Phillip Securities Research Morning Call

18th November 2019

Stock Counter

- **DBS Group Holdings Ltd**
- **EC World REIT**
- **PropNex Ltd**
- **APAC Realty Ltd**
- **Singtel Ltd**

Macro/Sector Outlook

- **Singapore Weekly**

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DBS Group Holdings Ltd

Substantial provisioning overlay to cushion credit risks

Tin Min Ying

Research Analyst

Phillip Securities Research Pte Ltd

18 Nov 2019

DBS Group Holdings Ltd– ACCUMULATE (Maintained) TP: $27.3 (Prev TP: $27.6)

Results at a glance

(SGD mn)	3Q19	3Q18	YoY (%)	2Q19	QoQ (%)	Comments
NII	2,460	2,273	8.2%	2,429	1.3%	NIM expanded 4bps YoY to 1.90%. Loans grew 4% YoY.
Net Fees & Comm	814	695	17.1%	767	6.1%	Record fee income led by wealth management (+22% YoY), cards (+9% YoY), and Investment banking more than doubled to $55mn as equity & debt capital market activities increased.
Other Non-II	549	407	34.9%	513	7.0%	Trading income increased 22% to $431mn from higher gains in interest rate activities. Net gain on investment securities doubled to $105mn.
Total Income	**3,823**	**3,375**	**13.3%**	**3,709**	**3.1%**	
Expenses	1,614	1,481	9.0%	1,546	4.4%	Positive JAWS resulted in 2 p.p. improvement in CIR to 42%.
Allowance	254	236	7.6%	251	1.2%	Higher GP (to build up some GP buffers due to uncertainties in the environment) moderated by decline in SP.
PATMI	**1,629**	**1,413**	**15.3%**	**1,603**	**1.6%**	

Source: Company, PSR

The Negatives

- **Allowances rose 8% YoY.**
  - Additional GP of $61mn taken as a prudent measure given the ongoing political and economic uncertainty.
  - NPL ratio unchanged at 1.5%.
  - Credit costs 21bps, in line with recent quarters' levels.
- **Loans growth soft at 4% YoY.**

The Positives

+ NIM held up at 1.90%.

- +4bps YoY - as assets yield +14bps YoY, outpacing the rise in funding costs of 10bps YoY
- Stronger hold up of SIBOR and HIBOR, and push-through of loan repricing,

+ Fee income at a record high of $814mn due to wealth management, card fees and investment banking fees.

- AUM +9% YoY to S$241bn from net new money inflows from mid-to-ultra high net worth individuals + the region.
- WM to support a more stable income base.

+ CIR well contained, improving 2p.p. from a year ago to 42%.

- Positive JAWS resulted in improvement in CIR with well-managed expenses.

Declared a quarterly dividend of 30 cents/share.

DBS Group Holdings Ltd– ACCUMULATE (Maintained) TP: $27.3 (Prev TP: $27.6)

Investment Actions

Maintain ACCUMULATE at a lower target price of S$27.30 (previous TP: S$27.60).

Dividend yield support. We forecast FY20 DPS of $1.20, giving a 4.5% dividend yield support.

FY19e and FY20e guidances

1. NIM

- In view of three rate cuts, DBS expects a softer 4Q NIM with full-year NIM be below guidance and may come in at 1.88% instead of previously expected 1.90%.
- DBS guided NIM to decline by around 7bps in FY20 from FY19 average NIM.
- We maintain our FY19e NIM at 1.89% and lower our FY20e NIM forecast by 7bps to 1.82%.

2. CIR%

- DBS expects CIR to be weaker in FY20 and a negative JAWS to be likely next year due to low-single-digit income growth expectations while the Group continues to invest in technology and manpower.

3. Loans

- DBS guided FY20e loans growth to have a similar pace as FY19e's 4% YoY.

EC World REIT

Against FX headwinds

Natalie Ong

Research Analyst

Phillip Securities Research Pte Ltd

18th November 2019

EC World REIT
BUY (Maintained), TP S$0.84 (prev. S$0.87), Last S$0.74)

Results at a glance

(SGD mn)	3Q19	3Q18	YoY	Comments
Gross revenue	**25.7**	**23.9**	**7.5%**	**Higher due to contributions from Fuzhou E-commerce (acquired on 8 Aug 2019), partially offset by depreciation of RMB against SGD**
Net property income	22.9	22.2	3.2%	
Gross revenue (RMB mn)	131.0	115.4	13.5%	In RMB terms, revenue was higher due to built-in rental escalations and contributions from Fuzhou E-Commerce
Net property Income (RMB mn)	119.1	106.9	11.4%	
Distributable income	11.9	12.5	-5.2%	Lower due to higher finance expense attributed to timing lag in acquisition of Fuzhou E-commerce and drawdown of loan
DPU (cents)	**1.489**	**1.570**	**-5.2%**	**Lower DPU was c.65% due to FX movement and c.35% due to timing lag**

Source: Company , PSR

+ Positives

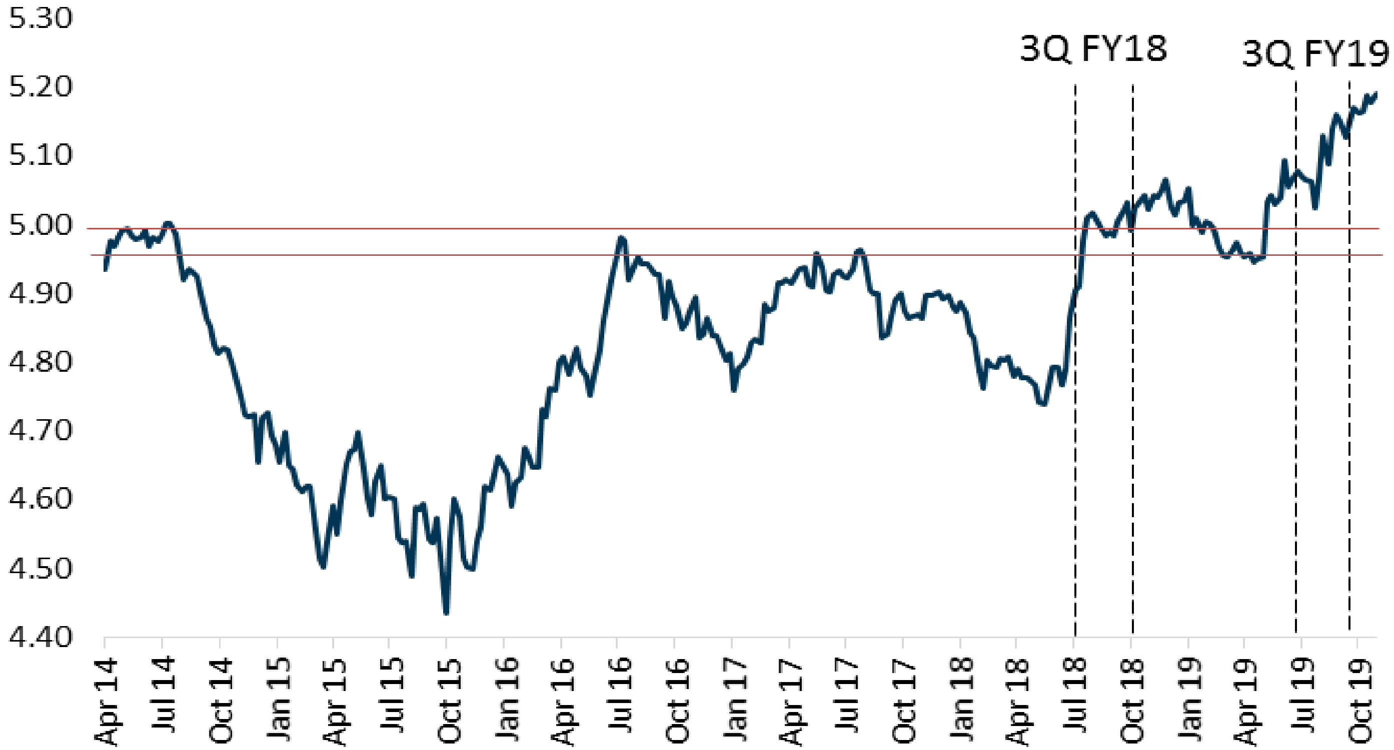
- High income visibility due to portfolio occupancy of 99.2% and WALE of 4.6 years

- Negatives

- DPU down 5.2% YoY. The lower DPU was 60-70% due to the unfavourable FX movement and 30-40% due to the timing lag on the acquisition.
- Occupancy at Wuhan Meiluote slipped 0.7ppts QoQ. This comes after a -13.8pps fall in occupancy in 2Q19 due to non-renewals. (Contributes c.S$0.7mn (1.7%) towards NPI)

EC World REIT
BUY (Maintained), TP S$0.84 (prev. S$0.87), Last S$0.74

Figure 1: SGDRMB currency pair – RMB has depreciated 2.0% YoY against SGD



Source: Bloomberg, PSR

Outlook

- Two leases with below-market rents will be up in 2020 and 2021 – one lease at the Hengde facility and the second lease to one of the anchor tenants at Wuhan Meiluote which is c.25% below market rent.
- We lowered our revenue forecasts to reflect the weaker RMB which has fallen 2% against SGD YoY.
- FY19e/FY20e DPU has been lowered from 6.38/6.83 cents to 5.98/6.76 cents. This translates to a FY19e/FY20e DPU yield of 8.1%/9.0% (prev. 8.7%/9.3%).

PropNex Ltd
3Q19 Results

Bottomed out

Paul Chew (+65 6212 1851)

Head Of Research

paulchewkl@phillip.com.sg

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PropNex Ltd (BUY (Maintained), TP: S$0.59, Last: S$0.515)

Results at a glance

(SGD mn)/Dec Yr End	3Q19	3Q18	YoY	Comments
Revenue	122.5	124.2	-1%	Improvement over the 30% collapse in 2Q19
- Agency services	*75.3*	*83.1*	*-9%*	
a) Private resale	*24.3*	*33.5*	*-27%*	*Worst hit segment.*
b) HDB resale	*20.5*	*20.8*	*-1%*	*Stable and recurrent business*
c) Rental	*24.4*	*21.2*	*15%*	*Rental market improving due to a lack of supply.*
- Project Marketing service	*45.3*	*39.1*	*16%*	
Staff costs	*(3.5)*	*(2.7)*	*31%*	Affected by change in accruing bonus
Gross profit	13.2	13.7	-3%	Weaker a higher commission paid to agents.
Operating profit	8.1	10.4	-22%	Partly affected by higher staff cost
PATMI	6.1	7.2	-15%	

Source: Company, PSR

Positives

- Revenue in recovery after the 30% YoY drop in revenue in the prior quarter.
- Building a foundation in Malaysia. At inception in March last year, the number of agents in Malaysia was 60. Today, the agency force has grown to 500

Negatives

- Private resale revenue was the weak link. PropNex still managed to increase their market share in private resale transaction to 40.7% from 34.2% as at end 2018.
- Staff cost jumped 31% due to a change in accounting policy. Bonus for this year is accrued every quarter

Outlook: Revenue from the higher number of transactions in 3Q19 will largely be recognized in 1H20e. In 2020, there will be 44 new launches (or 13.8k units). The resale market will remain subdued until sentiment improves. No urgency by buyers or sellers to transact.

Maintain BUY: We favour PropNex for their impressive market share (46% in new launches), attractive valuation, high unleveraged ROE (20%), healthy balance sheet and recovering transaction volumes in the Singapore residential market. We expect PropNex to pay attractive dividends (yield of ~7%).

APAC Realty Ltd
3Q19 Results

Will be better in 2020

Paul Chew (+65 6212 1851)
Head Of Research
paulchewkl@phillip.com.sg

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APAC Realty Ltd
(ACCUMULATE (Downgraded, TP: S$0.55, Last: S$0.50)

Results at a glance

(SGD 000)/Dec Yr End	3Q19	3Q18	YoY (%)	Comments
Revenue	98,617	114,839	-14%	
- resale and rental	*67,300*	*76,500*	-12%	
a) resale	*46,600*	*57,700*	-19%	
b) rental	*20,700*	*18,800*	10%	*The bright spot in the results.*
- new home sales	*28,600*	*36,000*	-21%	*Likely lost some market share.*
Gross profit	11,222	14,761	-24%	
Operating expenses	7,151	6,663	7%	*Marketing and promotionrose 3-fold*
Operating Profit	4,071	8,098	-50%	
PATMI	3,452	6,543	-47%	

Source: Company, PSR

Positives

- Revenue from rental transactions has been resilient.
- Agency force still expanding steadily to 7034, an 8% rise for this year and almost 20% improvement from January 2018. Smaller agencies do not get access
- to new project launches.

Negatives

- Operating expenses hurt by two major items; annual agency renewal fee (S$250 per agent) to be borne by the company and losses from the newly acquired ERA APAC Centre property. Both items cost the company almost S$2mn
- New homes sales weaker than expected. Revenue from new home sales has been weaker than some peers.

Outlook: Transaction volumes are recovering post cooling measures and there is a large pipeline of new projects. In 1H20, there will be at least 15 new project or 5,181 units to be marketed.

Downgrade to ACCUMULATE: 3Q19 net profit was below our estimates. We cut our FY19e and FY20e net profit forecast by 15% and 13% respectively.

Singtel Limited

Operationally sound

Alvin Chia

Research Analyst

Phillip Securities Research Pte Ltd

18 November 2019

Singtel Limited, ACCUMULATE (Maintained), TP S$3.31 (prev. S$3.45), Last S$3.18)

Results at a glance

SGD 'mn	2Q20	2Q19	YoY	2Q20*	YoY	Comments
Revenue	4,152	4,270	-3%	4,152	-3%	Lower due to weaker consumer, enterprise and digital life revenues
EBITDA	1,162	1,129	3%	1,162	3%	Lifted by NBN migration revenue & better cost management
Share of results of assoc & JV	-950	377	N.M.	445	18%	Exceptional losses of S$1,395mn from Airtel, due to provision on regulatory demands for license fees & spectrum usage
Regional Associates PBT	443	331	34%	443	34%	Stronger peformance from Telkomsel (+ 3% QoQ), Globe (+18% YoY), AIS (+30% YoY). Airtel narrowed losses to -S$112mn from -S$162mn QoQ
Net Profit	-668	661	N.M.	563	-15%	Excluding Airtel, net profit up 4%
DPS (cents)	6.8	6.8				Interim dividend maintained

* Adjusted (Excluding exceptional item from Airtel)

Source: Company, PSR

+ Positives

- Regional associates returning to growth.
  - Globe & AIS Driven by robust data growth
  - Telkomsel QOQ growth
  - Airtel narrowed losses

- Negatives

- Up-front pain from Airtel's provision.
- Enterprise suffering multiple headwinds.
- Digital business hurt by cautious advertisement spends.

Outlook

- Guided both revenue/EBITDA lower to stable from MSD/HSD growth.
- Expect continued weakness in group enterprise revenues. Stabilise in 2H21e.
- More MVNO entrance + TPG to launch next year
- Singtel doing 5G trials in PSA
- Mid-teen CAPEX/revenue level when transitioning to 5G

Week 47 - Phillip Singapore Weekly

Paul Chew

Head Of Research

Phillip Securities Research Pte Ltd

18 November 2019

Week 47 – Short-term Views

Macro Last Week

- **Singapore:** better domestic data – retail (-0.3% YoY Sep19) + property transactions (+82% YoY) + building materials (+7% YoY)
- **US macro:** retail sales excluding auto rose 2.8% YoY (3.7%)
- **China**: Oct19 data not great but stable – industrial production +4.7% YoY (+5.8%), fixed asset investment +5.2% YTD (+4.7%), loan growth +12.5% (12.7%) retail +7.2% YoY (7.8%) and record low growth rate

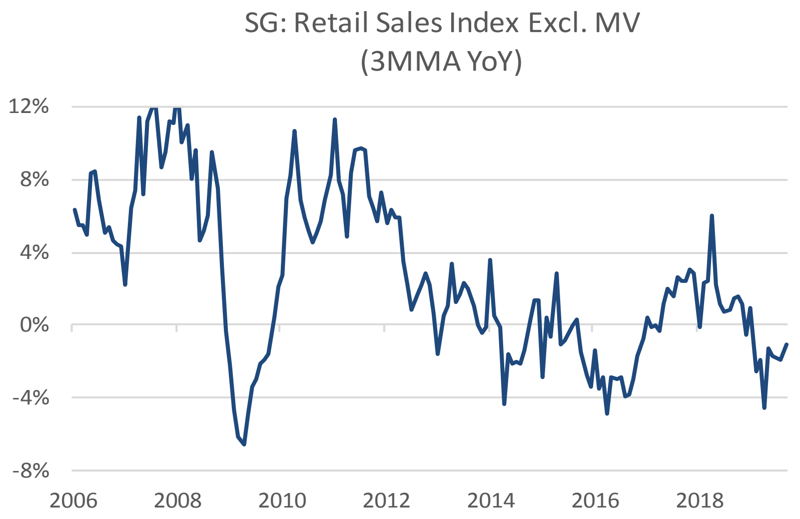
Tactical

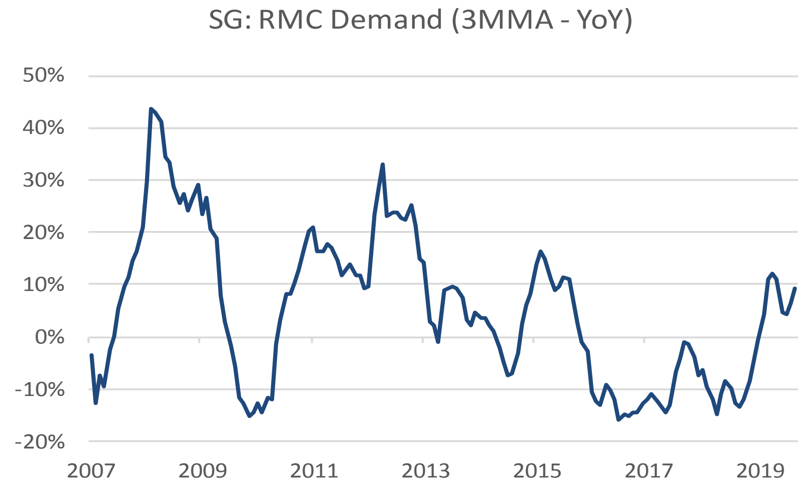
- **Momentum in REITs stalling:** record capital raised and lowered expectations of rate cut (2 more till year) hurt REIT momentum
- **Reflation trade underway:** risk of recession diminishing as yield curve no longer invert and PMIs firmer but not robust

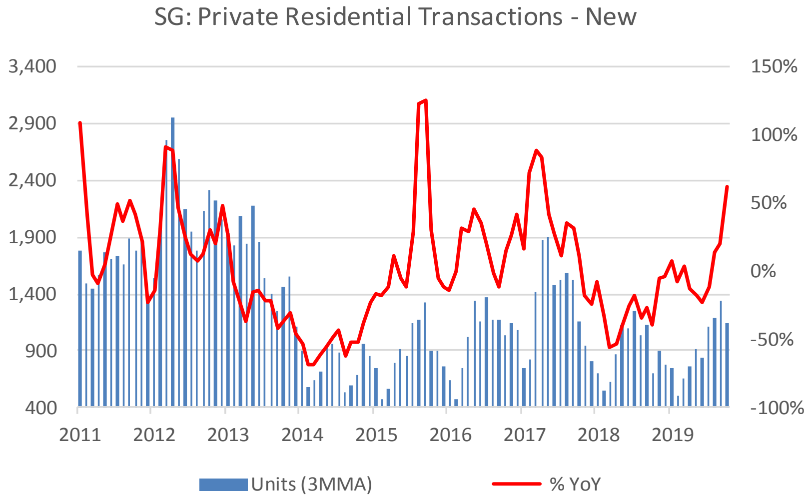
Week(s) Ahead

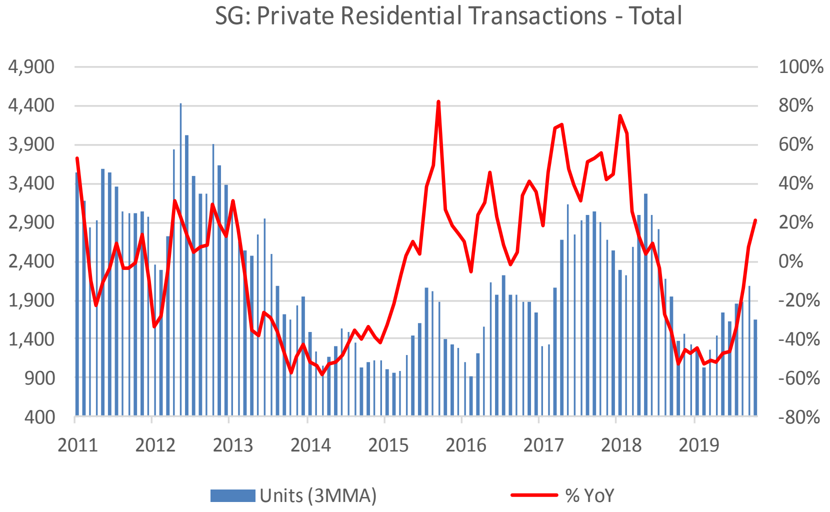
- **15Dec**: 15% tariffs on \$160bn China imports (or 2nd list of \$300bn); China 25% import tariffs on US auto and auto parts + 10% tariffs on \$75bn additional goods; **No date**: new site to sign Phase 1 US-CH trade deal

Week 47 – Better data from Singapore









Week 47 – China economy is stable