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US Trading Note

Cisco Systems Inc

Singapore Company Earnings

First REIT

Keppel DC REIT

SATS Ltd

SIA Engineering Company Ltd

CapitaLand Commercial Trust

CapitaLand Mall Trust

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Cisco Systems Inc

Trading Note – Buy Trade

Ho Kang Wei
Phillip Securities Research Pte Ltd
23 July 2018

Cisco Systems Inc.
(Buy, TP: USD48.42, Entry: USD41.78, Last: USD)

Counter	Sector	Ticker	Currency	Last Price	Time Horizon	Entry	Stop Loss	Target	Bloomberg Consensus T/P
Cisco Systems Inc	Technology	CSCO	USD	41.78	3-6 Month	41.78	N/A	48.42	48.42

Company Highlights

- CSCO most lucrative product is Switching, accounting for over USD13.9bn in 2017
- CSCO is the global market leader in Ethernet switches with 55% market share
- CSCO is also 5th largest vendor of servers based on revenue

Cisco Systems Inc.
(Buy, TP: USD48.42, Entry: USD41.78, Last: USD)

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Recent Price Action

- Strong uptrend since Nov 2017
- Drop 13 July due to news from AMZN
  - Due to concerns about drop in user time
- Price came close to 200 day MA of USD40.59 before closing at 41.78

Investment Rationale

- We believe the drop in price is overblown, the impact to CSCO’s business is minimal and CSCO remains in a strong position. As such the drop in price represents a buying opportunity for CSCO.

Cisco Systems Inc.

(Buy, TP: USD48.42, Entry: USD41.78, Last: USD42.01)

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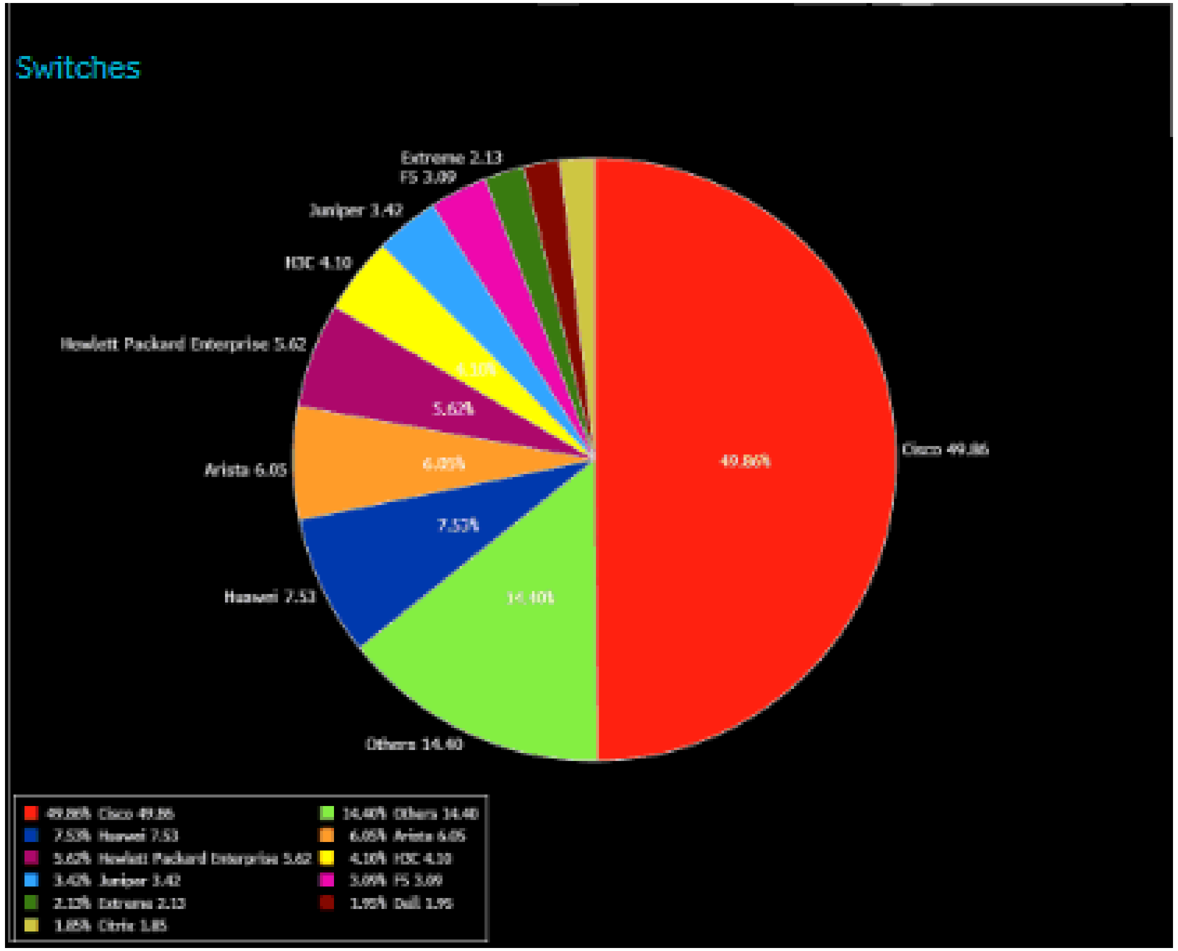
Competition from AMZN

- 13th July Amazon Web Services reported to be considering selling its own network switching devices
  - Expected price at 70-80% discount to CSCO hardware
- Network Switches make it easier to shepherd traffic around networks
  - AWS has been using its own internally developed networking gear in its own data centers
- AWS switches are “white-box” devices
  - Open source
  - Can be powered by off the shelf switching chips
  - Can run a variety of switch operating systems
- CSCO Switches run proprietary operating systems
  - In some cases, powered by proprietary switching ASICs

Cisco Systems Inc.

(Buy, TP: USD48.42, Entry: USD41.78, Last: USD42.01)



Cisco Systems Inc.

(Buy, TP: USD48.42, Entry: USD41.78, Last: USD42.01)

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Minimal Impact to CSCO

- Switching Hardware and software account for slightly more than 1/3 of product revenue in 2017
  - AWS’s switching devices will be primarily targeted at data centers
  - Data centers, while significant portion of revenue, is not a majority of revenue from Switching
- AWS’s “White-box” switches may be popular with cloud operators or other software developers
  - Due to “open source” nature
    - Allows companies to customize and design their own operating systems, OS.
- More traditional enterprises may not be as open despite cheaper prices
  - Companies without significant IT dept or no desire to devote resources to developing and managing their own OS may prefer established vendors
- Eg: Linux vs MSFT

Cisco Systems Inc.

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Company Transition

- CSCO current CEO has also been moving the company from its legacy hardware business to a more software focused business.
- CSCO released Internet-based network solutions,
  - Focus on software networking, improved security and artificial intelligence adoption.
- CSCO also transitioning to a more subscription based model
  - Such subscription based models have been beneficial to the growth of companies
    - Eg:MSFT

Cisco Systems Inc.

(Buy, TP: USD48.42, Entry: USD41.78, Last: USD42.01)

Valuations

- PER of 16.10
  - 5 year avg PER 15.62
- Total Revenue for FY17 is USD48.00bn
- Free Cash Flow of USD12.91bn for FY17
  - Up from USD12.42bn in FY16 and USD11.33bn in FY15
- Gross Margin 62.96% in FY17
  - 62.87% in FY16
  - 60.38% in FY15
- Div Yield of 2.97%
  - 7 year consecutive streak of growing divs
  - 5 yr avg growth rate of 26.40%

Cisco Systems Inc.

(Buy, TP: USD48.42, Entry: USD41.78, Last: USD42.01)

Conclusion

- Bullish on
  - Overreaction to AWS
  - Company Transition
  - Valuations

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First REIT

Continues to deliver despite rising interest rate environment

Tara Wong

Phillip Securities Research Pte Ltd

23 July 2018

First REIT (Maintain NEUTRAL; unchanged TP of S$1.31)

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+ Positives

▪All-in finance costs of 4% has been stable despite the rising interest rate environment.

○Despite having just 60.7% of its debt on fixed rates (sector average: c.77%), all-in finance costs remain stable at 4%.

○Funding cost for the short-term loan facility secured in May would still be under 4%, if it were to be extended.

- Negatives

▪Debt maturity profile remains unchanged QoQ, despite a refinancing done.

▪28.1% YoY higher finance costs – partly due to write-off of unamortised loan costs.

▪Receivables collection could potentially worsen, unless underlying issue of Sponsor-tenant's cash flow is fully resolved.

OUTLOOK

▪Current gearing of 34.1% affords a debt headroom of c.S$82.9m (assuming 40% gearing) to pursue inorganic growth via LPKR's pipeline of 40 hospitals – two of which are ripe for injection this year.

Maintain NEUTRAL with unchanged TP of S$1.31

▪Credit risk from Lippo Karawaci (LPKR) remains our key concern.

▪However we recognise the effort to maintain borrowing costs and time the market for more attractive funding opportunities.

▪Our target price translates to a FY18e tield of 6.7% and a P/NAV of 1.21x.

Keppel DC REIT

Strengthened balance sheet to fuel inorganic growth

Richard Leow

Phillip Securities Research Pte Ltd

23 July 2018

Keppel DC REIT

(Accumulate, TP: $1.45, DPU: 7.12 cents (5.2%) , Last: $1.38)

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Gross revenue	**41.9**	**34.5**	**21.5%**	**Contribution from KDC SGP 5 (acquired June 12, 2018), maincubes DC (acquired March 30, 2018) and KDC DUB 2 (acquired Sept. 13, 2017)**
Net property income	38.1	31.4	21.4%	22% higher property-related expenses from the acquisition of KDC DUB 2
Distributable income	23.1	20.1	14.6%	
DPU (cents)	**1.82**	**1.74**	**4.6%**	

Source: Company, PSR

Recent acquisitions contributed positively to revenue and DPU

- Achieved DPU growth despite private placement that increased unit base by almost 20%

Aggregate leverage lowered to 31.7%; no debt maturing in 2018

- ~S$290mn debt headroom (based on manager's internal cap of 40%), potential to grow AUM +14%
- Next refinancing is in 2019 for SGD-denominated borrowings that is 19% of total debt
- 86% of debt hedged to fixed-rate; previous quarter was 80%

Outlook: stable

- Long WALE of 8.8 years provides income visibility
- Only 1.2% and 2.1% of NLA for renewal in 2H 2018 and 2019, respectively

Rich valuation at 1.36 times FY18e P/NAV multiple

SATS Ltd

Good turnaround at various levels

Richard Leow

Phillip Securities Research Pte Ltd

23 July 2018

SATS Ltd

(Accumulate, TP: $5.58, DPS: 18 cents (3.5%), Last: $5.17)

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Results at a glance

(SGD mn)	1Q19	1Q18	YoY	Comments
Revenue	**439**	**427**	**3.0%**	**2.7% higher Food Solutions and 3.4% higher Gateway Services**
EBIT	64.9	53.5	21.3%	0.4% higher expenditure; higher margin of 14.8% from 12.5%
Associates/JVs	15.3	15.5	-1.3%	$0.8mn or 23.5% higher Food Solutions, $1.0mn or 8.3% lower Gateway Services
PATMI	**66.2**	**57.3**	**15.5%**	**Higher margin of 15.1% from 13.4%**

Source: Company, PSR

Flight kitchen JV with Turkish Airlines has been terminate

Higher Food Solutions: higher meal volumes, offset by pricing pressure

- Airlines still constrained by strong competition in Asia
- Cost of raw ingredients also expected to continue to increase

Higher Gateway Services: driven by both Aviation & Non-Aviation

- Higher air cargo tonnage and flights handled: air cargo is high operating leverage business, better flow through to bottom line
- Cruise centre benefitted from higher ship calls and increased passengers; turned to profit this quarter

Outlook: positive

- Passenger volumes expected to grow, given the backlog of aircraft on order and airport expansions
- Cruise centre and Kunshan central kitchen have turned profitable

SIA Engineering Company Ltd

Surge from JV and associated companies

Richard Leow

Phillip Securities Research Pte Ltd

23 July 2018

SIA Engineering Company Ltd

(Accumulate, TP: $3.56, DPS: 13 cents (4.1%), Last: $3.20)

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Results at a glance

(SGD mn)	1Q19	1Q18	YoY	Comments
Revenue	**257.7**	**272.8**	**-5.5%**	**Lower airframe and fleet management**
EBIT	10.2	18.1	-43.6%	2.6% lower opex; lower margin of 4.0% from 6.6%
Associates & JV	32.4	21.1	53.6%	Associates $5.2 mn or 31% higher, JV $6.1 mn or 142% higher
PATMI	**40.5**	**36.2**	**11.9%**	**Higher margin of 15.7% from 13.3%**

Source: Company, PSR

Contribution from both associates & JV exceeded our growth expectation

- Higher JV contribution from Rolls Royce engines; was expecting ramp-up only in 2019
- Higher associates likely to be from Eagle Services Asia; operators delayed retirement of B747 and PW4000 engine remains in service

Core Company EBIT remains weak

- 5.5% lower revenue outpaced the 2.6% decline opex

Outlook: improving but remains challenging

- Core Company operations remain challenged, but there is a pipeline of engine shop visits
- Competition from other MRO players exist

CapitaLand Commercial Trust

Continued recovery in office rents

Tan Dehong

Phillip Securities Research Pte Ltd

23 July 2018

CapitaLand Commercial Trust

(Accumulate, TP: $1.88, DPU: 8.8 cents (5.0%), Last: $1.75)

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Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Gross Revenue	98.0	87.5	12.0	**Contribution from new acquisition Asia Square Tower 2 (AST2) in Sept 2017 offset loss in revenue from divestments of One George St., GSCP and Wilkie Edge**
Net property income	77.7	69.1	12.5	**In line with above**
Distributable income	79.4	69.5	14.3	
DPU (Cents)	2.16	2.25	(4.0)	
DPU, adjusted (Cents)	**2.16**	**2.19**	**(1.4)**	**Adjusted for enlarged number of units mainly from rights issue for Gallileo acquisition. Gallileo contributions to earnings only started 18 June 2018**

Source: Company, PSR

Positives

- Office rents continue to stage strong recovery.
- Increase in portfolio valuation due to capitalisation and discount rate compression.
- Expect negative rental reversion trend to turnaround in 2019.

Negatives

- Slow ramp up in occupancy for Asia Square Tower 2 (AST2). Could add 1-2% to annualised FY18 NPI.

Maintain ACCUMULATE. Outlook:

✓With only c.2% of leases due for expiry this year, exposure to negative rental reversions largely over.

✓Expiring rents in 2019 and 2020 are c.2.8% and 14% lower than the expiring rents this year, and would support organic growth from positive rental reversions over the next two years.

✓Interest rate risks are mitigated in the near term with zero debt expiring this year and 85% of debt on fixed rate.

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CapitaLand Mall Trust

Baby steps towards a recovery

Tan Dehong
Phillip Securities Research Pte Ltd
23 July 2018

CapitaLand Mall Trust

(Neutral, TP: $2.05, DPU: 11.4 cents (5.3%), Last: $2.16)

Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Gross Revenue	171.4	168.6	1.6	Higher rental income from Plaza Singapura, Bedok Mall, Bugis Junction, Tampines Mall. Partially offset by lower gross revenue from Sembawang Shopping Centre divested on 18 June 2018
Net property income	120.8	117.6	2.8	Lower utilities and marketing expenses. CMT hedged utilities expenses on lower rates in 2Q17, effective until 2019
Distributable income	100.0	97.2	2.9	
DPU (Cents)	**2.81**	**2.75**	**2.2**	

Source: Company, PSR

Positives

- 10-15bps capitalisation rate compression despite rising interest rates.
- More tenant sectors seeing sales turnaround in 2Q18.

Negatives

- Overall tenant sales still slow to recover, down 0.2% YoY in 1H18, dragged by slower F&B sales. Proliferation of F&B offerings at malls and increasing popularity of food delivery services could be reasons for weakness.

Maintain Neutral. Outlook:

✓Rental reversions have stabilised at 0.8% for the first two quarters.

✓Tenant sales need to catch up for more meaningful upsides in rental growth. This has been missing ingredient in recovery.

✓We are of the view that retail remains the REIT subsector most challenged by advancements in technology including the e-commerce threat.

✓Catalysts for growth remain the upcoming completion of Funan in 2H19 or possibly earlier.

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