

# Phillip Securities Research Morning Call

16<sup>th</sup> March 2020

## Stock Counter Updates

- City Developments Limited
- CapitaLand Limited
- EC world REIT
- Dasin Retail Trust

## Macro/Sector Outlook

- Singapore REITs Monthly
- Singapore Banking Monthly
- Singapore Weekly
- Technical Analysis- STI, DJIA

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# City Development Limited

## *Shoring up recurring income*

*Natalie Ong*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# City Development Limited

BUY (Maintained), TP: \$11.89, Last: \$8.28

## Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross revenue	946.9	788.3	20.1%	3,428.7	4,222.6	-18.8%	Higher contributions across all segments in 4Q. FY19 revenue lower due to lumpy recognition of revenue upon handover in FY18
- Property Devt	310.5	196.9	57.7%	1,136.7	2,045.3	-44.4%	Higher number of units sold in SG (4Q19/18: 1,554/1,113)
- Hotel Ops	473.8	452.9	4.6%	1,705.0	1,679.4	1.5%	Mainly due to contribution of W Singapore, acquired from PPS1 April 2019
- Rental Ppty	119.5	102.8	16.2%	438.1	358.2	22.3%	Full quarter and year contributions from Aldgate House, 125 Old Broad Street and Central Mall Office Tower
- Others	43.1	35.7	20.8%	148.8	139.6	6.6%	Higher project management fees earned
Gross profit	425.7	436.6	-2.5%	1,638.5	1,914.1	-14.4%	Lower due to lower profit margins for the development projects that contributed to 4Q19/FY19 results versus 4Q18/FY18
Operating profit	102.5	90.4	13.4%	653.9	904.6	-27.7%	
PATMI	87.7	77.9	12.5%	564.6	557.3	1.3%	

Source: Company, PSR

## Outlook

- Fund Management AUM target of S\$5bn by 2023 will help to grow recurring – new UK-focused REIT
- Assessing the feasibility of redeveloping Fuji Xerox Towers, which could unlock up to 25% uplift in GFA
- **Maintain BUY with an unchanged TP of S\$11.89**

## + The Positives

- Group & JV Associates sold 40% more units in FY 19, representing a 49% increase in sales value
- Recurring revenue grew by 22.3% and revenue was more diversified geographically

## - The Negatives

- Hotel segment in the red largely due to S\$58.2mn in impairment losses (FY18: S\$94m) and S\$26mn privatisation cost

# CapitaLand Limited

## *Hyperdrive – the new normal*

*Natalie Ong*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# CapitaLand Limited

BUY (Maintained), TP: \$4.20, Last: \$3.15

## Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross Revenue	2,376	1,624	46.3%	6,235	5,602	11.3%	Mainly due to consolidation of ABS and RCCQ
EBIT	2,376	1,625	46.3%	6,235	5,602	11.3%	
Finance costs	(233)	(168)	38.6%	839	637	31.8%	Higher mainly due to increase in the Group's borrowings, resulting from the consolidation of ASB
<b>Total PATMI, Comprising:</b>	927	476	94.8%	2,137	1,763	21.2%	Excluding ASB contribution, PATMI would have increased 18%
Operating PATMI	418	214	95.7%	1,057	872	21.2%	Excluding ASB's S\$133mn contribution in 4Q19, operating PATMI would have increased 33%
Portfolio gains	249	60	314.0%	436	349	24.9%	Due to S\$5.9bn of gross divestments (+48% higher than in FY18)
Revaluation gains and impairments	260	202	28.6%	643	542	18.8%	Higher revaluation mainly from revaluations of properties in Singapore, China, Vietnam and India, largely driven by higher NPI

Source: Company, PSR

## Outlook

- Stronger balance sheet and weaker economic environment, we think CAPL will use the opportunity to pick up assets at better valuations
- Sustainable growth - 160K keys under management target, S\$100bn AUM ambitions for the fund management platform, redevelopment opportunities in SG and plans to deepen its presence in India and Vietnam

**Maintain BUY with an unchanged TP of S\$4.20**

## + The Positives

- ROE of 10% after 10 years, due to higher PATMI across all segments
- Surpassed gearing target of 0.64x ahead end-2020 timeline, S\$13bn headroom from cash and undrawn debt facilities
- Number of units sold in China increased by 6.7%, representing a 5.6% increase in sales value

## - The Negatives

- Vietnam residential inventory running low, hampered by longer approvals process

# EC World REIT

## *Protected by master leases*

*Natalie Ong*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# EC World REIT

BUY (Maintained), TP: \$0.83, Last: \$0.60

## Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross revenue	25.9	23.5	10.2%	99.1	96.2	3.0%	Higher due to Fuzhou E-commerce (acquired 8 Aug 2019) which contributed S\$4.3 and S\$6.6mn in 4Q19 and FY19, excluding which revenue would have fallen 8.1% and 3.8%, due to depreciation of RMB
Net property income	24.5	20.8	17.4%	89.7	87.3	2.7%	Fuzhou E-commerce contributed S\$3.9mn and S\$6mn in 4Q19 and FY19, excluding which NPI fell 11.1%
Distributable income	12.7	12.4	2.4%	48.9	49.0	-0.3%	
DPU (cents)	1.51	1.57	-3.8%	6.05	6.18	-2.1%	Lower payout ratio of 95% (prev. 100%) as DI was retained for working capital and unforeseen contingencies

Source: Company, PSR

## Outlook

- 15.7% of leases by GRI is up for renewal in FY20. Insensitive to negotiate for higher rentals given Covid-19 situation – flattish reversions expected
- Management received notification of non-renewal of 24,929sqm of space on a lease expiring in 2Q20 at Wuhan

**Maintain BUY with a lower TP of S\$0.83 (prev. S\$0.84)**

## + The Positives

- High income visibility due to portfolio occupancy of 99.9%, and WALE by GRI of 4.1 years
- 84.4% of FY20e revenue is secured through 4 master leases, 8% NPI from SOE

## - The Negatives

- Accretion from the acquisition of Fuzhou E-commerce wiped out. DPU -3.8%/-2.1% in 4Q19/FY19 due to FX and higher finance expense and 5% retention of distributable income (DI) in 4Q19



# **Dasin Retail Trust**

## ***AEIs and acquisitions to spearhead growth***

*Natalie Ong*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# Dasin Retail Trust

ACCUMULATE (Maintained), TP: \$0.88, Last: \$0.81

SGD mn	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross revenue	22.1	16.2	36.7%	76.0	71.3	6.6%	Higher due to acquisition of Doumen Metro Mall (acquired 12 Sep 2019), partially offset by the depreciation of the RMB. In RMB terms excluding the acquisition, 4Q19/FY19 revenue grew 6.5%/0.8% in RMB terms and 4.5%/-2.1% in SGD terms
Net Property Income	16.8	11.6	44.1%	60.0	57.3	4.6%	
Net Income	9.6	2.8	NM	23.2	22.9	1.2%	Mainly due to higher unrealised foreign exchange gain in 4Q19 of S\$6.0mn (4Q18: S\$0.6mn) due to strengthening of SGD against USD and HKD denominated loans.
Amount available for distribution	6.9	5.4	28.6%	23.3	21.2	9.7%	
DPU (Cents)*	1.72	1.83	-5.9%	6.82	7.22	-5.5%	Lower due to enlarged share base from preferential offering versus 18 days of contribution acquisition of Doumen

\* with distribution waiver

## Outlook

- AEI on 13% of space at Ocean Metro Malls clocking in 42.9%, tenants will begin operating in 1Q20
- ROFR pipeline of 18 properties spanning four cities – six of which are still under construction
- We expect Dasin to acquire 2 to 3 more assets to maintain a c.8%

**Maintain BUY with an unchanged TP of S\$0.88**

## + The Positives

- High occupancy of 98.8% and long WALE by GRI of 4.1 years.
- High proportions of leases have minimum income guaranteed – 13% of leases are fixed while 66% of leases are fixed with build-in escalation ranging 3% to 10% p.a.

## - The Negatives

- Weaker China retail outlook dampened tenant sales

# Singapore REITs Monthly

## *Not all REITs are built equal*

*Natalie Ong*

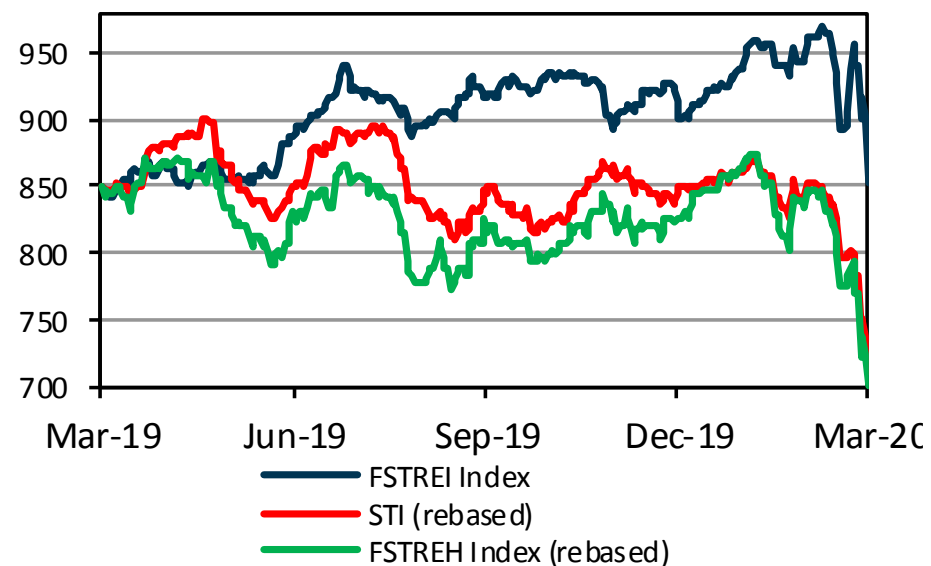
*Research Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# FTSE S-REIT total return down 0.8% YTD

## FSTREI VS. STI



## INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	(4.1)	(0.6)	(0.8)	13.1
FSTREH RETURN	(13.2)	(12.1)	(14.7)	(11.5)
STI RETURN	(12.3)	(11.9)	(13.5)	(9.1)

# S-REIT yield spread expanded 75bps MoM as at 12 March

## FTSE Straits Times REIT Index Yield Spread over 10YSGS



Source: Bloomberg, PSR

- **S-REIT dividend yield: 4.93%**
- **10YSGS yield: 1.22%**
- Current **yield spread** of 345bps is currently at the -0.03 s.d. level

## Fed Fund Rate vs SG Rates



Source: Bloomberg, PSR

- **3-month SOR: 0.58%**
- We are cautious that share prices may continue falling in the near-term – but this presents opportunities for lower entry.

# Commercial - Overweight

Figure 1: Retail index moderating but occupancy holding up

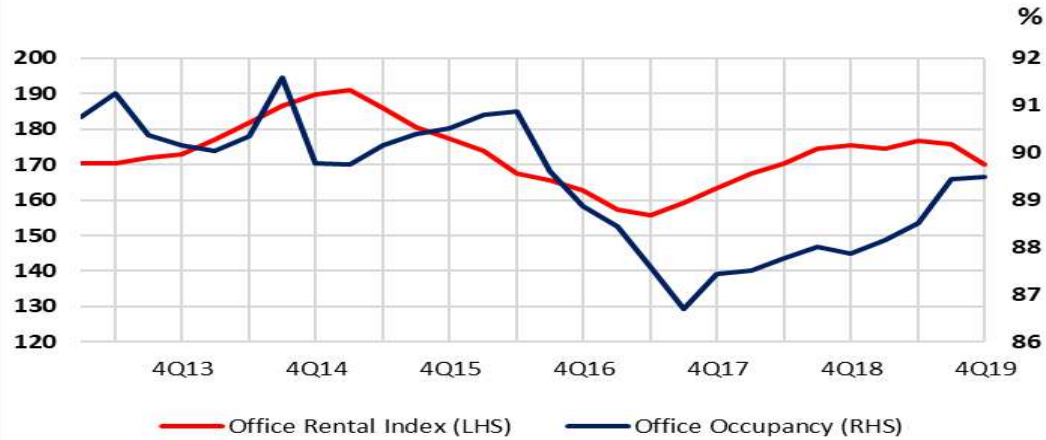
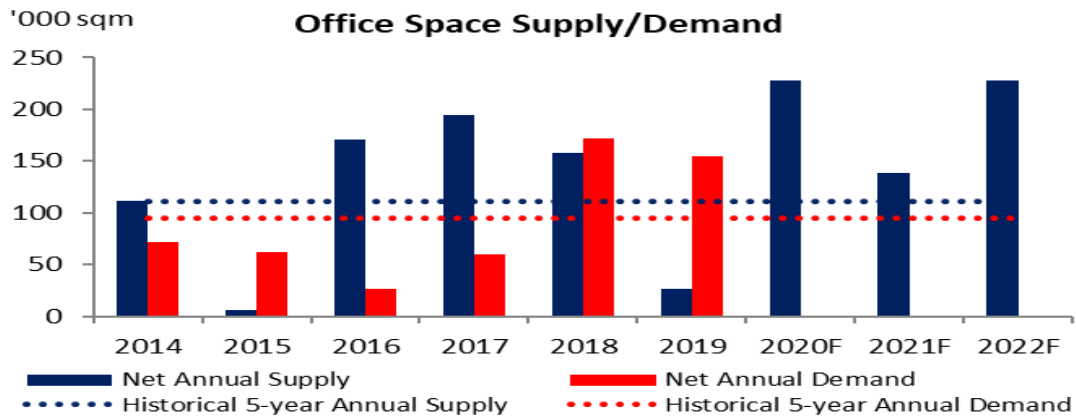


Figure 2: 3-yr cycle: positive rental reversions still expected

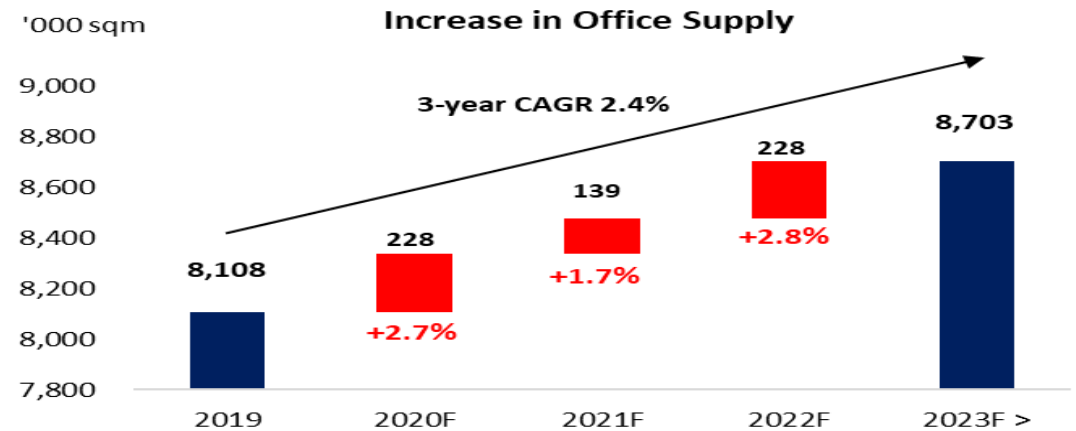


Figure 3: Office supply above 5-yr average



Source: CEIC, URA, PSR

Figure 4: Supply levels deemed moderate



Source: CEIC, URA, PSR

# Industrial - Overweight

Figure 5: Industrial rents bottoming out

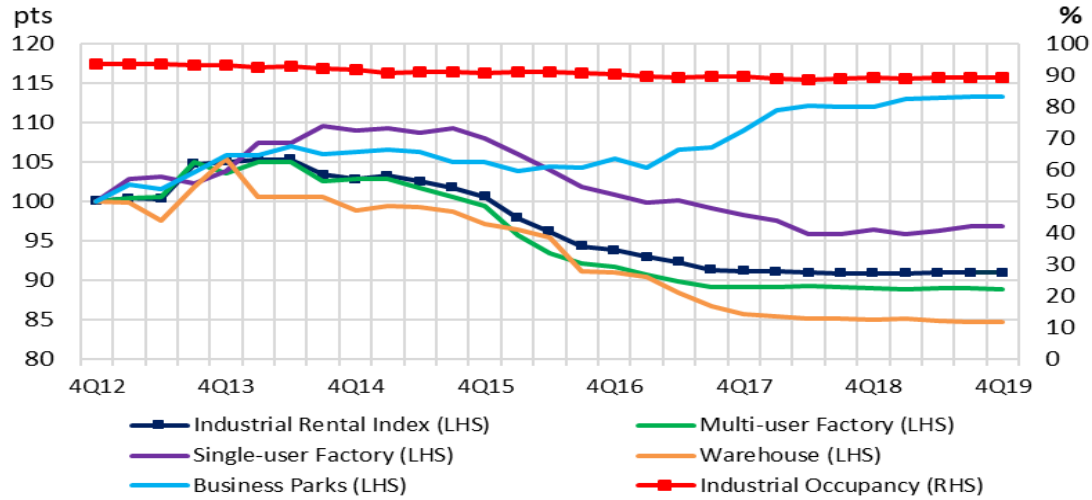


Figure 7: Competition most pronounced among light industrial

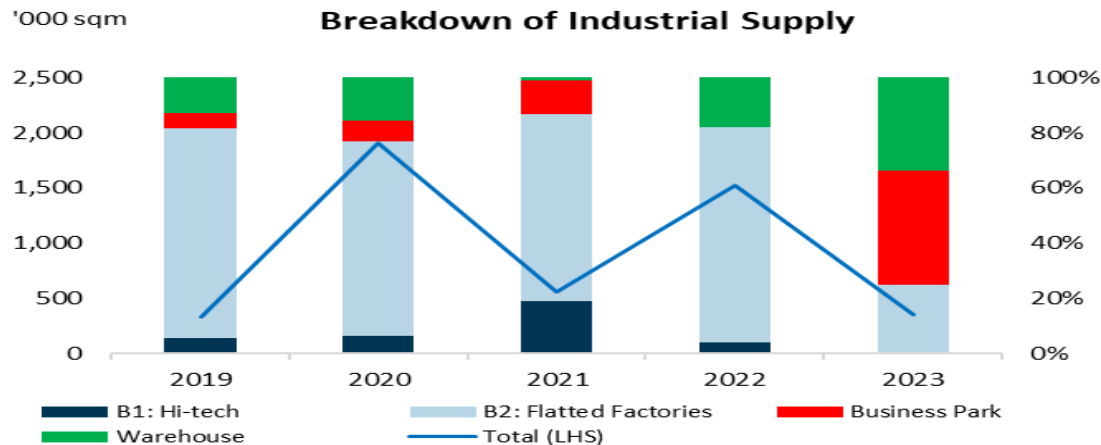


Figure 6: 3-yr industrial supply around 5-yr average

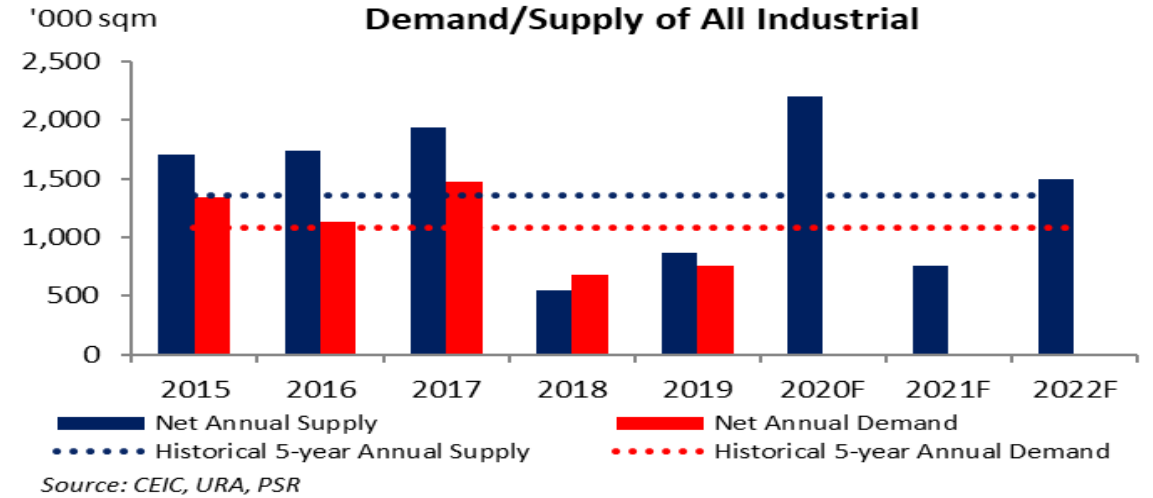
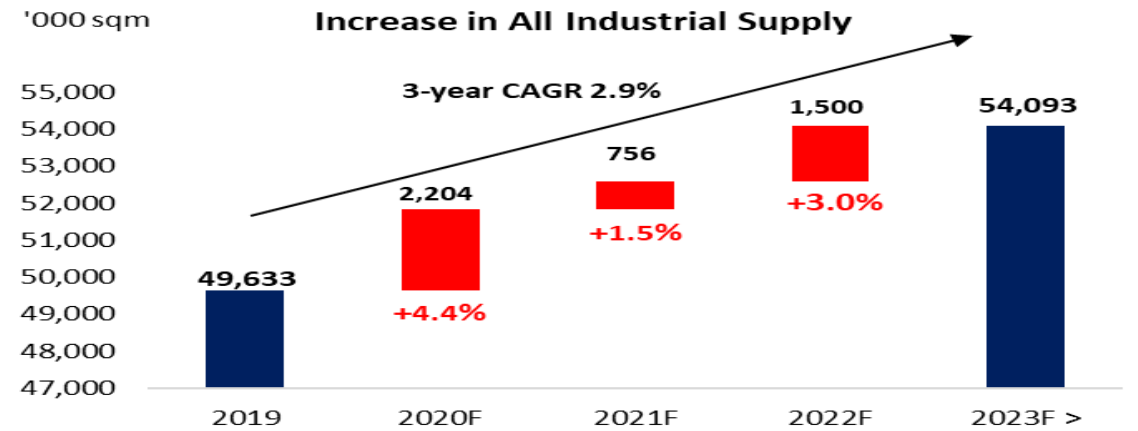


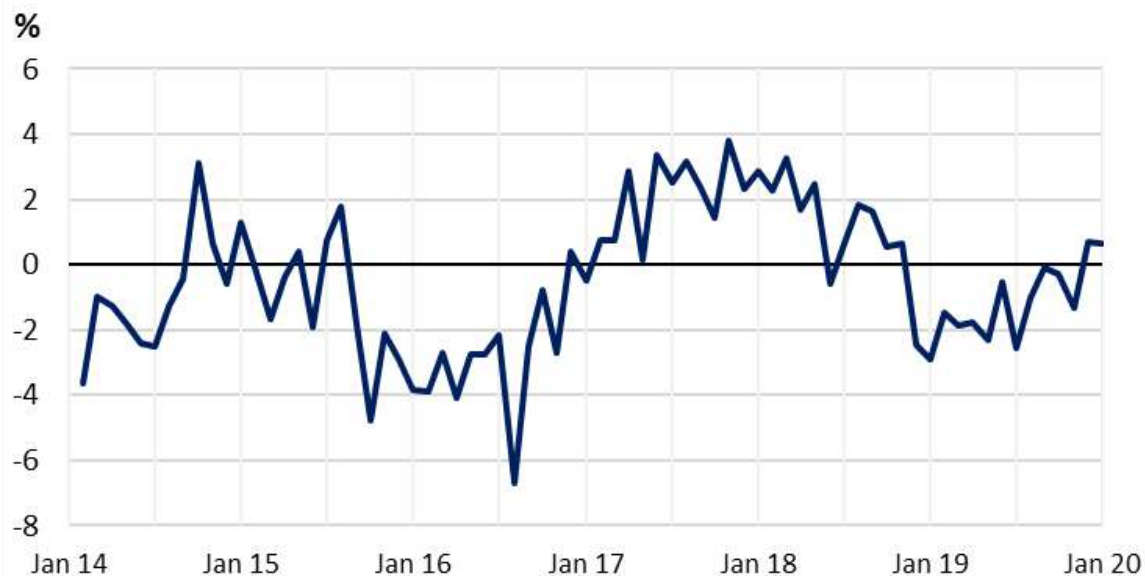
Figure 8: >50% of light industrial supply pre-committed



Source: CEIC, URA, PSR

## Retail - Neutral

Figure 9: Weak retail outlook: RSI in negative territory

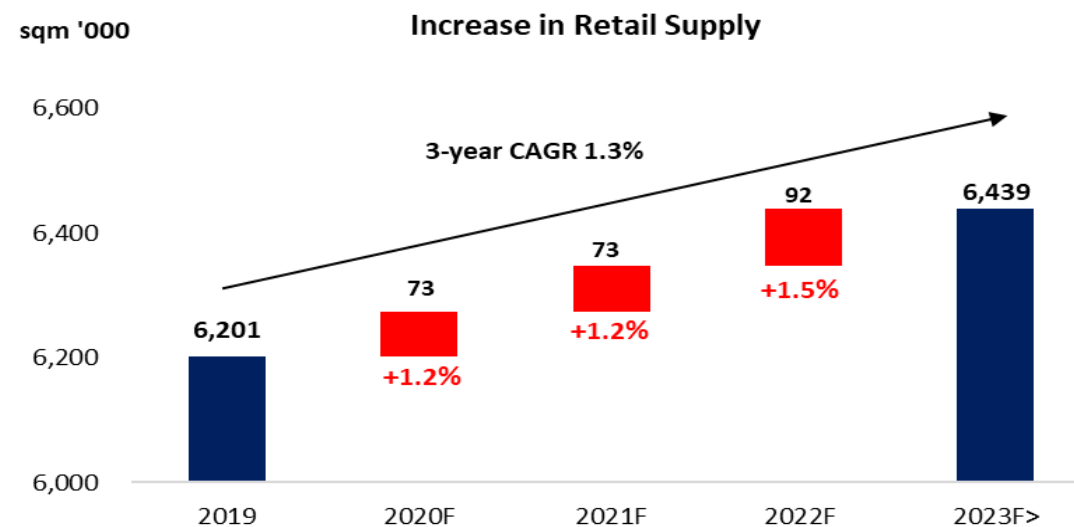


Source: CEIC, URA, PSR

	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Jan-20	0.6	-12.9	2.8	0.5	4.7
Jan-19	-2.9	-6.2	-3.5	-2.2	5.4

- In the first two weeks of February, footfall at central malls fell by 50%. Sub-urban malls were less impacted, with footfall falling by 10-20%
- Tenant sales at sub-urban malls to show less variance as compared to their central counterparts due to the necessity spending at sub-urban malls
- Turnover rent only accounts for 5% of revenues for CMT and FCT

Figure 10: Muted retail supply over next 3 years

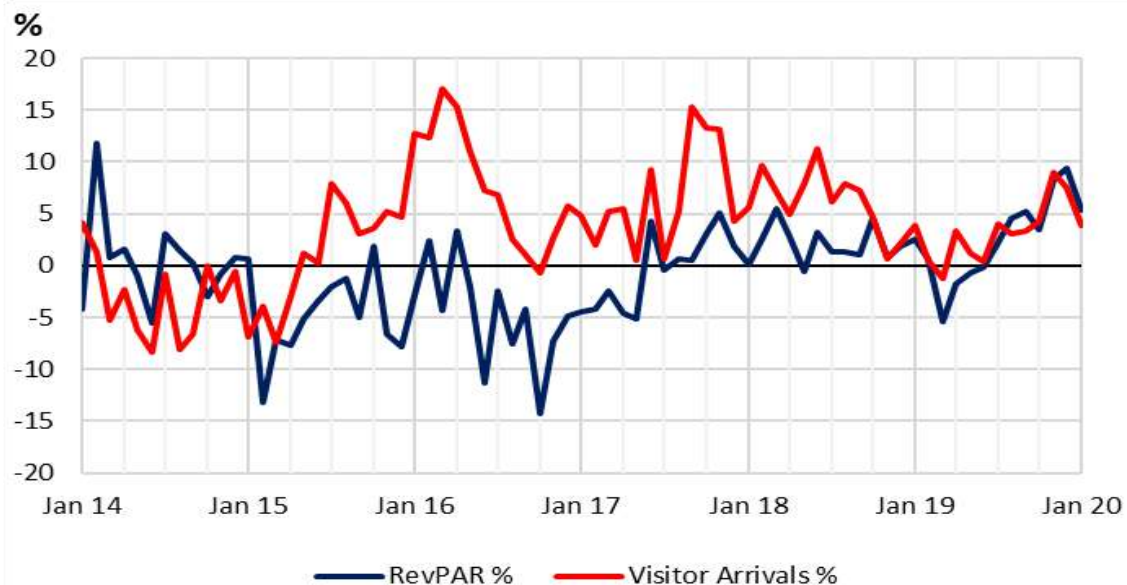


Source: CEIC, URA, PSR



# Hospitality - Neutral

Figure 11: Improved RevPAR due to tapering room supply

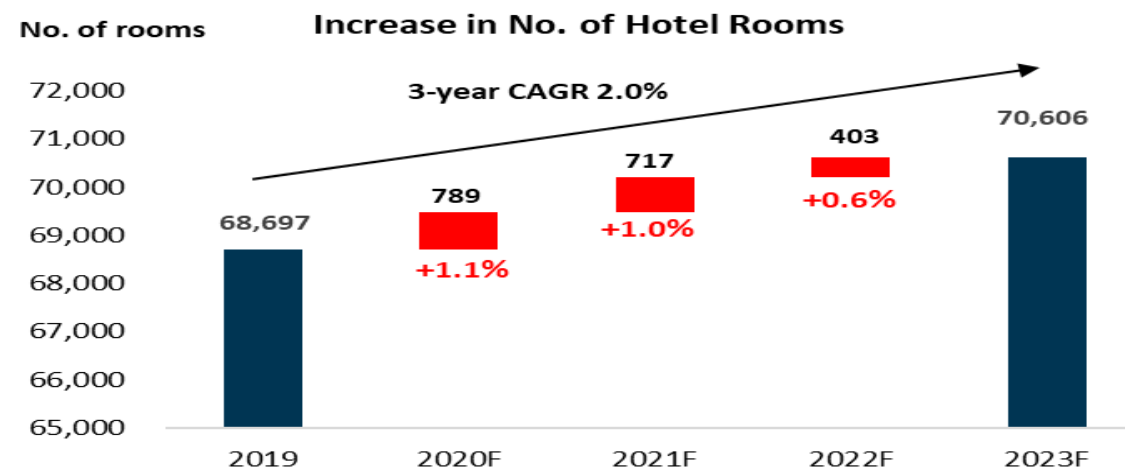


Source: CEIC, URA, PSR

	Visitor Arrivals	Hotel RevPAR (S\$)	Hotel Occupancy (%)	Hotel Average Room Rate (S\$)
Jan-20	1,687,344	193	83.1	232
Jan-19	1,624,533	183	84.7	216
YoY%	3.87%	5.40%		7.43%

- February occupancy estimated between 30% to 70%, averaging 50%.
- Serviced residences (SRs) with longer-staying corporate clientele experienced stable occupancy of c.70%
- accelerating their AEI and repair and maintenance timelines

Figure 12: Muted room supply marred by Novel Coronavirus epidemic



Source: CEIC, URA, PSR

# Remain NEUTRAL on S-REITs sector

## Top-down view

- We like the **Commercial** and **Industrial** sub-sectors due to tapering commercial supply after the surge in supply in the prior two to three year, and the AEI and redevelopment opportunities for the Industrial sector.
- We are cautious on the **Hospitality** and **Retail** sub-sector due to softer tourism sentiment and retail outlook, exacerbated by the fluid Covid-19 situation.

## Tactical bottom-up view

REITs with the following attributes can ride out this period of uncertainty better than others:

- 1) Higher percentage of guaranteed revenue through “fixed” or “stable\*” leases
- 2) Low gearing
- 3) High-interest coverage
- 4) Long weighted average debt to maturity and
- 5) A high proportion of debt on fixed interest rates.

## SREITs under our coverage

	PSR RATING	PSR TARGET PRICE (\$\$)
ASCOTT RESIDENCE TRUST	ACCUMULATE	1.53
CAPITALAND MALL TRUST	ACCUMULATE	2.70
FRASERS CENTREPOINT TRUST	ACCUMULATE	3.11
CAPITALAND RETAIL CHINA TRUST	ACCUMULATE	1.66
DASIN RETAIL TRUST <sup>1</sup>	ACCUMULATE	0.88
CAPITALAND COMMERCIAL TR	NEUTRAL	2.18
ASCENDAS REAL ESTATE INV TR	ACCUMULATE	3.31
MAPLETREE INDUSTRIAL TRUST	NEUTRAL	2.03
KEPPEL DC REIT	ACCUMULATE	2.06
IREIT GLOBAL	ACCUMULATE	0.89
EC WORLD REIT	BUY	0.83

<sup>1</sup>Covered by PSR on the SGX Stockfacts Scheme

Source: PSR

<sup>1</sup> Covered by PSR under the ‘SGX Stockfacts’ scheme

# Singapore Banking Monthly

*Steadfast amidst two-pronged threats*

*Tay Wee Kuang*

*Research Analyst*

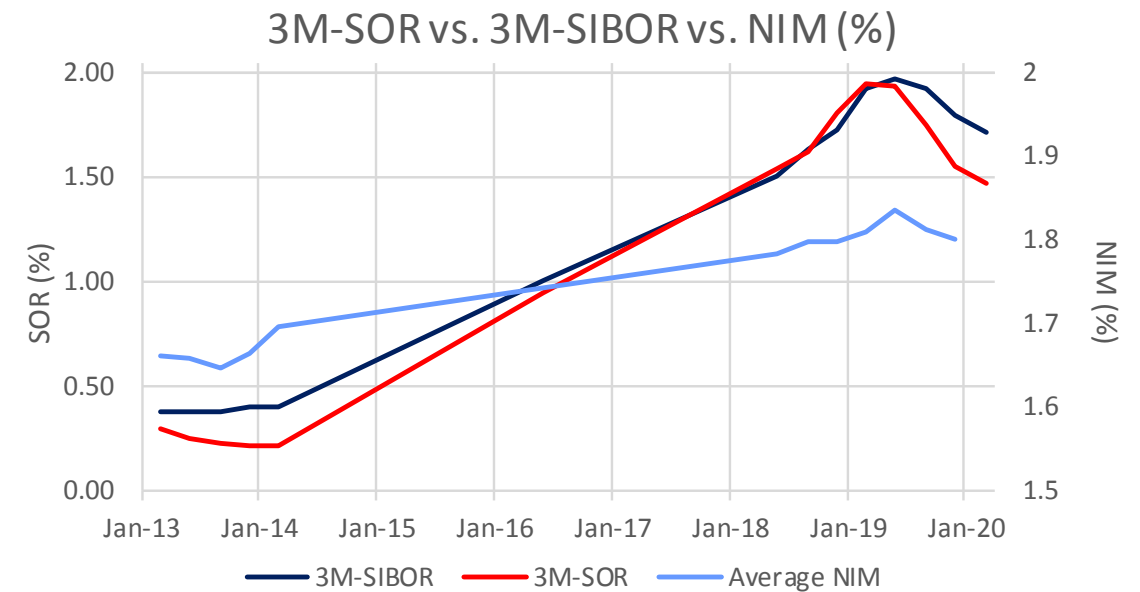
*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# Banking Industry – Maintain Overweight

## Impact of surprise rate cuts by Federal Reserve

- **Emergency rate cut of 50 bps on Tuesday, 3<sup>rd</sup> March**
- **3-month SIBOR and SOR fell in tandem**
- **NIM resilience to lending rate fluctuations**
  - Contingent on banks' ability to respond
  - Possibility of further rate cuts on next Fed Meeting (17 – 18<sup>th</sup>)



Source: Bloomberg, PSR

# Banking Industry – Maintain Overweight

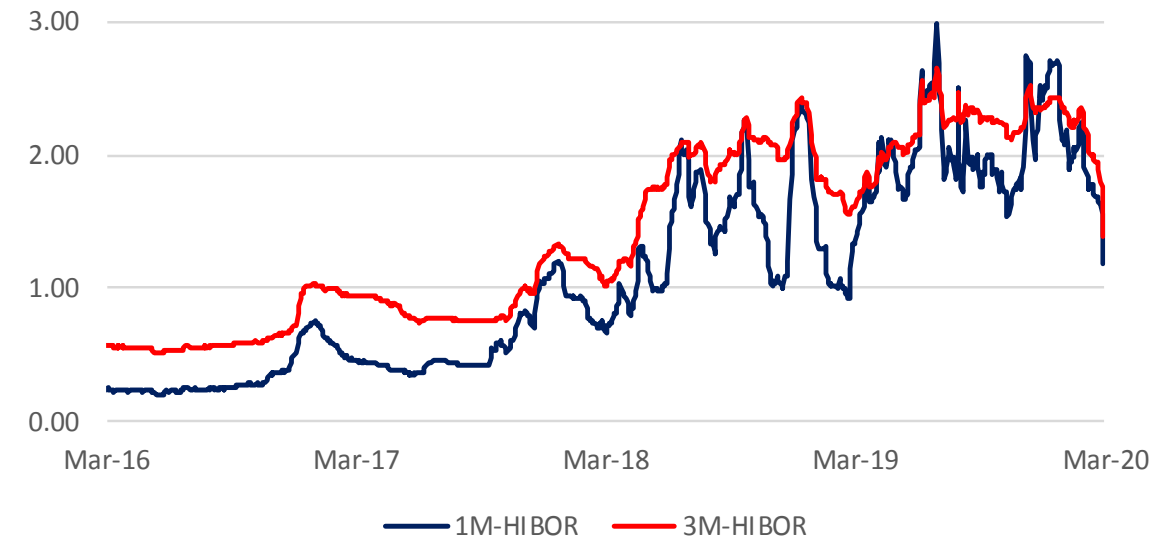
## Impact of surprise rate cuts by Federal Reserve

- **Emergency rate cut of 50 bps on Tuesday, 3<sup>rd</sup> March**
- **1-month and 3-month HIBOR experienced decline**
  - Almost 1 year lows
  - 1.19% and 1.39% respectively

	1M-HIBOR	3M-HIBOR
December Peak	2.71%	2.43%
Current	1.19%	1.39%

Source: CEIC, PSR

1M-HIBOR vs. 3M-HIBOR (%)



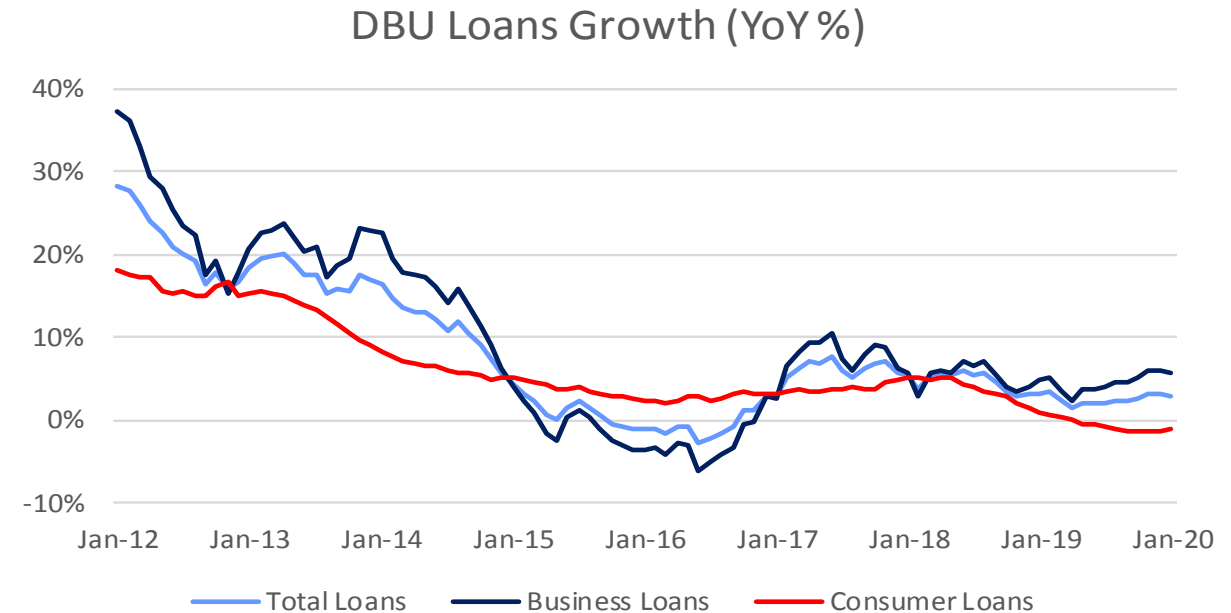
Source: CEIC, PSR

# Banking Industry – Maintain Overweight

## Loans growth sluggish

- Grew 2.97% YoY in January 2020
- Consumer loans (-1.3% YoY)
- 2020 loans growth dependent on business sentiments
- Pose greater significance on earnings for banks

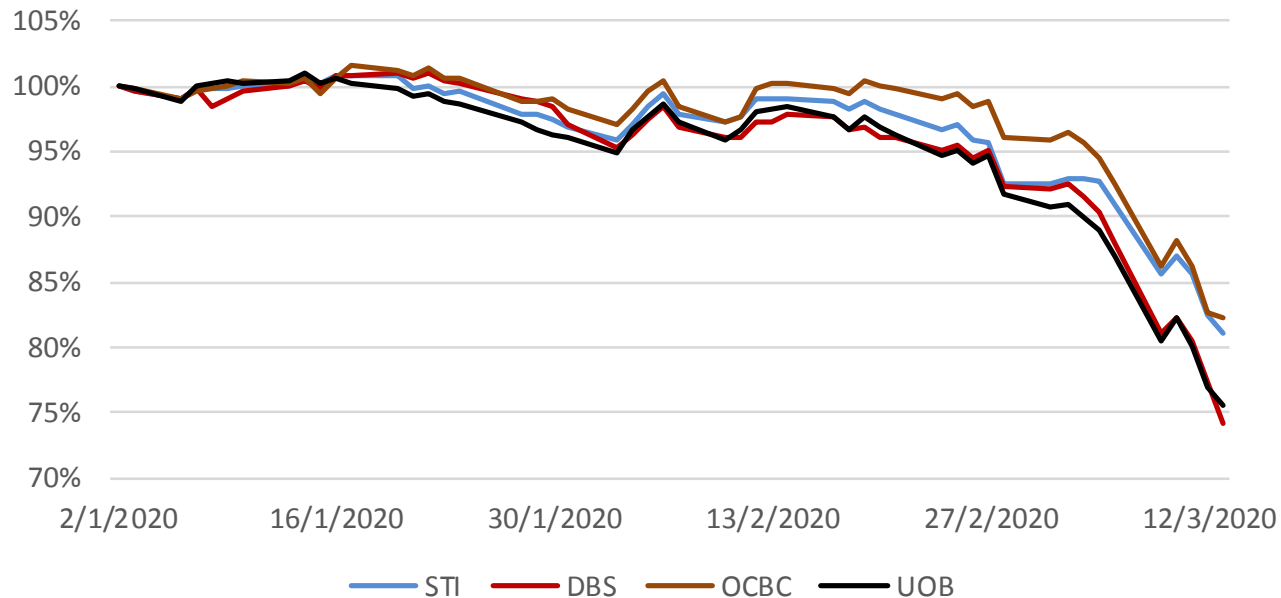
➤ **Will it shrink?**



Source: CEIC, PSR

# STI performance weighed down by banking stocks

STI vs. Banks YTD performance



	YTD performance
Straits Times Index	-19.0%
DBS	-25.89%
OCBC	-17.77%
UOB	-24.51%

\*As at 13 March

Source: Bloomberg, PSR

# Banking Industry – Maintain Overweight

Headwinds under current macroeconomic conditions

Strong set of 4Q19 and FY19 results

- Improved capital positions

Revision to dividend payout

- Increased payout from FY18 to FY19
- Provides good yield to current and new investors

CET 1	DBS	OCBC	UOB
2019	14.0%	14.9%	14.3%
2018	13.9%	14.0%	13.9%
2017	13.9%	13.9%	14.7%

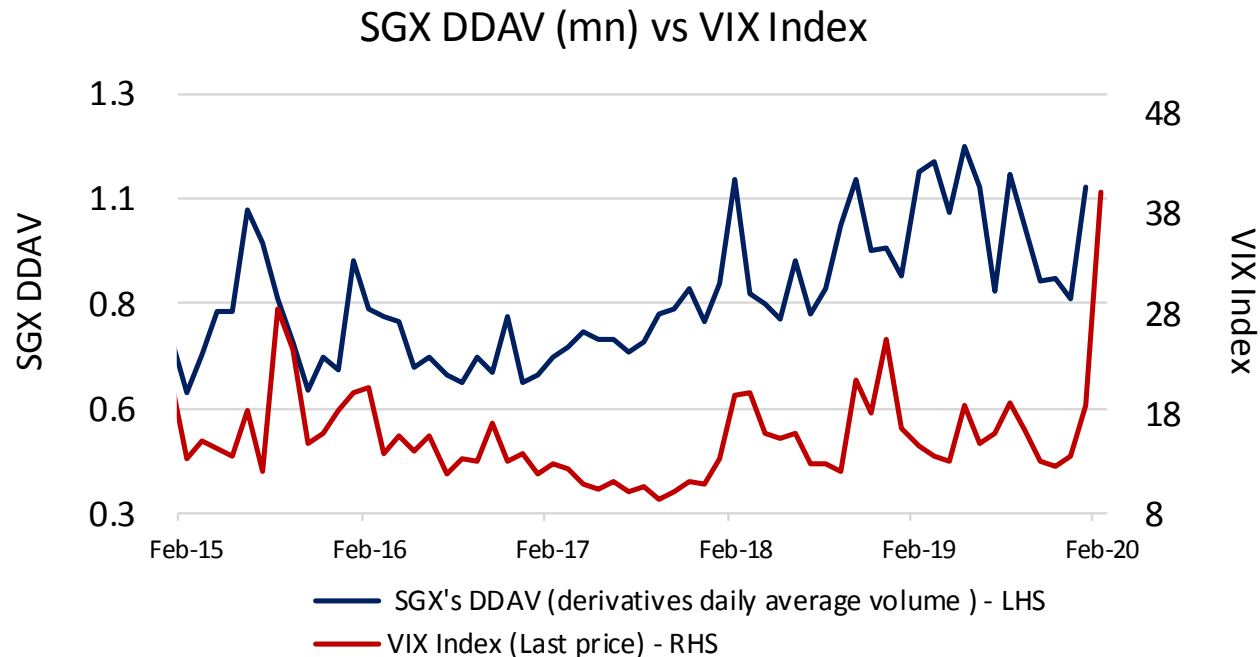
Source: Company, PSR

Dividend	Current Price	FY19	FY18	YoY	FY20e	Yield
DBS	19.35	1.23	1.2	+2.5%	1.32	6.8%
OCBC	9.07	0.53	0.43	+23.3%	0.56	6.2%
UOB	20.14	1.30	1.2	+8.33%	1.30	6.5%

Source: Company, PSR



# Volatility spikes look to boost derivative volumes



Source: SGX, Bloomberg, PSR

## DDAV trending with VIX

- Derivatives volume decreased by 13% YoY in 2Q20 with easing trade tensions
- Uptick in DDAV in January (+24% YoY) mimicked VIX's increase from 13.78 to 18.84
- VIX continued to spike past 40 towards end of February
- DDAV should hold constant in February and spike in March

# Straits Times Index

*Slow momentum has finally unravel itself in time of crisis.*

*Chua Wei Ren*

*Technical Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# Straits Times Index

Slow momentum for the past 5 years has reveal its weakness.

- The initial symmetrical triangle was invalidated when the supposed ((iii) of wave D bash through the lower bound of the symmetrical triangle.
- Subsequent fall breaks below the 3000 and 2900 crucial level.



# Straits Times Index

## Price had a surprise rally on Friday

- The index had a rebound at support zone 1, which confluence with the 200.0% extension level of wave ((i))-((ii)).
- Subsequent rebound indicate the start of wave 4 and not to be taken as a reversal of the bulls unless price revert back above 3000 level for 3 consecutive periods.



# Dow Jones Industrial Average

*Last Friday rally is just a Dead Cat Bounce*

*Chua Wei Ren*

*Technical Analyst*

*Phillip Securities Research Pte Ltd*

*16<sup>th</sup> March 2020*

# Dow Jones Industrial Average

## Dead Cat bounce? Yes it is.

- Based on our last sharing on 20th January 2020, we share that we may be closing in on 30,000 but it reversal at 29,560 region, more than our initial minimum target.
- Dow had a strong fall within 2 weeks, wiping out 20% of gains over the last 2 years.
- Dow has officially entered into a bear market, even though the rally last Friday recovered 50% of the weekly fall last week.



# Dow Jones Industrial Average

## Dead Cat bounce? Yes it is.

- The rebound happen at the support level one and many rejoice over this event.
- However, true recover will only happen should Dow rebound more than 70% of the weekly fall.



# Week 12 - Phillip Singapore Weekly

*Paul Chew*

*Head Of Research*

*Phillip Securities Research Pte Ltd*

*16 March 2020*



# Week 12 – Short-term Views

## Macro Last Week

### ➤ **SG macro was still healthy in Jan20:**

- Visitors arrivals Jan20 +3.9% YoY (Dec19:+7.5%); China arrivals +2.6% YoY (Dec19: +14.5%);
- Jan20 retail sales ex-MV +0.61% YoY (Dec19: +0.11%);
- Changi – freight Feb20 -1.6%YoY (Jan20: -6.1%); passenger -12.4% (Jan20: +2.2%)

### ➤ **Global:**

- Taiwan exports Feb20 +24.9% YoY (Jan20: -7.6%); Korea exports Feb20 +4.5% YoY (Jan20: -6.5%)

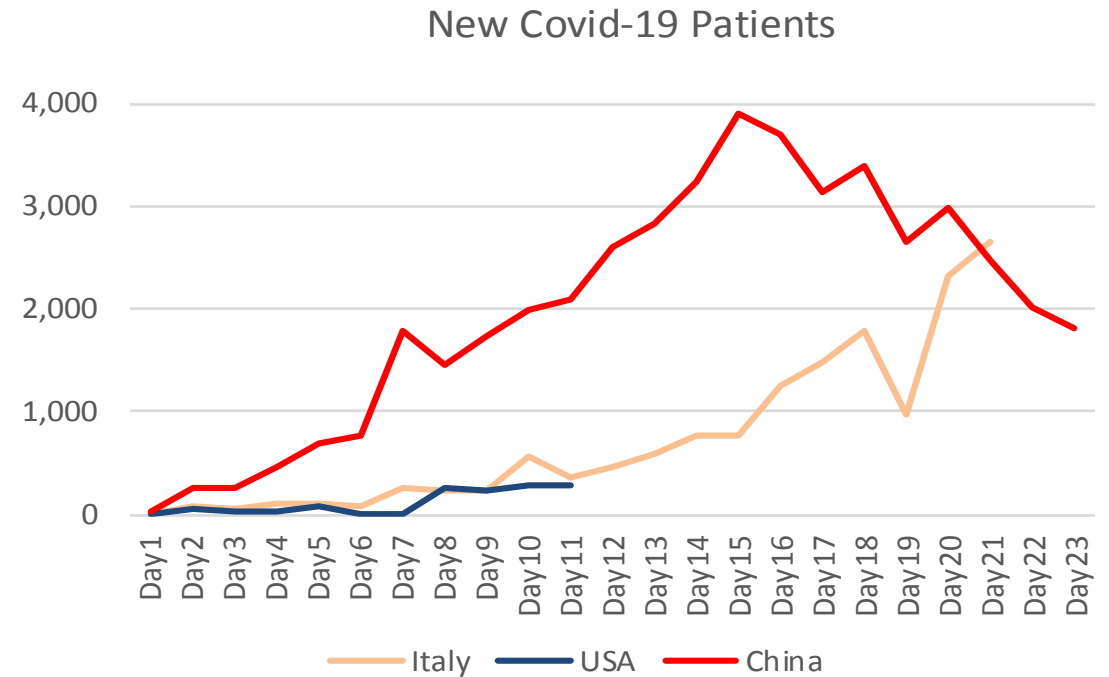
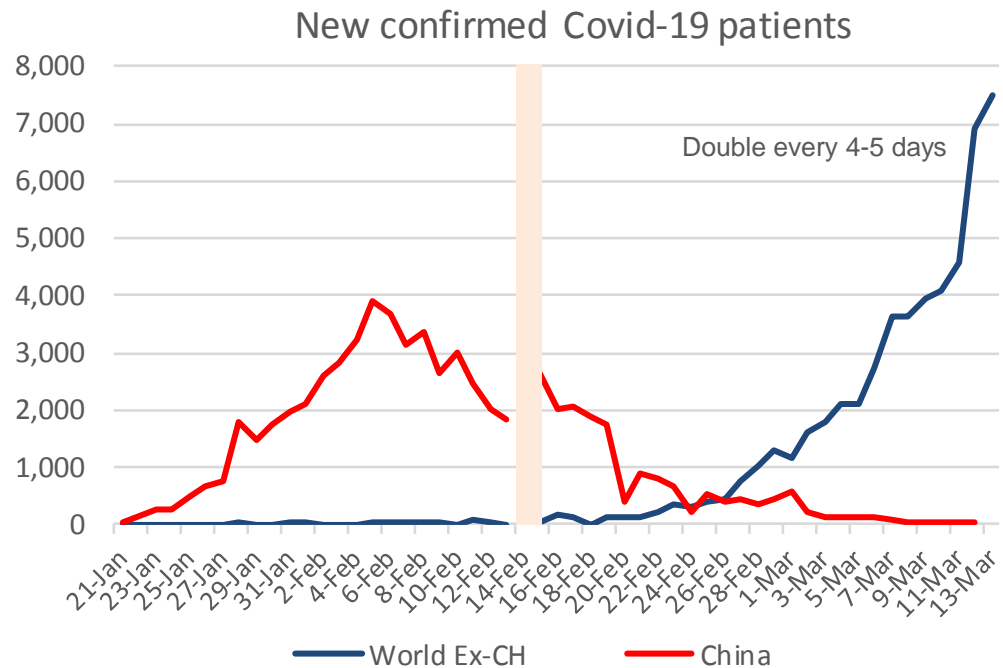
## Tactical

- Too early call a bottom - Peak in new infections or market immune to higher new case
- U.S. new patients is far from peaking; solution is collapse the economy
- The positives: record low interest rates + record low valuations + containment possible e.g. China + government stimulus
- As interest rates approach zero; dividend yield stocks – namely REITs

## Week(s) Ahead

- 18Mar: FOMC meeting (estimates are 100bps cut)

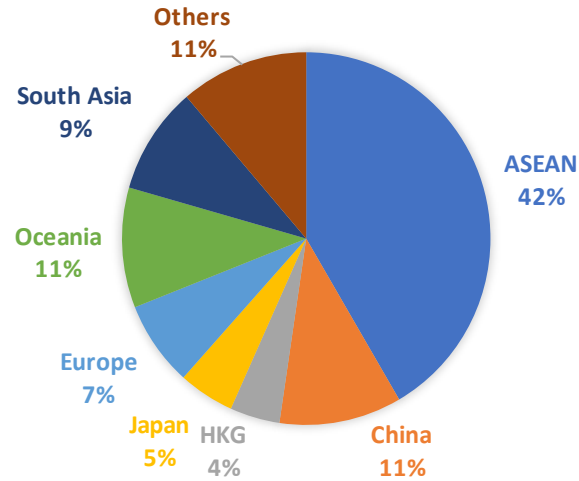
# The global spread getting worse



Source: CEIC, WHO, PSR

# Not all data was collapsing...but soon

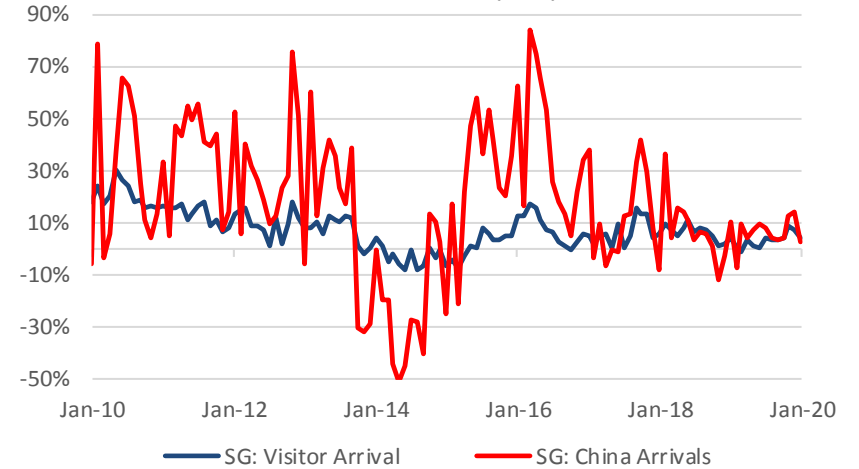
Changi Arrival (By nation - Jan20)



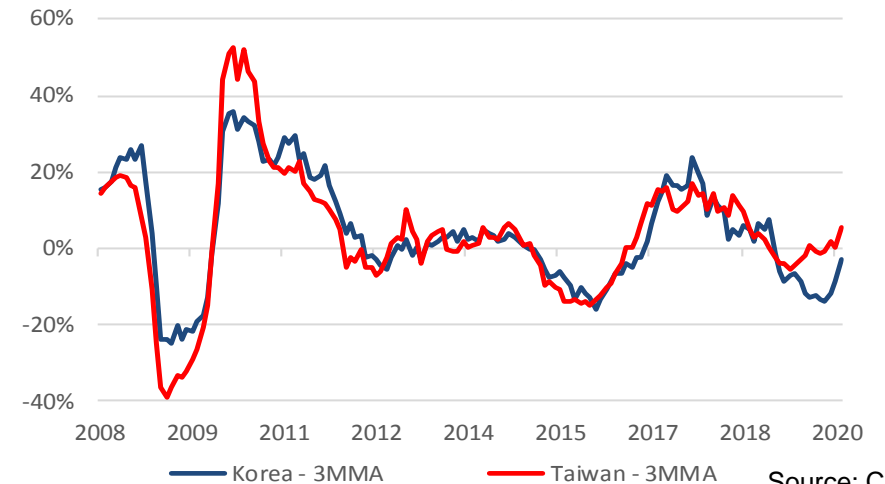
SG: Retail Sales Index Excl. MV (3MMA YoY)



SG: Visitor Arrivals (YoY)



Korea and Taiwan Exports (YoY)



Source: CEIC, PSR

# Ask questions!



## StocksBnB.com

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

### Analysts

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*Thank you*