

## **Strategy/Tactical**

Phillip Weekly Musings  
Singapore Monthly – July 18

## **Company Results**

CNMC Goldmine Holdings  
Banyan Tree Holdings

## **US Update**

Phillip Recession Tracker



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# Week 35 - Phillip Weekly Musings

Paul Chew

Phillip Securities Research Pte Ltd

27 August 2018



# Week 35 – Short-term Views

## Key Events Last Week

- SingTel: TPG merger with Vodafone Hutchinson; from 3 plus maybe 1 mobile operators to actually 3  
[Fixed Line broadband market share: Telstra 50%; TPG 25%; Optus 15%]  
[Mobile market share: Telstra 45%, Optus 28%; Vodafone 20%]  
-If Australia cannot afford 4 mobile operators, can Singapore?  
-Will it be a stronger competitor in Singapore with CK Hutchinson and Vodafone?
- SembCorp Industries: PPA for 2<sup>nd</sup> power plant in India (SGPL) + positive because de-risk away from volatile spot prices + SGPL was loss making
- Powell speech: Goldilock + Gradual rate hikes remain appropriate + no risk of overheating because no clear sign inflation accelerating above 2% target + need to raise gradually because unclear what is neutral rate

## Latest Views

- Telco: Short-term momentum for SingTel but 5G bidding starts Oct18 in Australia
- REITs: Strong SGD support for REITS
- Construction: Interesting opportunity from expanded home improvement programme (HIP); HDB upgraded when 30 years and now at 60 years; 320k (1986) plus 230k flats (1997)



# Singapore Monthly – July18

## Global growth has peaked

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27 August 2018



# Singapore monthly: August 2018

Macro/Sector: *Global growth has peaked*

- Slower global growth: Global PMIs trending down + SG Industrial production in July half the pace of 1H18 + SG electronic exports negative in 2018 + German IFO 2-year low
- US economy: Robust + Record low unemployment + Retail sales 7-year high + US\$1tr
- Turkey: US\$466b external debt + rising USD and interest rates + contagion worry if capital controls

Results: 2Q18 results was disappointing

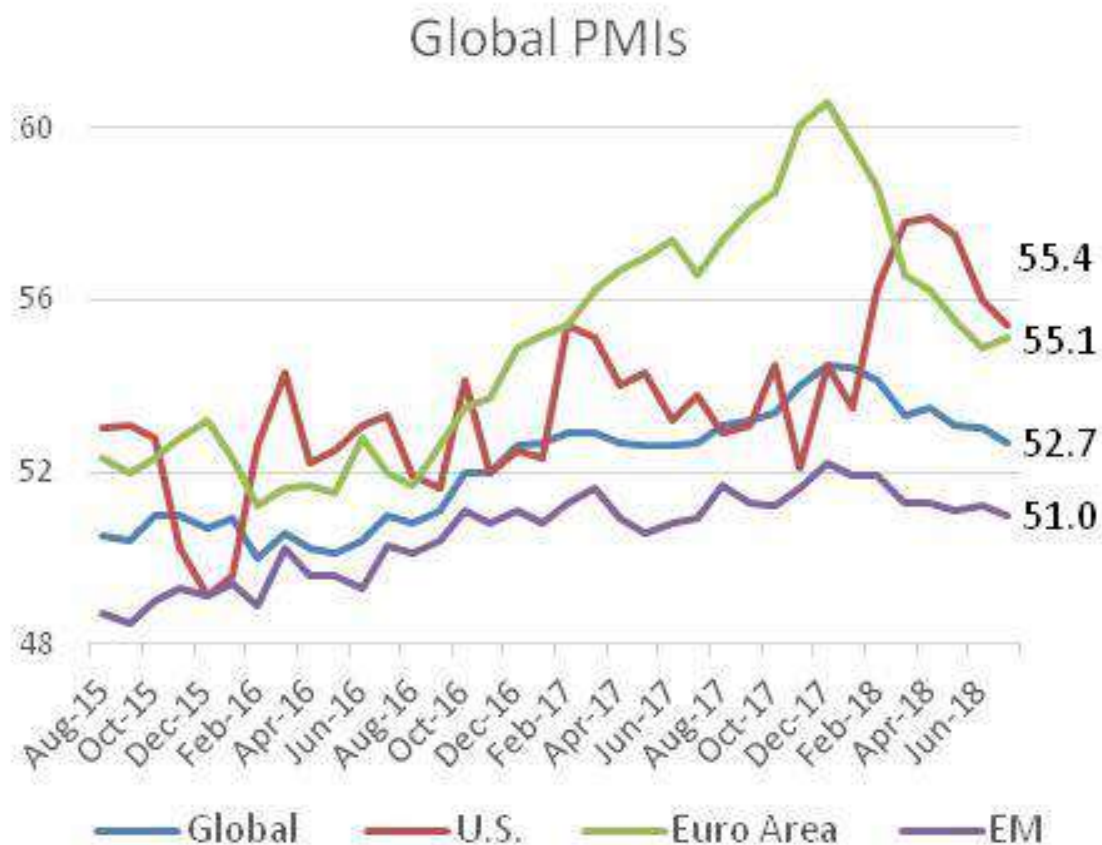
- Property: Hard to perform as demand tappers down to 1<sup>st</sup> time buyers
- Consumer: Surprisingly sluggish and only selected formats performing
- Banking: Improving margins + volume + wealth management softer
- REIT: Relative SGD strength + selective segments + bond proxy from inflation; Office rentals recovering
- Utilities: Turning more positive as demand better than expected
- Construction: Recovery in demand and better margins from 2-envelope system

BUY sustainable yield, overweight financial

- STI target: 3700, lower end of target prices as we face tariff headwinds; banking plus telco turnaround
- Yield: Ascendas REIT, CCT, CRCT, Cache, Keppel DC Reit,
- Banking: OCBC, UOB, DBS, SGX
- Consumer: Sheng Siong gaining share from wet markets and mall based supermarkets
- Transport: SATS (overseas and non-aviation operations) + Comfort DelGro (competitions subsidies)
- Property: CapitaLand (recurrent revenue streams); Chip Eng Seng (development profits locked-in)



# Global Economy: Growth peaked and trade shock

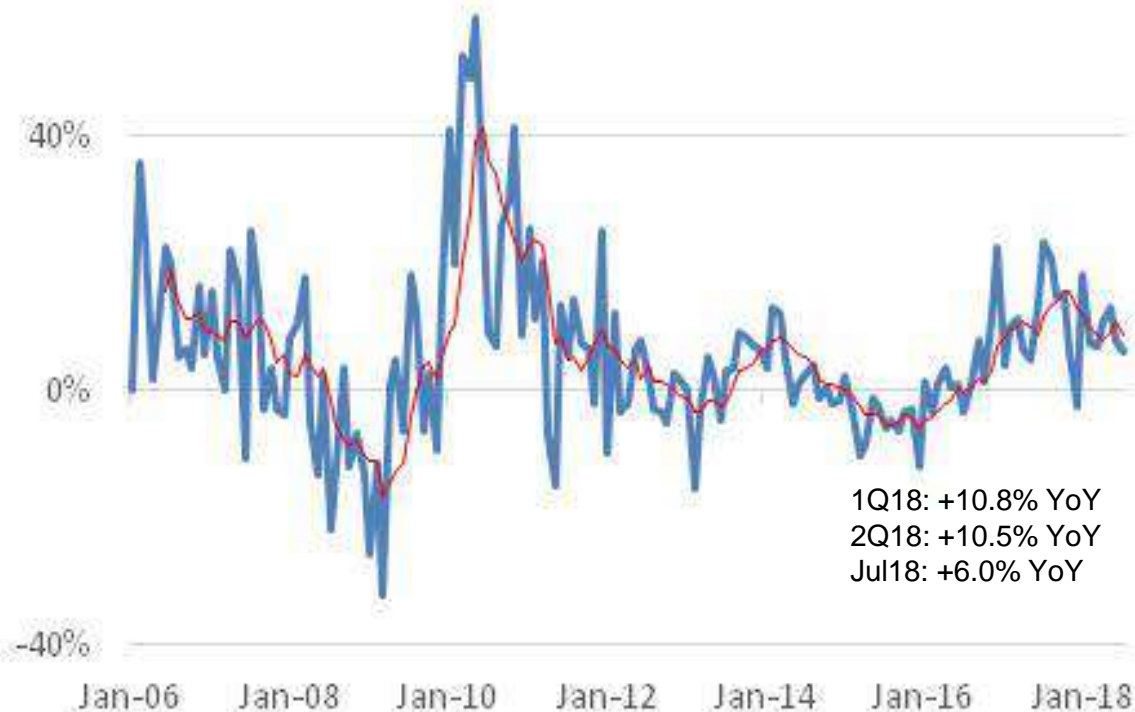


Source: CEIC, Markitt, PSR



# Singapore Economy: Decelerating into 3Q18

SG: Industrial production (YoY)



SG: Electronic exports (US\$ YoY)



Source: CEIC, PSR



# Phillip Absolute 10 model portfolio

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Rating	Target Price	Share Price	% Upside	Mkt Cap (US\$ m)	FY17	PE FY18E	FY19E	P/BV FY17	Dividend Yield	ROE FY17
<b>Yield</b>														
Asian PayTV	2.5%	2.5%	-29.7%	Reduce	0.35	0.42	-16%	435	16.1	13.6	13.9	0.5	15.7%	2.8%
Ascendas REIT	4.2%	4.2%	1.1%	Accumulate	2.96	2.75	8%	5,873	16.3	16.7	16.2	1.3	5.8%	8.0%
<b>Growth</b>														
Chip Eng Seng	-4.2%	-4.2%	-17.4%	Buy	1.21	0.81	50%	367	12.9	10.5	12.3	0.6	5.0%	6.0%
Dairy Farm - US\$	-7.1%	-7.1%	3.9%	Buy	9.83	8.17	20%	11,051	27.4	21.8	19.8	6.7	3.5%	25.7%
OCBC	-0.6%	-0.6%	-6.6%	Buy	14.90	11.57	29%	35,337	11.7	10.3	9.5	1.2	3.2%	11.5%
Geo Energy	11.6%	11.6%	-9.4%	Buy	0.41	0.24	71%	232	6.3	5.2	4.1	2.6	4.2%	18.3%
Micro-Mechanics	0.0%	0.0%	-15.2%	Buy	2.30	1.79	28%	181	16.9	13.6	11.4	4.4	5.0%	33.4%
<b>Re-rating Plays</b>														
Banyan Tree	6.6%	6.6%	0.0%	Accumulate	0.73	0.57	29%	346	1.7	1.7	1.6	0.7	1.8%	6.5%
CapitaLand	2.2%	2.2%	-8.5%	Accumulate	4.19	3.23	30%	9,812	8.7	13.0	12.6	0.7	3.7%	8.3%
Comfort DelGro	0.0%	0.0%	18.7%	Accumulate	2.78	2.35	18%	3,708	17.5	16.3	16.2	1.9	4.4%	10.8%
Average	1.53%	1.5%	-6.3%				27%	67,342	13.6	12.3	11.8	2.1	5.2%	13.1%

CCT

Sheng  
Siong  
DBS

## Historical Performance

	Absolute 10	STI
Jan18	4.9%	3.9%
Feb18	-3.1%	-0.5%
Mar18	-2.7%	-2.6%
Apr18	1.4%	5.4%
May18	-3.1%	-5.1%
Jun18	-4.3%	-4.6%
Jul18	1.5%	1.6%
YTD	-5.6%	-2.4%
Out/(Under)perf.		-3.2%

- Performance was in-line with STI; weak performance from Dairy and Chip Eng Seng
- We will be replacing Asian PayTV, Dairy Farm and OCBC with → CCT, Sheng Siong and DBS



# CNMC Goldmine Holdings Limited

## Halfway to production turnaround

Chen Guangzhi

Phillip Securities Research Pte Ltd

27 August 2018



# CNMC Goldmine Holdings Limited

(BUY (Maintained), TP: S\$0.29)

## Results at a glance

(USD mn)	2Q18	2Q17	YoY (%)	Comments
Revenue	9.32	4.86	91.7	Increase in production and sales volume of fine gold and average realised gold price
Operating profit	(0.39)	0.30	N.M.	Higher site and factory expenses due to CIL plant operation; Listing expenses incurred due to application for dual primary listing in Hong Kong; Unrealised FX loss due to appreciation of UAD against MYR
PBT	(0.26)	0.49	N.M.	In line with the above
PATMI	(0.34)	0.48	N.M.	In line with the above
PATMI, adjusted	0.74	0.48	54.8	Listing expenses of US\$814k, Performance share plan of US\$468k

N.M.: not meaningful

Source: Company, PSR

## Outlook

- The turnaround of gold output in FY18
- one-off listing costs and higher plant operating expenses offset the turnaround in earnings
- Plan to monetise other minerals such as silver, lead, and zinc
- Ongoing exploration on KelGold and Pulai project
- On track dual primary listing in HKEX

## Positives

### CIL plant elevated production volume

- 2-month operation with an average gold recovery rate of 93%
- Forecast production to almost double to 28,757oz

	2Q18	2Q17	YoY (%)	1Q18	QoQ (%)
Production/Sales volume (oz)	7,188	3,836	87%	4,519	59%
ASP (US\$/oz)	1,296	1,267	2%	1,349	-4%
Total revenue (US\$ mn)	9.3	4.9	92%	6.1	53%

Source: Company, PSR

## Negatives

### Operating and non-operating expenses ate up revenue growth

- Site and factory expenses: 117% up to US\$3.2mn due to higher operating expenses from the CIL plant
- Listing fees: US\$814k in 2Q18 (US\$995k in 1H18). Another US\$2mn listing expenses is expected in 2H18

## Double whammy from strengthening USD



# Banyan Tree Holdings Limited

## Increasingly going asset light

Tan Dehong

Phillip Securities Research Pte Ltd

27 August 2018



# Banyan Tree Holdings Limited

(Maintain Accumulate, TP: \$0.73, DPU: 1 cent (1.9%), Last: \$0.54)



## Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Revenue	68.4	69.8	(2.1)	
-Hotel Investments	38.7	42.0	(7.7)	Mainly from deconsolidation of China operations (-\$2.5mn) and weaker Maldives (-\$1.6mn)
-Property Sales	15.1	11.5	31.5	Handover of Cassia Phuket (Phase 2) and Cassia Bintan
-Fee-based segment	14.6	16.4	(11.1)	Deconsolidation of China operations, replaced with licence fees post divestment to Vanke
Other income	1.5	0.5	-	
Total Costs and Expenses	(60.3)	(70.0)	(13.9)	Mainly due to deconsolidation of China operations expenses. Excluding China, total costs in line with last year
Operating Profit (EBITDA)	9.6	0.4	-	
Share of results from associates/JV	(1.2)	0.2		Group's share of results from China operations are disclosed on an equity accounting basis from Aug 2017
Net Profit	(5.3)	(12.3)	-	

Source: Company, PSR

## Positives

- Losses narrowed in the traditionally off-peak season due to lower operating expenses, due to deconsolidation of China operations. .
- Property sales segment saw 32% increase in revenue. 2H18 may see 50% jump.
- Increasingly asset light – sale of Seychelles assets on mgmt. fee model.

## Negatives

- Results of associates consisting of China operations still a drag on earnings.

## Maintain ACCUMULATE. Outlook:

- ✓ Near term uncertainties for Thai resorts after Phuket boat accident that killed 40 Chinese tourists – negative hit from cancellations to be transitional for 1-2 quarters
- ✓ Catalysts from increasing focus on asset light model, esp w Accor/Vanke partnerships. TP translates to 0.94x FY18e P/NAV



# Phillip Monthly Recession Tracker

## July update – risk-on

Jeremy Ng

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27 August 2018



# Phillip Monthly Recession Tracker – risk-on

	Indicator	Threshold	Last	Previous	Bearish Signal
<b>Market-based data</b>					
Interest rate	Ted Spread	Above 1%	0.30%	0.38%	Unconfirmed
	2s10s Spread	Below 0%	0.266%	0.290%	Unconfirmed
	10 Year Treasury Yield	Below 2.00%	2.93%	2.82%	Unconfirmed
Equity market	<b>VIX Index</b>	<b>Above 27.7</b>	<b>10.91</b>	<b>15.00</b>	<b>Confirmed (in Feb)</b>
	S&P 500 Index	Below 10 month MA/2724	2853	2736	Unconfirmed
	Value Line Geometric	Below uptrend line/480	583	576	Unconfirmed
	S&P 500 Index quarterly timeframe	2 consecutive bearish quarters	Bullish quarter	1 <sup>st</sup> bearish quarter	Unconfirmed
<b>Economic-based data</b>					
Labor	Unemployment Rate	Above 12 MA/4.1%	3.9%	4.1%	Unconfirmed
	Unemployment Claims YoY	Above 4.5%	-12%	-8.0%	Unconfirmed
Sentiment	ISM Manufacturing PMI	2 consecutive months below 50	58.1	60.2	Unconfirmed
	CB Consumer Confidence	Below uptrend line/112	127.4	127.1	Unconfirmed
	UMich Consumer Sentiment	Below uptrend line/94.0	97.9	98.2	Unconfirmed
	Bloomberg Consumer Comfort	Below uptrend line/47	59.3	57.6	Unconfirmed
Hard	Retail Sales YoY	Below 1.6%	6.6%	6.5%	Unconfirmed
	Core Capital Goods New Orders Nondefense YoY	Below 0%	6.2%	7.1%	Unconfirmed
	Industrial Production YoY	Below 0%	3.80%	3.22%	Unconfirmed
Interest rate	Fed Funds Rate	Halting of the rate hike cycle/tightening phase	2.00%	2.00	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.

## July Performance:

**DJIA: +4.7%**

**S&P 500: +3.5%**

**Nasdaq 100: +2.5%**

- The VIX index has triggered its threshold of 27.7 in early Feb
- 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



# Trade Tension – market shrugging off trade tension news

- Market recovering well from the past 2 episodes trade tension
- Expect the negative sentiment to be temporary



Source: Bloomberg, PSR



# Trade Tension – USDCNH correcting off the 6.950 high

- 7.000 psychological round number will be firmly defended
- China agrees to talk on Trade with the US
- China Vice Commerce minister (Wang Shouwen) to visit the US for trade talks
- Resulting in the Offshore Yuan gaining 1.1% and the DJIA gaining 1.58%

Reversal in the depreciation in offshore YUAN due to news on China agreeing to talk on trade with the US.  
Couple that with the bearish divergence pattern suggests a high likelihood of further downside next

7.000 psychological round number should will be firmly defended by the chinese government

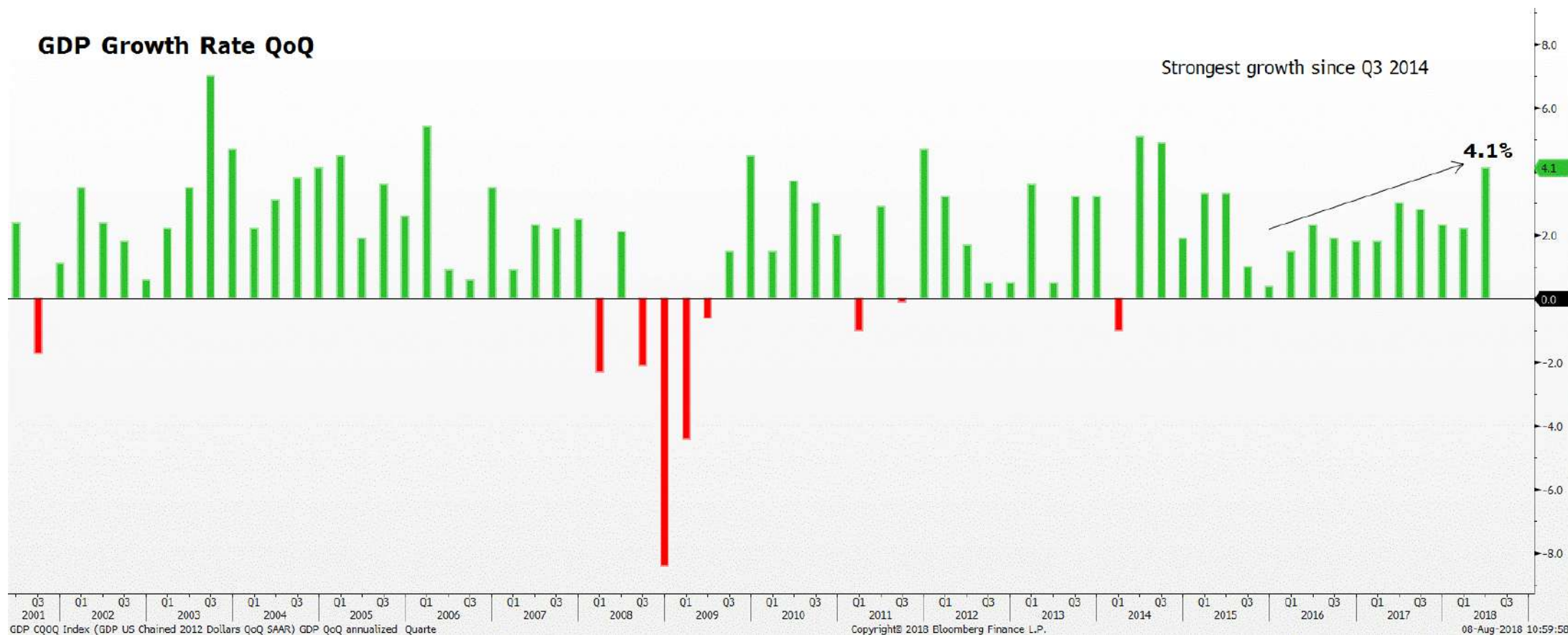


Source: Bloomberg, PSR



# US GDP – confirming the strength in the economy

- Q2 2018 GDP growth rate QoQ accelerating at the fastest pace since Q3 2014
- No sign of slowdown yet



Source: Bloomberg, PSR



# VIX Index – still trading below 20

- Traded below 15 for most of the sessions in July
- But recently spiking more erratically due to the Turkey Emerging market scare

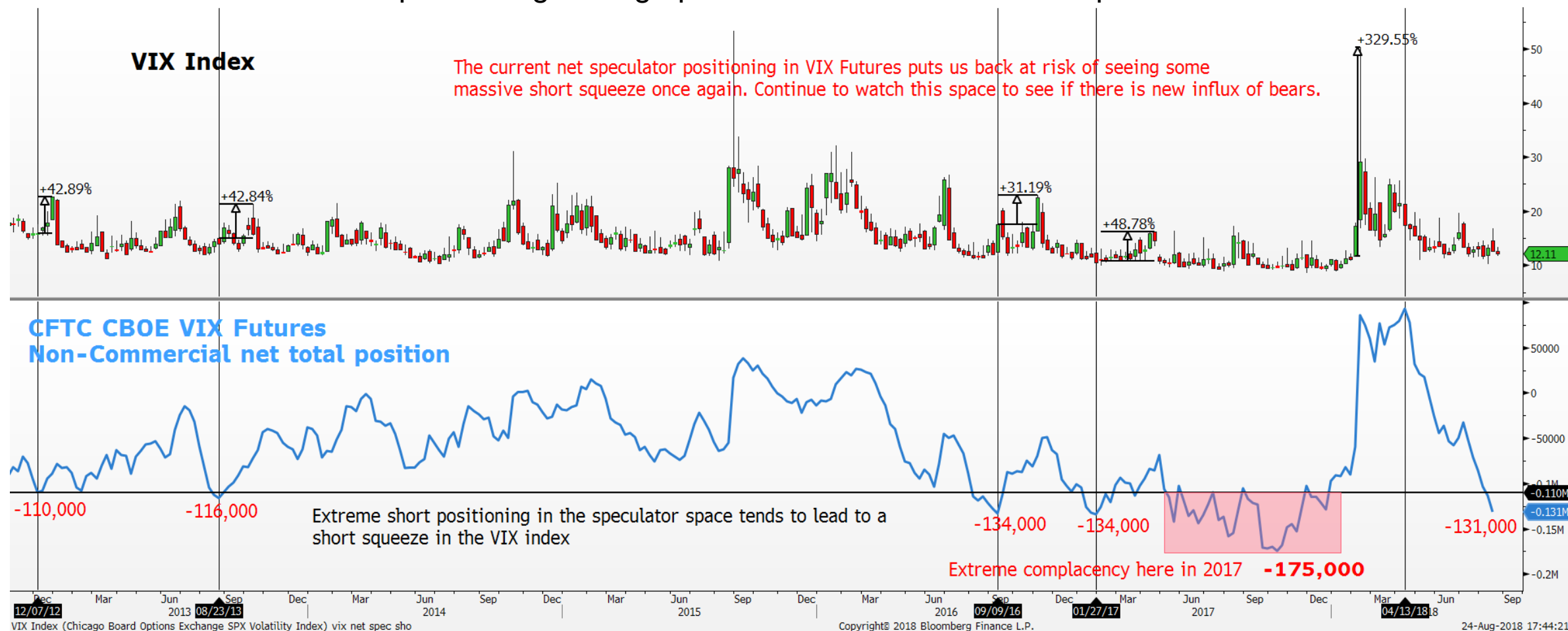


Source: Bloomberg, PSR



# VIX Index – overcomplacent

- Current extreme short positioning setting up for another massive short squeeze

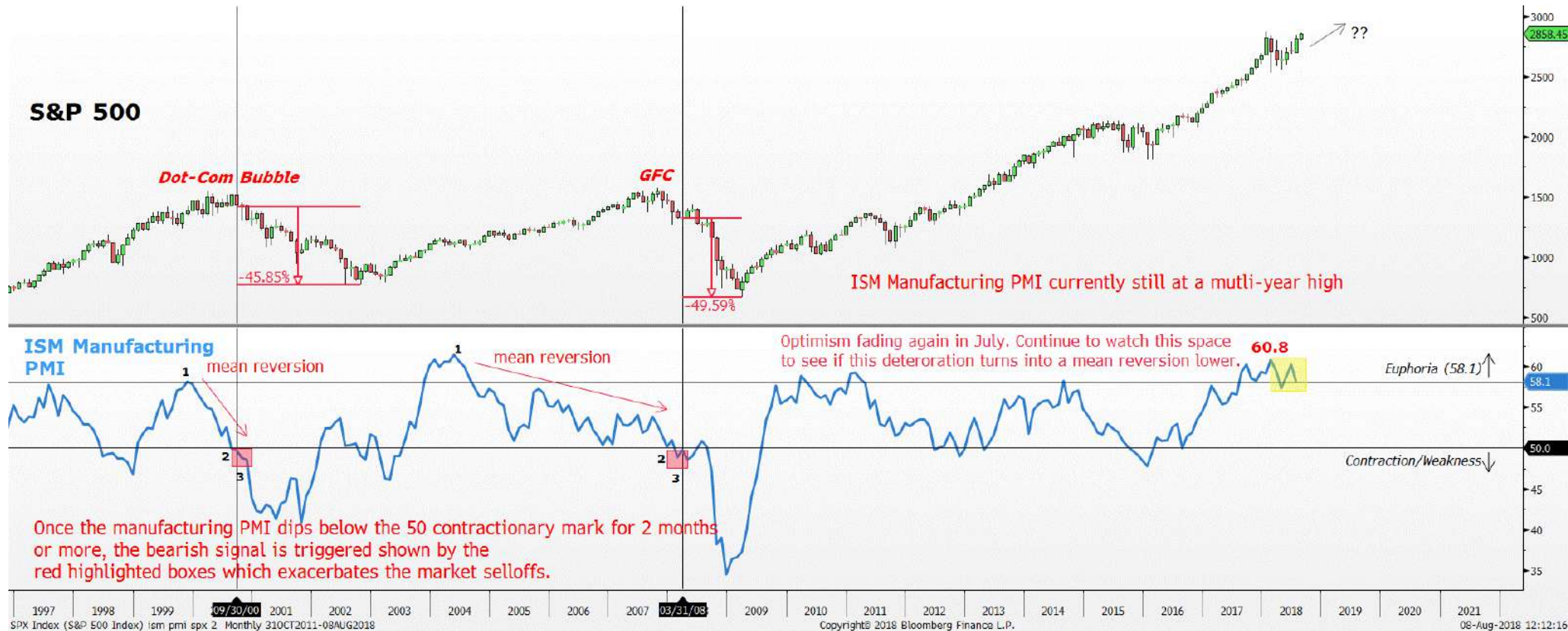


Source: Bloomberg, PSR



# ISM Manufacturing PMI – mean reversion?

- PMI has been slowing down from the 60.8 high suggesting for the start of the mean reversion lower
- Continue to monitor the general trend to see if this deceleration sustains or not
- Key threshold to watch is the 50 expansionary/contractionary level

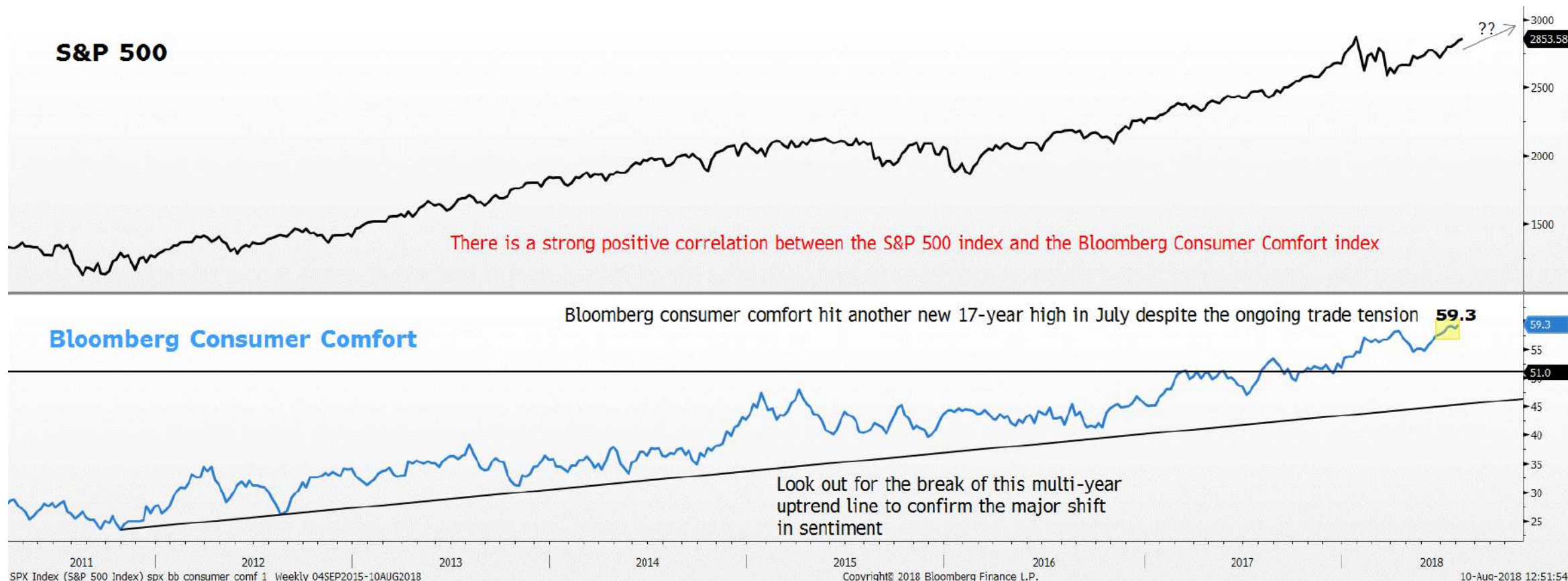


Source: Bloomberg, PSR



# Bloomberg Consumer Comfort – surging optimism

- sentiment continues improve
- The general equity market should follow along

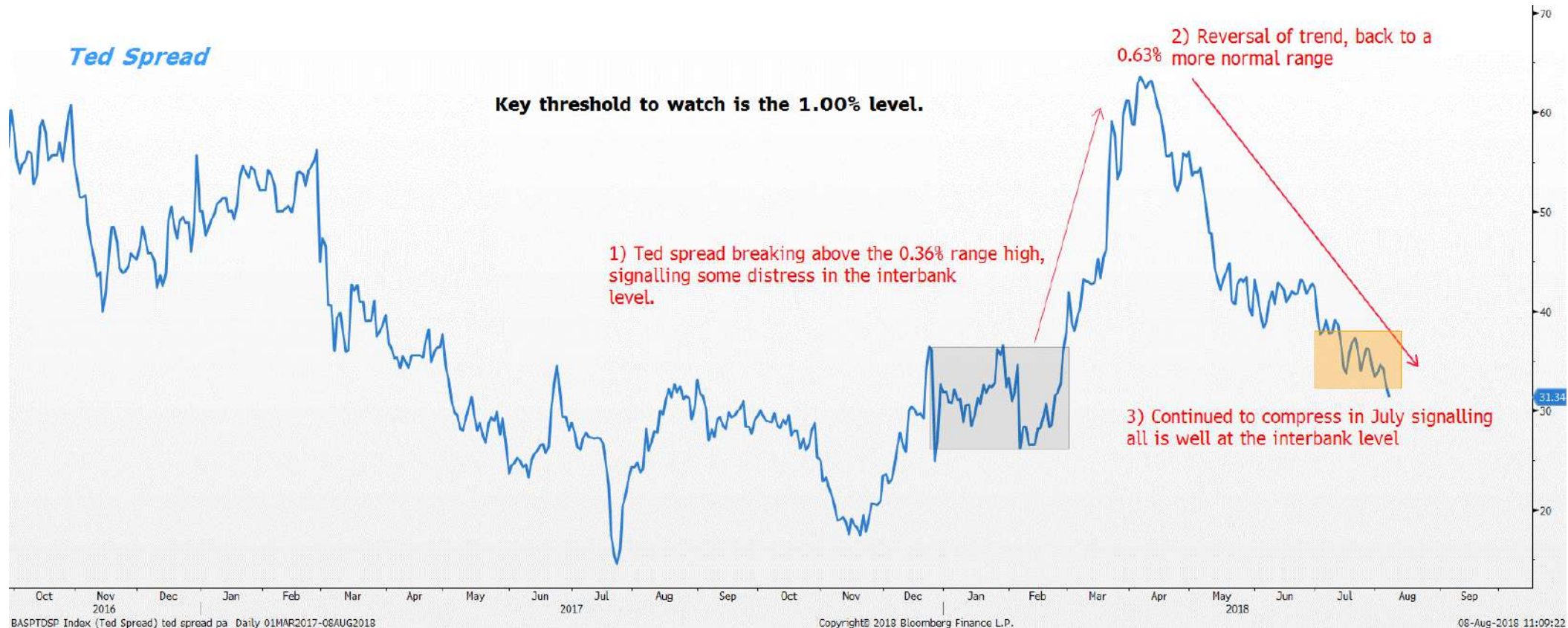


Source: Bloomberg, PSR



# Ted Spread – further sigh of relief

- Ted spread continues to subside off the 0.63% April high
- hitting a new 5-month low at 0.333%
- Bullish momentum on the equity market should sustain

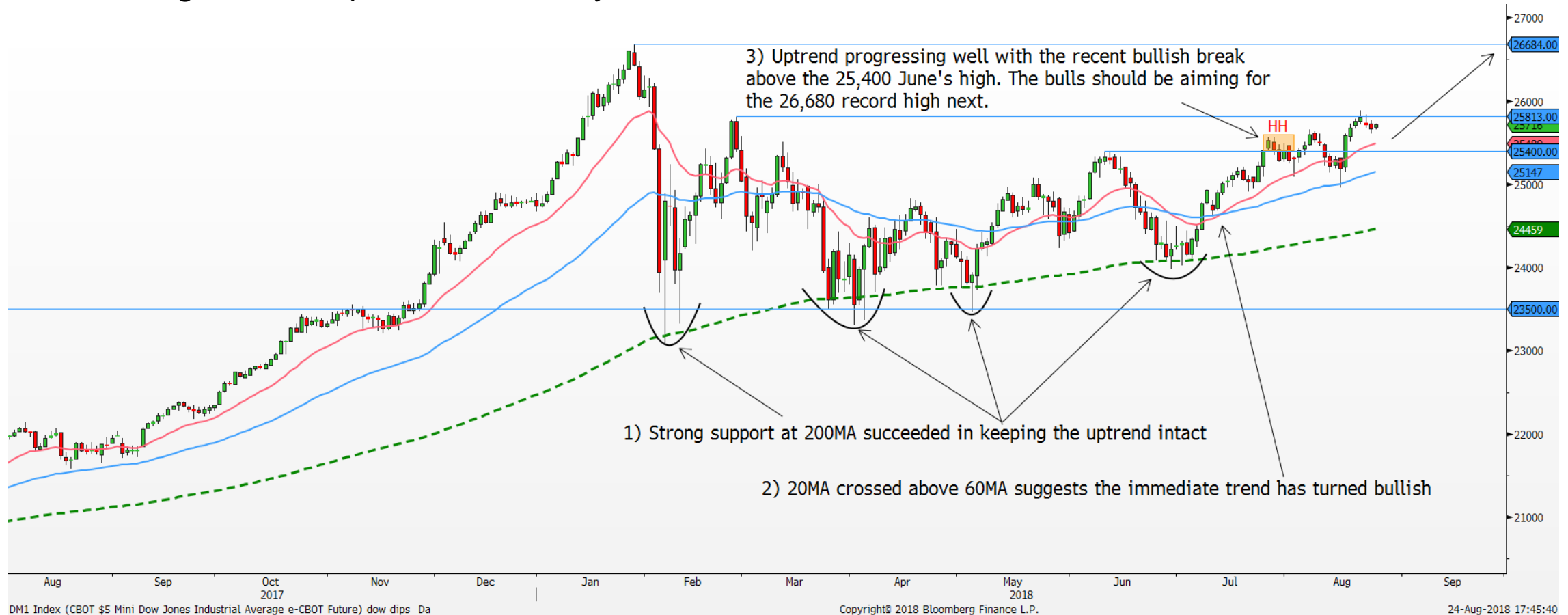


Source: Bloomberg, PSR



# DJIA index – Bullish price action

- Uptrend progressing firmly with the formation of another Higher High (HH)
- Next target: 25,813 points followed by 26,684



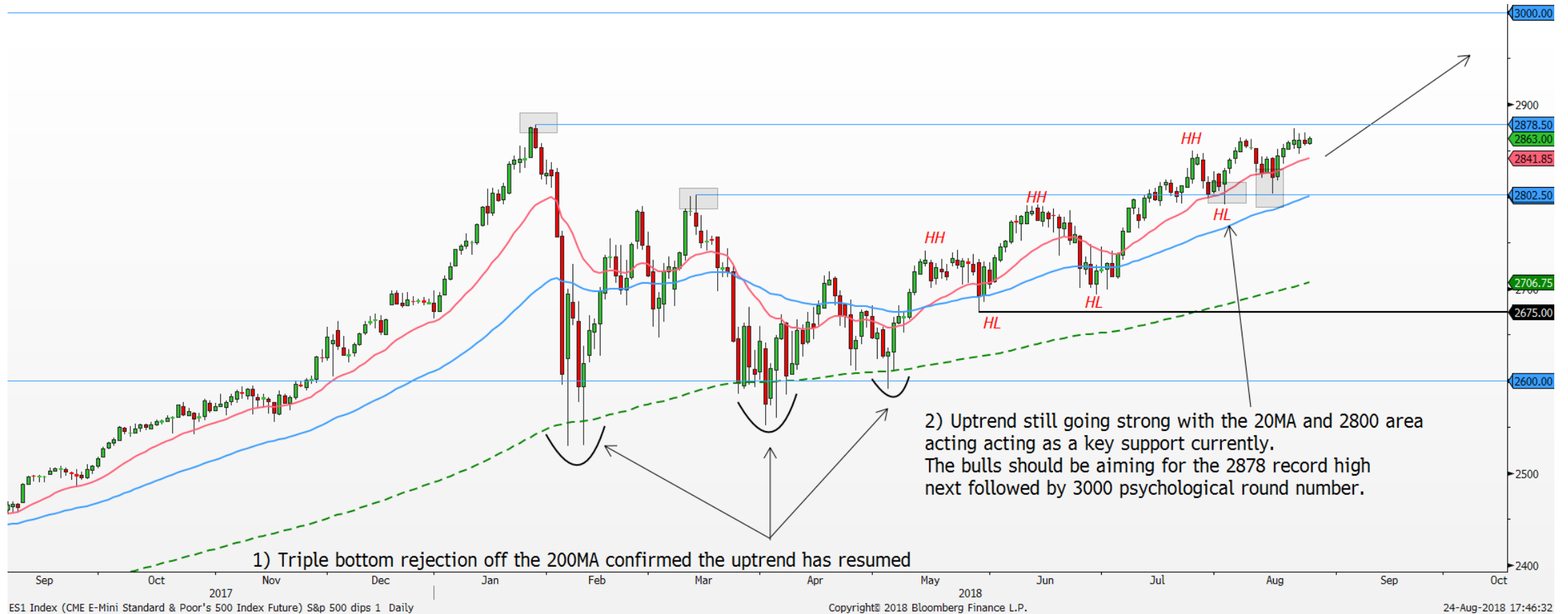
DJIA index daily chart

Source: Bloomberg, PSR



# S&P 500 index – Bullish price action

- Uptrend progressing firmly with the formation of another Higher High (HH)
- Next target: 2878 points followed by 3000



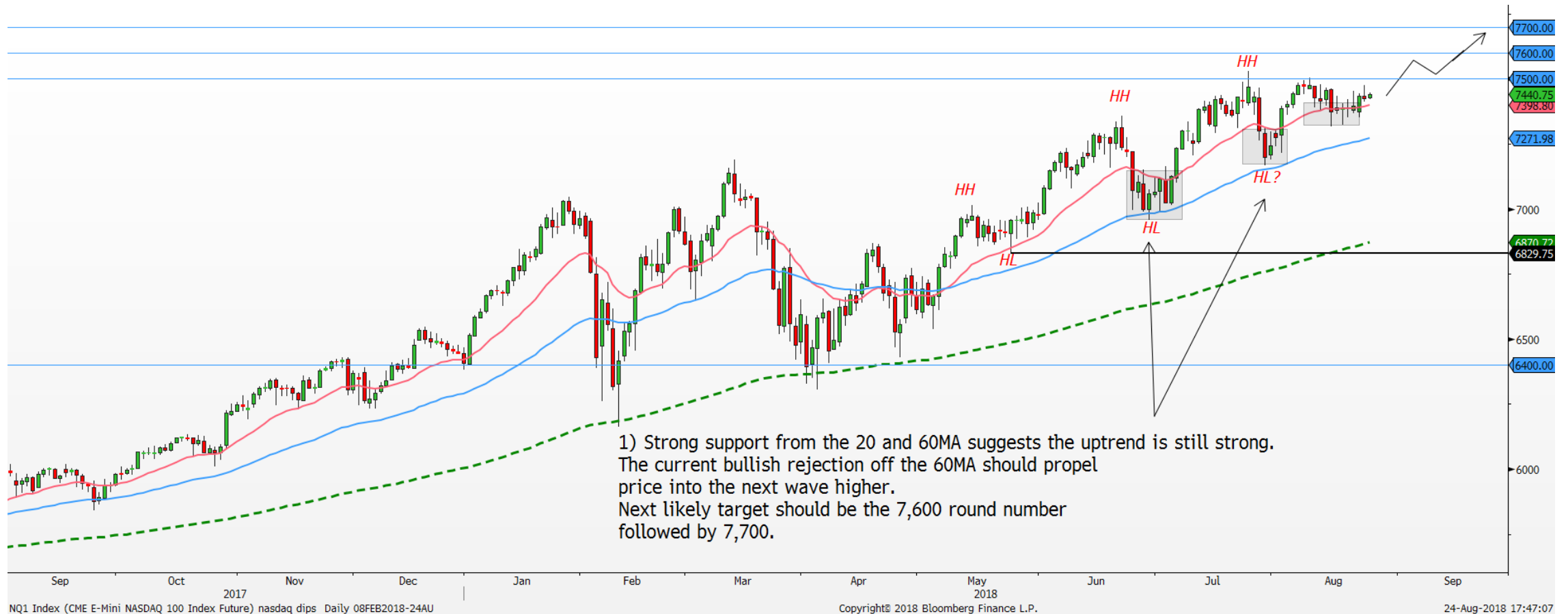
S&P 500 index daily chart

Source: Bloomberg, PSR



# Nasdaq 100 index – Bullish price action

- Uptrend progressing firmly with the formation of another Higher High (HH)
- Next target: 7,600 points followed by 7,700



Nasdaq 100 index daily chart

Source: Bloomberg, PSR



# Summary

- Despite the escalating trade tension, economic data remains strong at their multi-year extremes
- Until further deterioration from the economic-based data triggers their respective threshold, we remain bullish on the general equity market
- Current bullish price action in the S&P 500, DJIA and NASDAQ 100 index suggests a near-term rebound back into the uptrend
- The 20 and 60 day moving average should continue to act as springboard for propping the bullish momentum up for the S&P 500, DJIA and Nasdaq 100 index

## 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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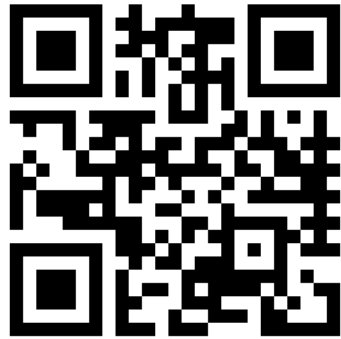
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