

**Singapore Property sector**

**Singapore REITs sector**

**CapitaLand Limited**

**CapitaLand Commercial Trust**

**First REIT**

**Week 4 – China Weekly Musings**

**China Strategy**

**Phillip Singapore Weekly**

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# Singapore Property sector *2019 outlook*

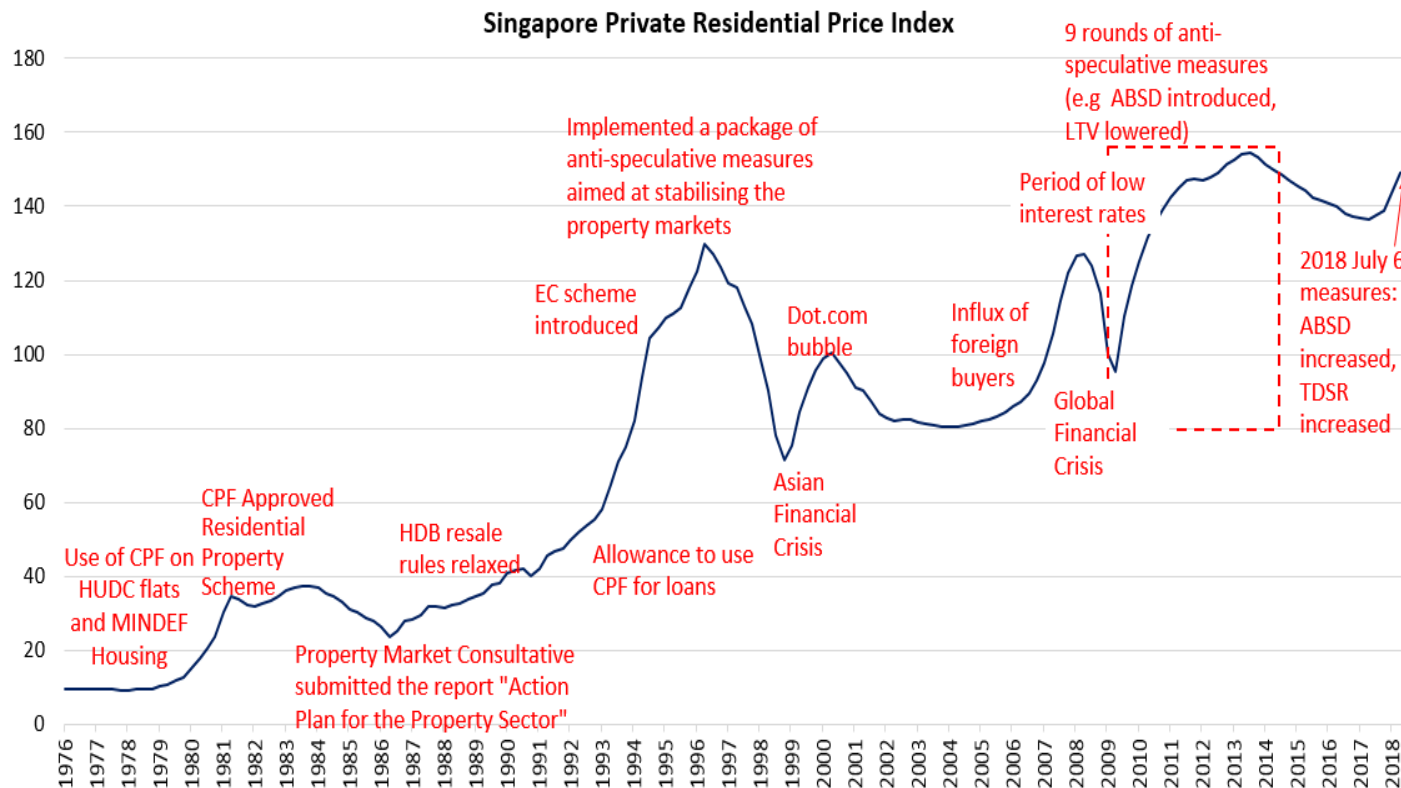
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*21 Jan 2019*

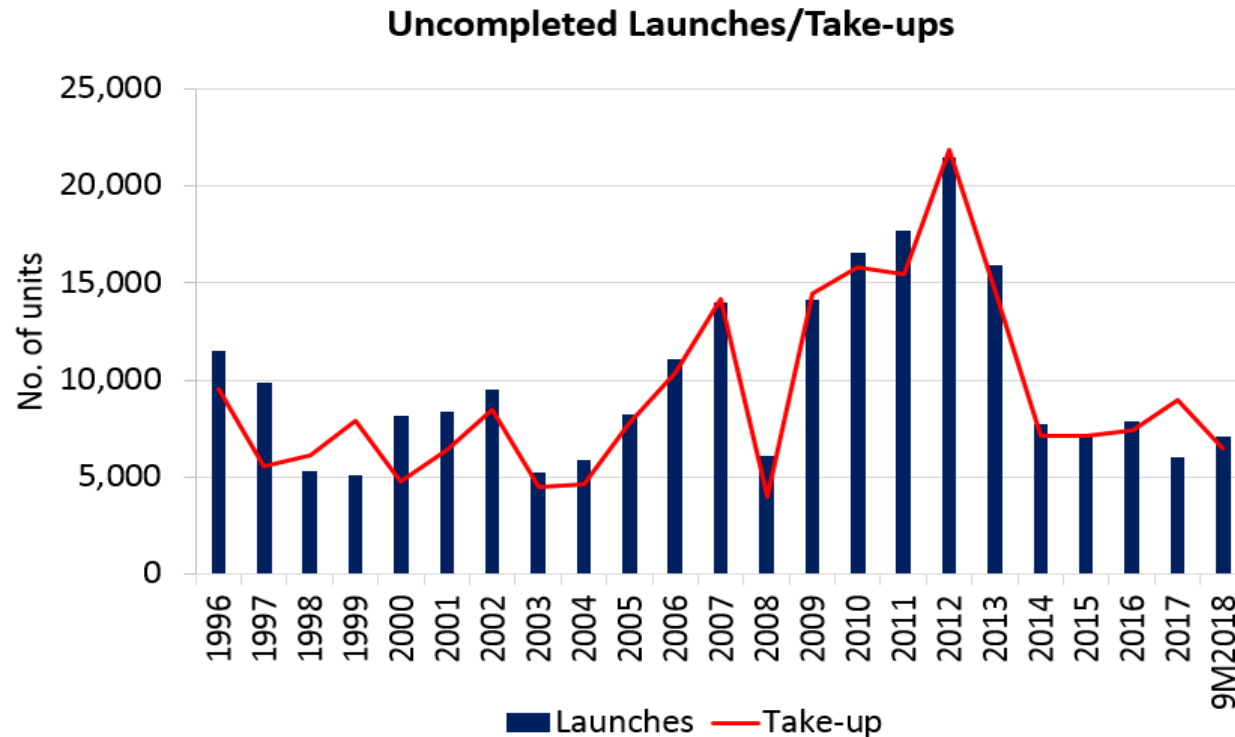
# Property: Sustained sell-through rates key re-rating catalyst



Source: CEIC, URA, PSR

- Transactions collapsed 30% YoY following July 6 property measures
- Demand – muted in the near term
  - Pool of buyers have shrunk to first-home buyers and en-bloc sellers;
  - Investors are side-lined in light of the current rising interest rates environment and slowing economic conditions
- Supply – possible adjustment in upcoming supply
  - Avg. annual demand of 9.4k units < pending launch of c.18k units (excl. ECs) of ~60 launches in 2019.
  - GLS tenders announced for 1H2019 lowest level since 1H2007
  - En-bloc market has cooled; reserve prices being cut

# Property: Sustained sell-through rates key re-rating catalyst



Source: CEIC, URA, PSR

- Expect mismatch in demand and supply, and for and developers to cut their margin expectations
- Developers will be elbowing among themselves to roll out their launches early, especially in locations with multiple developments
- Our expectations for private residential price is a -1% in 2019, relatively stable by virtue of the higher land prices that had progressively already been locked in
- Re-rating catalyst would be sustained sell-through rates for new launches in 2019
- Rating: **NEUTRAL**

# Singapore REITs sector

## *2019 outlook*

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# REITs: Opportunities amidst the headwinds

FTSE Straits Times REIT Index Yield Spread



Source: Bloomberg, PSR

- Rise in 10YSGS yield will be a headwind unless REITs can grow their rents (est. -1% to 5.3%) faster than the rise of their interest costs (20% of NPI).
- Retail – Net supply through 2019 and 2020 still surpassing 5-year historical net annual demand. Rising occupancy costs over the years.
- Commercial – Positive or higher reversions expected once passing Grade A rents surpass expiring rents.
- Industrial – Tapering supply of space but tepid industrial activity. Consolidation theme among smaller REITs still in play.
- Hospitality – New supply of hotel rooms tailing off. Possible catalyst includes the potential attainment of hotel license for the serviced residences.
- Rating: **NEUTRAL**
- Preferred sub-sectors: Commercial and Hospitality

# CapitaLand Limited

*Tara Wong*

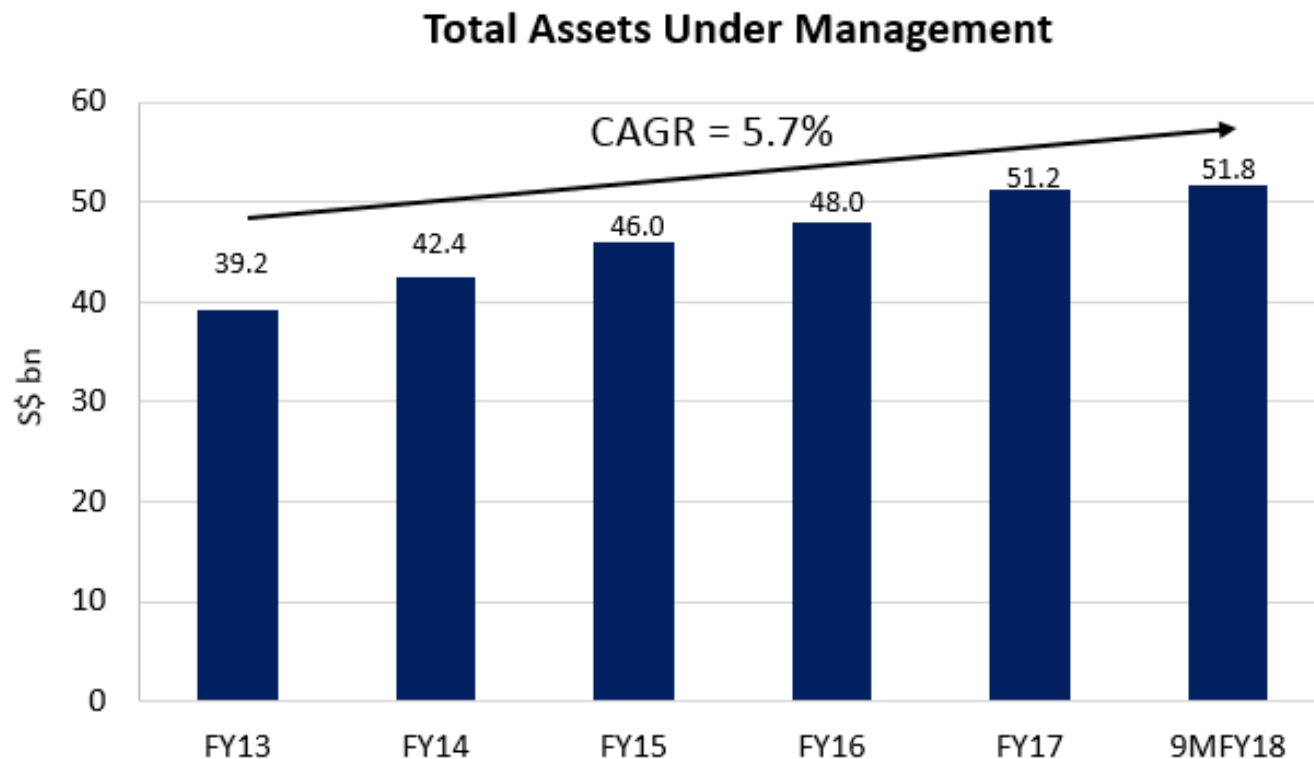
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*21 Jan 2019*



# CapitaLand: Steady recurrent earnings and a China tailwind



Source: Company, PSR

- Expanding recurring income portfolio -- now accounts for 88% of earnings (9M18 EBIT).
- Proven track-record in improving existing recurrent income portfolio. Double-digit tenant sales growth (+20.9% YoY in 9M18) for its China Retail portfolio (CAPL's largest retail portfolio).
- According to Management, 4Q18 will be a bumper quarter for China residential pre-sales.
- Acquisition of two prime residential sites in Guangzhou, which will yield c.1300 units by 2021, closely follows the acquisition of a mixed-use site in Chongqing. Limited SG residential exposure.
- Rating: **ACCUMULATE**; TP: S\$4.00.

# CapitaLand: Another behemoth step



Source: Company

## What is the news?

- CapitaLand announced the proposed S\$11bn acquisition of Ascendas-Singbridge (ASB).
- The transaction will increase CapitaLand exposure to Industrial and Logistics assets and emerging markets such as India. It will also further boost CapitaLand recurring income.
- Maintain ACCUMULATE with TP of S\$4.00.

## The Positives

- New pillar of growth via new asset classes and new geographies.
- Higher recurring income.

## The Negatives

- Immediately accretive to EPS (+4%) and ROE (+9%), but slightly dilutive to NAV (-4%).

## Outlook

- Positive: CAPL developing critical mass and generating increasingly resilient and recurrent earnings.
- More asset recycling going forward – deleveraging of S\$3bn next step to reduce to 0.64x leverage by Dec 2020.

# CapitaLand Commercial Trust

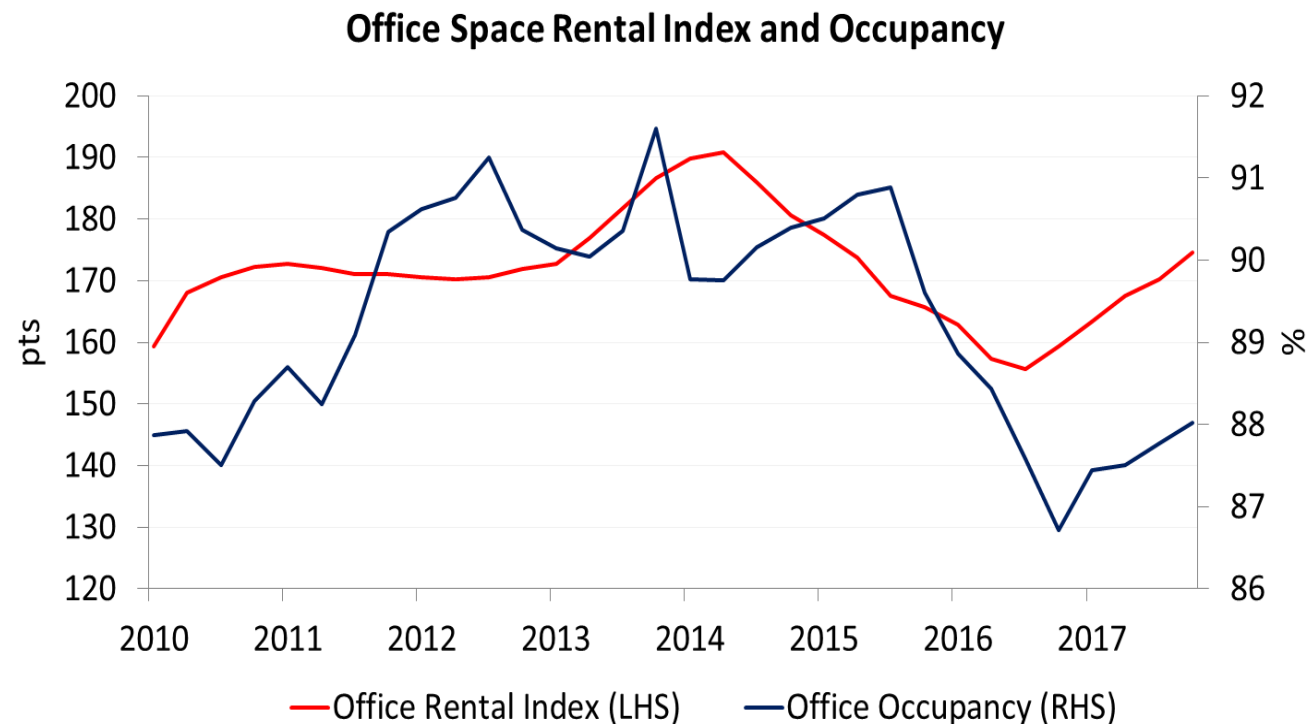
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# CapitaLand Comm. Trust: Up Up and Away



Source: CEIC, URA, PSR

- Favourable demand-supply conditions to support upward trajectory in rents.
- Foray into Germany (acquisition of Galileo in Frankfurt) paves the way for CCT's potential overseas pipeline.
- Upside potential from CapitaSpring (former Golden Shoe Car Park) redevelopment project.
- Debt on fixed rate now comprises 92% of total borrowings (2Q18: 85%) with lower all-in cost of debt of 2.6%.
- Rating: **ACCUMULATE**; TP: **S\$1.90**; Dividend Yield ~5%

# First REIT

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# First REIT: Challenging times (16 Jan 2019)

## What is the news?

- The Manager of First REIT (FIRT) hosted a briefing in Dec 2018 to provide updates on 1) the REIT's new co-Sponsor, OUE Lippo Healthcare Limited (OUELH), 2) receivables collection and 3) portfolio rebalancing strategy.
- In Nov 2018, LPKR announced its intention to divest its remaining stake in FIRT.

## Key takeaways

- Re-alignment of partnership with co-Sponsor, OUELH
- No compromise on paying distributions to unitholders, against the backdrop of extended receivables days.
- Upcoming expiries in 2021 with limited vacancy risk.
- Portfolio diversification strategy via OUELH's pipeline.
- Acquisition likely to be a portfolio of properties and not piecemeal.

## The Negatives

- Lease renewals likely to be renegotiated with a lower quantum and/or on IDR-denominated terms, in our view; effectively killing the proverbial golden goose.
- Current 34.9% gearing inhibits accretive acquisitions; a call for fresh equity capital is likely in the near-horizon.
- Substantial new capital will be dilutive.

## Outlook

- Acquiring yield-accretively into a developed market will be a challenge.
- Manager's base fee structure will put pressure on margin and DPU-accretion when acquiring in lower-yielding market.

## Remain NEUTRAL; new target price of S\$0.88

- Lowered revenue assumptions
- Raised our discount rate to factor credit risk associated with LPKR

# First REIT: A cautionary tale (21 Jan 2019)

## Results at a glance

(SGD mn)	4Q18	4Q17	YoY	FY18	FY17	YoY	Comments (FY18 vs FY17)
Gross revenue	29.3	28.6	2.7%	116.20	110.99	4.7%	Contribution from the two properties (Buton and SHYG) acquired in FY17.
<b>Net property income</b>	<b>28.5</b>	<b>28.0</b>	<b>1.9%</b>	<b>114.39</b>	<b>109.48</b>	<b>4.5%</b>	Same as above. Higher property expenses incurred for Sarang Hospital and Indonesia properties.
Distributable amount to Unitholders	17.0	16.8	1.4%	30.41	28.27	7.5%	
<b>DPU (cents)</b>	<b>2.15</b>	<b>2.15</b>	<b>0.0%</b>	<b>8.60</b>	<b>8.57</b>	<b>0.4%</b>	

Source: Company, PSR

## The Positives

- Cost of debt relatively stable at c.3.84% despite rising interest rates.

## The Negatives

- Receivables continue to mount, against backdrop of uncertainty over upcoming lease expires.
- Decline in portfolio valuation

## Outlook

- New co-sponsor, OUE Lippo Healthcare,
- Expanded ROFR pipeline over new geographies.
- Conducting yield-accretive acquisitions in more developed markets will be challenging.
- Weighed down by the mounting outstanding receivables and rising uncertainty over the Indonesia leases.

# Week 4 – China Weekly Musings

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# China Week 4

## Macro Last Week

- **Fiscal Policy: Focus:** Stable the growth
- **Monetary policy:** Focus : Remain stable
- **Economic Indicators:**  
**China bank local currency loan RMB 1,080bn VS Expectation RMB 925bn**  
**70 cities housing price YoY% 9.7% VS November 9.3%**
- Corporate
- **Weichai (2338.HK): HK Recommendation:** Accumulate (Maintain); HK PSR target price HKD 10.65  
Stable Advantage in Heavy Truck Industry Chain. Nonengine Business Gradually Takes off  
P/E ratio: 9.8x(2019E)
- **CSPC Pharmaceutical (1093.HK) : HK Recommendation:** Buy; HK PSR target price HKD 21.0  
Some drugs may face price-cut risks while current valuation is attractive enough  
19E EPS HK\$0.70, P/E ratio: 30x(2019E)
- **Mengniu (2319.HK): HK Recommendation:** Accumulate; HK PSR target price HKD 28.5  
Continue pushing innovation, with bright growth prospects  
P/E ratio: 31x(2019E)

## Week(s) Ahead

# HK Stocks Recommendation

Time	Ticker	Company	Analyst	Rating	Price On Recommendation Date(HKD)	Target Price(HKD)	Expected Return
7/12/2018	1211	BYD	ZJ	Accumulate	57.35	63	9.85%
20/12/2018	3888	Kingsoft	EZ	Buy	12.32	18.8	52.60%
21/12/2018	2238	GAC	ZJ	Buy	7.56	9.5	25.66%
24/12/2018	1686	SUNeVision	TE	Buy	4.68	5.67	21.15%
27/12/2018	6865	China TCM	EZ	Buy	4.73	6.54	38.27%
10/1/2019	0354	ChinaSoft International	TL	Buy	3.67	5.37	46.3%
14/1/2019	2338	Weichai	ZJ	Accumulate	8.96	10.65	19%
15/1/2019	1093	CSPC Pharmaceutical	EZ	Buy	12.06	21	74%
18/1/2019	2319	Mengniu	TK	Accumulate	25.50	28.50	11.8%

# China Strategy

*Follow the policy, buy property and electric vehicles.*

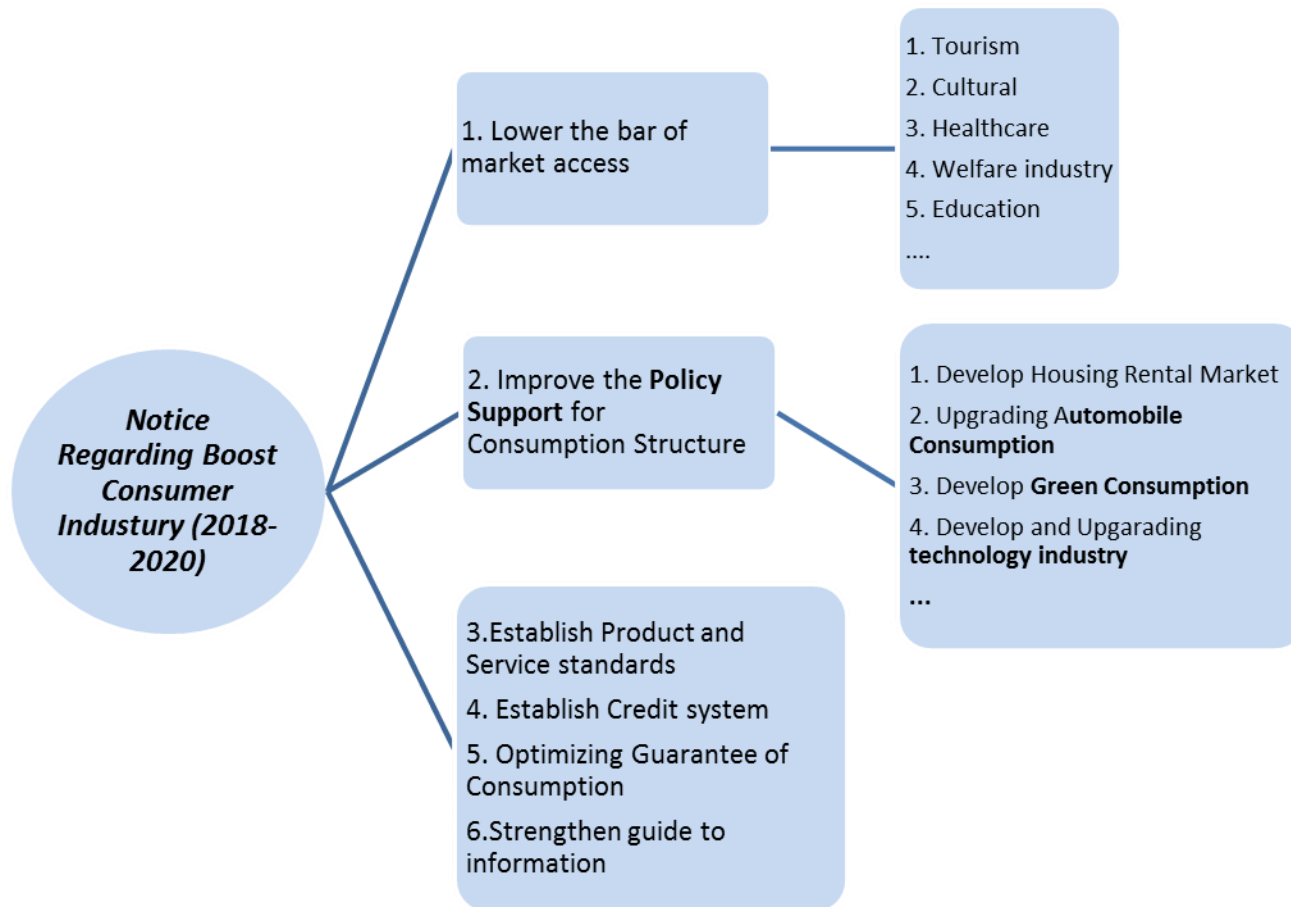
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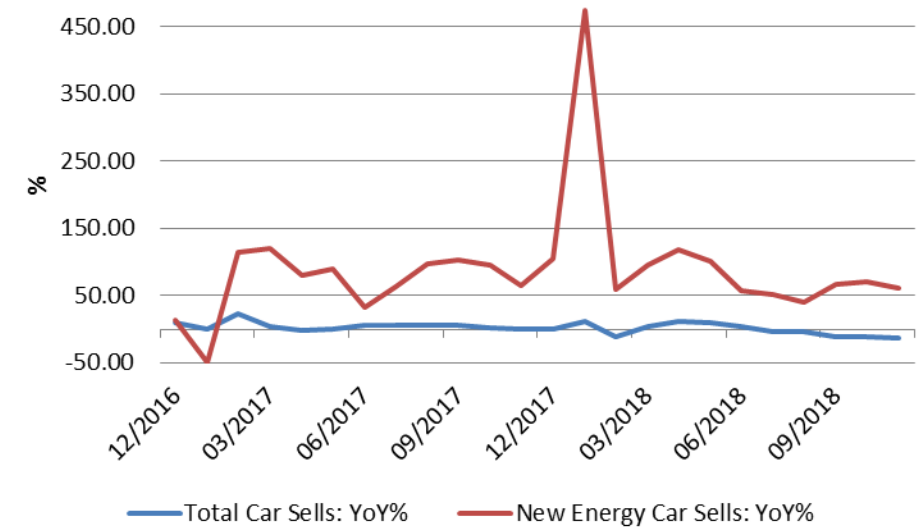
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*21 Jan 2019*

# China 2019 Strategy - Follow the policy, buy property and electric vehicles.



Source: China Government, PSR

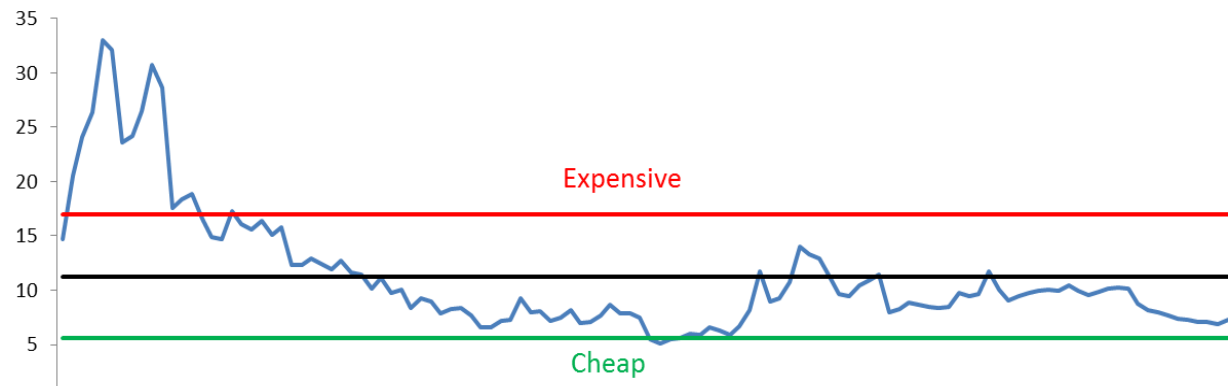


Source: CEIC, PSR

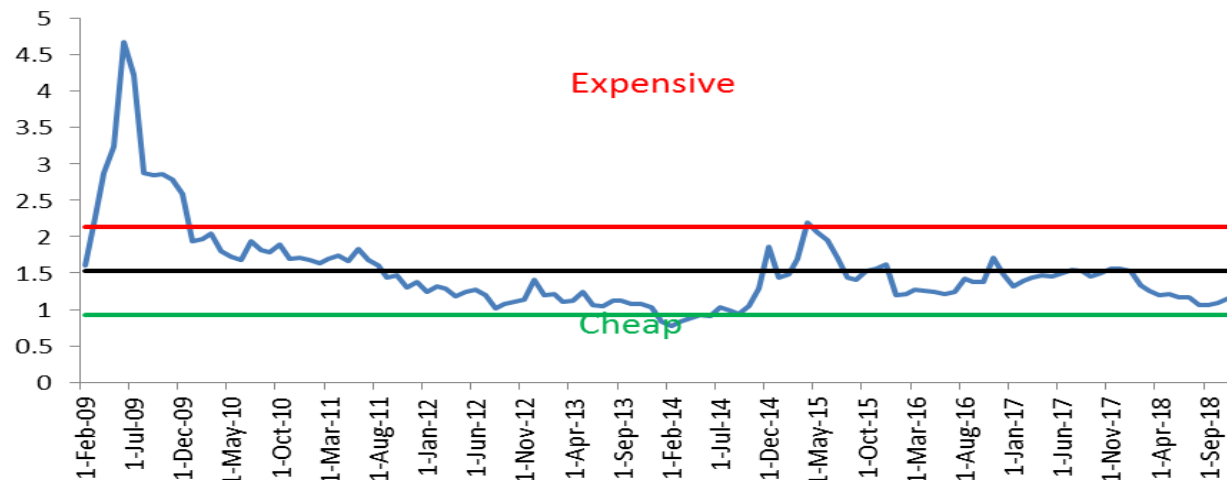
Under the stimulation of continuously subsidies and double-points policy, new energy vehicles will performance well in 2019

# Property especially first-tier city

Property Forward PE



Real Estate P/B Ratio



Source: Bloomberg, PSR

The local government has relaxed real estate policies to support economic by :

1. Lowering the first housing mortgage interest rate
2. Lowering the down payment ratio for buying the house
3. Lowering the bar of buying local property and settlements, for example, allow non-local people buy a house if they pay three years' social security at one time

# ETF We Recommend

	Name	Description
<b>KARS</b>	KraneShares Electric Vehicles & Future Mobility ETF	KARS seeks to measure the performance of Solactive Electric Vehicles and Future Mobility Index. The Index is designed to track the performance of companies engaged in the production of electric vehicles and their components
<b>DRIV</b>	Global X Autonomous & Electric Vehicles ETF	The Global X Autonomous & Electric Vehicles ETF (DRIV) seeks to invest in companies involved in the development of autonomous vehicle technology, electric vehicles ("EVs"), and EV components and materials.
<b>TAO</b>	Invesco China Real Estate ETF	The Invesco China Real Estate ETF (Fund) is based on the AlphaShares China Real Estate Index (Index). The Fund will invest at least 90% of its total assets in securities that comprise the Index and American depositary receipts (ADRs)
<b>CHIR</b>	Global X MSCI China Real Estate ETF	The Global X MSCI China Real Estate ETF (CHIR) seeks to invest in large- and mid-capitalisation segments of the MSCI China Index that are classified in the Real Estate Sector as per the Global Industry Classification System (GICS).

# Week 4 - Phillip Singapore Weekly

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*21 Jan 2019*

# Week 4 – Short-term Views

## Macro Last Week

- **SG macro:** exports declined to their lowest in 26 months with almost 9% fall YoY and across all segments
- **US Macro:** shutdown unprecedented; impact on debt ceiling debate; impact need to be permanent because reversal can be fast; consumer confidence reading lowest in 27 months at 90.7 (est.96.4);
- **US-China Trade negotiations:** > US\$1tr purchases till 2024; end January next round of discussion

## Corporate/Sector Last Week

- Debt issues – Hyflux: 3.8%-8.7% recovery for senior unsecured such as banks (S\$717mn) and note holders (S\$271mn); perpetual (S\$500mn) and pref shares (s\$400mn) zero recovery; Falcon Energy: suspension of coupon notes and share price; Sino Grandness: letter of demand for US\$21mn by shareholder

## Tactical

- **Take on more risk:** positive trade negotiations + interest rate pause + yield curve steepening; next in sequence will be better economic data; policy risk now confined to US not China or interest rates

## Week(s) Ahead

- **21Jan:** US closed, China FAI/IP/retail/GDP; **29-30Jan:** FOMC Meeting ;**2Mar:** US debt ceiling



# SGX Stocks – Earnings release date / Consensus

BBG Ticker	SECURITY_NAME	Earning Release Date	Next Quarter	Next Period Expected EPS
MINT SP EQUITY	Mapletree Industrial Trust	1/22/2019	12/18 Q3	0.024
CT SP EQUITY	CapitaLand Mall Trust	1/23/2019	12/18 Q4	0.03
SUN SP EQUITY	Suntec Real Estate Investment	1/23/2019	12/18 Q4	0.018
CAPL SP EQUITY	CapitaLand Ltd	1/23/2019	12/18 Q4	0.07
SGX SP EQUITY	Singapore Exchange Ltd	1/24/2019	12/18 Q2	0.084
KEP SP EQUITY	Keppel Corp Ltd	1/24/2019	12/18 Q4	0.15
CCT SP EQUITY	CapitaLand Commercial Trust	1/24/2019	12/18 Q4	0.02
FLT SP EQUITY	Frasers Logistics & Industrial	1/24/2019	12/18 Q1	0.02
M1 SP EQUITY	M1 Ltd/Singapore	1/28/2019	12/18 Q4	0.027
ART SP EQUITY	Ascott Residence Trust	1/29/2019	12/18 Q4	0.02
AREIT SP EQUITY	Ascendas Real Estate Investmen	1/30/2019	12/18 Q3	0.04
SIA SP EQUITY	Singapore Airlines Ltd	2/13/2019	12/18 Q3	0.203
CD SP EQUITY	ComfortDelGro Corp Ltd	2/13/2019	12/18 Q4	0.035
SATS SP EQUITY	SATS Ltd	2/13/2019	12/18 Q3	0.058
STH SP EQUITY	StarHub Ltd	2/14/2019	12/18 Q4	0.038
THBEV SP EQUITY	Thai Beverage PCL	2/14/2019	12/18 Q1	0.22
DBS SP EQUITY	DBS Group Holdings Ltd	2/18/2019	12/18 Q4	0.545
ST SP EQUITY	Singapore Telecommunications L	2/8/2019	12/18 Q3	0.048
SCI SP EQUITY	Sembcorp Industries Ltd	2/21/2019	12/18 Q4	0.048
GENS SP EQUITY	Genting Singapore Ltd	2/21/2019	12/18 Q4	0.011
WIL SP EQUITY	Wilmar International Ltd	2/21/2019	12/18 Q4	0.048
CIT SP EQUITY	City Developments Ltd	2/21/2019	12/18 Q4	0.195
OCBC SP EQUITY	Oversea-Chinese Banking Corp L	2/22/2019	12/18 Q4	0.265
UOB SP EQUITY	United Overseas Bank Ltd	2/22/2019	12/18 Q4	0.55
STE SP EQUITY	Singapore Technologies Enginee	2/22/2019	12/18 Q4	0.05
UOL SP EQUITY	UOL Group Ltd	2/27/2019	12/18 Q4	0.14
YZJ SP EQUITY	Yangzijiang Shipbuilding Holdi	2/28/2019	12/18 Q4	0.19

# Ask questions!



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*Thank you*