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Week 42 - Phillip Weekly Musings

Sector Update

Singapore Coal Monthly

Strategy

China Last Week

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Week 42 - Phillip Weekly Musings

Paul Chew
Phillip Securities Research Pte Ltd
15 Oct 2018

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Week 42 – Short-term Views

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Macro Last Week

- **Interest rates:** back down to 3.16%; 10Y UST not an alarming headwind yet; market expectations are 3.25% end 2018; Italian yields at 3.57% 4.5 year high
- **Cold war tension**: Mike Pence speech – China economic aggression + interfere 2018 midterms + steel US technology + militarize South China Sea
- **SG macro/sectors:** GDP up 2.6% (slowest in 6-quarters); construction +66% YoY Aug18 (45% YTD18); private hospital admission weak at -2.3% in August (YTD18 -1.1%, worst in 9-years)
- **MAS:** maintain modest and gradual appreciation but increase the slope slightly; property market out of sync and not sustainable with weak economy and rising rates; monitor the implications of last round of tightening

Key Corporate Last Week

- **Nil**

Tactical

- Time to accumulate: Market is cheap on multiple fronts – PE, PBV, Dividend yield, Yield spread

Week(s) Ahead

- 15Oct: US Treasury currency manipulation report/ Italian budget; 19Oct: China FAI/IPI/GDP
- 26Oct: UOB / 1Nov: OCBC
- 4Nov: Iran oil ban / 6Nov: US mid-term election

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STI valuations at their lows – P/BV and PE

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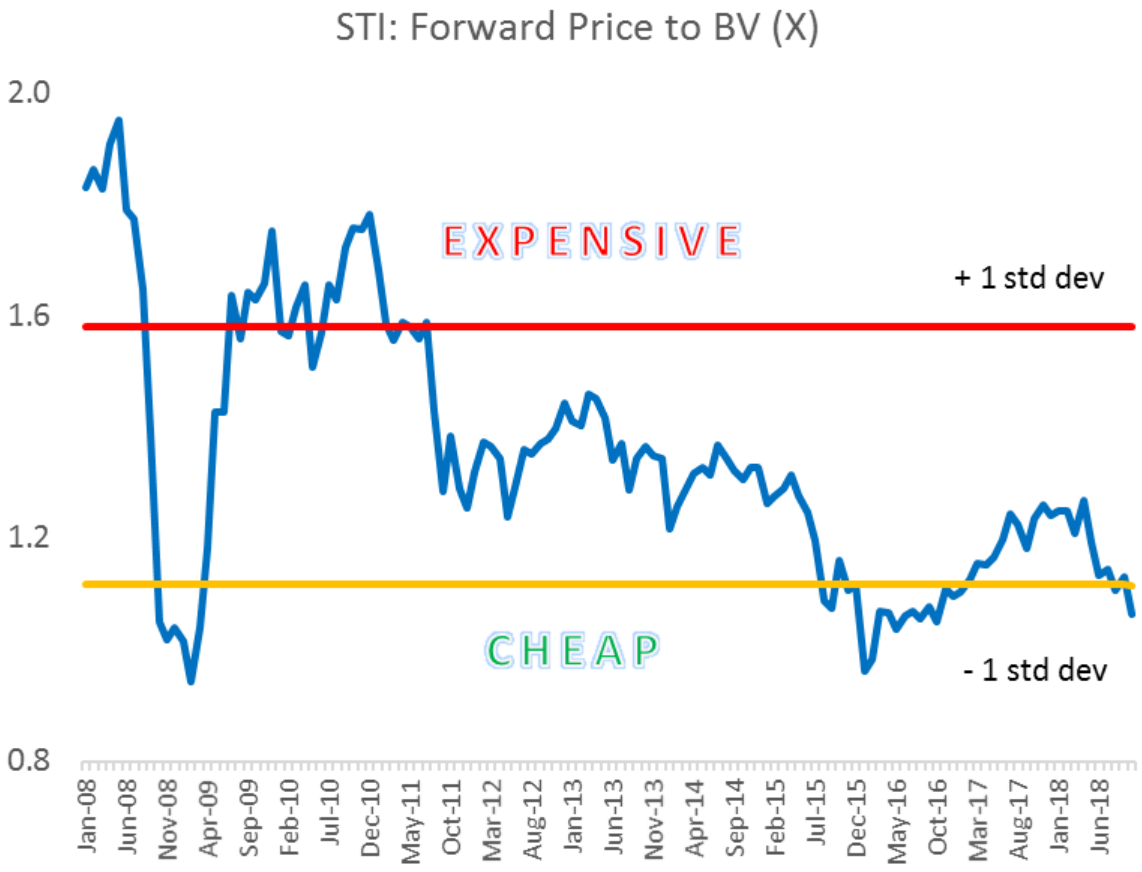

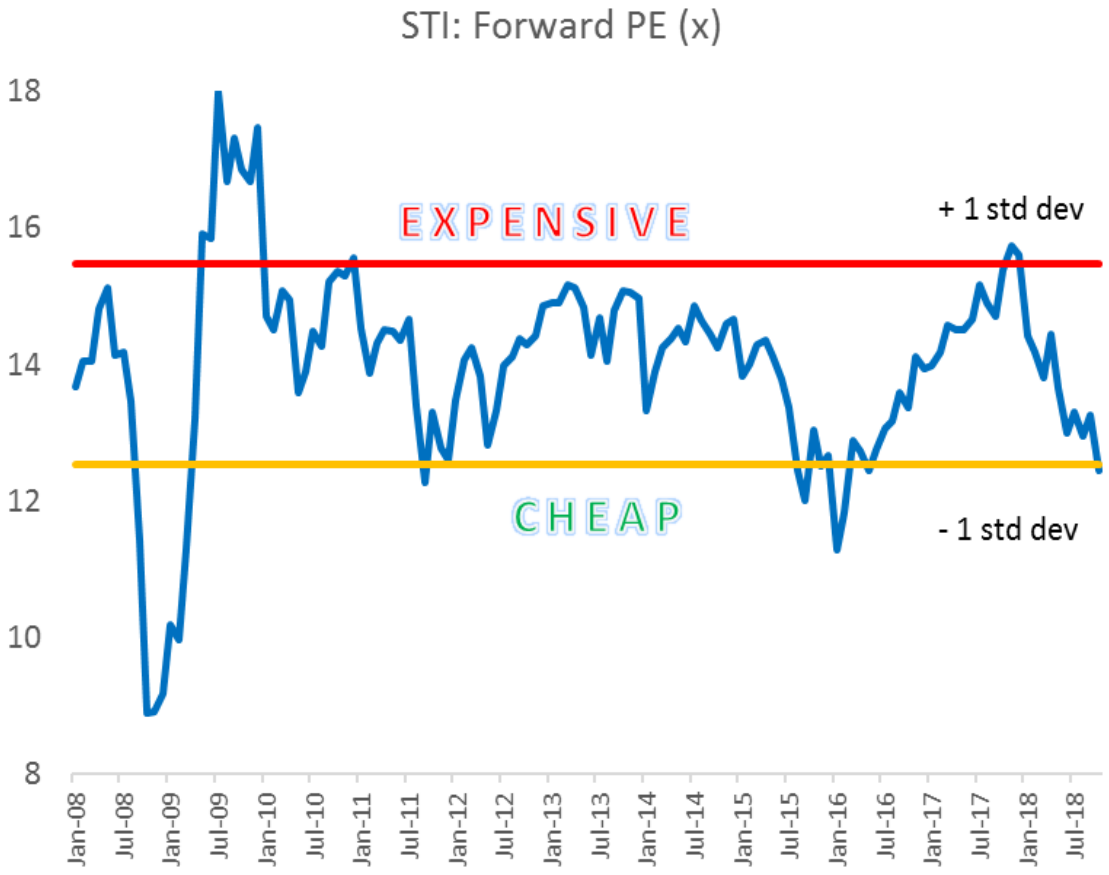

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STI valuations at their lows – Dvd Yield and Spread

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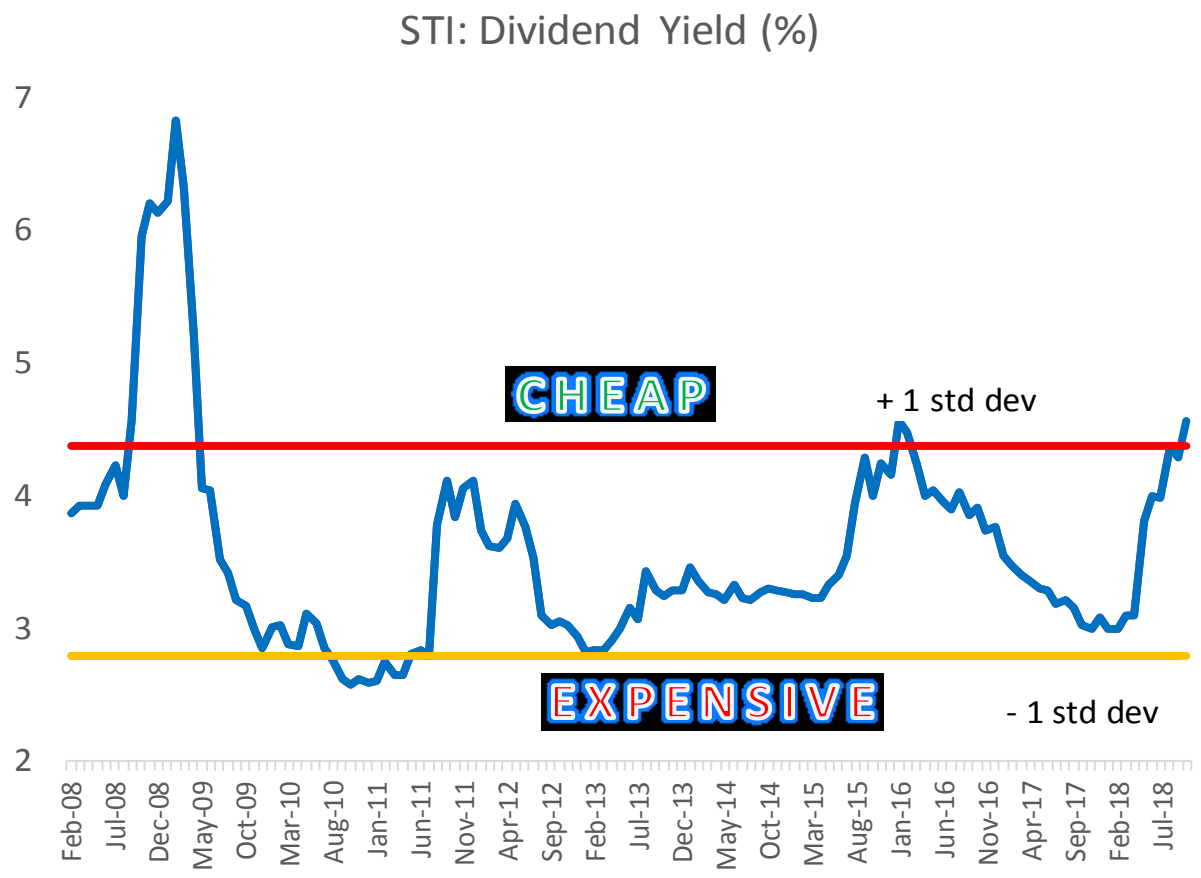

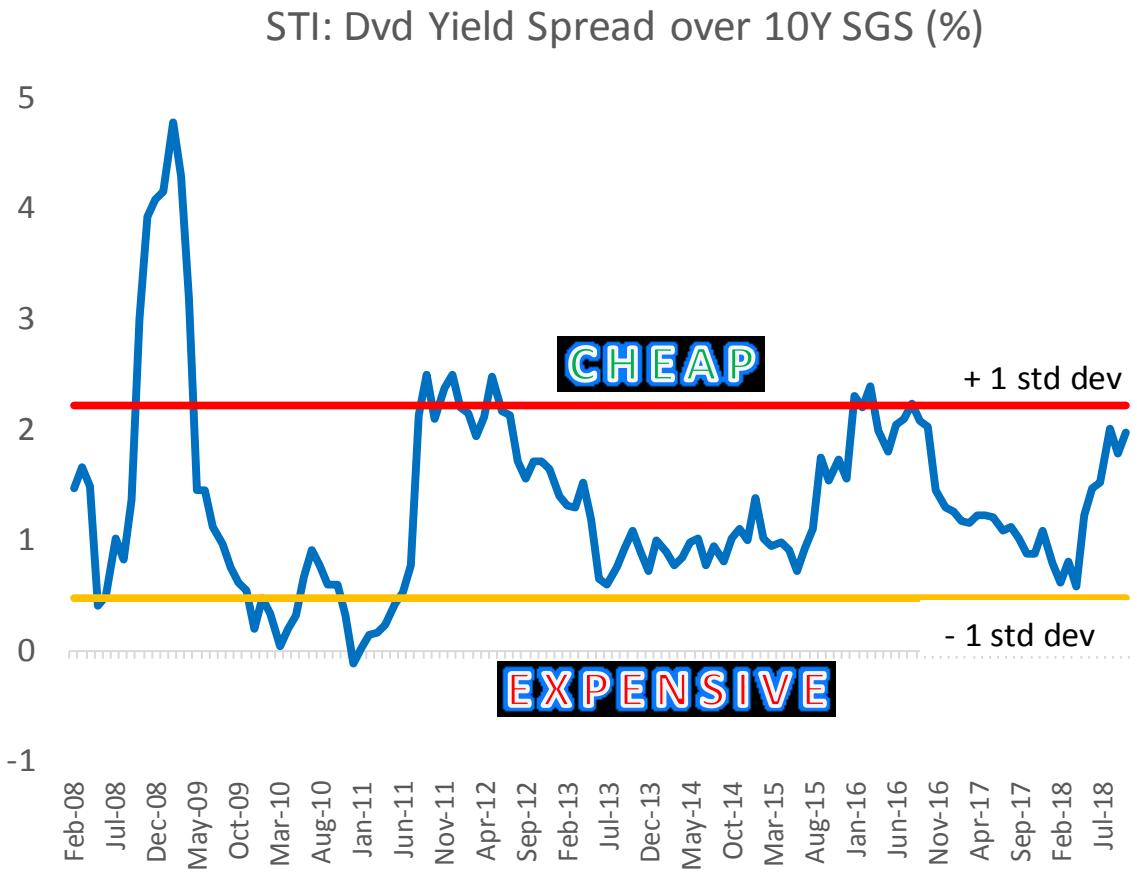

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Phillip Absolute 10 Model Portfolio

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Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Rating	Target Price	Share Price	% Upside	Mkt Cap (US$ m)	PE FY17	PE FY18E	PE FY19E	P/BV FY17	Dividend Yield	ROE FY17
Yield														
Ascendas REIT	-3.6%	0.0%	-2.9%	**Accumulate**	2.82	2.64	7%	5,960	16.6	16.9	16.4	1.3	6.1%	8.0%
CapitaLand Comm Trust	0.6%	7.2%	-7.8%	**Accumulate**	1.88	1.78	6%	4,839	11.5	20.0	20.3	1.0	4.9%	8.8%
Growth														
Chip Eng Seng	0.6%	-0.6%	-14.4%	**Buy**	1.15	0.84	38%	380	13.4	10.9	12.7	0.7	4.8%	6.0%
Sheng Siong	-4.3%	5.7%	21.1%	**Accumulate**	1.13	1.12	1%	1,223	24.1	22.6	20.5	6.0	3.0%	26.8%
DBS Group	4.6%	-2.0%	5.0%	**Buy**	33.32	26.09	28%	48,387	15.2	11.5	10.2	1.4	3.6%	10.3%
Geo Energy	7.0%	7.0%	-13.2%	**Buy**	0.41	0.23	78%	222	6.1	5.0	3.9	2.5	4.3%	18.3%
Micro-Mechanics	0.6%	1.7%	-13.7%	**Buy**	2.30	1.82	26%	184	14.8	13.5	11.7	4.2	4.9%	29.8%
Re-rating Plays														
Banyan Tree	1.0%	-0.9%	-7.1%	**Accumulate**	0.73	0.53	39%	320	1.5	1.6	1.5	0.7	1.9%	6.5%
CapitaLand	-1.7%	6.6%	-4.5%	**Accumulate**	4.19	3.37	24%	10,188	9.0	13.2	13.0	0.7	3.6%	8.3%
Comfort DelGro	6.1%	3.4%	22.7%	**Accumulate**	2.78	2.43	14%	3,821	18.1	16.8	16.7	2.0	4.3%	10.8%
Average	1.07%	2.8%	-1.5%				26%	75,523	13.0	13.2	12.7	2.0	4.1%	13.4%

	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%
Aug18	-0.7%	-3.2%
Sep18	1.1%	1.4%
YTD	-5.2%	-4.5%
Out/(Under)perf.	-0.7%	

Source: Bloomberg, PSR, as at endSep18

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How high 10Y Treasury yield to recession

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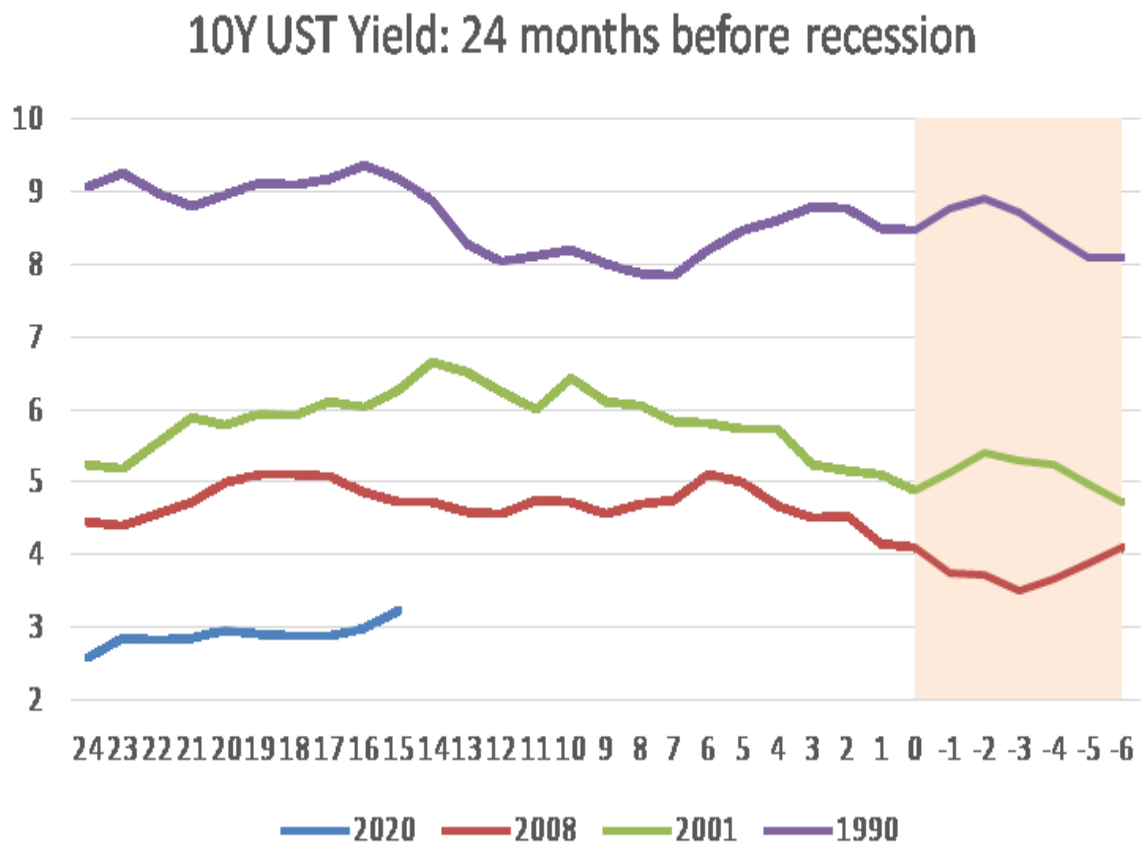

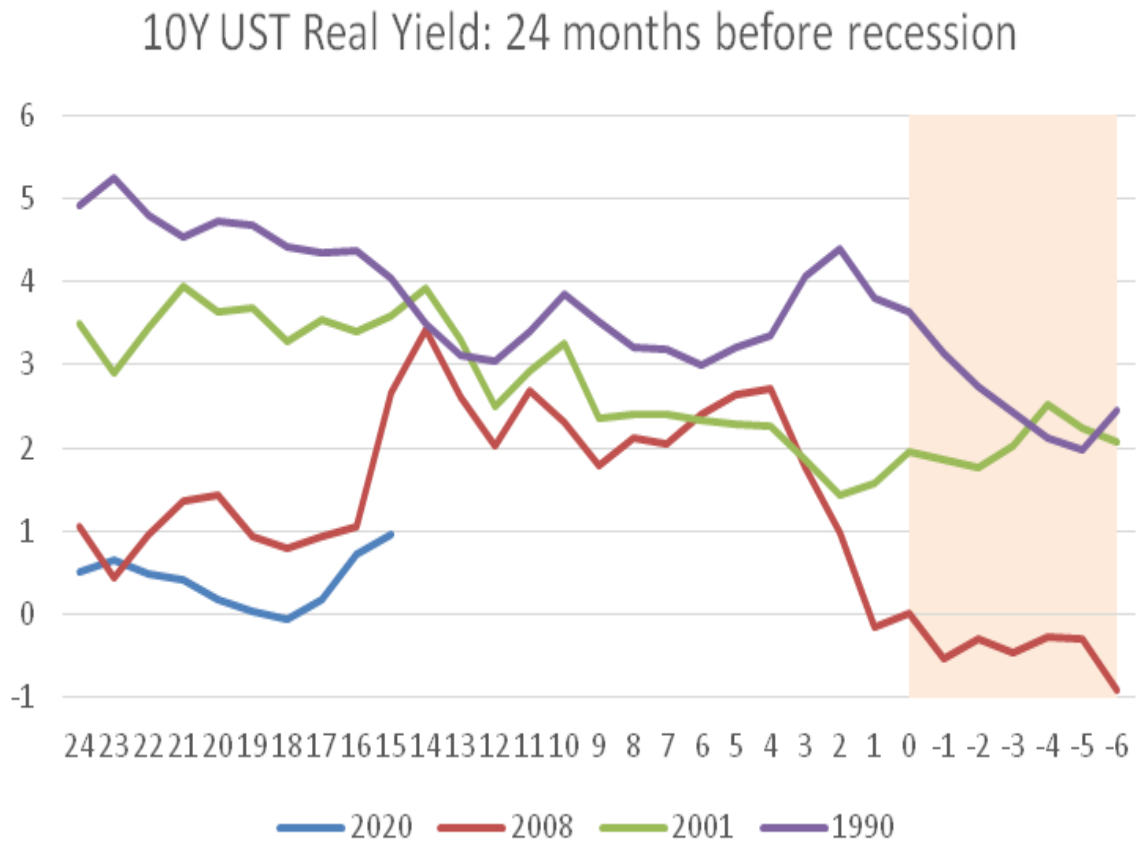

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Singapore Coal Monthly

Prepare for higher coal demand in winter

Chen Guangzhi
Phillip Securities Research Pte Ltd
15 Oct 2018

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What is the news?

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China

Slight relaxation of air pollution control for the upcoming winter

- "Air pollution-control plan for the Beijing-Tianjin-Hebei region and surrounding areas for the fall and winter spanning 2018-2019" was released in Sep-18
- 3% reduction of PM2.5 and a 3% drop in the number of severely polluted days during Oct-18 to Mar-19
- Steel, coking, and foundry industries should take turns peaking to reduce air pollution
- Production of steel in hot weather: limited to 50% of capacity in key cities; Other cities: cut production by no less than 30%

Restriction on coal import remains

- Six coastal provinces joint conference pertaining to coal import held in Oct-18
- Reiterated that the restriction on coal imports would be on par with last year; No new quota being issued

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What is the news?

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Indonesia

Lifting 2018 domestic production target

- Raised the 2018 coal production target: from c.485mn tonnes to c.507mn tonnes
- The additional output quotas of 21.9 million tonnes: split among 32 coal miners and will be all exported

Facing a hurdle to ramp up production

- Producers face an order backlog of 18 months as they are not able to get hold of additional mining equipment

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What is our view?

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The China authority learned lessons from last winter's coal-to-gas conversion program

- Slowing down the pace of reduction rather than an abrupt cut in coal consumption this year
- Assure the profitability of domestic coal producers

External demand favours the coal miners in Indonesia

- Export demand will see new highs in 4Q18
- Bottleneck of capacity resulting from equipment supply: 3 to 6 months to ramp up capacity
- Expect HBA to average at US$100/tonne in 4Q18

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Phillip Coal Tracker: Our snapshot of coal markets

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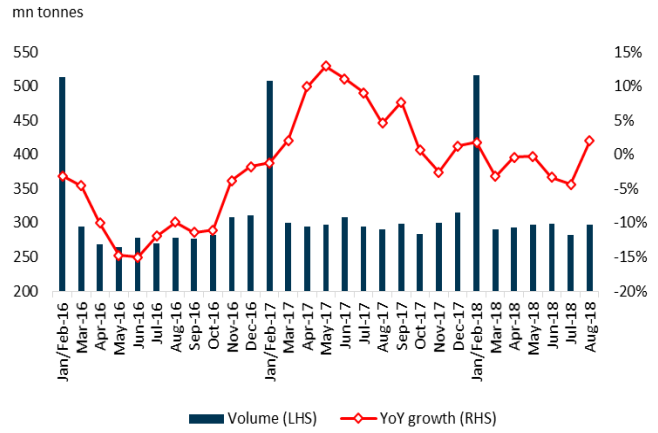
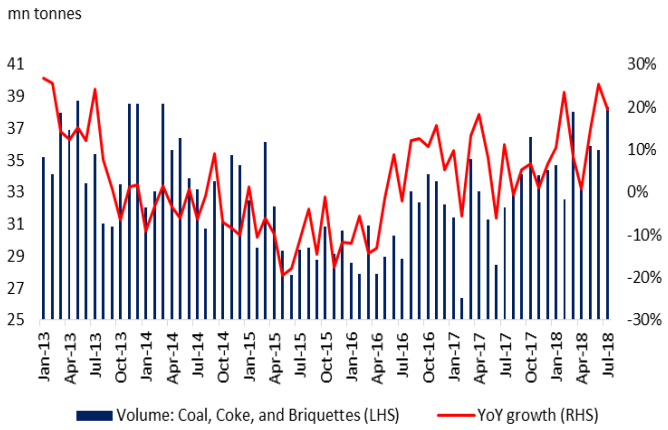
Figure 1: Monthly coal production in PRC slightly falls



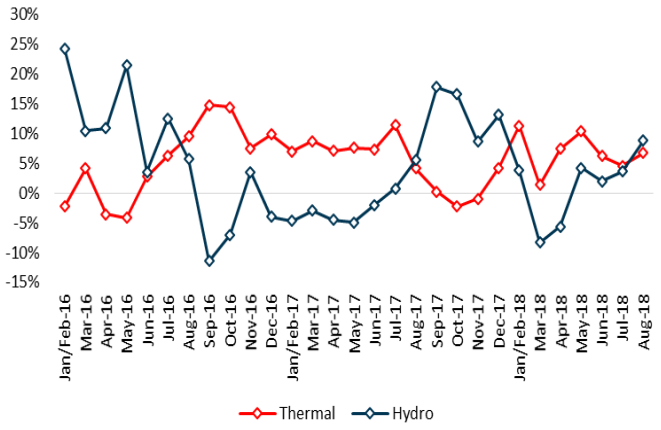
Source: National Bureau Statistics of PRC, PSR

Figure 2: Indonesia coal export rise substantially



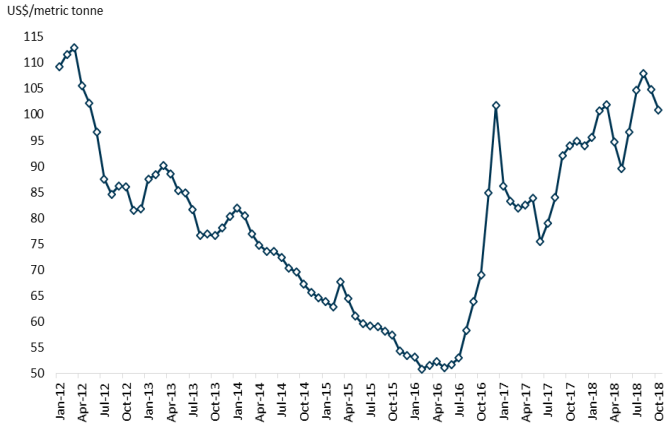
Source: Central Bureau of Statistics, PSR

Figure 3: China power demand continues to expand YoY



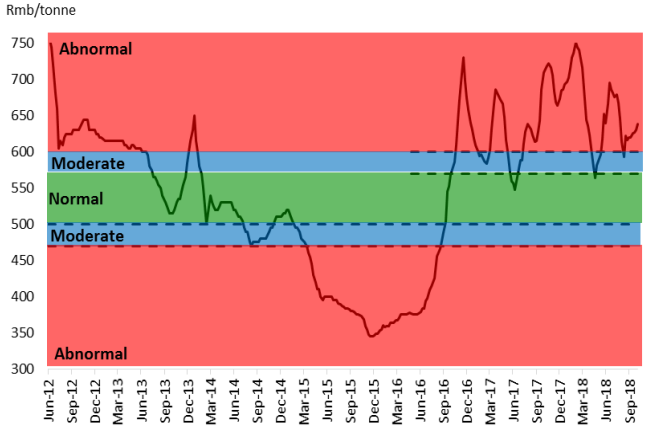
Source: National Bureau Statistics of PRC, PSR

Figure 4: Indonesia coal price reference (HBA) started to correct



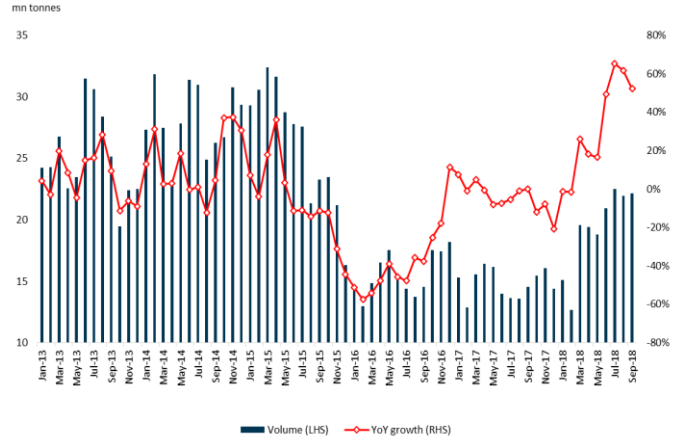
Source: Coalspot.com, PSR

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



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

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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China Last Week

Jieyuan Zheng
Phillip Securities Research Pte Ltd
15 Oct 2018

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China Last Week

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Macro Last Week

- **Fiscal Policy:** 1. Oct. 8th:The State Council increase export tax rebate rate
  2. Oct. 12th: The general office of the State Council issued a plan to improve the consumption system and mechanism.(2018-2020)
  Focus: Cost reduction, Boost Consumption

- **Monetary policy**: 1. Oct. 7th: Cut RRR rate 1%, effected from October 15th
  2. Oct. 8th - 12th: No Open Market Operations
  Highlight: Speech by Governor of the central bank: 1.China's economic growth is stable, and expected to achieve 6.5% target 2.Current interest rate is appropriate.still have room for Monetary policy tools

- **Economic indicators:** In September, exports grew by 14.5% YoY, and imports increased by 14.3%

Corporate

- **Kingsoft (3888.HK): HK Recommendation:** Buy; HK PSR target price HKD 18.8
- **Mengniu (2319.HK) : HK Recommendation:** Accumulate; HK PSR target price HKD 28.5
- **Huayu Auto (600741.CH): HK Recommendation:** Buy; HK PSR target price CNY 26

Week(s) Ahead

- Oct 15th - 19thh : CPI GDP

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