

# Phillip Securities Research Morning Call

*23<sup>rd</sup> November 2020*

## Stock Counter Updates

- **SATS Ltd**
- **Starhub Ltd**
- **Civmec**
- **Centurion**
- **DBS Group Holdings**

## Macro/Sector Outlook

- **Singapore REITs Monthly**
- **SG Weekly**

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# Banking Update

## *Proposed merger of DBS and Lakshmi Vilas Bank (LVB)*

*Tay Wee Kuang*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*23<sup>rd</sup> November 2020*

# The proposed merger

## LVB placed under moratorium until 16 December 2020

- 25,000 rupees withdrawal limit depositors except in unforeseen expenses such as education and medical bills, even payment to other creditors are capped
- Capital adequacy ratio of -2.8%

## Draft scheme of amalgamation by Reserve Bank of India (RBI)

- Merge troubled Lakshmi Vilas Bank (“LVB”) with DBS Bank India Limited (“DBIL”)
- DBS will inject SGD 463 million into the merged entity (INR 2,500 crore) from existing resources
  - ☐ In addition, merged entity will have 12.5% in capital ratio and 9.6% in Tier-1 capital
- Suggestions and objections to the deal had to be submitted to RBI by 20 November
  - ☐ The deal is expected to be finalised by end of moratorium with more details included

# The proposed merger

## What does it mean for DBS?

- Short-term cost headwinds from injection of capital and ongoing operating losses from LVB
- Coming off higher allowances from COVID-19 with possible dividend impact
- Acquisition of a large retail banking franchise
  - ❑ 560 branches and 970 ATMs
- Complement strong presence in SME and Corporate banking

## Key areas of concern

- Timing of the deal
- Quality of customer base
  - ❑ Historically slower expansion of India business may show poorer retail banking environment

# Centurion Corporation Limited

*Phillip on the ground*

*Tan Jie Hui*

*Research Analyst*

*Phillip Securities Research Pte Ltd*

*23<sup>rd</sup> November 2020*

# Centurion Corporation Limited

Non-rated, Last: S\$0.32

## Key Highlights

- 3Q 2020 revenue dips 11% YoY, while 9M 2020 revenue is stable with 1% decline

	Group			Group		
	3Q 2020	3Q 2019	Change	9M 2020	9M 2019	Change
	\$'000	\$'000	%	\$'000	\$'000	%
<b>Revenue</b>	<b>29,428</b>	<b>33,142</b>	<b>(11)</b>	<b>96,018</b>	<b>97,334</b>	<b>(1)</b>
<u>Revenue by business segment</u>						
Workers Accommodation	22,815	22,622	1	67,987	63,101	8
Student Accommodation	6,161	10,168	(39)	27,229	33,160	(18)
Others	452	352	28	802	1,073	(25)
	29,428	33,142	(11)	96,018	97,334	(1)
<u>Revenue by geographical area</u>						
Singapore	21,177	21,152	-	62,705	59,067	6
Malaysia	2,673	2,643	1	8,105	7,472	8
Australia	1,746	3,856	(55)	6,851	9,160	(25)
United Kingdom	3,271	4,753	(31)	16,628	19,796	(16)
United States of America	348	367	(5)	1,141	1,091	5
Other countries	213	371	(43)	588	748	(21)
	29,428	33,142	(11)	96,018	97,334	(1)

- Worker accommodations to remain largely resilient
  - SG: Secured tender to manage 6.4k beds. Current demand (352k) and supply (359k) is balanced; Ongoing discussions on new specifications but expecting less cost required given that their apartments have built-in amenities; Increase in receivables from SMEs
  - MY: As of 1 Sept, workers are required to work in quality housing. In the process of certifying properties. Resumed development of 3.6k beds which paused amidst COVID-19, expected to complete in 1Q21. Optimistic about the growth in demand in MY.
- Near term headwinds expected from student accommodations in UK, AU and SK (25% of 9M20 rev)
  - UK (17%): Liverpool and Nottingham holding up. Manchester still continues to record high COVID-19 infections. Early lease terminations were offered to students
  - AU (7%): Adelaide was more resilient; Melbourne is more impacted. Priority is for returning students, will not open up to new international students just yet
  - SK (1%): The main source of occupancy comes from students on exchange, which largely ceased
  - Online education: more blended rather than 100% online

# Singapore REITs Sector

## *Looking beyond near-term weakness*

*Natalie Ong*

*Research Analyst*

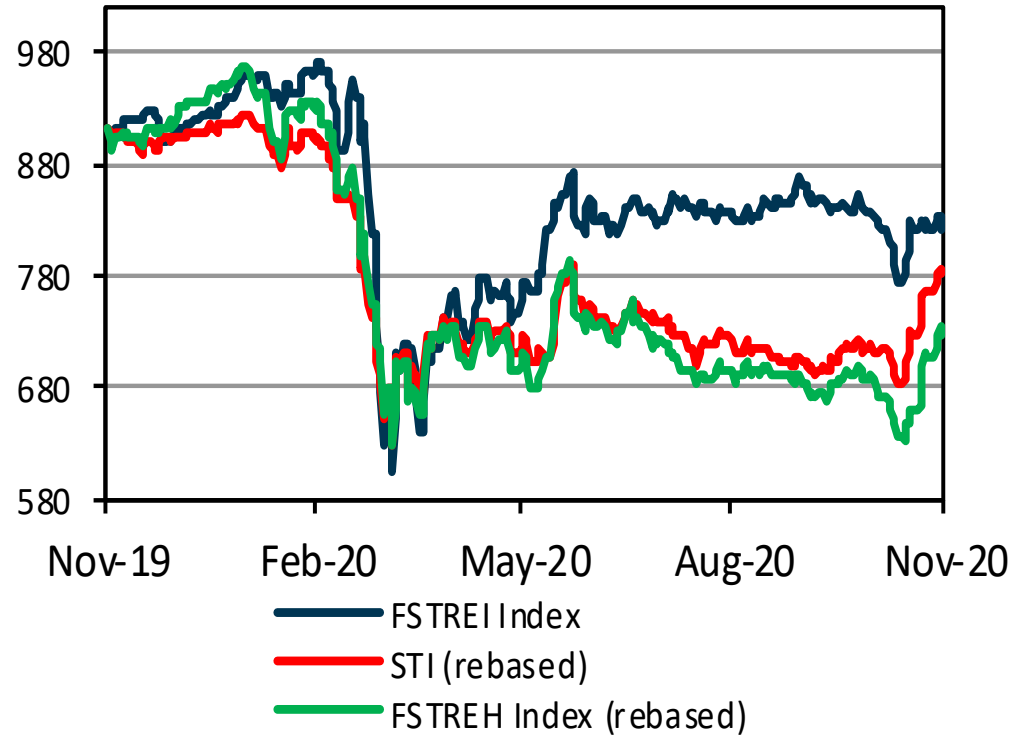
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*23<sup>th</sup> November 2020*



# FTSE REIT Index outperforming STI

## FSTREI VS. STI



## INDEX RETURN (%)

	1MTH	3MTH	YTD	1YR
FSTREI RETURN	0.8	0.8	(5.7)	(4.1)
FSTREH RETURN	6.9	6.3	(18.5)	(17.1)
STI RETURN	10.5	9.9	(10.0)	(10.8)

# S-REIT yield spread at the -0.12 s.d. level

FTSE Straits Times REIT Index Yield Spread over 10YSGS



**Dividend yield: 4.33%**  
2019 Ave: 4.6%

**Div. yield spread: 3.38%**  
2019 Ave: 2.6%

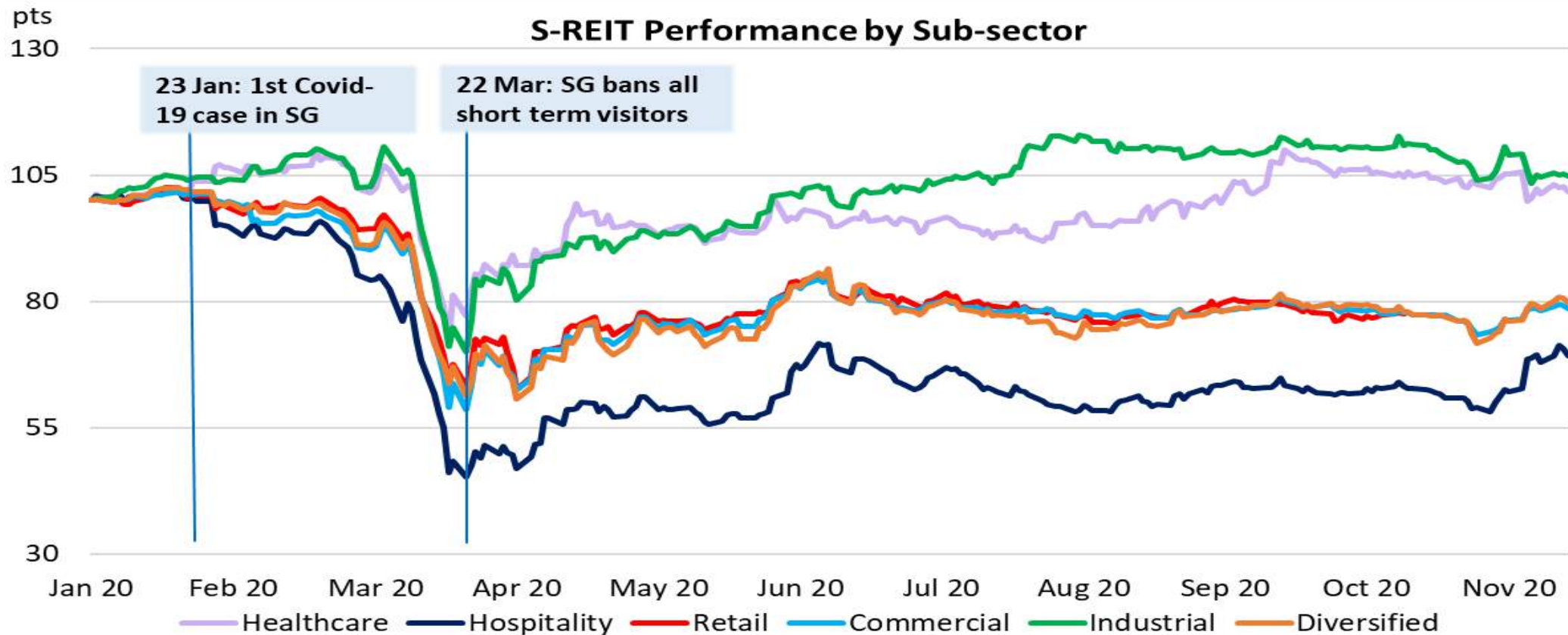
**FED rate: 0% - 0.25%,**  
after 150bps cut

**3M SOR: 0.17%**

**10YSGS: 0.88%**

Source: Bloomberg, PSR

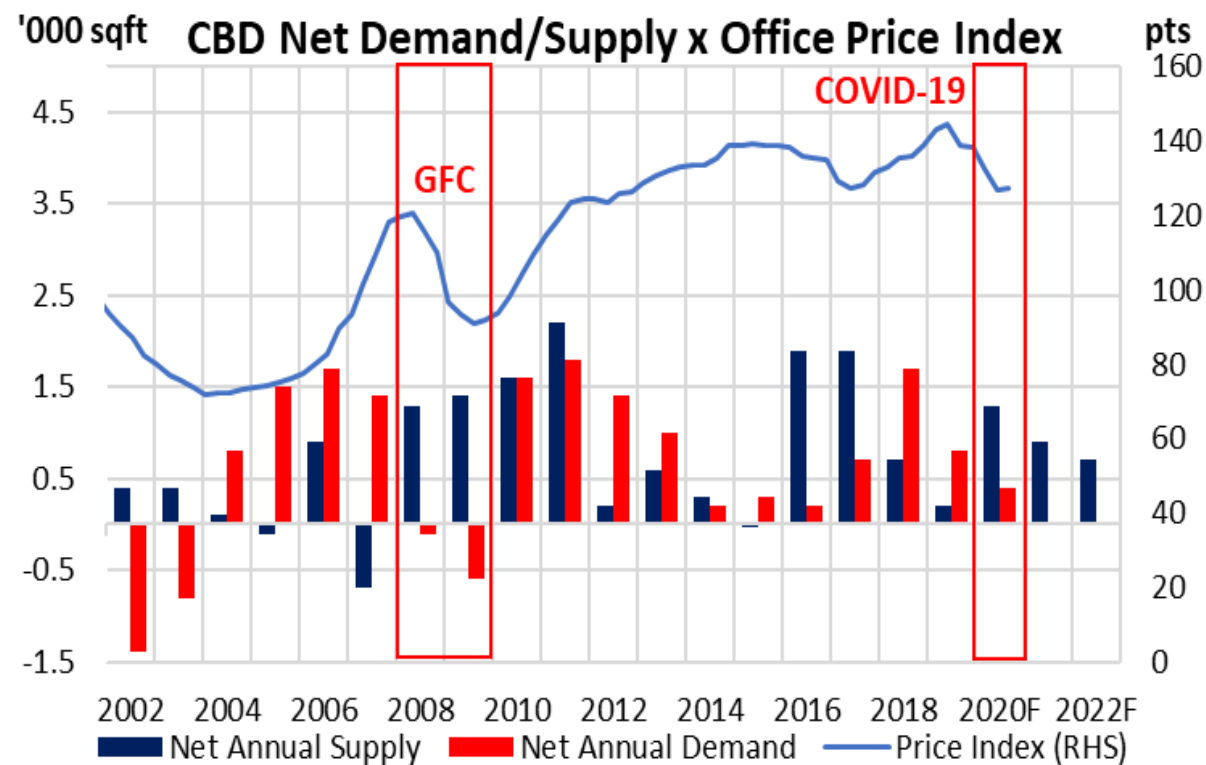
# Recovery by subsector



Source: Bloomberg, updated 19 November 2020, Rebased 1 Jan 2020=100

	Healthcare	Hospitality	Retail	Commercial	Industrial	Diversified
<b>Change YTD</b>	1.6%	-30.9%	-24.1%	-21.4%	4.8%	-20.3%

## Office – Structural decline mitigated by tight supply in the near-term



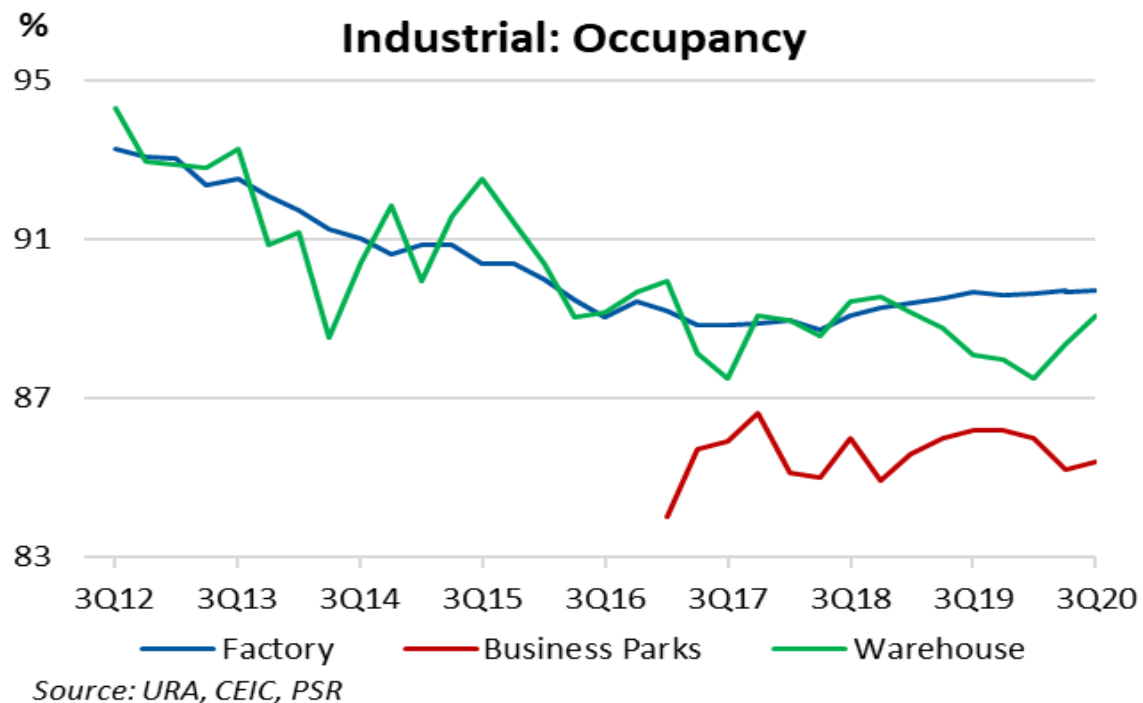
Source: URA, CEIC, CCT, PSR

### ■ CBD Incentive Scheme (Redevelopment 2021/22)

- ❖ AXA Tower (700K sq ft)
- ❖ Fuji Xerox Tower (354K sq ft)
- ❖ Central Mall (131K sq ft)

- Remote and flexible work arrangement triggering rightsizing - hand full of pre-terminations; tenants giving back 10-20% of space
- Financial institutes rolling out flexible work arrangements; setting in motion more aggressive rightsizing in mid-term
  - DBS' 29,000-strong workforce has the option to work remotely up to 40% of the time
  - 65% of UOB's 26,000-strong workforce has the option to work remotely two days a week
- Backfilling of space from relocations and downsizing and tight supply conditions
- Office synonymous with mentoring, collaboration, innovation and corporate culture

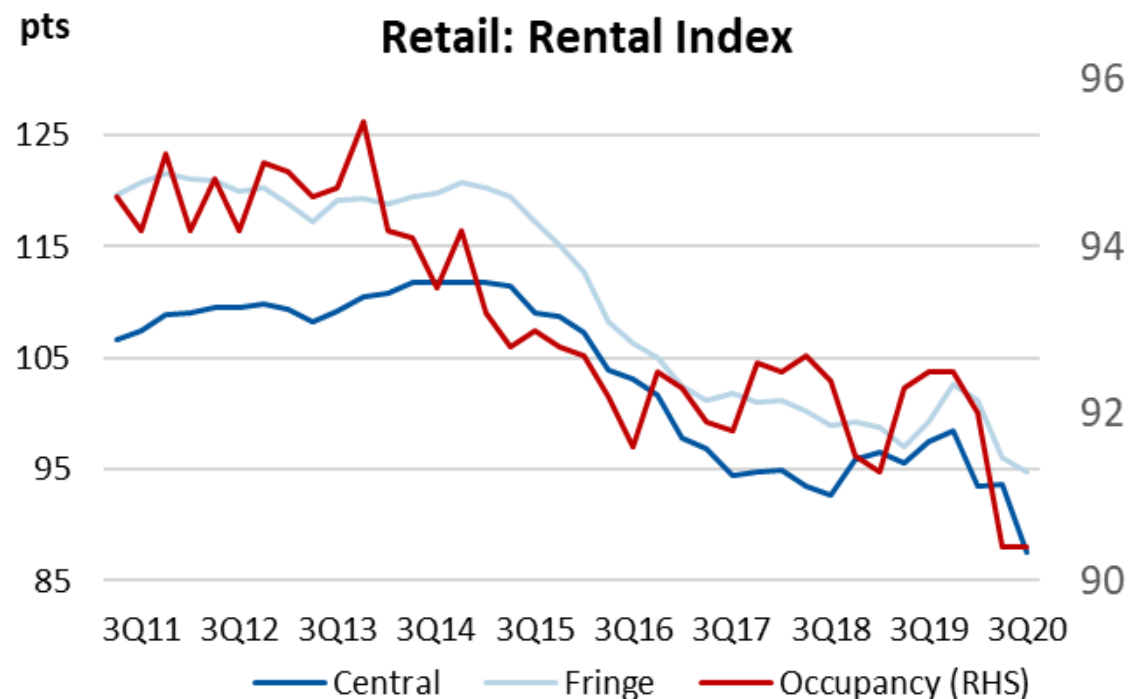
# Industrial – Backbone of the economy



- Industrial rents dipped due to softer leasing
- Bright spots: Warehouse, business parks, hi-spec and data centres
- Factory demand muted as global demand is still recovering
- China+1 strategy - Singapore strong contender as an alternative manufacturing location
- SME tenants supported by job support scheme

Industrial Occupancy (%)	Industry	Biz Park	Factory	Warehouse
3Q20	89.6	85.4	89.7	89.1
QoQ (%)	0.2 ppts	0.2 ppts	0 ppts	0.7 ppts
YoY (%)	0.3 ppts	-0.8 ppts	0.1 ppts	1 ppts

## Retail – Softer leasing demand

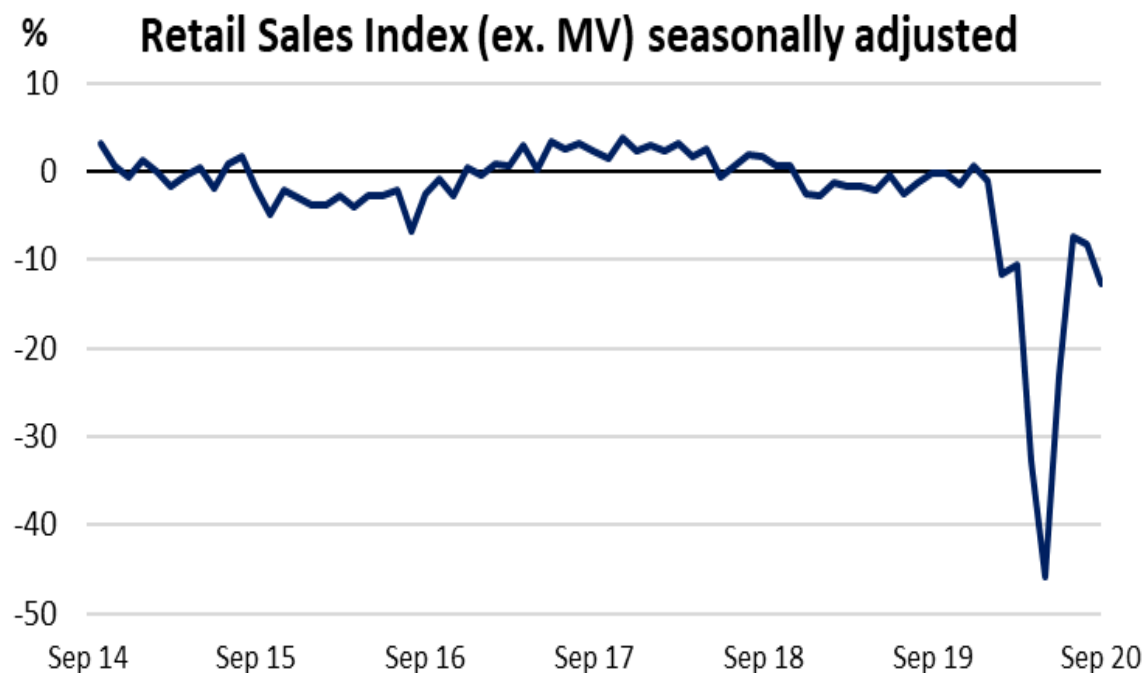


Source: URA (rebased 4Q1998), CEIC, PSR

Retail Rental Index Rebased 4Q1998 = 100	Industry	Central	Fringe	Occupancy (%)
3Q20	90.9	87.6	94.8	90.4
QoQ	-4.5%	-6.4%	-1.4%	0 ppts
YoY	-7.9%	-10.2%	-4.4%	-2.1 ppts

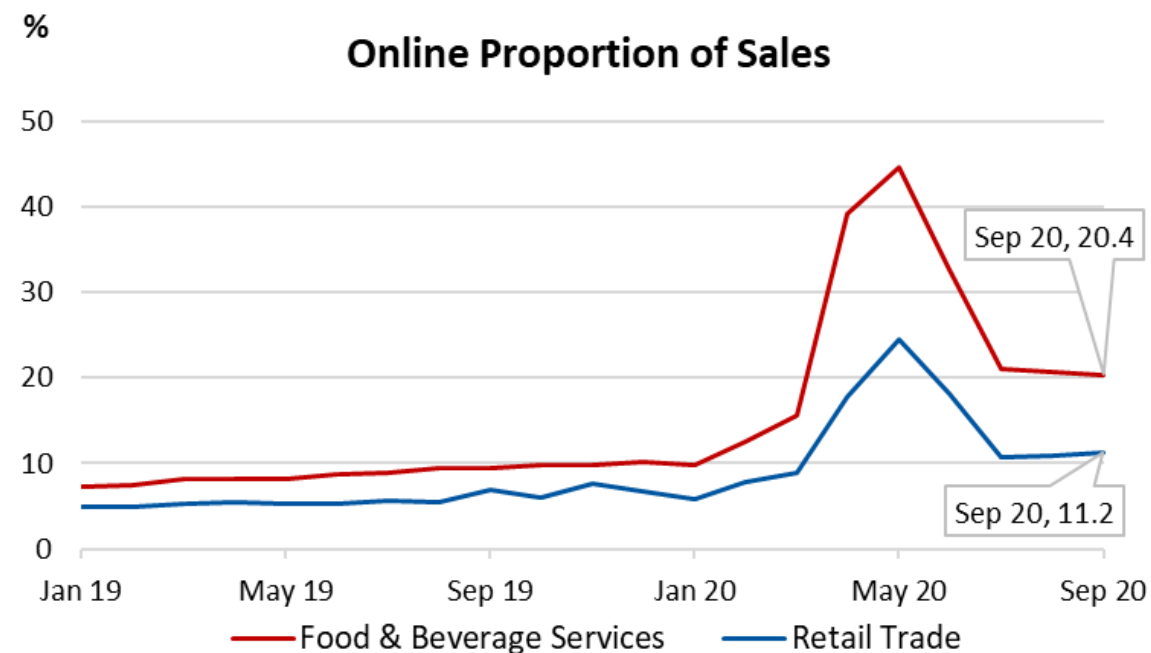
- Suburban malls less impacted
- Landlords using differentiated leasing strategies
  - ❖ Short term lease extensions (6 months)
  - ❖ Lower base rent and higher turnover rent for the first year; base rents to escalate annually
- Evaluating AEs and reposition mall in light of weaker leasing demand
- Additional rental support for tenants which continue to operate under restrictions.

## Retail – Discretionary spending losing steam



Source: CEIC, PSR

	RSI (excl. motor vehicles)	RSI (Dept stores)	RSI (Supermarkets)	RSI (Fashion)	F&B Index
Sep-20	-12.7	-37.9	18.9	-28.5	-29.5
Sep-19	-0.3	-1.3	2.1	4.4	5.0

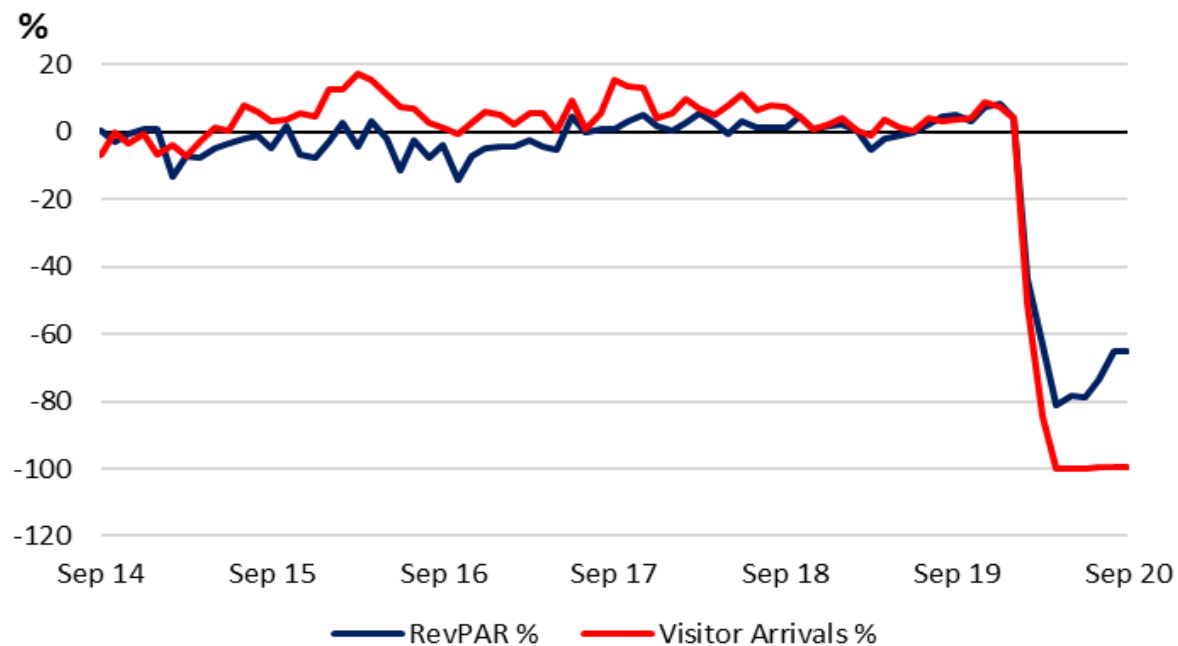


Source: SingStat, PSR

- The retail sales index (ex-motor vehicles) dipped 4.4ppts MoM from -8.3% to -12.7% in September



## Hospitality – Festivities boost but waiting on vaccine



Source: CEIC, PSR

	Visitor Arrivals	Hotel RevPAR (\$)	Hotel Occupancy (%)	Hotel Average Room Rate (\$)
Sep-20	9,500	72	60.2	120
Sep-19	1,463,164	205	87.1	236
YoY%	-99.4%	-65.0%	-26.9 ppts	-49.3%

RevPAR per room/night	Average	Luxury	Upscale	Mid-tier	Economy
Sep-20	72	161	59	50	44
Sep-19	205	431	240	160	98
YoY%	-65.0%	-62.6%	-75.3%	-68.8%	-55.3%

- Travel bans likely to remain in place during festive season;
  - Anticipating spike in staycation demand
  - Room rates expected to be raised by \$100 to \$200
- Larger group size of 100 for wedding receptions, allowing hoteliers to recognise event-related revenue
- Leaner cost and operating structures through adoption of digital technology
- China's domestic air travel has recovered to pre-pandemic levels.
  - Countries with sizeable domestic travel markets: France, Japan, the US, Spain, India and Brazil



# Phillip Securities' Stock Calls

	3M Daily Average Volume	Share Price S\$	P/NAV (x)	PSR Rating	Target Price S\$	FY20e DPU cents	FY21e DPU cents	FY20e DPU Yield	FY21e DPU Yield	Total return
Ascott Residence Trust	5.0	1.00	0.95	BUY	1.08	5.37	6.99	5.4%	7.0%	13.9%
CapitaLand Integrated Commercial Trust	17.3	1.98	0.99	BUY	2.33	10.78	12.81	5.4%	6.5%	23.1%
Frasers Centrepoint Trust	5.2	2.31	1.05	ACCUMULATE	2.79	11.07	13.82	4.8%	6.0%	25.6%
Dasin Retail Trust <sup>1</sup>	0.6	0.77	0.56	ACCUMULATE	0.91	5.00	5.62	6.5%	7.3%	24.7%
Manulife US REIT	2.4	0.74	0.96	BUY	0.92	6.39	6.70	8.7%	9.1%	33.9%
Prime US REIT <sup>2</sup>	1.3	0.78	0.88	BUY	0.94	7.23	7.69	9.3%	9.9%	29.8%
IREIT Global Trust <sup>2</sup>	0.8	0.63	0.79	ACCUMULATE	0.68	4.89	4.46	7.8%	7.1%	16.6%
Ascendas REIT	13.0	2.97	1.35	BUY	3.61	17.69	17.73	6.0%	6.0%	27.5%
Keppel DC REIT	6.5	2.84	2.43	NEUTRAL	2.57	8.99	9.55	3.2%	3.4%	-6.3%

Note: 3M Daily Average Volume

Source: Bloomberg (Updated: 19 November 2020), Company Results/Prospectuses, PSR

<sup>1</sup> Covered by PSR under a paid research agreement

<sup>2</sup> Covered by PSR under the 'Research Talent Development Grant Scheme' administered by SGX

# SATS Ltd

# 1H21 Results

*Government relief and vaccine combo*

*Paul Chew*

*Head Of Research*

*Phillip Securities Research Pte Ltd*

*23<sup>rd</sup> November 2020*

# SATS Ltd (NEUTRAL (Upgraded), TP: S\$4.40, Last: S\$4.10)

## Results at a glance

SGD mn	1H21	1H20	YoY	Comments
Revenue	440.5	962.5	-54.2%	
- Gateway services	159.4	512.4	-68.9%	Flights handled down >84% YoY.
- Food Solutions	275.5	449.2	-38.7%	Meal volume down >95% YoY.
Operating Exp.	(476.5)	(840.7)	-43.3%	Lower staff cost was 77% of the decline.
Staff costs	(186.0)	(464.9)	-60.0%	Includes S\$152.1mn government relief.
EBIT	(36.0)	121.8	N.M.	
Associates/JVs	(44.2)	28.3	N.M.	
PATMI	(76.9)	115.4	N.M.	S\$31.6mn impairment.

Source: Company, PSR

## Positives

- Driving costs lower. Excluding government relief, operating costs were down S\$212mn or 25% YoY. The bulk or S\$167mn was from lower staff costs. Headcount dropped 24% YoY.
- Certified to transport vaccines. SATS says it is certified to handle the transportation of vaccines even in extreme environments. It has handled vaccine shipments that require minus 80 degrees.

## Negatives

- Operating conditions still sluggish. Revenue weakness was due to poor aviation traffic. 1H21 flights handled declined more than 84% YoY. In tandem, meal volumes collapsed 93-97% YoY. Cargo fared better, with tonnage down 45% in Singapore but steadily improving. There are constraints in the supply of planes to ship cargoes. The surge in e-commerce is driving demand for cargo handling.

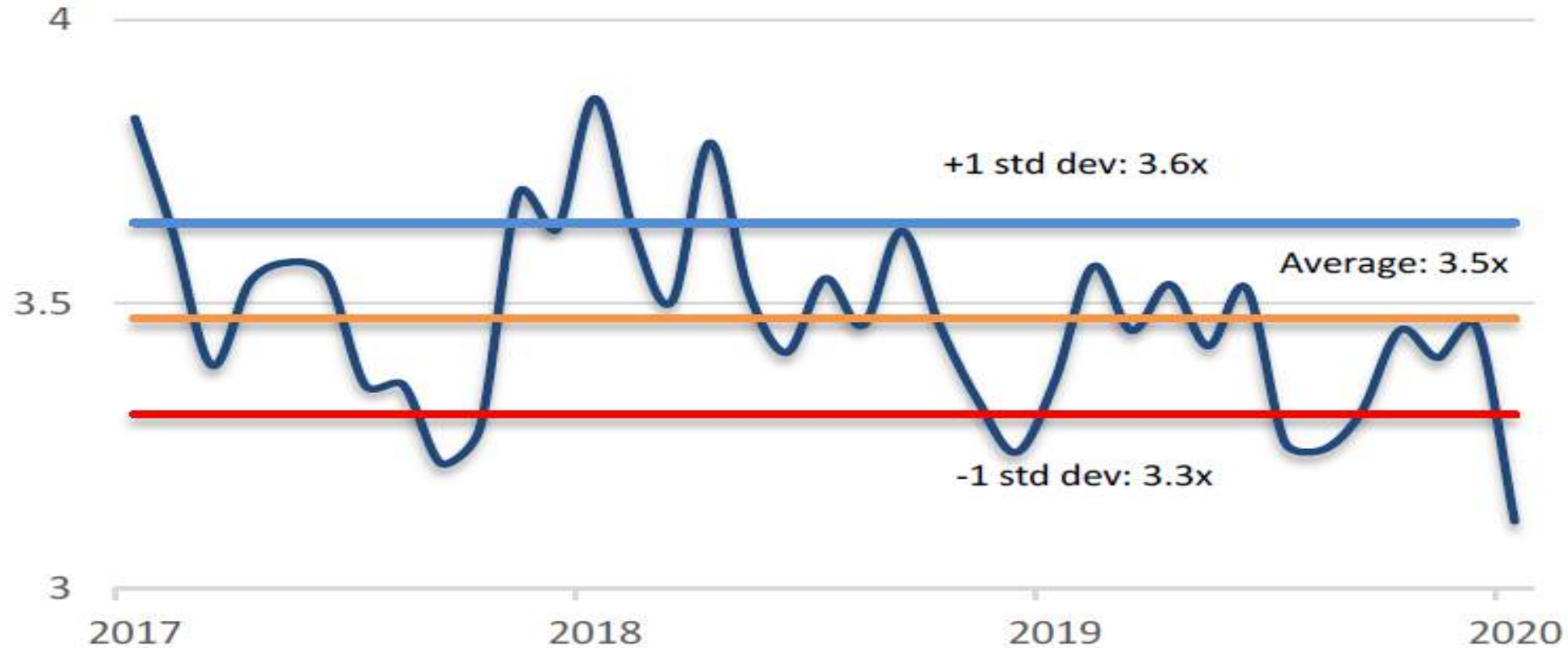
**Outlook:** 1H21 results were below expectations. Revenue only 30% of our FY21e. Excluding government relief, net loss of S\$197.1mn was 128% of our FY21e. We do not see any meaningful recovery for the aviation sector in 2021. The near-term positive surprise has been the level of government support, with subsidies on track to surpass one year PATMI for SATS.

**Upgrade to NEUTRAL:** We expect net losses for the next two years. Our last target price was pegged at its GFC average of 1.35x P/BV - too bearish. We raise this to lower band of SATS' pre-Covid P/BV of 3.3x. Our TP rises to S\$4.40 from S\$1.95. Upgrade to NEUTRAL from SELL as we believe worst has been priced in. While vaccine progress is a major positive, it remains unclear how quickly vaccines can slow down infection rates and normalise air travel. We expect air traffic to remain muted in FY21.

# Pre-Covid valuation: 3.3x P/BV, 3.5x P/BV is \$4.70

Figure 1: In the three years before Covid, SATS traded at 3.1x to 3.9x P/BV

## SATS- Historical Price to Book (Jan17-Jan20)



Source: PSR, Bloomberg

# StarHub Limited Investor Day Update

*Leaving behind the traditional model*

*Paul Chew*

*Head Of Research*

*Phillip Securities Research Pte Ltd*

*23<sup>rd</sup> November 2020*

# StarHub (Neutral (Maintained), TP: S\$1.24, Last: S\$1.28)

Medium-term challenges are known and being addressed by the company: decline of traditional telco products (IDD, voice, SMS), new value-added services from 5G, new sources of revenue that complement telecommunications, finding a sustainable model for pay TV and leveraging digital solutions to cut costs and improve customer experiences.

## Ensign: high-growth sector that complements telecommunications

- Ensign's three core cybersecurity services are consulting, system integration and managed security
- Ensign's share of Singapore's security service market was 16% in an S\$814mn market in 2019. Contracts are secured on a multi-year basis, providing revenue stability.
- The company is still in an investment mode. It continues to expand its regional footprint and R&D to enhance technology capabilities.

## 5G: beyond connectivity with more value-added services

- Many uses of 5G for enterprises have been touted and discussed. So far, none has been proven.
- Adoption of non-standalone 5G has been "encouraging". The three propellers of consumer adoption are speed and performance, cloud gaming and media content. Bundling content with 5G can gain traction with consumers.

## Pay TV: rethinking its economics

- To overcome the negative operating leverage of a fixed-cost model, StarHub needs content costs to become more variable. To this end, it has renegotiated content contracts and is building new OTT experiences. With StarHub TV+, customers can access a variety of OTT channels such as HBO and Netflix on a single platform.

## Digitalisation: lower costs and better customer experiences

- Giga! is StarHub's first pure digital-only product. From KYC validation to shipment of the SIMs, it is a zero-touch customer experience.
- Fewer physical touchpoints reduce the need for retail space and yielded rental savings. Commissions paid to partners can be lowered when StarHub distributes directly to customers. Customer experience on digital is enhanced as they have the convenience of picking the time to purchase their products.

# Week 48 - Phillip Singapore Weekly

*Paul Chew*

*Head Of Research*

*Phillip Securities Research Pte Ltd*

*23<sup>rd</sup> November 2020*



# Week 48 – Tactical Views

## Macro Last Week

- **SG:**
  - SIA passengers carried: Oct20 35.5k (Sep20: 31.9k / Oct19: 1.93mn)
  - PSA: Oct20 +0.1% YoY (Sep20 +3.7% YoY); YTD Oct20 -0.8%; 3.239mn TEU is 2<sup>nd</sup> highest month on record
  - SG Exports: Oct20 -3.1% YoY (Sep 20 +5.8% YoY); unusually high spike in electronics +21% YoY in Sep20
  - SG 3Q20 GDP: -5.8% YoY (Flash -7.9% YoY); 2020e GDP -6.5 to -6% (prev. -5% to -7%); 2021e +4 to +6%
  
- **US:**
  - Existing home sales: 15-year highs, annualized 6.85mn homes and all-time low unsold inventory
  - Unemployment continuing claims: record level unemployment, drop because of expiring 26 weeks then emergency; pandemic will worsen this
  
- **Phillip on the ground:**
  - Civmec – Phillip Webinar

## Tactical

- Singapore Stands Out: Containment of virus – clearer recovery and reopening + cheaper valuations + higher dividend yields + underperformance ; Prefer domestic exposure - land transport; banks; REITs

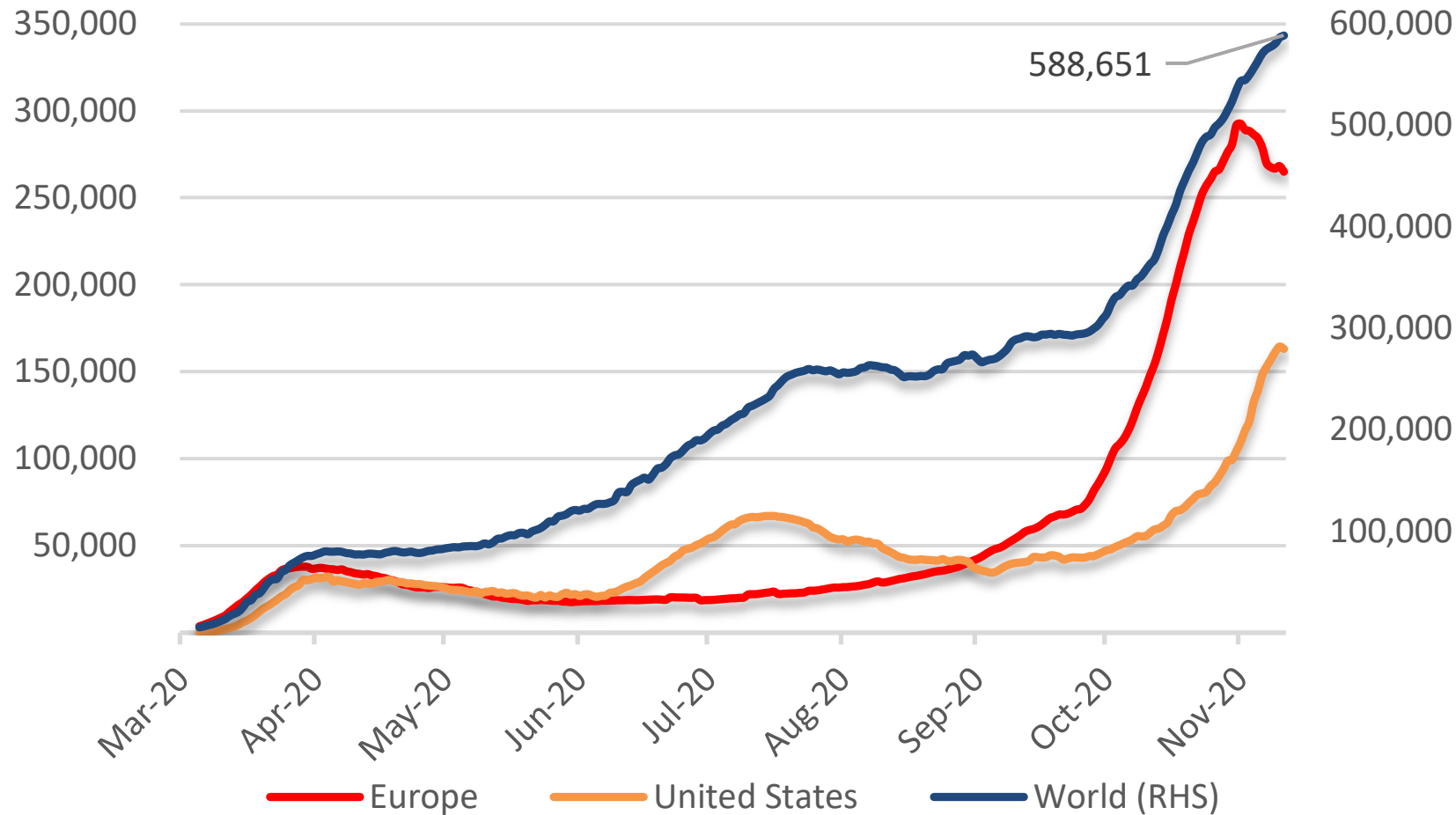
## Week(s) Ahead

- 23Nov: SG CPI/GDP; 25Nov: FOMC minutes; ThaiBev ER; 26Nov: SG IPI; 27Nov: Yoma ER
- **Poems Webinars:** Medtec (24Nov 1pm); Far East Hospitality Trust (TR only 26Nov 1pm); Sunpower (27Nov 2pm); Oceanus (9Dec 12pm); <https://www.poems.com.sg/education/events-seminars/>



# Global daily cases still surging

## COVID-19 New Daily Cases (7DMA)

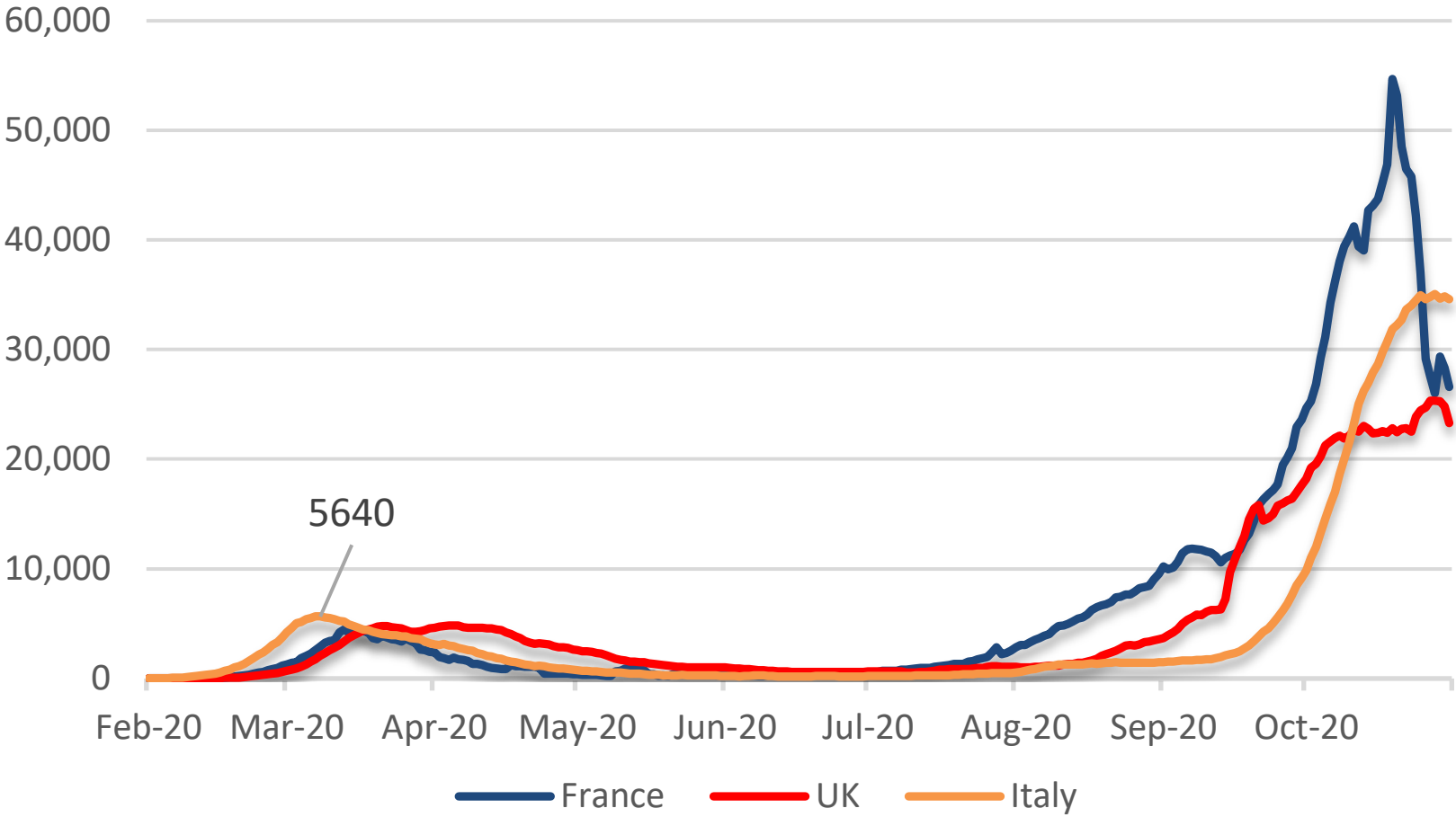


- **Global weekly average daily cases at 60% MoM to 588k (latest, 620k)**
- **7 days, 1.1mn cases in the US**

Source: CEIC, PSR, WHO

# Improvement in Europe

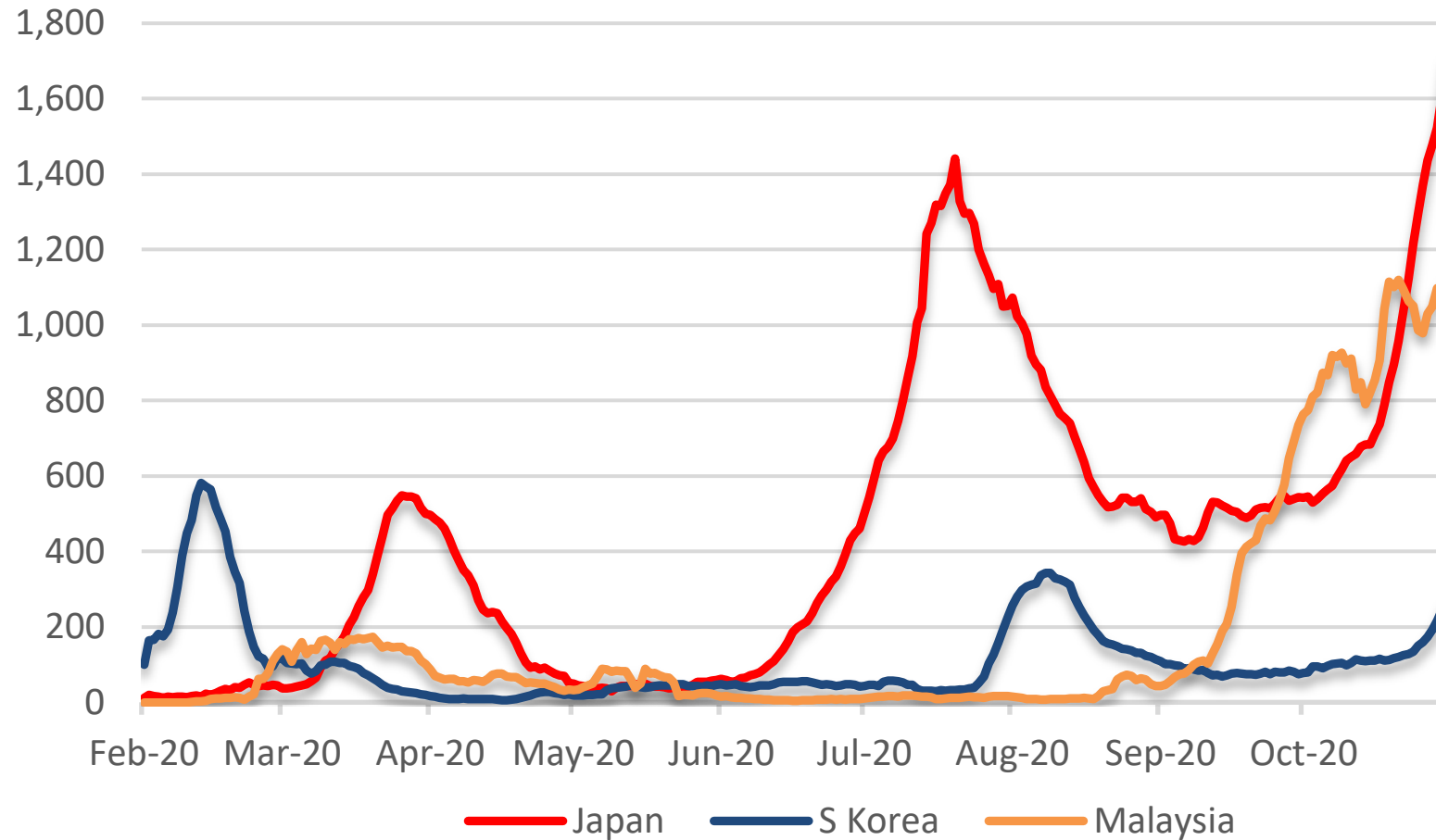
## COVID-19 New daily cases: FR, UK, Italy (7DMA)



Source: CEIC, PSR, WHO

# Record cases in Japan

## COVID-19 New daily cases: JP, KR, MY (7DMA)

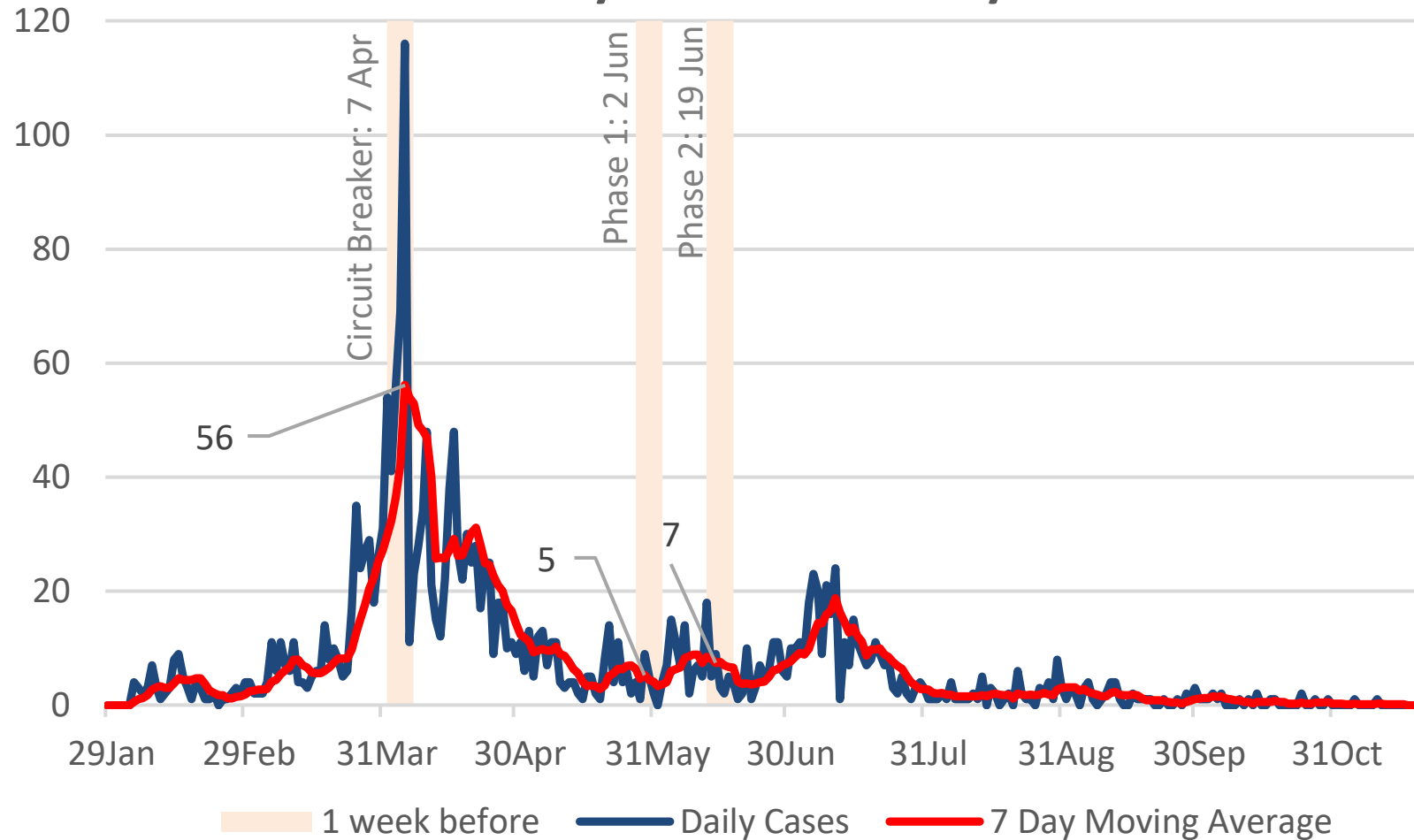


- Quarantine-free travel bubble delay with Hong Kong
- From MY 7 days to 14 days stay home at designated facilities
- From JP 14 day stay home to to designated facilities

Source: CEIC, PSR, WHO

# COVID-19 Watch: Getting better

## SG: Daily new community cases

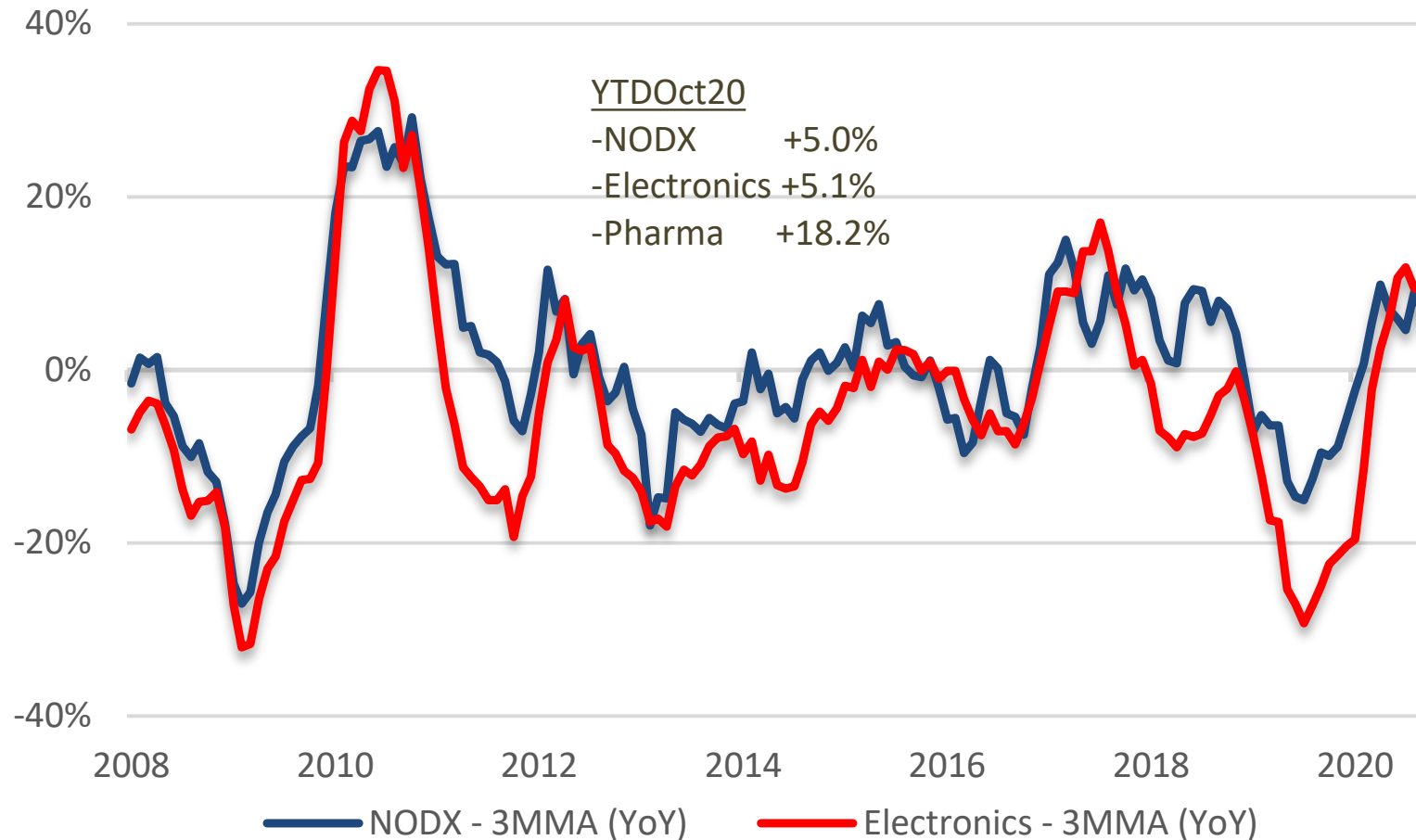


- No community case in 11 days
- No dorm case in 8 days

Source: PSR, MOH

# SG: Exports resilient this year

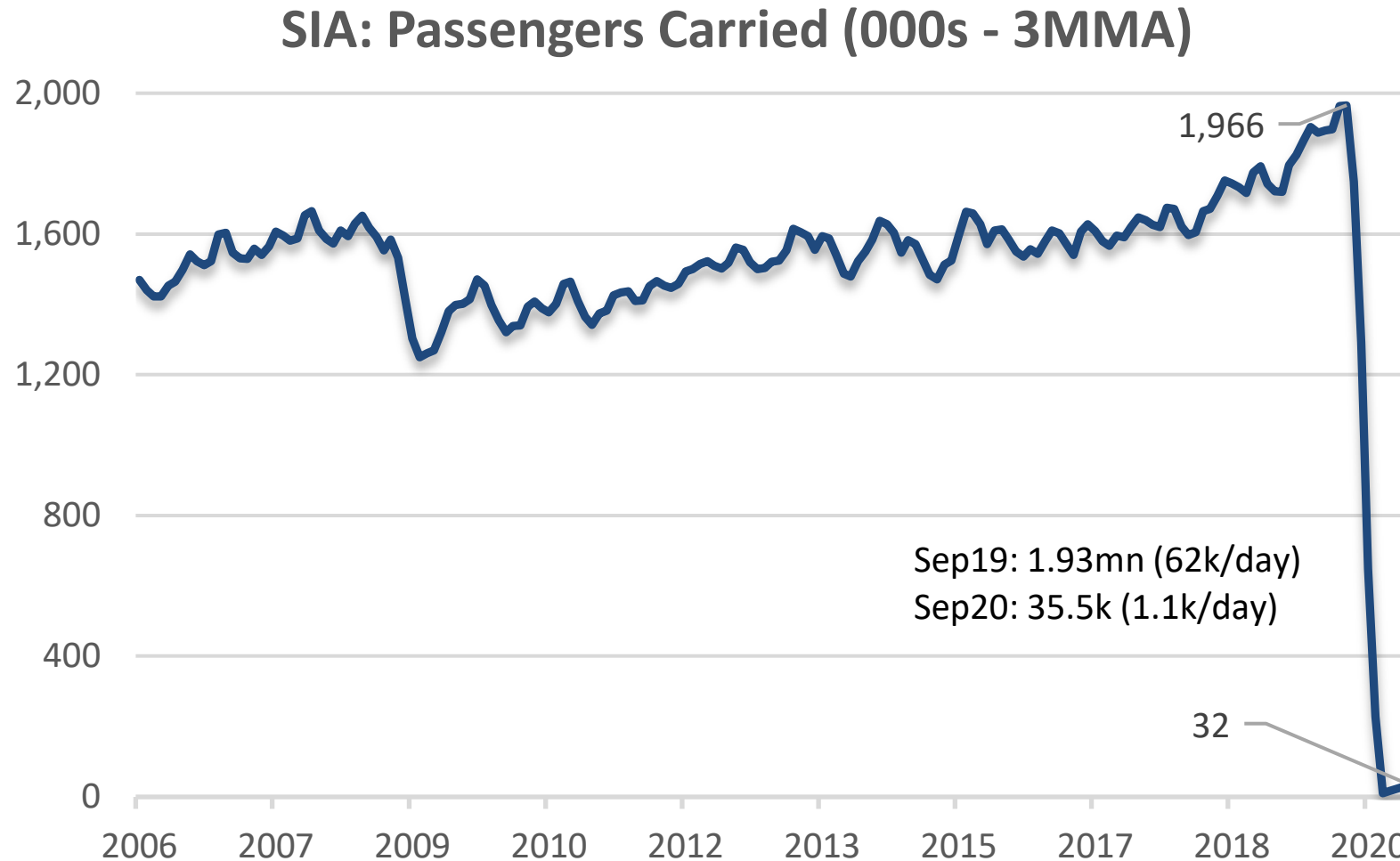
## SG: Total and Electronic Exports



- Not spending on services but on goods

Source: PSR, SIPMM

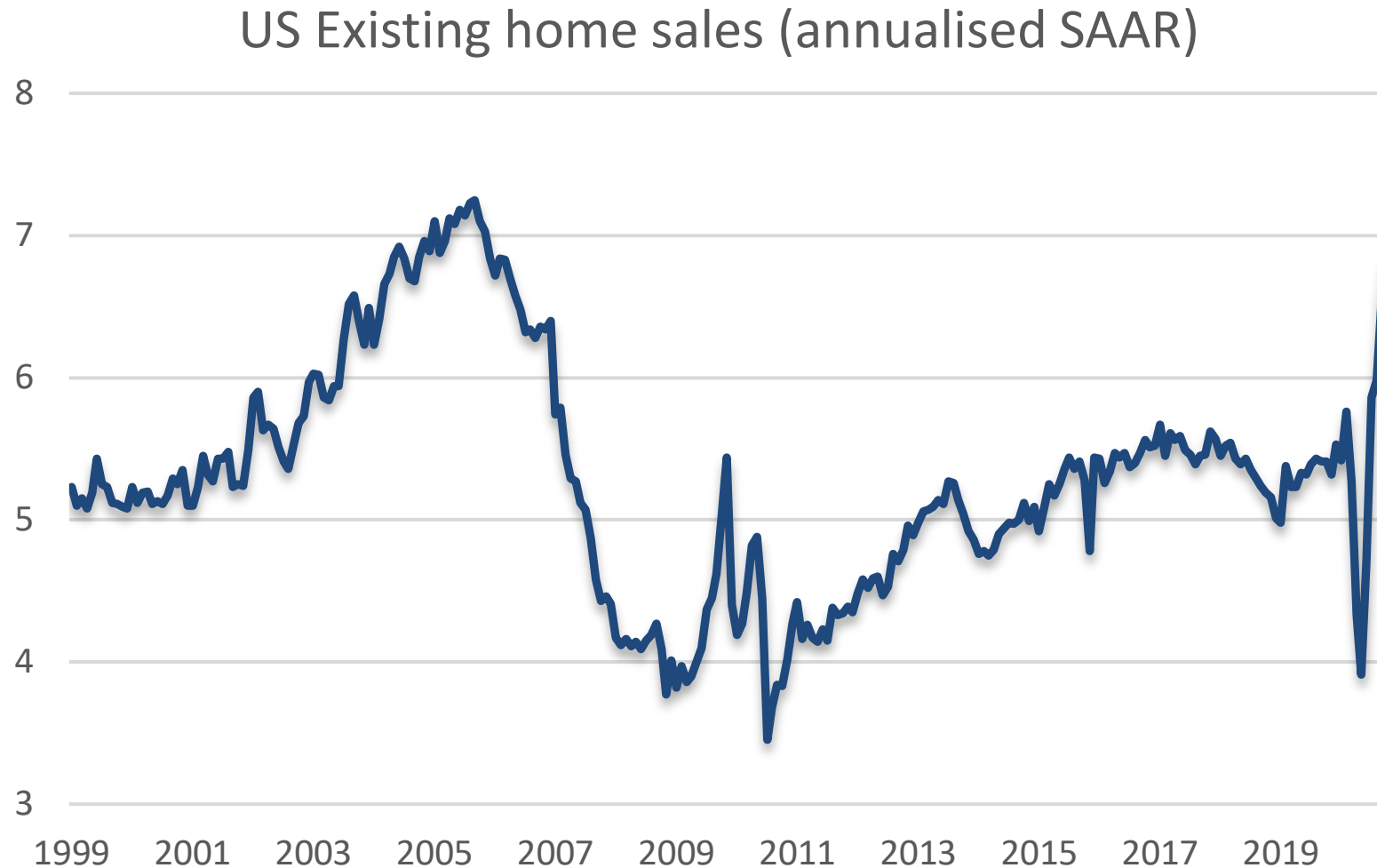
# SIA: Almost unchanged from last month



- Oct 35.55k vs 31.9k in Sep20

Source: PSR, SIPMM

# US: No winter for home sales



- **Medium selling price +15% to record \$313k**
- **Highest since Feb 2005 or 15 ½ years**
- **Unsold inventory all time low 2.5 months**

Source: PSR, Bloomberg

# Phillip on the Ground

## Civmec Ltd: POEMS Webinar

- Market Cap: S\$200mn; PE: 12x ; Dividend yield 2.46%; Listed in 2013; Dual listing ASX 2018
- FY20 PATMI rose 150% to A\$17.5mn
- Manufacturing facilities in Henderson (WA), Gladstone (QLD) and Newcastle (NSW); 2200 direct employees
- 3 key business all in Australia (construction and engineering)
  - (i) Metal and minerals: civil, electrical, piping, etc; e.g. BHP, Fortescue Metals, Alcoa, Rio Tinto
  - (ii) Marine, defence and infrastructure: naval shipbuilding and public infrastructure
  - (iii) Oil and gas: fabrication of subsea structures and maintenance e.g. Woodside, Chevron, Santos
- Orderbook: A\$940mn Oct20 (vs~ A\$820mn a year ago) or 2years revenue
- Major project: 12 offshore patrol vessels in Henderson, WA (cut steel plates first 2 OPV, fabricate and consolidate 10 vessels)



Source: PSR, CEIC





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*Thank you*