

22 April 19, 8.15am/11.15am Morning Call/Webinar

UOB

CapitaLand Commercial Trust

S-REITs

US Weekly

China Weekly Musings

Phillip Singapore Weekly

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United Overseas Bank Limited

Tin Min Ying

Research Analyst

Phillip Securities Research Pte Ltd

22 Apr 2019

UOB– Buy (Maintained) TP: \$32.00 (prev TP: \$32.50)

1. Interest Rates – Lagged effect of interest rate pass-through

- Room to rise in the next 3 months.
- With a pause in rate hikes, now is the best and probably last time to hike their board rates and reprice their loans before interest rates start to tail down.

2. NIM supported by an increase in board rates

- NIM growth will arise from mortgage book repricing while SIBOR and SOR remain elevated.
- Around 50% of the mortgage book could be repriced from the hike in board rates with full effect on NIM to be seen in 2Q19.

3. CASA Deposits – Contracting CASA Ratio in the Sector

- In a rising interest rate environment, fixed deposits increase and the cost of funds rises, making it challenging to achieve NIM expansion.
- Competition for FDs to taper off in the next 3-6 months & funding pressure to ease with no more rate hikes expected in 2019.

Trailing down of SIBOR in the next quarter to be offset by rising mortgage rate and lesser competition of funds.

UOB– Buy (Maintained) TP: \$32.00 (prev TP: \$32.50)

4. Loans Growth – Weaker in 2019

- Mortgage loan growth maintained due to the progressive drawdown of the mortgage.
- Overall loans growth continues to be held up by demand from non-bank Financial Institutions and Property funds.
- Property funds have healthy demand for loans in their commercial properties and even data centres development or acquisition activities.
- UOB's market share of SGD loans and deposits in Singapore remains sizeable at 23% and 21%.

5. Asset Quality – Low residual risks from the O&G sector

- Ample provisioning for the Oil and Gas (O&G) sector loans.
- Provided for 70-80% of its O&G exposure with collaterals marked down by 90% of its asset value.
- Conservative provisioning - Certain loan defaults that have yet to past the 90 days limit were classified as Non-Performing Loans (NPLs)

UOB– Buy (Maintained) TP: \$32.00 (prev TP: \$32.50)

6. Dividends – Robust Capital Ratios

- Dividend policy: Full-year dividend payout to be at 50%, subject to a minimum CET1 ratio of 13.5%.
- As of December 2018, all three banks have similar CET1 ratio of 14%.
- We expect the robust capital ratios to sustain current payout levels and we forecast UOB's FY19e dividend yield at 5%.

7. Prudential Deal

- Renewed its bancassurance deal with Prudential on 10 January 2019 for 15 years for a sum of S\$1.15bn paid to UOB by Prudential.
- S\$1.15bn income will be amortised over this period.

8. Digital Bank in Thailand

- UOB's Digital Bank in Thailand aims is to gather deposits in at the moment.
- The ability to transfer funds that are offline into an online platform was made accessible with the launch of PromptPay in 2017.
- Partners with the local teleco companies to assess the creditworthiness using the phone bill payment history of its customers.

UOB– Buy (Maintained) TP: \$32.00 (prev TP: \$32.50)

Investment Actions

Maintain BUY with a lower target price of S\$32.00 (previous TP S\$32.50) based on the Gordon Growth Model.

Due to the increasing funding pressure from steep growth in fixed deposits and flat loan growth in the banking industry, we pen in a more conservative FY19e NIM forecast of 1.82% (previously 1.84%), resulting in a lower target price.

Even after achieving record high ROE in FY18, UOB guided a higher ROE of 12% in FY19e, showing that the effective cost measures, NIM improvement and low provisions should provide further upsides to earnings in 2019.

We forecast earnings growth of 7.6% and a dividend yield of 4.7% in FY19e.

Keppel DC REIT

Sowing seeds through proactive management

Natalie Ong

Research Analyst

Phillip Securities Research Pte Ltd

22 April 2019

Keppel DC REIT

ACCUMULATE (Maintained), TP: \$1.59, Last: \$1.48

Results at a glance

(SGD mn)	1Q19	1Q18	YoY	Comments
Gross revenue	48.0	38.0	26.4%	Contribution from KDC SGP 5 (acquired 12 June 2018), maincubes DC (Germany) (acquired 30 March 2018)
Net property income	43.2	34.1	26.8%	
Distributable income	27.1	20.9	29.9%	Lower financing costs due to MTN issued and early renewal of loans at lower EURIBOR, and tax savings of S\$0.6mn after attaining tax transparency treatment for Keppel DC SG 5
DPU (cents)	1.92	1.80	6.7%	

Source: Company, PSR

+ The Positives

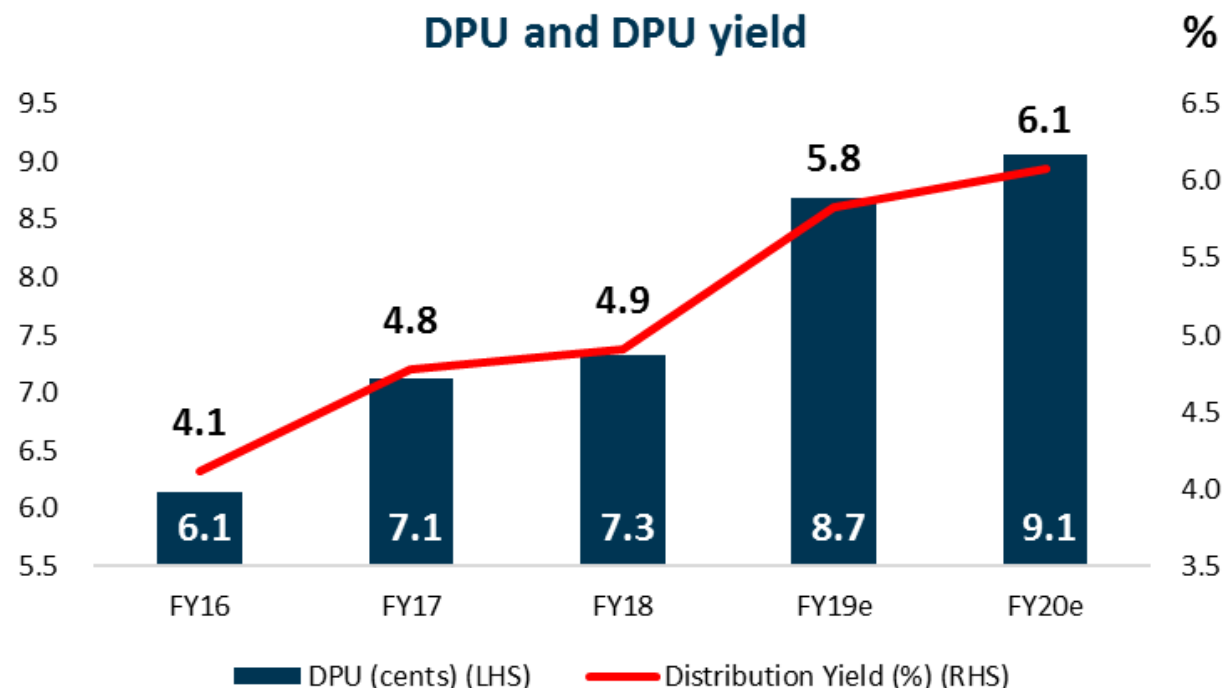
- Portfolio occupancy at 93.2% with WALE of 8 years.
- Cost of debt fell to 1.7% (vs 1.9%), ample debt headroom S\$273mn, Gearing 30.8% (vs 32.5%).
- Revenue uplift from AEs on pre-committed lease and increase in power utilization - KDC DUB2 (occupancy will increase from 90.7% to 100%)

- The Negatives

- No improvement in occupancy at Basis Bay DC in Cyberjaya

Keppel DC REIT

ACCUMULATE (Maintained), TP: \$1.59, Last: \$1.48



Outlook

- Healthy pipeline of off-market deals in discussion; possible injection of KDC 4 at end 2019, early 2020.
- Local demand for DCs strong, driven by hyperscale cloud players.

Maintain ACCUMULATE with higher TP of S\$1.59 (prev S\$1.52)

- We maintain our ACCUMULATE rating due to revenue additive AEs secured by pre-committed leases and lower cost of debt.
- Higher TP of S\$1.59 implies a 13.3% yield and a FY19e P/NAV of 1.37x.

CapitaLand Commercial Trust

Fundamentals remain intact

Tara Wong

Research Analyst

Phillip Securities Research Pte Ltd

22 April 2019

CapitaLand Commercial Trust

NEUTRAL (Downgrade), TP: \$1.93, Last: \$1.93

Results at a glance

(SGD mn)	1Q19	1Q18	YoY (%)	Comments (1Q19 vs 1Q18)
Gross Revenue	99.8	96.4	3.5%	Contributions from AST2 (acquired in 4Q17) and Galileo (acquired in 2Q18) offset loss in revenue from divestment of Twenty Anson (divested in 3Q18).
Net Property Income	79.8	77.2	3.4%	
Distributable Income	82.7	76.6	8.0%	Includes tax-exempt income of S\$3.4mn (1Q18: nil)
DPU (Cents)	2.20	2.12	3.8%	

Source: Company, PSR

Outlook

- Outlook remains positive - expiring rents on the downtrend for the rest of 2019 and 2020.
- Macro catalysts include the CBD Incentive Scheme introduced in the URA's Draft Master Plan 2019.

Downgrade to NEUTRAL with unchanged TP of S\$1.93

- We downgrade our rating to NEUTRAL due to the recent positive price movement.
- Our target price remains unchanged at S\$1.93, which translates to a distribution yield of 4.8% and a P/NAV of 1.05x.

+ The Positives

- Healthier margins at AST2, CCT's largest contributing asset (27% of NPI). Huge ramp-up in occupancy levels for AST2 in 1Q19 (90.5% when acquired in 4Q17 to 98.1% in 3Q18) still delivering the topline improvement.

- The Negatives

- Slight dip in occupancy, due to a non-renewal at Six Battery Road.

Singapore REITs Monthly

April 2019

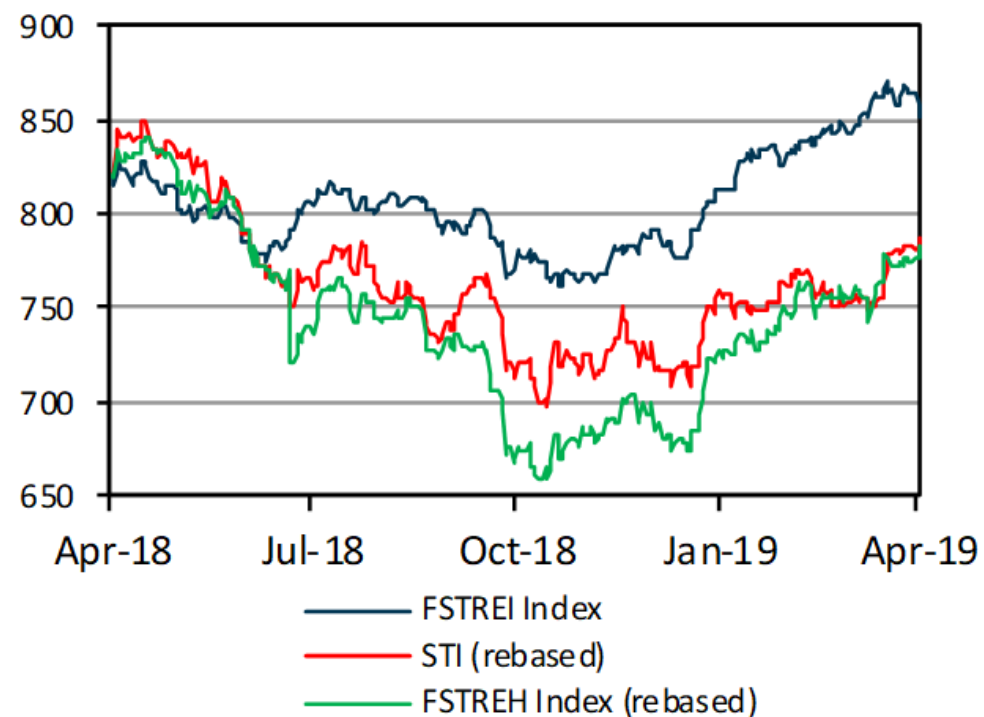
Tara Wong

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22 April 2019

FTSE S-REIT total return up 9.6% YTD

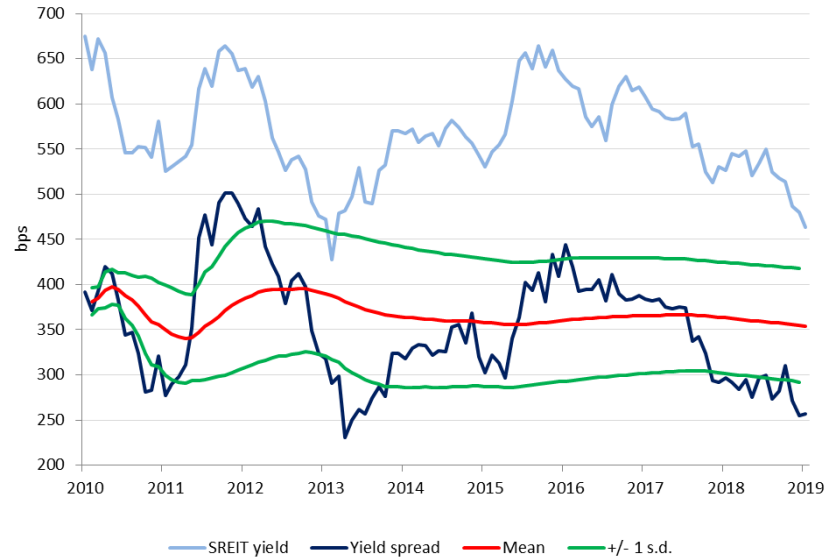


INDEX RETURN (%)

	1M TH	3M TH	YTD	1YR
FSTREI RETURN	1.1	4.8	9.6	4.5
FSTREH RETURN	3.6	8.1	15.3	(4.6)
STI RETURN	4.6	4.2	9.1	(4.3)

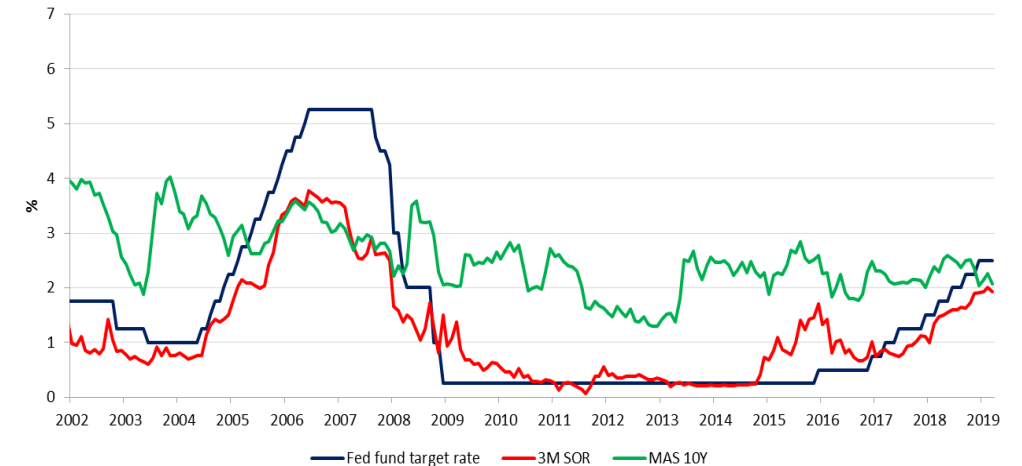
S-REIT yield spread declined 53bps YTD as at end-March

FTSE Straits Times REIT Index Yield Spread over 10YSGS



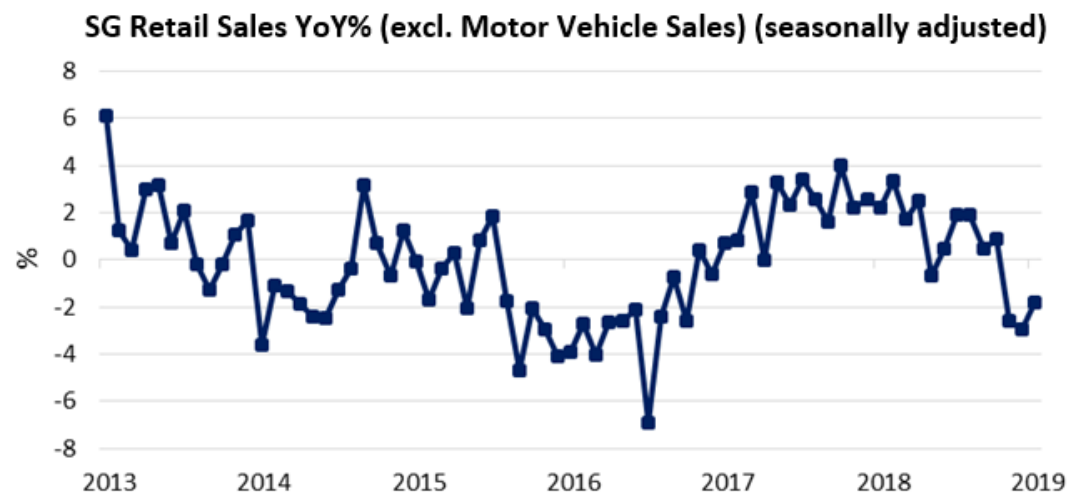
- **S-REIT dividend yield: 4.64%**
- **10YSGS yield: 2.07%**
- Current **yield spread** of 256 bps has dipped further below the -1SD range (historical average: 358bps).
- Bloomberg consensus forecasts for the 10YSGS yield at the end 2019 and 2020 are at 2.50% and 2.44%, respectively. This will be a headwind for S-REITs, though it can be mitigated by rental growth.

Fed Fund Rates vs SG rates



- **3-month SOR: 1.93%**
- **Higher near-term financing costs largely mitigated** as 35 out of 44 of all S-REITs, have at least 70% of their debt hedged against rising interest rates.

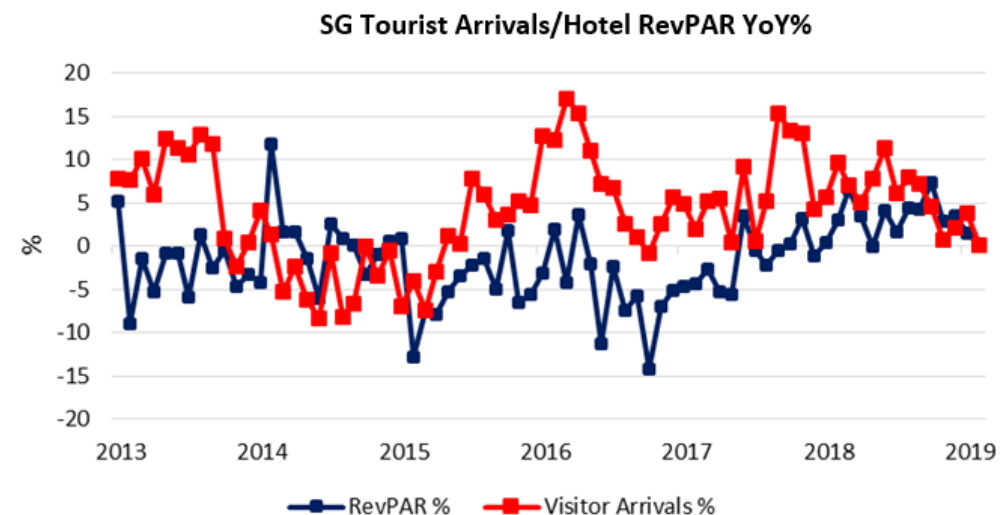
Sub-sector monthly indicators



	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Feb-19	-1.8	1.3	1.5	-1.8	-1.5
Feb-18	-3.0	-5.6	-3.1	16.7	1.7

Source: CEIC, PSR

- Retail sales (excluding motor vehicle sales) declined -10.7% YoY in February. Excluding the effect from the earlier Lunar New Year period, retail sales declined -1.8% YoY.
- The F&B index was down -1.5% YoY (seasonally adjusted) in February, dragged down largely by the Caterers segment (-8.3%).



Source: CEIC, PSR

	Visitor Arrivals	Hotel RevPAR (S\$)	Hotel Occupancy (%)	Hotel Average Room Rate (S\$)
Feb-19	1,492,066	198	87.8	225.4
Feb-18	1,291,972	198	88.1	224.5

- Average RevPAR was flat YoY in February.
- The slight increase in Average Room Rates were offset by the slightly lower occupancy rates.
- Visitor arrivals was flat in February.

Remain NEUTRAL on S-REITs sector

Top-down view

- While the S-REIT yield spread is currently below the -1SD level since the global financial crisis, strong rental growth should offset any adverse effects from rising interest rates – with the 3MSOR still rising despite the Federal Reserve’s recent dovish stance.
- We maintain NEUTRAL on the S-REITs sector, with selective sub-sector preferences.

Tactical bottom-up view

For investors with concerns on rising interest rates, look for REITs with:

- 1) Low gearing
- 2) High-interest coverage
- 3) Long weighted average debt to maturity
- 4) A high proportion of debt on fixed interest rates

S-REITs under our coverage

	PSR RATING	PSR TARGET PRICE (S\$)
ASCOTT RESIDENCE TRUST	BUY	1.36
CAPITALAND MALL TRUST	NETURAL	2.09
FRASERS CENTREPOINT TRUST	NEUTRAL	2.21
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST ¹	ACCUMULATE	0.94
CAPITALAND COMMERCIAL TR	NETURAL	1.93
ASCENDAS REAL ESTATE INV TR	ACCUMULATE	2.88
MAPLE TREE INDUSTRIAL TRUST	NEUTRAL	2.03
KEPPEL DC REIT	ACCUMULATE	1.59
CACHE LOGISTICS TRUST	NEUTRAL	0.75
EC WORLD REIT ¹	BUY	0.85

Source: PSR

¹ Covered by PSR under the 'SGX Stockfacts' scheme

US Weekly

Edmund Xue

Research Analyst

Phillip Securities Research Pte Ltd

22 Apr 2019

US Weekly

Macro Last Week

- There was a 0.1% MoM decline in Industrial Production, contracting 0.3% annualised. For Q1 2019, manufacturing output contracted by 1.0% annualised, almost reversing the modest 1.3% gain in Q4 2018.
- Trade deficit declined slightly from \$51.1bn to \$49.4bn in February due to a jump in civilian aircraft exports and a subdued gain in imports.
- There was a 1.0% m/m rebound in control group retail sales in March (Est: 0.4%). Control group sales expanded by 2.6% annualised in Q1 2019.

US Banks Earnings - Common Themes

- JPM, BOA, MS and WFC reported quarterly profit and revenue that exceeded analysts' expectations, while GS and C both missed estimates on their revenue.
- Moderate loans growth for BOA and JPM, shrinking loans growth for WFC
- NIM expansion – expanded 9 basis points for BOA, 2.5% lift for JPM
- Slump in equities and bond trading revenue
- Charge off rates and provision for loan losses remain at low levels

Week(s) Ahead – Key Indicators to be released

- Existing Home Sales – 22 April
- New Home Sales – 23 April
- MBA Mortgage Applications – 24 April
- Durable Goods Orders – 25 April
- GDP Growth Rate QoQ – 26 April

Earnings Result Release

Phillip Securities Research - Earnings Estimates											
Name	Earnings Result Date	Expected EPS	Expected Revenue	Current Earnings Result Date	Consensus Target Price (\$USD)	Prior Period Actual EPS	Prior Period Expected EPS	Surprise Amount	Prior Period Actual Revenue	Prior Period Expected Revenue	Surprise Amount
Nucor Corp	23-Apr-19	1.54	6104	29-Jan-19	65.00	2.08	1.94	7.4%	6296	6302	-0.1%
Coca-Cola Co/The	23-Apr-19	0.46	7903	14-Feb-19	50.00	0.43	0.43	0.0%	7057	7071	-0.2%
Lockheed Martin Corp	23-Apr-19	4.34	12575	29-Jan-19	340.00	4.39	4.40	-0.2%	14411	13740	4.9%
Verizon Communications Inc	23-Apr-19	1.17	32151	29-Jan-19	58.50	1.12	1.09	2.9%	34281	34440	-0.5%
NextEra Energy Inc	23-Apr-19	2.06	4275	25-Jan-19	193.00	1.49	1.54	-3.0%	4390	4975	-11.8%
United Technologies Corp	23-Apr-19	1.57	17985	23-Jan-19	143.00	1.95	1.53	27.2%	18044	16871	7.0%
Procter & Gamble Co/The	23-Apr-19	1.03	16364	23-Jan-19	98.00	1.25	1.21	3.3%	17438	17162	1.6%
Texas Instruments Inc	23-Apr-19	1.13	3485	23-Jan-19	105.50	1.35	1.30	4.0%	3717	3754	-1.0%
Boeing Co/The	24-Apr-19	3.49	23093	30-Jan-19	432.00	5.48	4.59	19.3%	28341	26926	5.3%
Visa Inc	24-Apr-19	1.24	5458	30-Jan-19	170.00	1.30	1.25	3.8%	5506	5412	1.7%
AT&T Inc	24-Apr-19	0.60	45113	30-Jan-19	34.00	0.86	0.86	-0.2%	47993	48499	-1.0%
Caterpillar Inc	24-Apr-19	2.85	13400	28-Jan-19	153.50	2.55	2.99	-14.6%	14342	14364	-0.1%
AvalonBay Communities Inc	24-Apr-19	1.35	576	4-Feb-19	206.50	1.14	1.16	-1.8%	579	576	0.5%
Tesla Inc	24-Apr-19	-1.93	5268	30-Jan-19	312.50	1.93	2.14	-10.0%	7226	7073	2.2%
Facebook Inc	24-Apr-19	1.63	14967	30-Jan-19	200.00	2.67	2.50	6.9%	16914	16387	3.2%
Helmerich & Payne Inc	25-Apr-19	0.39	711	29-Jan-19	64.00	-0.10	0.29	-134.0%	741	715	3.5%
AbbVie Inc	25-Apr-19	1.69	7772	25-Jan-19	87.00	1.90	1.94	-2.0%	8305	8378	-0.9%
3M Co	25-Apr-19	2.48	8025	29-Jan-19	201.50	2.31	2.28	1.5%	7945	7858	1.1%
Freeport-McMoRan Inc	25-Apr-19	0.07	3804	24-Jan-19	14.00	0.11	0.18	-37.5%	3684	3768	-2.2%
Comcast Corp	25-Apr-19	0.62	27213	23-Jan-19	45.00	0.64	0.62	2.6%	27846	27171	2.5%
Comcast Corp	25-Apr-19	0.62	27213	23-Jan-19	45.00	0.64	0.62	2.6%	27846	27171	2.5%
Newmont Goldcorp Corp	25-Apr-19	0.28	1851	21-Feb-19	41.00	0.40	0.25	62.6%	2048	1876	9.1%
United Parcel Service Inc	25-Apr-19	1.41	17775	31-Jan-19	118.00	1.94	1.90	2.0%	19848	19956	-0.5%
Marsh & McLennan Cos Inc	25-Apr-19	1.45	4194	31-Jan-19	93.00	1.09	1.04	4.4%	3712	3729	-0.5%
Amazon.com Inc	25-Apr-19	4.67	59700	31-Jan-19	2100.00	8.28	7.95	4.1%	72383	71920	0.6%
Starbucks Corp	25-Apr-19	0.49	6317	24-Jan-19	70.00	0.75	0.65	15.6%	6633	6485	2.3%
Intel Corp	25-Apr-19	0.82	16027	24-Jan-19	57.00	1.28	1.22	4.9%	18657	19014	-1.9%
Microsoft Corp	25-Apr-19	1.00	29849	30-Jan-19	130.00	1.10	1.09	1.0%	32471	32500	-0.1%
Exxon Mobil Corp	26-Apr-19	0.69	65111	1-Feb-19	84.00	1.41	1.08	30.6%	71895	73092	-1.6%
Chevron Corp	26-Apr-19	1.29	37433	1-Feb-19	140.00	2.10	1.87	12.3%	42352	42436	-0.2%
Colgate-Palmolive Co	26-Apr-19	0.65	3861	25-Jan-19	66.00	0.74	0.73	0.8%	3811	3777	0.9%
Alphabet Inc	29-Apr-19	10.54	30028	4-Feb-19	1350.00	15.67	13.04	20.2%	31840	31326	1.6%

Week 17 – China Weekly Musings

Jieyuan Zheng

Research Analyst

Phillip Securities Research Pte Ltd

22 April 2019

China Week 17

Macro Last Week

- **Fiscal Policy: Focus:** Stable the growth
- **Monetary policy:** Focus : Remain stable
- **Economic Indicators:**
 - 2019 first quarter GDP growth** 6.4%, better than expectation 6.3%, 2019 first quarter 6.8%
 - March Growth in industrial value-added** 8.5%, better than expectation 5.9%, last month 5.3%
 - March Retail sales growth** rose 8.7%, better than expectation 8.4%, last month 8.2%

Corporate

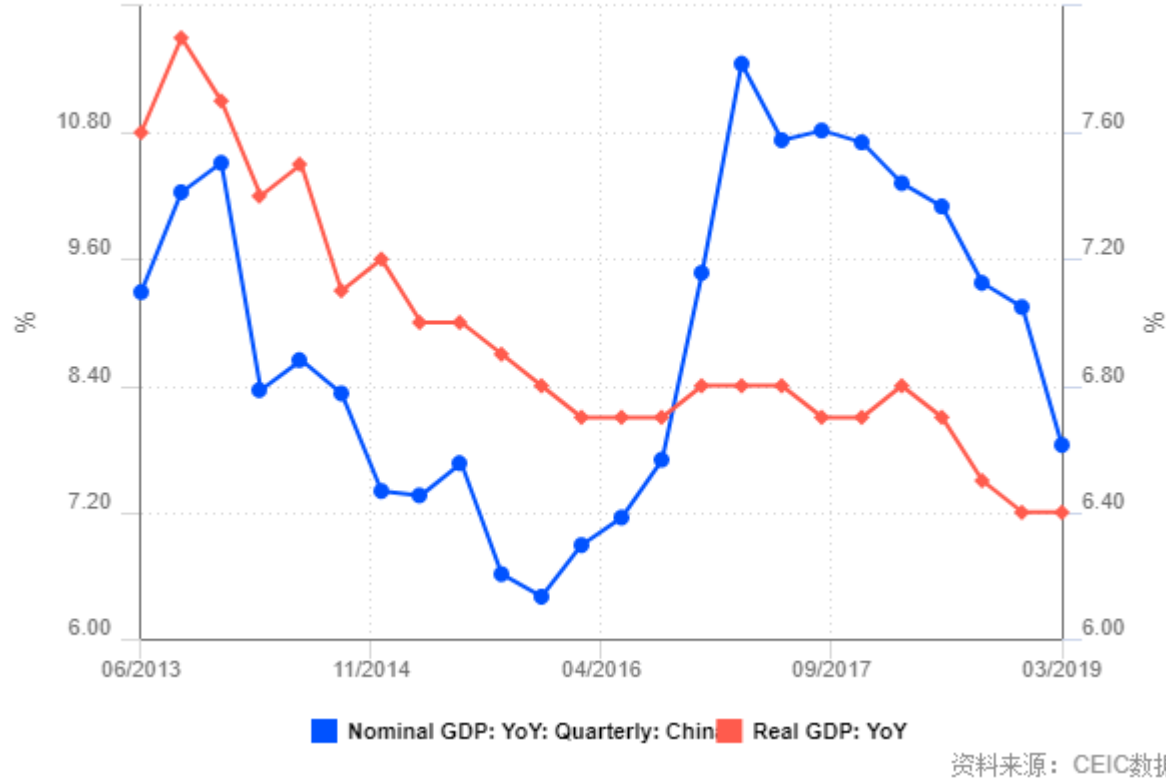
- **HC Group (2280.HK): HK Recommendation:** Buy; HK PSR target price HKD 5.79
Result lower than expected, still in the transition
Assuming 2019F P/E ratio to be 22x (the average of the past five years is 24x, we think 22x is within the reasonable range), derive the TP to be HK\$5.79.

Week(s) Ahead

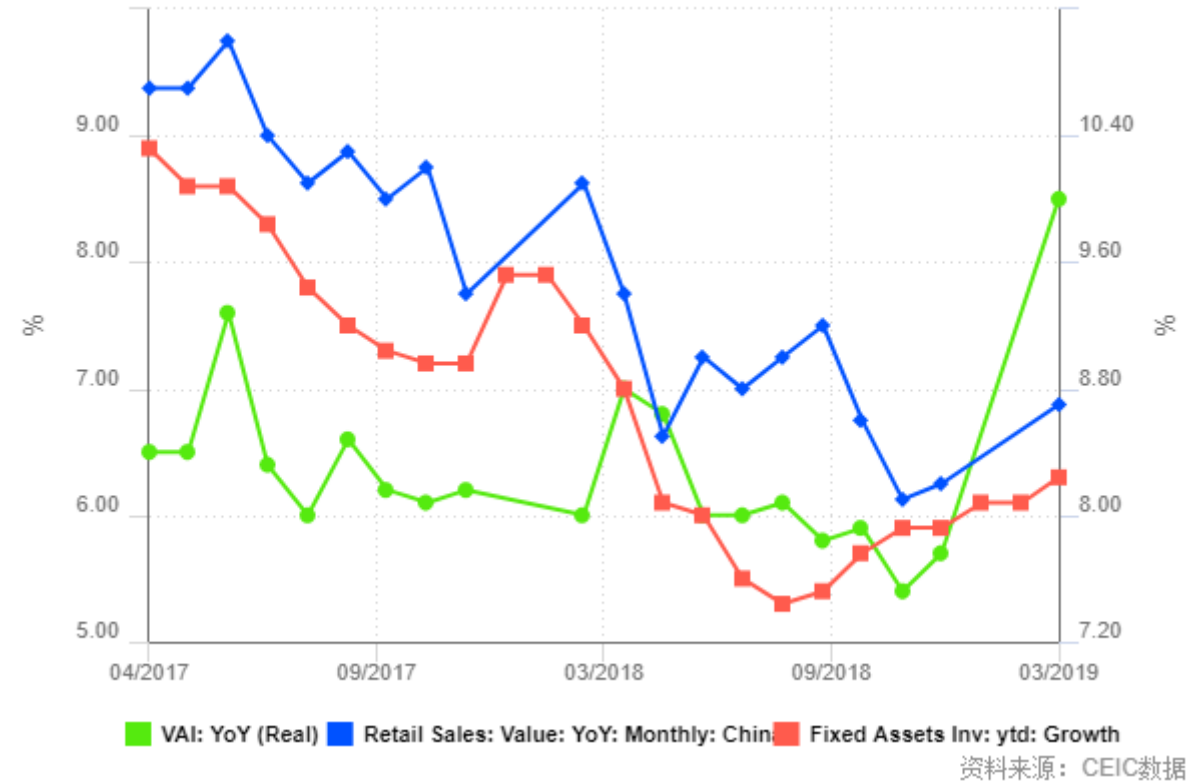
this week: the financial result of Chinese banks, Kweichow Moutai, BYD
28th – 29th March :Eight rounds of China – US talk

China economic in first quarter

China real GDP and nominal GDP



Growth in Different Subject



Financial Result releasing:

Date	Ticker	Company Name
22/4/2019	002310.SZ	Beijing Orient Landscape & Environment Co Ltd
23/4/2019	EDU	New Oriental Education & Tech Grp
23/4/2019	000625.SZ	Changan Automobile
24/4/2019	600419.SS	Xinjiang Tianrun Dairy Co Ltd
25/4/2019	6837	Haitong Securities Co Ltd
25/4/2019	6099	China Merchants Securities Co Ltd
25/4/2019	6066	China Securities Co Ltd
25/4/2019	0998	CITIC BK/Shs H Vtg 1.00
25/4/2019	2628	China Life Insurance Co Ltd
26/4/2019	1211	BYD

HK Stocks Recommendation

Time	Ticker	Company	Analyst	Rating	Price On Recommendation Date(HKD)	Target Price(HKD)	Expected Return
1/2/2019	0175	Geely	ZJ	Buy	12.66	17.6	39%
4/2/2019	0178	Sasa	TK	Accumulate	2.98	3.2	5.84%
19/2/2019	600741	HASCO	ZJ	Accumulate	19.45	23	18%
21/2/2019	0835	China Education Group	TL	Accumulate	12.50	13.45	7.50%
28/2/2019	1044	Hengan	TK	Buy	63.15	77.5	22.7%
1/3/2019	2020	Anta Sports	EZ	Accumulate	45.4	50.8	12%
8/3/2019	0696	Travelsky Technology	TL	Accumulate	23.10	17.18	17.7%
12/3/2019	1211	BYD	ZJ	Accumulate	47.35	56.3	19%
01/4/2019	0354	ChinaSoft International	TL	Buy	4.66	6.57	41%
15/4/2019	2280	HC Group	TL	Buy	4.33	5.79	33.7%

Week 17 - Phillip Singapore Weekly

Paul Chew

Head Of Research

Phillip Securities Research Pte Ltd

22 April 2019

Week 17 – Short-term Views

Macro Last Week

- **SG macro:** exports fell to > 2 year lows dragged down by almost 27% collapse in electronic exports
- **US macro:** improvement in retail sales
- **China macro:** across the board recovery in data

➤ Corporate/Sector Last Week

- Genting SG AGM: Japan IR – 2Q19 cities RFC + 3Q19 Govt issue RFP + 4Q19 RFP process + mid2020 results; 3 challenges: near term - in 50% hike in admission fee + medium term is \$4.5bn capex and 3% rise in gaming tax after moratorium expire Mar2022 + longer-term global gaming revenue is down and form of entertainment away from casino to sports betting, etc;

Tactical

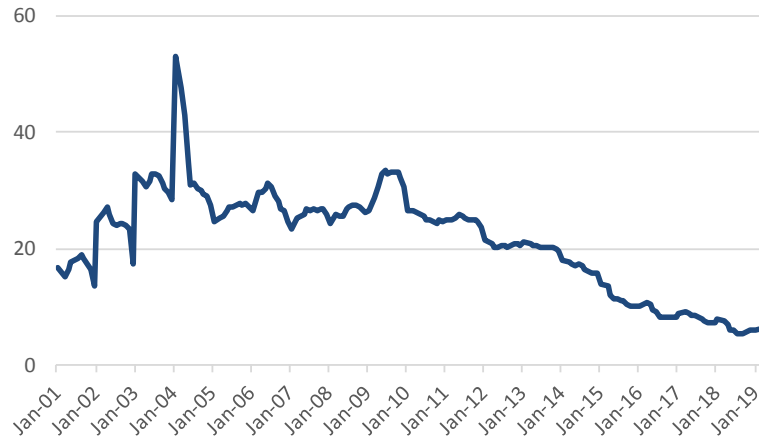
- **Rally extending from positive data:** main macro news is improvement in China data; likely to be in a soft landing similar to 1995-97

Week(s) Ahead

- **24April:** Germany IFO Survey; **26April:** US 1Q19 GDP/SG IPI; **earlyMay:** trade deal resolved (possible); **23/26May:** EU Parliament elections;

Week 17 – Pick up in economic activity in China

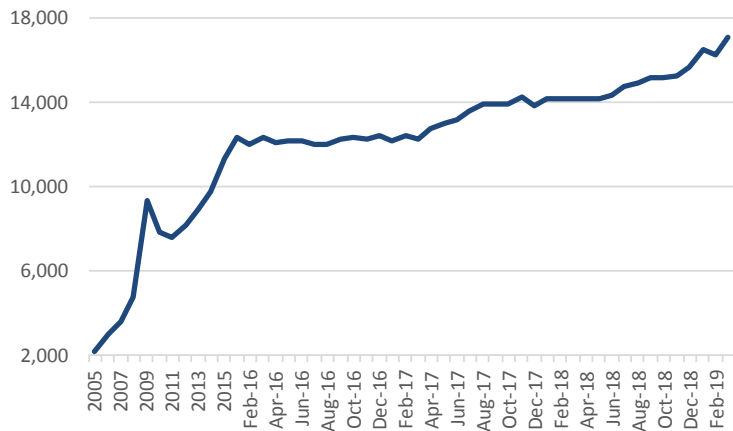
CH: Fixed Asset Investments (YTD %)



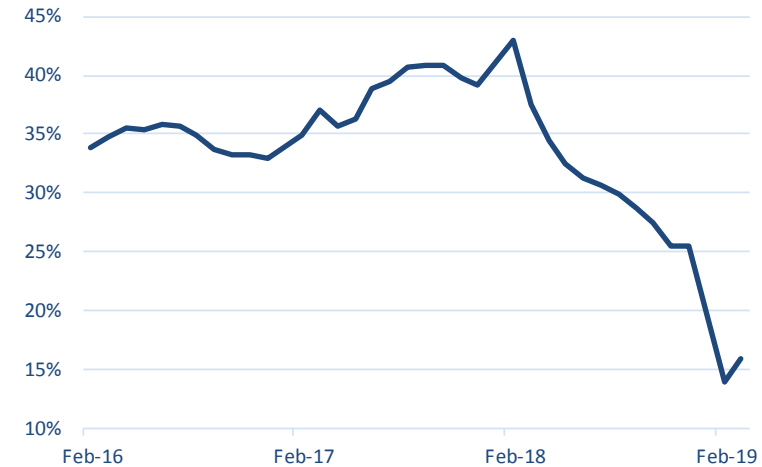
CH: Industrial Production (YTD %)



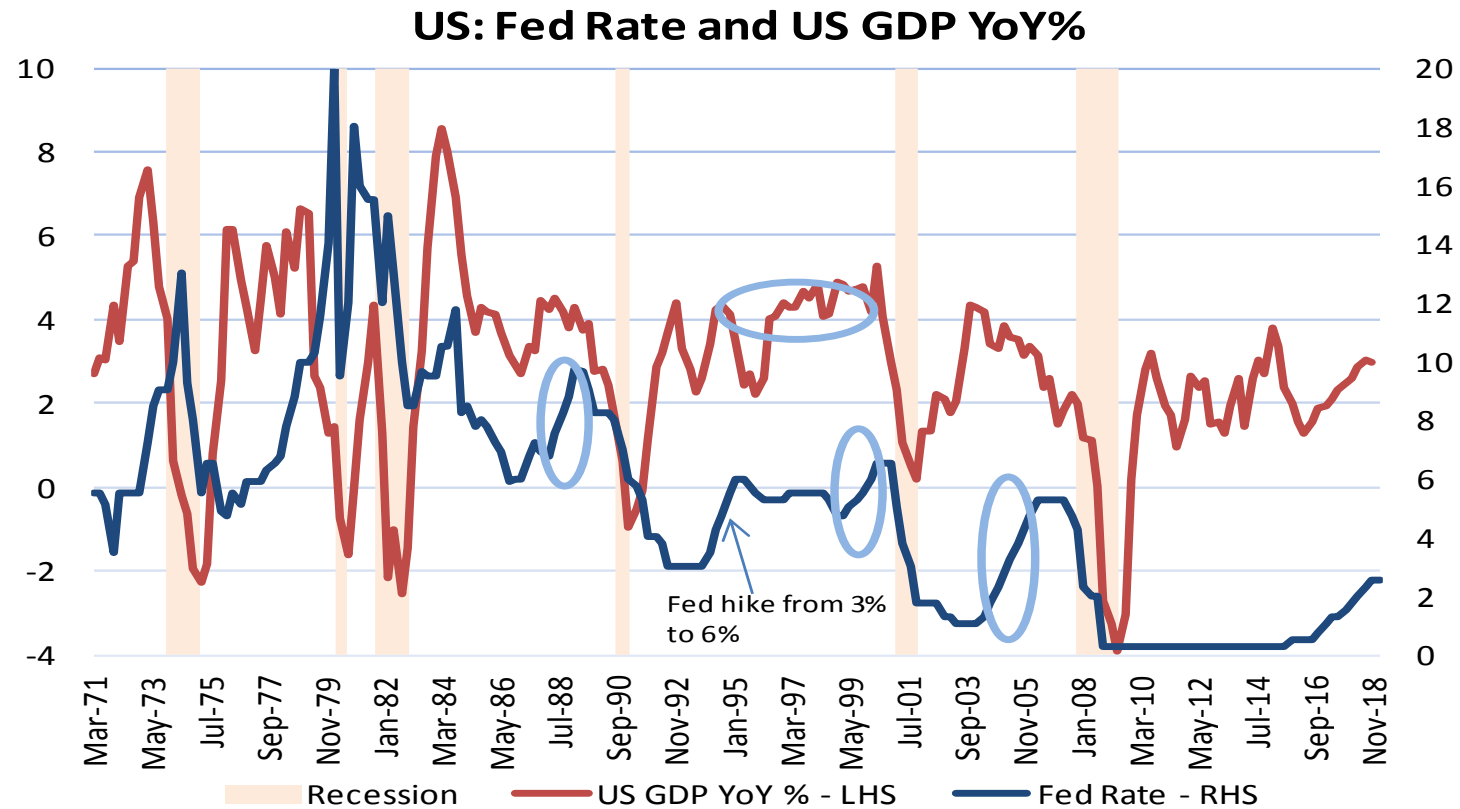
CH: Net disbursement in loans (RMB bn)



CH: Retail Sales Goods & Services (%)



Week 17 – Soft Landing scenario in the U.S.



Ask questions!



StocksBnB.com

*Have an opinion or questions on our reports?
Post them in the comment section of the report!*

Analysts

Phillip Securities Research Pte Ltd

Paul Chew, Head of Research

Siti Nursyazwina, Research Admin

Tara Wong, REITs (Commercial, Retail) | Property

Natalie Ong, REITs

Chen Guangzhi, Oil and Gas | Energy

Tin Min Ying, Banking & Finance

Alvin Chia, Telco | Technology

Mike Zheng Jieyuan, China/HK Markets

Edmund Xue, US Equity

Thank you