

Phillip Securities Research Morning Call

14th September 2020

Stock Counter Updates

- **Sembcorp Industries (Initiation)**

Macro/Sector Outlook

- **SG REITs Monthly**
- **Asia Technical Outlook**
- **SG Weekly**

Sembcorp Industries Limited (Initiation)

Charting a new course

Terence Chua

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Phillip Securities Research Pte Ltd

17th August 2020

Sembcorp Industries (Initiation – BUY), TP: S\$1.75, Last: S\$1.18

Background

- Leading Energy and Urban development group.
- Sembcorp Industries has subscribed for S\$1.5 billion of Sembcorp Marine (SCM) rights by setting off the outstanding principal of S\$1.5 billion under the Subordinated Loan extended to SCM.
- SCM rights shares undersubscribed.
- Temasek has subscribed for the balance of 1,028,498,258 unsubscribed rights shares.
- 4.911 SCM shares for every 1 SCI share held distributed to SCI shareholders.
- Demerger of SCI and SCM completed.

Our Businesses	Energy	Urban
Macro Themes	Global energy transition, low-carbon and cleaner energy	Urbanisation and sustainable development in Asia
Competitive Position	<ul style="list-style-type: none"> • Owner-operator of a balanced portfolio of high-efficiency thermal and renewable assets • Track record in renewable energy and environmental solutions including wind and solar power, battery storage and energy from waste • Proven deep integration expertise in the provision of solutions across the energy and utilities value chain 	<ul style="list-style-type: none"> • Solid track record in transforming raw land into self-sufficient urban developments • Strong franchise in Asia • Delivers the economic engine to support industrialisation and urbanisation
Value Creation	<ul style="list-style-type: none"> • >12,600MW in power capacity, including 2,600MW of renewable power capacity • > 8.6 million m³/day in water & wastewater treatment capacity 	<ul style="list-style-type: none"> • 13 projects in Vietnam, China and Indonesia • US\$34 billion in direct investments attracted to its projects • >1,000 tenants comprising multinationals and leading local enterprises
	Reposition as an integrated energy player	Move up the value chain and leverage synergies with energy business

Source: Company

Date	
8 September 2020	Last date of “cum-distribution” trading of the SCI shares
9 September 2020 at 9.00am	Expected commencement of “ex-distribution” trading of SCI shares
On or about 10 September 2020 at 5.30pm	Expected SCI record date for the proposed distribution
On or about 11 September 2020	Expected settlement date of the proposed SCM rights issue
On or about 11 September 2020	Expected date for crediting the SCM shares to SCI shareholders pursuant to the proposed distribution

Source: Company, PSR

Investment thesis

1. SCI shareholders could realise a total of S\$2.64⁽¹⁾ per share (fair value of SCI (ex.SCM) + 4.911 x SCM shares⁽²⁾) {S\$1.75/share for SCI, based on 0.7x FY21e P/BV (ex. SCM) + [4.911 x S\$0.182⁽¹⁾ (closing price of SCM as at 10 September, day before distribution-in-specie)]}.
2. IPO of Sembcorp Energy India Limited (SEIL) to crystallise value of SCI's India business unit, which we estimate to have a value of about INR98bn or S\$1.8bn.
3. Potential positive re-rating of SCI following the demerger as profitability and return on equity improves in FY21e.

	FY19 (reported)	Pro forma FY19	FY20e	FY21e
Return on equity	3.5%	7.9%	-1.5%	7.6%
Return on asset	3.5%	5.6%	-0.5%	2.1%
Debt levels	S\$11.6bn	S\$8.7bn	S\$8.5bn	S\$8.4bn
Profit attributable to owners of the Company	211	257	-147	326
Net tangible assets per share (S\$)	3.49	2.05	2.30	2.49

Source: PSR

(1) Our initiation report published on the 9 September reflected SCM's last traded share price on the 8 September, the total realised value by a SCI shareholder will vary based on the last traded price of SCM prior to the distribution-in-specie. There is no change to the fair value of SCI.

(2) The value of SCM is derived based on the last traded price of SCM on the day before the distribution-in-specie. For the avoidance of doubt, we have not performed a valuation of SCM.

IPO of Sembcorp Energy India Ltd to happen sooner rather than later

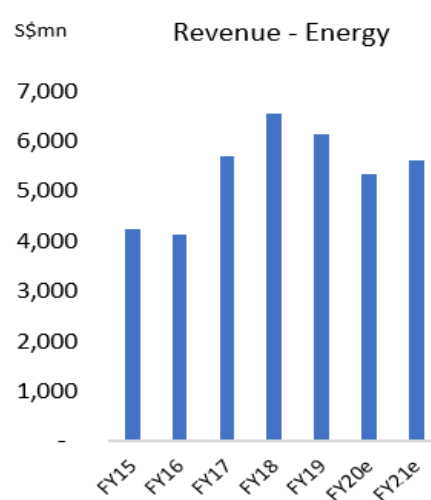
1. Original intention was to file for an IPO in 2019
2. Delayed in favour of an equity injection for full control in December 2019 at a valuation of INR77.3bn(\$\$1.4bn) (1.2x FY19 P/BV)
3. At the sector average, SEIL's implied valuation is INR111.2bn (\$\$2.1bn), we impute a slight discount to account for SEIL's lack of a listing track record to arrive at a valuation of INR98.1bn or \$\$1.8bn (~1.5x FY19 P/BV)

Comparables										
Company	Mkt cap (INR mn)	PE Yr 0	FY19 EPS growth (%)	FY20e EPS growth (%)	FY19 net profit margin (%)	P/BV Yr 0	FY19 ROE (%)	ROE Yr 1 (%)	FY19 EV/EBITDA (x)	FY19 Dividend yield (%)
Adani Green Energy Ltd	865,056	N/A	95.1	N/A	-0.9%	10.2	-1.1%	N/A	25.6	N/A
NHPC Ltd	214,461	7.5	12.6	0.24	38.2%	0.6	9.2%	8.9%	7.8	7.0
SJVN Ltd	92,547	6.2	9.8	N/A	61.4%	0.7	14.4%	N/A	4.0	9.3
Jaiprakash Power Venture	18,811	N/A	-464.3	N/A	-62.4%	0.0	24.7%	N/A	5.7	N/A
Rattanindia Power Ltd	15,807	6.5	-99.5	N/A	9.3%	1.6	N/A	N/A	22.3	N/A
Orient Green Power Ltd	1,501	4.1	32.3	N/A	6.2%	0.2	3.9%	N/A	6.3	N/A
Urja Global Ltd	1,420	127.3	N/A	N/A	0.7%	0.3	0.7%	N/A	57.2	N/A
Indowind Energy Ltd	283	315.0	41.6	N/A	0.2%	0.1	0.0%	N/A	12.1	N/A
Average	151,236	77.8	-53.2	0.2	6.6%	1.7	0.4%	8.9%	17.6	8.2
Sembcorp Energy India Ltd	N/A	N/A	n.m	N/A	1.4%	N/A	2.0%	N/A	N/A	N/A
Average	151,236	77.8	-53.2	0.2	6.0%	1.7	0.6%	8.9%	17.6	8.2

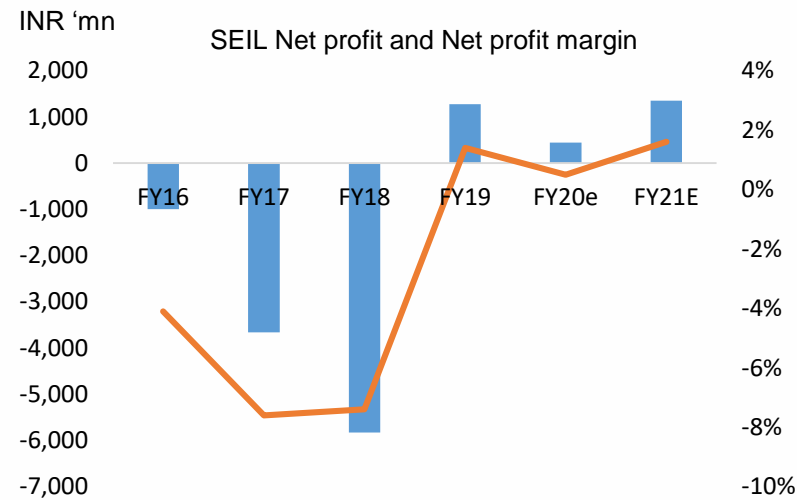
Source: PSR, Bloomberg

Potential positive re-rating for SCI following the demerger

1. Revenue from Energy segment to be weaker for FY20e (-13% y-y) as economic activity from around the world slowed down due to circuit breaker measures. 2HFY20e to show slightly better performance.
2. We expect SEIL's net profit to be impacted slightly for FY20e, but to recover from FY21e due to the recent opening of SEIL's Project 3.
3. ROE to improve from 3.5% in FY19 to 7.6% in FY21e.



Source: PSR, Company



Source: PSR, Company

	FY19 (reported)	Pro forma FY19	FY20e	FY21e
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Source: PSR

Valuation of SCI

1. We peg standalone SCI (ex. SCM) to a P/BV of 0.7x FY21e (a slight discount to the 10 year historical average of the implied SCI (ex. SCM) P/BV) to account for their Energy and Urban business at S\$1.75. We see a potential positive re-rating of standalone SCI (~S\$1.02 – their ex-distribution price) from improving operating metrics post de-merger.
2. Entitled SCI shareholders have been credited with 4.911 of SCM shares for every 1 share held as at 11 September.
3. SCI shareholders could realise a total of S\$1.75 + S\$0.89 = S\$2.64.

	(S\$ mn)	S\$ / share
SCI FY21e Equity value assuming SCI subscribe for the undertaking of SCM rights (ex. SCM)	4,459	
Ascribed 0.7x P/Bv of FY21e P/Bv (1)	3,121	1.75
Number of SCM shares:		
- based on maximum distribution ratio (2)	4.911	
SCM last traded price (as at 10 Sept 2020)		0.182
Total value of SCM distributed shares (1) x (2) = (3)		0.89
Total SCI shareholders will realise (1) + (3)		2.64

Source: PSR

Singapore REITs Sector

From defensive to offensive – More acquisitions to come

Natalie Ong

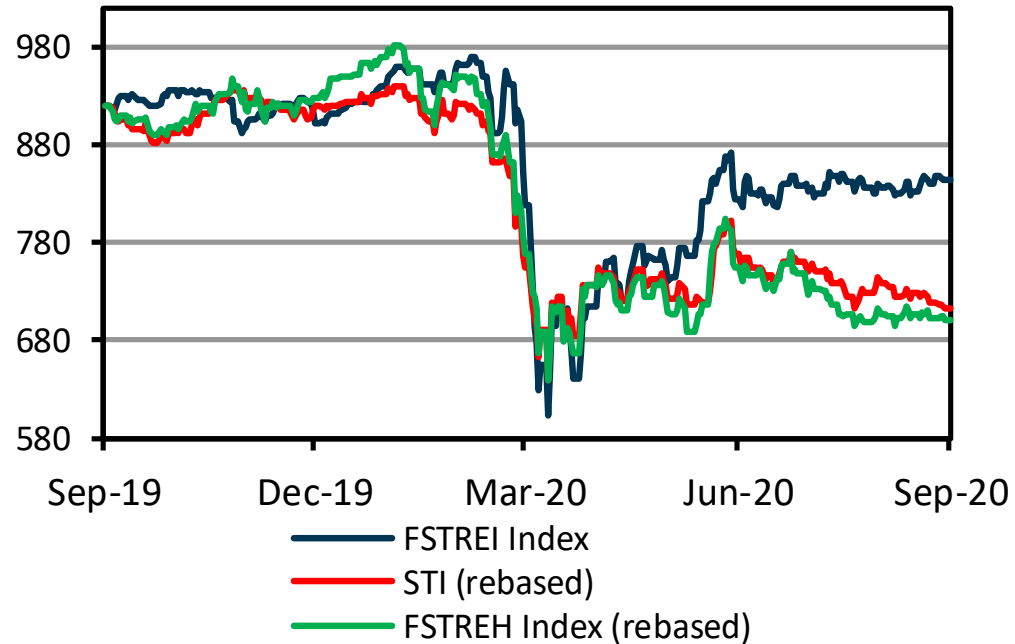
Research Analyst

Phillip Securities Research Pte Ltd

14th September 2020

FTSE REIT Index outperforming STI

FSTREI VS. STI



INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	1.8	2.8	(5.6)	(3.7)
FSTREH RETURN	0.6	(5.3)	(23.6)	(21.1)
STI RETURN	(1.4)	(6.3)	(19.9)	(19.0)

S-REIT yield spread at the +0.11 s.d. level

FTSE Straits Times REIT Index Yield Spread over 10YSGS



Dividend yield: 4.5%
2019 Ave: 4.6%

Div. yield spread: 3.5%
2019 Ave: 2.6%

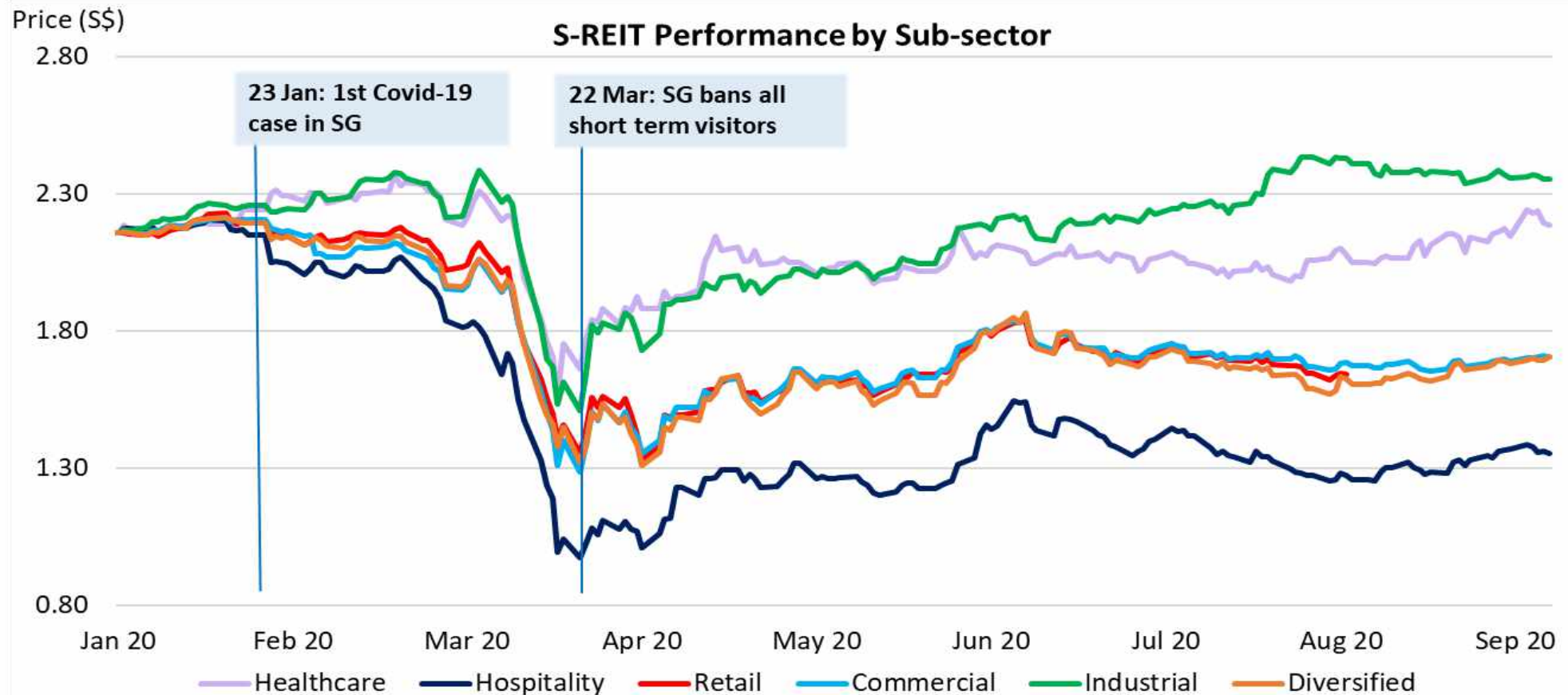
FED rate: 0% - 0.25%,
after 150bps cut

3M SOR: 0.20%

10YSGS: 0.92%

Source: Bloomberg, PSR

Recovery by subsector



Source: Bloomberg, updated 11 September 2020

	Healthcare	Hospitality	Retail	Commercial	Industrial	Diversified
Change YTD	1.3%	-37.2%	-21.1%	-21.0%	9.0%	-20.9%

Implications for S-REITs

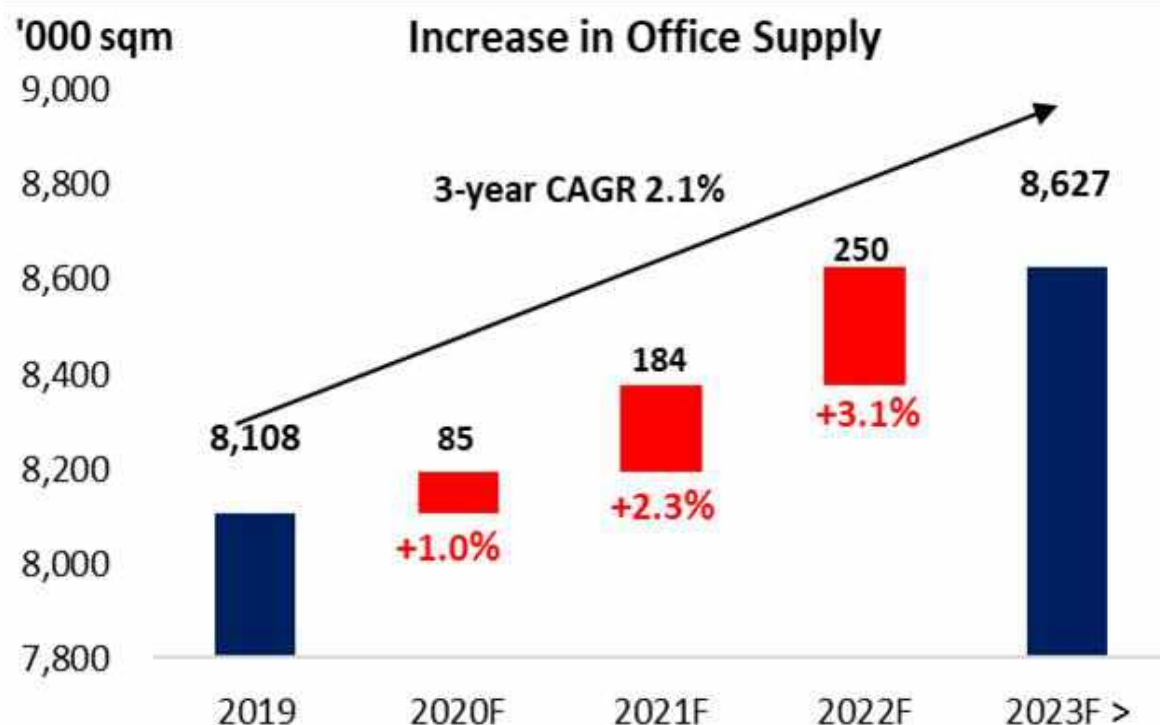
Outlook

- Slower leasing activity, mostly renewals
- Higher vacancy rates
- Lower rents and/or negative rental reversions
- Markets are “frozen”, bid-ask spread for assets
- Structural shift in future demand for real estate

Mitigants

- Tenants are locked in by existing leases
- Relatively low supply coming online across the subsectors
- Construction slippage will provide near-term support
- Supply will adjust to help the real estate sector achieve a healthy equilibrium

Office – Maintenance of office address to remain dominant trend



Source: URA, CEIC, PSR

- CBD Incentive Scheme (Redevelopment 2021/22)

- ❖ AXA Tower (700K sq ft)
- ❖ Fuji Xerox Tower (354K sq ft)
- ❖ Central Mall (131K sq ft)

- Resilience of office-using tenants
- Muted supply coming online
- Office synonymous with mentoring, collaboration, innovation and corporate culture
- **Potential positives:**
 - Lower desk-density and split office may increase demand
 - Demand for flex-space
- **Potential negatives:**
 - Risk of rightsizing due to adoption of telecommuting
 - Hub-and-spoke occupier strategy

Retail – Pick-up in discretionary spending

SG Retail Sales YoY % (excl. Motor Vehicle Sales)



Source: CEIC, PSR

	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Jul-20	-7.2	-32.8	30.1	-27.6	-25.7
Jul-19	-2.5	-1.3	2.3	0.1	4.3

- 95% of tenants operating
- F&B dine in recovering well, postponement not cancellation of spending
- Capacity constraints but offset by more balanced customer-flow throughout the day
- Flexible leasing strategies:
 - ✓ shorter lease term,
 - ✓ higher risk-sharing
- Digitalisation to future-proof operations
 - ✓ Ecosystem for tenant and customer stickiness
 - ✓ Leads for new business

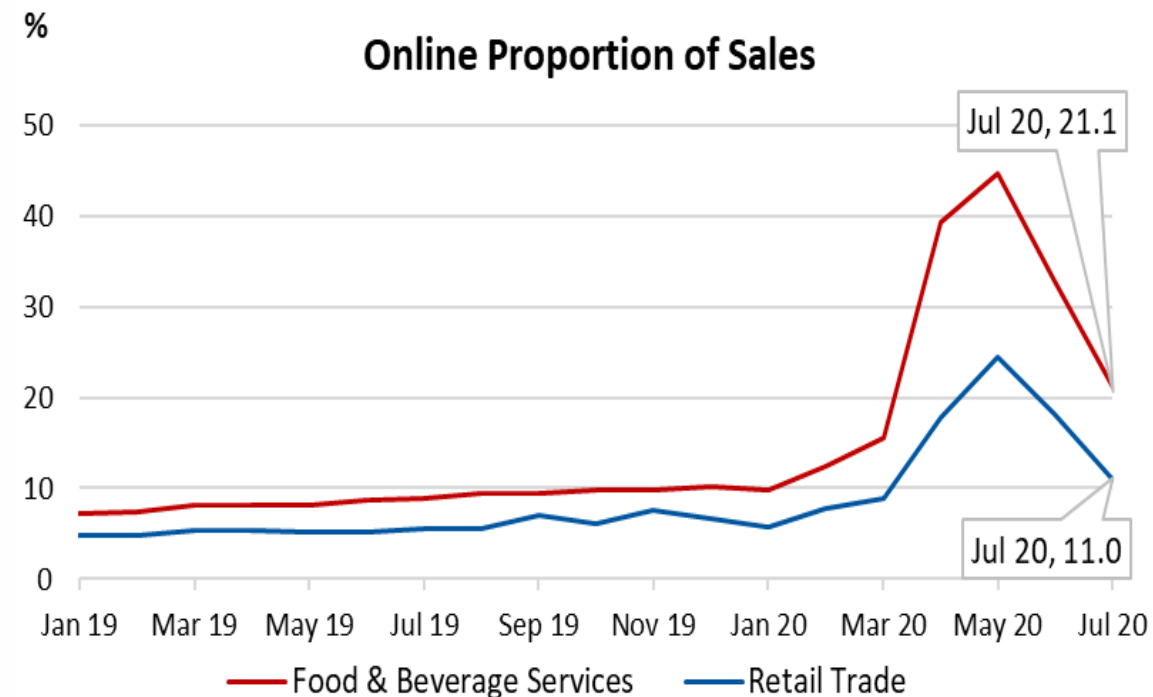
Retail – Pick-up in discretionary spending

SG Retail Sales YoY % (excl. Motor Vehicle Sales)



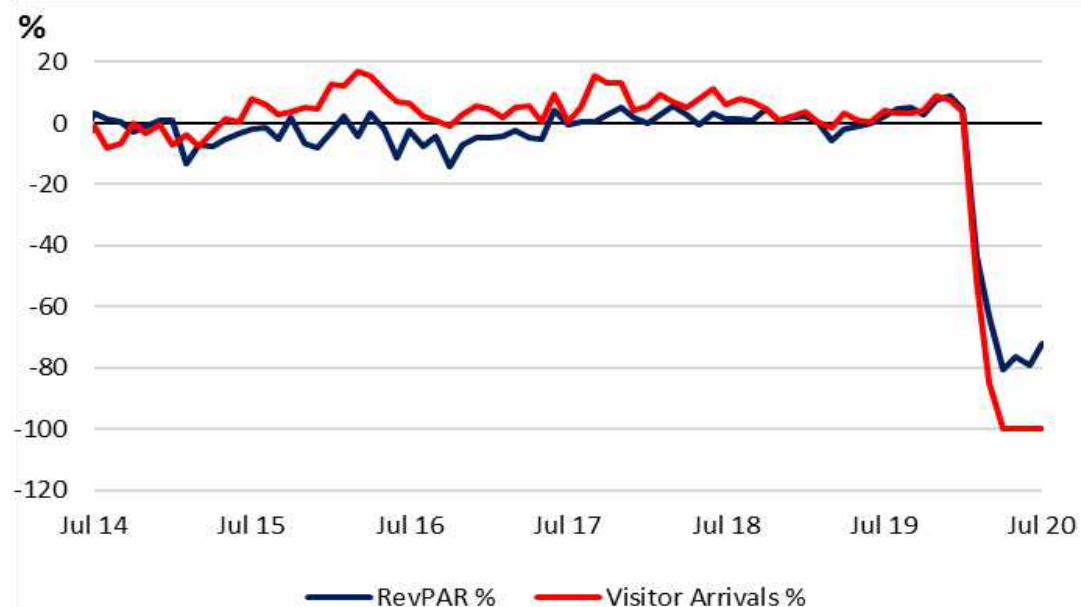
Source: CEIC, PSR

	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Jul-20	-7.2	-32.8	30.1	-27.6	-25.7
Jul-19	-2.5	-1.3	2.3	0.1	4.3



Source: SingStat, PSR

Hospitality – Lingering fears will impede recovery



	Visitor Arrivals	Hotel RevPAR (\$\$)	Hotel Occupancy (%)	Hotel Average Room Rate (\$\$)
Jul-20	6,842	57	70.0	81
Jul-19	1,802,533	204	93.9	217
YoY%	-99.62%	-72.12%	-23.91 ppts	-62.60%

RevPAR per room/night	Average	Luxury	Upscale	Mid-tier	Economy
Jul-20	57	102	74	53	38
Jul-19	204	416	241	164	104
YoY%	-72.12%	-75.47%	-69.41%	-67.51%	-62.99%

- Fast lane arrangements for essential travel to 6 countries
- Hotels can apply to reopen for staycation booking from 3 July 2020
- \$320mn SingapoRediscovered Vouchers to boost domestic tourism
- Luxury/upscale and resort-styled hotels to benefit from staycation demand
- Significant discounts will suppress RevPARs
- Recovery hinges on vaccine timeline

Source: CEIC, PSR

Phillip Securities' Stock Calls

	3M Daily Average Volume	Share Price S\$	P/NAV (x)	PSR Rating	Target Price S\$	FY20e DPU cents	FY21e DPU cents	FY20e DPU Yield	FY21e DPU Yield	Total return
Ascott Residence Trust	7.0	0.87	0.87	BUY	1.08	5.37	6.99	6.2%	8.0%	30.3%
CapitaLand Mall Trust	15.1	1.85	0.98	BUY	2.33	10.78	12.81	5.8%	6.9%	31.8%
Frasers Centrepoint Trust	2.6	2.38	1.21	ACCUMULATE	2.61	9.88	13.56	4.2%	5.7%	13.8%
Dasin Retail Trust ¹	0.6	0.82	0.60	ACCUMULATE	0.91	5.00	5.62	6.1%	6.9%	17.8%
CapitaLand Commercial Trust	11.4	1.59	0.94	ACCUMULATE	1.91	7.67	9.12	4.8%	5.7%	24.9%
Manulife US REIT	3.3	0.75	0.99	BUY	0.90	6.39	6.49	8.6%	8.7%	29.4%
Prime US REIT ²	1.0	0.79	0.90	BUY	0.94	7.04	7.32	8.9%	9.3%	27.9%
IREIT Global Trust ²	0.5	0.70	0.78	NEUTRAL	0.68	4.92	4.57	7.1%	6.6%	4.9%
Ascendas REIT	11.7	3.40	1.49	ACCUMULATE	3.63	16.72	16.9	4.9%	5.0%	11.7%
Keppel DC REIT	5.3	2.96	1.93	NEUTRAL	2.57	8.99	9.55	3.0%	3.2%	-10.1%

Note: 3M Daily Average Volume is

Source: Bloomberg, PSR, updated 23 August 2020

¹ Covered by PSR under a paid research agreement

² Covered by PSR under the 'Research Talent Development Grant Scheme' administered by SGX

Hang Seng Index Technical Outlook

Dominant trend is still bearish

Chua Wei Ren

Technical Analyst

Phillip Securities Research Pte Ltd

14th September 2020

Hang Seng Index – Weekly chart

5-wave descending triangle?

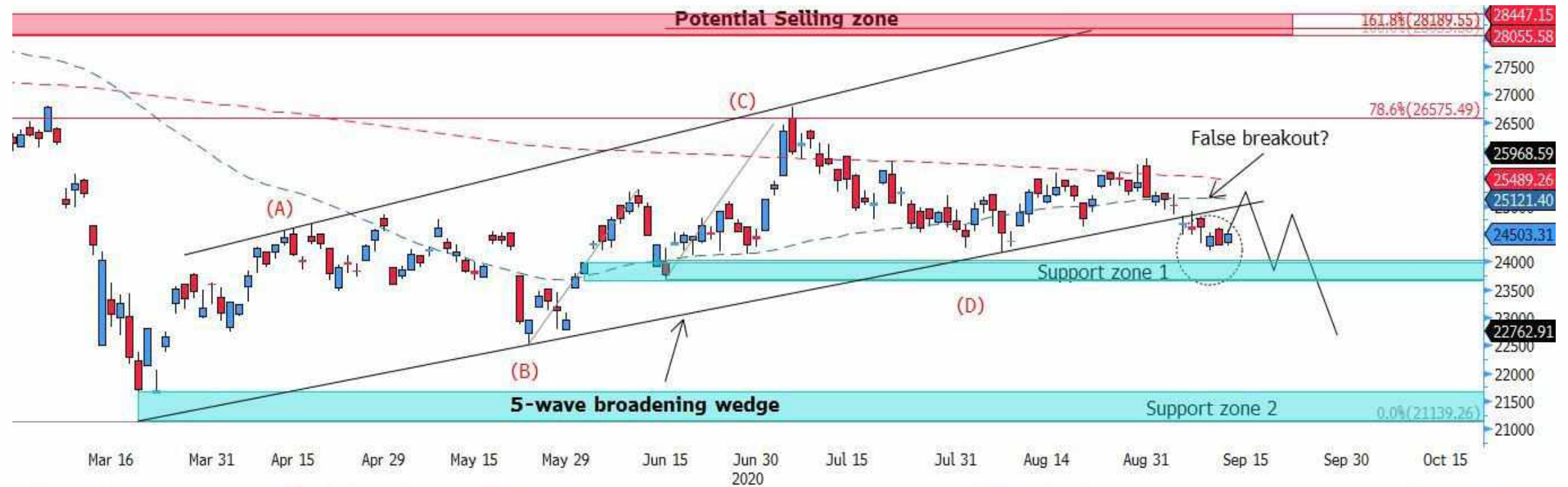
- Since the completion of the 5-impulse wave from 2015-2017, Hang Seng has been on a downside channel.
- As the ((A))-((C)) sub-waves has been completed within the channel, Hang Seng is attempting to test 28,000 psychological resistance again.



Hang Seng Index – Daily chart

A false breakout of the broadening wedge?

- Since prices broke below the ascending wedge, prices has been consolidating and there is a chance it may be a false breakout
- Either way, Hang Seng's upside is still relieved as the support zone 1 at 24,000 is a good zone for a rebound.



HSI Index (Hong Kong Hang Seng Index) HSI daily 20200708 Daily 03MAY2018-13SEP2

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Tencent Holdings Ltd Technical Outlook

Prolong corrective flat in action

Chua Wei Ren

Technical Analyst

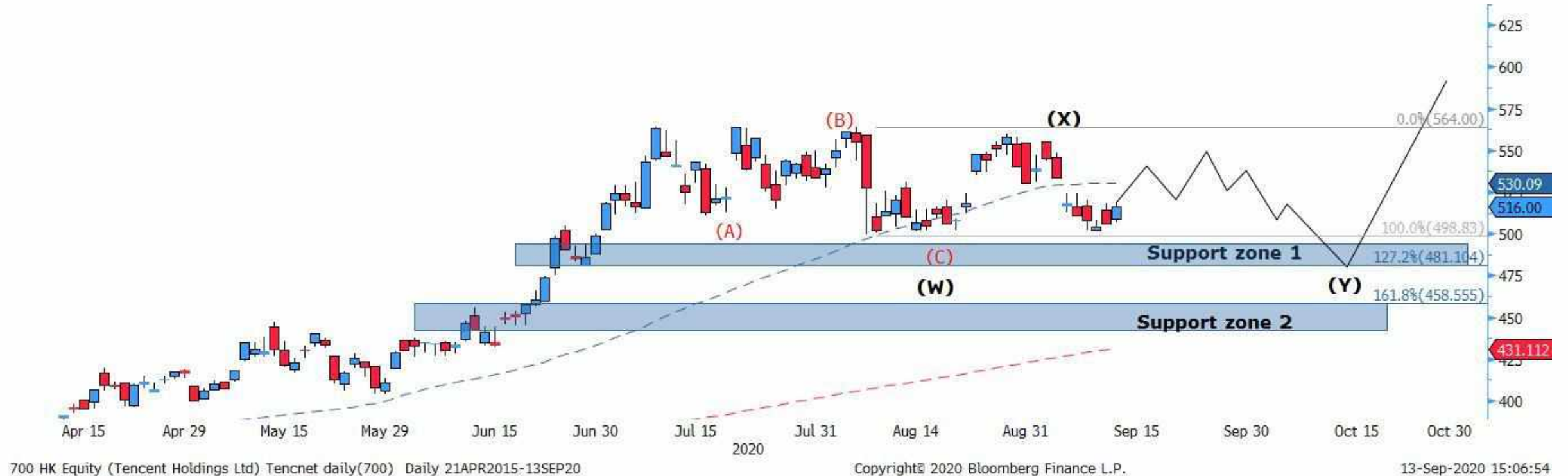
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Tencent – Daily chart

Double three corrective wave is in action

- Prices has halted its advancement in July after a failed ascending triangle and it instead forms a potential triple top.
- Price did break below the neckline resistance at HKD\$525.00 but prices swiftly rebounded.
- As such, the only possible action is that it have formed a double three corrective wave action ahead.



Top Gloves Technical Outlook

Is the corrective action over?

Chua Wei Ren

Technical Analyst

Phillip Securities Research Pte Ltd

14th September 2020

Top Glove – Daily chart

Regular flat has been complete

- Last Friday bullish engulfing candle sees prices rebound from extension level of corrective AB waves and punching above the support level sees Top gloves resuming its upside.
- However, should prices fails to break the \$3.00 resistance zone, then there is a possibility that the stock will enter into a prolong double three corrective waves.



AEM Holdings Technical Outlook

Rebound from support?

Chua Wei Ren

Technical Analyst

Phillip Securities Research Pte Ltd

14th September 2020

AEM Holdings – Daily chart

Corrective ABC completed?

- Last Friday saw AEM completing a hammer like candlestick formation above the support level and it is indicative of the stock's potential upside to test the resistance zone at \$4.02-\$4.20.



AEM SP Equity (AEM Holdings Ltd) AEM 20200826 Daily 03MAY2018-13SEP2020

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Week 38 - Phillip Singapore Weekly

Paul Chew

Head Of Research

Phillip Securities Research Pte Ltd

14 September 2020

Week 38 – Tactical Views

Macro Last Week

- **SG:**
 - Healthcare: Jul20 Private Hosp Admission -19.1% YoY (Jun20:-19.4%) + Dental -52% (-42%) + Specialist -17.6% (-16.8%)
 - Construction: Jul20 Contracts awarded -75% YoY (Jun20: -40%);
 - Foreign reserves: record high US\$327bn, up US\$6.1bn or YTD US\$48bn;
- **Oil:** Lowest since June after surprise inventory build and past peak driving season
- **US:** Final 50 days to US election, Biden win is positive for Asian assets and currencies, 54% betting odds, debate 29Sep/15Oct/22Oct

Tactical

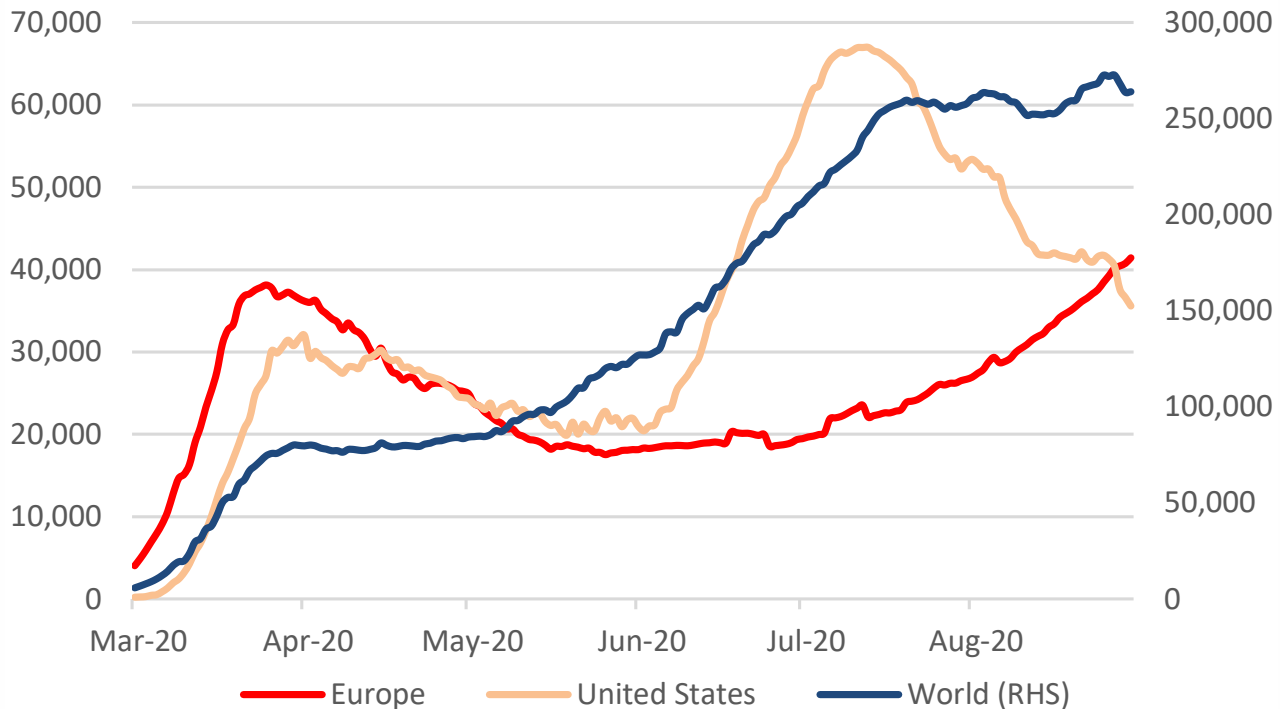
- Cautious: Singapore indicators still soft YoY basis as stimulus fades + sidelined with upcoming US elections + resurgence in cases especially Europe
- Skinny or No stimulus: \$500-700bn vs \$3tr in May20 vs \$2.2tr Democrats; no state aid and no individual cheques
- Hard Brexit scenario: impact on sterling – developers and investment properties at risk

Week(s) Ahead

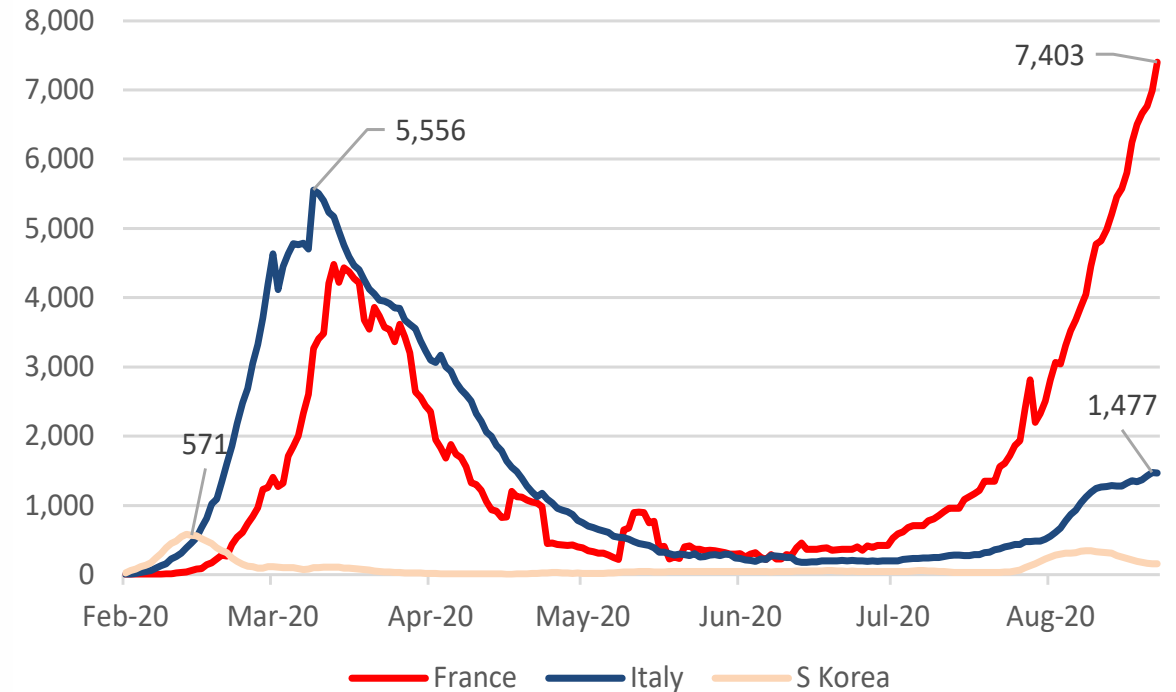
- 15Sep: China IPI; 16Sep: US retail sales; 17Sep: NODX, FOMC meeting, US weekly jobless claims; OPEC+ meeting
- Poems Webinars: Straits Trading Co (15Sep 1pm); Sasseur REIT (16Sep 2pm); Hyphens Pharma (17Sep 2pm); ComfortDelGro (22Sep 2pm); AIMS APAC REIT (24Sep 1pm); First Ship Lease Trust (29Sep 1pm; 3 Oct: 4Q20 PSR SG Strategy (9.30am-12pm) <https://www.poems.com.sg/education/events-seminars/>
- TR only webinar: CMT/CCT (18Sep 1pm)

COVID-19 Watch: Falling in the U.S., surging in Europe

COVID-19 New Daily Cases (7DMA)

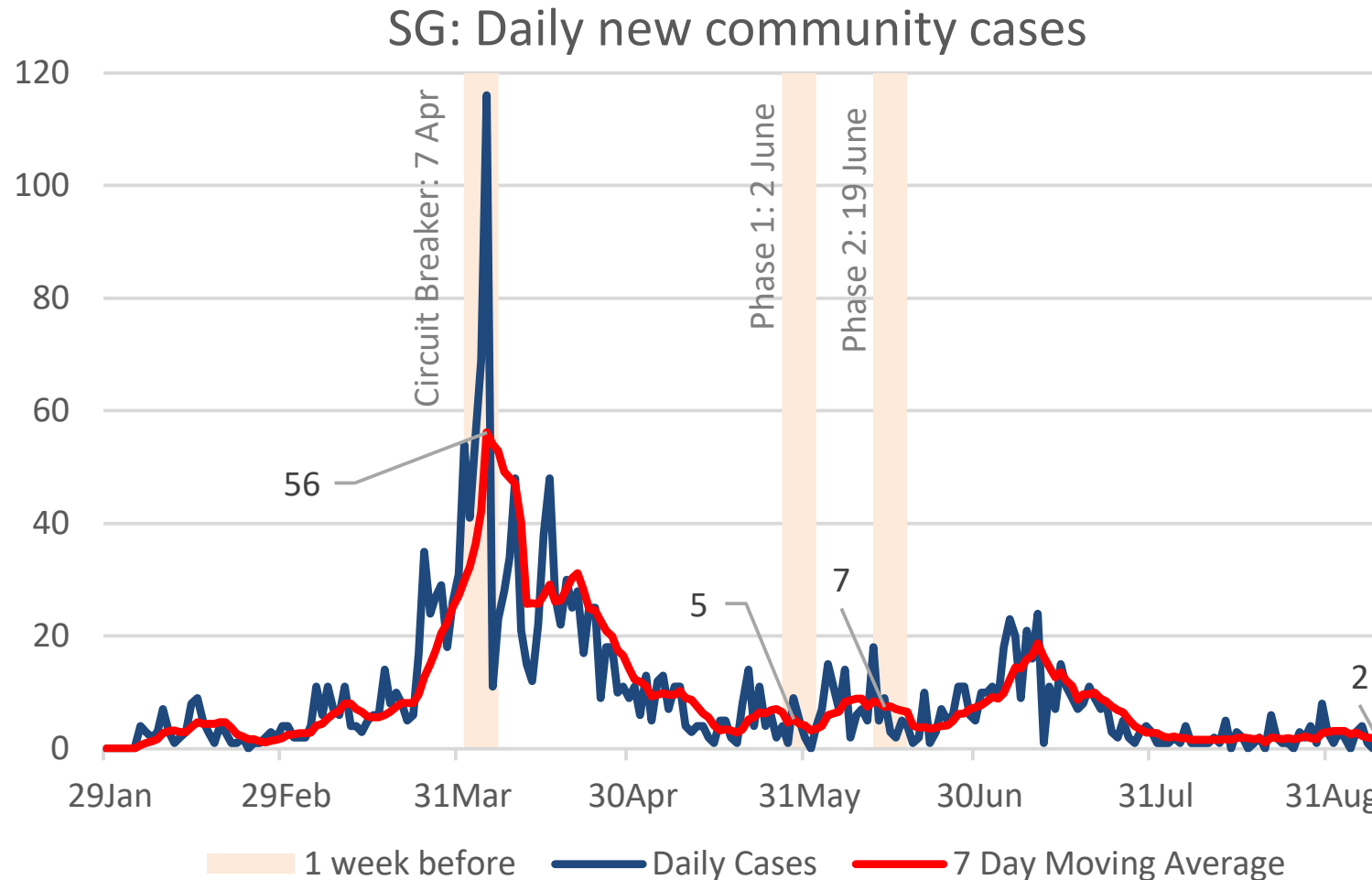


COVID-19 New daily cases: FR, KR, Italy (7DMA)



Source: CEIC, WHO, PSR

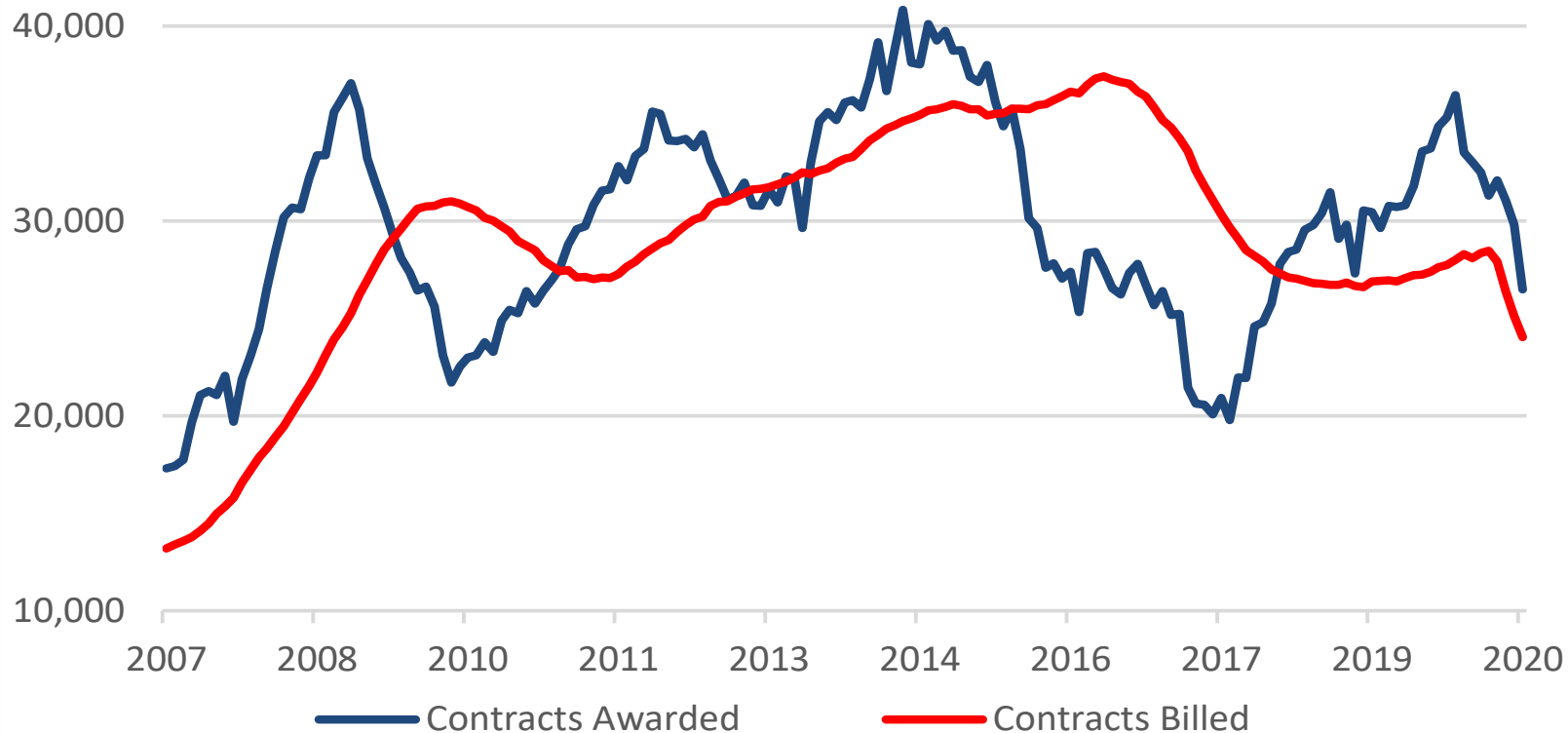
COVID-19 Watch: SG community cases at 2



Source: PSR, MOH

SG: Construction award and activity falling sharply

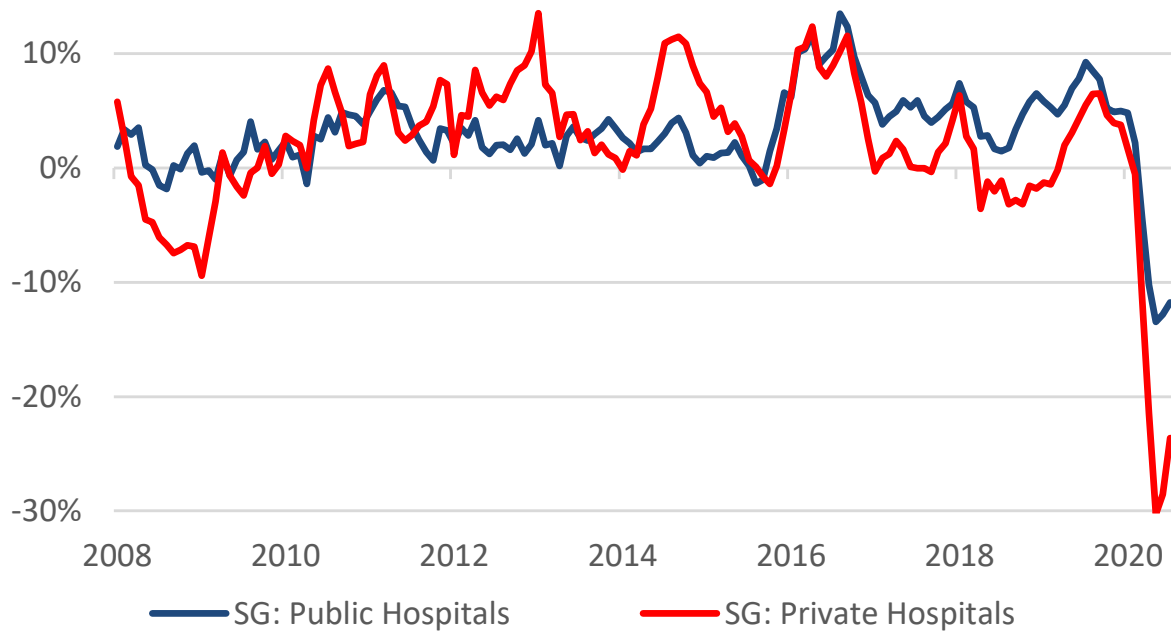
SG: Construction demand (S\$mn - T12M)



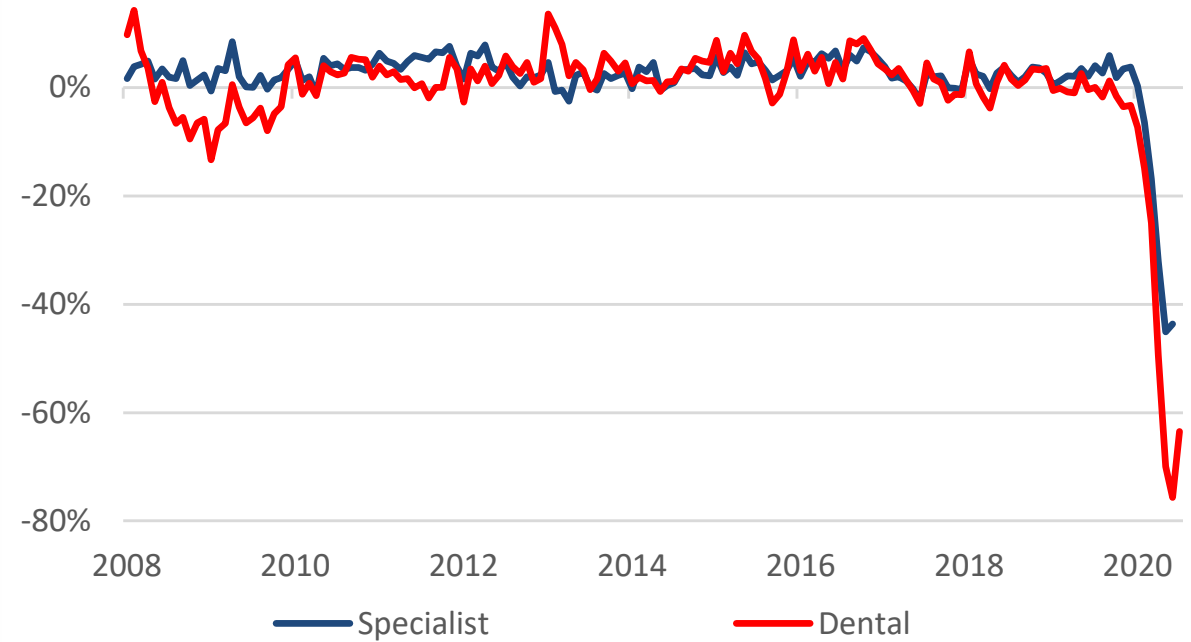
Source: PSR, CEIC, BCA

SG: Healthcare still contracting significantly YoY

SG: Hospital Admissions 3MMA (YoY)

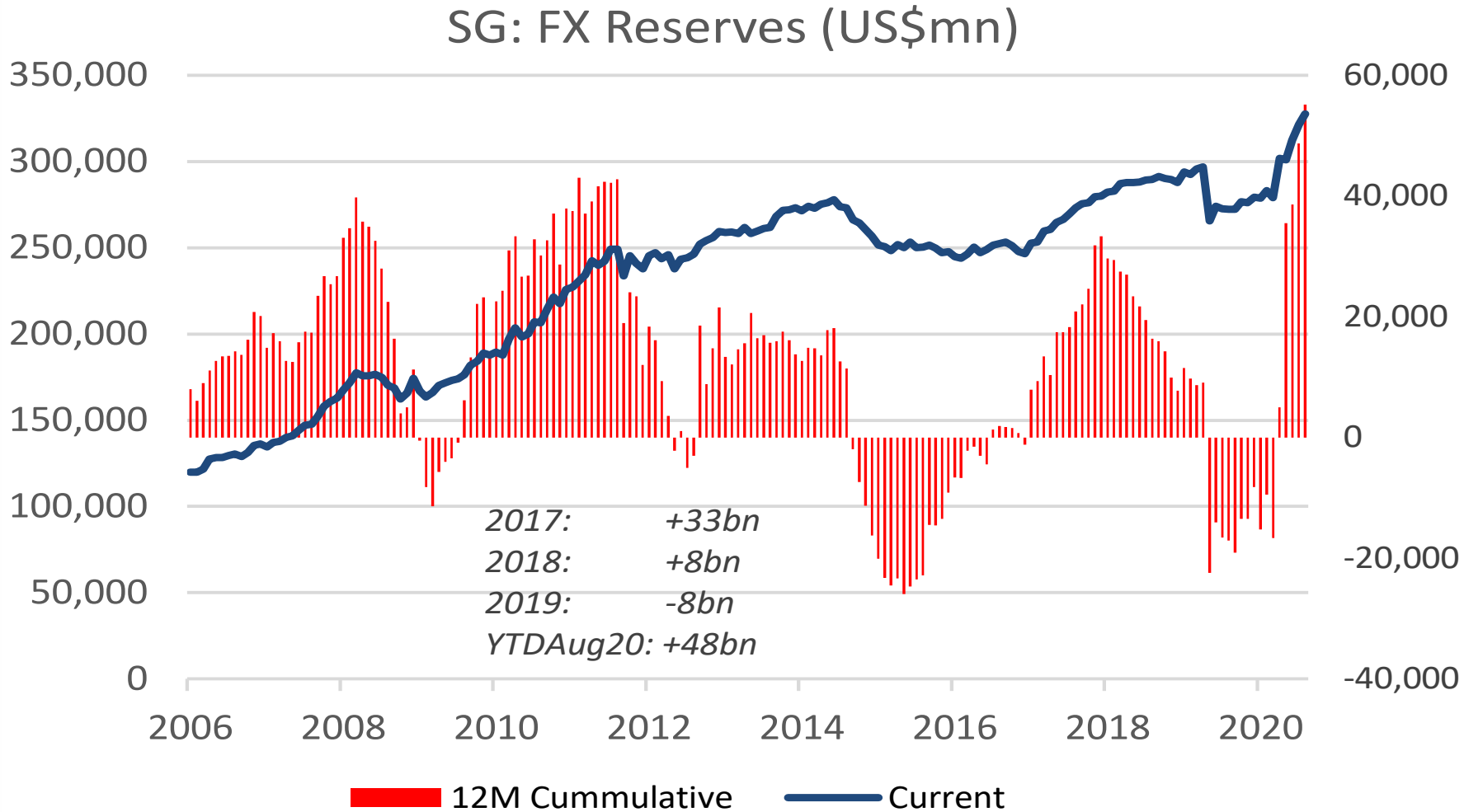


SG: Specialist and Dental Admissions 3MMA (YoY)



Source: CEIC, PSR, MOH

SG: FX reserves at record levels

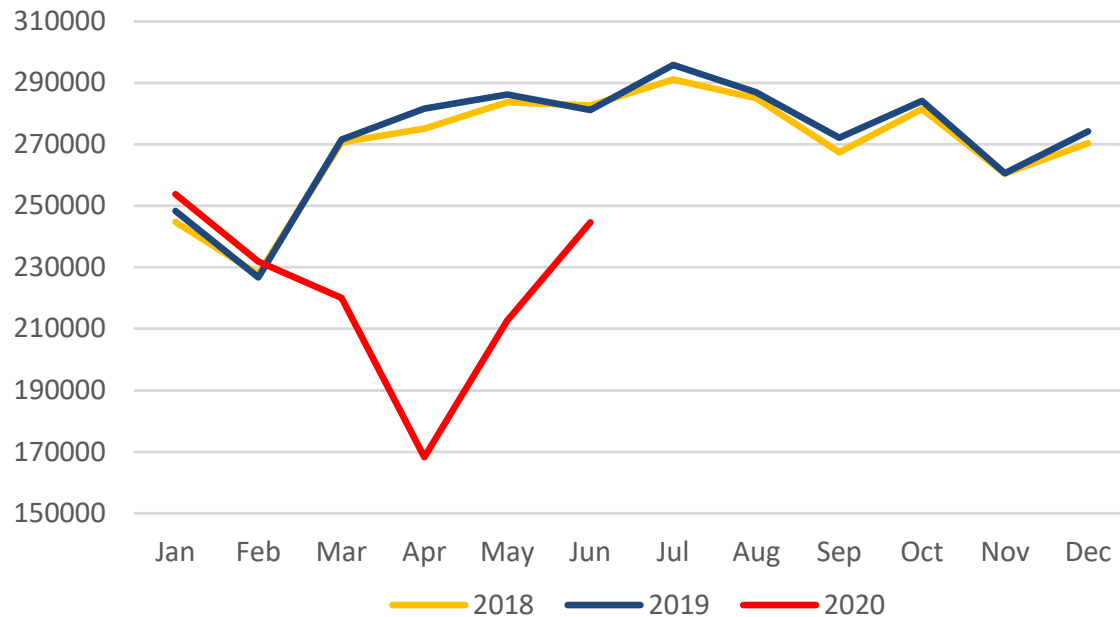


Source: PSR, CEIC, MAS

Crude Oil: Still oversupplied

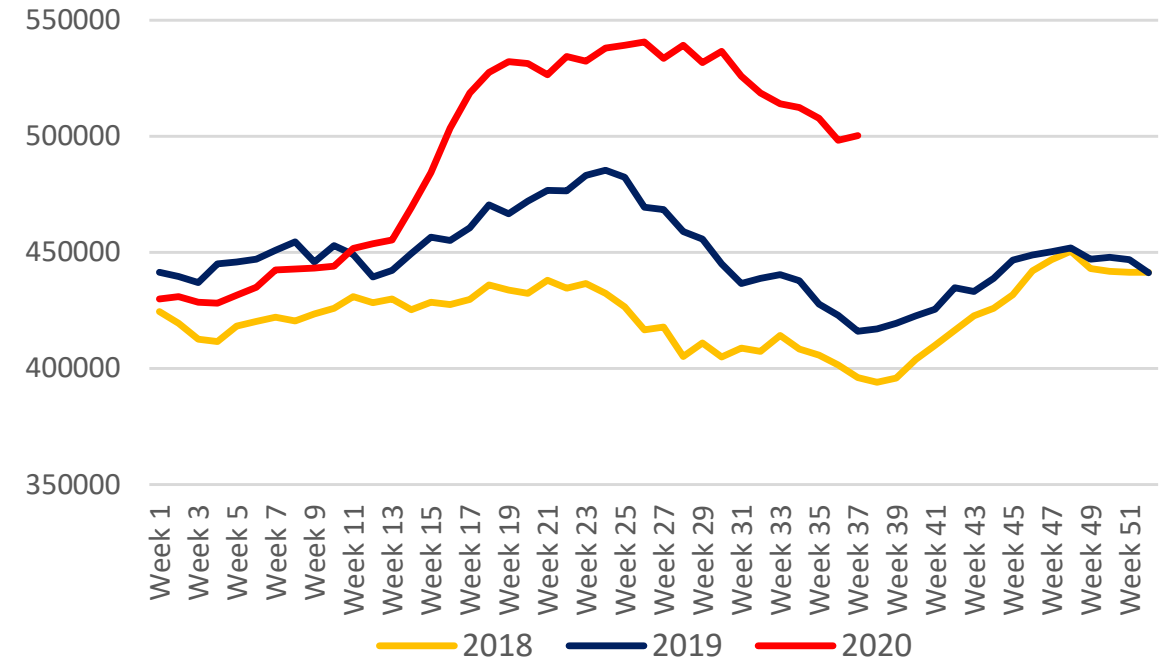
Miles travelled is down 13% YoY in Jun20

US: Motor Vehicles Miles Travelled (mn)



Inventory up 20% YoY in week 37

US: Crude petroleum stock

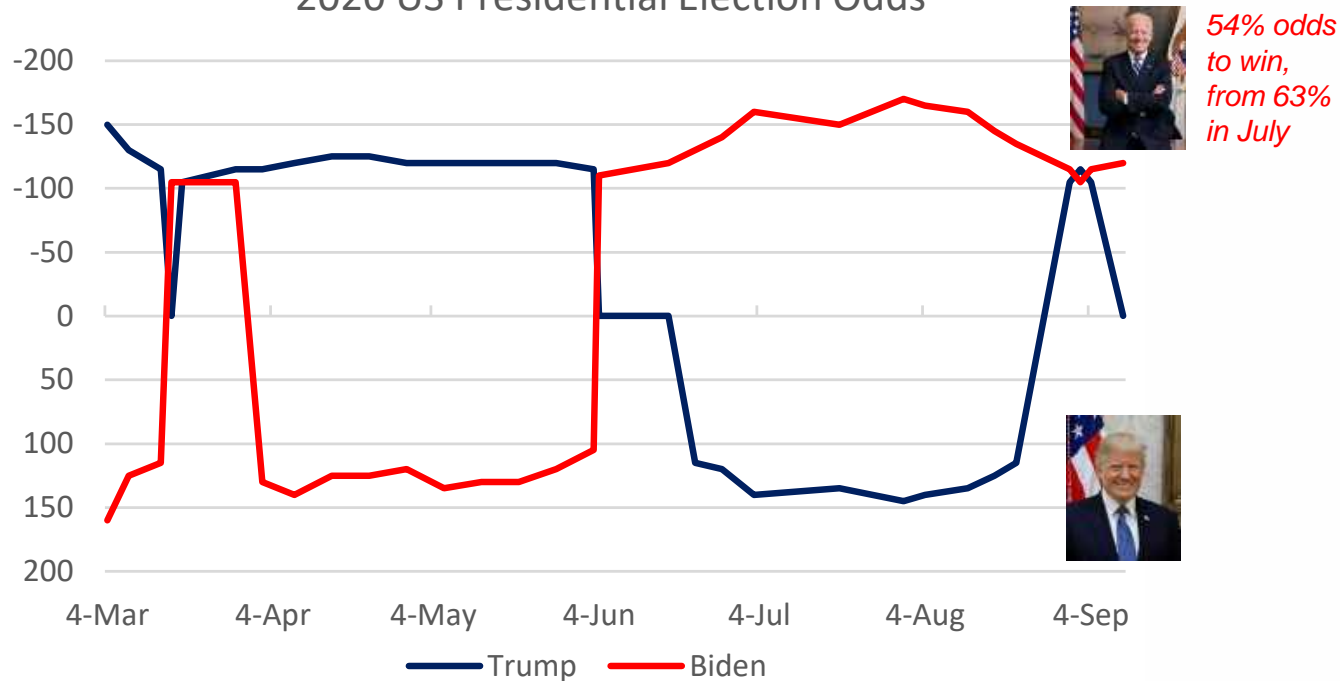


Source: PSR, CEIC, FHA, EIA

US Elections: Odds is a Biden win but close race

Betting Odds still favour Biden

2020 US Presidential Election Odds



Battleground states polls and odd favour Biden

	2016 Election			Poll Biden	Poll Trump	Biden Odds
	%	Seats	Hillary			
Florida	1.2%	29	47.8%	48.2%	47.0%	54.5%
Michigan	0.2%	16	47.3%	47.8%	43.6%	69.2%
Pennsylvania	0.7%	20	47.5%	49.5%	44.7%	62.2%
Wisconsin	0.8%	10	46.5%	49.6%	43.3%	62.2%
Hillary Lost	-2.1%	39				

Source: PSR, oddsshark, Biden -115 or bet \$115 to win \$100, realclearpolitics.com



StocksBnB.com

*Have an opinion or questions on our reports?
Post them in the comment section of the report!*

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Thank you