

10 September 2018, 8.15am/11.15am Morning Call/Webinar

Week 37 - Phillip Weekly Musings

Sector Update
Banking
Coal

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Week 37 - Phillip Weekly Musings

Paul Chew

Phillip Securities Research Pte Ltd

10 Sep 2018

Week 37 – Short-term Views

Key Events Last Week

- Macro: US wage growth more than 9-year highs = pressure on inflation and interest rates;
- Trade tension ratchet up: tariffs on US\$200bn imports "take place very soon"; another US\$267bn underway (include handphones);
- Emerging market fallout: Rupiah at 20-year lows; affect consumer demand, fiscal constraint, financial conditions tightening as interest rates rise; Stocks affected: Jardine C&C; First REIT; positive for coal/palm oil exporters
- Facebook S\$1.4bn Data centre: 1.8m sft (6x Keppel DC REIT) ; reinforce Singapore as hub for data centre and help fill space; new form of demand for industrial land in Singapore; positive for Keppel DC REIT + Keppel T&T + SingTel

Conclusion

- Stay Defensive : Newsflow is still negative
- Yield: Ascendas REIT + CapitaCommercial Trust ; Telcos
- USD dollar revenue income earners with MY/IJ cost base: coal, rubber glove, palm oil, electronic exporters

Week(s) Ahead

- 12Sep: iPhone XS launch
- 13Sep: ECB Council meeting: QE purchases half in Oct (EUR15b/mth) and end Dec
- 24Sep: Inclusion of Dairy Farm to STI (1.2%) and replace Starhub (0.3%)
- 25-26Sep: FOMC meeting

Week 37 – 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
Yield														
Ascendas REIT	-0.4%	3.4%	0.7%	Accumulate	2.96	2.74	8%	5,837	16.2	16.6	16.2	1.3	5.8%	8.0%
CapitaLand Comm Trust	1.1%	3.5%	-8.3%	Accumulate	1.88	1.77	6%	4,817	11.4	21.1	20.6	1.0	4.9%	8.8%
Growth														
Chip Eng Seng	3.1%	-10.3%	-14.9%	Buy	1.15	0.83	39%	378	13.3	10.8	12.7	0.7	4.8%	6.0%
Sheng Siong	9.3%	15.8%	26.5%	Accumulate	1.13	1.17	-3%	1,279	25.2	24.1	22.2	6.3	2.9%	26.8%
DBS Group	-6.7%	-12.1%	0.4%	Buy	33.32	24.95	34%	46,382	14.6	11.0	9.8	1.4	3.7%	10.3%
Geo Energy	-10.4%	-4.4%	-18.9%	Buy	0.41	0.22	91%	208	5.7	4.7	3.7	2.3	4.7%	18.3%
Micro-Mechanics	1.1%	1.7%	-14.2%	Buy	2.30	1.81	27%	183	14.7	13.5	11.7	4.5	5.0%	33.4%
Re-rating Plays														
Banyan Tree	-8.0%	-8.0%	-8.0%	Accumulate	0.73	0.52	40%	318	1.5	1.6	1.5	0.7	1.9%	6.5%
CapitaLand	6.2%	-0.9%	-2.8%	Accumulate	4.19	3.43	22%	10,381	9.2	13.6	13.4	0.8	3.5%	8.3%
Comfort DelGro	-2.6%	-6.9%	15.7%	Accumulate	2.78	2.29	21%	3,604	17.1	15.8	15.7	1.9	4.5%	10.8%
Average	-0.7%	-1.8%	-2.4%				28%	73,387	12.9	13.3	12.7	2.1	4.2%	13.7%

Singapore Banking Monthly Update

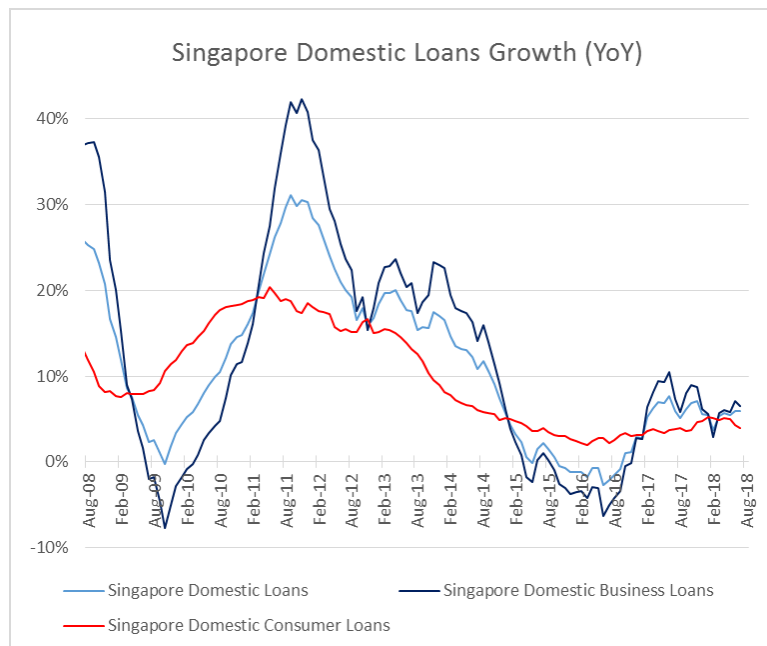
SIBOR and SOR set to soar

Tin Min Ying

Phillip Securities Research Pte Ltd

10 September 2018

Outlook – Loans



Singapore:

- SG domestic loans growth rose 5.5% YoY.
- Driven by business loans that rose 6.6% YoY.
- Consumer loans rose 4.0% YoY.
 - Car loans growth +8.6% YoY, sustaining last month's strong performance.
 - Mortgage loans +4.0% YoY (Despite 50bps increase in SIBOR YTD).
- Singapore's economy is still seeing healthy growth and we do not expect July's property cooling measures to drag down loans growth for the full year.

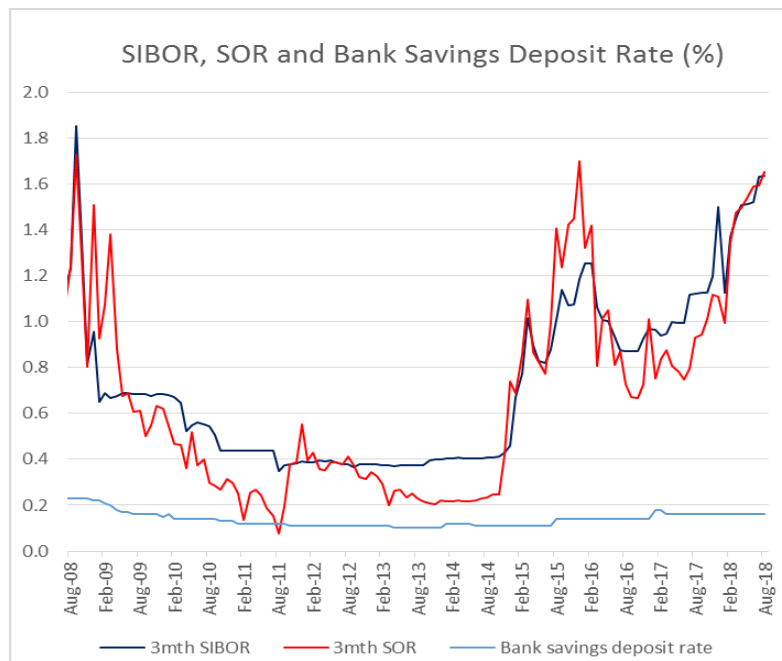


Hong Kong:

- July's loans grew 9.5% YoY (slowest in 1.5 years).
- July's residential sales:
 - Volume down 9.3% MoM.
 - Value down 4.1% MoM.
- The new vacancy tax levy announced in June could prompt developers to launch more affordable and small-scaled housings, to make it easier for buyers to absorb housing prices in smaller portions.

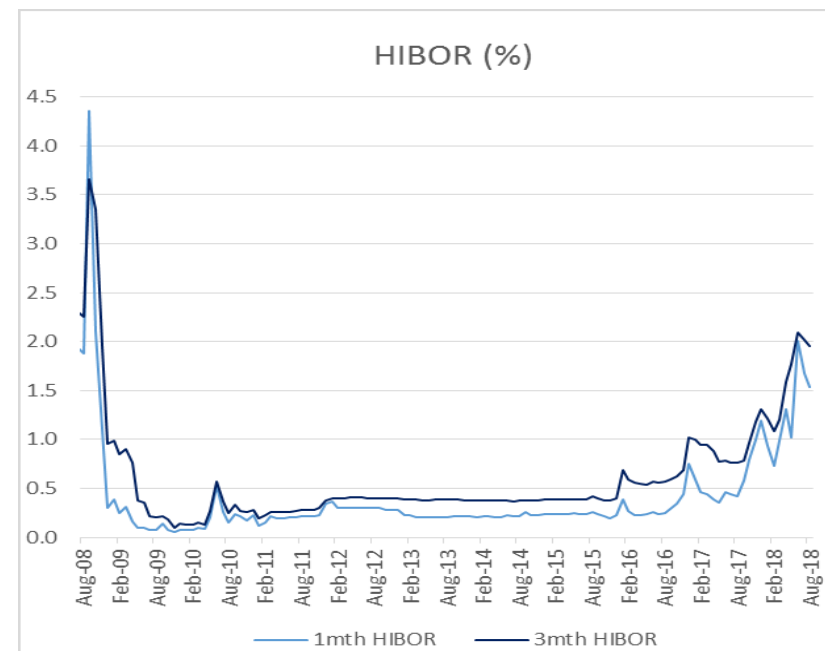
Source: CEIC, Bloomberg, PSR

Outlook: Margins



Singapore

- Steady climb in SIBOR and SOR will provide upside in NIMs for banks' 3Q18 results.
- 3m SIBOR rose in August to 10-year highs.
- 3m SOR maintained its strong ascent this year.
- Savings rate in Singapore remained unchanged at 0.16%.
- With the expectation of 2 more Fed rate hikes in 2018, NIM expansion continues to be a catalyst.

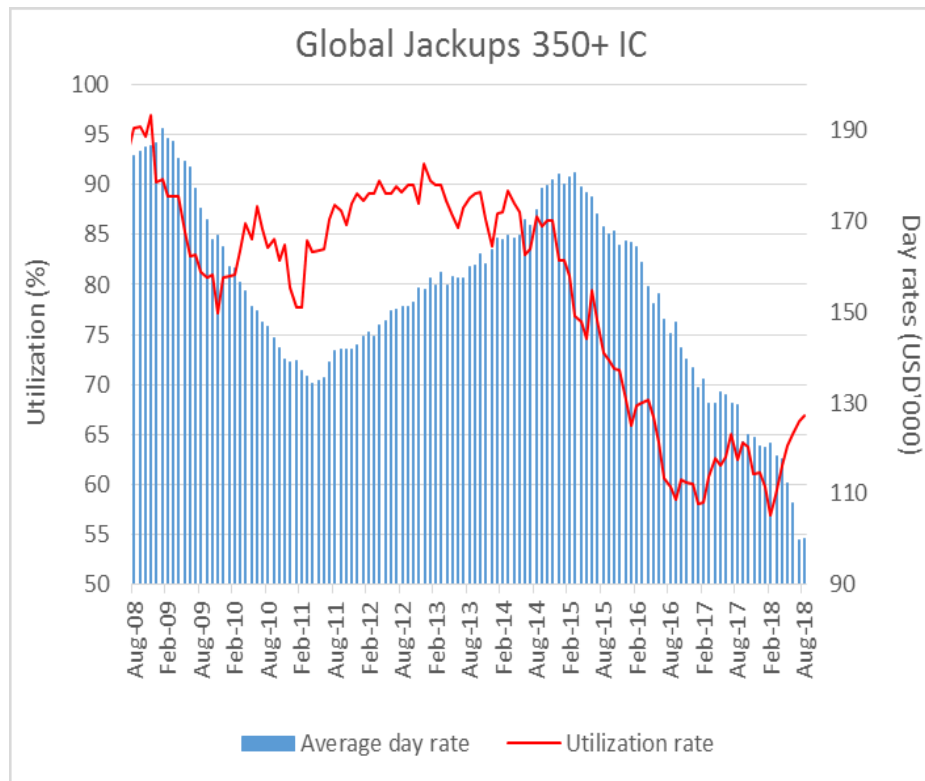


Hong Kong:

- As HIBOR increases, marginal increases in NIM will more than offset the increase in funding costs.

Source: CEIC, Bloomberg, PSR

Outlook – Oil & Gas Sector



Source: Bloomberg, PSR

- Global jack up utilisation rate has bottomed out in February and been on a continuous ascend since.
- August's **utilisation rate** peaked to the highest in almost 2.5 years,
- **Day rate** in August maintained July's rate, breaking a 6-month continuous descend.
- However, O&G sector continues to face the issue of oversupply which makes it difficult to increase prices.
- **O&G NPL has stabilised** and is unlikely to worsen this year; with some banks even making recoveries in NPL in 2Q18.

Singapore Coal Monthly

Surge in imported coal by China

Chen Guangzhi

Phillip Securities Research Pte Ltd

10 Sep 2018

What is the news?

China

Three-year plan for cleaner air released

- “Battle for A Blue Sky”: reduce the emission of major air pollutants and greenhouse gas
- Emissions of sulphur dioxide and nitrogen oxides drop by 15% from 2015 level
- PM 2.5 density will drop by at least 18%
- Percentage of days with good air quality: 80%+ per annum, and that of heavily polluted days: drop by 25%+ from 2015 level
- Key regions: Beijing-Tianjin-Hebei and surrounding areas, the Yangtze River Delta, and the Fenhe and Weihe river plains
- Natural gas: 10% of total energy consumption, out of which coal will drop to 58% by 2020

Indonesia

Coal DMO and domestic remained status quo

- Expect to continue until the presidential election in 2019

What is our view?

More seaborne coal to offset the domestic shortfall

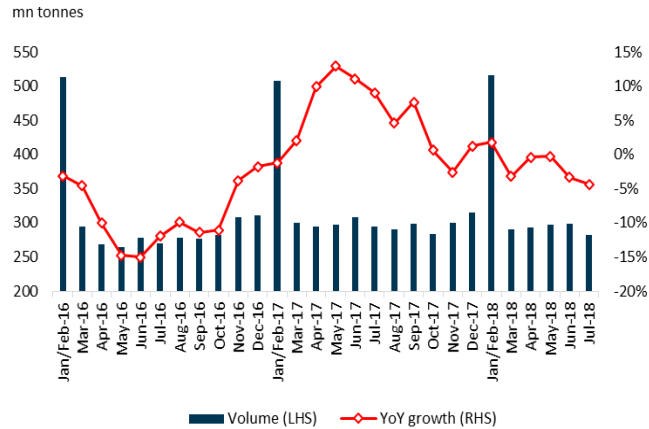
- The domestic crude coal production: down 4% YoY to 282mn tonnes in Jul-18
- Coal imports: up 49% YoY to 29mn tonnes in Jul-18, a high since Jan-14
- Total coal exports from Indonesia surged by 33% YoY to 38mn tonnes which aligned with the strong demand from China
- Port coal stockpile continued to build up, reaching 22mn tonnes (+62% YoY) in Aug-18
- A strong expectation of ongoing clam-down on domestic supply and growing demand for coal during the summer season

Positive coal price outlook in 2H18

- HBA: a new 6-year high in Aug-18, touching US\$107.4/tonne
- Qinhuangdao 5,500 GAR hovered around the US\$600/tonne, which is the level the authority deemed abnormally high
- Imported coal will continue to fill the supply gap, supporting coal prices moving forward

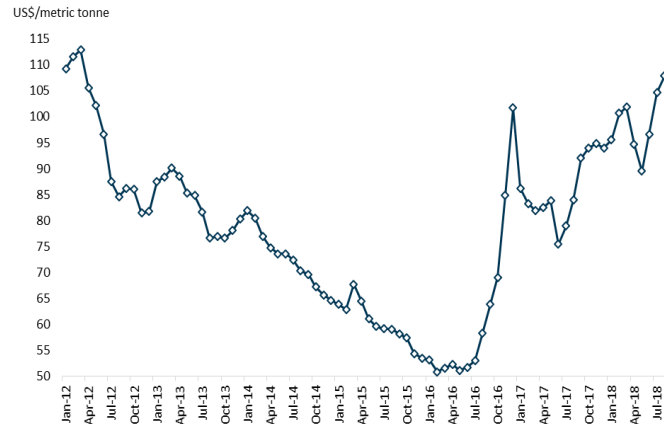
Phillip Coal Tracker: Our snapshot of coal markets

Figure 1: Monthly coal production in PRC slightly falls



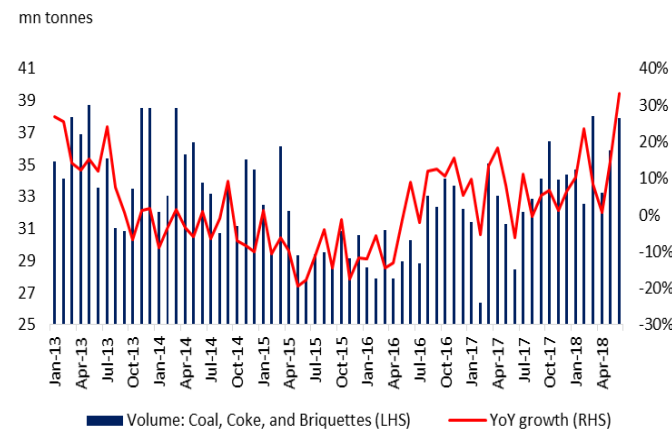
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) hit a 6-year high



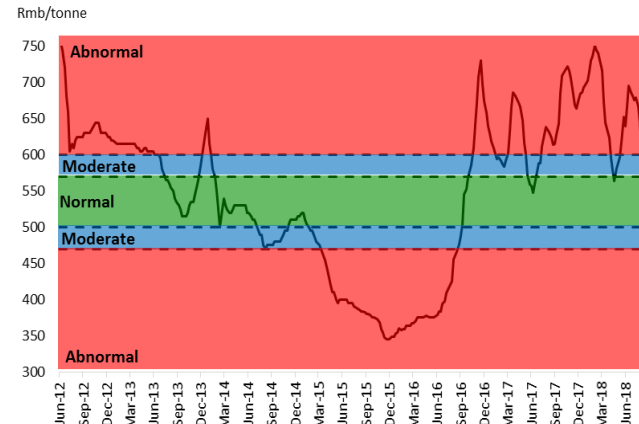
Source: Coalspot.com, PSR

Figure 2: Indonesia coal export substantially grows



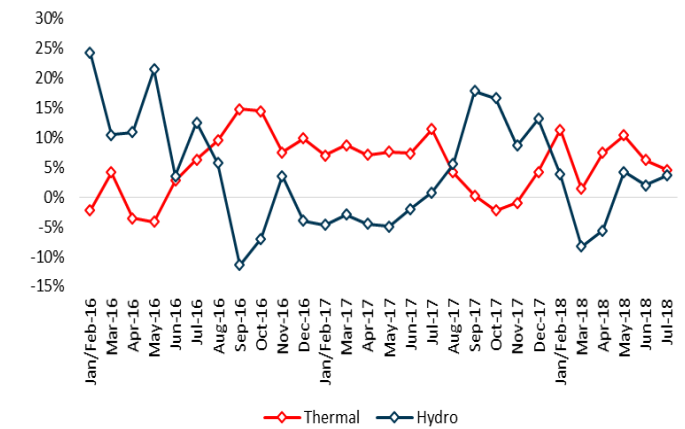
Source: Central Bureau of Statistics, PSR

Figure 5: Qinghuangdao 5,500 GAR weekly FOB spot price



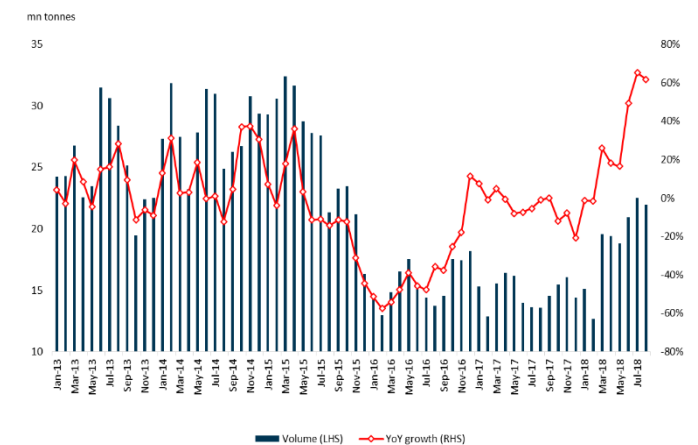
Source: Bloomberg, PSR, NDRC price zones (red/blue/green)

Figure 3: China power demand continues to expand YoY



Source: National Bureau Statistics of PRC, PSR

Figure 6: Total port coal inventory remains at a high level



*Source: Bloomberg, PSR

*The total port coal inventory includes coal stockpile at Qinghuangdao Port, Tianjin Port, Caofeidian Port, Guangzhou Port, Jingzhou Port, Lianyungang Port, Dandong Port, Jingtang Port, Yinkou Port, Qingdao Port, and Huanghuagang Port.

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