Phillip Singapore Monthly – Apr24

Reflection winner

SINGAPORE | STRATEGY

6 May 2024

- Singapore equities were up 2.1% in April. It is the 2nd consecutive month of gains, nudging the market to a positive YTD24 gain of 1.6%. Financials drove the returns this month with a gain of 5.4%.
- Singapore announced advance estimates for 1Q24 GDP growth of 2.7% YoY (4Q23 +2.2%). It is the fastest pace of growth in six quarters. The recovery in manufacturing supported GDP growth. The fastest-growing segments were construction and services.
- We see the window narrowing for the Fed to cut rates. Inflation has been stickier than expected, and a rebound in commodity prices makes June or July rate cuts a challenge. The upcoming US election cycle makes it too political for the Fed to cut in the September (Presidential debate) or November (elections) meetings. This leaves December as the likely trigger point. With such a backdrop, inflation hedges or high-interest rate beneficiaries are Singapore banks.

Review: Singapore equities reported their 2nd consecutive month of 2% plus gains in April. YTD24. The market is now up 1.6%. Shipping and banks were the biggest gainers in April (Figure 2). Seatrium rallied in tandem with oil prices and the announcement of a S$100mn share buyback. We are puzzled that gearing up the balance sheet to purchase shares for the employee share plan and director fees is a positive thing for the company. Seatrium already pays S$229mn in interest expenses in FY23. DBS's outperformance was due to expectations of higher for longer interest rates. REITs took another knock as interest rate cuts were delayed (Figure 4).

Economy: Inflation in the US has turned more resilient than expected. Trendline core PCE inflation is now 4.4% by Dec24 (Figure 7). This is far from the Fed's target 2% and its summary of economic projections of 2.9% by Dec24. Inflation is likely to perk up in the coming months. Gasoline and industrial commodities are at year highs. Furthermore, the benefits of disinflation in the goods sector is wearing out as supply chains normalise. In Singapore, manufacturing data is recovering at a gradual pace. The new orders PMI averaged above 51 for the past 3 months till April. These are the highest readings in two years (Figure 10). Electronics PMI is the highest in 28 months. The residential property market is still reeling from last April's cooling measures. 1Q24 new launch residential transactions are down 13% YoY. Transactions are now hovering between 6,200 to 6,500 units per year. Volumes are lower than in 2015, which was suffering from the introduction of TDSR (Figure 12). Singapore's positioning as a tourism hub for events is enjoying stellar results, with hotel RevPAR jumping 21% YoY in March (Figure 13). It is supported by a 45% jump in visitor arrivals to 1.48mn, of which China arrivals jumped 4-fold to 247k (Figure 14).

Sectors: Most electronic contract manufacturers, including Aztech Global, Nanofilm and Venture, are guiding for a recovery in customer orders for the coming quarters. We believe the demand returns as inventory normalises and new products are launched. The recovery bodes well for Valuetronics (BUY, TP S$0.70). The company benefits from four new customers, pays a 6% dividend yield, and trades at 9x PE or 2x PE excluding the S$200mn net cash on its balance. However, we believe the electronics recovery will not extend to the semiconductor stocks in Singapore. After record orders for semiconductor equipment in 2022/23, the industry is still absorbing this spike in capacity. Both ASML Holdings and Lam Research have guided for lacklustre June quarter revenue declines of 24% and 2%, respectively.

Recommendation: Banks remain the bright spot. There is upside in interest margins as rates maintain current levels and maturing securities roll over to higher rates. Wealth management fees are rebounding as client risk appetite improves. North Asia stocks have started outperforming (Figure 15) on more stable economic data and hopes of more government stimulus. Stocks under our coverage with the highest exposure to China are CapitaLand Investment (BUY, TP S$3.38), China Aviation Oil (BUY, TP S$1.05) and Sasseur REIT (BUY, TP S$0.87).

April 2024 performance

Figure 1: Banks hit record hights

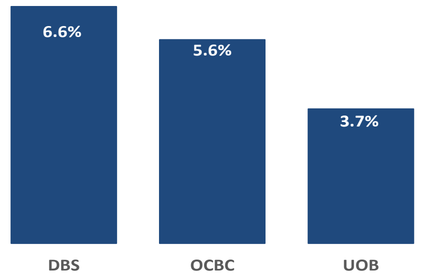


Figure 2: Reflation gainers

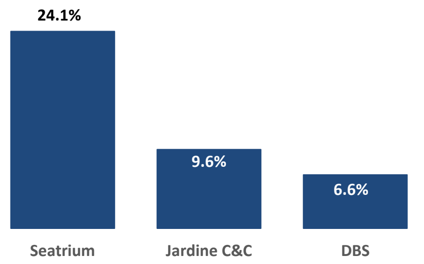


Figure 3: Results or outlook were weaker

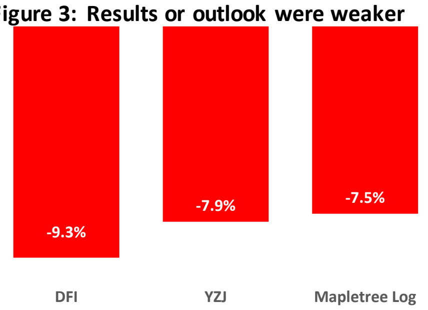
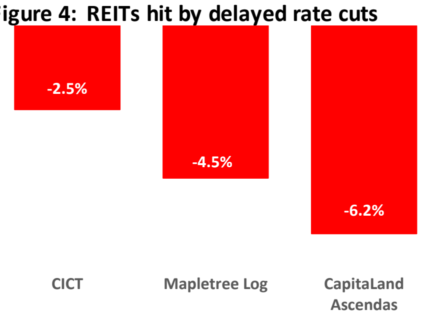


Figure 4: REITs hit by delayed rate cuts



Source (Fig 1-4): PSR, Bloomberg, 30Apr24

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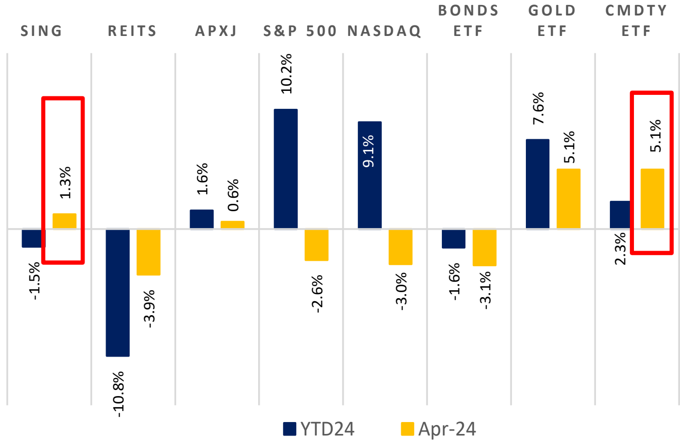
Corporate Insight Webinars: Cromwell European REIT (7 May), AIMS APAC REIT (8 May), ESR-LOGOS REIT (9 May), United Hampshire US REIT (15 May), YY Group 16 May)
https://www.poems.com.sg/education/events-seminars/

Figure 5: Reflation theme drove up commodities and gold



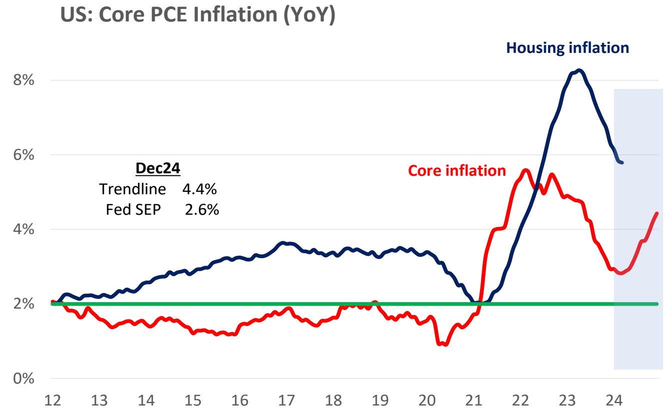
Source: PSR, Bloomberg

Figure 6: Shipping and finance the best-performing sectors

PSR (147 companies)	1 Mth Perf.	3 Mth Perf.	YTD Perf.
Commodities	**-2.5%**	3.1%	-3.2%
Conglomerate	**1.1%**	-0.8%	-3.2%
Consumer	**0.6%**	-6.8%	-9.1%
Finance	**5.4%**	13.4%	10.4%
Healthcare	**3.0%**	3.7%	2.0%
Electronics/Services	**1.2%**	3.7%	-2.6%
Property/Const.	**1.5%**	-3.1%	-8.6%
REIT - Hospitality	**-3.3%**	-4.6%	-8.5%
REIT - Industrial	**-4.7%**	-9.1%	-13.8%
REIT - Office	**-0.2%**	-6.7%	-8.0%
REIT - Retail	**-1.5%**	-6.9%	-9.6%
REIT - Others	**-0.4%**	-5.8%	-9.7%
Shipping	**8.3%**	4.7%	3.2%
Telecomm.	**-5.3%**	-0.2%	-2.8%
Transportation	**1.8%**	-1.8%	-0.8%
	1.8%	3.5%	0.4%
Singapore	2.13%	4.4%	1.6%

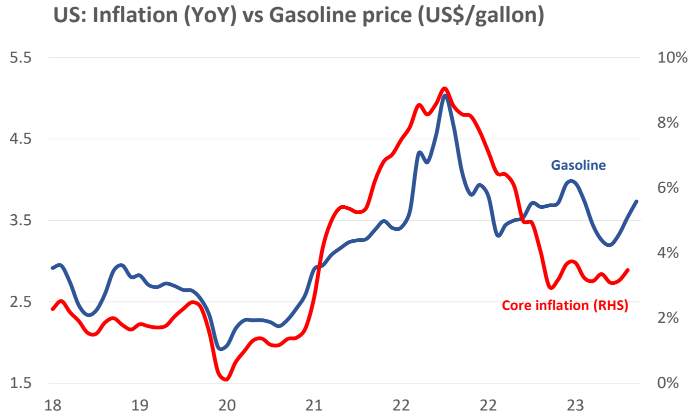
Source: PSR, Bloomberg

Figure 7: Inflation trend line is back up to 4.4% by Dec24



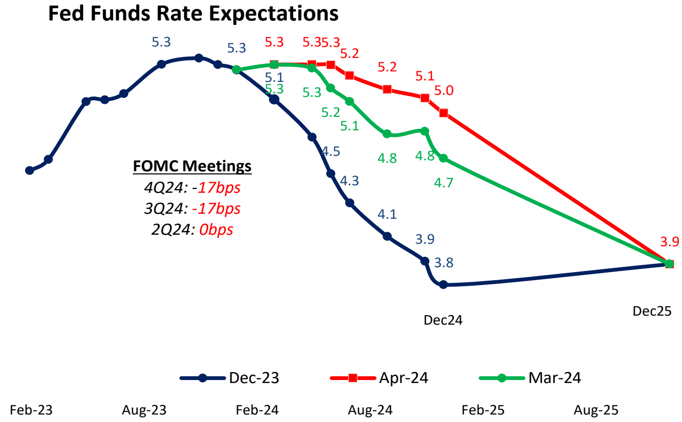
Source: PSR, CEIC

Figure 8: Gasoline price can pull up core inflation



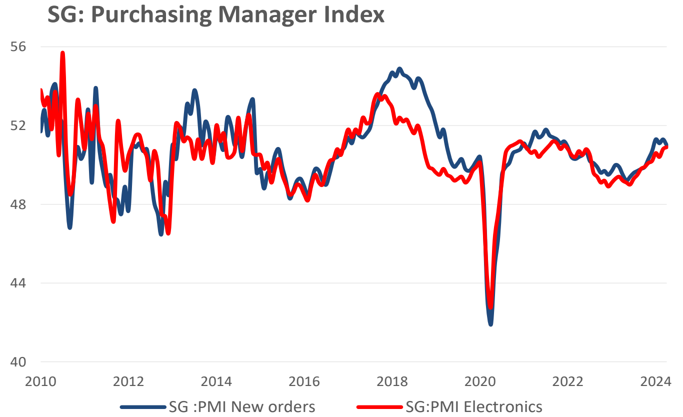
Source: PSR, CEIC

Figure 9: Market pricing in 1.5 rate cut for 2024



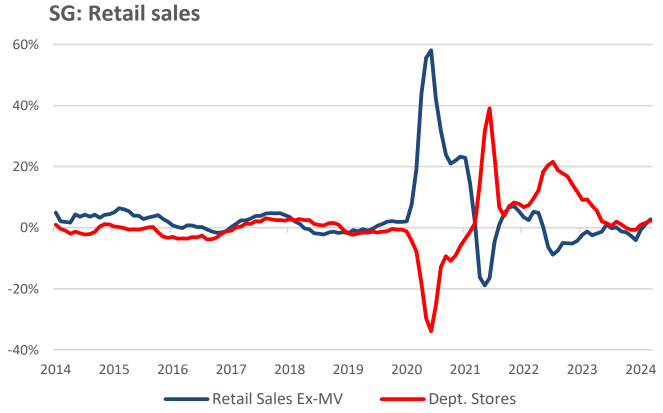
Source: PSR, Bloomberg

Figure 10: Highest levels in 2 years



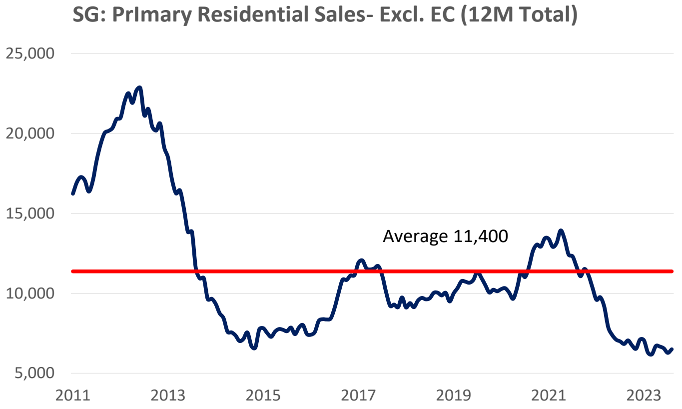
Source: PSR, CEIC

Figure 11: Slight pick up in retail sales



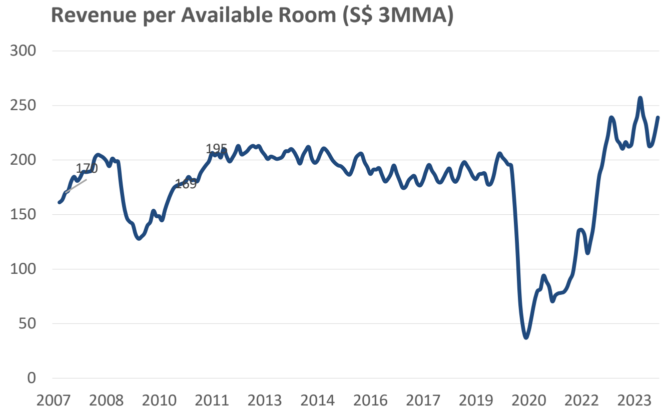
Source: PSR, CEIC

Figure 12: Volumes lower than the introduction of TDSR in 2013



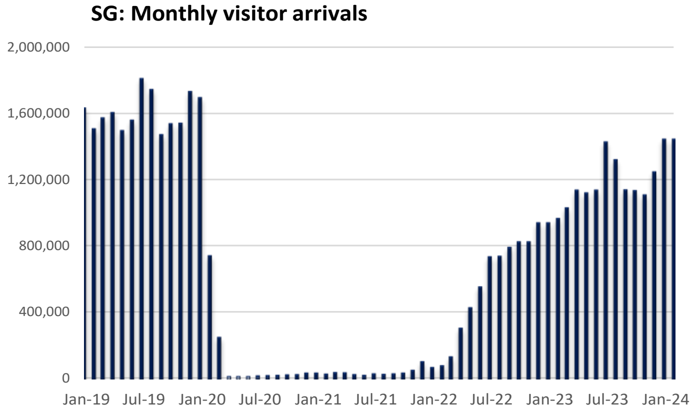
Source: PSR, CEIC

Figure 13: March 2024 RevPAR jumped 20%



Source: PSR, CEIC

Figure 14: 45% YoY increase in arrivals



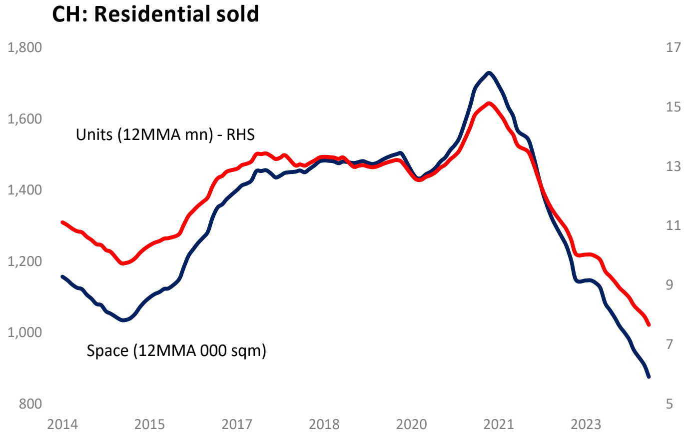
Source: PSR, CEIC

Figure 15: Hong Kong the best performer in Asia

	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Last Px	Market Cap (US$ bn)
Hong Kong	7.4%	14.7%	4.2%	18207	2,671
SG Banks	5.4%	12.9%	10.1%	1276	168
Malaysia	2.6%	4.2%	8.3%	1576	230
Singapore	2.1%	4.4%	1.6%	3301	366
Shanghai	2.1%	11.3%	4.4%	3105	6,556
India	1.2%	4.0%	4.0%	22685	2,162
Taiwan	0.5%	14.0%	13.8%	20235	1,995
SG MidCap	0.4%	-1.8%	-3.8%	626	78
ASEAN 6	-0.6%	1.6%	0.6%		1,961
Thailand	-0.7%	0.3%	-3.4%	1370	457
Indonesia	-0.7%	0.4%	-0.5%	7117	747
SG Small Cap	-1.0%	-1.9%	-7.2%	229	20
S Korea	-2.0%	7.8%	1.4%	2687	1,539
Philippines	-2.9%	0.8%	3.9%	6667	160
SG REIT	-3.1%	-7.5%	-11.5%	643	42.5
Japan	-4.9%	5.8%	14.8%	38263	21,854
Vietnam	-5.8%	3.9%	7.0%	1208	194

Source: PSR, Bloomberg

Figure 16: Property sales still the Achilles heel for China



Source: PSR, CEIC

Phillip Absolute 10

In April, our model portfolio was up 1.5%. The major gainers were Cromwell REIT, DBS, and ComfortDelgro. Cromwell's portfolio remains healthy with 95% occupancy and 9% rental reversions and pays a yield of 9.2%. DBS announced 15% YoY PATMI growth for 1Q24, driven by wealth management fees and higher interest income. ComfortDelgro's Zig taxi platform cemented its competitive positive with a partnership with Gojek to cross-share their unfulfilled bookings. Keppel Ltd and Singtel were the weakest in April. Keppel revenue and monetisation slowed in 1Q24. There has been no change in their S$10-12bn monetisation target by 2026 (currently S$5.5bn). Singtel announced a S$3.1bn non-cash impairment, largely S$2bn goodwill of Optus. Concurrently, Optus announced an 11-year agreement worth A$1.6bn to provide network access to TPG Telecom.

3Q23 - Add: Thai Beverage; **Remove:** DBS
4Q23 - Add: ST Engineering, Singtel; **Remove:** CDL, SGX
1Q24 - Add: Valuetronics, China Aviation Oil; **Remove:** CapitaLand Ascott Trust, PropNex
2Q24 - Add: DBS, Cromwell European REIT; **Remove:** OCBC, Frasers Centrepoint Trust

Strategy commentary: We had limited our model portfolio to a single REIT. The delay in interest rate cuts will place even more pressure on dividends as their hedges start to roll over. The model will ride several themes such as defence spending (ST Engineering), China tourism (China Aviation), macro recovery (Thai Beverage), and reflation and monetization (Singtel and Keppel Ltd).

Figure 17: Monthly movements

	Absolute 10	SING
Jan24	-0.9%	-2.7%
Feb24	-0.9%	-0.4%
Mar24	0.7%	2.6%
Apr24	1.5%	2.1%
May24		
Jun24		
Jul24		
Aug24		
Sep24		
Oct24		
Nov24		
Dec24		
YTD	0.3%	1.6%

Source: Bloomberg, PSR, Performance is for illustration only and excludes brokerage fees, dividends and monthly rebalancing costs.

Figure 18: Phillip Absolute 10 performance till April 2024

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
CromwellREIT-EUR	8.0%	6.4%	4.9%	**Buy**	**1.91**	1.49	28%	898	10.5%
DBS	6.6%	20.4%	14.9%	**Buy**	**38.90**	34.90	11%	73,020	5.0%
Dividend / Earnings Growth									
China Aviation	2.8%	6.3%	6.3%	**Buy**	**1.05**	0.93	13%	588	2.9%
ST Engineering	0.2%	8.0%	3.6%	**Accumulate**	**4.50**	4.03	12%	9,249	5.0%
Thai Beverage	1.0%	-5.7%	-5.7%	**Buy**	**0.67**	0.495	35%	9,150	4.5%
Valuetronics	2.6%	-3.3%	-0.8%	**Buy**	**0.70**	0.590	19%	178	4.1%
Re-rating Plays									
CapitaLand Investment	-0.7%	-10.1%	-15.8%	**Buy**	**3.38**	2.66	27%	9,932	4.5%
ComfortDelGro	6.4%	6.4%	6.4%	**Buy**	**1.63**	1.49	9%	2,374	4.5%
Singtel	-5.9%	-0.8%	-3.6%	**Buy**	**2.80**	2.38	18%	28,894	4.2%
Keppel Ltd	-6.3%	-3.9%	-2.7%	**Accumulate**	**7.98**	6.88	16%	9,140	4.9%
Average	1.46%	2.4%	0.7%				19%		5.0%

Source: Bloomberg, PSR ^ Dividend yields are historical for all stocks

Figure 19: Snapshot of Top 10 gainers and losers in April

Top 10 Gainers		Top 10 Losers	
Seatrium	24.1%	Cordlife	-27.3%
Oiltek International	21.6%	Southern Alliance	-20.4%
Samudera Shipping	20.5%	Prime US REIT	-17.6%
Silverlake Axis	18.2%	iX Bio	-17.3%
Marco Polo Marine	16.7%	Frencken Group	-12.6%
Centurion	16.5%	Geo Energy	-11.6%
Yoma	13.6%	Dasin Retail Trust	-10.7%
Ho Bee	13.5%	Keppel Pacific Oak	-9.9%
Japfa	13.2%	Aztech Global	-9.8%
iFast	10.7%	Capitaland China trust	-9.5%

Top 10 SPDR Gainers		Top 10 SPDR Losers	
Seatrium	24.1%	DFI	-9.3%
Jardine C&C	9.6%	YZJ	-7.9%
DBS	6.6%	Mapletree Log	-7.5%
OCBC	5.6%	Keppel	-6.3%
CDL	5.1%	Ascendas	-6.1%
HK Land	4.6%	Frasers Logistics	-6.1%
UOB	3.7%	Singtel	-5.9%
Genting SG	3.4%	Wilmar	-5.8%
Jardine Matheson	2.9%	SATS	-3.1%
SIA	2.2%	Mapletree Ind.	-3.0%

Source: Bloomberg, PSR

Weekly Equity Strategy Commentary

Week 15	The US added 303,000 jobs in March, the highest in 10 months and surpassing expectations of 200,000. Around 50% of the jobs are from non-cyclical or government spending reliant sectors such as government roles, healthcare and social services. These jobs are now expanding at 145,000 per month, roughly 3x more than the 50,000 pre-pandemic. The US nominal GDP is expected to grow 4.2% in 2024, of which all the growth will come from the 5.6% government fiscal deficit. There is no restraint to US growth if the government can grow its deficits ad infinitum. And the Biden administration is looking to raise the deficit even higher with a new student loan forgiveness plan. Last week, more Fed officials provided commentary on the cautiousness to cut rates. Some are dialling back to single rate cut rate cut, no cuts and even possible hikes. The 6% jump in US gasoline prices in March and the buoyant labour market makes disinflation unlikely. To hedge out this inflation risk, banks will be the preferred choice for their high yield and being beneficiaries of elevated interest rates. In Singapore corporate news, Singtel saw a 5% decline in its share price last week on news that a stake sale of Optus to Brookfield was called off. We were not surprised. Who wants to buy a company with an ROE that is less than 1%? I don't see a queue. Singtel needs to execute its planned $600mn cost cuts over 3 years, predominantly at Optus, before dangling any stake to investors. A semiconductor equipment maker we met recently said near-term demand is still weak. GPU or AI semiconductors generate huge revenues but not volumes. The annual volume for GPU is between 5mn to 6mn pieces, not material in a market where mobile phones are more than a billion units. But recovery is expected next year as many governments in Europe, US and China fund semiconductor start-ups and raise demand for equipment. If there is a "Chip War" underway, there is a winner. It is likely Malaysia. Semiconductor supply chains are hollowing out in China and their primary destination is Malaysia. This benefits the semiconductor companies listed on SGX.
Week 16	Risk off is back with the escalating conflict in the Middle East and higher than-expected inflation in the US. The first-ever direct attack from Iranian territory on Israel. There are early signs that Israel will not retaliate and widen the conflict. The attack was well telegraphed over the past few days, no injuries were reported and the US will not participate in any offensive operations against Iran. With US elections just months away, any spike in oil prices will only threaten the President's re-election chances. High oil prices and reeling corporate confidence will be a major negative for the airline sector such as Singapore Airlines (SIA SP, REDUCE, TP S$5.91). Singapore equities could benefit from flows looking for higher dividend haven locations. Singapore also celebrated another fantastic month of arrivals. March was up 45% YoY to 1.48mn visitor arrivals, just 5% below pre-pandemic. Arrivals were boosted by a 3x jump from China. 1Q24, arrivals are up 50% YoY. The direct beneficiary of strong tourism will be Far East Hospitality Trust (FEH SP, BUY, TP S$0.79) In the US, core CPI has started to climb back up to 3.8% after 12 consecutive months of year-on-year declines. The healthy labour market keeps services inflation stubbornly high at 5.4%. Goods inflation is absorbing most of the disinflation but the bounce in gasoline prices will make it challenging. Plus, there is the base effect in the coming months. Seatrium is a popular proxy to rising oil prices due to its share liquidity. Fundamentally we are cautious on Seatrium. Firstly, based on their 2028 EBITDA target of S$1bn in 2028, the growth rate per annum over the next five years is only 8%. Our estimate of net profit by 2028 is around S$500mn, this implies a 10x PE in 5 years. Not particularly exciting, in our view. Secondly, net debt is expected to more than triple from S$746mn to S$2,500mn. There are non-operational reasons for the cash drain including $570mn legal claims and fines plus S$225mn restoration costs, totalling almost $800mn. Furthermore, the company is now largely funded by S$4bn of trade payables, and it is not clear who these "bankers" are. Thirdly, Keppel Ltd still has 1.37bn shares of Seatrium for sale. In summary, the post-merger cost structure is too high and revenue synergies are still lacking for Seatrium. The target EBITDA margin of 9% is less than half of Yangzijiang's 23%.
Week 17	It was a gloomy week filled with negative news. Jerome Powell kick-started it by indicating a delay in interest rate cuts with the comment: "It is appropriate to allow restrictive policy further time to work". This was followed up with disappointing results from ASML and softer guidance by TSMC. The week ended with an Israeli drone attack on Iran. The bond market was not particularly surprised by Powell's comments. US 10-year Treasuries climbed 18 basis points to a high of 4.70% before dropping back down on news of the Israeli attack. Our base guess (not case) is the Middle East tension will subside. The Israeli response attack has been constrained and Iran downplayed the attack. The US administration also wants calmer conditions ahead of an election. The primary transmission channel of this geopolitical tension to the global economy is through oil prices. Markets will likely price a $10-15 risk premium to the oil price and this will keep prices elevated. Furthermore, OPEC+ was willing to cut production when oil prices were $85, creating a floor for prices. Rising oil prices, doubling of container freight rates and year highs in industrial metals (e.g. copper, aluminium) can create another wave of inflation. The market narrative has shifted to even rate hikes. Singapore banks with their floating rate loans or assets are best placed in a high-rate environment.

	We attended the Keppel Pacific Oak analyst briefing. Operating conditions are still tough for the US office market. Vacancies are still creeping up, financing is tight and significant capital required (US$60mn) to attract tenants. At the Genting AGM, management emphasized that gaming opportunities overseas are limited, competitive or still premature (e.g. Thailand). Regulations are also tightening such as the Chinese embassy in Singapore warning citizens to stay away from gambling. Genting's focus will be less reliant on gaming but more geared to tourism.
Week 18	All three local banks marked a milestone last week, reaching all-time highs in their share price. The previous high for the banks was in February 2022. Curiously, since the Fed first started its rate hiking cycle in March 2022, bank share prices have range-traded despite their stellar results. The current move upwards, we believe, is due to several factors. The most obvious is a repricing of interest rate expectations. The narrative has swung to even possible rate hikes this year. Secondly, bumper profits have swelled up bank capital, allowing them to pay attractive dividend yields of mid-6%. There is also untapped capital in management additional provisioning of bad debts and new Basel rules. Thirdly, banks act as a hedge against rising inflation and interest rates. Banks benefit when interest rates rise as they charge floating rate loans and have access to zero interest rate loans (or S$868bn of current account and savings account). After attending several REIT briefings, rental reversions in Singapore are generally healthy. In office, high single-digit rental reversions are expected. Tenant retention is high as they are reluctant to spend capex for a new premises. The upcoming 1.25mn sft IOI Central is believed to be 40% occupied with another 20% under negotiation. IOI is keeping their premium market rents. IOI Central will push office annual supply to their highest in seven years. Net supply in the Central area for the past three years was a negative 0.5mn sft. The only weakness is demand is largely for small 10k sft spaces Retail rental reversions is expected to see mid-teens growth. Occupancy cost is still below pre-pandemic levels. Segments performing well are food and beverages. Underperforming segments are fashion and home furnishing. New demand is coming from China and Korean brands entering Singapore. Outside Singapore, the environment is challenging. Hong Kong retail is facing negative rental reversion as shoppers spend more in Shenzhen. Australia office (net) rental reversion is negative due to the huge 30-40% of tenant incentives. In the electronics sector, the outlook is positive. Aztech Global revenue in 1Q24 was affected by heavy snowstorms in China causing orders to be rescheduled. The order book has dropped almost 30% from a year ago to S$456mn currently. With the supply chain normalising and lead times shortening (from 12 to 3 months), customers are naturally cutting back on forward purchases. Nevertheless, customer projections are healthy this year. The Malaysia plant is running out of capacity and expansion is needed. Nanofilm also surprised the market with a healthy 30% jump in gross profits. We believe the company is still facing net losses. Driving growth has been a new smartphone customer. Nanofilm is providing large surface coating for this customer's flagship titanium smartphone. The underlying outlook for Nanofilm in the near term will depend on their major US smartphone customer's performance.

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