

8 October 2018, 8.15am/11.15am Morning Call/Webinar



Results

Ascendas REIT

Sector Update

Banking

China September CPI

Week 41 - Phillip Weekly Musings

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Ascendas REIT

Increasing footprint in the United Kingdom

Richard Leow

Phillip Securities Research Pte Ltd

8 October 2018

Ascendas REIT

(Accumulate, TP: \$2.82, DPU: 15.72 cents (6.2%), Last: \$2.55)



Completed aggregate S\$425.8mn acquisitions in Australia and UK during 2Q FY18/19

Disposal in Singapore worth \$13.6mn, recognising a gain of S\$2mn

Placement of 178mn New Units in September increased unit base by 6.1%

Acquired second portfolio of 26 logistics properties in UK for S\$549.2mn

The Positives

- Increasing geographical diversification
- WALE of UK portfolio is higher than existing, thus improving income visibility
- Both UK portfolios have high physical occupancy of 92%
- Placement has minimal impact to distribution to existing unitholders

The Negatives

- Proposed second UK portfolio is DPU accretive, only if funded with excessive debt
- Higher exposure to foreign currency fluctuation
- Effective occupancy of 100% for both UK portfolios is supported by rental guarantees on five assets
- Aggregate leverage to creep up

Outlook: stable

- WALE of 4.5 years offers income visibility
- Tenancy risk profile of 8.8% of leases by GRI in the remainder of FY18/19

Singapore Banking Monthly Update

With great interest rates comes great pricing power

Tin Min Ying

Phillip Securities Research Pte Ltd

8 October 2018

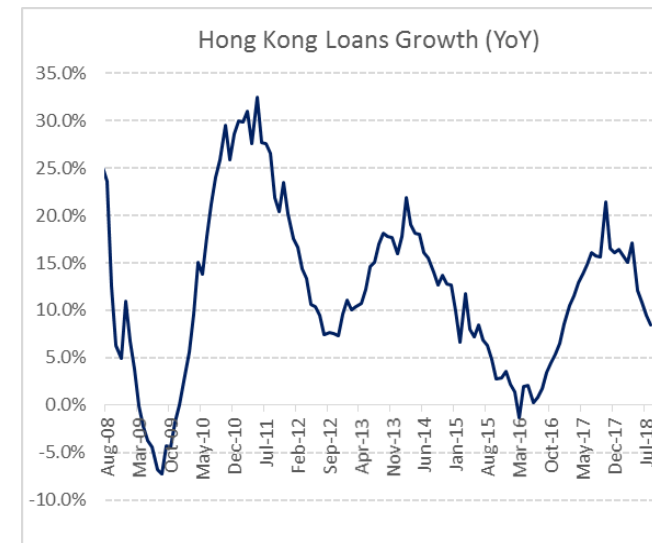
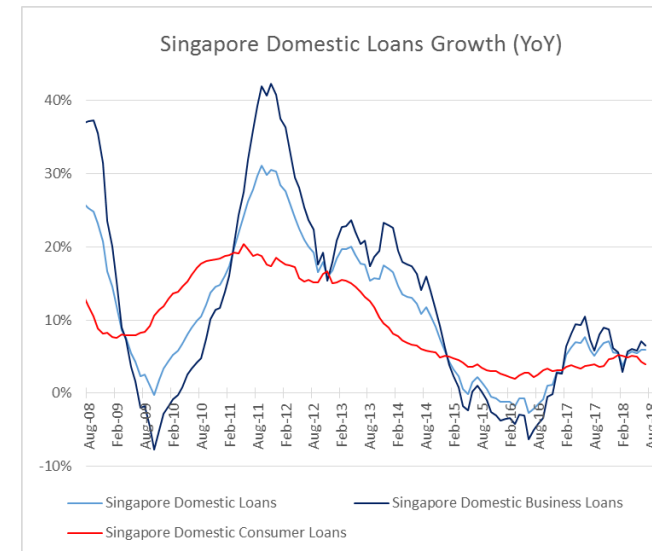
Outlook – SG & HK Loans

Singapore:

- SG domestic loans growth rose 5.6% YoY. (last month: 5.5%)
- Driven by business loans that rose 7.0% YoY. (last month 6.6%)
- Consumer loans rose 3.5% YoY. (last month 4.0%)
 - Car loans growth +8.0% YoY (sustaining last month's strong performance)
 - Mortgage loans +3.7% YoY (Despite 52bps increase in SIBOR YTD).
- **We do not expect the banks to experience a slowdown in property-related loans in the near-term due to drawdowns of previously approved loans.**

Hong Kong:

- HK loans grew 8.4% YoY (slowest in almost 2 years).
- Residential sales: Volume down -20.8% MoM, Value down -28.3% MoM.
- HK banks are increasing their lending rates.
- Ability to charge higher lending rates could more than offset the sequential rise in cost of funds.
- **However, higher costs of borrowing might discourage home buyers from taking on mortgage loans, and uncertainties from the trade war escalation could result in a slowdown in loans growth.**



Source: CEIC, Bloomberg, PSR

Outlook - SG Margins & Deposits

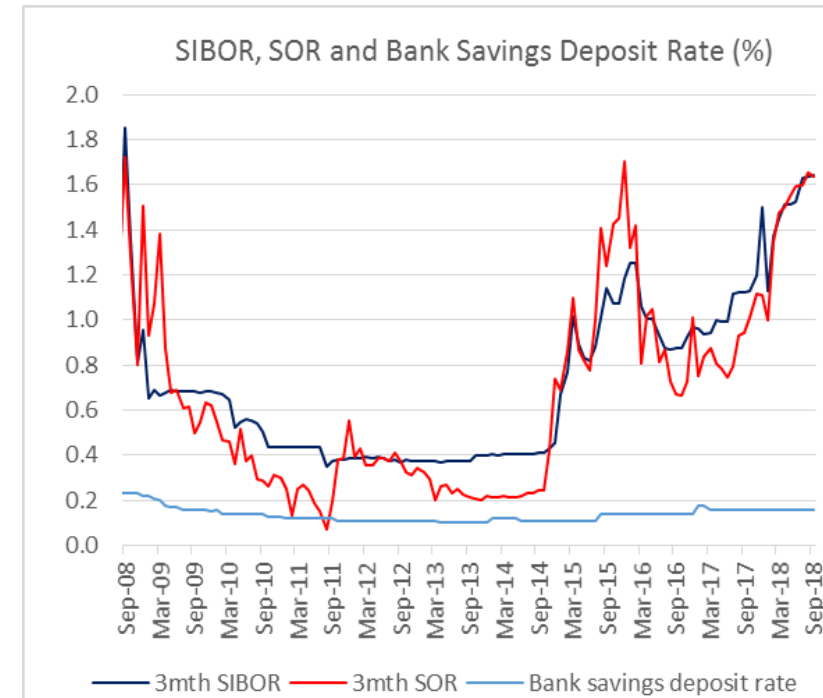
Singapore

Interest rates:

- 3m SIBOR rose to 10-year highs.
- 3m SOR maintained its strong ascent this year.
- Savings rate in Singapore remained unchanged at 0.16%.
- **Steady climb in SIBOR and SOR will provide upside in NIMs for banks' 3Q18 results.**

Deposits:

- In anticipation of steeper interest rates, banks have been strengthening their funding position.
- Deposits increased +2.2% YoY, the fastest in 10 months, (stimulated by a rebound in deposit growth by government and statutory authorities and non-bank financial institutions.)
- As the banks build up deposits, the bulk has been in the pricier fixed deposits (fixed deposits made up 39% of total deposits), which could result in a squeeze in NIM.

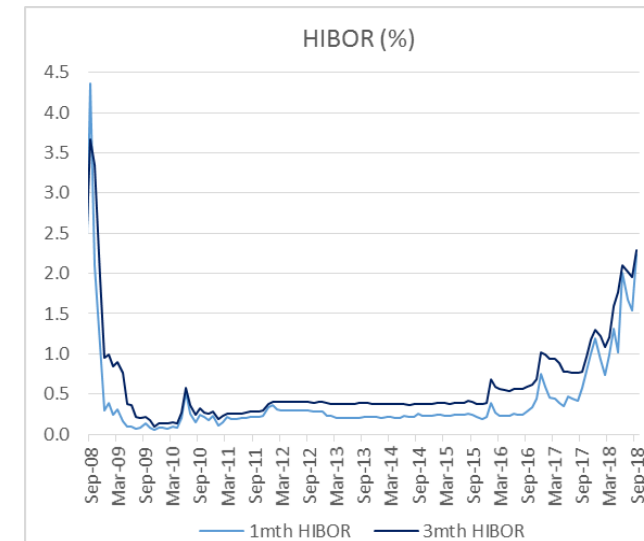


Source: CEIC, Bloomberg, PSR

Outlook – HK margins and Oil & Gas Sector

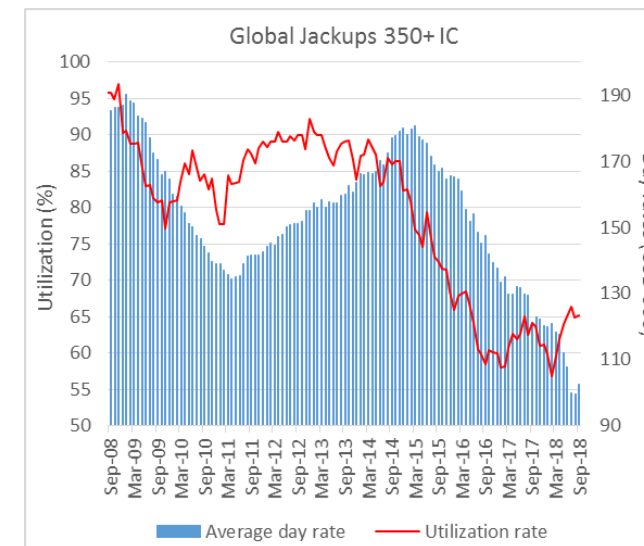
Hong Kong:

- HIBOR to continue on its upward trend especially since Hong Kong's Central Bank lifted its borrowing costs following the rate hike by the US Federal Reserve.
- **We believe as HIBOR increase, the banks' ability to achieve marginal increases in NIM will more than offset the increase in funding costs.**



O&G:

- Utilization rate and day rates improved on the back of oil price recovery.
- **Utilisation rate** peaked to the highest in 2.5 years.
- **Day rate** broke a 7-months continuous descend.
- O&G sector still faces the issue of oversupply which makes it difficult to increase prices.
- **O&G NPL has stabilised. Recoveries will not be consistent every quarter and any recovery made would be a bonus to the banks.**



Source: Bloomberg, PSR

Maintain Singapore Banking Sector to BUY.

Expectations:

- We are positive on the sector's continued NIM expansion, loans growth and dividends as a share price catalyst.
- The key catalyst for NIM expansion lies in rising interest rates and we believe that the banks can keep their cost of funds low enough to achieve sequential NIM expansion.
- Positive surprises in NIM expansion may offset downsides in trade loans growth if any.
- In conclusion, banks continue to enjoy dual drivers of expanding loans volume and interest margins this year.

Target prices:

- ❑ DBS: S\$33.32
- ❑ UOB: S\$33.69
- ❑ OCBC: S\$14.90

China September CPI

Higher CPI raise the pressure on PBOC to raise the rates

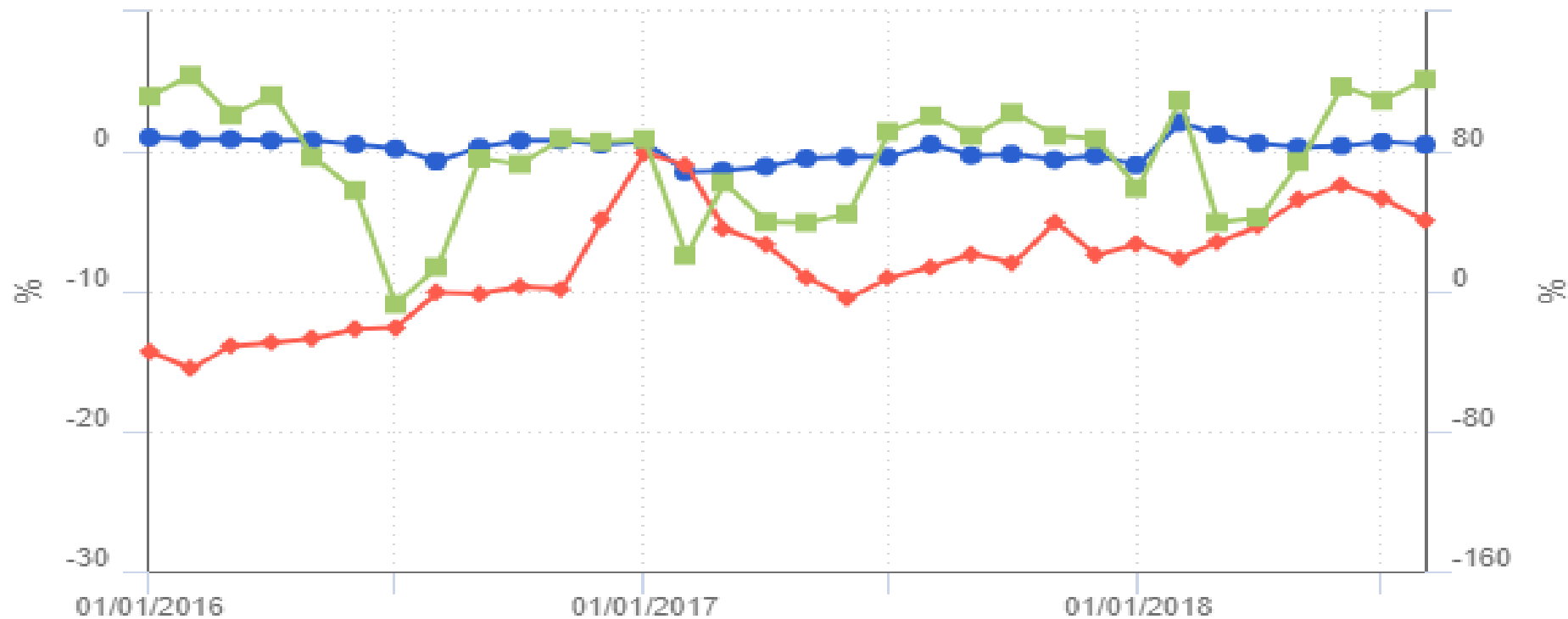
Zheng Jieyuan

Phillip Securities Research Pte Ltd

8 Oct 2018

Historical Pork and Oil cause hedge effect

Pork and Oil price hedge

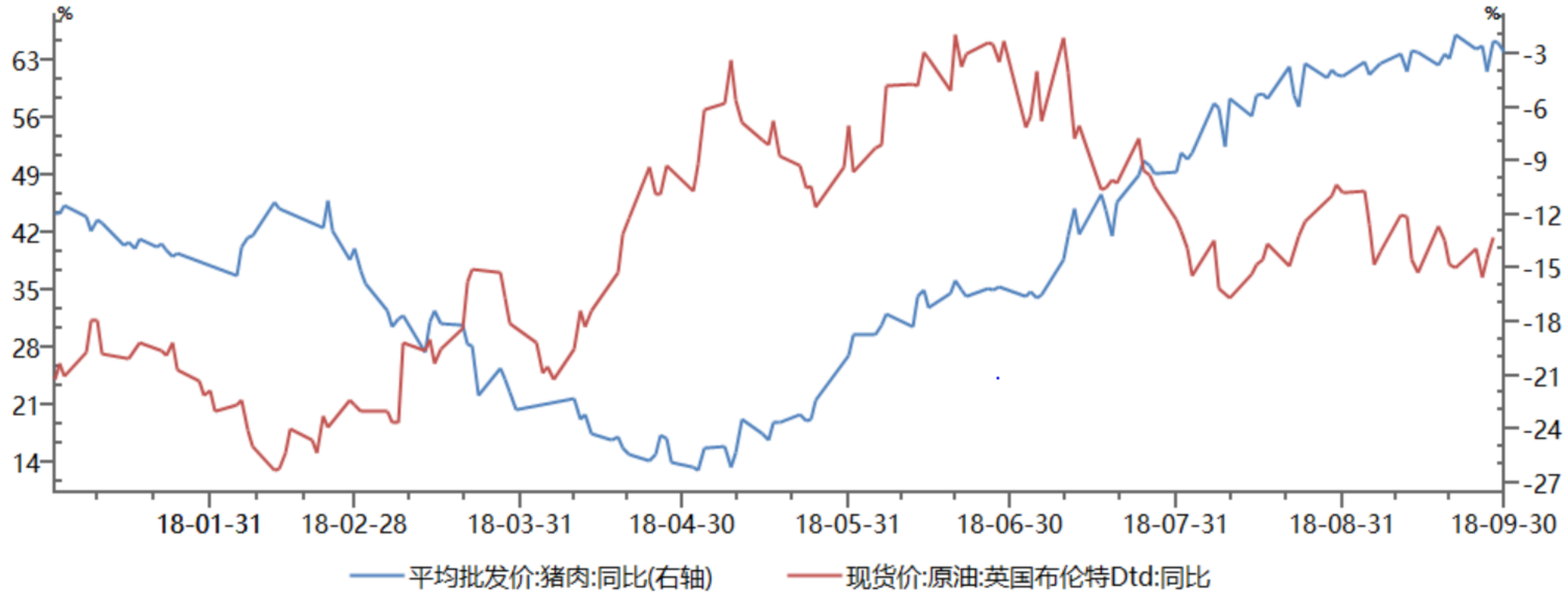


- 居民消费价格指数, %CHANGE(过去一年)
- AGGREGATE(每月; Last day of month; 平均数) 单位: 美元/桶 频率: 日 首次日期: 06/01/1988 最后日期: 08/01/20...
- 居民消费价格指数: 食品烟酒: 食品: 畜肉类: 猪肉; %CHANGE(过去一年)

资料来源: CEIC数据

The hedge effect is fading these years

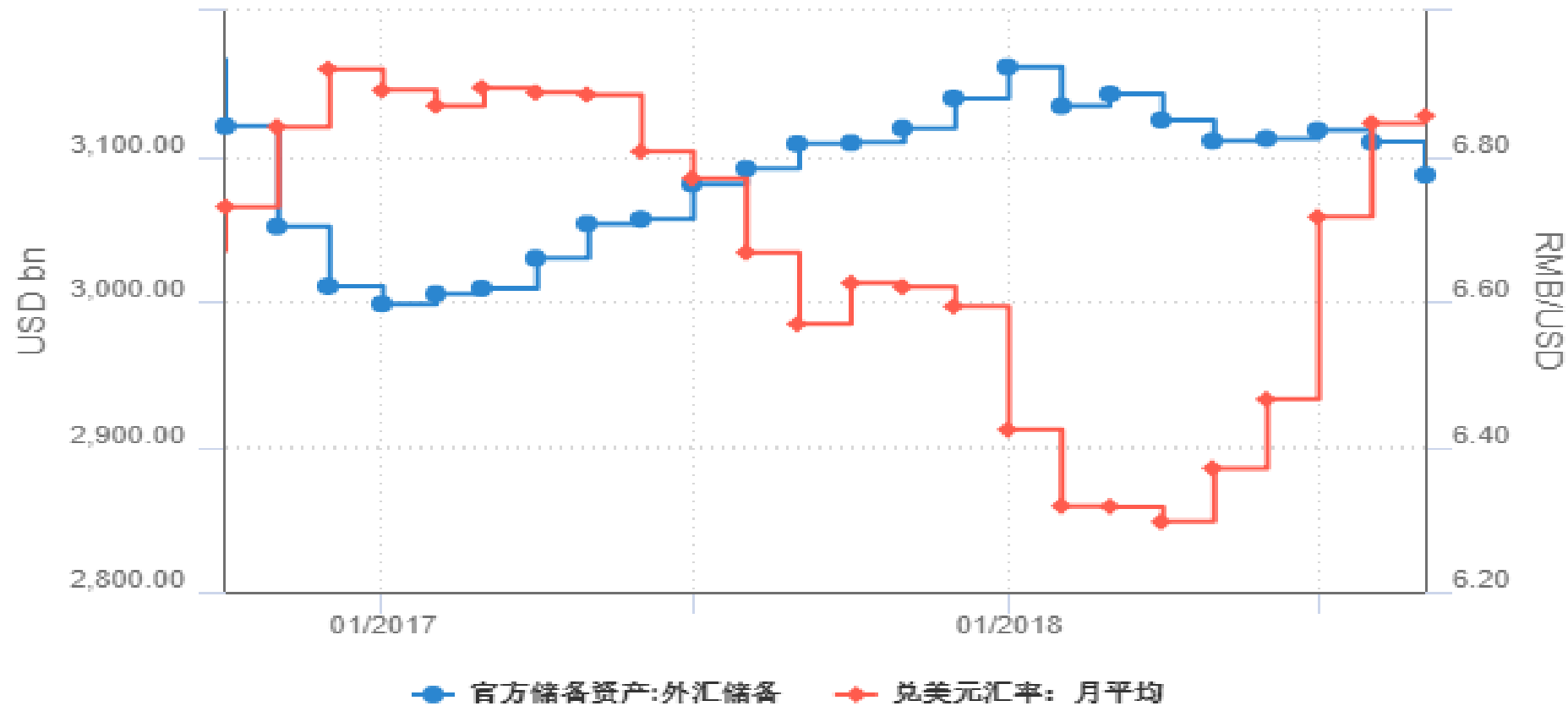
Oil and Pork prices have not been superimposed



数据来源: Wind

The decreasing foreign exchange reserve

Chinese Foreign Exchange Reserve VS Exchange Rate



资料来源: CEIC数据

Q: Will PBOC increase interest rate?

NO

1 : PBOC is not decision maker of monetary policy

2: The main goals of Chinese government is deleveraging and cost reduction

Last week's headlines in China

- **Central Bank:**
PBOC cut reserve ratio for some bank
- **Meeting:**
The 19th Central Committee of the communist Party of China supposed to happen this month

Week 41 - Phillip Weekly Musings

Paul Chew

Phillip Securities Research Pte Ltd

8 October 2018

Week 41 – Short-term Views

Macro Last Week

- **Macro:** Global PMIs still trending down except US; unemployment close to 50-year or 1969 low;
- **10 year UST:** steep rise to more than 6-year high; break above 37-year downtrend channel; Why? TIPs did not move and deflation shock from EM; ISM nonmanufacturing index 20-year high + Powell comments that Fed rates “long way from neutral” + Rising Federal Deficit + expiration of tax benefit to invest in pension funds
- **SG macro:** population growth 2018 +26k (10-year avg: 102k); new orders PMI 54.2 (53.1 a year ago)
- **MAS:** Apr18 from zero appreciation to modest and gradual appreciation; Oct18: band/slope/mid-point; maintain modest and gradual appreciation but increase the slope slightly;

Corporate Last Week

- **Chip Eng Seng:** sold 29.7% stake to Celine Tang; 186.1mn shares @S\$1.08; PSR target price \$1.21
- **SembCorp Industries:** only bidder for Hyflux Tuaspring; sell below BV of S\$1bn-1.47bn; Tuaspring loss S\$23mn 1Q18; Maybank debt S\$602m; Hyflux shareholder loan to Tuaspring; 15Oct Maybank enforcement

Tactical

- Cautious backdrop in October: mid-term elections + global growth slowing down + Italian noise
- Strong SGD: positive for REITs + importers

Week(s) Ahead

- 12Oct: MAS Monetary Policy Statement / Advance 3Q18 GDP
- 4Nov: Iran oil ban / 6Nov: US mid-term election

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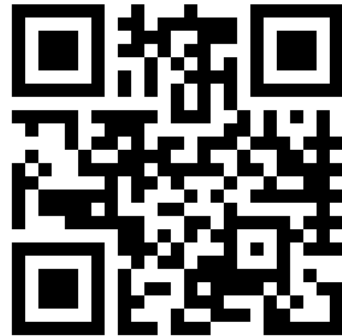
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