 1%.

Benchmark rates are rising

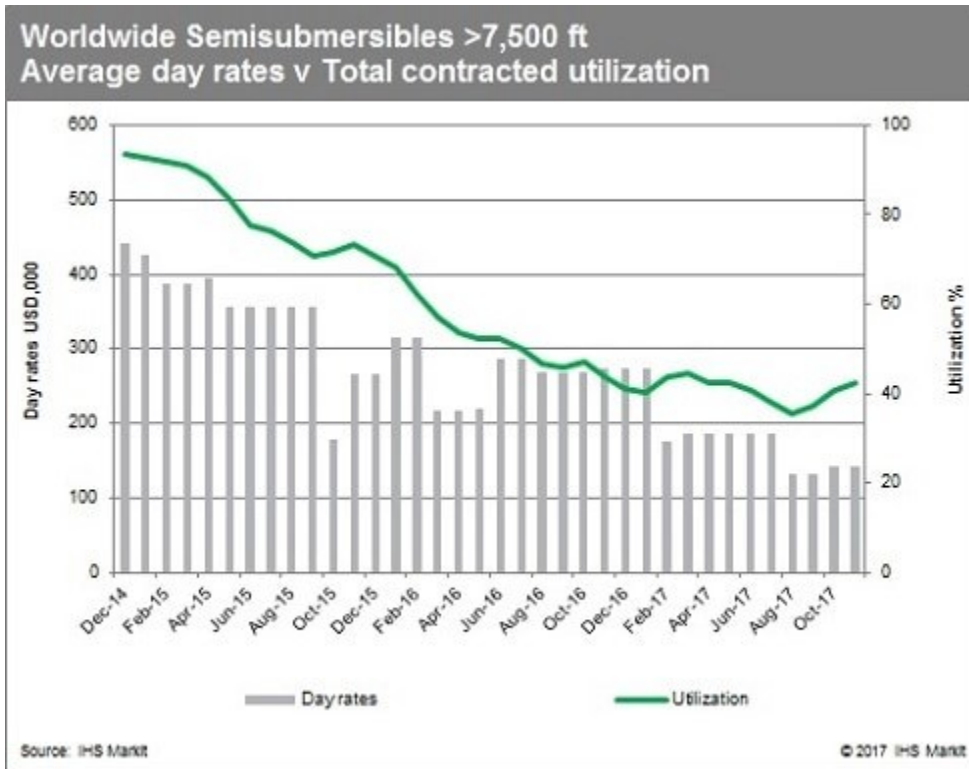


- SIBOR rose somewhere 20 to 25 bps during the final days of 2017.
- Channel checks show that SIBOR pegged mortgage loans generally increased 10bps in December following c.8bps increase in SIBOR at end of November

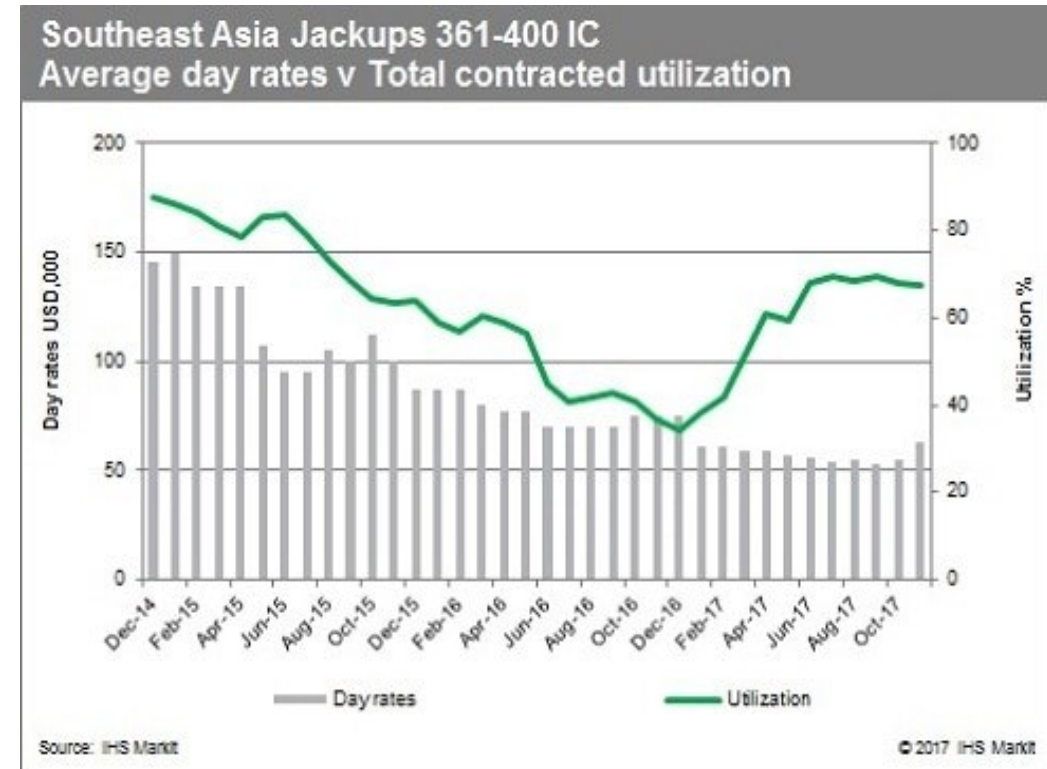


- HIBOR rates continued to rise as HKMA raised the base lending rates by 25bps to 1.75% in December.
- Despite higher HIBOR, Hong Kong mortgage loans applications in November increased 8.7% MoM.
- Ratio of new mortgage loans priced with reference to HIBOR in November is 92.4% (93.1% in October).

Offshore Oil and Gas Assets look healthier in December



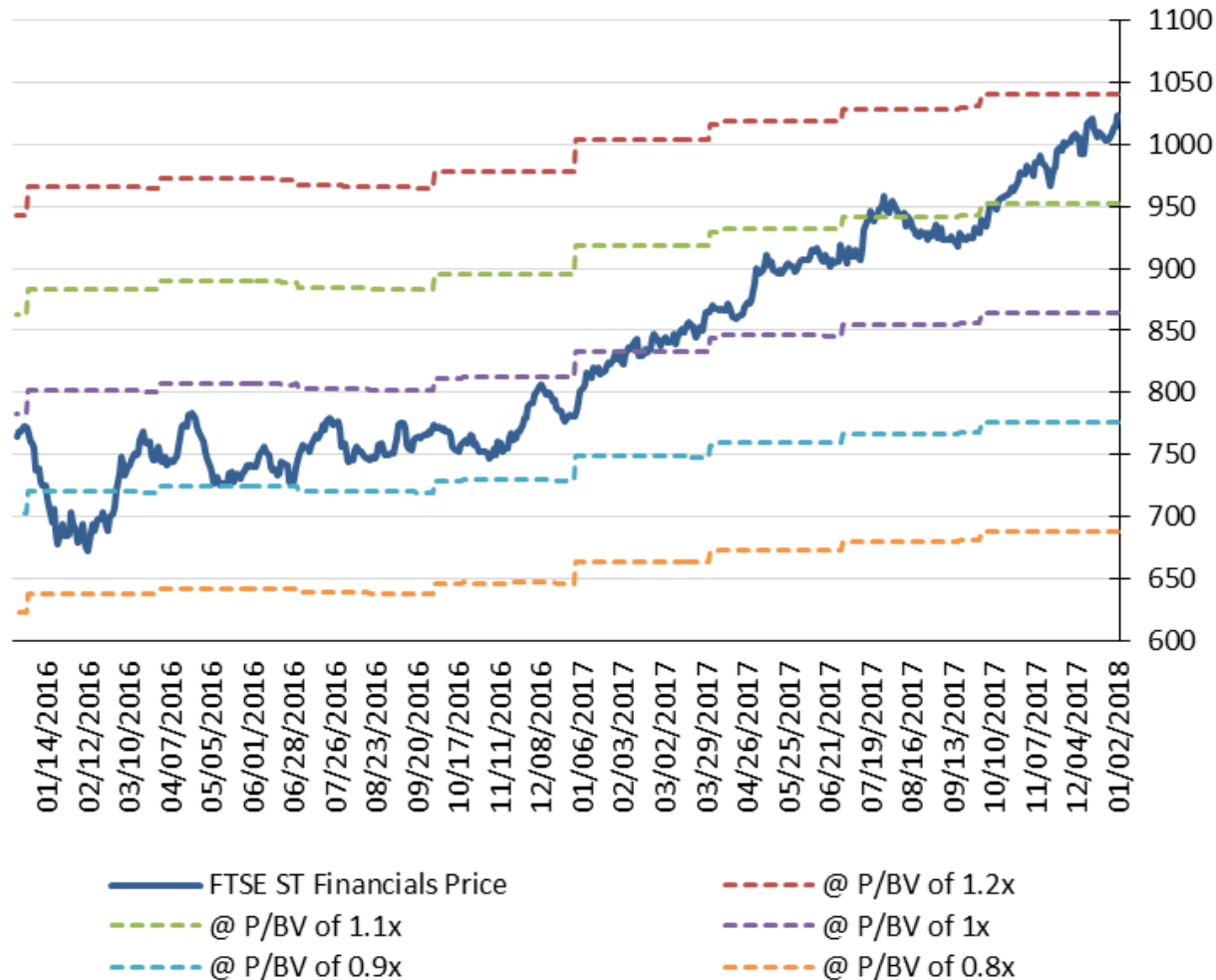
Source: IHS Markit



Source: IHS Markit

- December Semisubmersibles utilisation appears to be improving while Jackups utilisation continues to trend at c.70%
- First signs of improvement in Day rates which probably signals a bottoming out.
- Better Day rates predicated on a sustainable US\$60 per barrel oil price.

Valuation undemanding



Source: Bloomberg, PSR

- FTSE Straits Times Financials returned 11.13% in the 3 months period from 5 Oct 2017 to 5 Jan 2018.
- Price to book value still sitting comfortably between 1.1x and 1.2x.
- Valuation is undemanding as we expect Singapore banks to easily achieve an ROE of more than 10% in FY18 on better operating leverage and lower cost to income ratios because of digitalization.
- Target prices:
 - DBS: S\$29.30
 - OCBC: S\$13.48
 - UOB: S\$25.22

The Phillip 20

December Monthly Review

Jeremy Ng

Phillip Securities Research Pte Ltd

8 January 2018



PhillipCapital
Your Partner In Finance

- Strong support off the 20 and 60 day moving average
- Broke above the 3457 resistance area
- Next target for the bulls; 3549 resistance area followed by 3600



Realised P&L for December 17

The Phillip 20 Portfolio - Realised P&L for December 2017

Company Name	Ticker	L	Entry Date	Entry price	Exit date	Exit Price	P&L
UMS	558	Long	29-Sep-17	0.798	6-Dec-17	0.985	23.43%
HANWELL	DM0	Long	13-Sep-17	0.345	11-Dec-17	0.295	-14.49%

Source: Bloomberg, PSR

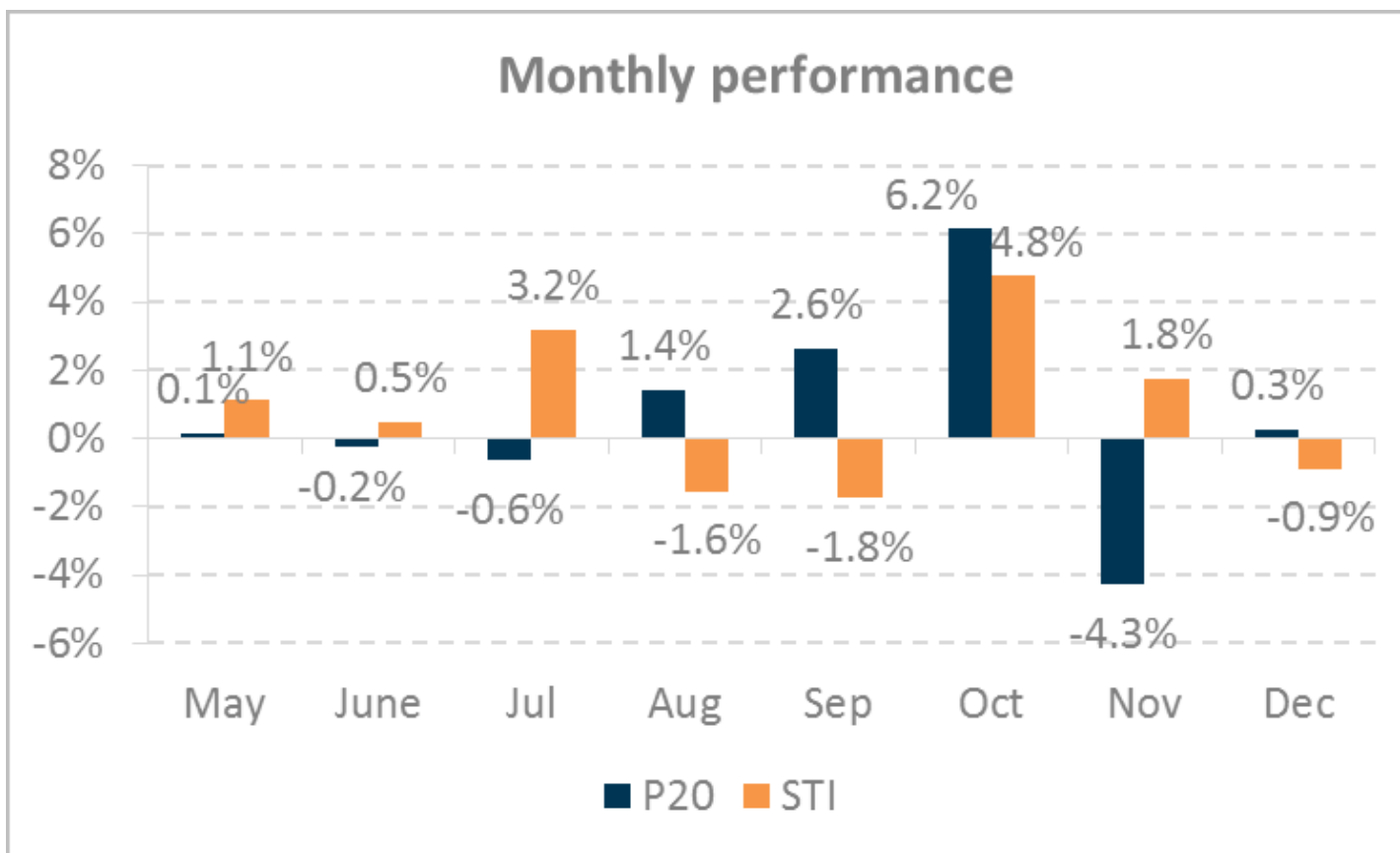
New Entries for December 17

The Phillip 20 Portfolio - December new entries as of 4 January 2018

Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
YOMA STRATEGIC	Z59	Long	1-Dec-17	0.505	0.470	0.545	7.92%
WING TAI	W05	Long	11-Dec-17	2.270	2.060	2.330	2.64%
CHIP ENG SENG	C29	Long	12-Dec-17	0.945	0.880	1.010	6.88%
CHINA AVIATION	G92	Long	13-Dec-17	1.670	1.510	1.650	-1.20%

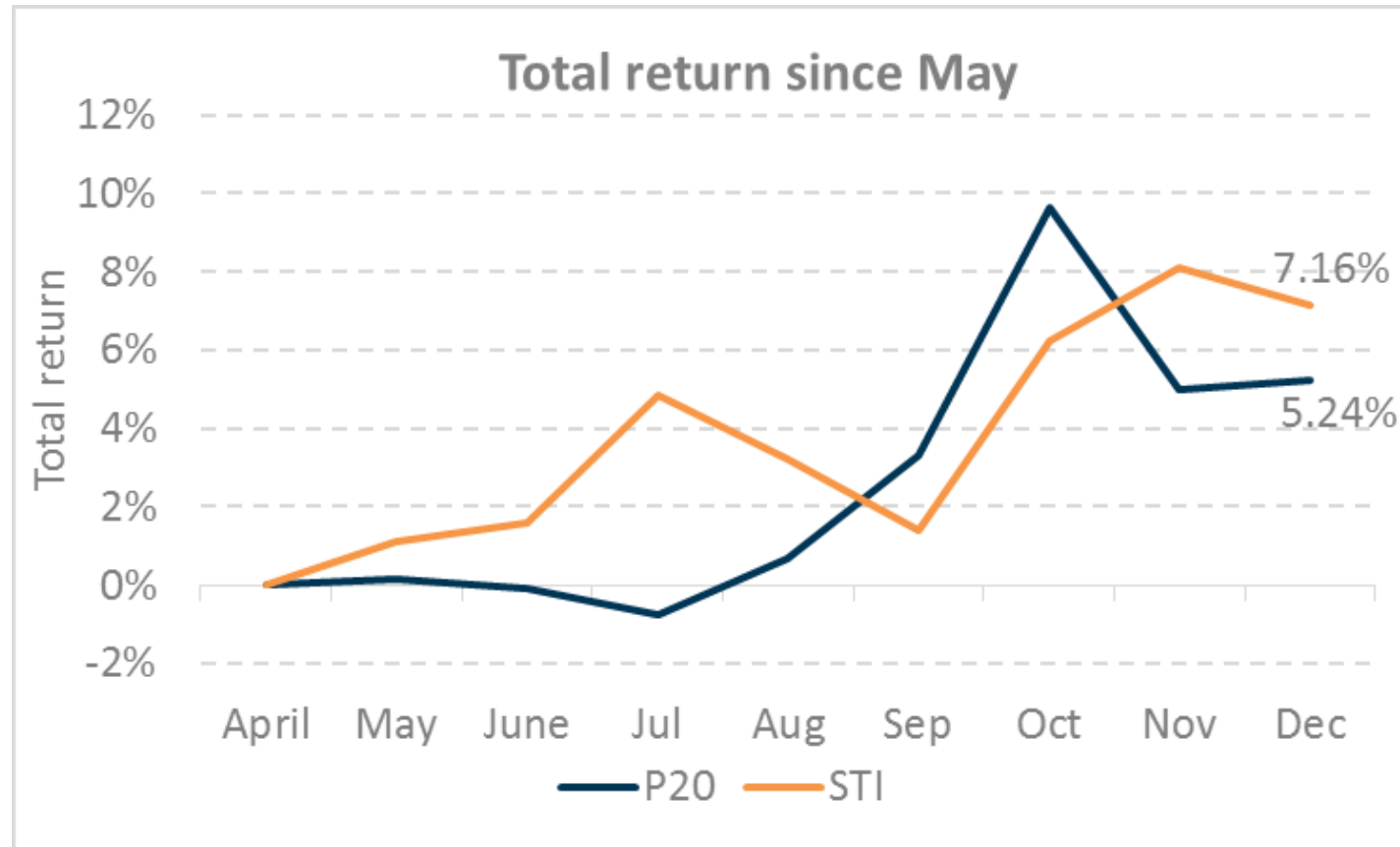
Source: Bloomberg, PSR

Monthly performance



Source: Bloomberg, PSR

Total return since May, as of 31 Dec 2017



Source: Bloomberg, PSR

Watchlist

- China Sunsine
- Sunningdale Tech
- Falcon Energy
- Jiutian Chemical
- GSH
- Hotung Inv
- Lian Beng
- Geo Energy Res
- Valuetronics
- Asian Pay TV
- UOL
- Avi-Tech
- SingHoldings
- Metro
- Yongnam
- Allied Tech
- Frasers Cpt
- Alliance Mineral
- CityDev
- InnoTek
- Food Empire
- OCBC
- Frasers L&I Tr
- Micro-Mechanics
- Hi-P
- YZJ Shipbldg SGD
- AEM
- Genting Sing
- Memtech Intl
- Wheelock Prop
- Venture
- Banyan Tree
- UnUsUal
- Sunright
- Oxley
- Nordic
- Centurion
- SATS
- Keong Hong
- Starhub
- Hong Fok
- Ho Bee Land
- DBS
- UOB

Current Portfolio

The Phillip 20 Portfolio - Our top technical picks as of 4 January 2018

Company Name	Ticker	L	Entry Date	Entry price	Stop Loss	Last price	Current gain/loss (%)
BREADTALK	SDA	Long	2-Nov-17	1.645	1.470	1.690	2.74%
COGENT	KJ9	Long	22-Mar-17	0.780	0.725	1.010	29.49%
CHIP ENG SENG	C29	Long	12-Dec-17	0.945	0.880	1.020	7.94%
CHINA AVIATION	G92	Long	13-Dec-17	1.670	1.510	1.670	0.00%
ELLIPSIZ	BIX	Long	3-Aug-17	0.645	0.575	0.730	13.18%
FRENCKEN	E28	Long	20-Jul-17	0.525	0.445	0.545	3.81%
F & N	F99	Long	24-Mar-17	2.220	2.220	2.570	15.77%
GOLDEN AGRI-RES	E5H	Long	26-Oct-17	0.400	0.350	0.390	-2.50%
GOLDEN ENERGY	AUE	Long	2-Aug-17	0.425	0.360	0.405	-4.71%
JUMBO	42R	Long	22-Sep-17	0.575	0.525	0.600	4.35%
MIYOSHI	M03	Long	23-Aug-17	0.074	0.062	0.080	8.11%
PANUNITED	P52	Long	22-Aug-17	0.550	0.500	0.580	5.45%
RIVERSTONE	AP4	Long	12-Jul-17	1.065	0.995	1.060	-0.47%
SINOSTAR PEC	C9Q	Long	28-Nov-17	0.194	0.149	0.195	0.52%
SPH	T39	Long	25-Sep-17	2.750	2.530	2.780	1.09%
SINGAPORE O&G	1D8	Long	14-Sep-17	0.490	0.420	0.445	-9.18%
THAIBEV	Y92	Long	14-Mar-17	0.955	0.825	0.905	-5.24%
WING TAI	W05	Long	11-Dec-17	2.270	2.060	2.310	1.76%
YOMA STRATEGIC	Z59	Long	1-Dec-17	0.505	0.470	0.535	5.94%

Source: Bloomberg, PSR

S&P 500

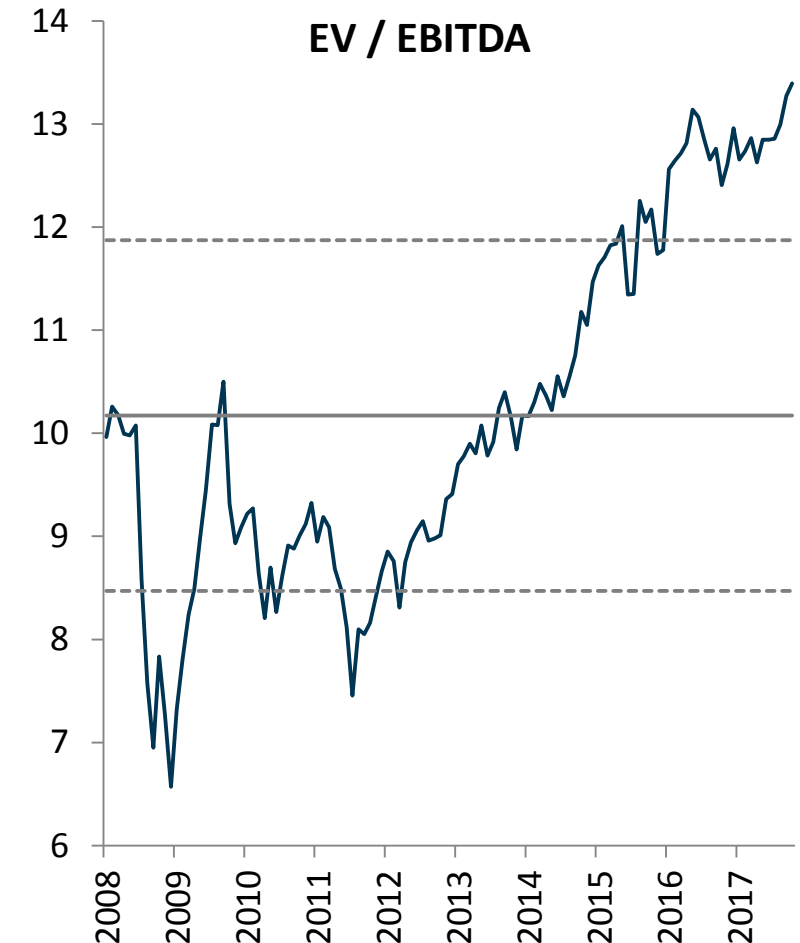
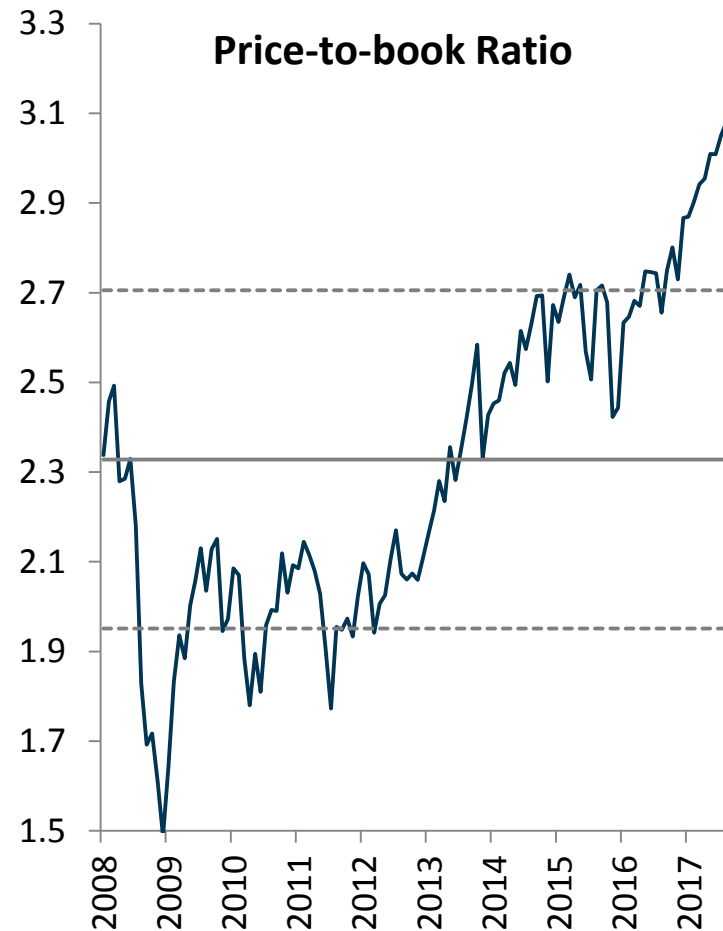
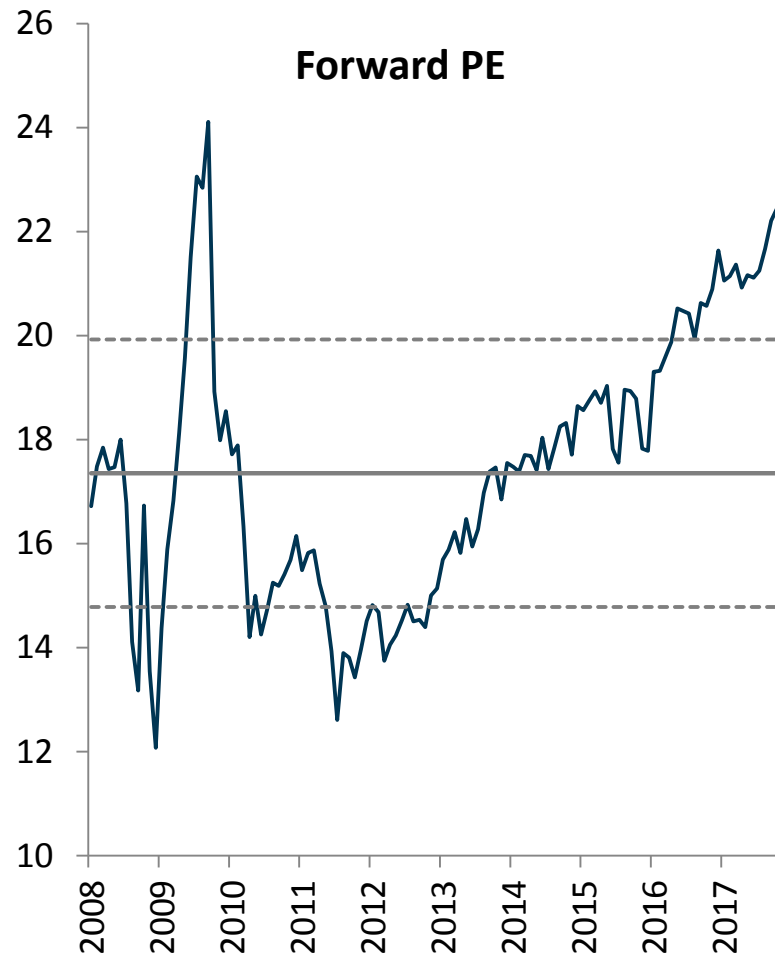
Why we are not hard-negative yet

Pei Sai Teng

Phillip Securities Research Pte Ltd

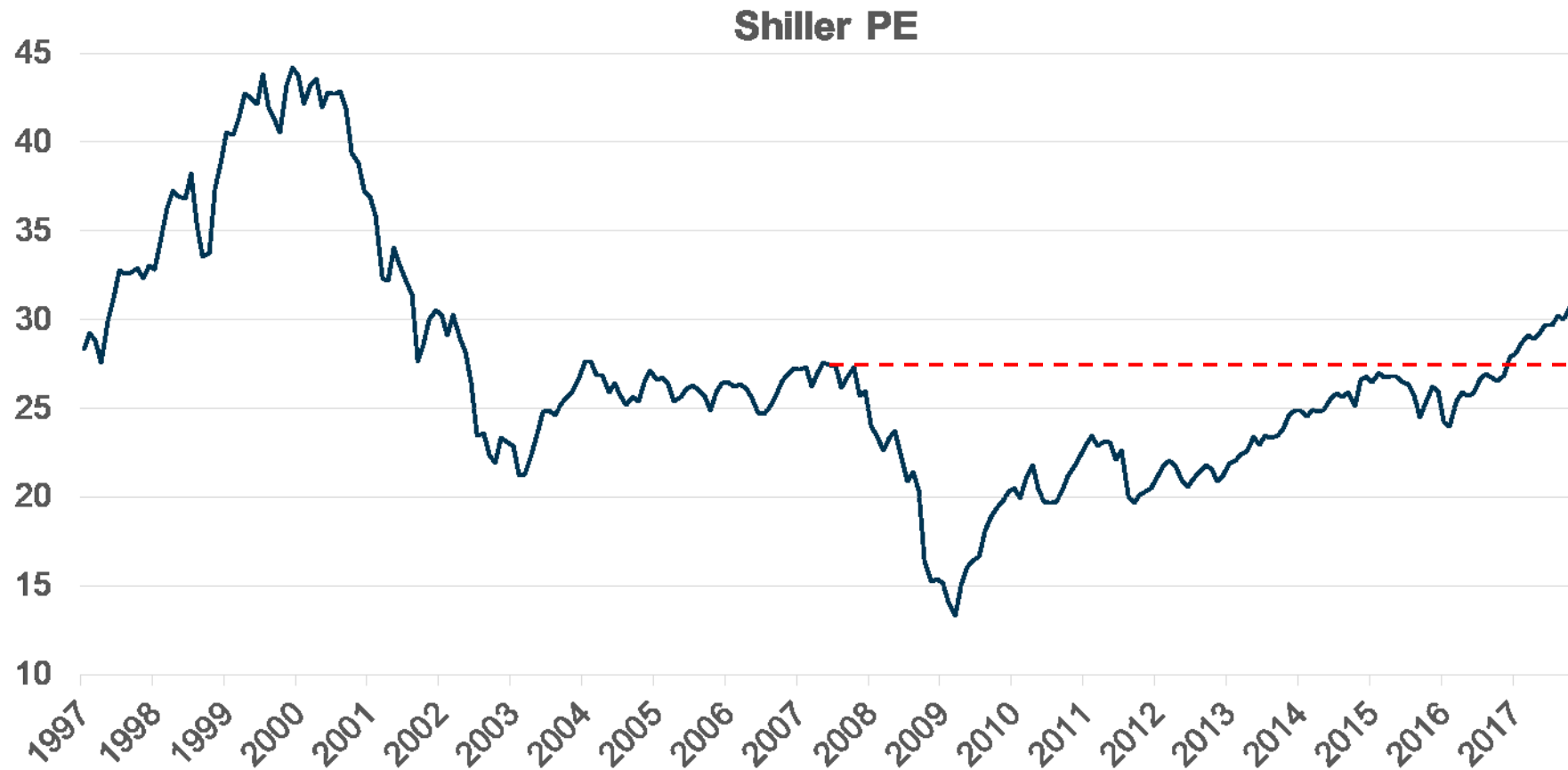
08 January 2018

Overvalued, Overbought, Overbullish



Source: Bloomberg, PSR

Cyclically Adjusted PE



- CAPE is now higher than level in 2008

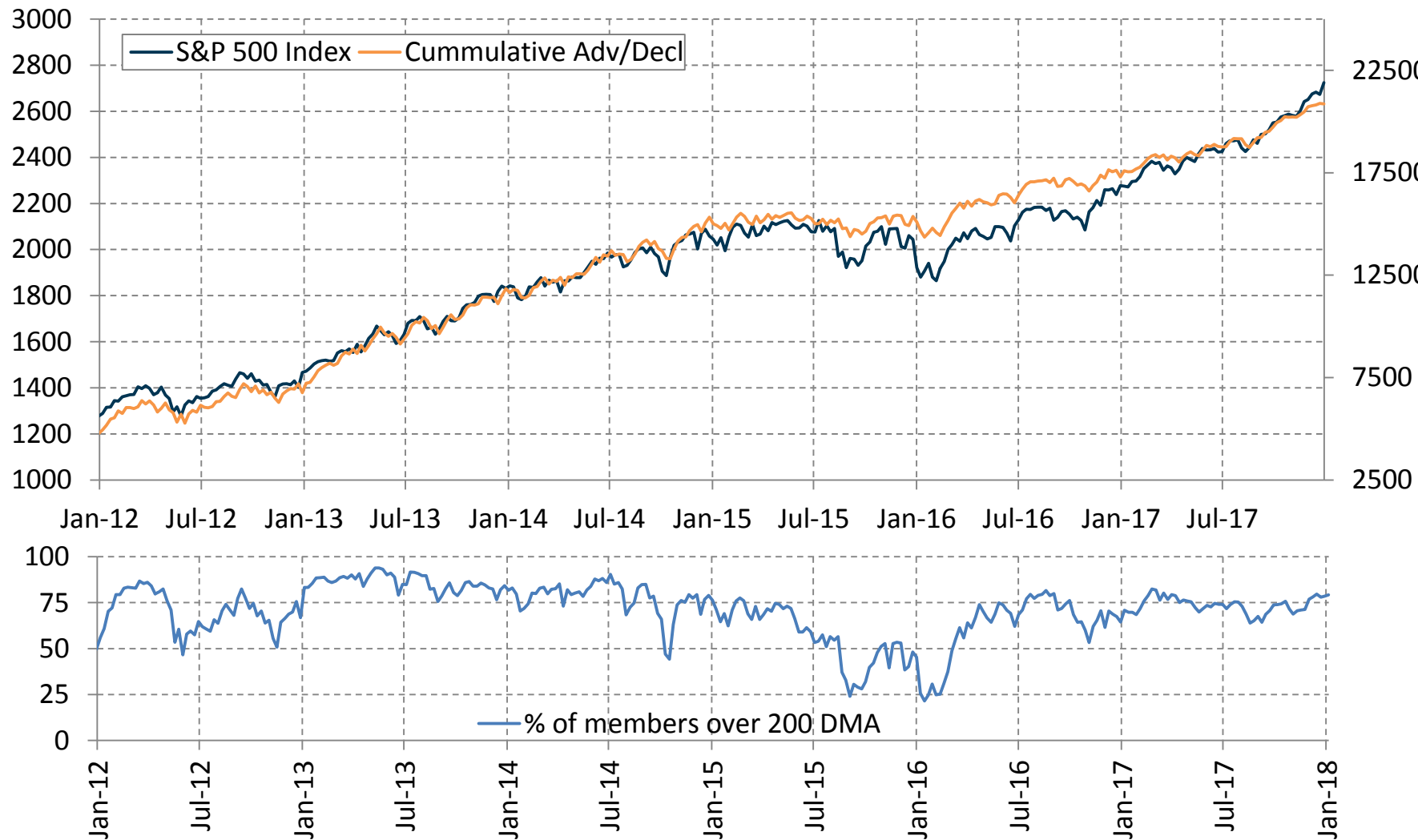
Source: Robert Shiller, PSR

Valuation is not a good market timer

- Although the U.S. markets is overvalued, but valuation cannot be a good tool for market timing.
- The hysterical of a overstretch market can last longer than we expect
- There are other ways to measure the depth and breathe of strength of the markets.
 1. Cumulative Advancer/Decliner
 2. Numbers of Companies above 200 Day moving Average
 3. Net numbers of Companies hitting 52 weeks high
 4. Consumer sentiment and confidence

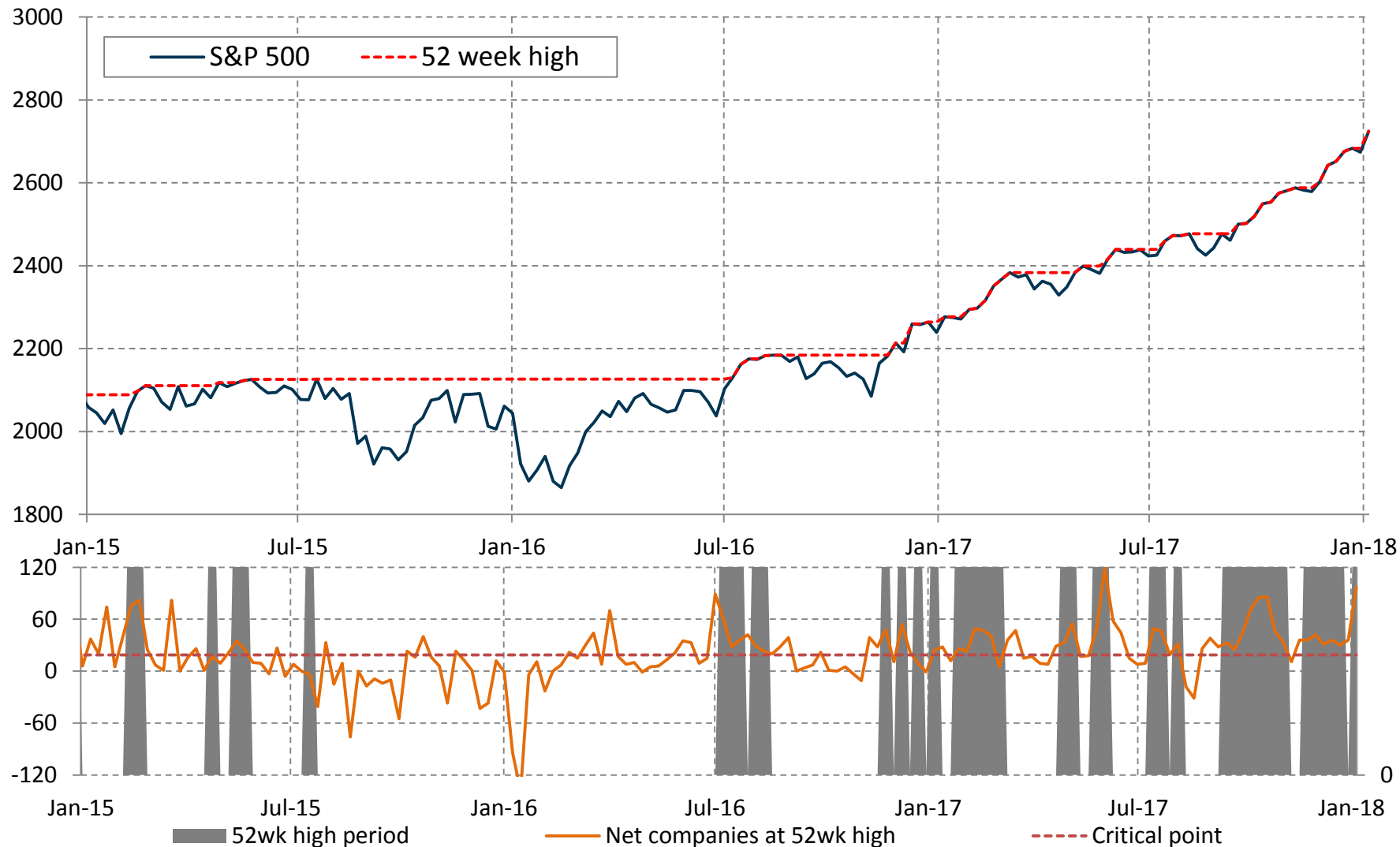
“ Market can be irrational longer than we can remain solvent.”

Cumulative Advancer/Decliner & 200Day MA



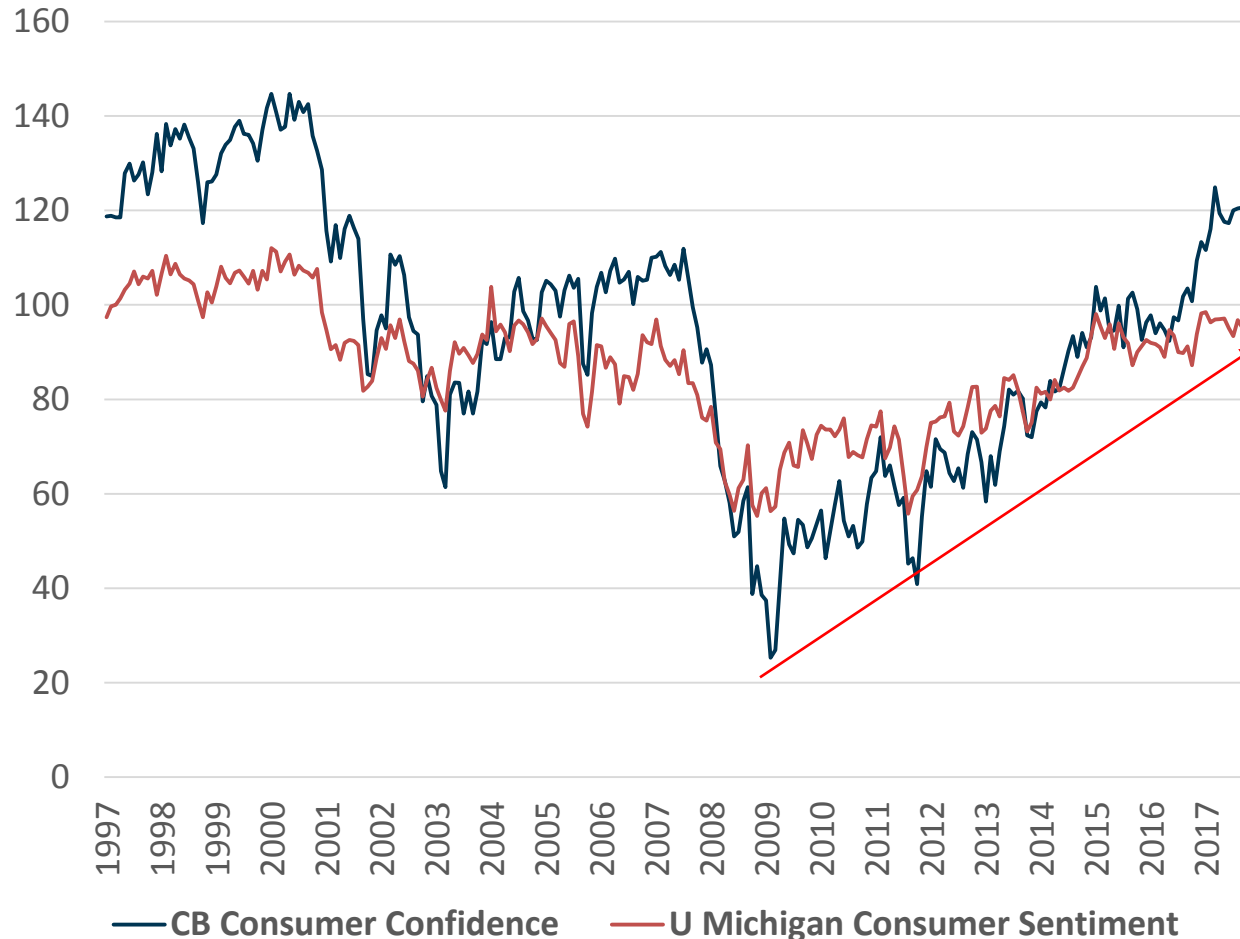
- Cumulative Advancer less Decliner shows that the recent increase in prices is not just lead by a few strong companies but is across the index.
- Percentage of the index companies above 200 moving average also suggest that the market is still strong.
- We observed that an advancing markets is usually accompanied with 75% of the index above 200DMA.

Net amount of companies at 52 weeks High



- New 52 weeks high on the index, should be accompanied with Net new 52 weeks high for the numbers companies.
- A pivot point to note is when the index hit a new 52 weeks high, the net companies hitting 52 weeks high should be above 18.
- There were 94 companies at 52wk high last week.

University Michigan Consumer Sentiment & CB Consumer Confidence



- The only driving force in the appreciation of the price of S&P 500 is the “feel-good” factor or the “animal-spirit”.
- This can be observe through forward looking survey such as the University of Michigan Consumer Sentiment and the CB consumer confidence.
- The reverse of such trend should be a early-warning indicator.
- Watch out for **Phillip Recession Tracker** to provide early indicator of any impending recession or market downturn.

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