

Company Results

OCK, AOXIN
SATS

Sector Update

Singapore Banking Monthly

US Update

Recession Tracker Monthly

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Old Chang Kee Ltd

A strong finish, marking the inflection point

Soh Lin Sin

Phillip Securities Research Pte Ltd

4 June 2018

Old Chang Kee Ltd (Buy, TP: \$0.98, Last: \$0.755)

Results at a glance

S\$ mn	FY18	FY17	YoY (%)	4Q18	4Q17	YoY (%)	Comments
Revenue	85.5	78.3	9.1%	21.3	19.2	10.5%	Contributions from new outlets and higher sales in existing outlets <i>No. of outlets in SG +1 YoY to 90</i>
Gross profit	52.2	49.6	5.3%	13.4	12.1	10.4%	Higher raw material costs and change in product mix <i>Gross margin -2.2pp to 61.1%</i>
EBITDA	10.7	10.3	4.3%	3.4	2.0	72.9%	Higher operating expenses in line with revenue growth <i>EBITDA margin -0.6pp to 12.5%</i>
Net profit	4.0	1.7	131.2%	1.4	-2.1	n.m	S\$0.08mn start-up losses from UK JV in FY18
Net profit, adj.	4.3	4.9	-12.0%	1.4	1.0	34.4%	Excluding exceptional items; FY17 incurred S\$3mn revaluation deficit for SG and MY factory buildings
DPS (cents)	3.00	3.00		1.50	1.50		

Source: Company, PSR

Positives

- FY18 Revenue marked strongest growth in the past 5 years, mainly from underlying sales growth
- 4Q18 Gross margin returned to c.63%; which should be sustainable

Negative

- S\$0.08mn start-up costs from its UK JV

Outlook: Positive with growth momentum extending into FY19e

- New stores opening and product innovations will continue to drive topline growth.
- The new factory will increase production capacity (in terms of variety and volume) to fuel their expansion strategy, and improve its margins via (a) enhanced manufacturing efficiencies and (b) cost savings from bulk purchasing.

Aoxin Q&M Dental Group Ltd.

Witnessing greatness in the making

Soh Lin Sin

Phillip Securities Research Pte Ltd

4 June 2018

Aoxin Q&M Dental Group (Non-rated, Last: \$0.23)

One of the leading providers of private dental services and dental equipment and supplies in Liaoning Province, Northern China

3 business segments:

- Provision of private dental services
- Distribution of dental equipment and supplies
- Laboratory services



Figure: Operating theatre



Figure: Laboratory services in Shenyang Qingaomei Oral Restorative Technology

Source: PSR

1. Plans to add 3-5 dental centres p.a. to tap into the underserved dental market in Liaoning Province

- With emphasis on paedodontics – supported by favourable macro backdrop
- 2018 plan on-track: (a) new dental hospital in Panjin city, (b) new dental clinic in Kaisa Commercial Centre, and (c) potential acquisition of Youxin Dental Clinic

2. A diversified portfolio: (a) capture the full potential of dentistry market, and (b) helps to streamline procurement processes across the Group, as well as ensure quality of services and products

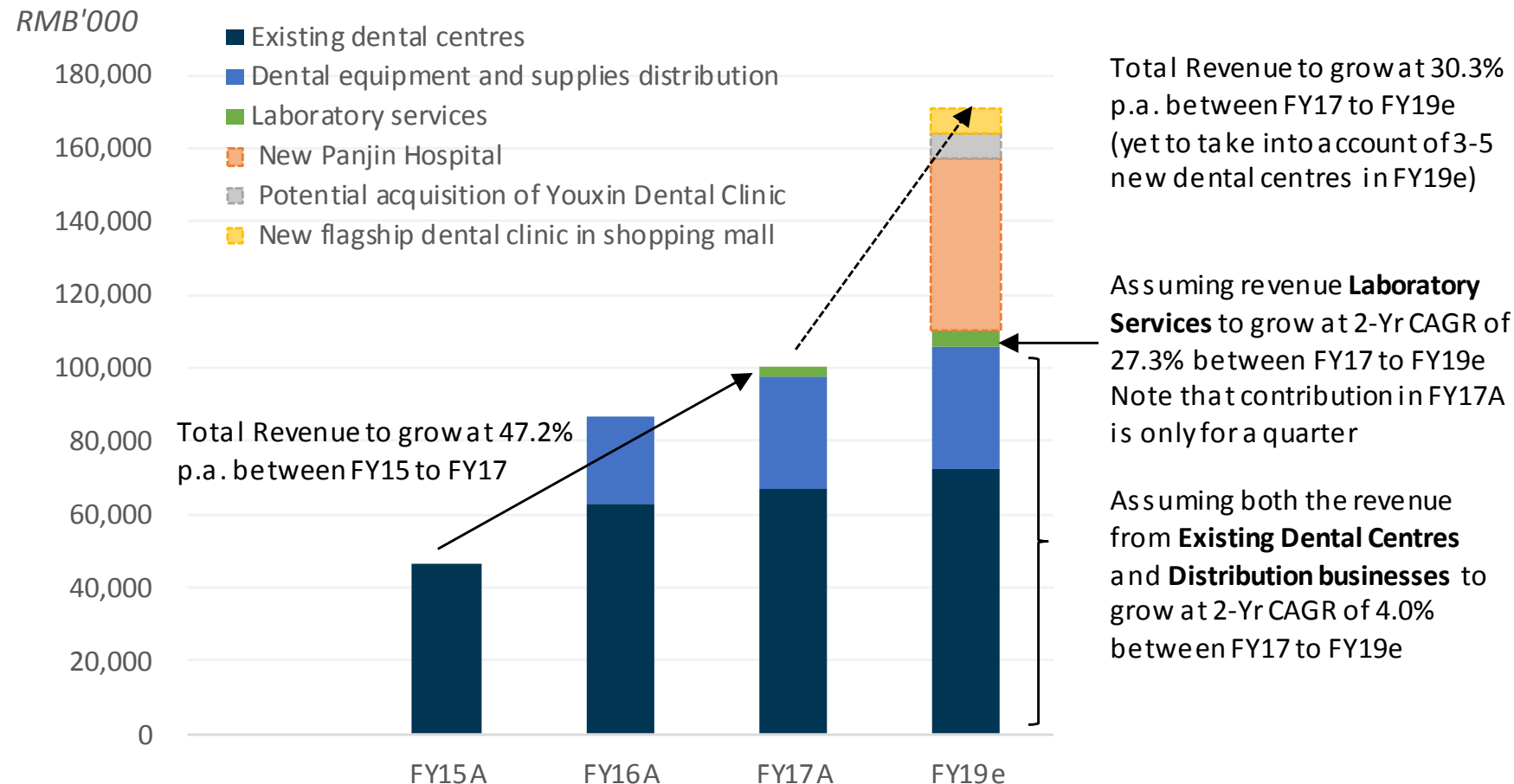
3. Self-sustaining business ecosystem

- Grow its own new blood to feed into its fast expanding dental centres
- Ready platform to groom the young dentists and other dental related professions

4. Embracing technology as competitive edge and to enhance operating efficiencies

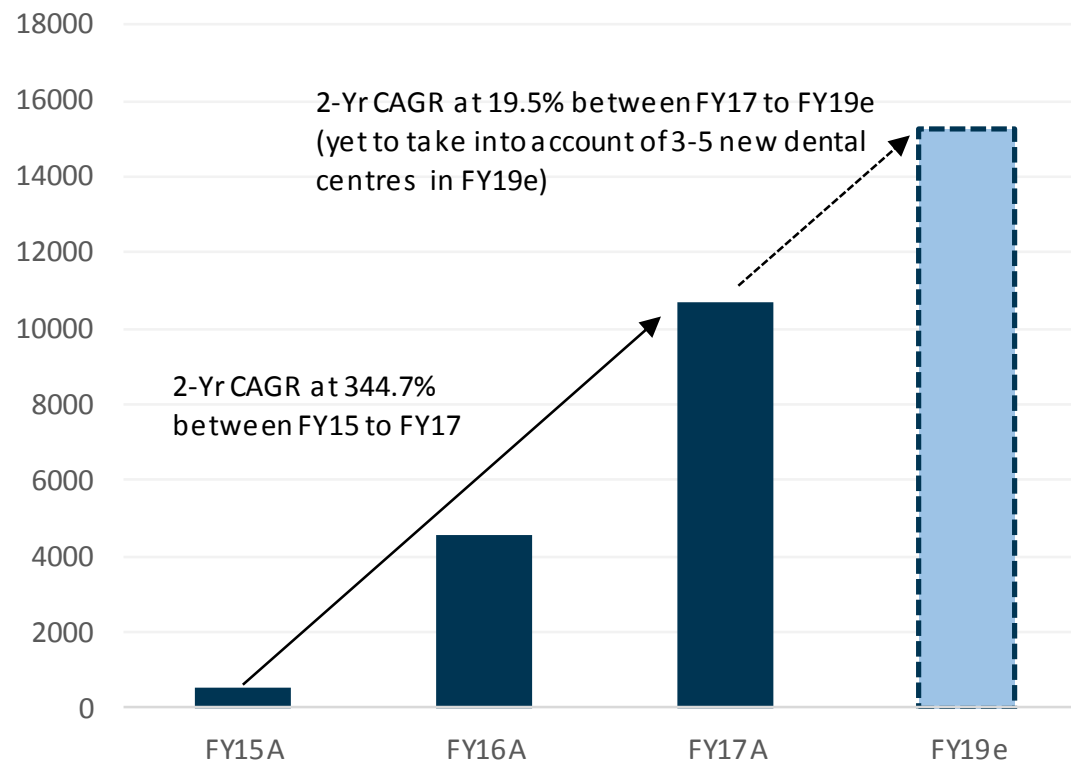
5. Clean balance sheet – Zero debt with cash position of RMB95.27mn as at end-FY17; strong operating cash flows generated at c.RMB11mn p.a. to support its intensive expansion plan

Group Revenue +30.3% p.a. in FY17-19e



PATMI to grow at 19.5% p.a. in FY17-19e

RMB'000



Assumptions

- Management expects the new Panjin Hospital to contribute c.70% to the top line in the first 12 months, then 40%, 25% and 10% in the subsequent 12 months respectively as it ramps up the new hospital.
- The Group also expect it to breakeven within 2 years.
- FY19e PATMI took into consideration of the star-up costs before it breakeven in 1H20.
- Meanwhile, its new clinics and existing dental centres should help to support its bottom line.

Valuation at S\$0.29

Item	
EPS FY19e (S Cents)	0.82
Market Cap Weighted Avg FY18e P/E (Excl. Aoxin)	43.6
<i>Add 20% discount due to liquidity risk</i>	
Actual P/E multiple used	35.0
Our base case valuation per share (S\$)	0.29
Closing price	0.22
Potential upside	29.9%

Relatively high PE justifiable:

- ← (a) Exposure to the high growth China dental market;
(b) It has dental hospitals. The new Panjin hospital is currently in gestation period, and should start to contribute to the bottom line in FY20.

Company	Bloomberg Ticker	Mkt Cap (SGD mn)	P/E TTM	P/E FY1	P/E FY2	Net D/E (%)	ROA (%)	ROE (%)	P/B
Aoxin Q & M Dental Group Ltd	AOXIN SP	84	70.5	N/A	N/A	Net Cash	2.1	3.2	1.7
Singapore									
Q&M Dental Group Singapore Ltd	QNM SP	413	16.9	27.4	26.0	43.8	10.8	20.7	3.5
IHH Healthcare Bhd	IHH SP	16,403	N/A	54.8	42.9	2.8	1.5	2.4	N/A
Thomson Medical Group Ltd	TMG SP	2,112	N/A	N/A	N/A	27.1	-11.1	-16.1	1.1
Raffles Medical Group Ltd	RFMD SP	1,860	26.1	28.4	31.8	Net Cash	7.3	9.9	2.5
Talkmed Group Ltd	TKMED SP	887	30.7	28.1	27.0	Net Cash	33.1	38.5	11.4
Health Management International Ltd	HMI SP	524	27.4	25.4	22.7	51.6	9.5	18.7	6.8
Singapore Medical Group Ltd	SMG SP	221	23.8	17.1	16.0	Net Cash	8.4	12.9	2.0
Clearbridge Health Ltd	CBH SP	213	N/A	N/A	N/A	Net Cash	-12.9	-15.0	3.5
Singapore O&G Ltd	SOG SP	172	20.2	20.0	16.4	Net Cash	16.5	20.0	3.9
ISEC Healthcare Ltd	ISEC SP	155	18.5	N/A	N/A	Net Cash	11.8	12.7	2.3
HC Surgical Specialists Ltd	HSP SP	102	66.5	N/A	N/A	Net Cash	11.5	16.4	7.4
Asian Healthcare Specialists Ltd	AHSP SP	80	152.8	N/A	N/A	Net Cash	11.2	26.8	36.1
Market Cap Weighted Average			5.5	43.6	35.2	6.4	2.5	3.7	1.2

Source: Bloomberg, Phillip Securities Research (Singapore) Estimates

SATS Ltd

Underlying operating volumes remain steady

Richard Leow

Phillip Securities Research Pte Ltd

4 June 2018

Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Revenue	1,725	1,729	-0.3%	Lower revenue due to deconsolidation of SATS HK on July 31, 2017; revenue would have been +1.5% excluding the effect of the deconsolidation
EBIT	226	231	-1.8%	Marginal decrease in Group opex by \$0.6mn or 0.04% failed to out-pace the lower revenue; lower operating margin of 13.1% from 13.3%
Associates/JVs	71.2	65.2	9.2%	Higher contribution from Gateway Services (+15.7% to \$45.7mn), partially offset by lower Food Solutions (-0.8% to \$25.5mn)
PATMI	262	258	1.4%	Higher Associates/JVs contribution partially offset by lower operating profit
Underlying PATMI	236	234	0.8%	Excluding one-offs associated with Evergreen Sky Catering and gain on disposal of assets held for sale

Source: Company, PSR

Sustainable and progressive dividend policy

- 12 cents final, higher than FY17's 11 cents
- 5-year historical full year dividend from FY14 to FY18: 13, 14, 15, 17, 18 cents

Gateway Services at the operating level and associate/JV level benefited from higher cargo volumes and flights handled; Food Solutions facing pricing pressure

25% increase in licence fees, mitigated by lower staff and premises costs from deconsolidation of SHK

- Cessation of licence fee rebates and withdrawal of incentives by Changi Airport since Apr 1, 2017

Outlook: positive

- Investments in new ventures and partnerships leading to inorganic growth at the associate/JV level
- Growing footprint across Asia and leveraging on technology to improve productivity as volumes increase

Singapore Banking Monthly Update

SIBOR will keep NIMs elevated

Tin Min Ying

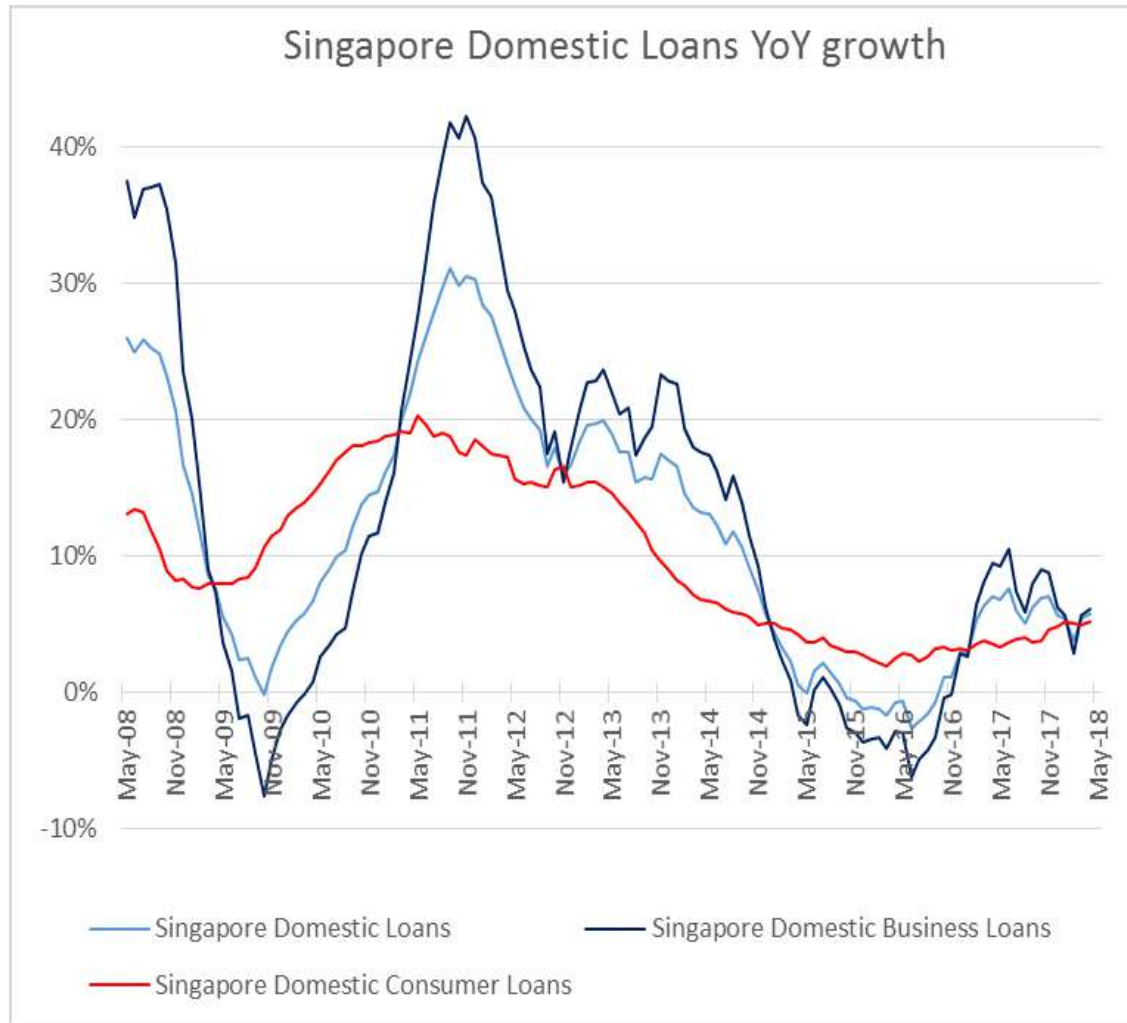
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- Flow-through from US interest rate hikes has picked up in recent months → Expect higher interest rates across majority of the Singapore banks and Net Interest Margins to increase.
- Loans growth strengthened YoY in April across majority of Singapore's business loans and consumer loans → Expect broad based loans growth and high single digit loans growth from the banks.
- Oil & Gas loan quality experienced no further deterioration → Expect slow recovery as day rates are not recovering even though utilization rates have increased.
- IFRS 9 took effect in January 2018 but clearer disclosures are needed to make comparisons of Expected Credit Losses (ECL) between banks meaningful → Expect volatility in provisions.
- Uncertainty from geopolitical risks and trade wars → Most Singapore companies are export dependent. If their cash flows are hit, credit quality of the banks will be impacted.

Singapore FY2017 (in USD mn)		
Nominal GDP	Exports	Exports to GDP (%)
324,016.7	373,071.9	115%

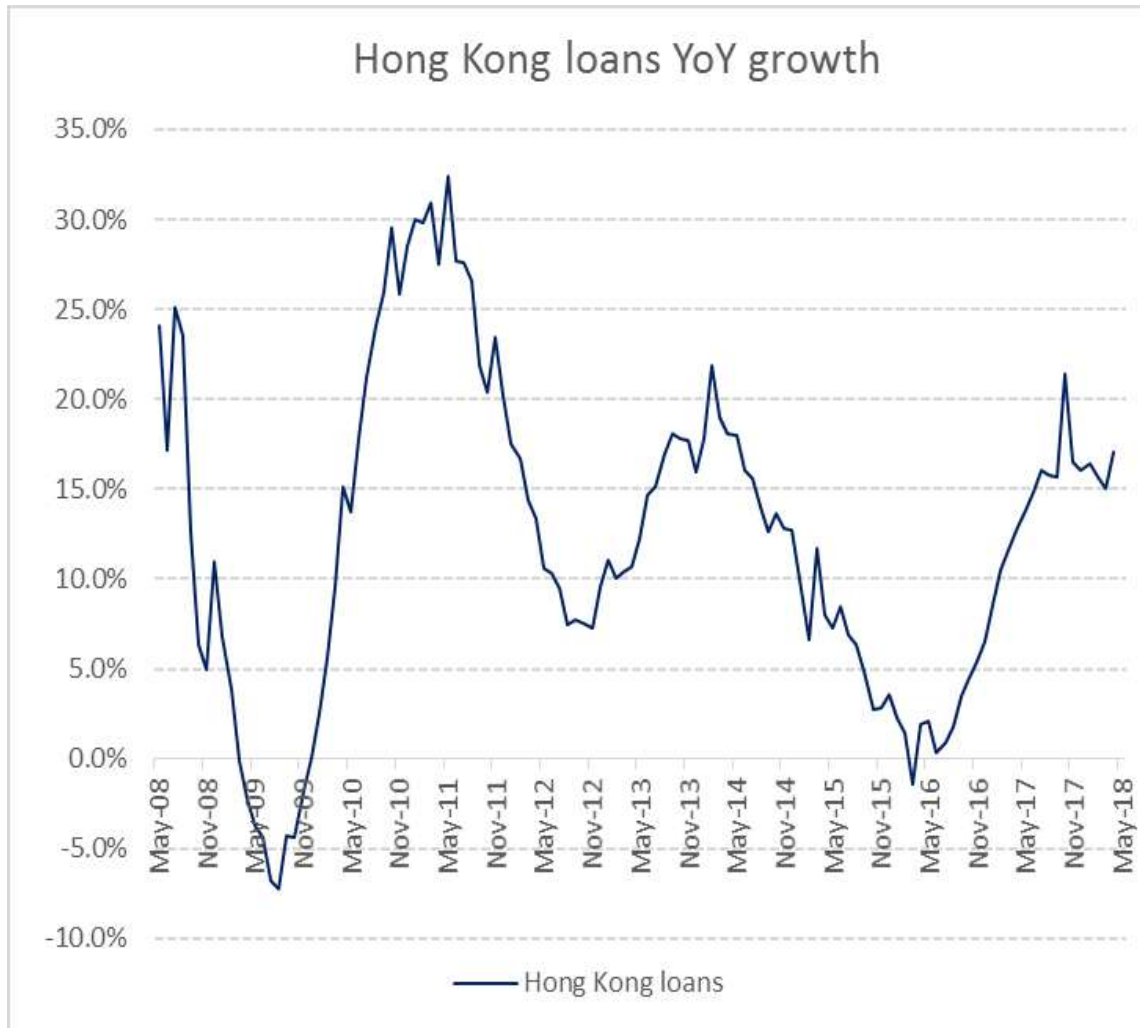
April: Singapore's domestic loans grew 5.7% YoY



Source: CEIC, MAS, PSR

- Mild acceleration from the 1Q18 growth of 4.8%.
- Strengthening in April.
- Business loans expanded 6.1% YoY.
 - Main driver of overall loans growth
- Consumer loans expanded 5.1% YoY.
 - Sustained the strong momentum since November.
- Mortgage loans expanded 4.7% YoY.
 - At a 3-year high.
- Car loans expanded 7.8% YoY.
 - At a 5-year high.

April: Hong Kong's loans grew 17.1% YoY



Source: CEIC, PSR

- April's loans growth was the fastest in 6 months.
- HKD loans expanded by 25%
 - Main driver of overall loans growth.
 - April's high loans growth was boosted by IPO financing.
- Excluding IPO, HKD loans rose 19%.
- HK's residential volume and value showed renewed vigour after some weakness in January.

Residential Volume

↑55.9%

m-o-m

Residential Value

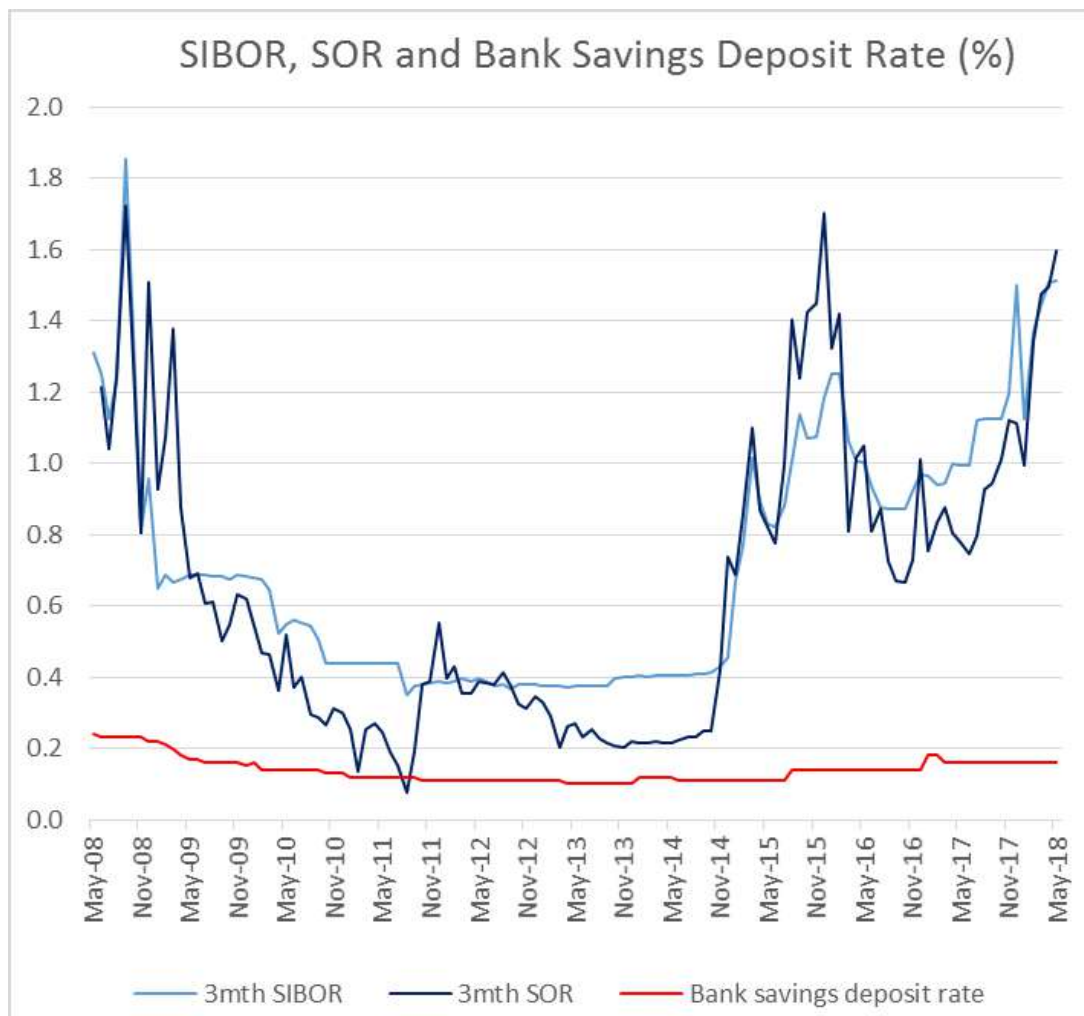
↑59.3%

m-o-m

Source: JLL

Driven by demand from first-time homebuyers + developers' ability to drive up prices in the secondary market where supply is limited.

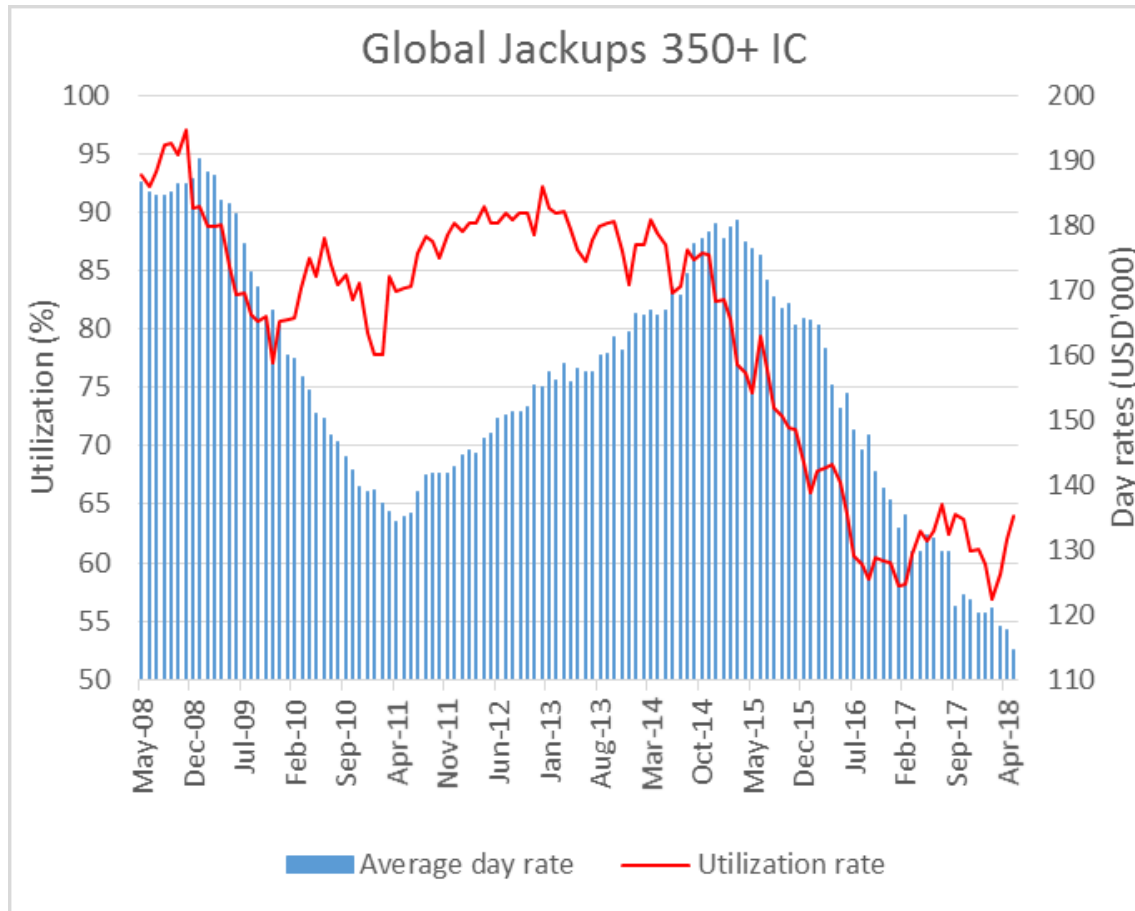
May: SIBOR and SOR to continue their upward trend



Source: Bloomberg, CEIC, PSR

- 3M SIBOR reached its highest level in almost 10-years
- 3M SOR reached its highest in 2-years.
- Bank savings deposit rates are stagnant.
- Expect the Singapore banks' NIMs to be on a gradual upward trend
 - Given expectations of 3 or more Fed rate hikes in 2018.
- NIMs expansion → main share price catalyst for the next few quarters.
- Despite 40bps increase in SIBOR, mortgage loans growth remained resilient at 4.7% YoY.
- Therefore, we do not expect new mortgage loans to be adversely affected by the gradual increase in SIBOR.

Offshore oil and gas operating conditions improving but recovery is weak



- Utilization rate hovered at c60% but average day rate is still on a decline.
- O&G NPLs are still quite strained.
 - Recovery is weak even though we do not see more new NPLs forming.
- Oil prices rose but charter fees stayed flat even though the volume of business increased.
- Structural overcapacity makes it unlikely to see a recovery in profitability in the industry in the short term.

Source: Bloomberg, PSR

Maintain Singapore Banking Sector at Accumulate.

- Loans growth remain healthy.
 - Banks are guiding high single digits loans growth in 2018.
 - The vibrant loans growth in Hong Kong should help banks meet this target.
- The continuing rise in SIBOR and SOR will keep NIMs elevated.
- Volatility in the capital market may place some downward pressure on wealth management business.
- Banks are benefiting from both expanding loan volume and margins this year.

Target prices:

- DBS: S\$32.70
- UOB: S\$31.70
- OCBC: S\$14.90

Phillip Monthly Recession Tracker

May update – back to risk-on mode

Jeremy Ng

Phillip Securities Research Pte Ltd

4 June 2018

Phillip Monthly Recession Tracker – well in check

Indicator	Threshold	Last	Previous	Bearish Signal
Market-based data				
Ted Spread	Above 1%	0.43	0.55%	Unconfirmed
2s10s Spread	Below 0%	0.43%	0.48%	Unconfirmed
10 Year Treasury Yield	Below 2.00%	2.82	2.99	Unconfirmed
VIX Index	Above 27.7	15.43	16.24	Confirmed (in Feb)
S&P 500 Index	Below 10 month MA/2641	2705	2667	Unconfirmed
Value Line Geometric	Below uptrend line/460	563	554	Unconfirmed
S&P 500 Index quarterly timeframe	2 consecutive bearish quarters/2640	1 st bearish quarter	1 st bearish quarter	Unconfirmed
Economic-based data				
ISM Manufacturing PMI	2 consecutive months below 50	58.7	57.3	Unconfirmed
Unemployment Rate	Above 12 MA/4.2%	3.8%	3.9%	Unconfirmed
Unemployment Claims YoY	Above 4.5%	-1.3%	-17.1%	Unconfirmed
Retail Sales YoY	Below 1.6%	4.6%	4.5%	Unconfirmed
Fed Funds Rate	Halting of the rate hike cycle/tightening phase	1.75%	1.75%	Unconfirmed
CB Consumer Confidence	Below uptrend line/112	128.0	125.6	Unconfirmed
UMich Consumer Sentiment	Below uptrend line/94.0	98.0	98.8	Unconfirmed
Bloomberg Consumer Comfort	Below uptrend line/47	55.2	57.5	Unconfirmed
Core Capital Goods New Orders Nondefense YoY	Below 0%	7.7	4.6%	Unconfirmed
Industrial Production YoY	Below 0%	3.50%	3.71%	Unconfirmed

Source: Bloomberg, PSR

*Our Phillip recession tracker is based off 17 Market-based and Economic-based indicators. The threshold represents the levels where bearish signal arises.

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

- The VIX index has triggered its threshold of 27.7
- While the rest of our recession indicators are still doing fine
- Ted spread and VIX index continued to subside from their respective highs
- Economic-based data doing well at multi-decade extremes

Source: Bloomberg, PSR

VIX Index – stabilising below 20

- Net speculator positioning is still at a high
- Currently in a period of short squeeze suggesting for VIX index to trade below the 20 – 25 range in the near-term



Source: Bloomberg, PSR

Ted Spread – further sigh of relief

- Ted spread continues to subside off the 0.63% April high
- Bullish view on the equity market to sustain



Source: Bloomberg, PSR

2s10s spread – range bound

- Flattening trend in the 2s10s spread halted in May as it stayed range bound
- However, note the long-term trend is still bearish
- Our base case scenario points to another approximately another 33 more weeks of flattening before the 2s10s spread inverts

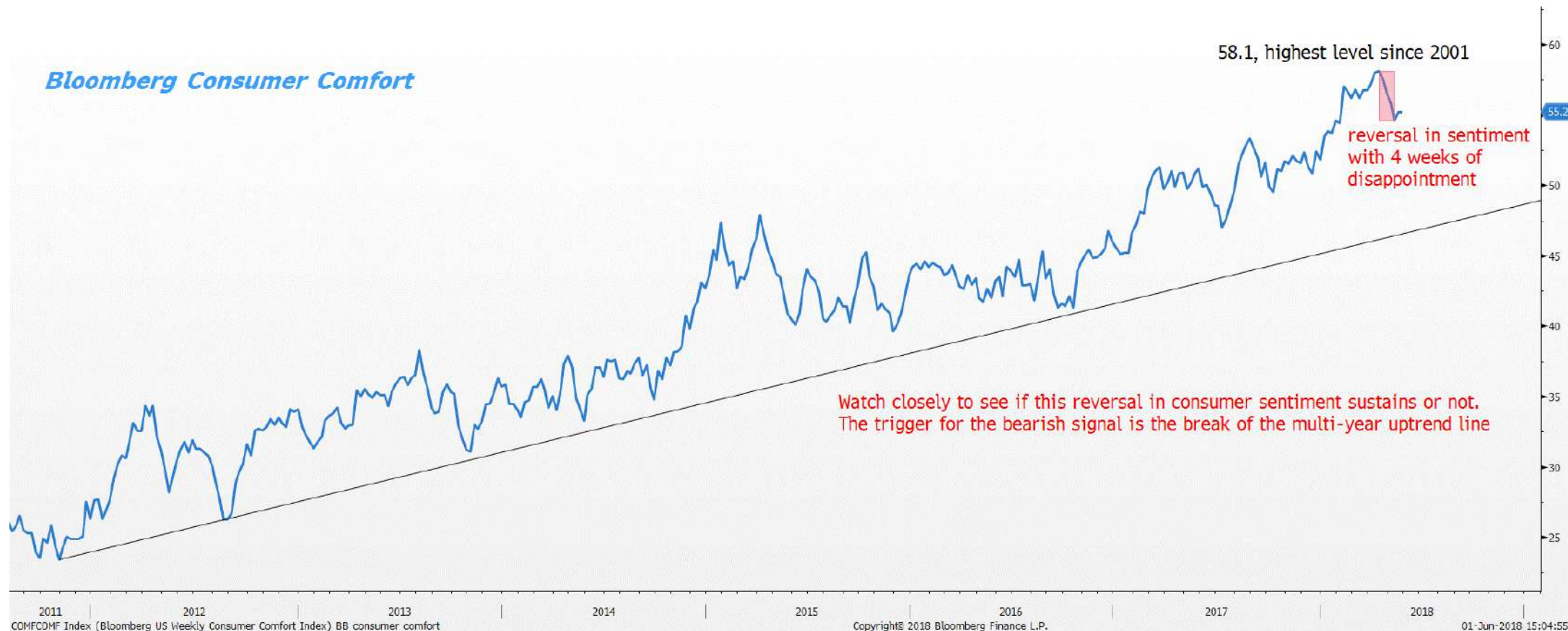
2s10s spread (yield curve)



Source: Bloomberg, PSR

Bloomberg Consumer Comfort – sentiment fading

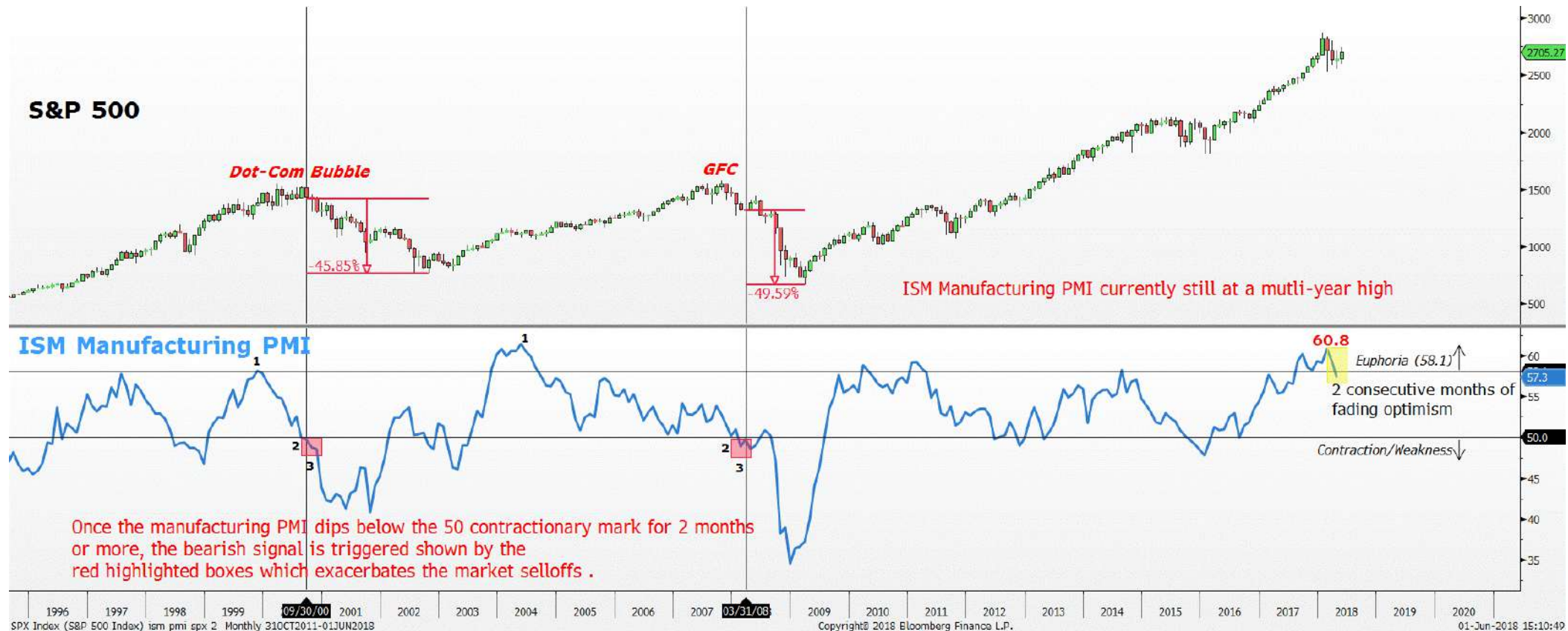
- Since hitting the high of 58.1 in April, the Bloomberg consumer comfort index have been falling for the following 4 weeks
- Watch out to see if the this reversal in trend sustains or not



Source: Bloomberg, PSR

ISM Manufacturing PMI – mean reversion?

- PMI has been falling for the 2 months consecutively suggesting for the start of the mean reversion lower
- Key threshold to watch is the 50 expansionary/contractionary level



Source: Bloomberg, PSR

Economic-based data

- **Capital Goods New Orders Nondefense Excluding Aircraft & Parts YoY**
 - Measures the change of new purchase orders placed with manufacturer
 - For example; construction machinery, electronic computers, medical materials, heavy duty trucks and office furniture
 - A rising purchase order signals a growing economy as companies spend more on expansion
- **Industrial Production YoY**
 - Measures the output of industrial establishments in mining and quarrying, manufacturing and public utilities
 - Production is based on the volume of the output
 - A rising Industrial Production signals a growing economy as output increases in anticipation of growing demand

Source: Bloomberg, PSR

Core Capital Goods New Orders Nondefense YoY

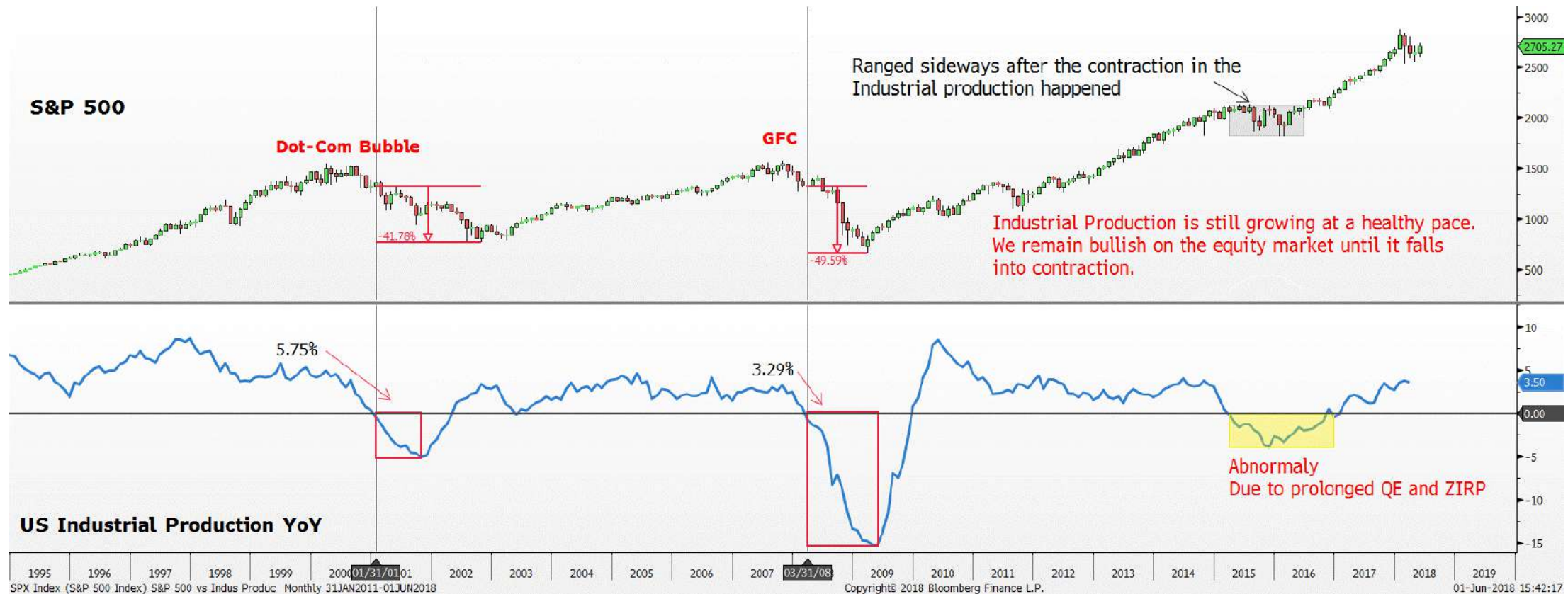
- Key threshold to watch is the 0% level
- Historically, when the core capital goods new orders nondefense YoY starts to contract and falls below 0%, the peak in equity market is confirmed leading to the start of bear market



Source: Bloomberg, PSR

Industrial Production YoY

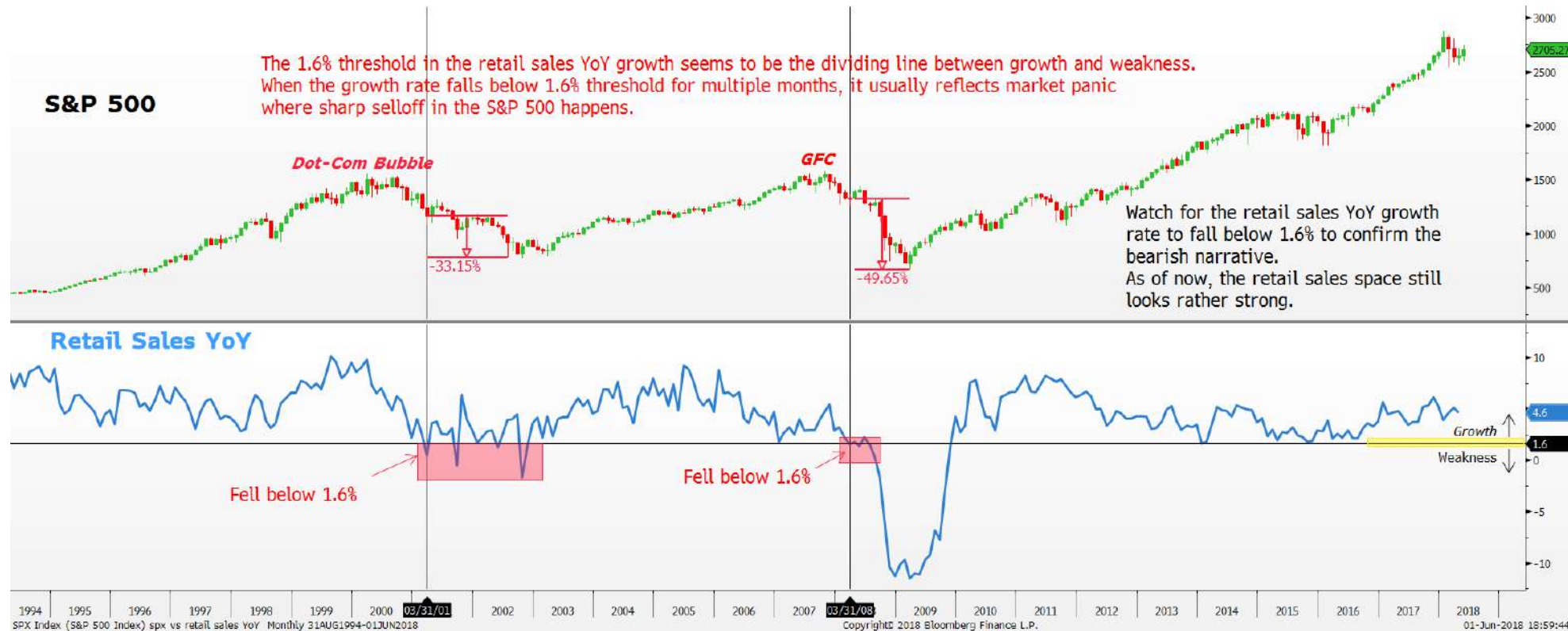
- Key threshold to watch is the 0% level
- Historically, when the core capital goods new orders nondefense YoY starts to contract and falls below 0%, the equity market peak is confirmed



Source: Bloomberg, PSR

Retail Sales YoY

- Retail sales YoY growth change also follows a similar pattern Core capital goods new orders YoY and Industrial production YoY in confirming the equity market top when it contracts
- Expect these three indicators to flash red at the same time when the market is near the end of the bullish phase.

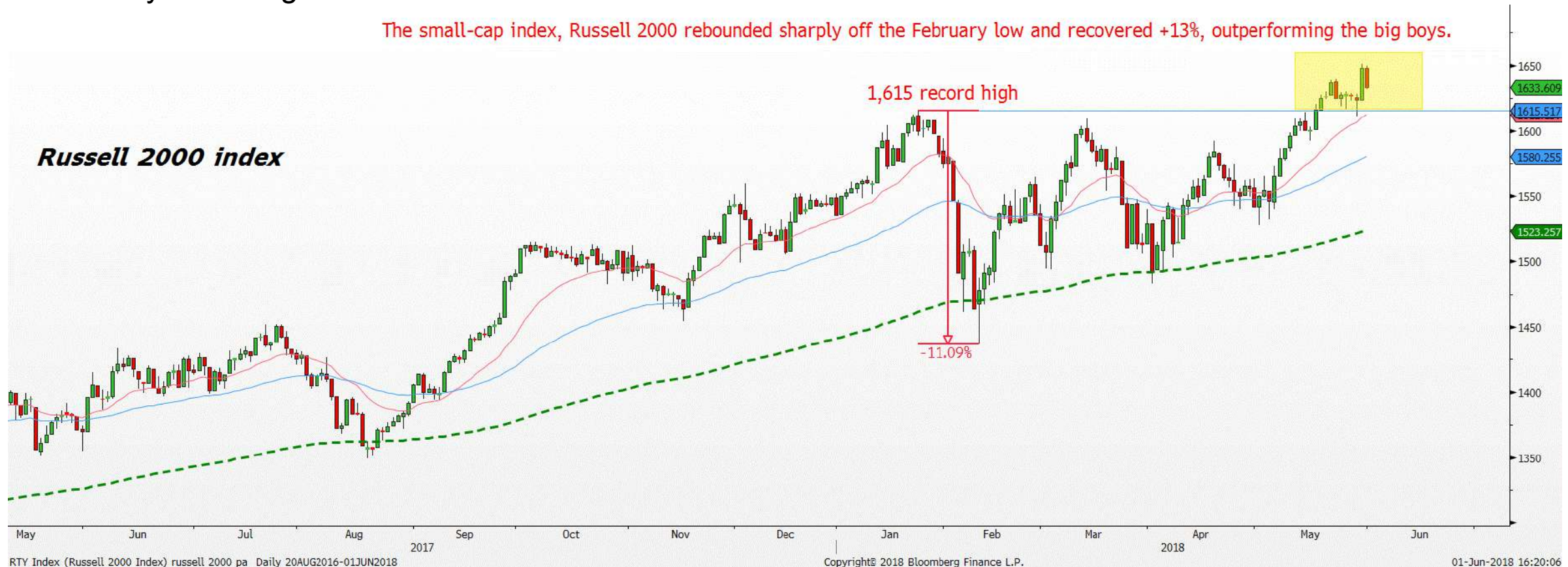


Source: Bloomberg, PSR

Russell 2000 index – Bullish price action

- Small-cap stocks are outperforming the big boys
- Money is flowing back to the riskier asset class

The small-cap index, Russell 2000 rebounded sharply off the February low and recovered +13%, outperforming the big boys.



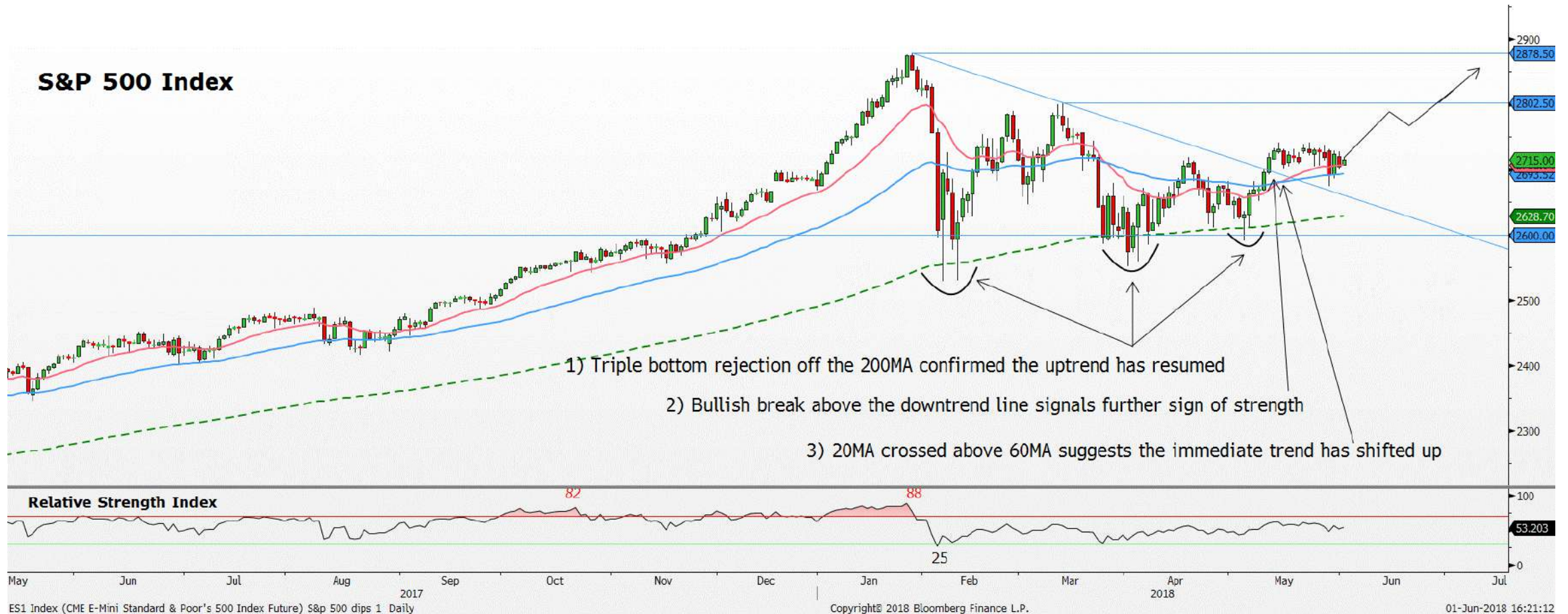
Russell 2000 index daily chart

Red line = 20-day moving average, Blue line = 60-day moving average, Green line = 200-day moving average

Source: Bloomberg, PSR

S&P 500 index – Bullish price action

- Triple bottom rejection off the 200 day moving average
- Next target: **2800 points followed by 2878.50**



S&P 500 index daily chart

Red line = 20-day moving average, Blue line = 60-day moving average, Green line = 200-day moving average

Source: Bloomberg, PSR

DJIA index – Bullish price action

- Triple bottom rejection off the 200 day moving average
- Next target: **25,774 points followed by 26,684**

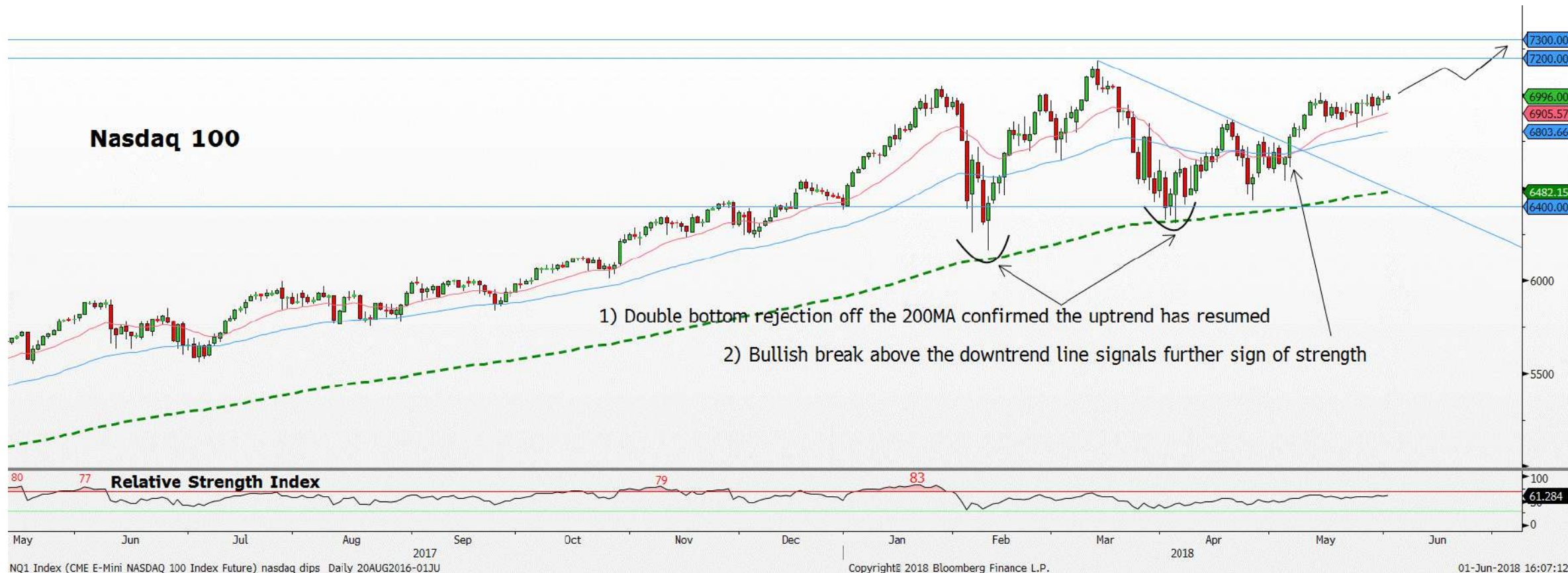


DJIA index daily chart Red line = 20-day moving average, Blue line = 60-day moving average, Green line = 200-day moving average

Source: Bloomberg, PSR

Nasdaq 100 index – Bullish price action

- Double bottom rejection off the 200 day moving average
- Next target: **7,200 points followed by 7,300**



Nasdaq 100 index daily chart Red line = 20-day moving average, Blue line = 60- day moving average, Green line = 200-day moving average

Source: Bloomberg, PSR

Summary

Overall, the Recession Tracker continues to advise a risk-on approach moving forward despite the on-going political scare in Italy

Until the economic data turns bad and triggers their respective threshold, we remain bullish on the equity market for the DJIA, S&P 500 and Nasdaq 100 index to retest their respective record high set in January and March 2018.

Current bullish price action off the 200-day moving average in the S&P 500, DJIA and NASDAQ 100 index suggests a move back into the long-term uptrend

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”](#) and [“all clear for now part 2.”](#)

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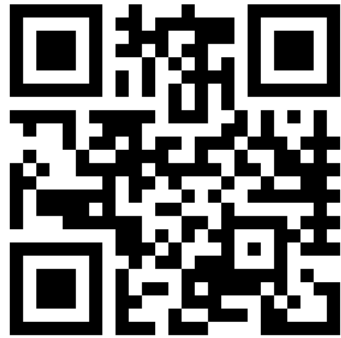
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